

Guide To Ohio's

School District Income Tax



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**GUIDE TO
OHIO'S SCHOOL DISTRICT INCOME TAX**

**Prepared by
THE OHIO DEPARTMENT OF TAXATION**

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1. WHAT IS A SCHOOL DISTRICT INCOME TAX?

The school district income tax is an income tax separate from federal, state, and municipal income taxes that is earmarked specifically to support school districts. Imposition of the school district income tax must be voter approved by residents of a school district.

2. HOW IS THE TAX COLLECTED?

The school district income tax is collected in the same manner as the state income tax: through employer withholding, individual quarterly estimated payments, and annual returns. Employers are required to withhold the tax and submit payments to the state under the same rules and guidelines as they currently use to withhold the state income tax. Individuals subject to the tax are required to file an annual school district income tax return.

3. WHAT INCOME IS TAXED?

Depending on the ballot language with which the tax is enacted, there are potentially two types of tax bases for the school district income tax.

The school district income tax, as originally designed, uses the same income base as the state's income tax. A simple way to determine taxable income using this base is to look at line 5 of the state return (see [2005 IT040](#)).

For those less familiar with the state return, line 5 is federal adjusted gross income (taken from the front page of the federal return) plus or minus Ohio adjustments to income and minus personal exemptions. Adjustments are made on the state return because not all types of income that are taxed by the federal government are taxed by the state. For example, Ohio allows the deduction of all social security benefits while the federal government does not. The following list shows some of the types of income, which are and are not taxable. For further detail, consult current federal and state returns.

Income that is not taxed: social security benefits; disability and survivors benefits; railroad retirement benefits; welfare benefits; child support; property received as a gift, bequest or inheritance; and workers' compensation benefits.

Income that is taxed: wages; salaries; tips; interest; dividends; unemployment compensation; self-employment; taxable scholarships and fellowships; pensions; annuities; IRA distributions; capital gains; state and local bond interest (except that paid by Ohio governments); federal bond interest exempt from federal tax but subject to state tax; alimony received; and all other sources.

With the passage of House Bill 66 (Executive Budget for fiscal years 2006 – 2007) in the 126th General Assembly, school districts are permitted to levy the tax, subject to voter approval, against an alternate tax base that includes only earned income and self-employment income (including income from partnerships) of the residents of the school district. The tax would exclude all other types of income that would be taxable under existing income tax law (interest, dividends, capital gains, pensions, etc.). This alternate tax base would also require an add back of certain adjustments to income that are allowed on the federal return, including IRA contributions, self-employment health insurance deductions, and alimony payments. For some

taxpayers, this base can result in higher income tax liabilities than the original income tax base. This tax base would also exempt the income earned by estates.

4. WHO PAYS THE TAX?

- a) Any individual residing in the state of Ohio who lives during all or part of a tax year in a school district that levies the tax. A part-year resident must pay the school district income tax based upon income received during the portion of the taxable year that he/she is a resident of the school district which has enacted the tax.
- b) Except for income taxes under the tax base created by H.B. 66, an estate of a decedent who, at the time of their death, was domiciled in the school district. The tax is on the income earned by the estate after the time of death.

5. WHICH TAXPAYERS ARE LEGALLY NOT OBLIGATED TO PAY THE SCHOOL DISTRICT INCOME TAX?

Corporations are exempt from the school district income tax (except those claiming subchapter S status for tax purposes). Also, non-residents of the school district are not obligated to pay the tax, even if they work in the district.

6. HOW ARE ESTATES TAXED UNDER THE NON-H.B. 66 TYPE SCHOOL DISTRICT INCOME TAX?

The school district income tax on estates is based solely on the income generated by the estate of a decedent after the time of death. Examples of income generated by an estate that is subject to the school district income tax are dividend and interest payments received by the estate from investments and rent payments. Recipients of an inheritance or bequest are not taxed on the value of the property they receive from an estate.

The value of an estate is not relevant in determining the estate's school district income tax liability. Only the income generated by the property of the estate is taxable. For example, if the property of an estate consists of a \$10,000 Certificate of Deposit (CD) which generates interest payments totaling \$800 for the tax year, only the \$800 in interest income is reported on the estate's income tax return. The \$10,000 CD itself is not taxed for school district income tax purposes. From another perspective, if an individual were to inherit a \$10,000 CD from an estate, the value of the inheritance would not be considered taxable income for that individual. However, when the beneficiary begins to receive interest payments from the CD, the interest income would be taxable.

7. WHAT LIMITS CAN BE IMPOSED BY VOTERS OF A SCHOOL DISTRICT ON THE INCOME TAX RATE THAT CAN BE LEVIED?

There is no rate limit. The only stipulation by law is that the rate must be in increments of a quarter (0.25%) percent.

