

## Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane

By  
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### Introduction

Most U.S. cities and counties do not impose a local income tax, but they are imposed by 4,943 jurisdictions in 17 states, encompassing over 23 million Americans. Varying from minute amounts in several states to an average 1.55 percent in Maryland (see Table 1), these taxes provide a long-standing and significant source of revenue to many cities in “Rust Belt” states in the northeastern United States.

All counties in Indiana and Maryland impose a local income tax (see Table 2). In Ohio, 593 municipalities and 181 school districts have such a tax. 2,469 municipalities and 469 school districts in Pennsylvania impose local income or wage taxes. Many cities and school districts in Iowa and Michigan also have these taxes.

**Table 1: Local Income Tax Collections as a Percent of State Personal Income, 2008**

State	Average Local Income Taxes as a Percent of Total Income
Alabama	0.070%
California	(a)
Colorado	(a)
Delaware	0.160%
Indiana	0.245%
Iowa	0.073%
Kansas	(a)
Kentucky	0.759%
Maryland	1.547%
Michigan	0.130%
Missouri	0.161%
New Jersey	(a)
New York	1.005%
Ohio	1.006%
Oregon	(a)
Pennsylvania	0.772%
West Virginia	(a)

Source: Tax Foundation calculations based on tax collections data from the U.S. Census Bureau and income data from the Bureau of Economic Analysis. Table and report do not include the District of Columbia, which has a top individual income tax rate of 8.5 percent.

(a) Collections from limited local income taxes in California, Colorado, Kansas, New Jersey, Oregon, and West Virginia are either not reported to the U.S. Census Bureau as local income taxes and/or amount to less than 0.01% of state personal income. San Francisco, California imposes a payroll tax of 1.5% on approximately 6,000 businesses with payrolls of larger than \$250,000; the tax collected \$342 million in 2010. In Colorado, Denver and two other municipalities impose charges of \$2 to \$4 per month per employee, again a modest amount compared with overall Colorado income. Kansas local income taxes are limited to interest, dividend, and securities transaction income. New Jersey has only one local income tax in Newark. Three municipalities in West Virginia impose service taxes of \$2 to \$3 per week per employee.

### **History of Local Income Taxes**

Local income taxes arose during the Great Depression: declining property tax revenues caused by rising foreclosures forced local governments to look for other ways to raise revenue. The first local income taxes emerged in Philadelphia in 1939 as the city sought to avoid bankruptcy. They spread gradually to select cities in Ohio (1946), Kentucky (1947), Missouri (1948), and Michigan (1962). New York City and Baltimore adopted municipal income taxes in 1966.

### **Rationale for Local Income Taxes**

Income and wage taxes are generally applied to those who live or work in a jurisdiction. They can complement or replace other local revenue sources like property, business, sales, or tourist taxes. Unlike property taxes, local income taxes can also be applied to nonresidents. If abused, however, local income taxes could enable a jurisdiction to export its tax burden to nonresidents who are not the primary beneficiary of city- and county-provided services such as schooling, policing, parks, and social services.

However, in most cases, cities understand this need to avoid taxation in excess of benefits provided, and impose a lower rate on nonresidents than residents. In Maryland, for example, county and city income taxes range from 1.25 percent to 3.20 percent, but nonresidents pay a uniform rate statewide set at the lowest county rate (1.25 percent). Cities in Michigan and Pennsylvania generally impose income and wage taxes on nonresidents at a lower rate than residents, although Ohio communities generally impose the same rates on both groups.

### **Types of Local Income Taxes**

Local income taxes appear under a variety of designations: wage taxes, income taxes, payroll taxes, local services taxes, and occupational privilege taxes. They are generally paid by the employee but withheld by the employer, although in some cases (such as in San Francisco, California and Portland, Oregon), they are paid directly by the employer. Some are imposed as a percentage of salaries or wages, while others are stated as a percentage of federal or state tax, and still others are flat amounts charged to all workers. Two West Virginia cities, for example, impose a flat charge of \$2 or \$3 per week on all those employed in the city. Appanoose County, Iowa—alone among Iowa counties—imposes a 1 percent emergency services surtax. Residents of Yonkers, New York pay 15 percent of their state tax as a “piggyback” local tax.

