

2008 LANCASTER, OHIO CITY INCOME TAX - GENERAL INFORMATION & INSTRUCTIONS

1. WHO MUST FILE A RETURN

The following must file a return WHETHER OR NOT ADDITIONAL TAX IS OWED TO LANCASTER:

- A. Every Lancaster RESIDENT age 16 or over who has taxable income, including pass-through income and rental income. RESIDENT includes a part-year resident and includes a legally domiciled resident temporarily living away, e.g. college student, construction worker, truck driver.
- B. Every sole proprietor, corporation, partnership, trust or other business entity operating in Lancaster on more than 12 days of the tax year, and any owner of Lancaster rental property. Must file even if a loss.
- C. NON-RESIDENTS who have earned income in Lancaster for which the total and correct amount of Lancaster tax has not been withheld.

2. WHEN A RETURN IS NOT REQUIRED

- A. RETIRED individuals with no earned income at any time during the tax year are not required to file a return. If you received a tax form, check Yes in the upper right part of the form that your account should be deactivated, give reason as Retired and provide date of retirement. Sign at bottom right and return to Tax Department.
- B. NON-RESIDENTS who did not live in Lancaster at any time during the year and who had earned income in Lancaster for which the total and correct amount of Lancaster income tax has been withheld.

3. WHEN AND WHERE TO FILE THIS RETURN

The annual income tax return must be filed and paid in full on or before April 15, 2009, with the Lancaster Income Tax Department, PO Box 128, Lancaster, Ohio 43130. Fiscal year businesses with accounting periods ending other than December 31 must file within 3 1/2 months after the end of the accounting period.

4. EXTENSIONS

Extensions of time to file a return will be granted up to the end of the month for which an approved federal extension is given if you have complied with all of the following requirements:

- A. You have requested and are granted an extension of time for Federal tax purposes.
- B. You have notified the City of Lancaster by the original due date of the city return by sending us a copy of your federal extension.
- C. You timely file and pay a Declaration of Estimated Tax with the city for the 2009 tax year.
- D. All required prior Lancaster tax returns have been filed and no balance is due for any prior tax year.

NOTE: An Extension is for the time to file only. Interest of 1% per month or part month and penalty of 1% per month or part month will be assessed on any balance due if not paid in full by the original due date of the return without extension.

5. TAXABLE INCOME

The following items, although not all inclusive, are examples of income taxed by the city:

- A. Salaries, wages, commissions and other compensation. In most cases report wages from Box 5 of W-2.
- B. Sick pay and vacation pay.
- C. Income from wage continuation plans, unless paid for by employee.
- D. Stock option income.
- E. Cost of group-term life insurance paid by employer for coverage in excess of \$50,000.
- F. Severance pay.
- G. Compensation paid in property (valued at fair market value).
- H. Tips.
- I. Deferred compensation such as contributions made by or on behalf of the employee to a tax-deferred annuity (including 401k plan contributions, payments into teacher's retirement plans and government retirement plans).
- J. Stipends - if work is required.
- K. Bonuses.
- L. Prizes - if connected with employment.
- M. Directors fees.
- N. Income from jury duty.

- O. Supplemental unemployment compensation paid by employer.
- P. Union steward fees.
- Q. Strike benefit paid by company.
- R. Executor fees.
- S. Ordinary income from the sale or exchange of property.
- T. Net gains from business activity including farms.
- U. Income from non-qualified pension plans.
- V. Rental income.
- W. Portion of pass-through income to residents from all entities (except, S corporations) on which Lancaster tax is not paid at the entity level. **No S corporation pass-through income is taxable to Lancaster residents regardless of source.**
- X. Lottery and prize winnings if total for year exceeds \$5,000.
- Y. Royalties from tangible property.

