

## **MAY 8, 2018 - 1% INCOME TAX OPERATING LEVY – FREQUENTLY ASKED QUESTIONS**

This document is intended to provide factual information for all residents of the Alexander Local School District. If you have additional questions regarding the levy, you are urged to contact a member of the Board of Education, or the District Office. This document will provide information regarding the following questions:

- 1. What issue will be on the ballot this May?*
- 2. Why is the District on the ballot?*
- 3. What has been done in the past to address District finances?*
- 4. What will happen if the levy does not pass?*
- 5. What is the actual language on the ballot?*
- 6. What income is taxed with this levy?*
- 7. Why did the Board seek an income tax for this levy?*
- 8. What effect will this levy have on my property taxes?*
- 9. How long will this levy last the District financially?*
- 10. What other Districts have income taxes?*
- 11. How will the tax be collected from the taxpayer?*
- 12. Where can I find resources for the May 2018 election?*

### **1. What issue will be on the ballot this May?**

The Alexander Local School District is seeking to pass its first operating levy in the last 27 years on May 8, 2018. The levy is a 1% traditional income tax. The levy is for a period of 5 years and would not go into effect until January 1, 2019. The funds from the operating levy would make up for the shortfall in the Alexander budget, bridging the gap between what the state and federal governments pay and the actual cost of operating the school. Annual operating expenses include staff, textbooks, equipment, food service, transportation, fuel, maintenance and repairs, etc.

### **2. Why is the District on the ballot?**

Alexander Schools have not passed an operating levy for additional operating funds since 1991. Because of this, the District is operating on the lowest amount of property tax millage that is allowed by law and also has the lowest millage rate in the County. (source: Ohio Department of Taxation – Property Tax Data Series <http://www.tax.ohio.gov>) Alexander is also receiving less in State funding for the 2017-18 school year than they did in the 2008-09 school year; when our current Senior class of students were in the 3rd Grade. The District is also on what is called the State funding “guarantee.” This means that unless the State changes the school funding formula that is currently in law, Alexander will continue to receive the current level of State funding with no increase in revenues. The combination of these issues with the rising operating costs (personnel costs, utilities, maintenance, transportation, etc.) will result in the District running a deficit which will grow to over \$1.8 million in just 4 years. (source: Ohio Department of Education website: Keyword – Five Year Forecast <http://education.ohio.gov>).

### **3. What has been done in the past to address District finances?**

The District is constantly working to find ways to ensure the effective stewardship of public dollars. Since the 2005-06 school year, Alexander Local has saved its budget over \$10 million by reducing its staff through attrition. These reductions have included 18 certificated positions and 14 non-certificated positions. The District also completed an energy conservation project in 2009 which reduced the District's natural gas consumption by over 50% and the electricity consumption by over 40%. In 2017, Alexander was the only District in Athens County to earn an Energy Star certification. They have also joined several other District's in the State in a consortium to purchase their gas and electricity to utilize this large purchasing power to get the best rates possible.

### **4. What will happen if the levy does not pass?**

Alexander Local is committed to providing the best education possible to its students but can only operate within the resources that are available. If the levy fails to pass in May, the District must consider additional budget cuts as well as other avenues of increasing revenue through possible classroom fees and pay-to-play / extracurricular fees in order to address the increasing deficit. However, without a significant change to the State funding formula, the issue of expenditures increasing more than revenues will continue. Therefore, the District will likely have to place another operating levy on the ballot.

### **5. What is the actual language on the ballot?**

AFFIRMATIVE VOTE IS NECESSARY FOR PASSAGE

Shall an annual income tax of 1% on the school district income of individuals and of estates be imposed by the Alexander Local School District, Athens, Meigs and Vinton Counties, Ohio, for a period of five (5) years, beginning January 1, 2019, for the purpose of providing for the current operating expenses of the School District?

### **6. What income is taxed with this levy?**

As originally designed, the traditional school district income tax base uses the same income base as the state's income tax. Begin determining taxable income using this base by looking at Ohio income tax on line 5 of the state return (see the current IT 1040 at <http://www.tax.ohio.gov/Forms.aspx>). This amount is entered on line 19 of the SD-100.

If unfamiliar, Ohio income tax as reported on line 5 is federal adjusted gross income (taken from the front page of the federal return) plus or minus Ohio adjustments to income and minus personal exemptions. Adjustments are made on the state return because not all types of income taxed by the federal government are taxed by the state. For example, Ohio allows the deduction of all social security benefits while the federal government does not. The following list shows some other types of income and whether they are taxable (for further detail, consult current federal and state returns):

**Income that is not taxed:** social security benefits; disability and survivor benefits; railroad retirement benefits; welfare benefits; child support; property received as a gift, bequest or inheritance; and workers' compensation benefits.