8. HOW DO I FILL OUT MY SCHOOL DISTRICT INCOME TAX ANNUAL RETURN?

Information from the state return is used as a basis. The first line of the school district return is your Ohio Adjusted Gross Income taken from line 3 of the state income tax return. Adjustments are made if the taxpayer was not a resident of the district for the entire year and/or if the

alternate earned income tax base is used. A subtraction is made for the value of exemptions to derive taxable income. The school district income tax rate is applied against taxable income to determine tax liability.

Additional inquiries can be made to our Taxpayer Service line at 800/282-1780 or you can view our web site (see school district income tax index at [Ohio Department of Taxation](#)).

9. ARE ANY CREDITS ALLOWED?

Yes. Under the school district income tax, a \$50 senior citizen credit is allowed against tax liability for each return filed. The senior citizen credit may be claimed if the taxpayer is 65 years of age or older anytime during the tax year. There are no retirement income, joint filer, or childcare credits as there are for state income tax purposes.

10. ARE THERE ANY EXEMPTIONS?

Under the traditional income tax base, each resident is entitled to the same number of personal exemptions as claimed on his/her state individual income tax return. For tax year 2004, the primary taxpayer, spouse and all dependents were each entitled to an exemption of \$1,300. Exemptions are indexed every year for inflation. However, under the earned income tax base, pursuant to HB66, personal exemptions cannot be claimed.

11. HOW IS FILING STATUS DETERMINED FOR THE SCHOOL DISTRICT INCOME TAX?

The same filing status chosen for state income tax purposes is to be used for filing the school district income tax. If taxpayers elect to file jointly for state income tax purposes, they must also file jointly for the school district income tax. If a couple files separately for the state income tax purposes, they must file separately for the school district tax.

12. WHAT IF I DON'T KNOW WHICH SCHOOL DISTRICT I RESIDE IN?

Any local school board, county board of education or county board of elections can determine residency. For convenience, the state income tax return lists the phone number of each county board of elections and county auditor. (In addition, we can now offer the latest mapping tool available on ODT's website – The Finder – which locates the physical residence and school district of taxpayers: see [The Finder](#)).

13. CAN SCHOOL DISTRICT INCOME TAXES BE DEDUCTED FOR FEDERAL INCOME TAX PURPOSES AS OTHER STATE AND LOCAL TAXES CURRENTLY ARE?

Yes (as an itemized deduction on Schedule A of IRS form 1040). There is no deduction allowed for the school district income tax on the Ohio personal income tax return.

14. HOW DO I GET A SCHOOL DISTRICT INCOME TAX ANNUAL RETURN?

Individuals who reside in a district with a tax will automatically be mailed a school district return if they filed a state income tax return as a resident of that district during the prior year. Forms are also available at the Ohio Department of Taxation (ODT) taxpayer service offices, the ODT web site (see school district income tax index at [Ohio Department of Taxation](#)) or area libraries.

15. WHEN IS THE FILING DEADLINE FOR THE ANNUAL RETURN?

The filing deadline is the same as for the state income tax. Normally, this is April 15th. If a taxpayer receives an extension for federal income tax purposes, that extension automatically extends the state and school district income tax filing deadline.

16. UNDER WHAT CIRCUMSTANCES SHOULD A TAXPAYER MAKE SCHOOL DISTRICT INCOME TAX ESTIMATED TAX PAYMENTS?

A taxpayer residing in a school district imposing a school district income tax must make estimated tax payments if his/her combined school district income tax due and state individual income tax due after the amount withheld by their employer is more than \$500. However, estimated tax payments for the school district income tax are not necessary if (i) school district income tax withholding will be at least 90 percent of the school district income tax liability, or if (ii) school district income tax withholding will be equal to or greater than the previous year's school district income tax provided the taxpayer paid school district income tax in the previous year.

The dates and procedures for making school district income tax estimated tax payments are the same as those for state income tax estimated payments; however, taxpayers cannot combine school district income tax estimated payments with state income tax estimated payments.

17. HOW DOES THE SCHOOL DISTRICT INCOME TAX AFFECT FARMERS?

A school district income tax would generally benefit farmers who bear a large share of the property tax burden in many rural school districts. Unlike a property tax, a tax on income is substantially less when farm profits fall. Payments for the income tax may also be spread throughout the year by making estimated payments or possibly through withholding from farm income, as opposed to the property tax which is payable twice a year.