NON-TAXABLE INCOME

The following items are not taxable to the city:

- AA. Military pay (including National Guard and reserve pay).
- BB. Income earned while under 16 years of age.
- CC. Income earned as an election poll worker, unless in excess of \$1,000.
- DD. Alimony and child support.
- EE. Income from capital gains or losses.
- FF. Interest.
- GG. Dividends.
- HH. Social Security benefits.
- II. Workers' Compensation benefits.
- JJ. State Unemployment Benefits.
- KK. Proceeds of life insurance plans.
- LL. Lottery and prize winnings if total for year is \$5,000 or less.
- MM. Gambling winnings from other than lottery or prizes.
- NN. Welfare payments.
- OO. Income from qualified pension plans.
- PP. Patent and copyright income.
- QQ. Royalties from intangible property.
- RR. Annuity distributions.
- SS. Housing allowances for clergy to the extent that the allowance is used to provide a home.
- TT. Short and Long-Term Disability Income

6. PART-YEAR PRORATION OF WAGES

Wages earned working in Lancaster are subject to Lancaster tax regardless of where you lived. However, if you were a resident of Lancaster for only part of the year and earned any wages working outside of Lancaster while you were a non-resident, only wages earned while a resident of Lancaster are subject to Lancaster tax. The best way to determine Lancaster taxable wages is to use your pay stub closest to the date of your move in or out of Lancaster. If that's not available, calculate the non-resident portion for line 1(C) of your tax return as follows:

If you worked outside of Lancaster for the same employer for the entire year, divide the entire wage from Box 5 of your W2 by 12. Then multiply that by the number of months NOT living in Lancaster. Enter the resulting figure on Line 1(C).

If you worked outside of Lancaster for an employer for only part of the year, divide the wages from W2 Box 5 by the actual number of months you worked for that employer. Then multiply that by the number of months you worked for that employer while NOT living in Lancaster. Enter the resulting figure on Line 1(C).

7. CREDIT FOR INCOME TAXES PAID TO OTHER CITIES

Individual taxpayers who are residents of Lancaster are allowed a credit if their taxable income has been properly taxed by another city where it was earned.

The credit is the lesser of

- (1) actual tax paid or withheld, or
- (2) portion of income actually taxed by another city multiplied by 1%.

In the computation you may not include income that wasn't taxed by another city, or income that was taxed but for which a refund would be available from another city if properly applied for. Also, each source of income and each work city is looked at separately in the calculation.

(see examples at top of page 2)

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EXAMPLE 1: An employee who lives in Lancaster earns \$20,000 working in Columbus. Since the Columbus tax rate is 2%, the employer withholds and pays to Columbus a tax of \$400.00 (\$20,000 x 2%). Lancaster gives tax credit on line 5B of the return of \$200.00 (1.0% times \$20,000 earned).

EXAMPLE 2: An employee who lives in Lancaster, earns \$20,000 working in Carroll. Since the Carroll tax rate is 0.75%, the employer withholds and pays to Carroll a tax of \$150.00 (\$20,000 x 0.75%). Lancaster gives tax credit on line 5B of the return of the full \$150.00 paid to Carroll.

8. EMPLOYEE BUSINESS EXPENSES

Employee business expenses incurred to earn Lancaster taxable wages and properly reported to the IRS on form 2106 may be deducted from taxable wages by taxpayers who itemize deductions for federal taxes. Attach form 2106, Schedule A and page 2 of form 1040.

Business expenses incurred to earn income for work done in another city must be allocated to the city where the income was earned. In calculating credit for tax paid to other cities, net taxable income, after deducting allocated 2106 expenses, is the basis for determining the credit allowed.

Educator expenses deducted directly on the first page of federal form 1040 are **NOT** deductible for tax year 2008.

9. BUSINESS INCOME SCHEDULE (Schedule X) AND ALLOCATION FORMULA (Schedule Y)

Schedule X adjusts the federal net gain or loss for items where Lancaster city income tax applies differently from federal tax. Line I of Schedule X shows the starting figure to use. Business income attributable to interest, dividends, capital gains and losses are not subject to Lancaster city income tax. Expenses attributable to nontaxable income shall be added back in the amount of 5% of specified nontaxable amounts. City or state taxes based on income may not be

deducted. For partnerships, guaranteed payments to partners are not deductible. Self-employed individuals and pass-through income recipients may NOT deduct one-half self-employment tax.

NOTE: Income of S corporations remains taxable as if they were C corporations.

Schedule Y is used to determine the percentage of adjusted net business income to be allocated to Lancaster. It may be used only if business is conducted both within and outside the city of Lancaster. When this formula method is used, the following procedures must be observed.