Like federal and state income taxes, some local wage taxes have provisions for exemption, such as excluding military income or low-income individuals.

In Maryland and New York City, residents pay their local income tax when they file their state income tax. However, there are examples of extreme compliance burdens associated with local income taxes collected by local authorities. As one example, taxpayers in Albion, Michigan, must fill out a city income tax form of 16 pages, with instructions, separate from state and federal income tax forms.

## Recent Changes in Local Income Taxes

Over the past few decades, the number of local income taxes has declined, and although there are exceptions, the rates at which these taxes are imposed have dropped as well. For example, Philadelphia's wage tax in 1995 was 4.96 percent for residents and 4.31 percent for nonresidents. It has gradually dropped to the current 3.928 percent for residents and 3.498 for nonresidents, and further cuts are expected in the medium to long term. In New York, the State Senate voted in June 2011 to exempt small businesses the city-wide 0.34 percent Metropolitan Transportation Authority (MTA) payroll tax and phase it out completely by 2014.

On the other hand, New York City is postponing a scheduled reduction in its city income tax, preserving the current level for an additional three years. Portland, Oregon's Tri-Met and Lane County districts have both increased rates to 0.6918 percent for residents and 0.67 percent for nonresidents. Residents in Reading, Pennsylvania saw their wage tax go from 2.7 percent to 3.6 percent over the past three years; the nonresident tax rose from 1.0 percent to 1.3 percent.

## Conclusion

While most local income tax rates are low (1 percent to 3 percent), they generally have broad bases and are difficult to avoid. State and local officials need to ensure that these taxes do not discourage economic development or drive out mobile workers and businesses. Officials must also be careful not to impose excessive compliance costs associated with these taxes.

**Table 2: Number of Local Income Tax Jurisdictions by State, 2011**

<b>State</b>	<b>Number of Local Income Tax Jurisdictions</b>
Alabama	4
Alaska	none
Arizona	none
Arkansas	none
California	1
Colorado	3
Connecticut	none
Delaware	1
Florida	none
Georgia	none
Hawaii	none
Idaho	none
Illinois	none
Indiana	91
Iowa	297
Kansas	535
Kentucky	218
Louisiana	none
Maine	none
Maryland	24
Massachusetts	none
Michigan	22
Minnesota	none
Mississippi	none
Missouri	2

Montana	none
Nebraska	none
Nevada	none
New Hampshire	none
New Jersey	1
New Mexico	none
New York	4
North Carolina	none
North Dakota	none
Ohio	774
Oklahoma	none
Oregon	2
Pennsylvania	2,961
Rhode Island	none
South Carolina	none
South Dakota	none
Tennessee	none
Texas	none
Utah	none
Vermont	none
Virginia	none
Washington	none
West Virginia	3
Wisconsin	none
Wyoming	none
<b>Total</b>	<b>4,943</b>

Source: Tax Foundation calculations

**Table 3: Local Income Tax Rates by Jurisdiction, 2011**

State	Resident Tax Rate	Nonresident Tax Rate
<b><i>Alabama</i></b>		
Bessemer	1.00%	same
Birmingham	1.00%	same
Gadsden	2.00%	same
Macon County	1.00%	same
<b><i>California</i></b>		
San Francisco	1.50% (imposed on employer)	same
<b><i>Colorado</i></b>		
Aurora	\$2.00 per month on compensation over \$250	same
Denver	\$5.75 per month on compensation over \$500	same
Greenwood Village	\$4.00 per month on compensation over \$250	same
<b><i>Delaware</i></b>		

