

DATE: November 2003  
TO: Payroll Professionals  
FROM: TRICOTA – Tri County Tax Association  
REF: Withholding Taxes

There have been important changes to the Ohio Revised Code Sec. 718.03, Municipal Income Tax. **The changes are effective January 1, 2004 and apply to all municipalities in Ohio.**

The members of TRICOTA want to advise you of some of these changes and how they will affect the withholding taxes you pay to our member cities which are listed at bottom of this stationary.

If your company uses a payroll service please notify them of these changes.

**As of January 1, 2004:**

1. Each employer is required to withhold on “qualifying wages”, which are wages as defined in Internal Revenue Code Section 3121(a). In general these are the Medicare Wage Box of Form W-2.
  - a. Section 125 (cafeteria plans) contributions are exempt from municipal taxation as of 1-1-04.
  - b. All Deferred Compensation (both qualified and nonqualified) is taxed when earned.
  - c. Supplemental unemployment payments including Supplemental Unemployment Benefits (SUB) and Supplemental Unemployment Compensation Benefits (SUCB) are taxable and the employer must withhold municipal tax on these payments.
  - d. Income from the exercise of stock options is included in the definition of qualifying wages” and is subject to withholding requirements.
2. Medicare Exempt Employees are subject to the requirements for “qualifying wages” even though the Medicare Wage Box will remain blank. In general “qualifying wages” are gross compensation less Section 125.
3. If Box 5 is not the largest wage figure on the W-2 form you will be required to remit an explanation.