Municipal Income Tax Update for Public Finance Officials

Ohio Association of Public Treasurers
Fall Conference ~ October 6, 2026

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NOTICE (the Legal Stuff…)

- This document and information is provided by the Regional Income Tax Agency (RITA) for general guidance and information;
- We are not providing legal advice, accounting services, investment advice, written tax advice or professional advice of any kind;
- Before making any decision or taking any action, you should consult with a professional advisor who has been provided with all pertinent facts relevant to your situation.

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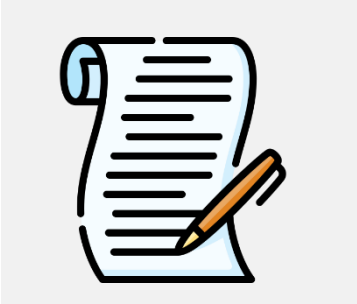
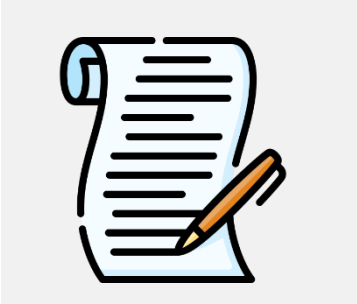
LEGISLATIVE UPDATE



Federal H.R. 1 "One Big Beautiful Bill Act"

H.R. 1 Impact:

- No tax on tips – no impact on municipal income tax;
- No tax on overtime – no impact on municipal income tax;
- Both provisions are allowed as deductions from an individual's AGI, which is NOT the income starting point for municipal taxable income.



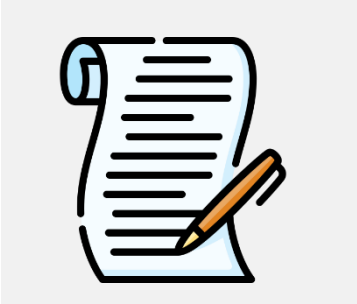
Pending Ohio Legislation Impacting Municipal Tax

- H.B. 209 – To exempt tips from state, municipal and school district tax;
- H.B. 355 – To increase the approval threshold required for passage of local taxes subject to voter approval;
- H.B. 617 – To exempt capital gains from state and municipal income tax;



Pending Ohio Legislation Impacting Municipal Tax

- H.B. 642 – To remove the 5-year limit on net operating loss carryforwards;
- S.B. 359 – To modify tax enforcement authority and sales tax exemption
  - Prohibit a late filing penalty when tax due is $0
  - Exempt certain taxpayers from penalties and interest for the first failure to pay estimated taxes – state and municipal
  - Board of Tax Appeals has one year from the hearing or final brief to issue a decision



Pending Ohio Legislation Impacting Municipal Tax - Sub. H.B. 503

Impacts municipalities' authority over their municipal income tax residence tax credits.

- Introduced October 7, 2025
- Passed the House February 25, 2026
- Currently sitting in Senate Ways and Means Committee



Pending Ohio Legislation Impacting Municipal Tax - Sub. H.B. 503

In its current version, would:

- Require a municipality to obtain voter approval to reduce or repeal a residence tax credit, or decrease credit limit, and only at a general election;
- Allow a special voter initiative to adopt or increase a residence tax credit, or credit limit; and



Pending Ohio Legislation Impacting Municipal Tax - H.B. 503

In its current version, would:

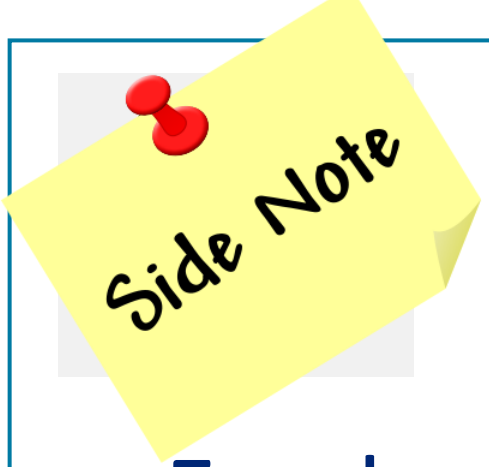
- Require any question placed on the ballot related to the residence tax credit to be posed as its own separate question and not be combined in a single ballot question with any question on the income tax rate;



Pending Ohio Legislation Impacting Municipal Tax - H.B. 503

In its current version (added by the House):

