

UNIFORM WITHHOLDING REQUIREMENTS for EMPLOYERS

Tax Year 2004-2015

The State legislature has amended Ohio Revised Code 718.03 (municipal income tax) to require that all employers withhold on the same wage base (known as “qualifying wages”) for municipal income tax purposes. This amendment was contained in House Bill 95 (2003) and is effective January 1, 2004. Beginning that date, all employers will withhold municipal income tax as follows:

Medicare Wages

An employer is required to withhold municipal income tax only on “qualifying wages” which are wages as defined in Internal Revenue Code Section 3121(a). This should equate to Box 5 (Medicare) of federal Form W-2.

Medicare Exempt Employees – These employees are subject to the requirements for “qualifying wages” withholding, even though Box 5 of federal Form W-2 will remain blank.

Cafeteria Plans – Internal Revenue Code Section 125 wages are not included in the definition of Medicare wages. Municipal income tax should not be withheld on these wages effective January 1, 2004.

401(k), 457 and Supplemental Unemployment Compensation Benefits – These items should always be included in the Box 5 and are subject to withholding requirements.

Nonqualified Deferred Compensation Plan – Income from nonqualified plans is included in the definition of “qualifying wages” at the time the income is deferred, and is now subject to withholding for municipal income tax.

Stock Options – Income from the exercise of stock options is included in the definition of “qualifying wages” and is subject to withholding requirements.

Disqualifying Disposition of an Incentive Stock Option – An employer is not required to withhold municipal income tax only if, at the time of the disqualifying disposition, the individual is not an employee of the corporation issuing the stock option. The individual remains responsible for payment of the tax.