

City of Lancaster, Ohio

Income Tax Department

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What's New for Tax Year 2002?

Tax Credits Reduced

Lancaster passed a revision to its Income Tax Ordinance effective October 1, 2002 that reduced credits allowed for income taxed by the city where the work was done. The credit was reduced from our full tax rate of 1.6% to a maximum of just 1.0%. To account for the fact that the change took effect during the tax year, Tax Credit Calculation Worksheets were developed to use for calculating the tax credit for tax year 2002. Note that either of 2 methods (Pro-ration or Actual) may be used.

Combination of All Non-W2 Income

In an effort to move further towards uniformity of tax provisions with other Ohio cities, all Lancaster taxable income other than what's reported on W2s is to be combined for 2002. This is done using lines 17 to 22 on the back of the tax form. Combined non-W2 income is then carried from line 22 and reported on line 2 of the Lancaster tax return. Note that if the net result on line 22 is a loss, the amount to report on line 2 is zero. As was the case in 2001, non-W2 losses cannot offset W2 income. Note too that income from rental property is now taxable regardless of the amount of the net rental income. The previous \$80 per month threshold has been eliminated. For 2002 losses from rental property will be allowed to reduce other non-W2 income.

Monthly Withholding for Larger Employers

Effective July 1, 2002, employers who are required to withhold Lancaster tax from employee compensation for work done in Lancaster, and who withhold Lancaster tax of \$300 or more in a month (or \$3,600 or more in a year) must remit the amount withheld in each calendar month by the 20th of the following month.

Reminder about 2001 Changes Still in Effect

The due date for filing, including next year's declaration and first quarter installment are April 15th. If needed, **an extension must be requested from Lancaster by April 15th**. We will accept a copy of the federal extension or a letter with names and Social Security (or Federal ID) numbers. Extensions may be requested by E-mail using "taxrequest@ci.lancaster.oh.us".

No extension will be allowed if a taxpayer is delinquent in filing or payment for any prior tax year.

Lottery and prize winnings totaling more than \$5,000 for the year are fully taxable (if the total is \$5,000 or less, none is taxable).

Business losses for tax years beginning January 1, 2001 or later may be carried forward for one year only. For prior tax years, loss carry forward was, and remains 5 years.

For Lancaster residents, pass-through income from partnerships, S Corporations, or other entities **that has not been taxed by Lancaster at the entity level** is taxable on their personal tax return (normal credits are allowed for other city tax paid by the partnership, S Corporation, or other entity). No deduction is allowed for self-employment tax. Taxation of resident's pass-through S Corporation income was in effect for 2001.

All partnerships must file a partnership level return for profits (or losses) attributable to Lancaster.

Employers who pay income to an individual or independent contractor for work performed or rental of

property in Lancaster must provide copies of federal forms 1099-MISC reporting such income. In response to suggestions from local tax preparers, a **separate new form 1099-N** has been developed to use in providing this information. Note that the 1099 information is due by the end of February with no extension allowed.

Lancaster follows the requirements of Ohio HB 477 – 12 day rule (see Ordinance Section 3E) for nonresidents working only occasionally in our city, and \$150.00 de minimus rule (see Ordinance Section 7C) for withholding by non-resident employers who have no Lancaster place of business.

Mandatory Filing and Mandatory Estimates

Lancaster requires filing an annual tax return if there is any income subject to city tax, even if no additional tax is due or even if the only income to report is a rental or other loss. The city also requires a Declaration of Estimated Tax for any income on which there will not be adequate withholding. Quarterly payments must be made timely during the year. Based on the Declaration filed, we send a bill quarterly about one month before each estimated tax installment is due. The fourth quarter bill is sent in mid-December to accommodate those who itemize deductions. Late fees are charged if returns are not filed when due. Because Lancaster has mandatory filing, **late fees are assessed for late filing even when no additional tax is owed**. Late fees are outlined in Instruction 13.

Penalty and Interest Charges

Penalty and interest charges are levied unless required payments are made when due (see Section 13 of the Instructions). We use safe harbor approaches under which penalty and interest are not charged on net profit tax returns. Safe harbors are detailed in Instruction 14.

Note that valid extensions only extend the time for filing, but not for paying what is due. A tentative calculation of the amount of tax due must be made by the date the return is normally due without extension, and any balance due must be paid at that time. Interest and penalty charges apply to any payment not made by the original due date of the return.

Note also that there is **no extension allowed for filing a Declaration** for the current tax year. It is due 3 ½ months after the end of the prior tax year with no exceptions. We recommend that, when requesting an extension for the prior tax year, you also submit a year 2002 Declaration along with the first quarterly installment due under it in order to avoid interest and penalty charges.

Nonresident Refunds

Non-residents who work in Lancaster and have Lancaster tax withheld by their employer may request a refund of tax for days **worked** outside city limits - use Schedule Z. A signed employer letter must be provided attesting to the days and locations worked out. For any days worked in another municipality that has a tax, a copy of the tax return reporting the income and paying tax to that municipality must be provided.

Attachments to Net Profit Tax Return

For individual returns, please attach copies of W2s that show details of municipal tax withheld for each municipality. Also attach federal schedules C, E, F and Form 2106 (with Schedule A and page 2 of F1040) and form 4797 as applicable. Deductions are allowed for 2106 expenses only if and to the extent reported to the IRS by a taxpayer who itemized deductions, but are not further limited by the 2% floor in Schedule A. **“Educator expenses” deductible federally for 2002 on line 23 of form 1040 may be deducted for Lancaster taxes as “Employee Business Expenses” in Section 1 of our form – attach copy of page 1 of form 1040.**

For other returns, please attach copies all 4 pages of federal forms 1120, 1120S, 1065 or 1041, forms 4797 and 8825. Detailed statements are also required for items such as other income, other deductions, taxes, etc. to enable us to validate adjustments required to be made in Schedule X of the city return. Note that an addition of at least 5% must be made in Schedule X for expenses attributable to non-taxable income. Also note no deduction is allowed for any charitable contributions and they must be added back in Schedule X.

If you have any questions, we'll be glad to help. Telephone (740) 687-6606 weekdays 7:30am to 4:30pm.