2003 Year in Review

For the Ohio Department of Taxation (ODT), Fiscal Year 2003 was largely dedicated to rebuilding and reform. Despite and because of the continuing economic slump in the State of Ohio and the nation, ODT began replenishing its ranks and building a platform for reforming and shoring up Ohio's tax system.

ODT began the fiscal year with a payroll of approximately 1,151 full-time employees. By year's end, staff size had grown to 1,234 – well smaller than a department that employed nearly 1,500 people 10 years earlier but still short of an ODT goal of fielding a full-strength organization of 1,386 employees. Much of the growth in staff size during the year occurred as a result of hiring more tax-auditing agents. The department had earlier committed to a strategy of intensifying its auditing activities and by the end of the year had added more than 65 agents making for a total audit staff of more than 230.

Bolstering staff strength was a yearlong effort. Nearly as extended was the focus on developing a tax reform proposal to shore up weaknesses in Ohio's tax system and ensure a reliable stream of revenue for both the state and local governments.

The drive to tax reform proceeded on two fronts; one within the department; the other prompted by legislation which created the Committee to Study State and Local Taxes (CSSLT). The nine-member committee consisted of three members each from the Ohio House of Representatives, the Ohio Senate and the Administration. One of the Administration delegates was the Ohio Tax Commissioner who subsequently was chosen to chair the committee.

The CSSLT began its work in August with the goal of submitting a report to the Governor the following March (2003) with revenue-neutral recommendations for reforming Ohio's tax system. ODT staff, though working a similar timeline and taking a similar look at tax reform, had a very different goal to achieve.

The challenge for ODT's team was to craft a tax reform package that generated revenues sufficient to plug a projected budget deficit exceeding two billion dollars. With direction and support from Governor Taft, a tax reform proposal emerged with policy objectives of increasing fairness in the tax system, broadening of the tax base and lowering tax rates.

A summary of the Governor's reform package would note that it contained 80 separate elements affecting every major state tax and the municipal income tax system. If adopted, those elements combined would have generated nearly $2.3 billion in additional revenue for the state over the next two years. Perhaps more importantly, the reform package would have reshaped Ohio's tax system from one developed for an economy dominated by manufacturing, to one more closely aligned with an economy increasingly driven by service-based businesses. That realignment would yield a more secure base of revenue for the state in the future.

Looking closer at the reform proposal, additional revenues would have been split evenly between business and individual taxpayers by adopting objectives that included:

- Lowering corporation franchise tax rates from 8.5 percent to 7.0 percent while eliminating tax avoidance opportunities. The goal: to reverse a trend showing revenue from the tax as a share of the state's General Revenue Fund slipping from 16 percent in 1977 to less than 5 percent in FY 2002.
- Expanding the sales tax base to include approximately 20 service-oriented businesses.
- Lowering nearly all individual income tax rates while eliminating the tax for more than a half-million of the lowest-income households.
- Simplifying and increasing uniformity of the municipal income tax rules to make it easier for business taxpayers to comply with the 541 different systems around the state.

After considering the reform package, the Ohio General Assembly enacted more than 20 of the reform proposals, but to generate the majority of revenue needed to produce a balanced budget, chose instead to approve a temporary, two-year increase in the state sales tax rate from 5 percent to 6 percent. That sales tax increase was expected to raise more than $2.4 of the $3.0 billion in new taxes included in the FY 2004-2005 budget.

Some of the reform elements that were adopted, include:

- Simplification of the municipal income tax system.
- An increase in the corporate tax minimum and elimination of some corporate tax avoidance opportunities.
- Greater uniformity in the taxation of telecommunications services and subjecting them to sales, corporation franchise and municipal taxes.
- Broadening the base of the sales tax to include some services.
- Accelerating the phase-out of the inventory tax.
- Exempting small businesses that claim less than $10,000 in tangible personal property from filing this tax return, saving approximately 250,000 businesses the costs associated with the filing.

Legislatively, FY 2003 was dominated by tax reform activities but spurring most of the major tax law changes was the need to bring in additional revenue to maintain a balanced budget. One of those changes was the adoption of an accelerated payment system for the collection of sales tax from larger vendors. That shift requires vendors who collect more than $75,000 in sales tax annually, to pay in 75 percent of the tax collected in a given month, by the end of that month. Previously those vendors didn't have to remit taxes collected until the 23rd day of the following month. Moving to this accelerated payment schedule produced a one-time gain of more than $700 million that was used for budget balancing.

Lawmakers also acted to reinforce and expand the department's future budgets and abilities to administer and enforce taxes benefiting schools and local governments. The General Assembly approved the creation of two dedicated funds – the Property Tax Administration Fund and the Motor Fuel Tax Administration Fund – financed by a share of local revenues generated from property and motor fuel taxes. The two funds are expected to provide nearly $16 million to cover ODT's related administrative costs and to hire an additional 25 auditors to more closely monitor compliance and proper reporting of these local taxes. When fully operational, estimates are that the increased compliance efforts will provide more than $50 million in new revenue for schools and local governments.

ODT and the state also acted legislatively to align Ohio with other states in the effort to create a national, streamlined sales tax system. The streamlined system is intending to keep Ohio and other states from losing revenue to Internet and catalog sales. ODT estimated that in FY 2003, Ohio would lose nearly $500 million in tax not collected from Internet and catalog sales.

The Internet, in many ways, was an increasingly busy center of activity for ODT. The year brought online a new, Internet-based filing system for individual taxpayers: *Ohio I-File;* and saw the continued growth of the *Ohio Business Gateway* in its second year of providing electronic tax filing services for business taxpayers. *I-File* attracted more than 118,000 customers helping Ohio retain its ranking of second nationally in the number of individuals filing 'paperless' tax returns. More than 2.2 million taxpayers filed their return electronically. Only California had more. The *Ohio Business Gateway,* meanwhile, saw more than 25,000 businesses register to use the system and file more than 100,000 tax returns. The *Ohio Business Gateway* is a single site allowing business taxpayers to file and pay tax returns with four different state agencies. In 2003, ODT expanded the options available for filing and paying sales and withholding taxes.

Taxpayers and visitors to the department's web site (www.ohio.gov/tax), meanwhile, increasingly found the services, forms and information they needed online. Total visits to the site in FY 2003 exceed 2.7 million, nearly tripling the traffic volume from the previous year.

ODT's efforts to improve services to Ohio taxpayers and residents continued with its ongoing participation in the Ohio Award for Excellence (OAE) program. The department has achieved the first – Tier One – of four levels of excellence established by the program. ODT is one of only two state agencies to achieve this status. The department is committed to achieving Tier Two status. OAE is modeled after the Malcolm Baldrige National Quality program, which seeks to promote excellence in private and nonprofit organizations.

ODT Web Site Visits
Fiscal Year 2003
Total — 2,730,319