Wilmington	1.25%	same
<b>Indiana</b>		
Adams County	1.124%	0.674%
Allen County	1.00%	0.55%
Bartholomew County	1.25%	0.5%
Benton County	2.29%	0.54%
Blackford County	1.36%	0.61%
Boone County	1.00%	0.25%
Brown County	2.20%	0.50%
Carroll County	1.55%	0.40%
Cass County	2.50%	0.50%
Clark County	2.00%	0.75%
Clay County	2.25%	0.25%
Clinton County	2.00%	0.75%
Crawford County	1.00%	0.50%
Daviess County	1.75%	0.75%
Dearborn County	0.60%	0.15%
Decatur County	1.33%	0.58%
DeKalb County	1.50%	0.75%
Delaware County	1.05%	0.60%
Dubois County	1.00%	0.55%
Elkhart County	1.50%	0.50%
Fayette County	2.37%	0.87%
Floyd County	1.15%	0.65%
Fountain County	1.10%	0.35%
Franklin County	1.25%	0.50%
Fulton County	1.93%	0.68%
Gibson County	0.50%	0.50%
Grant County	2.25%	0.75%
Greene County	1.00%	0.25%
Hamilton County	1.00%	0.25%
Hancock County	1.55%	0.40%
Harrison County	1.00%	0.50%
Hendricks County	1.40%	0.65%
Henry County	1.25%	0.50%
Howard County	1.60%	0.55%
Huntington County	1.75%	0.50%
Jackson County	1.60%	0.75%
Jasper County	3.05%	0.50%
Jay County	2.45%	0.60%
Jefferson County	0.35%	0.35%
Jennings County	1.25%	0.50%
Johnson County	1.00%	0.25%
Knox County	1.10%	0.65%
Kosciusko County	1.00%	0.475%
LaGrange County	1.40%	0.65%
LaPorte County	0.95%	0.70%

Lawrence County	1.75%	0.25%
Madison County	1.75%	0.625%
Marion County	1.62%	0.405%
Marshall County	1.25%	0.25%
Martin County	1.00%	0.40%
Miami County	2.54%	0.965%
Monroe County	1.05%	0.2625%
Montgomery County	2.10%	0.60%
Morgan County	2.72%	0.52%
Newton County	1.00%	0.25%
Noble County	1.50%	0.75%
Ohio County	1.00%	0.25%
Orange County	1.25%	0.50%
Owen County	1.30%	0.55%
Parke County	2.30%	0.75%
Perry County	1.06%	0.685%
Pike County	0.40%	0.40%
Porter County	0.50%	0.50%
Posey County	1.00%	0.625%
Pulaski County	3.13%	0.68%
Putnam County	1.50%	0.75%
Randolph County	1.50%	0.75%
Ripley County	1.38%	0.63%
Rush County	1.50%	0.75%
St. Joseph County	1.75%	0.7375%
Scott County	1.41%	0.4725%
Shelby County	1.25%	0.50%
Spencer County	0.80%	0.575%
Starke County	1.06%	0.81%
Steuben County	1.79%	0.54%
Sullivan County	0.30%	0.30%
Switzerland County	1.00%	0.25%
Tippecanoe County	1.10%	0.65%
Tipton County	1.33%	0.58%
Union County	1.50%	0.50%
Vanderburgh County	1.00%	0.25%
Vermillion County	0.10%	0.10%
Vigo County	1.25%	0.75%
Wabash County	2.90%	0.75%
Warren County	2.12%	0.57%
Warrick County	0.50%	0.50%
Washington County	1.50%	0.75%
Wayne County	1.50%	0.50%
Wells County	2.10%	0.70%
White County	1.32%	0.57%
Whitley County	1.2329%	0.4829%
<b>Iowa</b>		

