Year in Review

Following the lead of Governor John Kasich, the Ohio Department of Taxation's list of accomplishments grew in Fiscal Year 2012 (FY12). Much of that activity rose from an innovative initiative launched by the Governor – the Mid-Biennium Budget Review (MBR) – that engaged every executive agency to draw on the experience and creativity of in-house staff to develop ideas and programs to make state government better and Ohio a better place to live and work.

Budgeting for the Better

Tax Commissioner Joe Testa began the MBR exercise with Department staff in late summer of 2011. He reached out with an invitation to everyone at Taxation, asking for their ideas of how to simplify the state's tax code and make those laws and procedures more taxpayer friendly. That produced a crop of more than 50 proposed changes to Taxation's operation and Ohio's tax laws.

Taxation's MBR input covered everything from improving bookkeeping, to cleaning up statutes, to improving tax administration, to closing tax loopholes. Some ideas suggested minor revisions to existing processes; others proposed changes to Ohio's tax code.

The MBR process took months from beginning to the end, that being legislative approval, deferral, or decline. The final scorecard captured the considerable variety and scale of changes to the system including:

- Closing a loophole that allowed the transfer of ownership interests in a pass-through entity to escape payment of Ohio sales tax if its sole assets are motor homes, planes, boats and other recreational property. The law already prohibited corporations from avoiding taxation of these assets upon transfer of ownership. This prohibition now extends to all corporate structures;
- Requiring all vendors to display their vendor's license. This assures consumers that the vendor is registered with Taxation for the collection of sales tax. Previously, only transient vendors were required to display the license;
- Requiring commercial activity taxpayers to apply the $1 million exclusion to their first quarter gross receipts and carry forward any unused exclusion to subsequent filing periods within the same calendar year. This fix levels the playing field between annual and quarterly taxpayers to ensure all taxpayers are afforded the same annual exclusion;
- For tax preparers, lowering the threshold requiring electronic filing of income tax returns from 75 returns a year to 11 returns, conforming to the current IRS threshold that applies to Ohio tax preparers filing their clients' federal returns. This provision will encourage continued growth in electronic filing, which saves taxpayer dollars spent to key-enter data and handle paper tax returns;
- Allowing Taxation the ability to waive the requirement for motor fuel dealers to buy a bond securing payment of the motor fuel tax if the dealer only sells fuel that is not taxed or has had the tax already paid. This provision allows businesses that operate only in tax-paid product to register more efficiently with Taxation;
- Applying the $50 penalty for dishonored tax payments to electronic payments, as it already applies to paper checks that aren't cashable;
- Removing provisions from the CAT law that became unnecessary, including rate adjustments that related to the phase-in period that expired at the end of fiscal year 2011. When the CAT was first enacted, the General Assembly included three measurement periods to ensure that the new tax met revenue forecasts. The last measurement period concluded on June 30, 2011. Since this language is no longer applicable, the outdated language was removed;
- Allowing Taxation to issue a penalty via assessment against a person acting as an unregistered distributor of other tobacco products (OTP). Previously, OTP retailers selling to persons other than consumers may have been avoiding registering as an OTP distributor. This change allows for civil penalties in addition to the criminal penalties already in existence.

Some items proposed as a result of the MBR process were not completed before legislative recess. Those proposals sought to modernize and simplify Ohio business taxes, while providing significant income tax relief and greater equity for the residents of Ohio. The first proposal called for a revamping of the tax on banks and other financial institutions; the second proposal provided a modernized and multi-tiered severance tax on oil and natural gas extractions, with the proceeds from new severance tax revenues being dedicated to an income tax cut. Future consideration and analysis of these proposals is expected in the months ahead.

Beyond the Budget Review Process

While the MBR process was underway, other new initiatives and the regular routines and processes of Taxation were ongoing and producing some notable milestones in tax history and no small list of changes and accomplishments.

The Department rolled out two tax amnesty programs, completed a major study of the tax appeals process in Ohio, squeezed more savings out of its budget, and drove up the number of returns filed electronically. And those are just some of the higher profile activities.

