



Municipal Tax Refund Issue

WHY IS OHIO MUNICIPAL INCOME TAX WITHHELD FROM MY PAYCHECK?

Ohio Supreme Court decisions interpreting the Ohio Constitution's Home-Rule Amendment allow municipalities in our state to assess an income tax to individuals both where they are providing a good or service and where they reside, and over 600 municipalities do just that. For people who work in an office or facility, 100% of their wages are usually withheld to the city/village where the office/facility is located. For those who reside outside of their workplace city, additional income tax may be owed to the resident city if that city does not provide for a full 100% reciprocity credit for taxes already withheld. In addition, if you often travel for work to other taxing jurisdictions to provide goods or services, such as a plumber, your employer must withhold income tax to additional cities or villages where you worked 21 or more days over the course of a year, so you could owe tax and have a filing obligation in multiple cities.

HOW HAS COVID IMPACTED MY WITHHOLDING?

In March 2020, Governor DeWine and state legislators quickly adopted numerous policies seeking to protect the health of Ohioans, help business owners stay afloat, support struggling public entities and keep individuals employed. One of those changes – Section 29 of HB 197 – temporarily allows employers to avoid a looming payroll bookkeeping nightmare by withholding their employees' municipal income tax to the office/facility city even though employees might be working remotely. Without the law change, employers would have been required to withhold the tax to any city or village as soon as an employee worked there more than 20 days in a calendar year – a threshold that would have been triggered for many employees in April 2020. As we prepare to file 2020 individual tax returns, some remote workers may qualify for a municipal income tax refund.

DOES APPLYING FOR A MUNICIPAL INCOME TAX REFUND FOR TAX YEAR 2020 MAKE SENSE FOR ME?

If your office/facility city has a higher tax rate than where you have been physically working, or if your resident city does not provide 100% reciprocity for taxes paid, you will want to talk to your CPA about whether you should request a refund.

Typically, individuals who had income tax withheld to a city or village with a higher rate than where the person resides would benefit financially from filing a refund request. Keep in mind that because you are taxed both where you work and where you live, if both cities have the same rate, you may end up writing a check to your resident city in exchange for getting a refund from your office location.

However, if you have been working at your home located in a township, you should be able to keep the entire refund because townships do not tax personal income.

This process will involve filing additional tax forms, so unless you know how to file the refund request without professional assistance you may incur additional tax preparation costs.

WHAT IF THE CITY THAT HAS BEEN WITHHOLDING TAX FROM MY PAYCHECK SAYS IT IS NOT GIVING REFUNDS BECAUSE OF HOUSE BILL 197?

This issue likely will be decided by the courts as lawsuits against several cities are already pending. However, one thing is certain: if you do not apply for a refund, and then request an assessment if you are rejected, you absolutely will not get a refund.

HOW DO I FILE FOR A REFUND?

You will need to comply with the requirements of the city where your employer withheld your municipal income tax. Typically, this would involve completing and filing the city/village tax return and attaching an addendum listing all days in 2020 you were physically working in another jurisdiction, such as at home. Most cities require your employer to certify “days out” when you worked remotely. Any holidays or other paid leave (i.e. sick leave or vacation) do not count as a work day for this purpose. Then you must figure out the average of what you earned each day. Many cities and villages have indicated they do not plan to give refunds for remote working that occurred during the State of Emergency. If you are rejected, be sure to take the next step of requesting an assessment and ensuring that you timely appeal it so that, if/when the courts rule in favor of taxpayers, your refund request will move forward.

Although there is a statute of limitations, refunds will be received based on originally filed tax returns. Further, if a city requires a return, the CPA will want to prepare that return while filing the federal and state, as well. Even if a city does not require a return, it usually makes sense from an efficiency standpoint to get all returns prepared at the same time as the federal and state — it is computerized through commercial software.