Appanoose County	1.00%	same
297 Iowa school districts impose an income tax surcharge ranging between 1 and 20% of state income tax owed.		
<b><i>Kansas</i></b>		
30 Kansas counties, 105 Kansas cities, and 400 Kansas townships impose a local intangibles tax on interest, dividends, and securities transactions (but not wages). The tax rates are generally uniform: county tax is 0.75% and city and township taxes are 2.25%. No city or township has a rate higher than 2.25%, and 36 have a lower rate, as low as 0.25%. The taxes cumulatively raised approximately \$2.4 million in 2008.		
<b><i>Kentucky</i></b>		
Adairville	1.50%	same
Alexandria	1.50%	same
Allen County	1.00%	same
Ashland	1.50%	same
Auburn	1.50%	same
Augusta	1.00%	same
Ballard County	1.00%	same
Bardstown	0.50%	same
Bath County	1.50%	same
Beattyville	1.00%	same
Bellevue	2.50%	same
Benton	0.50%	same
Berea	2.00%	same
Boone County	1.45%	same
Bourbon County	0.75%	same
Bowling Green	1.85%	same
Boyd County	1.00%	same
Boyle County	0.75%	same
Breathitt County	1.00%	same
Bromley	1.00%	same
Brooksville	1.75%	same
Brownsville	1.00%	same
Burkesville	1.00%	same
Butler County	1.00%	same
Cadiz	1.50%	same
Caldwell County	1.00%	same
Calvert City	0.50%	same
Campbell County	1.05%	same
Campbellsville	1.00%	same
Caneyville	\$2 per week (full time) or \$1 per week (part time)	same
Carlisle	1.00%	same
Carmango	1.00%	same
Carroll County	1.00%	same
Catlettsburg	1.50%	same
Cave City	2.00%	same

Clark County	1.50%	same
Clarkson	\$2 per week	same
Clay City	1.00%	same
Clay County	1.00%	same
Clinton	0.50%	same
Clinton County	0.75%	same
Cold Spring	1.00%	same
Covington	2.50%	same
Crescent Springs	1.00%	same
Crestview Hills	1.00%	same
Cumberland County	1.25%	same
Cynthiana	1.50%	same
Danville	1.25%	same
Daviess County	0.35%	same
Dawson Springs	1.50%	same
Dayton	2.00%	same
Dry Ridge	0.50%	same
Eddyville	1.50%	same
Edgewood	1.00%	same
Edmonton	1.50%	same
Elizabethtown	1.35%	same
Elkhorn City	1.00%	same
Elkton	2.00%	same
Elsmere	0.013%	same
Eminence	0.75%	same
Erlanger	0.015%	same
Estill County	1.25%	same
Fayette County	0.50%	same
Flemingsburg	1.00%	same
Florence	2.00%	same
Fort Mitchell	1.00%	same
Fort Thomas	1.25%	same
Fort Wright	1.00%	same
Frankfort	1.75%	same
Franklin	1.00%	same
Franklin County	1.00%	same
Fulton	2.00%	same
Gallatin County	1.00%	same
Gamaliel	1.00%	same
Garrard County	1.00%	same
Georgetown	1.00%	same
Glasgow	1.50%	same
Graves County	1.00%	same
Grayson	1.00%	same
Grayson County	0.50%	same
Greensburg	1.00%	same
Guthrie	1.00%	same



Hancock County	1.25%	same
Harrison County	1.50%	same
Harrodsburg	1.00%	same
Hart County	0.008%	same
Hazard	1.75%	same
Henderson	1.00%	same
Hickman	1.50%	same
Highland Heights	1.00%	same
Hillview	1.50%	same
Hodgenville	0.75%	same
Hopkinsville	0.02%	same
Horse Cave	0.50%	same
Independence	1.25%	same
Jackson	1.00%	same
Jackson County	1.00%	same
Jamestown	1.00%	same
Jeffersontown	1.00%	same
Jeffersonville	1.00%	same
Jessamine County	1.00%	same
Johnson County	0.50%	same
Junction City	1.00%	same
Kenton County	0.1097% - 0.7097%	same
Knox County	1.00%	same
Lakeside Park	1.00%	same
Laurel County	1.00%	same
Lebanon	1.00%	same
Lebanon Junction	0.80%	same
Leitchfield	1.20%	same
Leslie County	1.00%	same
Lewisburg	1.50%	same
Lexington Fayette Urban County	2.25%	same
Lincoln County	1.00%	same
Livingston County	1.00%	same
Logan County	0.75%	same
Louisville	2.20%	same
Ludlow	1.50%	same
Madison County	1.00%	same
Madisonville	1.50%	same
Magoffin County	1.00%	same
Marion	0.75%	same
Marion County	1.00%	same
Marshall County	1.50%	same
Martin	1.30%	same
Martin County	1.00%	same
Mayfield	2.00%	same
Maysville	1.95%	same

