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Payroll Letter 863

To: HR Administrators, Payroll Officers, Personnel Officers, Fiscal Officers, Labor Relations Officers, and EEO Officers of All Departments, Institutions, Boards and Commissions

From: Dan R. Parks, State Payroll Administrator

Subject: Municipal Income Tax Credit - Refunds

As announced to employees on April 28, 2004, a change was made to the payroll system with regards to the computation of municipal income tax pursuant to House Bill 95. House Bill 95 required all employers to change the municipal withholding tax base to exclude any amount included in wages that is compensation attributable to a cafeteria plan as described in section 125 of the Internal Revenue Code. The State of Ohio recognizes employee shares of health insurance, as well as dependent care spending accounts, as cafeteria plan deductions. While this change to the tax base was effective January 1st, 2004, it wasn't implemented until payday April 30th (pay period ending April 17, 2004).

From the beginning of tax year 2004 thru payday April 16th (pay period April 3, 2004), the payroll system over withheld municipal income tax for employees affected by this change. A credit of municipal income tax has been computed and the one-time adjustment will be applied to employee paychecks on payday October 1, 2004. Employees will see a message printed on their "State of Ohio Payroll Earnings Statement" if the one-time adjustment was applied. Those employees, for whom we were unable to apply the one-time adjustment, will receive a refund check. The reasons an employee might receive a refund check include: 1) employee no longer works for the state; 2) employee no longer has tax withholdings for the municipality that was over withheld; 3) the amount of the credit exceeds the pay period calculation for municipal withholdings.

The Office of Payroll Administration will distribute employee refunds by U.S. mail. Should any correspondence be returned as undeliverable, we may ask your assistance in locating those employees. Should you have any questions regarding the municipal tax credit, please contact this office at (614) 466-6915.

DRP/drp