



EARNINGS TAX

**Finance and Audit Committee
Work Session
August 30, 2007**

WHAT IT IS

- A **1% tax** levied on an individual's wages, salary, commissions or other earnings from work performed and a business's net profits.
- **Residents** of the City pay the tax on all earnings (regardless of where earned) and **non-residents** pay the tax on earnings from services or work performed in the City.
- Businesses and self-employed individuals pay the earnings tax on **net business profits** attributable to their activities in the City. Net profits earned in the City are calculated using a three factor formula based on **sales, payroll and property totals** within and outside the City.
- There is **no minimum** earnings threshold (unlike the Federal and State income taxes) on which earnings tax is due.
- **Exemptions** from earnings tax include disability, social security, retirement, pension, worker's compensation, and unemployment compensation. Also exempted are contributions to and distributions from deferred tax plans, interest, dividends and investment income. Educational grants and fellowships are also exempt. Payments of third party sick leave, life insurance proceeds and similar programs that are not a result of employment or earnings are exempt.

THE NUMBERS

- FY 07 Earnings Tax collections were **\$202.8 million**:

	<u>FY 07</u>	<u>FY 08 Budget</u>
Employer Withholding	\$153.9	\$154.0
Individual Wage Earners	8.2	11.4
Business Profits	<u>40.7</u>	<u>38.1</u>
	\$202.8	\$203.5
Refund Allowance	<u>(4.8)</u>	<u>(4.2)</u>
	\$198.0	\$199.3

- Earnings Tax is **45% of the General Fund revenues**- the single largest source
- 81%** of the earnings tax is from individuals
 - *The average earnings tax paid by a full time employee is about **\$400**
- Businesses pay only **19%** of the tax burden
 - *The average amount paid by businesses and sole proprietorships is less than **\$1,500**

HOW IT IS PAID

- 3 Methods:

 - Withholding* by employers. Employers remit the taxes withheld weekly, monthly or quarterly depending on their size.

 - Wage earners* whose employers do not withhold pay and file a return by April 15 of each year.

 - Businesses* file a return or request a 6 month extension and remit the tax or estimated tax by April 15 (or 4 months after their accounting year end).

- Earnings tax is *easy to administer*:

 - Flat 1%* of taxable wages on W-2 in most instances

 - 95%* of individual earnings tax are withheld and remitted by employers.

 - 40%* of the earnings tax is remitted through on-line filing and bank transfers.

 - Fewer than *5%* of residents actually must file a return.

- *Minimal cost* to administer earnings tax.

 - Compliance by employers is *high*

 - IRS data exchange* enables staff to identify potential non-filing residents

HOW IT IS SPENT

- Supports *police and fire* staffing and operations.
- Pays for *basic services* to citizens and businesses:
 - Fire, elevator, construction, building and other safety inspections
 - Zoning and code enforcement
 - Solid waste disposal
 - Environmental quality monitoring
 - Improvements to streets and infrastructure
- Supports *Healthy Community and Neighborhood Livability* initiatives:
 - Health programs
 - Community services, including dangerous building demolition, weed control, tree trimming, animal control and illegal dumping
 - Affordable housing and housing repairs
 - Parks maintenance, recreational facilities and community centers
- Provides funds for *economic development* (TIF projects)
- Pays for *governance*

HOW IT COMPARES

- **17 states** have cities and/or counties that impose a local income tax
- **25%** of large urban cities have a local income tax.
- **Extensively** used east of the Mississippi, along with property taxes, to provide revenues:

New York and Yonkers, NY

2,900 cities in PA

Most towns and cities in OH

Several large cities in MI

Illinois (employer pays)

All counties in MD and City of Baltimore

Louisville, KY

Birmingham, AL

All counties in IN

Wilmington, DE

Newark NJ (employer pays)

Washington, DC

In addition:

Portland, OR

Las Vegas, NV (employer pays)

Los Angeles and San Francisco, CA

Denver and Aurora, CO (both pay)

Kansas City and St. Louis, MO

- Mean rate is **2%**; Philadelphia is highest at **4.54%**
- Only Indianapolis, IN at **.7%** has a tax rate lower than the **City's 1%**