Ohio House of Representatives

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Chairman Blessing, Vice Chair Roegner, Ranking Member DeMora, and Members of the Senate Ways and Means Committee, thank you for the opportunity to present sponsor testimony on House Bill 503.

House Bill 503 addresses an important issue within Ohio's municipal income tax structure — the question of *reciprocity credits*. In simple terms, municipal income tax reciprocity refers to the credit a city or village gives its residents for taxes they have already paid to another municipality where they work. This system is meant to prevent double taxation and to ensure that Ohioans are not unfairly taxed by both the city they live in and the city where they earn their income.

Ohio is one of only seventeen states that allows municipal income tax and one of eleven states that allows municipalities to levy income taxes on both residents and nonresidents. You have heard hours of testimony on property tax legislation with Ohio having the eighth highest property taxes in America. Ohio actually has the second highest rate of municipal income tax with the greatest number of taxing jurisdictions. While many cities and villages in our state provide a 100% reciprocity credit — fully offsetting taxes paid to another municipality — a growing number are reducing or even eliminating this credit altogether. In some cases, residents may find themselves paying income taxes twice: once to the city where they work, and again to the city where they live. Over 80% of the municipal income tax in Columbus, Cincinnati and Cleveland is paid by non-residents who do not get to vote in those cities.

The process today allows each municipal council to decide whether or not to grant a credit, and at what rate. There is no uniform requirement, resulting in significant variation across the state. Some municipalities provide full credit, others partial credit, and some none at all. This patchwork creates confusion for taxpayers, compliance burdens for employers, and financial inequities among residents of different communities.

From a competitiveness standpoint, this trend is concerning. As more municipalities move toward reduced credits, Ohio's workers and businesses face higher effective tax rates compared to neighboring states. In many states that have local income taxes, such as Michigan, nonresidents of a municipality are taxed at a lower rate to reflect their limited use of local services. Ohio cities, by contrast, often tax nonresidents at the same rate as residents —and without guaranteeing a credit in the other jurisdiction.

In short, Ohio's municipal income tax reciprocity system lacks fairness, uniformity, and transparency. House Bill 503 seeks to modernize this structure by ensuring that any reduction, repeal, or modification of a reciprocity credit is made with direct voter input at an election— giving taxpayers a voice in decisions that directly affect their take-home pay.

At this time, Representative Roemer will walk through the specific provisions of House Bill 503 and explain how this legislation restores local accountability and gives taxpayers a direct voice in any decision to change a reciprocity credit.

As amended, House Bill 503 requires voter approval at an election for any municipal action that reduces, repeals, or otherwise modifies the amount or percentage of a reciprocity credit. Right now, city or village councils can make these changes on their own—often without voters realizing how it impacts their income. This bill ensures that any change must be approved by the voters, just as they already must approve any tax rate increase above one percent.

In short, House Bill 503:

- Requires voter approval at a general election to reduce, repeal, or modify the amount or percentage of a reciprocity credit or rate.
- Allows the voter initiative to increase a rate limit.
- Prohibits cities or villages from combining a reciprocity-credit question with a tax-rate question on the same ballot.
- Includes a study provision to evaluate the broader structure and long-term impacts of Ohio's municipal income tax structure.

These updates bring fairness and transparency to a confusing part of Ohio's tax system. Many cities offer a full 100% credit for taxes paid to the workplace city—but not all do. For example, if someone lives in Marysville and works in Columbus, they would owe four percent in combined municipal taxes because Marysville gives no credit for taxes already paid to Columbus. HB 503 ensures that residents in those situations have a say before their local government changes the credit.

This bill also helps Ohio stay competitive. When local tax policies shift without warning, it hurts both workers and employers. By requiring voter approval, HB 503 adds stability and predictability—so families can plan their finances and businesses can make long-term decisions with confidence. Cities and villages can still change their reciprocity credit—voters just get the final word. That's a fair balance between home rule and accountability.

House Bill 503 is about trust, fairness, and transparency. It gives taxpayers a voice in decisions that directly affect their wallets and ensures that no municipality can quietly double-tax its own residents. I respectfully ask for the committee's support in advancing this commonsense reform. We are happy to answer any questions that the committee may have.