

Support and Operating Divisions

AUDIT DIVISION

The Audit Division began operations July 1, 2001 to meet one of many objectives that were born during the Ohio Department of Taxation's Strategic Planning retreat that took place in January 2000. The vision behind the birth of the Audit Division was to create a Tax Auditor Agent series that would allow employees with the education, experience and proficiency in auditing the major Ohio business taxes (sales and use tax, personal property tax, corporation franchise tax, pass-through entity tax, and employer withholding tax) the opportunity to devote most of their time to "field" auditing.

The emphasis on field auditing accomplishes three objectives which align themselves with ODT's goals of "enhancing taxpayer services and taxpayer compliance with Ohio tax law" and "modernizing Ohio tax laws and the department's operations." One, it reestablishes a greater face-to-face contact with the taxpayers that the department serves. Second, it enhances ODT's ability to educate these taxpayers on the ever-changing revisions to Ohio statutes. Third, it educates the department on critical tax issues that will help improve how it administers the Ohio tax law.

In order to accomplish these objectives, the Audit Division has placed a special emphasis on the following initiatives:

- (1) Creating and using audit project plans for each audit assignment that are used by the auditors to better plan the scope of an audit, create a timeline of deliverables to move the audit efficiently to a conclusion, and to project and track the number of hours used to complete such assignments.
- (2) Permitting auditors to share their preliminary proposed audit findings prior to a formal review by the Audit Review staff, to encourage an interaction between auditor and taxpayer on the exact nature of audit issues.
- (3) Enhancing the use of a resolution process to address audit issues more quickly and efficiently in order to avoid lengthy and costly litigation.
- (4) Increasing the use of electronic downloads of taxpayer data in order to move audits to a quicker completion, while providing more accurate results with fewer hours expended by all parties. This enables the department to more efficiently use auditor hours and thereby provides an opportunity to expand the audit base. Audit Division has created a Computer Audit Assistance Group that helps auditors and taxpayers through these types of audits.
- (5) Creating basic and advanced tax-type courses and auditing courses to help auditors identify substantive audit issues and cross-tax initiatives, since all auditors are required to have

knowledge of all business tax-types outside their previous tax expertise area.

- (6) Creating and implementing a new audit template for each of the business taxes that are audited by the division.
- (7) Enhancing audit selection capabilities to encourage auditing of a larger percentage of businesses.

As of June 30, 2003, the Audit Division was staffed by 280 employees. During the fiscal year that ended June 30, 2003, the Audit Division completed the following types of audits:

Tax Type	Total Audits
Sales and Use	1,092
Personal Property	727
Corporation Franchise	1,659
Pass-through Entity	189
Employer Withholding	53
Other	9
Total	3,729

During the fiscal year ending June 30, 2004, the Audit Division will hire approximately 20 entry-level auditors and one audit manager. All new auditors will be trained and will receive experience in auditing for all business tax-types within the first two years of their employment.

The efforts of the Audit Division to help taxpayers comply with their responsibilities by identifying appropriate tax liabilities while providing an improved means to educate taxpayers on all provisions of the law.

BUDGET AND FISCAL DIVISION

The Budget and Fiscal Division is comprised of four subordinate units that are directly responsible for internal financial management in the Department of Taxation, as well as distribution of tax revenues. The division also oversees facilities and record-keeping activities.

Budget and Fiscal's subordinate units are: budgeting and accounts payable, facilities management, revenue accounting and records management.

Budgeting and Accounts Payable

This unit prepares and monitors the department's budget for each fiscal year of a biennial budget cycle. The unit's primary responsibilities include managing acquisitions, preparing purchase orders, processing invoices and administering travel expenditures. The unit also administers the department's payment cards, petty cash funds and contracts.

Facilities Management

The facilities unit is responsible for managing, equipping, and maintaining the office facilities, providing office supplies, coordinating safety and security, keeping an inventory of assets and managing the vehicle fleet.

Revenue Accounting

This unit accounts for all tax revenue receipts, reconciles the revenues and then makes distributions to the state and local governments. The unit also works with bad check processing and resolution.

Records Management

The records unit is responsible for the proper identification, maintenance of the retention schedules and disposal of the department's public and nonpublic records.

The Budget and Fiscal Division, by accomplishing its varied missions, helps enable the Department of Taxation to meet its responsibility of providing quality service within government and to other state agencies, as well as to the public.

OFFICE OF CHIEF COUNSEL

The Office of Chief Counsel is responsible for the tax legal affairs of the Ohio Department of Taxation. It is divided into four areas: the Appeals Management Division, the Bankruptcy Division, the Tax Appeals Division, and Legal Counsels that provide assistance with specific taxes. The Office of Chief Counsel is also responsible for enacting, amending or rescinding rules promulgated by the Tax Commissioner (see **Rule Review** chapter) and shares responsibility for the issuance of information releases with other divisions of the department.

Note: all case information shown below is on a calendar year basis.

Appeals Management Division

The Appeals Management Division directly interacts with the Attorney General on tax appeals after the Tax Commissioner's Final Determination on a tax matter. The Appeals Management Division had three employees as of June 30, 2003.

Bd. of Tax Appeals	Ct. of Appeals	Ohio Sup.Ct.	
Cases on appeal beyond Taxation as of 12/31/02:	259	8	33
as of 12/31/01:	305	4	25

Bankruptcy Division

The Bankruptcy Division handles the filing of the department's Proofs of Claims with various Bankruptcy Courts throughout the country. The Bankruptcy Division had six employees as of June 30, 2003.

Bankruptcy Proofs of Claims Handled by Bankruptcy Division

Cal. Yr. Filed	Total Notices Received	Total Proofs Processed	Total Amount Filed
2002	12,510	1,535	\$46,866,252
2001	12,336	1,468	\$39,170,195

Tax Appeals Division

The Tax Appeals Division conducts most of the administrative appeal hearings within the department and issues the Tax Commissioner's Final Determination in these tax matters. The Tax Appeals Division had 14 hearing officers and supervisors and four support staff as of June 30, 2003.

