

IMPORTANT TAX UPDATE – PLEASE READ IMMEDIATELY

From: Village of Fairfax Tax Department (revised) Dec., 2005
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The tax rate for Village of Fairfax Withholding is 1.75% effective April 1, 2004.

Municipal Qualifying Wages for Withholding **Ohio Revised Code Sec. 718.03 - Effective Date: January 1, 2004**

With passage of House Bill 95 by Ohio Legislature employee withholding for Earnings Tax, is now based on “Qualifying Wages”. See guidelines below & O.R.C. for details.

Medicare Wages

An employer is required to withhold only on “qualifying wages “as defined in Internal Revenue Code Section 3121 (a), generally the Medicare Wage Box of the form W-2.

401(k), 457 and Supplemental Unemployment Compensation (SUB Pay) Benefits and Other Similar Programs – These Items should all be included in the Medicare Wage Box of the Form W-2 and are subject to withholding requirements. (Supplemental unemployment compensation, as described in R. C. Section 3402.(O) (2) is now taxable.)

Nonqualified Deferred Compensation Plan – Income from nonqualified plans is included in the definition of “qualifying wages” at the time the income is deferred *as opposed to when they are distributed* and is subject to Withholding requirements.

Stock Options – Income from the exercise of stock options is included in the definition of “qualifying wages” and is subject to withholding requirements. (Ordinary income amounts arising from the sale, exchange, or other disposition of a stock option, the exercise of a stock option; or the sale, exchange, or other disposition of stock purchased under a stock option is taxable, *and the employer is required to withhold on this form of compensation for the Village of Fairfax.*)

Disqualifying Disposition of an Incentive Stock Option – Employer is not required to withhold, but the income is considered “qualifying wages” and the recipient is liable for the tax. (While not required, the employer may withhold on a “courtesy basis”.)

Medicare Exempt Employees – are subject to the requirements for “qualifying wages” in the Medicare Wage Box of the Form W-2 even though the box will remain blank. (In other words, all wages taxed for PERS & SERS would be taxable for local tax withholding and reported in box 18 & 19, too. Box 5 & 6 will remain blank.)

Cafeteria Plans – Internal Revenue Code Section 125 wages are not included in the definition of Medicare wages. They no longer will be taxed by Ohio local municipalities, but do NOT need to be deducted from the Medicare Wage Box. (The W-2 form does not show Section 125 deferrals/contributions made by employee. **Box 18 should be equal to Box 5 provided all wages were earned and taxed in municipalities with an income tax.**)

NOTE: *As an employer, if the Medicare Wage Box is not the largest wage figure on the W-2 form a written explanation will be required.*