

LANCASTER 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 earned income, including pass-through 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 each year 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 3½ 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 2003 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 18 of W-2 (Box 1 or 5 if larger).
- B. Contributions for fringe benefits, including health insurance or medical savings plans.
- C. Sick pay and vacation pay.
- D. Income from wage continuation plans, unless paid for by employee.
- E. Contributions made **by or on behalf of** employees to cafeteria plans (Sec. 125, etc.)
- F. Stock option income.
- G. Cost of group-term life insurance paid by employer for coverage in excess of \$50,000.
- H. Severance pay.
- I. Compensation paid in property (valued at fair market value).
- J. Tips.
- K. 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).
- L. Stipends - if work is required.
- M. Bonuses.
- N. Prizes - if connected with employment.
- O. Directors fees.
- P. Income from jury duty.
- Q. Supplemental unemployment compensation paid by employer.

- R. Union steward fees.
- S. Strike benefit paid by company.
- T. Executor fees.
- U. Ordinary income from the sale or exchange of property.
- V. Net gains from business activity including farms.
- W. Income from non-qualified pension plans.
- X. Rental income.
- Y. Portion of pass-through income to residents from partnerships, S corporations, etc. on which Lancaster tax is not paid at the entity level.
- Z. Lottery and prize winnings if total for year exceeds \$5,000.

6. NON-TAXABLE INCOME

The following items are not taxable to the city:

- A. Military pay (including National Guard and reserve pay).
- B. Income earned while under 16 years of age.
- C. Income earned as an election poll worker, unless in excess of \$1,000.
- D. Alimony and child support.
- E. Income from capital gains or losses.
- F. Interest.
- G. Dividends.
- H. Social Security benefits.
- I. Workers' Compensation benefits.
- J. State Unemployment Benefits.
- K. Proceeds of life insurance plans.
- L. Lottery and prize winnings if total for year is \$5,000 or less.
- M. Welfare payments.
- N. Income from qualified pension plans.
- O. Patent and copyright income.
- P. Royalties from intangible property.
- Q. Annuity distributions.
- R. Housing allowances for clergy to the extent that the allowance is used to provide a home.

7. CREDIT FOR INCOME TAXES PAID TO OTHER CITIES (NEW FOR 2002)

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. **CREDIT ALLOWED WAS CHANGED** during 2002 as follows:

For income earned **before** October 1, 2002, the credit is **the lesser of**

- (1) actual city tax paid or withheld on income earned before October 1, or
- (2a) income taxed by another city and earned before October 1 multiplied by 1.6%,

and

For income earned **on or after** October 1, 2002, the credit is **the lesser of**

- (1) actual tax paid or withheld on income earned on or after October 1, or
- (2b) income taxed by another city and earned on or after October 1 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.

EXAMPLE 1: An employee who lives in Lancaster earns \$20,000 working in Columbus – \$15,000 before October 1, and \$5,000 on or after October 1. 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 \$290.00 (1.6% times \$15,000 earned before October 1 – see (7-2a) above, plus 1% times \$5,000 earned on or after October 1 – see (7-2b) above).

EXAMPLE 2: An employee who lives in Lancaster, earns \$20,000 working in Westerville – \$15,000 before October 1 and \$5,000 on or after October 1. Since the Westerville tax rate is 1.25%, the employer withholds and pays to Westerville a tax of \$250.00 (\$20,000 x 1.25%). Lancaster gives tax credit on line 5B of the return of \$237.50 (1.25% times \$15,000 earned before October 1 – see (7-1) above, plus 1% times \$5,000 income earned on or after October 1 – see (7-2b) above).

We've provided worksheets to use to calculate credits for 2002 tax and 2003 estimated tax.

LANCASTER CITY INCOME TAX INSTRUCTIONS (PAGE 2)

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.

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 non-taxable income, unless specifically accounted for in company records, shall be at least 5% of all non-taxable amounts. City or state taxes based on income may not be deducted. For partnerships, guaranteed payments to partners are not deductible. No charitable contributions are allowed as a deduction.

NOTE: Self-employed individuals and pass-through income recipients may NOT deduct one-half self-employment tax.

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 net book value of real and tangible personal property owned or used in the business, located within Lancaster during the period, is of the average net book value 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.

MANDATORY DECLARATION OF ESTIMATED TAX - GENERAL INFORMATION

10. **PURPOSE OF DECLARATION:** If you expect to have any taxable income in 2003 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 **2003** must be filed by April 15, **2003**, 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 of the tax year, with the Income Tax Department, Municipal Building, PO Box 128, Lancaster, Ohio. 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 2002 and 2003 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, 2003File Declaration with 1st quarter payment
July 31, 2003Make 2nd quarter payment
October 31, 2003Make 3rd quarter payment
January 31, 2004Make 4th quarter payment