Final Determinations Issued by Tax Appeals Division

Cal. Yr.	Opening Balance	Cases Received	Cases Out	Ending Balance
2002	1,397	821	1,145	1,073
2001	1,240	1,286	1,129	1,397

Legal Counsels

The Department of Taxation has six legal counsels. They are responsible for drafting and reviewing legislation, rules and information releases. The counsels also draft formal and informal tax opinions.

Legal counsels are assigned to the Personal Property Tax, Office of Chief Counsel, Estate Tax, Sales/Use Tax, Tax Equalization, and Personal Income/Corporation Franchise Taxes divisions.

Formal Tax Commissioner Opinions Issued

Calendar Year 2002: 1
Calendar Year 2001: 2

The Office of Chief Counsel provides the legal support necessary to carry out the Department of Taxation's mission of providing quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Information Releases Issued / Updated in Fiscal Year 2003

General Information Releases

G 2002-01 – "Modified Appeal Procedures – Corrected Assessments," December 16, 2002.

Corporation Franchise Tax

PI & CFT 2002-02 – "Ohio Bonus Depreciation Adjustments and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and At-Risk Rules," November 7, 2002.

PI & CFT 2002-01 – “Recently-Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter,” July 31, 2002.

Alcoholic Beverages

XT 2002-05 – “Alcoholic Beverage Reporting Changes for Out-of-State Wine Suppliers,” July 24, 2002.

Cigarettes and Other Tobacco Products

XT 2003-05 – “Notice About Master Cigarette Settlement Agreement (MSA),” June 12, 2003.

XT 2003-03 – “Notice About Master Cigarette Settlement Agreement (MSA),” March 3, 2003.

XT 2003-02 – “Notice About Cigarette Pricing Change,” January 27, 2003.

XT 2003-01 – “Notice About Master Cigarette Settlement Agreement (MSA),” January 6, 2003.

XT 2002-07 – “Notice About Master Cigarette Settlement Agreement (MSA) Reporting,” October 18, 2002.

XT 2002-06 – “New Product Subject to the Other Tobacco Products Tax and Restrictions on Cigarette Sales and Packaging,” September 3, 2002.

Motor Fuel Tax

XT 2003-04 – “Motor Fuel Tax Increase,” June 10, 2003.

Ohio Income Tax

TRUST 2003-01 – “Ohio Law Imposes Ohio Income Tax on Trusts for Taxable Years Beginning in 2002, 2003 and 2004,” updated April 14, 2003.

PI & CFT 2002-02 – “Ohio Bonus Depreciation Adjustments and the Internal Revenue Code’s Passive Activity Loss, Basis Limitation and At-Risk Rules,” November 7, 2002.

PIT 2002-06 – “Personal Income Tax Information Release: Net Operating Loss Carryback Five-Year Rule,” August 12, 2002.

PI & CFT 2002-01 – “Recently-Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter,” July 31, 2002.

PIT 2001-04 – “ESBT Audit Initiative,” July 3, 2002.

PIT 2002-03 – “Pass-Through Entity Tax: Certain Estimated Tax Payments Due September 16, 2002,” July 3, 2002.

Personal Property Tax

PP 2003-01 – “New Valuation Schedule for Stand-Alone Computers,” February 14, 2003.

Sales and Use Tax

(note: includes FY 2004 releases issued in implementation of H.B. 95, 125th General Assembly, FY 2004-2005 Biennial Budget Bill)

ST 2003-13 – “Towing Service,” August 1, 2003.

ST 2003-12 – “Laundry and Dry Cleaning,” July 31, 2003.

ST 2003-11 – “Storage,” July 31, 2003.

“Personal Care Services,” July 11, 2003.

ST 2003-10 – “Drugs, Prosthetic Devices, Mobility Enhancing Equipment and Durable Medical Equipment,” July 10, 2003.

ST 2003-09 – “Telecommunications Changes,” July 10, 2003.

ST 2003-08 – “Leases and Rentals,” July 2, 2003.

ST 2003-07 – “Changes to the Definition of Price,” July 2, 2003.

ST 2003-06 – “Definition of Tangible Personal Property Including Pre-Written Software,” July 2, 2003.

ST 2003-05 – “Exemption Changes,” July 2, 2003.

“Notice on Sourcing,” May 5, 2003.

“Accelerated Payment Letter,” March 6, 2003.

ST 2003-02 – “Landscaping and Lawn Care Services,” revised January 2003.

ST 2002-04 – “Building Maintenance and Janitorial Services,” updated November 2002.

ST 2002-03 – “Recreation and Sports Club Service,” updated July 2002.

COMPLIANCE DIVISION

The Compliance Division manages the billing and assessment functions for the individual income tax, employer withholding tax, corporation franchise tax, sales and use tax and school district income tax.

Bills and assessments are generated for actual or potential tax liabilities arising from a taxpayer’s failure to file, failure to pay, computation errors, federal adjusted gross income discrepancies, under-reported income, and from field and desk audits. Assessments are the Tax Commissioner’s final notification to a taxpayer of a tax deficiency or delinquency. An assessment informs the taxpayer of their legal rights if the assessment remains outstanding, and a debt will be certified to the Attorney General’s office for collection if an appeal is not filed in a timely fashion.

The division’s assessment section carries the responsibility of being the Department of Taxation’s liaison to the Ohio Attorney General’s office. All communication regarding collection of deficient or delinquent taxes is coordinated through the assessment section.

Tables 1 through 3 indicate assessments issued for the various taxes administered by the department. Personal property tax assessments shown in Table 1 for tangible and intangible taxes totaled \$124.5 million for calendar year 2002. Table 2 indicates that sales and excise tax assessments were about \$365.4 million in FY 2003, with \$359.9 million of that amount coming from sales and use tax alone. Table 3 shows assessments levied for both the corporation franchise and individual income taxes.

