

January, 2008

Dear City of St. Bernard Employer:

You are required to deduct earnings tax at a rate of 2.1% on all "qualifying wages", as defined in Internal Revenue Code Section 3121(a), which is generally the Medicare wage box of the Form W-2, earned in the City of St. Bernard.

**NOTE: DUE DATE FOR MONTHLY PAYMENTS**

Where taxes withheld equal or exceed two hundred dollars (\$200.00) per month, payments will be made monthly **by the 15<sup>th</sup> day** of the month following the end of each month. So long as the taxes withheld for St. Bernard are less than two hundred dollars (\$200.00) per month, payments can be made quarterly on or before the last day of the month following the end of the quarter (subject to the approval of the Tax Commissioner).

The following is a list of commonly encountered items of employee compensation which are taxable for municipal purposes and on which the employees' withholding tax is imposed:

1. Salaries, wages, commissions, and other compensation before any deductions. Fees, Tips, and/or Bonuses
2. Incentive payments no matter how described, including but not limited to, payments to induce early retirement
3. Severance, separation, and/or termination pay, Strike pay, Supplemental unemployment pay (sub pay)
4. Gifts and prizes connected with employment
5. Employer-paid premiums through group term life insurance to the extent taxable for federal income tax purposes
6. Non-qualified deferred compensation plan (when subject to Medicare tax) – Income from nonqualified plans is included in the definition of "qualifying wages" at the time the income is deferred and is subject to withholding requirements.
7. Contributions made by or on behalf of employees' retirement plans and tax deferred annuity plans (including Section 401K, Section 403b, Section 457b, etc.)
8. Employee contributions to retirement plans "picked up" by the employer
9. Grants to the extent they are taxable for federal income tax purposes
10. Payments made to employees as vacation wages
11. Payments made to employees on their wage continuation plan during periods of disability or sickness paid by the employer or through a third party (when subject to Medicare tax)
12. Value added of uniform, automobile or travel allowance
13. Trusts not made pursuant to employees' retirement
14. Compensation paid in goods or services or property usage (taxed at fair market value)
15. Compensation taxed for deferral tax purposes resulting from the exercise of stock options
16. Director fees
17. Reimbursement in excess of deductible expenses (moving or relocation expense)
18. Medicare Exempt Employees – are subject to the requirements for "qualifying wages" in Box 5 of the Form W-2 even though that box will remain blank.
19. Cafeteria plans – IRC Section 125 wages are not included in the definition of Medicare wages and do not need to be deducted from Box 5.
20. **Stock Options-** Income from the exercise of stock options is included in the definition of "qualifying wages: and is subject to withholding requirements.

NOTE: Disqualifying disposition of an inactive stock option is considered "qualifying wages". However, the employer is not required to withhold, but the recipient is liable for the tax.

This listing is not all inclusive, if you encounter something that is not on the list, please contact our tax office for a definitive ruling. Rule of thumb – if an item is employee compensation, it will nearly always be taxable and withholding will be required.

*NOTE: A written explanation will be required from the employer if Box 5 is not the largest wage figure on the W-2 form.*

Annual Reconciliations are due on or before February 28<sup>th</sup> of each year. Please submit electronic versions of W-2's if available. Contact the tax office for specifics.

If you paid any individuals or companies that worked in St. Bernard as non-employees and issued a 1099-misc. it is required that you supply a copy of the 1099's with the annual reconciliation.

Copies of the Form W-1 and Form W-3, as well as the instructions will be available via our website at [www.cityofstbernard.org](http://www.cityofstbernard.org) or contact the tax office at (513) 242-7710 Fax (513) 242-5402  
110 Washington Avenue St. Bernard, OH 45217 ATTN: Tax Department.