



## Individual Income Tax – School District

The ability of school districts to levy an income tax dates back to 1979 when the Ohio General Assembly permitted such a tax solely to repay a state loan. Two years later, lawmakers repealed this law, which had not been used, and enacted Chapter 5748, granting broader authority for school districts to levy an income tax, subject to voter approval. In 1983, after voters in six districts approved such taxes, the legislature blocked other districts from enacting new income taxes by repealing most of the chapter. The ability of a school district to enact an income tax was restored in 1989. Unlike state or municipal income taxes, school district income taxes may be levied only on the income of residents of the school district.

Effective calendar year 2015, 190 of Ohio's 614 school districts levied the tax. In most districts, the tax applies to Ohio adjusted gross income less the exemptions provided by R.C. 5747.02 plus any amount deducted under R.C. 5747.01(A)(31); this base is known as the "traditional" tax base, which includes income to estates and taxable income for the taxable year in the case of the estates of persons who, at the time of their death, were domiciled in the school district. In certain other districts, the tax applies only to earned income, such as wages, salaries, tips and other employee compensation and net earnings from self-employment, to the extent they are included in Ohio adjusted gross income; this base is known as the "earned income" tax base.

The Department of Taxation administers the school district income tax, including collections through employer withholding, individual quarterly estimated payments, and annual returns. During fiscal year 2015, school district income tax revenue collections totaled about \$403.2 million.

During fiscal year 2015, net distributions to all districts totaled slightly more than \$393.0 million. These distributions are based on collections of approximately \$419.6 million for the April 2014 through March 2015 period.

### Taxpayer

(Ohio Revised Code 5748.01)

The tax applies to every individual residing in a taxing school district. In districts that use the traditional tax base,

the tax is also paid by the estates of persons who, at the time of their death, were domiciled in such taxing school district.

### Tax Base

(R.C. 5748.01)

#### "Traditional base" school districts

The "traditional base" of the tax is Ohio adjusted gross income less the exemptions provided by R.C. 5747.02 plus any amount deducted under R.C. 5747.01(A)(31). In the case of the estate of a decedent who was domiciled in the school district, the base is taxable income for the taxable year as defined in R.C. 5747.01(S).

#### "Earned income only" school districts

As of the end of fiscal year 2015, voters in 45 school districts had approved income taxes that only apply to the earned income tax base. Earned income includes wages, salaries, tips and other employee compensation as well as net earnings from self-employment, to the extent they are included in Ohio adjusted gross income. Earned income does not include retirement income, unemployment compensation, workers' compensation, lottery winnings, interest, dividends, capital gains, profit from rental activities, distributive shares of profit from S corporations, alimony received, distributions from trusts and estates, and all other types of income that are not earned income but that are part of Ohio adjusted gross income.

Most exemptions and deductions permitted for the federal income taxes - such as those claimed on the front page of IRS form 1040 - are not permitted for the "earned income only" version of the school district income tax. Importantly, military pay and allowances received by the taxpayer while stationed outside Ohio for active duty service in the U.S. Army, Air Force, Navy, Marine Corps, Coast Guard or Reserve components thereof, or the National Guard are exempt from the tax.

### Rates

(R.C. 5748.02)

Rates are proposed by the school district board of education and must be approved by voters in the school district. Rates are set in increments of 0.25 percent. During fiscal year 2015, rates ranged from 0.25 percent to 2 percent.

## Special Provisions

### Senior citizen credit (R.C.5748.06)

A taxpayer 65 years of age or older during the taxable year receives a \$50 credit against the amount of school district income tax due. Only one credit is allowed for each return.

## Filing and Payment Dates

(R.C. 5747.06 - 5747.09)

### Individuals and estates

Most taxpayers file their annual return by April 15 of the calendar year immediately following the end of the taxpayer’s taxable year.

Taxpayers must make quarterly estimated payments if they expect to be under withheld by more than \$500 on the combined school district and state individual income taxes. For calendar year taxpayers, quarterly payments of the tax must typically be made on or before April 15, June 15 and September 15 of the current year and January 15 of the next year. For fiscal year taxpayers, quarterly payments of tax must be made on the 15th day of the fourth, sixth and ninth months of the fiscal year and on the 15th day following the end of the fiscal year.

### Employers

If the employer remits on a quarterly basis for state income tax purposes, payment is due for both the state and school district income taxes by the last day of the month following March, June, September and December.

