



## Year in Review

The Ohio Department of Taxation (ODT) began fiscal year 2015 implementing tax reductions, accelerated tax cuts and additional tax relief for low- and middle-income Ohioans, while administering a state tax system geared to promoting economic growth and job creation. The department ended the fiscal year continuing the fight to protect the state treasury against the unprecedented incidence of tax fraud driven by digital thieves trying to steal hundreds of millions of dollars from Ohio taxpayers.

### Implementing the Provisions of the Mid-Biennium Budget Review (HB 483)

This second mid-biennium budget review continued a practice initiated by Governor John Kasich when he took office in 2011 and produced legislation which capitalized on the efficient management of state government and strengthening state revenues to cut state taxes \$443 million for fiscal year 2015.

Included in the reductions enacted in tax year 2014 was an expansion of the small business income tax deduction from 50 percent to 75 percent of the first \$250,000 in business income, and an increase in the personal exemption for individual income tax from \$1,700 to \$2,200 for incomes less than \$40,000 and to \$1,950 for incomes between \$40,000 and \$80,000. To help lower-income taxpayers, the legislation increased the earned income tax credit (EITC) from five percent to 10 percent of the amount claimed for the federal EITC. An income tax cut of one percent scheduled for 2015 was made retroactive to January 1, 2014. An employer withholding table change reflecting that cut was also accelerated to allow Ohioans to immediately keep more of their money. The legislation also contained a number of tax system improvements, including:

- Addressing the issue of when payments and documents are considered to have been filed, which is especially important given the increase in electronic payments and requirements for more returns to be filed electronically. This provision clarifies that the time stamp assigned by the first electronic system receiving the payment or document determines the point at which the filing occurred. For documents and payments that are mailed, the postmark date will continue to serve as the filing date.

- Allowing ODT to more expeditiously share information with the Development Services Agency (DSA) relating to taxpayers that are applying for tax credits as part of an agreement with DSA. The change facilitates this important process to ensure that a tax credit

applicant is in good standing with regard to their tax obligations before a tax benefit is extended.

- Carrying the job creation and job retention tax credits (JCTC and JRJC) from the Commercial Activity Tax (CAT) to the new Petroleum Activity Tax (PAT). The biennial budget bill (HB 59) carved motor fuel tax receipts out of the CAT base and placed them into the PAT. During that shift, the JCTC and JRJC were not carried over from the CAT to the PAT. This change is a matter of fairness to those taxpayers that previously entered into JCTC or JRJC agreements. The new PAT impacts suppliers of motor fuel and is an excise tax measured by a supplier's gross receipts from the sale, transfer, exchange, or other disposition of motor fuel in this state.

- Moving the sale of cigarette tax stamps from the Treasurer's Office to ODT to be more in step with online-filing capabilities and ODT's tobacco enforcement responsibilities and to provide a one-stop-shop for cigarette wholesalers.

- Allowing ODT to pay interest on refunds, and not just charge interest on delinquent billings, for kilowatt-hour and natural gas distribution taxes, and the replacement tire fee.

### Fighting ID Theft and Tax Fraud

Identity (ID) theft and tax fraud are the significant problems plaguing the IRS, Ohio and all other states with an income tax. By Dec. 31, 2014, ODT had intercepted more than 64,000 fraudulent tax returns that, in total, meant to steal more than \$277 million of income tax refunds. The department also had to absorb higher than normal levels of calls, walk-ins and emails from taxpayers seeking assistance in regard to fraud. Anticipating the problem would continue into 2015, the department deployed numerous additional security measures, most prominently an Identity Confirmation Quiz designed to ensure that the taxpayer requesting a refund is legitimately due a refund. The I.D. Quiz employs a small number of multiple choice questions that are meant to be answerable only by that individual. At least seven other states adopted similar security measures. Ohio taxpayers whose tax returns were flagged for additional screening had to pass the quiz in order to receive their refunds. More than 1.5 million taxpayers took the quiz with more than 99 percent passing.