McCracken County	1.00%	same
McCreary County	1.00%	same
McKee	1.00%	same
McLean County	1.00%	same
Menifee County	1.25%	same
Mercer County	0.45%	same
Metcalfe County	1.00%	same
Middlesboro	2.00%	same
Midway	2.00%	same
Millersburg	1.00%	same
Monroe County	0.50%	same
Montgomery County	1.00%	same
Morehead	1.50%	same
Morgan County	0.50%	same
Morgantown	2.00%	same
Mount Vernon	1.00%	same
Mt. Olivet	1.00%	same
Mt. Washington	1.00%	same
Muldraugh	1.00%	same
Munfordville	0.75%	same
Nelson County	0.50%	same
Newport	2.50%	same
Nicholas County	1.00%	same
Nicholasville	1.50%	same
Oak Grove	1.50%	same
Ohio County	1.00%	same
Owensboro	1.33%	same
Owenton	1.00%	same
Paducah	2.00%	same
Paintsville	1.00%	same
Paris	1.50%	same
Park City	1.00%	same
Park Hills	0.015%	same
Pendleton County	0.50%	same
Perryville	1.00%	same
Pikeville	2.00%	same
Pineville	1.50%	same
Pioneer Village	1.00%	same
Powell County	1.25%	same
Prestonburg	1.50%	same
Princeton	1.50%	same
Pulaski County	1.00%	same
Raceland	1.00%	same
Radcliff	2.00%	same
Richmond	2.00%	same
Robertson County	1.50%	same
Rockcastle County	1.50%	same

Rowan County	1.00%	same
Russell	0.875%	same
Russell County	0.25%	same
Russell Springs	1.00%	same
Russellville	2.00%	same
Sayersville	1.00%	same
Scott County	1.50%	same
Scottsville	1.50%	same
Shelby County	1.00%	same
Shelbyville	1.50%	same
Shepherdsville	1.00%	same
Shively	1.50%	same
Silver Grove	1.50%	same
Simpson County	0.75%	same
Southgate	2.50%	same
Spencer County	0.008%	same
Springfield	1.00%	same
St. Matthews	0.75%	same
Stanford	0.65%	same
Stanton	1.00%	same
Taylor County	1.00%	same
Taylor Mill	2.00%	same
Taylorsville	0.75%	same
Todd County	1.00%	same
Tompkinsville	1.00%	same
Union County	0.50%	same
Vanceburg	1.00%	same
Versailles	1.00%	same
Villa Hills	0.075%	same
Vine Grove	1.00%	same
Warren County	1.50%	same
Warsaw	1.00%	same
Washington County	0.75%	same
Wayne County	0.90%	same
West Buechel	1.00%	same
West Liberty	0.50%	same
West Point	2.00%	same
Whitley County	1.00%	same
Wilder	2.25%	same
Wilmore	2.00%	same
Winchester	1.50%	same
Wolfe County	1.25%	same
Woodford County	1.50%	same
<b><i>Maryland</i></b>		
Allegany County	3.05%	1.25%
Anne Arundel County	2.56%	1.25%
Baltimore (city)	3.05%	1.25%