- Requires the Department of Taxation to convene a study committee on municipal income taxes and issue a report to the General Assembly no later than December 31, 2026;
- Report to cover a broad range of topics and committee to include relevant stakeholders



Employer Withholding and Residence Tax Credits

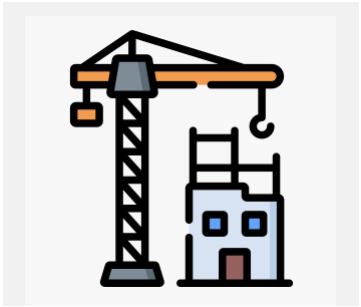
Employers' Municipal Tax Withholding Obligations:

- Employers are not required by law to withhold tax for employees' residence communities.
- Employers that choose to do this are doing so as a courtesy – referred to as "courtesy withholding".
  - Only if an employer is doing courtesy withholding do they need to be aware of residence tax credits in a community.



Pending Ohio Legislation Impacting Municipal Tax – JEDDs

- S.B. 29 – To allow two or more municipalities to create a JEDD without involving a township;
- H.B. 981 – To regulate the maximum income tax rate that can be levied in a Joint Economic Development District.



Speaking of JEDDs…

- Tax Administration
- Construction Compliance
  - See RITA table for RITA Project Packet Resource
- Boundaries/Addresses/Businesses
- Residents – Raising Awareness



Property Tax and Municipal Income Tax

What RITA is Seeing from Cities and Villages:

- More requests for projections and forecasting;
- New income taxes being considered or adopted;
- Income tax increases proposed to voters with a corresponding reduction in property tax
- School district income tax – confusion?



Ohio H.B. 33 Revisited
FY 24-25 State Operating Budget

Municipal Income Tax Provisions and Impacts:

- Effective 1/1/24, all income of individuals under 18 years of age exempt from municipal income tax.
  - All but 21 of the municipalities administered by RITA already exempted under 18 income;
  - No material increase in under 18 workplace withholding refund requests; and
  - No perceptible change in tax revenue one way or the other related to this change;



Ohio H.B. 33 Revisited
FYs 24-25 State Operating Budget

Municipal Income Tax Provisions and Impacts:

- Effective 1/1/24, late filing penalties:
  - Reduced from $25/mo. (up to a max. of $150 per late filing);
  - to $25 max per late filing; and
  - requiring a waiver of the fee for the first time late.

- RITA Impact – **$3.9M late filing fees waived since January 1, 2024** for all taxpayer types - Individual, Net Profit and Withholding

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WORK FROM HOME UPDATE



Employer Withholding and Remote Work

Employers' Municipal Tax Withholding Obligations:

- Withhold Where Work is Performed;
- Occasional Entrant (20-Day) Rule;
- Small Employer Rule



Employer Withholding and Remote Work

Employee Fully Remote

Withhold for employee's residence municipality, at the full rate, as workplace withholding.

Employee Fully In-Office

Withhold for employer's place of business municipality, at the full rate, as workplace withholding.



Employer Withholding and Remote Work

Hybrid Employees – What RITA is Seeing:

- Withholding day-by-day where work is performed;
- Prorating wages between office and home, based on actual or expected schedules, and withholding accordingly;
- Small Employers can withhold according to their rule – withhold for their own fixed location only.



Work From Home Refund Trends

What RITA is Seeing:

Tax Year	WFH Refunds	WFH Refund $	Average Refund
2021	7,030	$14M	$1,990
2022	3,523	$6.2M	$1,758
2023	2,526	$4.4M	$1,749
2024	2,048	$3.5M	$1,708
2025 To Date	1,572	$2.6M	$1,654

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LITIGATION UPDATE



Wos, et al v. Cleveland, et al Cuyahoga C.P. No. 2024-CV-993917

Allegations:

- The City failed to pay interest on municipal income tax refunds that were not paid within 90 days after a taxpayer filed their return; and
- Income derived from paid vacation days/other PTO should be apportioned in the same way that workdays are apportioned for "days out" refunds.



Wos, et al v. Cleveland, et al Cuyahoga C.P. No. 2024-CV-993917

Procedural History and Current Status:

- March 6, 2024, Complaint filed seeking class certification;
- July 26, 2024 C.P. Court dismissed, finding plaintiffs failed to exhaust administrative remedies, plaintiffs appealed;
- April 25, 2025 Eighth District Court of Appeals reversed and remanded back to the trial court – ***on procedural grounds***;
- April 28, 2026 Motions for Summary Judgment pending in trial court.

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Questions?

Thank You!

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