### Target: Tax Reform; Tax Reduction

For much of fiscal year 2015, ODT worked to develop a substantial tax reform package that would build on the efforts of Governor Kasich and the Ohio General Assembly to stimulate economic and job growth in Ohio.

As fiscal year 2015 closed, the Governor signed a two-year budget bill that is estimated to cut taxes more than \$1.9 billion, with individual taxpayers enjoying a 6.3% reduction in income tax rates, and eliminate tax on business income for nearly all small businesses owners in tax year 2016. The budget also increased Ohio's tax on cigarettes by \$.35 a pack.

### Changes to Ohio's CAUV

In response to concerns expressed by farm organizations, the department incorporated several changes in the Current Agricultural Use Value (CAUV) formula used in establishing property tax amounts on farmland and qualifying woodlands. The formula is a complex and respected appraisal method that values land based on its 'agricultural use' and typically provides a substantial reduction in property tax on agricultural land. The formula also has been in place as a part of Ohio's Constitution since 1974. In 2014, the average property tax reduction from CAUV was 48 percent below what it would have been if assigned a market value.

That benefit was reduced in fiscal year 2015 for many farmers who experienced lower crop prices and property tax increases resulting from changes to some of the five factors that directly impact the income producing potential of farmland: crop prices, crop yields, interest (capitalization) rates, cropping patterns and non-land production costs.

In consultation with numerous public and private sector agricultural interests, ODT adopted several changes to the CAUV calculation, formula components, capitalization rate, and woodland values. The changes, which are all based upon accepted appraisal methods, updated the formula and also resulted in some moderate additional property tax relief for farmers. The CAUV system will continue to change gradually over time due to market conditions, but is designed to guard against short-term fluctuations.

### Ohio Virtual Tax Academy

ODT continued its educational outreach with its innovative and free Ohio Virtual Tax Academy webinars as the department endeavors to provide tax-related information to help small business owners succeed. Developed and presented by ODT staff members, the webinars also provide free continuing professional and legal education credits. Three OVTA's were held in fiscal year 2015, with 1,887 attendees.

### STARS Success

ODT continued the transition and building of its highly successful, state-of-the art computer system, the State Taxation Accounting and Revenue System (STARS). Once fully implemented, STARS will integrate all tax information into one database encompassing all state-administered taxes. In fiscal year 2015, several additional taxes were added to STARS including severance, horse racing, kilowatt hour, gross casino revenue, alcoholic beverage and the International Fuel Tax Agreement. Not only has STARS made ODT more efficient, it is also simplifying processes at other levels of government. For example, county auditor's offices can now issue sales tax vendor's licenses more efficiently.

### Cutting Costs / Increasing Efficiency

ODT continued its efforts to cut costs and to increase efficiency, adding to a four-year history of processing more revenue with a continually smaller general revenue fund budget. The department modernized its Walk-In Center at the Northland building, completed a project which cut leasing costs by half at its downtown offices, and made enhancements and updates to its web-site to promote self-service. The department also supported the County Auditor Web Portal and provided support to the 88 counties that utilize the portal. This portal has fostered a partnership between the county auditor offices and the Ohio Department of Taxation. The department also launched its second mobile application with the release of its Sales Tax Rate Finder mobile app in December 2014. The first mobile app, 'Check My Refund,' went live in spring, 2014. Both work with Android and Apple devices.

### Ohio Department of Taxation Overview

ODT, under the Ohio Tax Commissioner, is responsible for administering and collecting most state and several local taxes as well as supervising the real property tax. These responsibilities include making tax assessments, valuations, findings and determinations; promulgating rules and regulations; auditing tax returns; issuing and overseeing certain licenses; and distributing revenues from certain taxes to various units of local government.

In fiscal year 2015, ODT collected approximately \$30.0 billion in state and local taxes. ODT's actual expenditures totaled approximately \$116.8 million, a 7.7 percent decrease from fiscal year 2014 when expenditures totaled approximately \$126.6 million. At the end of fiscal year 2015, the department had 999 full-time employees, down from 1,064 at the end of fiscal year 2014.