Baltimore County	2.83%	1.25%
Calvert County	2.80%	1.25%
Caroline County	2.63%	1.25%
Carroll County	3.05%	1.25%
Cecil County	2.80%	1.25%
Charles County	2.90%	1.25%
Dorchester County	2.62%	1.25%
Frederick County	2.96%	1.25%
Garrett County	2.65%	1.25%
Harford County	3.06%	1.25%
Howard County	3.20%	1.25%
Kent County	2.85%	1.25%
Montgomery County	3.20%	1.25%
Prince George's County	3.20%	1.25%
Queen Anne's County	2.85%	1.25%
St. Mary's County	3.00%	1.25%
Somerset County	3.15%	1.25%
Talbot County	2.25%	1.25%
Washington County	2.80%	1.25%
Wicomico County	3.10%	1.25%
Worcester County	1.25%	1.25%
<b>Michigan</b>		
Albion	1.00%	0.01%
Battle Creek	1.00%	0.01%
Big Rapids	1.00%	0.01%
Detroit	2.50%	0.01%
Flint	1.00%	0.01%
Grand Rapids	1.50%	0.01%
Grayling	1.00%	0.01%
Hamtramck	1.00%	0.01%
Highland Park	2.00%	0.01%
Hudson	1.00%	0.01%
Ionia	1.00%	0.01%
Jackson	1.00%	0.01%
Lansing	1.00%	0.01%
Lapeer	1.00%	0.01%
Muskegon	1.00%	0.01%
Muskegon Heights	1.00%	0.01%
Pontiac	1.00%	0.01%
Port Huron	1.00%	0.01%
Portland	1.00%	0.01%
Saginaw	1.50%	0.01%
Springfield	1.00%	0.01%
Walker	1.00%	0.01%
<b>Missouri</b>		
Kansas City	1.00%	same
St. Louis	1.00%	same

<b><i>New Jersey</i></b>		
Newark	1.00% (imposed on employers)	same
<b><i>New York</i></b>		
New York City	2.907% - 3.876%	none
New York City Metropolitan Transportation Authority (MTA) (New York City and surrounding jurisdictions)	0.34% (imposed on employers)	none
New York-New Jersey Waterfront (employers of port personnel)	2.00% (imposed on employers)	none
Yonkers	15% of net state tax	0.50%
<b><i>Ohio</i></b>		
593 of Ohio's 932 municipalities and 181 of Ohio's 611 school districts impose an income tax. Listed below as representative are the taxes imposed in the twelve largest cities in the state.		
Akron	2.25%	same
Canton	2.00%	same
Cincinnati	2.10%	same
Cleveland	2.00%	same
Columbus	2.50%	same
Dayton	2.25%	same
Hamilton	2.00%	same
Lorain	2.00%	same
Parma	2.50%	same
Springfield	2.00%	same
Toledo	2.25%	same
Youngstown	2.75%	same
<b><i>Oregon</i></b>		
Lane County Mass Transit District (Eugene, Springfield, and surrounding communities)	0.0067% (imposed on employers)	same
Tri-Met Transportation District (Portland)	0.6918% (imposed on employers)	same
<b><i>Pennsylvania</i></b>		
2,492 of Pennsylvania's 2,562 municipalities and 469 of Pennsylvania's 500 school districts impose a local income tax or local services tax. Listed below as representative are the taxes imposed in the twelve largest cities in the state.		
Allentown	1.35% plus \$52 per year	1.35%
Altoona	1.20% plus \$52 per year	1.20%
Bethlehem	1.00% plus \$52 per year	1.00%
Erie	1.18% plus \$52 per year	1.18%

Harrisburg	1.00% plus \$52 per year	1.00%
Lancaster	1.10% plus \$52 per year	none
Philadelphia	3.928%	3.4985%
Pittsburgh	3.00% plus \$52 per year	1.00%
Reading	3.60% plus \$52 per year	1.30%
Scranton	3.40% plus \$52 per year	1.00%
Wilkes-Barre	3.00% plus \$52 per year	1.00%
York	1.00% plus \$52 per year	none
<b><i>West Virginia</i></b>		
Charleston	\$2 per week (imposed on employers)	none
Huntington	\$3 per week (imposed on employers)	none
Weirton	\$2 per week (imposed on employers)	none

Source: Tax Foundation compilation from state revenue departments and other sources.

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