Corporation franchise tax assessments are levied against corporations that: (1) do not file the required annual return; (2) file an incorrect return; or (3) fail to remit the full amount of the tax due. In FY 2003, 7,755 corporation franchise tax assessments were levied, amounting to more than \$57.2 million in additional taxes, penalties and interest due from corporations. These assessments must be paid within 60 days after the corporation receives the assessment notice. The assessment may be appealed by the taxpayer.

Individual income tax assessments are levied against employers who fail to remit income tax withheld from their employees, and individuals who either fail to file a tax return during the required time period or fail to pay the full amount of the tax legally due. Individual income tax assessments were levied against 20,989 taxpayers in FY 2003 and amounted to nearly \$32.8 million in additional taxes, penalties, and interest due from

individual taxpayers. These assessments become due and payable within 60 days after they are received by the taxpayer. The taxpayer may appeal an assessment within 60 days after its receipt.

If an assessment (either corporate franchise or individual income tax) is appealed, the assessment amount must be paid within 60 days of its receipt. The only exception to this is on an assessment resulting from an audit that finds a liability greater than that shown on the original return. The portion of the assessment which represents the additional liability

does not have to be paid during the appeal process, if the appeal is based upon a differing interpretation of the Ohio Revised Code.

The Compliance Division also has an administrative review group responsible for resolving non-audit issue petitions (appeals). This enables taxpayers to resolve their assessment issues in an informal manner.

The Compliance Division helps the Department of Taxation ensure that the tax law is fairly applied by collecting the appropriate amounts of tax to provide the revenue necessary for state programs and services.

**Table 1
Personal Property Tax Assessments,* Calendar Years 2001 - 2002**

Type of Tax	Amount of Assessment	
	Calendar Year 2001	Calendar Year 2002
Tangible Personal Property		
Single-County Corporations and Individual Unincorporated Businesses	\$29,503,280	\$32,253,598
Inter-County Corporations	<u>72,232,167</u>	<u>91,963,910</u>
Total Tangible Personal Property	\$101,735,447	\$124,217,508
Dealers in Intangibles	<u>4,223,044</u>	<u>297,328</u>
Total Personal Property and Dealers	\$105,958,491	\$124,514,836

*Resulting from audits or delinquent returns.



Support and Operating Divisions

Table 2
Sales and Excise Tax Assessments Levied and Unpaid Assessments
Certified for Collection, Fiscal Years 2002 - 2003

Tax Category	Assessments Levied*				Unpaid Assessments Certified for Collection**	
	Fiscal Year 2002		Fiscal Year 2003		Fiscal Year 2002	Fiscal Year 2003
	Amount	Number	Amount	Number		
Sales and Use	\$438,594,980	85,510	\$359,917,320	106,026	\$241,021,530	\$224,910,033
Motor Vehicle Fuel	6,384,875	25	3,106,645	21	7,321,164	1,086,293
Motor Fuel Use	8,059	7	3,791	4	3,788	2,625
Cigarette	0	0	266,508	10	0	16,623
Other Tobacco Products	28,849	58	1,305,192	335	175,913	54,034
Beer and Wine	8,578	4	0	0	31,445	26,109
Severance	390,664	246	381,225	33	145,934	81,442
Horse Racing	0	0	0	0	0	0
Tire Replacement	0	0	4,456	2	2,544	0
IFTA***	402,534	353	313,609	209	348,343	164,579
Kilowatt Hour	187,609	2	61,961	3	142,825	0
Natural Gas	0	0	72,729	1	0	72,729
Total	\$446,006,148	86,205	\$365,433,436	106,644	\$249,193,486	\$226,414,467

* Represents only assessments levied and not assessments collected.

** Data do not relate to current assessments shown in "Assessments Levied" column. It represents those assessments certified for collection after taxpayers have exhausted all avenues of appeal, and may be from a prior fiscal year. Total number of such assessments were 83,044 in FY 2002 and 71,802 in FY 2003.

*** International Fuel Tax Agreement.

Table 3
Individual Income Tax and Corporation Franchise Tax
Assessments Levied
Fiscal Years 2000 - 2003

Tax Category	Fiscal Year 2000		Fiscal Year 2001		Fiscal Year 2002		Fiscal Year 2003	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number
Corporation Franchise	\$122,606,337	847	\$23,322,837	877	\$52,046,091	9,439	\$57,203,517	7,755
Individual Income	\$52,275,907	55,598	\$51,199,703	80,999	\$142,824,765	154,172	\$32,785,324	20,989
Total	\$179,881,244	56,445	\$74,522,540	81,876	\$194,870,856	163,611	\$89,988,841	28,744



EMPLOYEE DEVELOPMENT & TRAINING/ QUALITY PROGRAMS DIVISION

The Employee Development and Training/Quality Programs (ED&T/QP) Division provides practical and applied professional skill development opportunities for all Ohio Department of Taxation employees.

The division works with the tax and administrative divisions to assess their ongoing organizational and staff development needs. It presents appropriate training for bargaining unit clerical/support and administrative staff, and exempt professional and management/executive staff. ED&T staff also coordinates with ODT's Technical Training Managers to support technical training requirements throughout the department.

This training includes job-related skill training as well as general skills improvement training in such areas as interpersonal communications and customer service. Further, ED&T offers supervisors and managers the opportunity to enhance their management skills by attending some or all of the classes comprising ODT's Management Development Curriculum – a series of discrete topic workshops designed to focus on various aspects of the manager's responsibilities in a public organization.

Other ED&T responsibilities include:

- Directing and facilitating the department's quality process improvement initiatives and training, including the Quality Services through Partnership (QStP) program and ODT's applications to the Ohio Award for Excellence (OAE).
- Coordinating ODT's involvement in the statewide Public Practice Continuing Legal Education (PP/CLE) Coalition, including presenting a minimum of two Public Practice CLE seminars per year.
- Providing a range of career development services for ODT employees including the Workforce Development program for bargaining unit employees, the State of Ohio's Exempt Professional Development Program (EPDP) and ODT's TaxTAP tuition reimbursement program for exempt employees, as well as individual career counseling and group workshops.

