

## City of Lancaster, Ohio

### Income Tax Department

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### What Will Be New for Tax Year 2004?

As required by Ohio HB 95, a new definition of taxable income will apply for all Ohio municipalities starting January 1, 2004. "Qualifying wages" for city tax purposes will be (essentially) Medicare Box 5 wages - except for government employees exempted from Medicare because they were hired before April 1986. During the 4th quarter of 2003, advance notification of the change was sent to all active Lancaster withholding tax accounts.

Ohio HB 95 also **eliminated** the \$150.00 de minimus exception starting January 1, 2004 for withholding by non-resident employers. They are again required to withhold and remit even if the annual total for a city is under \$150.

As allowed by HB 95, business losses for tax years beginning January 1, 2004 and later may not be carried forward. Losses for tax years beginning from January 1, 2001 to December 31, 2003 inclusive may be carried forward for one year only. For tax years starting prior to January 1, 2001, loss carry forward was, and remains 5 years.

### Items of Note for Tax Year 2003

The maximum Lancaster credit allowed for income taxed by the city where the work was done will be 1.0% for all of tax year 2003. The reduction from the previous maximum credit of our 1.6% tax rate took effect October 1, 2002.

All Lancaster taxable income, other than what's reported on W2s, must be combined - use lines 17 to 22 on the back of our 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. This reflects the fact that **non-W2 losses cannot offset W2 income**. Losses from rental property are allowed to reduce other non-W2 income.

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 20<sup>th</sup> of the following month. Booklets of monthly coupons that include the year end annual reconciliation and 1099-N forms for submitting 1099-MISCs, are sent to taxpayers who need them.

The due date for filing, including next year's declaration and first quarter installment are April 15<sup>th</sup>. If needed, **an extension must be requested from Lancaster by April 15<sup>th</sup>**. **No extension is allowed for filing next year's declaration or paying installments** timely. We 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 at [taxrequest@ci.lancaster.oh.us](mailto: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 (but **not** other gambling winnings) totaling more than \$5,000 for the year are fully taxable (if the total is \$5,000 or less, none is taxable). No deductions are allowed for gambling losses.

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.

All pass-through entities must file an entity level return for profits (or losses) attributable to Lancaster.

Lancaster follows the 12 day rule for nonresidents working only occasionally in our city as per Ohio HB 477.

By February 29, 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 - use form 1099-N.

### **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 three weeks before each estimated tax installment is due. The fourth quarter bill is sent in mid-December to accommodate those who itemize deductions and want to pay before year end. 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.**

### **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 personal or 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 that the return is normally due without extension, and any balance due must be paid at that time. Both 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 2004 Declaration along with the first quarterly installment due under it in order to avoid interest and penalty charges. If appropriate, the amount of the declaration can be amended when the final prior year tax return is filed.

### **Nonresident Refunds**

Non-residents who work in Lancaster and have Lancaster tax withheld by their employer may request a refund of tax only for days **worked** outside city limits - use Schedule Z. A signed employer letter must be provided attesting to the days and locations worked out. If more than 12 days are 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; otherwise those days worked out of Lancaster will be denied in determining the Lancaster refund.

### **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 on line 23 of form 1040 may be deducted for Lancaster taxes as "Employee Business Expenses" in Section 1 of our form – attach a copy of page 1 of form 1040 as support for the deduction.

For other returns, please attach copies of all 4 pages of federal forms 1120, 1120S, 1065 or 1041, plus 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 that 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.