# Year in Review

For Ohio's tax system, it was the year the future began. A profound restructuring of Ohio's major taxes, including the introduction of a new business tax, launched in Fiscal Year (FY) 2006. The change accompanying tax reform was significant, but the year brought additional challenges and saw its share of successes for the Ohio Department of Taxation (ODT).

## The Year of Reform

Ohio's tax reform altered, to varying degree, all of the state's major taxes.

- The individual income tax: cut rates a total 21 percent over five years.
- The corporation franchise tax and tangible personal property tax: both eliminated by 2010.
- The cigarette tax: doubled plus from $.55 per pack to $1.25 cents, making it the third largest source of revenue for state government.
- The real property tax: wiped out a 10 percent real estate tax rollback for commercial and industrial property owners.

All of these changes caused corresponding shifts in how ODT ran its business of administering Ohio's tax system, but all the changes, together, did not equal the labor involved in developing, defining, and delivering a new tax named CAT, short for commercial activity tax.

The commercial activity tax, most simply described, is a low-rate (.26%) tax on the gross receipts of business transactions conducted in Ohio. For ODT, authoring even a simple description of the CAT proved to be anything but simple. The realities and countless different circumstances of doing business commanded seemingly equal numbers of questions needing answers from the CAT specialists at ODT. Developing answers and, more comprehensively, building an organization and infrastructure to administer a new tax is not a challenge dispatched easily.

Ultimately, the department created a new division to handle the CAT. Included with that creation were the necessities of hiring new agents and administrators, designing new forms and information systems to process those forms, and dispersing publications and specialists around the state, country, and world to raise awareness of and explain the workings of the CAT. As the process unfolded, more than 250,000 businesses became registered taxpayers of the CAT.

## Call It Home

For approximately 850 ODT employees in FY 2006, an abandoned shopping mall department store building became home base for the professional side of their lives. The building, located in north Columbus, was completely renovated and fitted out to host many department functions that had been performed in scattered sites around the city. This new Northland Building is now, among other operations, the processing center for the income and nearly all other state taxes; home for ODT's information technology services; and the primary call center for all individual and business taxpayer services. The department has maintained its administrative office in downtown Columbus, taxpayer service and audit offices in eight cities across Ohio, and three audit offices out-of-state in the Chicago, Los Angeles, and New York City areas.

## Last Chance

With Ohio's state budget seeing the lowest and slowest revenue growth in decades, sights were set on missing and delinquent taxpayers as potential sources of new revenue for FY 2006. The primary outreach effort employed the carrot and stick model, officially called a tax amnesty. The program offered an incentive to delinquent taxpayers to pay in full all outstanding taxes and, in turn, they would be charged no penalty and only half the normal interest rate imposed on late payments.

Reinforcing that inducement was a promise to those delinquents that didn't come forward that they would become the targets of aggressive enforcement and auditing efforts to find and recover in full — with maximum penalty — all taxes due. Similar but shorter in duration at only six weeks to a similar amnesty program conducted in FY 2002, ODT employed a major marketing campaign to capture the attention of delinquent taxpayers and ultimately recover more than $66 million dollars.

## Need? Technology Provides

As increasingly is ever the case in these times, ODT turned to new technology as a remedy to old and ailing systems and as a solution delivering greater efficiencies and capabilities to various operations of the department.

Addressing its most pressing and sweeping need, ODT in FY 2006 continued to identify and refine the next generation answer to the sagging backbone that is the department's primary computer system. With an existing computer network that encompasses eleven separate and not always coordinated systems, ODT honed in on a comprehensive and fully integrated system to handle the billing, record keeping, budgeting, purchasing, archiving, and many other data demands of the department. With an undetermined but anticipated price tag of multiple tens of millions of dollars, the department developed plans to phase-in the new system over a five-year period. The work on those plans continued through the year.

This fiscal year another technology tool greatly enhanced ODT's effort to ensure taxpayer compliance with their school district income tax responsibilities. The department deployed and then employed a geography-based information system called **The Finder** to search and verify that taxpayers subject to a school district income tax had, in fact, filed their school district income tax return.

The drive for efficiencies led to the adoption of scanning technology this year to process individual income and other tax returns filed on paper. With more than two million paper returns coming in during the income tax season, the scanners and new sorting equipment greatly sped up processing and cut down on the number of data entry errors. Meanwhile, the number of returns filed electronically continued to grow. In FY 2006, this represented roughly 56 percent of all income tax returns, an increase of 6.0 percent from the year prior.

## The Bottom Line

The Department of Taxation, like most all of state government, operated on a tight budget in 2006. With Ohio's economy still sputtering, the department had to step up its efforts to bring in tax revenues while keeping a lid on ODT expenditures. The drive for dollars proceeded on multiple fronts including the tax amnesty, increased billings to smokers buying untaxed cigarettes over the Internet, intensified inspections for sales of untaxed tobacco products, accelerated processing of delinquent sales taxpayers, and increasing resources for the department's efforts to discover and recover tax on unreported business income.

All those efforts collectively did pay off with ODT collections exceeding those of the previous year by approximately 3.4 percent. Still, numbers can tell a story and those numbers showed the rate of revenue growth in FY 2006 dropping off by more than 50 percent from the year before.

The story's ending: Ohio's economy and the effort to stimulate that economy with tax cuts had put the brakes on state revenue growth. Predictions at year's end were that the next sequel to Ohio's revenue story would tell a similar tale of a state still working to reenergize its economy and find the tax revenues to assist in that effort.