18. HOW DO FARMERS SUBMIT THE SCHOOL DISTRICT INCOME TAX?

Generally, quarterly estimated payments are required if the taxpayer expects to be under-withheld by more than \$500 for their combined state and school district income taxes. A farmer whose total estimated gross income is at least two-thirds attributable to farming has the option of filing under three different methods. The farmer must use the same option for school district income tax as he/she used for filing his/her state and federal returns, unless permission to do otherwise is granted by the Tax Commissioner.

Option 1 Filing declarations on or before the 15th day of the fourth month after the beginning of the fiscal year, and similar declarations on the 15th day of the sixth and ninth months of the current fiscal year, and the 15th day of the first month of the next fiscal year: April 15th, June 15th, September 15th of the current year and January 15th of the next year for calendar year taxpayers;

Option 2 Filing the annual return and making payment of tax on or before the first day of the third month following the close of the taxable year (March 1st for calendar year filers);

Option 3 Filing a declaration of estimated tax and making payment of tax on or before the 15th day of the first month following the close of the taxable year (January 15th for calendar year taxpayer) and filing an annual return on or before the 15th day of the fourth month following the close of the taxable year (April 15th for calendar year taxpayers).

19. WHAT HAPPENS IF I DO NOT FILE OR PAY THE SCHOOL DISTRICT INCOME TAX?

An individual not filing or paying the school district income tax will be penalized under the same provisions currently in effect for the Ohio individual income tax. For calendar year 2005, the interest charge is 5 percent per annum. The penalty for a late filed return is the greater of \$50 per month up to \$500 or 5 percent per month up to 50 percent of the tax. The penalty for the late payment of tax is double the interest rate charged.

20. WILL THE STATE CONDUCT AUDITS TO ENSURE THAT PEOPLE WHO OWE THE TAX ARE PAYING IT?

Yes. This process will be conducted in conjunction with state auditing activities.

21. ARE EMPLOYERS REQUIRED TO WITHHOLD THE SCHOOL DISTRICT INCOME TAX?

Yes. The Ohio Department of Taxation has contacted each business in Ohio and instructed them of their obligation to withhold the tax. A list of school districts levying the tax and corresponding tax rates is provided to each business along with withholding tables and computerized withholding formulas. Employers must ask employees in which school district they reside. Employees will be responsible for reporting the correct school district to the employer. Payments are made to the state either monthly or quarterly, depending on the size of the employer. The state will apportion the tax to the appropriate school districts.

An exception to this rule is in regard to Federal Government employees. The State of Ohio cannot force the Federal Government to withhold income taxes. Therefore, these individuals would be required to pay the school district income tax either quarterly or annually if withholding is not done voluntarily.

22. WHAT ARE THE PENALTIES FOR FAILURE TO WITHHOLD THE TAX?

The amounts of penalty and interest for failure to withhold the school district income tax are the same as for failure to withhold the state income tax. The employer must request that employees furnish the name of the school district in which they reside. If the information furnished by the employee is incorrect and the tax is not withheld properly, the obligation for payment of the tax plus penalties and interest falls totally on the individual. Failure to withhold by fault of the employer shifts payment of the penalty and interest to the employer, but does not relieve an employee from the liability for the tax.

23. WHAT IF A TAXPAYER MOVES FROM ONE SCHOOL DISTRICT TO ANOTHER SCHOOL DISTRICT?

If both districts have enacted a school district income tax, then the individual must file a separate school district income tax return for each district. The tax is based upon the individual's income received while residing in each school district. An individual must notify his/her employer when he/she changes school district residence.

24. WHEN IS REVENUE FROM THE INCOME TAX RECEIVED BY THE SCHOOL DISTRICT?

The tax always becomes effective on January 1st. The first payment will be received by the school district in April of that year (school districts can count on that payment being relatively small). Districts will receive four payments per calendar year, one each in January, April, July, and October. Each payment will be for the amount collected during the prior quarter.

It will take approximately one and a half years (six quarters) for districts to receive the full amount of taxes liable from the first year it is levied because of how the tax is collected. Employer withholding comes in throughout the year, but individual annual returns are not due until the following calendar year. To view ODT's time line, please view it via our web site: (see [Timeline](#)).

NOTE: *The first distribution made to a school district will exclude \$1,000 that is used to set up a refund account for future returns filed. Thereafter, the state will return all revenue collected to the school district, less 1.5 percent retained for state administration purposes.*

25. DOES THE SCHOOL DISTRICT INCOME TAX AFFECT THE STATE FOUNDATION FORMULA?

Generally no, although current expense income tax revenues do count as local revenue in the calculation of charge-off supplement (Gap) aid.

26. CAN AN INCOME TAX BE ENACTED WITH AN EXPIRATION DATE?

Yes. An income tax can be continuing or for a fixed number of years.