Gross Casino Revenue Tax Rollout

Ohio's first two casinos opened in May 2012 – the first in Cleveland and a second in Toledo. The Columbus and Cincinnati casinos are expected to open in fiscal year 2013. In FY12, the Department assumed its role as administrator of a tax created through a constitutional amendment passed by voters in 2009. Once all four casinos are fully operational, the gross casino revenue tax is expected to raise several hundred millions of dollars a year, which will be distributed to Ohio's local governments, schools, and other gaming-related programs.

The Department developed the business rules, tax forms, and software applications for this tax and worked closely with the Casino Control Commission and the casinos themselves. The Department also developed web pages to provide the public with information about casino taxes.

In addition, the Department supported changes in the statutes to lower the withholding rate for casino patrons with winnings that meet or exceed the federal withholding threshold. Previously, casino operators were required to withhold at a rate of six percent. This new provision lowers the rate to four percent to better align with the revised withholding tables. The same change was implemented for Ohio's video lottery terminals (VLT). Previously, there was no withholding requirement at those locations. The new provision mirrors the withholding requirements of casino operators. Additionally, the Department supported a change to permit the release of information to the Ohio Lottery Commission for purposes of verifying a lottery sales agent's compliance with the VLT withholding provisions. Finally, a law change was made to clarify the student count information provided to the Department by the Ohio Department of Education so as to properly distribute gross casino revenue tax to schools.

Tax Amnesty x 2

An extended, nineteen-month Consumer's Use Tax Amnesty was the first to launch followed a few months later by a short term, six-week General Tax Amnesty program. The Consumer's Use Tax Amnesty, scheduled to run until May 1, 2013, was designed to help businesses gain a better understanding of the little known tax while encouraging those with outstanding liabilities to register and pay without penalty or interest. The General Tax Amnesty cast a wider net, inviting all taxpayers with unknown liabilities to satisfy those debts without penalty and only pay half the normal interest. The two amnesties together were projected to generate approximately $40 million for the state and local governments and had met expectations by year's end.

Board of Tax Appeals Study

The Tax Commissioner was directed by Ohio lawmakers to study and report back on ways to eliminate a significant backlog of approximately 10,000 tax appeals cases at the Board of Tax Appeals (BTA) that often caused years-long delays in issuing decisions. After surveying and consulting with a broad sample of interested parties, the Commissioner issued a report that included three primary recommendations meant to greatly reduce the backlog: 1) Create a Backlog Assistance Program, which would allow hundreds of the simplest cases to be handled and resolved by Taxation; 2) Create a Small Claims Division within the BTA to handle residential property tax cases with less than $10,000 in dispute; and 3) Direct the BTA to establish a case management schedule and accept appeals submitted electronically. Many of the report's recommendations were incorporated in House Bill 505, which is still pending before the General Assembly.

Taxation's Budget: Even More of Less

Governor Kasich asked all executive departments and agencies to trim 1 percent from their FY12 budget. Taxation dug deeper and thanks largely to lean staffing totals ended the year spending 10.7 percent, or approximately $11.3 million, less than the budget that was in place at the beginning of the year. Taxation finished FY12 spending 16.3 percent less than in the previous fiscal year (General Revenue Funds). Some other significant sources of savings in FY12 included cuts in printing and postage costs, the closing of seven service center offices around the state, less use of intermittent employees, and reduced vehicle maintenance costs.