Table 1

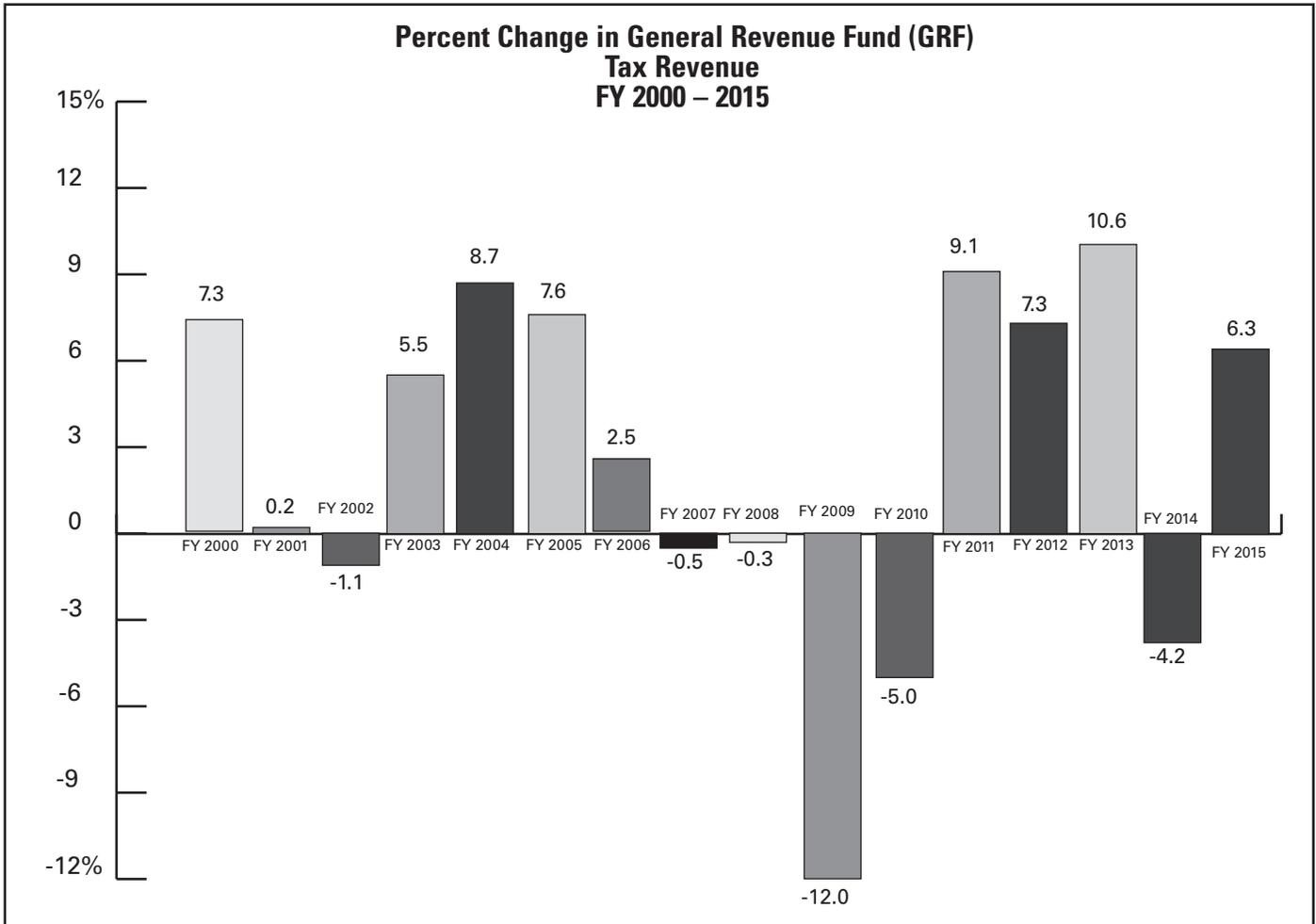


Table 2

GRF Tax Revenue, 2008 - 2015 (figures in millions)		
Fiscal Year	Revenue	% Change
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%
2013	\$21,015.7	10.6%
2014	\$20,134.4	-4.2%
2015	\$21,405.8	6.3%

