

**THE HEART OF CUYAHOGA COUNTY**

**6800 Brecksville Road  
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**MEMORANDUM**

To: Mayor Gregory P. Kurtz  
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, April 14, 2023

Re: Finance Office and Related Topic Updates

**Municipal Income Tax Receipts**

Being the middle of the month, the Finance Office is in receipt of the April Income Tax Receipts from the Regional Income Tax Agency (RITA).

The month of April continued March’s lackluster receipt level as follows:

| <u>April</u> | <u>Income Tax Receipts</u> |
|--------------|----------------------------|
| 2023         | \$2,573,835                |
| 2022         | \$3,053,230                |
| 2021         | \$2,802,352                |
| 2020         | \$2,661,158                |
| 2019         | \$2,533,509                |
| 2018         | \$2,701,438                |

What does the Finance Office always caution though? Correct – Don’t get overly excited about a single real high month or overly depressed about a single real low month. What’s more important are receipt levels over periods longer than a month or two and the trends of those periods over a number of years.

## Municipal Income Tax Receipts – Continued

The first four months of Income Tax Receipts dating back to 2018 are as follows:

| <u>1<sup>st</sup> Four Months</u> | <u>Income Tax Receipts</u> |
|-----------------------------------|----------------------------|
| 2023                              | \$10,524,545               |
| 2022                              | \$11,100,864               |
| 2021                              | \$11,413,925               |
| 2020                              | \$11,206,528               |
| 2019                              | \$10,521,143               |
| 2018                              | \$10,707,294               |

Looking back at an even longer period of time yields a similar trend. Following are the Income Tax Receipts for the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of the previous year, the 1<sup>st</sup> Quarter of the current year noted, plus the month of April in that current year – in other words, a ten (10) month look-back period:

| <u>10 Month Time Period</u> | <u>Income Tax Receipts</u> |
|-----------------------------|----------------------------|
| 2022/2023                   | \$25.9 Million             |
| 2021/2022                   | \$27.0 Million             |
| 2020/2021                   | \$28.1 Million             |
| 2019/2020                   | \$27.2 Million             |
| 2018/2019                   | \$26.2 Million             |
| 2017/2018                   | \$25.6 Million             |

The previous three data sets make clear that the last ten months of Income Tax Receipts have been “challenged” to say the least. Income Tax Receipts these last ten months are barely over where they were during the same ten-month time-period five years ago.

In analyzing some recent RITA data, although all three sources of income taxes remitted from RITA – Withholding, Individuals and Net Profit – are down year-to-date 2023 vs. the same time period in 2022, the vast majority of the decline is in the Withholding category.

It can't be said for sure, but a plausible reason for this might be that although office space occupancy rates in Independence are still fairly solid, not as many people as in the past are occupying and working out of that office space five days a week.

## Municipal Income Tax Receipts – Continued

The remote-work trend and tax laws reverting post-Covid back to long-standing laws, where taxes are withheld based on where work is being produced and not where the employer is located, has certainly played a part in this declining Income Tax Receipts trend.

Up to early 2020, those two places were usually the same place. Office type employees who did not live in Independence, drove to an Independence-based employer, worked all day (and thusly paid local taxes to Independence), and then drove home.

As more and more Independence-based businesses start to comply with local income tax withholding requirements, Independence's Income Tax Receipts received from employee Withholding are down almost exactly twenty percent (20%) Year-to-Date 2023 vs. the same time period in 2022.

One logical conclusion from that is that at least a fair number of employees of Independence-based businesses are still working either partly or fully remote outside of Independence – and their employers are correctly withholding local income taxes based on where that work is being produced.

It will be the Administration's and Council's call if they feel that this recent Income Tax Receipts trend, possibly caused in large part by the remote work trend, will be viewed as a short-term aberration and many/most/all office-type employees will return to the office more over the next few years?

Or will the Administration and Council view this recent trend as one that “has some legs” to it, and won't completely abate itself anytime soon? And that Local Income Tax Receipts will be “challenged” for the foreseeable future?

The conclusion is that the bottom certainly hasn't fallen out of Income Tax Receipts and therefore nobody should be running around with a “*the sky is falling*” attitude.

But a portion of the corporate world has already engaged in at least some, if not significant, cost-cutting in anticipation of what they feel is lurking just over the economic horizon.

The Finance Office stands ready to partner with the Administration and Council in developing and navigating a prudent and conservative economic and financial path forward for the City.