27. CAN THE PROPERTY TAX MILLAGE BE REDUCED TO COMPENSATE FOR THE INCREASE IN REVENUES DUE TO THE PASSAGE OF AN INCOME TAX?

Yes. There are two ways to accomplish this.

- 1) The school district income tax law allows a single ballot issue that would enact a continuing income tax and reduce or repeal one or more existing continuing property tax levies. The reduced property tax revenues would occur beginning the January following the year that the new income tax becomes effective.
- 2) A school district may take unilateral action to reduce any existing property tax levy, fixed or continuing. Such action would be taken with the county auditor and would not be directly tied on the ballot to an income tax.

A Note of Caution: Any reduction in property tax millage rates should be made carefully. The law states that as long as the voted millage rate is over 20 mills, the effective rate on real property must also be 20 mills or greater. For districts with effective rates at or near 20 mills, the net effect of a millage reduction on real property taxes could be little or zero. For school foundation purposes, if the current operating millage before reduction factors falls below 20 mills, an equivalent millage for the income tax is calculated and used toward the 20 mill requirement.

28. WHAT PROCEDURES MUST A SCHOOL BOARD FOLLOW TO PLACE A SCHOOL DISTRICT INCOME TAX ISSUE BEFORE THE VOTERS?

- a) A resolution stating the necessity of raising additional school dollars must be passed by the school board and received by the Tax Commissioner at least 85 days prior to an election. The resolution must include the dollar amount to be generated, the base of the tax (all income vs. wage income only) and, if property taxes are to be reduced, the levy to be reduced and the amount of gross millage to be reduced. School districts needing instruction on resolution formats should contact their school board association. This resolution can be faxed to ODT, Tax Analysis Division, at 614/752-0700.
- b) The Tax Commissioner has ten days from the receipt of the initial school board resolution to provide tax rate, equivalent millage, and, if necessary, effective millage reduction estimates. School boards are required to draft a new resolution and to receive a new certified rate estimate each time the question is to be put on the ballot.
- c) School boards must submit a resolution to the county board of elections at least 75 days prior to the date of the election chosen for the question to appear on the ballot.
- c) The resolution to be certified to the county board of elections must include: the date of the upcoming election, the purpose for which the tax is to be imposed, the tax rate, the base of the tax, the duration of the tax, the date that the tax will take effect, and, if necessary, the amount of millage to be reduced.

29. HOW OFTEN CAN SCHOOL DISTRICTS GO TO THE BALLOT WITH AN INCOME TAX ISSUE?

School boards cannot put an issue on the ballot concerning the school district income tax more than twice in any calendar year. If the issue is submitted twice, one of the elections must be held on the date of the general election. If only one election is held, it can be on any one of the following election days; the February or August special elections, the primary election, or the November general election.

30. CAN AN INCOME TAX BE REPEALED?

Yes, if it was enacted for a period of more than five years. It is subject to repeal by referendum beginning the year after it is enacted. If a repeal attempt fails, it cannot be attempted again for five years.

31. HOW CAN THE SCHOOL DISTRICT INCOME TAX RATE BE CHANGED ONCE IT IS IN EFFECT?

All changes require voter approval. A referendum to repeal the tax can only be held during a general election once every five years. There are no provisions in the school district income tax law that would allow a school board to independently reduce the income tax rate once it has been passed, or for voters to reduce rather than repeal the tax. The rate can be increased using the same procedure as when the tax was initially passed.

32. CAN A SCHOOL DISTRICT BORROW AGAINST AN INCOME TAX?

Yes. The district can borrow up to 50% of the estimated first year's collections prior to receiving its first payment. A district must obtain a certification of the first year's collections from the Ohio Department of Taxation.

33. IS THE SCHOOL DISTRICT INCOME TAX THE SAME AS THE MUNICIPAL INCOME TAX?

No. The school district income tax and the municipal income tax differ in many ways: municipalities collect the tax from both residents and non-residents working in the municipality, but the school district income tax is only on residents; municipal taxes are levied on businesses whereas the school district income tax is on individuals only; the tax base for municipalities is generally earned income only, but the school district income tax can be on either all sources of taxable income (i.e., the state income tax base) or just on earned income.

34. DO ANY OTHER STATES HAVE A SCHOOL DISTRICT INCOME TAX?

Pennsylvania, Iowa, Kentucky and Michigan (authority exists for Detroit, but has never been used) are the only states that allow school districts to levy an income tax.

35. WHAT SCHOOL DISTRICTS IN OHIO LEVY THE INCOME TAX NOW?

You can view a current map and corresponding list of all school districts with a school district income tax on our web site: (see [SDIT Map & List](#)).

36. ADDITIONAL INFORMATION

If you have any questions or need clarification, you may call 614/466-3960.