

YEAR IN REVIEW

The Ohio Department of Taxation (ODT) in Fiscal Year (FY) 2004 had a change in leadership while continuing a commitment to its four primary goals of:

- (1) enhancing taxpayer services through expanded education and outreach;
- (2) modernizing and improving the department and its operations;
- (3) reforming Ohio's tax laws and systems; and
- (4) ensuring compliance with the tax laws in an equitable and efficient manner.

Transition at the Top

Governor Bob Taft oversaw a succession of leadership at ODT that proceeded through the resignation of one Tax Commissioner, a period of interim leadership, and the appointment of Ohio's fifteenth and current Tax Commissioner, William W. Wilkins. Preceding that appointment, the Governor expressed his gratitude to Thomas M. Zaino for serving more than four years as Tax Commissioner before resigning to reengage a career in the private sector. His departure was followed by the temporary stewardship of the department by career tax administrator, J. Patrick McAndrew. In December, Governor Taft announced his choice of Mr. Wilkins who served as director of two departments in the administration of former Governor James A. Rhodes before pursuing and retiring from a long career in the leadership of Ohio's healthcare industry.

Change and Progress

The change in leadership of the department was accompanied by a series of achievements that spanned the administrations. Underlying and driving those steps taken on the path of progress were the ODT goals that focused on improving, revitalizing and expanding the operations and services of the department.

For its efforts, ODT became the only state agency to earn Tier 2 (of four) status as determined by the Ohio Award for Excellence (OAE) program. The OAE is patterned after the Malcolm Baldrige Award which recognizes companies that have invested in quality principles and performance excellence.

Technology, tax law and Ohio's continuing economic anemia commanded much of the attention and energy of ODT's administration and staff. With support from the Governor and Ohio's General Assembly, the department continued a process of rebuilding a staff depleted by retirements and attrition. From a low of 1,147 employees the previous fiscal year, the department attracted approximately 70 new employees to move closer to an approved target strength of 1,381 people. Both new and existing staff contributed significantly to projects ongoing and freshly initiated.

While showing some signs of recovery, Ohio's sluggish economy prompted ODT's continued emphasis on maximizing efficiencies of operations. Much of that efficiency came by expanding the delivery of services through automation and technology.

Taxpayers were offered more options for filing and paying taxes on-line and they accepted. More than 2.5 million or 47 percent of taxpayers chose to file their state income tax returns electronically, by phone or over the Internet. A growing number of business taxpayers opted to file and pay their obligations on-line using the Ohio Business Gateway (OBG). In FY 2004, with more taxes added to the OBG menu, more than 32,500 businesses signed up and filed returns representing more than \$1.4 billion in tax due.

The success of the Ohio Business Gateway was recognized beyond the state's borders as OBG received one of eight, national Innovations Awards from the Council of State Governments. Innovations Awards go to state programs that demonstrate a unique, effective and proven method of solving a problem or improving a process and that could be easily adopted by other states facing similar challenges. There were 290 programs competing for the awards.

Technology and tax law changes came together to produce an innovative service for both individual and business taxpayers. To help sales tax vendors and their customers adapt to a fundamental shift in the tax rate charged on products sold and then delivered across county

lines, ODT launched a web-based service called *The Finder*. This software tool, available at the ODT web site (@tax.ohio.gov) allows the user to locate the correct sales tax rate for every address in Ohio. That capability is useful because of a scheduled change in tax law prompted by Ohio's participation in the Streamlined Sales Tax Project (SSTP). With the change, scheduled to be phased in between January 1 and July 1, 2005, businesses will charge the sales tax rate that exists in the county where the customer takes delivery of the product purchased.

The SSTP, in addition to the change in delivery sales, produced other fundamental changes in Ohio sales tax law. Those included an expansion of the definitions of prescription drugs and food making more of those products exempt from tax and saving Ohio consumers an estimated \$30 million a year. The SSTP is a multi-state initiative to make sales tax laws, rules, and systems more uniform across states and thus easier for vendors to voluntarily collect states' sales taxes. Vendors with no physical presence in a state (e.g. a store, a warehouse, etc.) don't currently have to collect that state's sales tax because the U.S. Supreme Court ruled that widely varying sales tax laws are too difficult for "remote" vendors to keep track of.

Driven by the need for additional revenue to balance the state budget, Ohio lawmakers made other significant changes to the sales tax landscape. One raised the state sales tax rate from 5.0 to 6.0 percent for two years to bring in an estimated \$1.25 billion annually. The other affected business people that own a tow truck, run a charter bus, operate a dry cleaner or laundry, give massages, drive a taxi cab, own a storage facility, or broadcast by satellite. The sales tax was expanded in FY 2004 to include all of those services and generate more than \$70 million annually for the state.

ODT agents and auditors were actively working to ensure compliance with the tax laws. Enforcement agents worked on two fronts focusing on sales tax vendors. One effort, called Operation Pay-Up, targeted delinquent taxpayers and resulted in payments exceeding \$4.0 million.

The second took place at flea markets statewide with enforcement and tax commissioner agents making unannounced visits to ensure that merchants had the proper vendor's license and were properly charging and collecting sales tax. The ODT Audit Division meanwhile, after three years of building to full staffing, was targeting the primary business taxes (i.e. corporation franchise, personal property, and sales and use taxes). Auditors completed more than 4,100

audits, an increase of about 10 percent from the previous fiscal year.

Taxpayer service and education activities were equally active. The many law changes prompted an ongoing, massive communications effort with more than 350,000 sales tax payers. Those changes and the more routine tax questions generated more than a half million calls and e-mails.

Looking ahead, the pace of change is expected to pick up. With the temporary sales tax scheduled to expire at the end of the next fiscal year, ODT spent considerable time planning for the next wave of change, including an anticipated effort to renew the drive for tax reform. Whether it's adapting for reform or carrying out the routine, ODT is committed to responding the needs of Ohio efficiently, effectively and with the foresight needed to ensure a secure and promising future.