Several additional job enrichment and employee recognition programs are administered or facilitated by ED&T including: the statewide "Innovation Ohio" suggestion awards program, the "PEP" employee recognition program and the department's "Partners In Education" and "OhioReads" programs. Annually, the ED&T staff also manages the three major statewide charitable campaigns – Operation Feed, the Combined Charitable Campaign and the Holiday Food Basket drive.

A major accomplishment in 2003 was the implementation of a department-wide learning management system (LMS) called TrAX. The LMS supports the goals of employee career and personal growth by supplying the workforce with a tool that it can use to manage training requirements and career development plans. The ODT management team can use the LMS to support succession planning, to track employee progress toward achieving training goals, and to conduct unit competency gap analysis. It also serves as a platform for on-line training.

The accomplishments of the ED&T/QP Division in providing practical and applied professional skill development for ODT employees are a major component of providing quality service to the citizens of Ohio by supporting high standards of competence and professionalism within the department.

ENFORCEMENT DIVISION

The Ohio Department of Taxation's Enforcement Division is comprised of 25 sworn police officers that enforce the criminal provisions of Ohio tax laws. Their mission statement is "...to provide quality investigative services to the citizens of the State of Ohio."

The Enforcement Division came into existence in 1971, when it was organized primarily to combat cigarette smuggling and organized crime. Since that time, the division has grown in size and responsibilities. The Enforcement Division now enforces most of the taxes administered by the department, which include the cigarette tax, other tobacco products tax, motor fuel tax, income/withholding tax and the sales and use tax.

In July 2002, the Enforcement Division achieved Law Enforcement Accreditation. The Enforcement Division is the only revenue-type of division in the world with this distinction. The accreditation means the division has met stringent guidelines related to policies and procedures governing the operation of a law enforcement agency. This is an important factor in helping the department achieve the highest level of professionalism possible.

As investigations are made more and more complex by changes in both technology and law, the Enforcement Division has had to become more skilled in combating tax fraud. Enforcement agents employ computers and surveillance equipment in the normal course of their duties. The division has also taken on a homeland security function, through the investigation of cigarette smugglers involved in funneling proceeds to criminal or terrorist groups.

The Enforcement Division is a support branch of ODT. It is, also, a revenue generator for the State of Ohio. In FY 2003, the Enforcement Division brought in over \$2.5 million, derived from criminal investigations.

By fulfilling its mission of providing quality investigative services, the Enforcement Division works to fairly apply the tax law and aid in the collection of taxes used to provide daily services to Ohio citizens.



FORMS DIVISION

The Forms Division produces hundreds of forms utilized by most divisions of the Department of Taxation. These forms are ultimately used by tax practitioners and taxpayers.

The Forms Division is responsible for composing forms, preparing bid specifications for printing projects, ordering forms for various divisions, distributing forms, acting as a forms liaison between third-party vendors and payroll processing companies, and maintaining an inventory of forms.

When forms are requisitioned, a division submits a work order to the Forms Division. The form is edited and proofread for typographical and other errors, and a print order is submitted to the printer. At this point, the Forms Division is responsible for tracking form production and ensuring on-time delivery. Often, the Forms Division needs to compose or re-create forms in order to ensure consistency of style throughout the department.

The Forms Division continues to improve upon existing forms. For example, one work in progress is constructing fill-in forms. Many of the department's forms have already been completed, while more fill-in forms are being created. The division also produces a compact disc (CD) each year, which contains the most common forms requested by tax practitioners. This CD is distributed to practitioners and anyone else who requests a copy.

Distributing most major forms and handling forms requests from the general public are other responsibilities of the Forms Division. The division also maintains the forms inventory, which entails overseeing a database of forms and envelopes, and a database of practitioners, libraries, post offices and banks, as well as handling internal forms distribution and supplying taxpayer service center office requests.

The Forms page on the department's web site is the most visited page of the site. It is the division's responsibility to continue to make sure that the most up-to-date forms are available on the web site.

Providing forms for both departmental and public use, the Forms Division is one means by which the Department of Taxation is able to provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

HUMAN RESOURCES DIVISION

The Human Resources Division is the office in the Ohio Department of Taxation where employee-related and administrative support services reside.

The department employed 1,234 permanent employees and 225 intermittent employees as of June 30, 2003, located throughout Ohio and in three out-of-state locations. This number represents a slight climb in staffing to back near the 2001 level after a steady decline since 1991.

The chart contained in this chapter shows the total number of employees in the department at the end of each fiscal year, over the last 13 years. While ODT added 66 auditor agents and 33 tax commissioner agents in FY 2003 – who are instrumental in increasing tax compliance activities and revenue collection – the department also reduced by 16 non-agent employees. Comparing FY 2003 to 10 years prior, there were 193 fewer permanent employees.

The personnel duties performed by Human Resources include staffing planning, vacancy postings, hiring and civil service compliance. The labor relations duties include contract negotiation and administration for two labor-management agreements, the Ohio Civil Service Employees Association and Fraternal Order of Police Lodge #2. Additional labor relations duties are grievance handling, arbitration services and work rule compliance.

