



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
Independence, Ohio 44131
216.524.4131**

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, June 16, 2023

Re: Finance Office and Related Topic Updates

Income Tax Receipts

Recall that May's Income Tax Receipts were at a record, one-month level, clocking in at just over \$4.5 million.

So many 2022 tax bills were probably settled in April of 2023 and credited to the City's account in May that it would stand to reason that the June collection amount might decline a bit – and it did.

Following are the June Income Tax Receipts dating back to 2020:

<u>June</u>	<u>Income Tax Receipts</u>
2023	\$3,031,643
2022	\$3,840,410
2021	\$3,450,249
2020	\$3,037,383

That's a \$1.5 million or a full 33 percent swing from May's \$4.5 Million in Income Tax Receipts to June's \$3.0 Million.

Income Tax Receipts

That's also why it's usually not a good idea to get too worked up about a single month's receipt levels being either abnormally high or unusually low. It's the longer-term trends that are more useful for long-term decision making.

Looking back at the Second Quarter of the year alone, it wasn't a record here in 2023, but it was close to 2022's Second Quarter Income Tax Receipts as follows:

<u>Second Quarter</u>	<u>Income Tax Receipts</u>
2023	\$10,140,223
2022	\$10,304,769
2021	\$ 9,896,481
2020*	\$ 7,972,967*

*Recall that with 2020 being the start of Covid-19, the tax filing date in the United States was pushed back from April 15 to July 15 that year, so Second Quarter Income Tax Receipts were much lower than typical.

A slightly better analysis would compare the first six months of the year along with the annual "Retainer Refund" from RITA, which is explained later in this Memorandum.

First-Half Income Tax Receipts dating back to 2020, including the Retainer Refund, are as follows:

<u>1st Half + Ret. Ref.</u>	<u>Income Tax Receipts</u>
2023	\$18,802,976
2022	\$19,035,926
2021	\$19,141,431
2020*	\$17,189,578*

*Again, the tax filing deadline was pushed back to July in 2020, so the first-half Income Tax Receipts that year were skewed low from "normal."

While First-Half 2023 Income Tax Receipts have not fallen off the cliff, they are showing a slightly declining trend two years in a row now. This trend is occurring while very high inflation rates in the last few years have significantly increased the cost of goods, services and labor.

Retainer Refund Explanation

Independence and 375 other cities, villages and other public taxing districts in Ohio, contract with the Regional Income Tax Agency (RITA) to collect, process and track income tax collections from individuals, businesses, and other organizations.

As part of that package of services, RITA “retains” three percent (3%) of each semi-monthly distribution to member organizations to cover and pay for the cost of providing those collection, processing, and tracking services.

At the end of each year, RITA’s annual operating costs are allocated among its member organizations based on the volume of transactions within each of those organizations. Any balance that remains after the proportionate share of operating costs are deducted from what has already been retained, is refunded back to the respective organizations as a “Retainer Refund.”

In 2022, RITA’s “Cost of Collections” was only 1.15% of all taxes collected in those 376 organizations. Therefore, the remaining 1.85% was allocated amongst the member organizations and returned as the “Retainer Refund.”

For 2022, Independence’s Retainer Refund that was just recently credited to its account, was \$712,000.