



How did the Proposed Income Tax Increase come about?

During the 2024 budget cycle, both the Finance Committee and full Council recommended that staff begin to explore options to increase revenue to help offset shortfalls in several funds. Therefore, the staff began exploring options on increasing the local income tax from the state minimum of 1.00% (and no credit) to 1.75% (with a 100% credit). No credit is currently offered. Based on most recent year-end numbers, this measure will raise an approximate \$1.65M - \$1.8M annually to fund operations and major capital projects and equipment.

What is Income Tax and who pays it?

A tax on the net income of an individual is paid to **both** the governing body in which the individual lives and the governing body in which the individual works. All Huron residents currently pay 1% income tax to the City of Huron regardless of what taxing jurisdiction they work in.

Businesses also pay a tax on the net income paid to the governing body in which they are located.

What Income is taxed to City of Huron residents by the City?

All wages, salaries and other compensation (e.g. bonuses, stipends, tip income) are subject to City income tax, generally considered W-2 wages. Other taxable income include:

- Self-employment income (Schedule C on federal tax return)
- Net farm income (Schedule F on federal tax return)
- Net rental income (Schedule F on federal tax return)
- Lottery/Gambling winnings

For more examples and specifics on taxable income, please visit the Regional Income Tax Agency's website ([click here](#))

What Income is not taxed to City of Huron residents by the City?

Generally, retirement income and investment income are NOT subject to City income tax. Specifically, non-taxable income includes:

- Social Security Benefits
- Pension Distributions
- Retirement Plan Distributions
- Annuity Distribution

- Interest Income
- Dividend Income
- Capital Gains

For more examples and specifics on non-taxable income, please visit the Regional Income Tax Agency's website ([click here](#))

What is a Credit and how does it work?

Huron residents always owe a municipal income tax to the municipality where they work – this is called a “work place tax” – if an income tax exists. Additionally, residents, even working in other taxing jurisdictions currently owe Huron a 1.00% income tax. The City of Huron has an option to grant a “credit” to its residents who pay income taxes to another municipality. This “credit” would reduce the income tax residents owe to the City of Huron when they earn taxable income at another income taxing municipality.

Possible scenario of income tax increase to 1.75% with a 100% credit

For example: (1) A resident would no longer pay income tax to the City of Huron when working in a taxing jurisdiction with an income tax of 1.75% or higher. (2) Even if a resident was working in an income taxing jurisdiction less than 1.75%, the resident would also see a reduction in what they owe the City of Huron compared to today.

Who is POSTIVELY impacted?

- Huron residents who work in a different taxing jurisdiction (ie: Sandusky, Vermilion, Cleveland)
- Huron residents who are retired collecting social security, pensions or non-taxable retirement benefits

Example: Assuming Huron's Income Tax is 1.75% with a 100% credit.

- If paying 1.75% or higher to another jurisdiction the resident would pay 0% to Huron
- If paying 1.25% to another jurisdiction the resident would pay .5% to Huron
- If paying 1% to another jurisdiction the resident would pay .75% to Huron

Who is NEGATIVELY impacted?

- Huron residents who work in Huron
- Huron residents who work in a non-taxing jurisdiction. (ie: Perkins Township)
- People who live outside of Huron, but work in Huron

Example: Assuming Huron's Income Tax is 1.75% with a 100% credit.

- A Huron resident working in Huron or a non-taxing jurisdiction the resident would pay 1.75% to Huron vs 1% to Huron today.

The Income Tax Calculator on the homepage of the City's website (cityofhuron.org) is designed for residents to quickly determine the impact the increase may have on them.

How was a 1.75% Increase with a 100% credit determined?

Staff were directed to begin exploring options for ways to increase revenue. Through the exploratory process both income tax increases and levies were researched and considered. It was determined increasing the local income tax from the state minimum of 1.00% (with no credit) to 1.75% with a 100% credit would lessen the burden on our residents compared to levies. Based on most recent year-end numbers, this measure could raise an approximate between \$1.65M - \$1.8M.

Why is an Income Tax Increase being considered?

This Increase is being considered because current inflationary trends are expected to further deplete budgets due to rising costs in maintenance of equipment and facilities, capital equipment and vehicle replacement, employee costs associated with primary healthcare, and to cover debt from borrowing for capital projects.

Who currently pays the 1% income tax?

All City residents pay the City 1% of wages regardless of where they work.

Non-residents working in the City pay the City 1% of wages.

Businesses in the City pay the City 1% of net profits.

Who would be impacted greatest by the Proposed Income Tax Increase?

Based on the 2023 income tax collections, approximately 75% of income taxes are generated by non-residents, who commute to Huron to work. These individuals are the ones who will pay most of the proposed increase. Some residents will see a decrease in their income taxes because of the credit offered.

Why would we consider an income tax increase versus a levy?

The goal of any tax increase or levy is to minimize the effect on residents. An income tax increase will have a lesser impact on most Huron residents than requesting support for various levies that would have a greater impact on all Huron residents who own real estate within the City.

An Income Tax Increase:

- An income tax increase is a tax increase on earned wages of individuals living and working within a City, and a tax on business net income.
- Non-investment income is not affected as they are not taxed by the City, including social security benefits, 401(k) and pensionable wages.
- Income tax revenue generally increases in line with inflation over the years.
- Cities may offer a reduced tax rate (credit) for residents working in another taxing municipality, reducing the tax burden for some residents.
- Income tax revenue is generally unrestricted and may be allocated to departments based on budgetary needs.