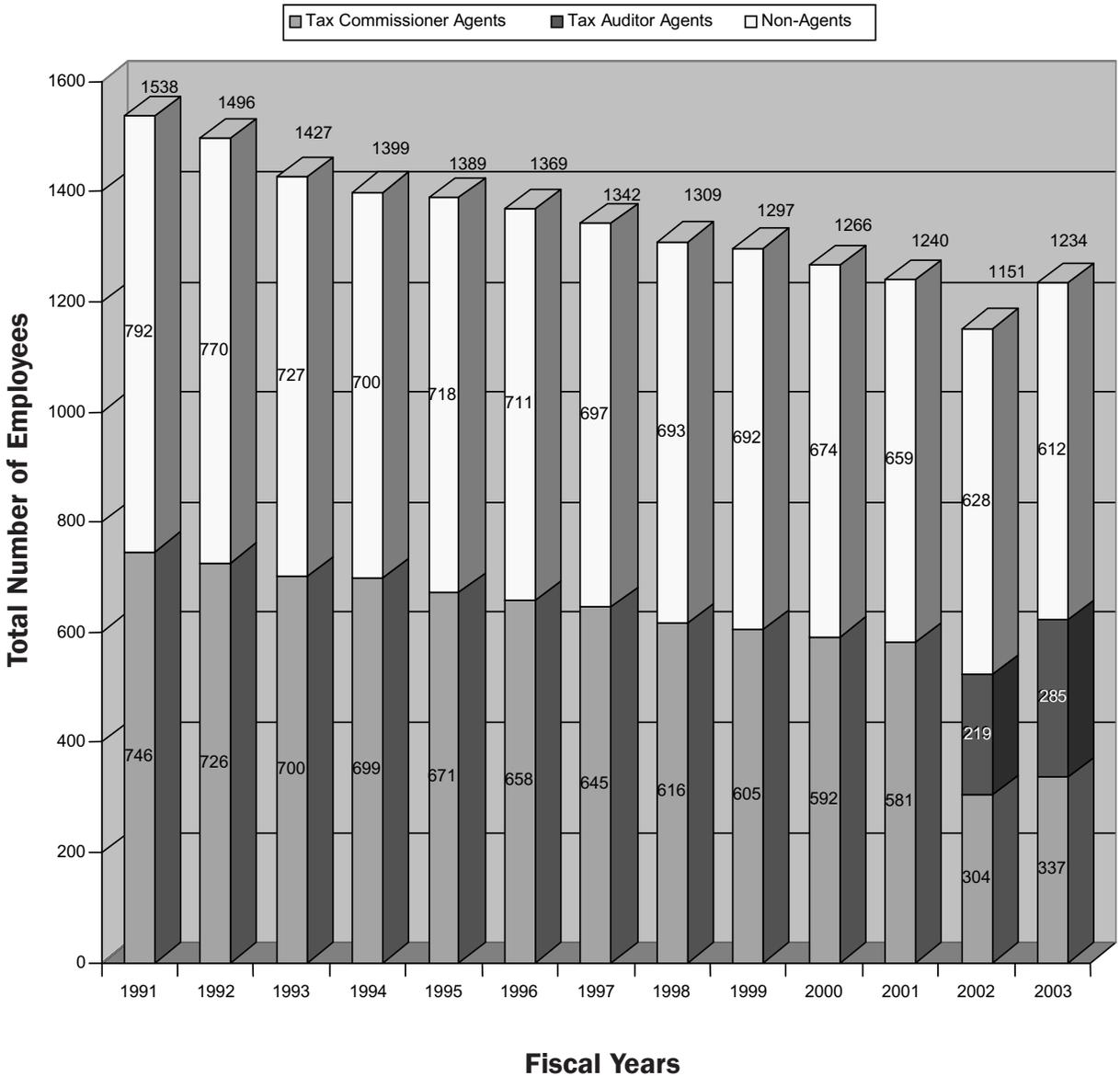
Payroll services is located in Human Resources, as well as benefit administration. Questions pertaining to health insurance plans and open enrollment can be answered by the staff. The disability program and Ohio Worker's Compensation plan are both maintained in the division.

Human Resources is also charged with administration of the Equal Employment Opportunity (EEO) Program. This involves the EEO Strategic Plan development and handling of discrimination complaints, both formal and informal.

Employment law training, policy and directive review, as well as liaison to the Ohio Attorney General's office and the Ohio Highway Patrol, are other roles performed by Human Resources.

The Human Resources Division helps the Department of Taxation provide quality service in its role as a resource center for the department, one that is committed to customer service for all employees, both management and bargaining unit.

**ODT
Total Number Of Permanent Employees
Fiscal Years 1991-2003**



INFORMATION SERVICES DIVISION

The Information Services Division (ISD) supports the Department of Taxation's business program areas through the development and support of computer information systems. It provides a secure, flexible, and appropriately scaled architecture for the exchange of information with internal and external customers, while at the same time measuring information technology performance to ensure efficiency and value. The division also identifies emerging technologies and trends to improve employee productivity and reduce operating costs, advises management of information technology best practices, and delivers timely and quality services to customers in a professional and courteous manner.

The statistics listed below provide an overview of ISD's activities during FY 2003:

- Completed 36 projects
- Completed 670 customer service requests
- Completed 11,395 problem tickets for internal department technology issues
- Processed 4,690 security requests
- Processed over 2.2 million individual electronic returns
- Processed 20,000 credit card transactions for a total of \$10.5 million
- Processed over \$400 million in Automated Clearing House debit payments
- Processed over \$9 billion in Automated Clearing House credit payments
- Processed 800,000 direct deposit requests
- Maintained network availability at 99.97 percent
- Maintained mainframe availability at 99.92 percent

The following accomplishments in FY 2003 were achieved through partnership and strategic planning with the department's program areas:

- Launched Ohio I-File (filing and payment of Ohio income tax over the web)
- Implemented S.B. 261, which enacted an income tax on trusts
- Implemented an external e-mail management system, which offers taxpayers a new service channel for contacting the department
- Implemented Telefiling for sales tax vendors over the Interactive Voice Response system
- Implemented a new high-speed fiber optic network backbone

The ISD performed the following tasks in support of the tax reform provisions of H.B. 95:

- Implemented the new state sales tax increase
- Provided new payment options on the Interactive Voice Response system
- Implemented a two-month temporary discount for all sales tax vendors

The value of ISD comes from its ability to apply technology to increase the effective use of information in order to drive positive innovation. In this way, the division supports the department's mission of providing quality service to Ohio taxpayers.