Electronic Filing of Tax Returns Continued Growing

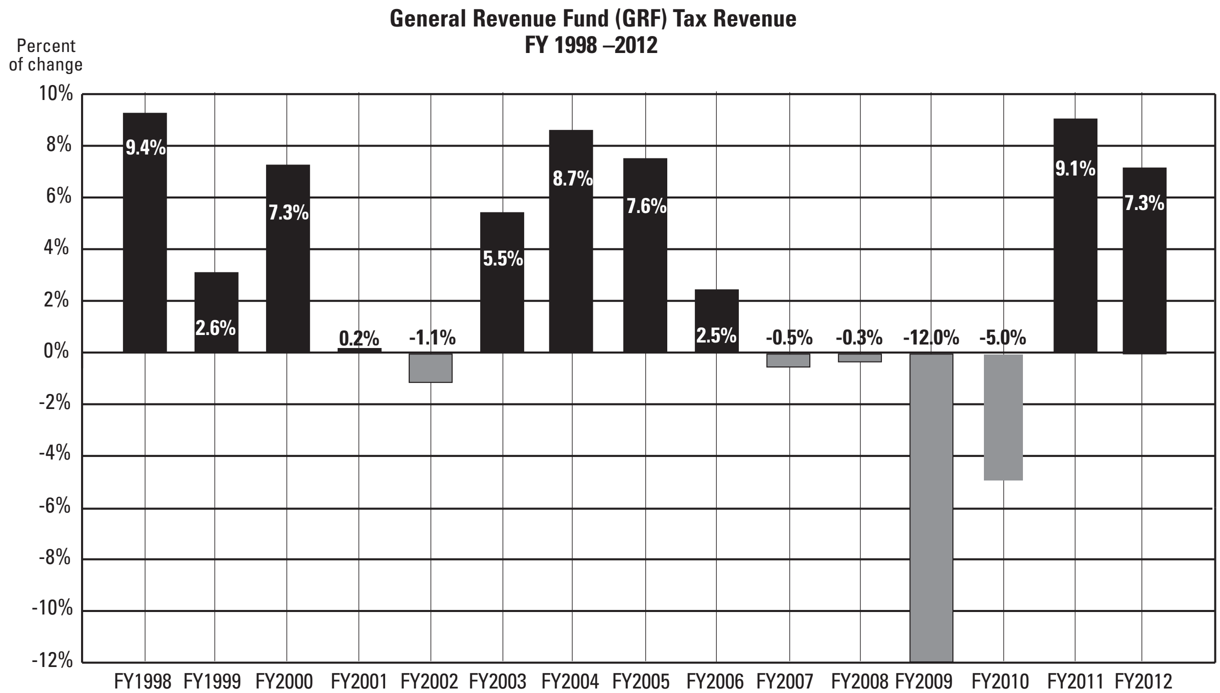
The era of paper tax returns has not fully passed but the end may not be too far in the future. Ohio income taxpayers this most recent filing season pushed the totals of electronic returns over the 80 percent bar for the first time. With the total number of returns filed rising slightly from the previous year, those filing electronically using a tax preparer, tax software, Taxation's I-File or TeleFile systems exceeded 4.2 million returns. The Department expects that number to grow again next year with the new law requiring more tax preparers to file electronically.

Other Notable Initiatives in Fiscal Year 2012

Increased Scrutiny of Tax Credits: The Tax Commissioner, in partnership with the Ohio Department of Development, began a program that expanded the verification process to ensure that taxpayers were complying with the conditions and agreements required to qualify for jobs creation and retention credits, historic preservation, and motion picture credits.

Transition to Telecommuting: Concurrent with the closure of the seven service centers around Ohio, the Department built an infrastructure and procedures to enable more than 250 Tax Audit Agents and Tax Enforcement Agents who had been working at one of those centers to instead telecommute. Those agents work closely with supervisors who are also telecommuters and with their central administrators in Columbus.

InvestOhio: Taxation, in collaboration with the Ohio Department of Development, launched InvestOhio, a program offering investors tax credits as an inducement to invest in Ohio small businesses with hopes of creating more jobs in the state. The program offers credits of up to $100 million which, if utilized, would result in $1 billion of new investment in the companies responsible for most job creation.



GRF tax revenue, 2006-12

(figures in millions)

	Revenue	change
2006	$19,563.4	+ 2.5%
2007	$19,468.9	– 0.5%
2008	$19,419.5	– 0.3%
2009	$17,093.7	– 12.0%
2010	$16,233.6	-5.0%
2011	$17,706.1	+9.1%
2012	$19,005.2	+7.3%