Table 3

**Collections for Taxes Administered by the Ohio Tax Commissioner**

This table shows both gross and net tax collections for state-collected and locally-collected taxes. For state collected taxes, gross tax collections are equal to total taxes collected, including taxes which were later refunded. Net tax collections are equal to gross collections, less all refunds. Note: because the data for state-collected taxes is from the state accounting system contained within the Ohio Administrative Knowledge System (OAKS), the figures will differ slightly from data shown elsewhere in the report. Other tables in this report frequently represent taxes reported as shown on tax returns filed during the fiscal year, rather than actual collections during the fiscal year or for specific funds (like the state's General Revenue Fund). For locally-collected taxes, collections are shown on a calendar year basis, rather than a fiscal year basis.

State-Collected Taxes	Gross Tax Collections		Net Tax Collections		Percent Change 14-15
	FY 2014	FY 2015	FY 2014	FY 2015	
State Sales and Use	\$9,465,531,587	\$10,259,953,396	\$9,344,575,216	\$10,147,622,647	8.6%
Local Sales and Use	2,134,302,887	2,369,561,219	2,134,302,887	2,369,561,219	11.0%
Resort Area Excise	1,165,978	1,297,968	1,165,978	1,297,968	11.3%
State Personal Income	10,116,735,182	10,397,087,510	8,425,116,548	8,883,191,155	5.4%
Municipal Income Tax for Electric Light Companies	8,796,853	7,441,677	8,796,853	7,441,677	-15.4%
School District Income	408,357,723	424,832,679	386,666,212	403,218,588	4.3%
Corporation Franchise <sup>1</sup>	72,629,614	49,586,568	(11,171,983)	2,587,272	-123.2%
Commercial Activity Tax	1,829,164,711	1,849,869,661	1,685,787,403	1,751,695,838	3.9%
Financial Institutions Tax	197,931,125	214,969,339	197,837,292	182,133,802	-7.9%
Petroleum Activity Tax <sup>6</sup>	0	72,525,791	0	72,231,928	N/A
Dealer in Intangibles <sup>1</sup>	480,388	55,409	475,979	55,409	-88.4%
Motor Vehicle Fuel	1,844,815,403	1,822,139,893	1,825,528,042	1,800,636,910	-1.4%
Motor Fuel Use	35,183,140	35,870,916	34,673,973	35,103,443	1.2%
Public Utility Excise	106,050,399	114,493,593	106,011,927	97,472,863	-8.1%
Kilowatt-Hour Excise	544,779,979	539,921,878	544,630,705	539,837,424	-0.9%
Natural Gas Consumption	76,109,967	74,735,821	76,109,967	74,735,452	-1.8%
Cigarette Excise	815,722,596	810,184,382	813,983,559	808,163,723	-0.7%
Local Cigarette Excise <sup>3</sup>	18,937,553	18,417,008	18,859,778	18,369,781	-2.6%
Alcoholic Beverage Excise <sup>2</sup>	56,697,412	57,797,047	56,564,921	57,725,019	2.1%
Local Alcoholic Beverage <sup>2,3</sup>	5,499,710	5,634,714	5,434,788	5,634,548	3.7%
Replacement Tire Fee	7,668,409	7,350,931	7,649,409	7,348,806	-3.9%
Horse Racing	5,526,549	5,818,281	5,526,549	5,818,281	5.3%
Severance	15,037,950	26,891,833	15,037,950	26,891,833	78.8%
Estate Tax <sup>1</sup>	39,391,459	3,372,354	39,391,459	3,071,079	-92.2%
Casino Gross Revenue Tax	273,393,331	266,014,462	273,393,331	266,014,462	-2.7%
Wireless 9-1-1	15,760,376	25,585,678	15,752,244	25,579,996	62.4%
<b>Total State-Collected Taxes</b>	<b>\$28,095,670,279</b>	<b>\$29,461,410,008</b>	<b>\$26,012,100,987</b>	<b>\$27,593,441,123</b>	<b>6.1%</b>
<b>Locally-Collected Taxes</b>	<b>CY 2014</b>	<b>CY 2015</b>		<b>Percent Change 14-15</b>	
Public Utility Property <sup>4</sup>	\$934,646,188	\$1,013,193,975		8.40%	
Estate <sup>1,5</sup>	167,496,346	14,539,086		-91.32%	
<b>Total Locally-Collected Taxes</b>	<b>\$1,102,142,534</b>	<b>\$1,027,733,061</b>		<b>-6.75%</b>	