**Income that is taxed:** wages; salaries; tips; interest; dividends; unemployment compensation; self-employment to the extent included in OAGI; taxable scholarships and fellowships; pensions; annuities; IRA distributions; capital gains; state and local bond interest (except that paid by Ohio governments); federal bond interest exempt from federal tax but subject to state tax; alimony received; and all other sources.

The second component of the traditional tax base is the Business income deduction add-back. The Business Income Deduction is used to reduce taxable business income on the Ohio income tax return and cannot be used to reduce the school district taxable income for those who reside in a traditional tax base school district. Therefore, taxpayers who claim the Business Income Deduction on their Ohio return and reside in a traditional tax base school district must add back the deduction amount on their Ohio SD 100 School District Income Tax return. The Business Income Deduction amount on Ohio Schedule A, line 11, is entered on line 20 of the SD-100 and subtracted from the Ohio income tax base to calculate school district taxable income. (source: Ohio Department of Taxation – Guide to Ohio's School District Income Tax <http://www.tax.ohio.gov>)

### **7. Why did the Board seek an income tax for this levy?**

The Board considered a variety of options before placing an income tax on the ballot. After taking into consideration the current taxes already in place, the demographics of the District, and how each option would affect the various taxpayers, they decided on the income tax. The Board felt this option was the best as a matter of fairness to the District's property owners. Unlike property taxes, the income tax is based on what the taxpayer actually earns rather than what the value of your property is determined to be. This allows for the tax liability to go down if a taxpayer takes on a lower paying job or suffers a job loss, etc., whereas a property tax would not change under these circumstances. This concept would generally benefit farmers who bear a large share of the property tax burden in many rural school districts. Unlike a property tax, a tax on income is reduced when farm profits fall. The Board felt that an income tax shares the burden of supporting the District among all residents, and not just property owners. It also does not place an undue burden on retirees whose sole source of income is social security since the income tax **DOES NOT TAX** social security benefits, disability and survivor benefits. Also, those 65 or older can qualify for a \$50 senior citizen credit against their tax liability. (source: Ohio Department of Taxation – Guide to Ohio's School District Income Tax <http://www.tax.ohio.gov>)

### **8. What effect will this levy have on my property taxes?**

There will be no change to your property taxes from this levy. The operating millage for residential property will continue to remain at the lowest amount allowed by law. The levy will neither raise nor lower your current property taxes.

### **9. How long will this levy last the District financially?**

On average, school district operating levies last approximately five years before most Districts would have to seek additional local funds. Since this levy is only for a 5-year period, the District would need to decide at that time if they would want to ask the voters for a new or renewal levy. While no District can anticipate exactly what State and Federal funding will look like in the future, much of the decision hinges greatly on what the State of Ohio does with school funding in the future. Alexander currently has the lowest operating expenditures per pupil in Athens County and is committed to continuing to be effective stewards of taxpayer dollars. (source: Ohio Department of Education State Report Cards <http://reportcard.education.ohio.gov/Pages/default.aspx>)

### **10. What other Districts have income taxes?**

There are currently over 600 public schools in Ohio. As of January 2018, there are 190 school districts that have an income tax. Alexander currently ranks as the 49TH lowest school district in the State for operating and permanent improvement millage for residential property. Of the 48 Districts with a lower millage rate, 25 of those schools have an income tax. (source: Ohio Department of Taxation – Tax Data Series <http://www.tax.ohio.gov>)

### **11. How will the tax be collected from the taxpayer?**

The school income tax is collected in the same manner as the state income tax: through employer withholding, individual quarterly estimated payments, and annual returns. Employers are required to withhold the tax and submit payments to the state under the same rules and guidelines as they currently use to withhold the state income tax. An exception to this rule is in regard to Federal Government employees. The State of Ohio cannot force the Federal Government to withhold income taxes. Therefore, these individuals would be required to pay the school income tax either quarterly or annually if withholding is not done voluntarily. The Ohio Department of Taxation has contacted each business in Ohio and informed them of their obligation to withhold the tax. Employers must ask employees in which school district they reside. Employees will be responsible for reporting the correct school district to the employer. Although your employer is required to withhold the school income taxes from your pay just like State income taxes, it would be a good idea for you to make sure that the tax is being withheld on your check beginning in January 2019 if the levy were to pass. Individuals subject to the tax are required to file an annual school district income tax return annually with the State of Ohio. (source: Ohio Department of Taxation – Guide to Ohio's School District Income Tax <http://www.tax.ohio.gov>)

### **12. Where can I find resources for the May 2018 election?**

Information for the May election can be accessed through the Athens County Board of Elections website (<http://electionsonthe.net/oh/Athens>). You can download a voter registration application [here](#) and an absentee ballot application [here](#). The deadline to register for the May 8, 2018 election is April 9, 2018.