LEGISLATION DIVISION

The Legislation Division is the legislative coordinating unit for the Department of Taxation, monitoring all tax-related legislation as it progresses through the General Assembly. The division's responsibilities include routing legislation to the operating divisions for analysis and maintaining the Legislative Repository, an information database that serves as a resource to department staff. The division staff attends legislative committee hearings, prepares and presents testimony on tax policy issues, and coordinates special events such as bill-signing ceremonies.

The division provides information to the general public, state agencies, and elected officials about tax policy and the department's policies and procedures. The Legislation Division also serves as a resource to members of the General Assembly, providing three primary services:

- Assisting with constituent inquiries or problems;
- Providing briefings or background information concerning tax issues; and
- Analyzing and reviewing proposed legislation.

A snapshot of the division's workload during FY 2003 follows:

Information Requests and Bills Monitored by the Legislation Division

Number of bills tracked	268
Requests for Information:	
General Assembly	627
General Public	213
Governor's Office	30
State Agencies	30
U.S. Congress	10
Total Requests	910

In FY 2003, the division successfully guided a number of bills through the legislative process that made important changes to Ohio's tax system. Among them were the biennial budget bill, H.B. 95; the capital appropriations bill, H.B. 675; the transportation budget bill, H.B. 87; the Ohio Venture Capital Authority bill, S.B. 180; and a budget corrections bill, H.B. 40 (see **Summary of Legislation** chapter).

The Legislation Division helps the Department of Taxation provide quality service by supporting the process of transforming tax policy into law. The division is also an important resource both for Ohio's elected leaders and the general public.

OHIO DEPARTMENT OF TAXATION'S PARTNERS

The Ohio Department of Taxation accomplishes many of its goals through collaborative partnerships with other governmental agencies.

The **Internal Revenue Service** provides data from federal returns which is used to check the accuracy of Ohio income tax returns. For

example, the adjusted gross income reported by taxpayers on their federal returns is routinely compared with the adjusted gross income as reported on the Ohio returns. Discrepancies are researched by the department and taxpayers are contacted, if necessary, to verify their correct income.

Two sections of the office of the **Ohio Attorney General** play key roles in the administration of Ohio taxes. The Taxation Section litigates cases for the tax commissioner at the Ohio Board of Tax Appeals and the Ohio Supreme Court, as well as at other state and federal courts. The Collection Enforcement Section of the Attorney General's office performs collection activities on delinquent tax accounts.

The **Treasurer of State** receives all revenue collected by the department. Income tax and other refund checks, as well as electronic deposits to taxpayers' accounts, are generated by the **Auditor of State** based on data provided by ODT. The **Ohio Department of Development** certifies to the department certain credits available to corporations. Pursuant to provisions of the Ohio Revised Code, ODT withholds income tax refunds from parents who are delinquent in their child support. Those amounts are forwarded to the **Ohio Department of Job and Family Services** which, in turn, disburses the money to the county child support enforcement agencies.

The Department of Taxation and the **Ohio Department of Commerce** share information pursuant to provisions of the Ohio Revised Code regarding businesses with liquor permits. The agencies work to ensure that holders of liquor permits remain current in their sales tax and employer withholding tax filings and payments.

The partnerships and collaborations established with other agencies support the Department of Taxation by fairly applying the tax law and by assisting in tax collection and litigation. The department, in turn, also helps several governmental agencies accomplish their missions by distributing revenue, monitoring business tax compliance, and withholding some taxpayer refunds pursuant to statute.

PROCESSING CENTER

The Processing Center is the central processing unit for the majority of the business and individual tax returns filed with the Department of Taxation. Over 8.5 million tax returns were processed in 2002 alone.

The primary function of the Processing Center is to facilitate voluntary compliance. This is accomplished through receiving and recording tax returns, documents and remittances; issuing refunds; storing and retrieving tax documents; and through bank deposits of taxpayer payments for purposes of fund distribution to state and local governments. The payments processed from tax returns are the primary source of revenue for the State of Ohio, providing income to elementary/secondary schools, colleges and universities, law enforcement, human services, general government, and property tax relief.

The Processing Center's goals are:

- To provide timely service to each taxpayer and to perform in a manner that instills public confidence and satisfaction;
- To maintain high productivity while providing a quality work product; and
- To utilize technology for a more cost efficient operation.

The Processing Center has experienced record-breaking use of electronic filing since its introduction in 1998. Electronic filing (TeleFile) was first introduced to Ohio taxpayers in 1998 when 232,548, or 4 percent, took advantage of that filing option. E-file was first introduced to taxpayers in 1999 and was readily accepted by taxpayers and tax practitioners alike. The number of electronically filed returns filed in 1999 grew to 19 percent of the total. Electronic filing has experienced a steady increase each year thereafter, and in 2002 it accounted for nearly 2.3 million, or 42 percent, of the income tax returns filed.

Electronic filing not only allows taxpayers to get their refund faster, but it also substantially reduces taxpayer and processing errors generally found on paper-filed returns. The ease and efficiency associated with electronically filed returns, versus the labor intensive manual process associated with paper filed returns, saved the citizens of Ohio an estimated \$1.5 million in processing costs during the 2002 filing season. As taxpayers become more comfortable with electronic filing and the obvious benefits associated with it, its use is expected to continue to increase in the years ahead.