<sup>1</sup> This tax is no longer in effect. Tax Year 2013 was the last for the Corporate Franchise Tax (taxpayers began paying Financial Institutions Tax); Estate Tax was repealed for estates with dates of death on or after January 1, 2013; Dealers in Intangibles Tax ceased on Jan. 1, 2013 (most taxpayers began paying the Commercial Activity Tax). Only residual revenues and refunds are applicable going forward.

<sup>2</sup> Excludes tax on liquor since it is administered by the Ohio Department of Commerce, Division of Liquor Control.

<sup>3</sup> Collected for Cuyahoga County

<sup>4</sup> Consists of taxes levied on the tangible personal property of public utilities in 2014 and collected in 2015.

<sup>5</sup> CY 2014 data is from County Auditor estate tax settlements for the August 2013 and February 2014 periods; CY 2015 data is from the settlements for the August 2014 and February 2015 periods.

<sup>6</sup> New tax administered by the Tax Commissioner.

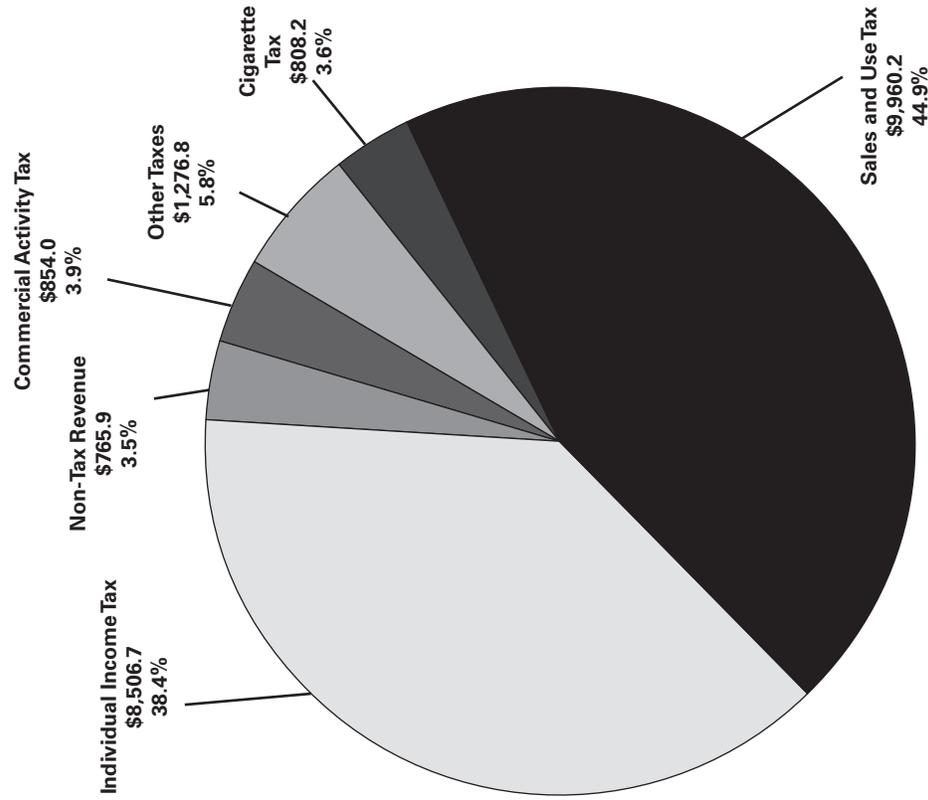
Sources: Fiscal Year 2014 and 2015 data on state-collected taxes comes from the state accounting system (OAKS). Data on locally-collected taxes is based on Department of Taxation's data sources.