Step 1. Determine the percentage which the average original cost of real and tangible personal property owned or used in the business, located within Lancaster during the period, is of the average original cost of all real and tangible personal property used in the business wherever located. The value of rented property is determined by multiplying the annual rentals by eight.

Step 2. Determine the percentage which the total wages, salaries and other compensation paid during the period to employees for services performed in Lancaster is of the total wages, etc. to all employees located everywhere.

Step 3. Determine the percentage which the gross receipts of the business from sales made or services performed in Lancaster during the period is of the total gross receipts from all sales and services wherever made or performed.

Step 4. Sum the percentages for each of the above steps used.

Step 5. Divide total of Step 4 by the number of percentages used.

Operating Losses: Operating Losses from prior years cannot be carried forward or backward to offset current year income.

MANDATORY DECLARATION OF ESTIMATED TAX - GENERAL INFORMATION

10. PURPOSE OF DECLARATION:

If you expect to have any taxable income in 2009 on which the proper amount of Lancaster tax will not be withheld by your employer, you must file a Declaration of Estimated Tax. It must be filed by the due date of the prior year's final tax return without extension, and you must pay at least one-quarter of the tax due by that date. Failure of a taxpayer to file a Declaration of Estimated Tax and pay quarterly installments of estimated tax will result in interest and penalty charges – see Instruction 13. Such taxpayers must also file an annual return of actual taxable income and pay any balance of tax due. For example for individuals, a Declaration of Estimated Tax for 2009 must be filed by April 15, 2009, including payment of the first quarterly amount due.

11. WHO MUST MAKE A DECLARATION:

- Every resident of the City of Lancaster, who expects to receive taxable income, wherever earned, from which the City of Lancaster Income Tax will not be withheld.
- Every non-resident of the City of Lancaster, who expects to receive taxable income, earned or derived from within the City, from which the City of Lancaster Income Tax will not be withheld.
- Every business entity, such as corporations, partnerships, fiduciary of active trusts, unincorporated businesses or professional entities conducting activities or producing income from within the City.

12. WHEN AND WHERE TO FILE DECLARATION:

File on or before April 15, 2009, with the Income Tax Department, Municipal Building, PO Box 128, Lancaster, Ohio 43130. All wage earners must file on a calendar year basis. Fiscal year taxpayers shall file on or before the 15th day of the 4th month measured from the beginning day of their fiscal year.

13. LATE FEE, PENALTY AND INTEREST:

A late fee is charged for failure to file a tax return by the due date – \$25.00 if the return is filed within 30 days after the due date, \$50.00 if filed more than 30 days but not more than 120 days late, \$100.00 if filed

more than 120 days late. Any quarterly estimated tax installment or final tax amount that is not paid when it is due will be assessed a penalty of 1% per month or part month, and interest of 1% per month or part month.

14. SAFE HARBORS:

Lancaster uses safe harbor approaches under which penalty and interest will not be charged. Safe harbors require that the annual tax return be timely filed (recognizing valid extensions) including both the 2008 return and 2009 Declaration of Estimated Tax (no extension allowed). All required payments must be timely paid in full including each quarterly estimate payment and the balance due by the original due date of the return. If those requirements are met, the safe harbor will apply and no penalty and interest will be charged if any one of the following conditions is met:

- if the final balance owing is less than \$100.00, or
- if credits total at least 100% of the preceding year's tax liability (on line 4), or
- if at least 90% of the current year's tax liability has been timely prepaid and/or withheld.

This section relates only to required declarations and payments, and not to the final amount due with the tax return for the year... see Instructions 3 and 4.

15. AMENDMENTS TO DECLARATION:

If your income situation changes materially from the estimate made on your original declaration, an amended declaration is required. You may use a new form and write across the face of it the word "Amended."

16. DECLARATION OF ESTIMATED TAX PAYMENT TIMETABLE- CALENDAR YEAR TAXPAYERS

April 15, 2009 File Declaration with 1st quarter payment
July 31, 2009 Make 2nd quarter payment
November 2, 2009 Make 3rd quarter payment
February 1, 2010 Make 4th quarter payment