

City of Independence, Ohio

"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, February 18, 2022

Re: Finance Office Updates

Remote Work and Ohio Municipal Income Tax

The Finance Office was asked to participate in one aspect of a collective bargaining agreement negotiation this past week. It was nice to see that a recent weekly Finance Office Memorandum was quoted from and used as an Exhibit in that session!

Then the local mayors and managers association met yesterday afternoon to discuss what one local mayor described as follows: *"I'm not sure there has ever been an issue as central to the future of Ohio communities as this one."* (Work-From-Home/Municipal Income Tax Laws).

A representative from the Regional Income Tax Agency (RITA) participated in yesterday's meeting, and it was RITA's opinion that due to the timing of withholdings and some employers being on a quarterly filing timetable, that RITA itself, and thusly Ohio municipalities, won't see *"a meaningful shift"* in local income tax withholdings until this spring – around March/April+-.

So while Members of Council and other readers of this weekly Memorandum are completely aware of the very real Work-From-Home trend and know that there are some income tax implications to that trend here in Ohio, the Finance Office would like to use this forum this week to as clearly and concisely as possible, review Ohio Municipal Income Taxing laws and Remote Work.

This will help anyone reading this to better be able to not only understand the current local taxing laws, but be able to explain them as well.

- In response to the COVID-19 pandemic, Ohio law permitted employers to continue to withhold local income tax from employee wages based on the office location, even if their employees had been working remote in another City
 - That's why Independence's income tax revenue did not decline during this time period, even though there were far fewer people actually working within Independence during 2020 and 2021



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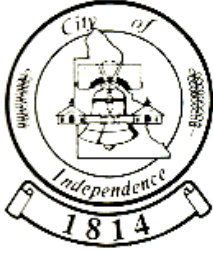
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Remote Work and Ohio Municipal Income Tax – Continued

- That Ohio law ended on December 31, 2021
 - Therefore, the “pandemic ruling” that allowed employers to tax remote employees as if they were working in the office in Independence, expired
- Tax payers that worked remotely in 2021 are eligible to file for refunds of taxes paid to a municipality that their employer was located in, but they did not physically work out of
 - RITA has indicated that it’s too early in 2022 to have seen any meaningful 2021 refund requests yet
- Some taxpayers that worked remotely in 2020 have filed for refunds from RITA for local income taxes paid to municipalities that they did not work out of in 2020, but their employer was located there
 - RITA is holding these refund requests in abeyance until a number of court challenges on this issue have been resolved
- Starting January 1, 2022, employers must withhold city income tax for the cities in which employees are actually working
 - For wages earned while working at home, the home municipality is treated like another work location, not a courtesy residence withholding
 - Local income taxes will be withheld where the work is actually being performed, not where the employer is located
 - Those two locations used to be one-in-the-same for most employees and employers
 - That is not the case anymore
- This is the same regulation that was in place before the “pandemic ruling”
 - The difference now is that a greater number of employees are working from home and will need to be taxed for “Work Tax Withheld for Residence City” than in the past
- An employer with under \$500,000 in total revenue the prior year can qualify as a “small employer”
 - Employers that qualify as small employers may withhold city income tax for the employee’s base office location even if employees are working from home
- In Summary
 - Employees that are working fully remote
 - Withhold tax for employee’s residence municipality at the full rate



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Remote Work and Ohio Municipal Income Tax – Continued

- Employees that are working fully on site
 - Withhold tax for the municipality where the workplace is located
- Employees that are working a hybrid schedule
 - Withhold tax where work is performed day by day, or
 - Prorate wages between the workplace and home based on expected schedules, and withhold accordingly

Legal Disclaimer

All of the above is for informational and educational purposes only. It does not constitute legal advice, and cannot constitute legal advice because nobody in the Finance Office is a licensed attorney.

So What Does This All Mean?

Many studies have been commissioned across Ohio to project the “Potential Impacts of Working from Home on Post Covid-19 Municipal Wage Tax Revenues in Ohio,” which is the actual title of one of those studies completed by Robert E. Gleeson, Ph.D., Professor and Albert A. Levin Chair of Urban Studies and Public Service at the Maxine Goodman Levin College of Urban Affairs at Cleveland State University.

None of these studies attempt to project exactly “*how many*” people will Work-From-Home, how often, etc.

These studies tend to analyze a given set of data and then attempt to project the impact on a municipality’s income tax revenue stream “*if X% of workers work remotely.*”

In the research completed and compiled by Dr. Gleeson, of the 55 cities and villages in Cuyahoga County, he forecasts Independence to suffer the second worst drop in income tax collections based on various scenarios, only behind Mayfield Village (The home of Progressive Insurance).

As the City’s Leadership Team, Mayor Kurtz, Members of Council and the Finance Director will help guide Independence through whatever the future holds.

The key will be to be nimble, flexible and adaptable as circumstances unfold over the rest of 2022. Constantly analyzing what’s happening, thinking of all possible courses of action, determining which ones are the best options, preparing proper plans, & implementing flawlessly.