# General Revenue Fund Sources, Fiscal Year 2015\*

(excluding federal aid)  
(dollars in millions)

Chart 1

Major Taxes	Collections	Percent of Total
Sales and Use Tax	\$9,960.2	44.9%
Individual Income Tax	\$8,506.7	38.4%
Cigarette Tax	\$808.2	3.6%
Commercial Activity Tax	\$854.0	3.9%
<b>Total Major Taxes</b>	<b>\$20,129.0</b>	<b>90.8%</b>
<b>Other Taxes</b>		
Kilowatt-Hour Excise Tax	\$292.3	
Foreign Insurance Tax	\$266.6	
Domestic Insurance Tax	\$251.6	
Financial Institutions Tax	\$182.1	
Alcoholic Beverage Taxes (including liquor gallonage)	\$99.9	
Public Utility Excise Tax	\$97.5	
Natural Gas Distribution Tax	\$74.7	
Petroleum Activity Tax	\$5.5	
Estate Tax	\$3.1	
Corporation Franchise Tax	\$2.5	
Other Business and Property	\$0.8	
<b>Total Other Taxes</b>	<b>\$1,276.8</b>	<b>5.8%</b>
<b>Total Tax Revenue</b>	<b>\$21,405.8</b>	<b>96.5%</b>
<b>Non-Tax Revenue:</b>		
Earnings on Investment	\$23.1	
Liquor Profits	\$0.0	
Miscellaneous <sup>1</sup>	\$742.8	
<b>Total Non-Tax Revenue</b>	<b>\$765.9</b>	<b>3.5%</b>
<b>All Revenue</b>	<b>\$22,171.8</b>	<b>100.0%</b>



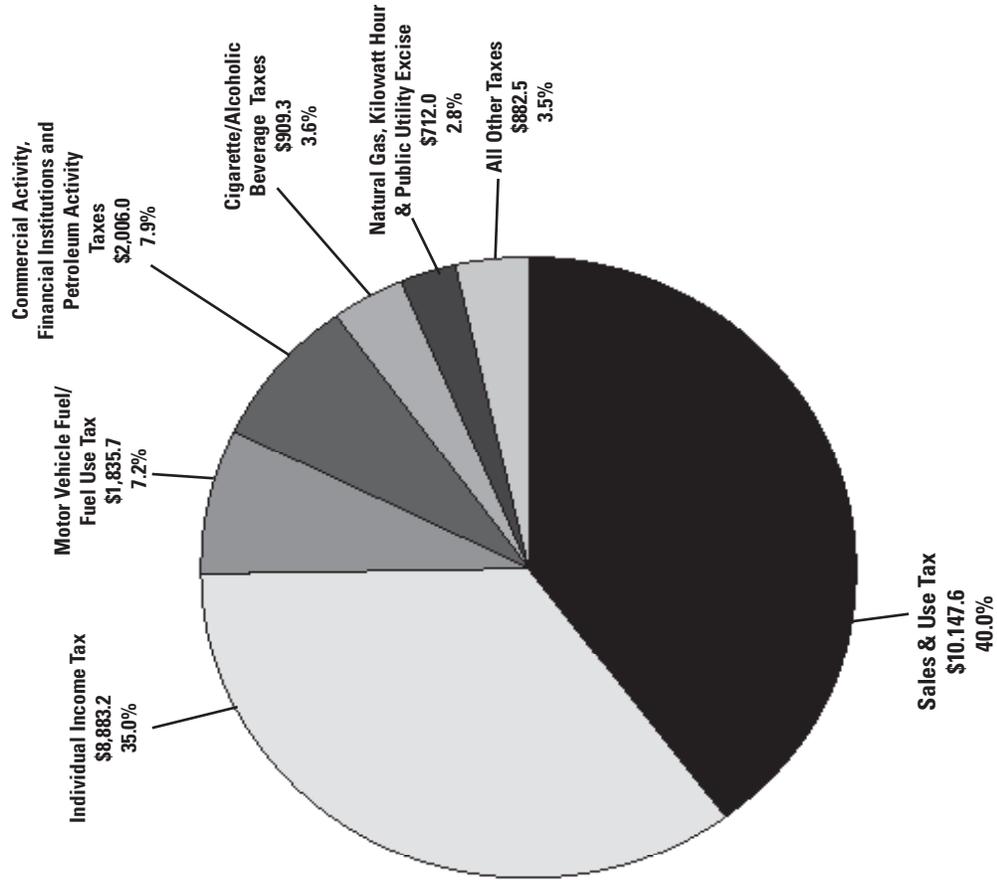
\* Percentage totals do not add to 100% because of rounding.