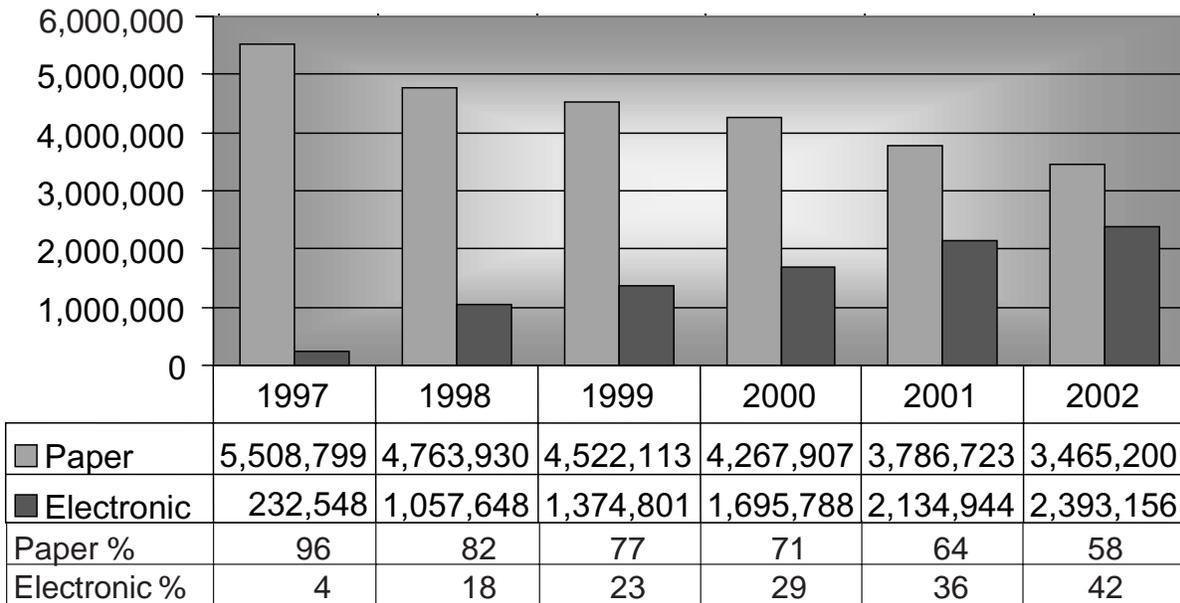
For the 2002 individual income tax return (returns filed in the 2003 income tax filing season), the Department of Taxation introduced I-File (Internet filing), which provides taxpayers with yet another convenient and safe electronic option to file their income tax return.

Income & School District Income Tax Returns, 1997-2002

Type of Return	1997	1998	1999	2000	2001	2002*
1040 Paper	4,289,454	3,195,691	2,967,340	2,645,743	2,585,136	2,433,598
EZ Paper	771,244	1,133,422	1,130,605	1,203,655	814,473	664,447
Total Paper	5,060,698	4,329,113	4,097,945	3,849,398	3,399,609	3,098,045
1040 ELF	-0-	645,300	879,837	1,141,239	1,396,931	1,613,052
1040 TEL	232,548	365,881	421,483	468,930	621,810	534,830
I-File	-0-	-0-	-0-	-0-	-0-	118,087
Total Electronic	232,548	1,011,181	1,301,320	1,610,169	2,018,741	2,265,969
Total IT Returns	5,293,246	5,340,294	5,399,265	5,459,567	5,418,350	5,364,014
SD100 Paper	448,101	434,817	424,168	418,509	387,114	367,155
SD 100 ELF	-0-	46,467	73,481	85,619	116,203	127,187
Total SD Returns	448,101	481,284	497,649	504,128	503,317	494,342
Total IT & SDIT	5,741,347	5,821,578	5,896,914	5,963,695	5,921,667	5,858,356

* Includes some estimated filings for 2002 through 12/31/03 .

**Ohio Individual Income Tax Returns
Filed For Tax Return Years 1997-2002
Paper vs. Electronic**



REVENUE ACCOUNTING

Revenue Accounting, one of four units within the Budget and Fiscal Division, is responsible for a variety of duties within the Department of Taxation that directly impact local governments and the services received daily by Ohio residents.

One of the primary duties of Revenue Accounting is the distribution of tax revenue. In FY 2003, Revenue Accounting distributed approximately \$3.7 billion to/from the following funds and agencies:

- Local Government Fund;
- Local Government Revenue Assistance Fund;
- Library and Local Government Support Fund;
- Gasoline tax;
- Sales and use tax;
- School district income tax;
- Municipal income tax for electric light companies and telephone companies;
- Property tax rollback;
- Manufactured home tax;
- Tangible personal property tax;
- Kilowatt and Mcf (1,000 cubic feet) Property Tax Replacement Fund;
- Dealers in intangibles tax;
- Political party check-off;
- Resort tax;
- Horse racing tax;
- Scenic Rivers and Wildlife check-offs;
- Cuyahoga County beer, wine, cigarette and liquor taxes;
- Litter tax; and
- Ohio Turnpike.

In addition, Revenue Accounting records most of the revenue receipts and refund deposits for the Department of Taxation for the following taxes:

- Individual income tax;
- Employer withholding tax;
- Sales and use tax;
- Corporation franchise tax;
- School district income tax;
- Motor fuel and use tax;
- International Fuel Tax Agreement; and
- Municipal income tax for electric light companies and telephone companies.

The unit also handles the accounting and reversals for all tax payment errors. This includes checks, Electronic Funds Transfers (EFTs), Ohio Business Gateway_{SM} (OBG), and Treasurer of State debits and credits. Revenue Accounting is tasked with the reconciliation of EFT payments, OBG payments, and credit card payments. The unit is responsible for certifications to the local governments four times a year, and is charged with maintaining the tax rates for sales and use taxes, as well as school district and municipal income taxes.

Revenue Accounting has the additional responsibility of assisting the Office of Budget and Management with the state Comprehensive Annual Financial Report.

The Revenue Accounting unit supports the Budget and Fiscal Division fulfill the role of providing quality service by ensuring that tax dollars are properly deposited and distributed in accordance with current law.

TAX ANALYSIS DIVISION

The Tax Analysis Division (TAD) serves as the research arm of the Ohio Department of Taxation. Although it is a small unit, the division serves more types of customers than any other single department division, providing both packaged data, quantitative analysis, and policy analysis to internal and external customers. The customers for TAD products include, but are not limited to, the Governor's office, members of the General Assembly, other divisions of the department, and all levels of local government.

