



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, January 14, 2022

Re: Finance Office Updates

Municipal Income Tax Revenue (MITR) – Taxing/Legal Issues

Income Tax on the local level remains front-and-center in the news, especially here in the first part of the New Year since various local temporary income tax laws expired at the end of 2021.

The Plain Dealer/Cleveland.com has been featuring this issue prominently in recent editions.

In December, the Ohio Society of CPA's issued a Guide to its members featuring 56 Questions and Answers on this topic.

The Regional Income Tax Agency (RITA) held a three-hour "Municipal Income Tax Update" Webinar this morning.

Why? Because the Covid issue that jump-started the Work-From-Home (WFH) model over the last two years will now be causing the "rubber to hit the road" starting this month.

The Independence Finance Department is not a tax-advising entity, but following is a brief summary of how employee wages/income will be taxed at the local level starting January 1, 2022:

- **Working Fully Remote**
 - Withhold tax for the employee's residence municipality
- **Working Fully On-Site (Employer's Location)**
 - Withhold tax for the municipality where the workplace is located
- **Hybrid Work Schedule**
 - Withhold tax where the work is performed day-by-day
 - Prorate wages, and thusly taxes, between workplace and home municipalities



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Municipal Income Tax Revenue (MITR) – Taxing/Legal Issues – Continued

The above-listed three scenarios are fairly straightforward to explain, but the somewhat complicated implementation of the proration and allocation of local income taxes for numerous hybrid employees across numerous local municipalities is why RITA said the following about the three groups today (Employers, Employees, Municipalities):

- Employers
 - They are “scrambling” right now to make sure they comply with local income tax laws – Especially the proration and allocation parts
- Employees
 - Fully remote employees stand the greatest chance of paying less local income tax now due to them just working and paying local taxes to their residence community, and not to both their residence community and where their employer is located
- Municipalities
 - They know that there will be a shifting in local tax dollars now
 - There is a lot of uncertainty now for municipalities like Independence that historically have relied on a large influx of non-residents working and paying local taxes to them
 - How local MITR will be impacted is all predicated on the makeup of the three local taxing options noted on the previous page of this Memorandum
 - The more employees continue to work fully on-site at the employer’s location, the less adverse the financial hit will be
 - The more employers allow employees to switch to a fully remote work model, the more adverse the financial hit can be
 - For those working a hybrid work model, the more they continue to come into the employer’s location to work, the less adverse the financial hit will be

The impact of the three taxing options noted on the previous page of this Memorandum won’t be felt quite yet here in January, as MITR the City receives this month is substantially from local income taxes withheld from employees in December of last year.

It will take a few months to start to see a discernable trend in local MITR, starting in February/March, at which time the MITR the City receives will finally be substantially for 2022 wage withholding.

By late spring/early summer, the City will have enough data to start seeing how the WFH and/or remote work models are impacting MITR in Independence. Hold on!