Source: Ohio Office of Budget and Management.

<sup>1</sup> Includes certain transfers into the general revenue fund, licenses and fees, and other income.

# All State Tax Sources, Fiscal Year 2015 (excluding federal aid) (dollars in millions)

Chart 2

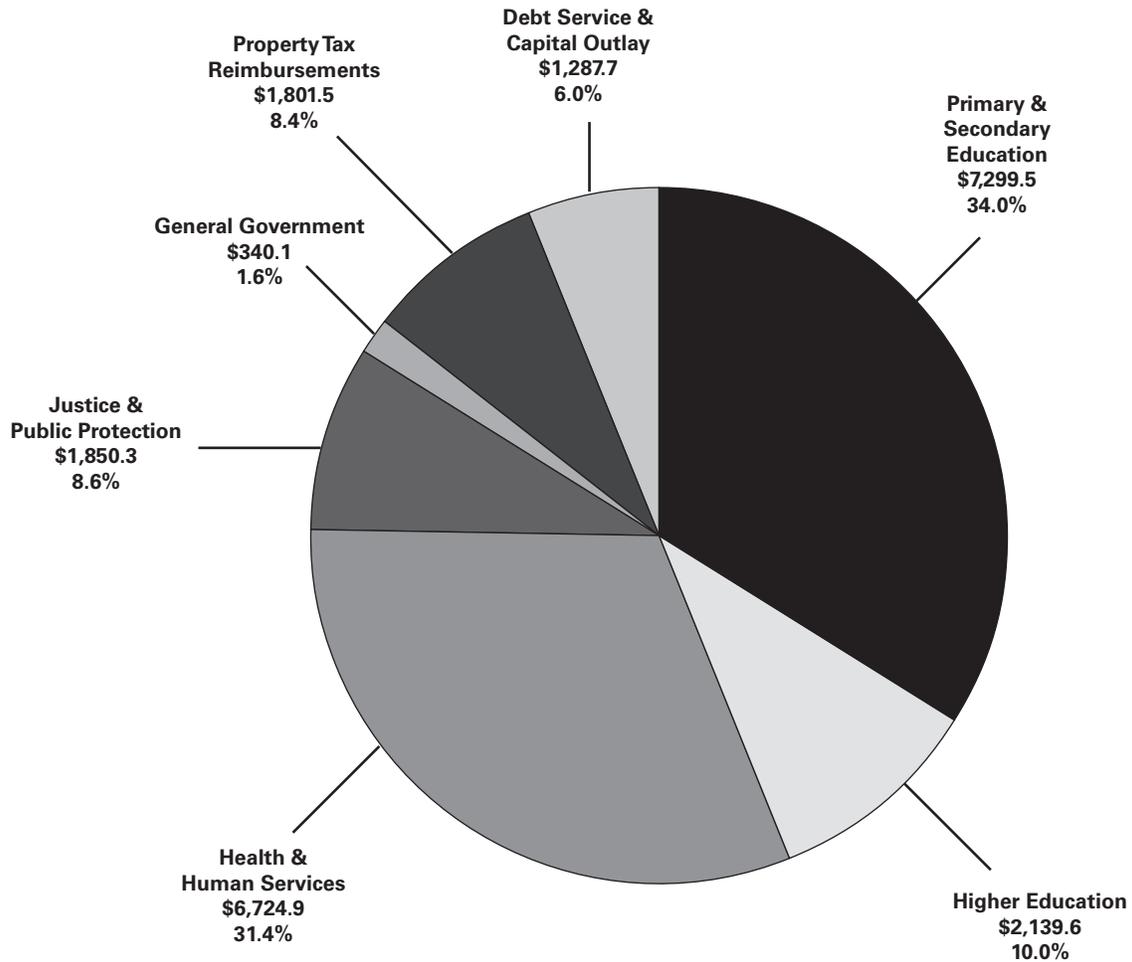


Major Taxes	Collections	Percent of Total
Sales and Use Tax	\$10,147.6	40.0%
Personal Income Tax	\$8,883.2	35.0%
Motor Vehicle Fuel and Fuel Use Tax	\$1,835.7	7.2%
Commercial Activity, Financial Institutions, and Petroleum Activity Taxes	\$2,006.0	7.9%
Cigarette and Alcoholic Beverage Taxes <sup>1</sup>	\$909.3	3.6%
Natural Gas, Kilowatt Hour, and Public Utility Excise	\$712.0	2.8%
All Other Taxes	\$882.5	3.5%
<b>Other Taxes</b>		
Foreign Insurance Tax	\$287.3	
Casino Gross Revenue Tax	\$266.0	
Domestic Insurance Tax	\$257.2	
Severance	\$26.9	
Wireless 9-1-1	\$25.6	
Estate Tax	\$3.1	
Corporation Franchise Tax	\$2.5	
Other Business and Property	\$0.8	
Horse Racing	\$5.8	
Replacement Tire	\$7.3	
Other Taxes Total	\$882.5	
Source: Ohio Office of Budget and Management and Department of Taxation Records.		
<sup>1</sup> Includes tax collections on liquor, which is administered by the Department of Commerce		

## General Revenue Fund Expenditures Fiscal Year 2015 (excluding federal aid)

(dollars in millions)

Chart 3



Category	FY 2015 Expenditures	Percentage of Total
Primary, Secondary and Other Education	\$7,299.5	34.0%
Higher Education	\$2,139.6	10.0%
Health and Human Services (including Medicaid)	\$6,724.9	31.4%
Justice and Public Protection	\$1,850.3	8.6%