Many of TAD's products are prepared on a regular basis. Each legislative session, the division provides revenue estimates for scores of bills that have proposed tax law changes and many proposals that never reach bill form.

The tax data series on the department's Internet site contains a number of data products that are updated monthly, quarterly, or annually. When the biennial budget is prepared, TAD provides assistance to the Office of Budget and Management in forecasting tax revenues. Once the forecasts are finalized, the division then tracks revenue on a monthly basis and assists the Office of Budget and Management with any updates of the forecasts. Tax Analysis also provides estimates of all of the Governor's tax proposals in the executive budget, and produces the Tax Expenditure Report, traditionally "book two" of the executive budget.

The division also produces research publications that are meant as educational aids to decision makers. One such publication is the "Property Taxation and School Funding" report that was originally published in May, 2000 and recently updated for 2003 as a resource for the Governor's Blue Ribbon Task Force on education financing. Another example would be the division's report on "The Financial Impact of Inventory Tax Reductions," published in September, 2000 as an aid to financial planning for schools and local governments. Finally, the division produces statistics, tables, graphs, and interstate comparison data for departmental publications such as the "Brief Summary of Major State and Local Taxes in Ohio" and the "Annual Report."

The division provides a number of services to local governments. It produces dozens of estimates of school district income tax revenues each year. The division also produces (in conjunction with the Revenue Accounting Division) estimates of the distributions to the three local government funds, and handles the estate tax settlements from local governments. TAD also provides informal consulting to school districts and other local governments on property tax questions and permissive sales tax questions. Tax Analysis staffers frequently do presentations for county auditors, school officials, and other local governments, explaining property tax law, school district income taxes, state revenue sharing, and utility deregulation impacts.

In addition to its regular duties, TAD is involved in a number of special projects each year. The projects themselves are as diverse as analyzing the costs and potential cost savings of State Issue I (the drug treatment ballot initiative from November 2002) or preparing an *amicus* brief for the Tax Commissioner in the 2001 DeRolph IV school funding case.

The year 2003 was again a busy year for the division. TAD not only prepared the numerical estimates of the Governor's tax reform package

for the FY 2004-2005 executive budget, but also provided narratives that laid out the philosophical foundation for the tax reform initiative. When the budget moved into the General Assembly, the division estimated a number of alternative tax reform proposals for both the House and the Senate.

In 2003, the division continued to add to its database of large corporate taxpayers, which continues to produce improvements in simulating proposed changes in corporation franchise tax law. The division has also refined its income tax simulation models in response to the demands of the Governor's tax reform package and the requests of legislators. The division's income tax simulators can now produce not only estimated revenue impacts from proposed income tax changes but also distributional analyses. Finally, the division continues to work with the Office of Budget and Management to develop more rigorous and accurate forecasting methods for General Revenue Fund tax revenues.

Tax Analysis continues to work on improving and expanding its research capability to better support the department's efforts to provide quality service not only throughout state government, but also to Ohio local governments and school districts.

TAXPAYER SERVICE CENTERS AND SERVICE CENTER ADMINISTRATION

The Taxpayer Service Centers and Service Center Administration became integrated into the Department of Taxation's Taxpayer Services/Compliance Division in 2002. This consolidation combined the overlapping functions of four divisions, moving the department closer to the implementation of a global strategy to service taxpayers and conduct unified compliance initiatives.

Currently, the Department of Taxation maintains nine Taxpayer Service Centers strategically located throughout Ohio (Akron, Cincinnati, Cleveland, two in Columbus, Dayton, Toledo, Youngstown and Zanesville). The staff of Tax Commissioner Agents and support personnel in these offices is the "face" of the department. The number and locations of the field service centers evolved from a commitment to provide equitable service to all Ohio taxpayers through a network of strategically situated local branches, offering convenient access to services in regional population centers.

The Taxpayer Service Centers constitute both a local resource for assistance, and a local presence to implement and enforce the various statutorily mandated and department-promulgated compliance and service programs, in an efficient and cost-effective manner. In addition, the service centers provide a convenient work location for agents of the Audit Division. All service centers report directly to the Taxpayer Service Center Administrator.

The staff of the Taxpayer Service Centers, both Tax Commissioner Agents and support personnel, is cross-trained to provide a variety of services to taxpayers and to support the compliance efforts of the department. Taxpayers visit the service centers to receive professional tax assistance and advice when filing required tax returns for both business taxes (e.g., sales and use tax, corporation franchise tax, excise tax and employer withholding tax) and income taxes (e.g., individual income tax and school district income tax).

The service centers employ a variety of traditional and innovative methods in support of the department's strategic plan, to include Telefile, I-File and Ohio Business GatewaySM, etc. that simplify and expedite compliance by filers. Annually, Taxpayer Service Centers assist more than 80,000 walk-in taxpayers.

The Taxpayer Service Centers also implement and monitor a number of compliance initiatives. Service center personnel participate in numerous tax delinquency programs to secure tax returns and revenue from non-filers, as well as monitoring vendor compliance with the sales and use tax as part of the Habitual Offender Program. Tax Commissioner Agents in the service centers conduct examinations of transactions involving the casual sale of motor vehicles, and review the personal property tax single county returns. Senior level agents conduct office audits and evaluate refund claims in partnership with agents in the Audit Division.

Service center personnel assist with telephone inquiries received locally and those relayed from the Columbus Contact Center, a total in excess of 180,000 calls every year. Each location also receives and processes taxpayer registrations for a variety of vendor's license types. Additionally, service centers process correspondence arising from numerous billing programs.

The service centers also maintain constant communication with federal, state and local government agencies and provide a variety of educational outreach programs to taxpayers, the surrounding area and tax professionals.

Taxpayer Service Centers are not only the public face of the Department of Taxation, they provide a valuable means of educating the community and ensuring taxpayer compliance. The personnel assigned to the service centers have the front line duty of providing quality service to Ohio taxpayers.

