



City of Canal Fulton

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City of Canal Fulton Finance Department – Tax Reform

The City is proposing to reform its tax code in a way that could have a significant impact on the citizens. Specifically, the City is proposing to increase its income tax rate from 1.5% to 2.0%, but then giving the citizens 100% credit for income taxes paid to other municipalities (citizens currently receive 50% credit). The following are some questions that have been raised regarding the proposal that may help your decision to vote.

- 1) **Why is the City proposing tax reform?** The current tax structure has been in place since 2002, with some minor adjustments in 2004 and 2008 for specific purpose tax levies. In 2002, the City was described as a “bedroom community,” which means that the City had less commercial activity within its boundaries and it relied heavily on its citizens to pay for police, fire, streets maintenance, parks and other government services. This status as a “bedroom community” necessitated that the City adopt the tax policy of only giving its citizens 50% credit for local income taxes paid to other cities. However, the City has changed since 2002, with commercial activity growing to a point where we can now consider tax reform.

In addition to the commercial growth inside the City, neighboring municipalities around Canal Fulton have changed since 2002, with many of them passing income tax levies that are now negatively impacting our citizens. For example, New Franklin recently adopted a 2.0% income tax. If a citizen of Canal Fulton works in New Franklin, this means the citizen is now paying **2.75% in local income taxes** – 2.0% to New Franklin and .75% to Canal Fulton (because of our policy of only granting 50% credit). Similarly, Akron recently passed a levy which increased its income tax to 2.5%. As a result, a Canal Fulton citizen working in Akron now **pays 3.25% in local taxes** – 2.5% to Akron and .75% to Canal Fulton.

In contrast, an individual living in New Franklin but working in Canal Fulton only pays **2.0% in local taxes** – 1.5% to Canal Fulton and .5% to New Franklin, despite spending a considerable amount of time in Canal Fulton and benefiting from services offered by Canal Fulton. The inequity in our current tax rates is shown in the table below.

Current Tax Plan

	Canal Fulton citizen working in New Franklin	New Franklin citizen working in Canal Fulton
Canal Fulton Tax Rate (1.5% income tax, 50% credit for citizens)	0.75%	1.50%
New Franklin Tax Rate	2.00%	0.50%
Total Tax Paid	2.75%	2.00%

The proposed tax plan is designed to fix the inequity by increasing the tax rate on non-residents working in the City, and subsequently granting Canal Fulton citizens 100% credit for taxes paid to other cities. The proposed tax plan is summarized below.

Proposed Tax Plan

	Canal Fulton citizen working in New Franklin	New Franklin citizen working in Canal Fulton
Canal Fulton Tax Rate (2.0% income tax, 100% credit for citizens)	0.00%	2.00%
New Franklin Tax Rate	2.00%	0.00%
Total Tax Paid	2.00%	2.00%

- 2) **How will the tax reform be structured?** The City would have to modify its tax policy in two steps. The first step is asking the citizens to pass a 0.5% increase in the City's income tax rate through a voter approved levy to be placed on the ballot on May 7, 2019. If passed, this levy will take the City's income tax rate from 1.5% to 2.0%. The second step involves City Council passing Ordinance 51-18, which states that if the citizens of Canal Fulton approve a proposed 0.5% increase in the income tax rate, then Chapter 182.06 of the Administrative Code will be amended to grant citizen's 100% credit for taxes paid to other municipalities.

- 3) **What impact would the tax reform have on citizens?** The majority of our citizens work outside of Canal Fulton in cities like Akron, Barberton, Canton and Green. These citizens would likely see a tax reduction under the proposal as they would no longer owe the 50% credit to the City, and would no longer need to make estimated payments to Canal Fulton. If you live in Canal Fulton and work in Canal Fulton, you would pay 0.5% more in Canal Fulton taxes. However, your household may still pay less in total taxes if you have a spouse that works outside of the City. Each citizen is encouraged to contact the City's Income Tax Department to discover the exact impact of this proposal on their taxes. The City's Income Tax Department can be reached by calling 330-854-9448.

- 4) **What impact would the tax reform have on non-citizens?** The non-citizens working inside Canal Fulton will pay 0.5% more in income tax to Canal Fulton. This is how the City would fund the tax reduction (100% credit for taxes paid to other cities) for our citizens. This fixes the tax inequity shown in the tables above.
- 5) **Could the City take away the 100% credit later on to generate more money?** It is legislatively possible, but unlikely unless the City is in dire circumstances. Please remember that the City could have repealed the current 50% credit anytime during the last 17 years to generate more revenue. Proposing tax reform as a levy to be voted on by the people, rather than simply repealing the remaining 50% credit, indicates that the City values citizen input into the tax policy; the City recognizes that our citizens have an inequitable tax situation now; and the City is NOT proposing this solely as a revenue generation strategy.
- 6) **Is this another way of funding the YMCA?** No, City Council controls the City's budget. No specific purpose has been designated for any additional funds we may receive as a result of the tax reform, if any. If we wanted to generate additional funds for the YMCA, we could have repealed the remaining 50% credit rather than asking citizens to vote on the YMCA levy several years ago.
- 7) **Will retirees and senior citizens be negatively impacted if the tax reforms passes?** Social Security and pension income are not taxable for City purposes. Therefore, there will be no impact on retirees unless they have another source of income. Please call the City's Income Tax Department (330-854-9448) to determine your specific tax situation.
- 8) **Why should I vote for the tax reform?**
- It fixes inequitable tax rates paid by the citizens of Canal Fulton.
 - It makes tax filing/planning easier for citizens working outside of the City as many will be saved from having to pay estimated taxes.
 - Making the tax policy comparable to other cities helps eliminate a deterrence for families choosing to move into the City and school district.
 - There will be no impact on pensions or social security income.
- 9) **Why should I vote against the tax reform?**
- Citizens that live and work in the City would now pay the 2.0% tax rate on their income rather than the 1.5% they have been paying. However, it is possible that these folks could still realize a net decline in their **household taxes** if they have a spouse that works outside of the City.
 - The tax on business net profits earned inside the City will increase from 1.5% to 2.0%.

In summary, the City is proposing to increase its income tax rate from 1.5% to 2.0%, but then giving its citizens 100% credit for income taxes paid to other municipalities. If approved, this proposal would likely reduce the tax burden for many citizens and make tax planning far easier.

The City's current financial condition is stable and the proposal is simply a way to help the citizens address the tax inequities that currently exist. If you have any questions, I encourage you to contact the City's Income Tax Department where they can review your specific situation and project the impact of the tax proposal. The Income Tax Department can be reached at 330-854-9448. Please vote on May 7 no matter your feelings on the tax proposal. This represents your opportunity to determine the type of tax structure you want for the City moving forward.

If you have any questions regarding the City's finances, please contact Bill Rouse at 330-854-6761.