General Government	\$340.1	1.6%
Property Tax Reimbursements	\$1,801.5	8.4%
Debt Service & Capital Outlay	\$1,287.7	6.0%
<b>Total</b>	<b>\$21,443.4</b>	<b>100.0%</b>

Source: Office of Budget and Management financial reports and Ohio Department of Taxation calculations

## Tax Burden Comparisons Among the States

This table compares the overall state and local tax burden in Ohio to that of nine other states. The comparisons rely on data compiled by the U.S. Census Bureau documenting tax collections during fiscal year 2012. Tax burdens are compared both on a per capita basis and as a percentage of income. The rankings – 1 through 51 – indicate the states' standing in comparison to all other 50 states as well as the District of Columbia.

States were included in this table either because they neighbor Ohio or because, like Ohio, they are large, economically important states. The same nine states are used for comparisons throughout this book.

<b>State and Local Tax Burdens: Ohio and Comparison States</b>				
	<b>Taxes per capita</b>		<b>Taxes as % of Personal Income</b>	
<b>State</b>	<b>Total</b>	<b>Rank</b>	<b>Percentage</b>	<b>Rank</b>
Georgia	\$3,336	47	9%	42
Indiana	\$3,802	34	10%	29
Kentucky	\$3,514	41	10%	31
Michigan	\$3,753	35	10%	34
North Carolina	\$3,627	38	9%	35
<b>Ohio</b>	<b>\$4,278</b>	<b>25</b>	<b>11%</b>	<b>17</b>
Pennsylvania	\$4,629	20	10%	26
Tennessee	\$3,116	50	8%	50
Texas	\$3,893	31	9%	43
West Virginia	\$3,895	30	11%	16

Source: U.S. Dept. of Commerce: U.S. Census Bureau, Bureau of Economic Analysis