A Levy

- A levy is a charge applied to property taxes and used for public purposes.
- Levies are generally a static amount and do not increase without voter approval.
- Levies can be a safe, consistent revenue source for a specific function or project.
- Multiple levies may be needed to fund various operational needs (i.e. parks and recreation, streets, and police).

Based on how levies operate, the City would likely need to consider multiple levies for different functions. Significantly more residents and all individuals who own real estate within the City would be affected by a levy or levies.

What are the current revenue sources for the City?

The City has two revenue funding sources.

1. The state minimum income tax of 1%.
2. A Fire Levy from 1999 which never has been increased. Funds from this levy are stagnant and only generate enough to pay for 50% of Fire/EMS operations.

What would additional revenue be used for?

These funds would be used to stabilize certain departmental operations and allow the City to fulfill the needs of our capital equipment replacement schedule and capital improvement plan. Departments that would benefit from the additional revenue include but are not limited, to:

- Police
- Fire
- Parks and Recreation
- Streets
- Stormwater

Additional projects the City also would investigate if the income tax increase is approved includes:

- Tree and sidewalk maintenance program – City funded
- A railroad Quiet Zone
- Neighborhood street resurfacing
- Park enhancements (i.e. playground replacement)
- Boat Basin renovations

Ultimately, the annual budget process would dictate how the additional revenues are deployed each year in a way to best address the ever-changing needs of our departments. The budget process currently dictates how our existing \$4M in income taxes are deployed.

Why would the City propose an income tax increase when the general fund remains strong?

Without increases in revenue there will not be enough funding to cover - inflationary expenses, certain capital projects, and general facility maintenance costs.

Several departments (Police, Fire, Streets, Stormwater, and Parks and Recreation) have limited means of funding and have been heavily subsidized by the General Fund. These departments run very lean and efficiently but are limited in their ability to generate departmental specific revenue to cover operating expenses. There are very few outside funding streams to aid in street resurfacing, police and fire operations and equipment, parks and recreational programming and major stormwater upgrades.

How long will the General Fund be able to continue to subsidize funding for these departments?

Over the next five years, without major cuts to services/capital projects or finding additional revenue, the General Fund will fall into a deficit due to overly subsidizing these departments.

What progress has been made over recent years to justify the Income Tax Increase?

Tremendous progress has been made over the last 3-4 years.

- Increased transparency to residents and near finalization on the City's new website
- Overhauled many codes for ease of doing business with the City of Huron
- Creation of the Charter Review Commission, an opportunity for residents to have a greater say in how government operations are carried out
- Planned for and completed several major investments throughout the City, many of which were funded by county, state, and federal dollars versus local tax dollars.
 - New tennis/pickleball courts at Fabens Park
 - (City only paid about 60% of project)
 - State-of-the-art Fish Cleaning Station at the Huron River Boat Ramp
 - (City only paid \$14,000 towards the project)
 - Reconstruction of Sawmill Parkway
 - City only paid \$20,000 towards the project.
 - Reconstruction of Berlin Road
 - Expansion of the Huron Water Plant
 - Partial road reconstruction in Old Homestead I & II and Chaska
 - S. Main Street Waterline and road resurfacing on Forest Hills, Valleyview and Hickory
 - Institution of Bike Lanes to promote recreation opportunities and enhance safety for bicyclists and motorists
 - Implementation of the body worn camera program in the Police Department
 - (over 75% grant funded)
 - Revival of the K-9 unit and program in the Police Department
 - (100% paid for by private donations)
 - Designed a new 2M gallon water tower and secondary water intake to enhance water security for our customers
 - (Received \$5M grant towards construction)
 - Designed the first phase of our South Main Street Streetscape to be constructed in 2025
 - (100% grant funded)
 - Designed a major sidewalk connectivity project connecting Huron to major subdivisions in Huron Township to be constructed in 2025

Continued

What could be expected from an Income Tax increase?

An Income Tax Increase would ensure the continuation of this positive momentum while securing the growth and stability of Huron’s future. Huron residents expect and deserve a high level of service and top-notch amenities from the City. This plan would ensure those expectations are met and exceeded.

What would the financial impact to the City be of the Proposed Income Tax Increase?

If approved, the City is estimated to generate an additional \$1.65M - \$1.8M annually to be deposited into the General Fund. It will take up to 3 years to see the full impact of the increase.

For comparison, what are the Income Tax Rates and Levy Scenarios of Huron’s neighboring communities? (SD = School Levies)

Municipality	Tax Rate	Credit Factor	Credit Rate	Levies	Other Taxes
Huron	1.00%	0%	0.00%	1	
Milan	1.00%	0%	0.00%	2	
Monroeville	1.00%	100%	1.00%		SD 1.50%
Oak Harbor	1.00%	0%	0.00%	2	
Sandusky	1.25%	0%	0.00%	1	
Clyde	1.50%	100%	1.50%		SD 1.50%
Fremont	1.50%	100%	1.50%		SD 1.25%
Norwalk	1.50%	100%	1.50%		SD 0.50%
New London	1.50%	100%	1.00%		SD 1.00%
Vermilion	1.50%	100%	0.50%	5	
Port Clinton	1.50%	50%	0.75%	2	
Elmore	1.75%	0%	0.00%	4	
Willard	1.75%	100%	1.38%		SD 0.75%
Tiffin	2.00%	100%	2.00%		
Bellevue	2.00%	100%	2.00%	4	SD 0.50%