If the employer remits on a monthly basis or by electronic funds transfer for state income tax purposes, remittances of school district income taxes withheld are made within 15 days after the end of each month.

## Disposition of Revenue

(R.C. 5747.03)

Collections are deposited into the School District Income Tax Fund for distribution to school districts, less 1.5 percent retained for state administrative purposes. Deposited amounts accrue interest. Distributions are made to school districts on the last day of April, July, October and January. Payments are for the net amount in each school district’s account, after refunds and administrative fees, as of the end of the prior calendar quarter.

## Administration

The Department of Taxation collects and administers the tax for school districts and makes quarterly distributions of revenue.

## Ohio Revised Code Citations

Chapters 5747 and 5748.

## History of Major Changes

1979	General Assembly grants school districts authority to levy an income tax solely for repaying a state loan.
1981	General Assembly repeals 1979 law and enacts Chapter 5748 of the Ohio Revised Code, authorizing school districts to enact a school district income tax based on Ohio taxable income (meaning Ohio adjusted gross income, less personal and dependent exemptions claimed on the Ohio individual income tax return).
1983	General Assembly blocks additional school districts from enacting the tax by repealing most of Chapter 5748, but permits the six districts that had enacted the tax before Aug. 3, 1983 to continue doing so.
1989	The General Assembly reinstates portions of Chapter 5748, allowing additional school districts to levy the tax. Lawmakers also enact a \$50 senior citizen credit.
1991	For the first time, school districts are permitted to seek voter approval for income taxes for finite periods of time. Previously, all levies had to be continuing levies.
1992	General Assembly permits districts to submit to voters an income tax levy and a property tax reduction with a single ballot issue.
2000	Personal exemptions indexed to inflation.
2005	General Assembly gives districts the option of levying the tax on earned income – meaning, only wages and self-employment income – instead of on the traditional base of Ohio taxable income.
2009	The Congressional “Military Spouses Residency Relief Act of 2009” extended the principle of domicile that applies to service members to their spouses.

<b>Table 1</b>			
<b>School District Income Tax Revenue</b>			
<b>Fiscal Years 2010 - 2015 (dollars in millions)</b>			
<b>Fiscal Year</b>	<b>School District Income Tax Fund</b>	<b>School District Income Tax Administration Fund</b>	<b>Total Revenue</b>
2010	\$297.0	\$4.9	\$301.9
2011	320.3	5.2	325.5
2012	342.2	5.5	347.7
2013	362.7	5.9	368.6
2014	380.8	5.8	386.6
2015	397.2	6.0	403.2

Source: Office of Budget and Management fiscal reports

<b>Table 2</b>						
<b>School District Income Tax Distributions, Fiscal Years 2010-2015</b>						
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
“Traditional base” districts	153	151	149	147	147	145
“Earned income only” districts	<u>25</u>	<u>30</u>	<u>33</u>	<u>37</u>	<u>41</u>	<u>45</u>
<b>Total districts levying the tax</b>	<b>178</b>	<b>181</b>	<b>182</b>	<b>184</b>	<b>188</b>	<b>190</b>
Individual returns	\$110,540,423	\$120,507,956	\$126,365,263	\$125,973,187	\$130,689,250	\$123,950,781
Employer withholding	214,902,468	227,107,845	240,897,206	249,855,690	264,454,245	277,900,235
Individual Assessment Collections					14,437,750	17,704,447
Withholding Assessment Collections					142,705	43,426
<b>Total collections*</b>	<b>\$325,442,891</b>	<b>\$347,615,801</b>	<b>\$367,262,470</b>	<b>\$375,828,877</b>	<b>\$409,723,950</b>	<b>\$419,598,890</b>
Interest earned	438,513	178,906	143,483	149,503	198,134	294,894
Expired net levy adjustment					18,635	68,834
Less refunds and administration	28,638,291	27,112,439	25,067,822	25,502,190	29,086,850	26,930,134
<b>Net to school districts</b>	<b>\$297,243,112</b>	<b>\$320,682,268</b>	<b>\$342,338,131</b>	<b>\$350,476,190</b>	<b>\$380,853,869</b>	<b>\$393,032,484</b>

Source: Ohio Department of Taxation records; data is reported in a different manner beginning in FY 2014 due to changes in the accounting system.

\*The table shows distributions made in a fiscal year. However, collections of the tax for each distribution occur in the quarter prior to the quarter of distribution; therefore, the figures shown in this table represent collections from April through March of each calendar year. During fiscal year 2015, school district income tax collections totaled about \$403.2 million.