

Treasurer's Notes

Last May the Board of Education took actions to place a School Income Tax Levy on the ballot. The levy failed to be approved. Since then, the Board and administration has continued to consider a school income tax to help the district overcome its financial peril. We have heard concerned constituents say that they do not like the idea of school income tax. I thought that it would be appropriate to first give you the facts about a school income tax:

Facts About School Income Taxes in Ohio

- Ohio is one of only five states (PA, IA, KY, and MI) that allow for a local school income tax;
- School income taxes have been available in its traditional form since 1981. In 2005, the general assembly crafted language to allow for an “earned income” only school income tax.
- A traditional school income tax, proposed to Margareta School District voters in May 2007, levies a tax on all income sources, with the exceptions being social security, railroad retirement, workers compensation, child support, bequests and disability cash payments.
- An earned income tax would only be levied on wages and business earnings, and would not tax investment earnings or pensions, in addition to the aforementioned exceptions.
- School Income taxes the districts residence only, unlike a Municipal income tax that is levied on residence and those employed within the boundaries of the Municipality.
- School Income taxes are not levied on businesses, just its residents.
- School Districts can pose income tax in 0.25% increments; the effective date of the tax must be January 1st of the subsequent year to the voted levy, in other words, if the voters approve an income tax during this year (2008), the tax will not take effect until next year (2009).
- Taxpayers who are 65 or older, would be entitled to a \$50 tax credit; under a traditional income tax, each resident is entitled to personal exemptions, similar to the state's personal income tax, however, an earned income tax does not allow for a personal exemption provision.
- School Income taxes, like state personal income taxes, may be deducted from Federal Income taxes provided the taxpayer itemizes their deductions.
- Employers are required to withhold School Income tax on employees that reside in the School District that levies a school income tax.
- School Income taxes are included in estimated tax payments, provided that the annual amount in combination with the personal income tax is in excess of \$500 of the amount withheld by an employer.

For more information, you can contact the State Tax Commissioner's office at (614)466-3960 or visit his website at <http://tax.ohio.gov>.

Now that you know a little bit more about the tax, you might ask yourself is this the right tax for me and my family. Below, is a list of pros and cons from a taxpayer's perspective:

From the Taxpayer perspective

Pros for an income tax as opposed to property tax:

- The income tax is levied in smaller increments through a wage withholding on your paycheck or made in quarterly estimates, a property tax bill is paid in two installments in its traditional fashion, however, you can request a monthly bill from the County Treasurer or your tax payments maybe made through an escrow arrangement with your mortgage holder.
- The income tax is levied to your earning capacity, if your wages decrease, so does your income tax liability, in comparison, your property tax would does not decrease if your income decreases, it generally remains constant or could go up or down dependent upon the market value of your home and homes in your district.
- An earned income tax would not impact a taxpayer who is fully retired, since it is not levied on social security, pensions and investment earnings, in that case if the taxpayer owned property, they would be subject to a property tax increase.
- If you are a farmer, the Current Agricultural Use Valuation (CAUV) program has experienced a significant increase in the taxable value of farmland across Ohio and should impact your property tax burden beginning in calendar year 2010, this may mean that an income tax would be more beneficial than a property tax levy increase.

Cons against an income tax as opposed to a property tax:

- If you are a renter and do not own real estate, you do not pay property taxes directly, however, your landlord may pass on a property tax increase in the form of a rent increase; while an income tax would be levied upon your earnings.
- Do the math, an income tax may cost you more money than a property tax increase, if your household income is \$50,000 per year and you live in a home valued at \$150,000, a one percent income tax would be \$500 per year, which would be equivalent to a 10.9 mill property tax increase.

These are just a few thoughts on school income tax. The Board and administration will be seeking your thoughts on what type of levy would be most palatable to taxpayers. Keep in mind the future of the Margaretta School District rest in the hands of its residence.