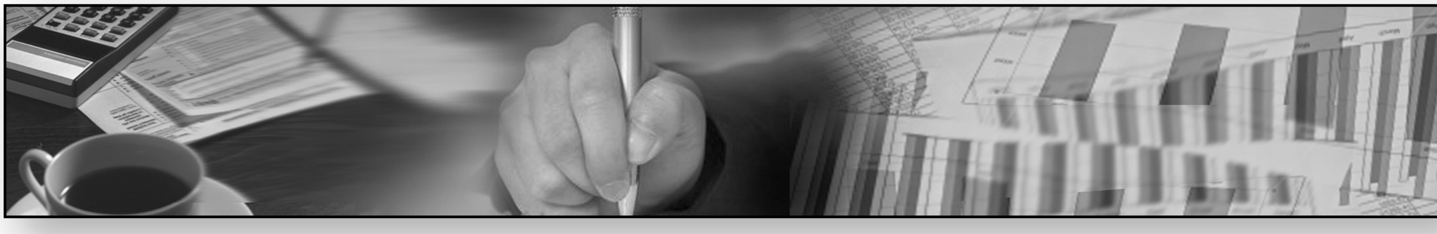

Year in Review

The 2008 fiscal year was marked by a decline in tax revenue for the state's General Revenue Fund, the second such decline in a row. In response, the Department of Taxation continued to gradually slim down its workforce through attrition and search for new efficiencies in the administration of Ohio's tax laws.

Tax revenue falls again

During fiscal year 2008, tax collections into the state's General Revenue Fund fell by about $49 million, to about $19.4 billion. This was the second decline in a row – a highly unusual event. During the previous half century, Ohio had only seen three other declines in general fund tax revenue – and never two years in a row.

The back-to-back declines are, in part, the result of ongoing tax reforms enacted in 2005 by the Ohio General Assembly that were projected to mean a $2.1 billion annual savings for taxpayers when fully implemented during fiscal year 2010. The reforms, enacted as part of House Bill 66, included:

GRF tax revenue, 2004-08

	Revenue	change
2004	$17,737.4	+ 8.7 %
2005	$19,088.0	+ 7.6 %
2006	$19,563.4	+ 2.5 %
2007	$19,468.9	– 0.5 %
2008	$19,419.4	– 0.3 %

- a 21 percent, across the board cut in state income tax rates.
- the gradual elimination of the corporation franchise tax for the vast majority of Ohio corporations.
- the gradual elimination of property taxes on tangible personal property generally used in business.
- the gradual phase in of the commercial activity tax, a broad-based, low rate business privilege tax measured by gross receipts.

For fiscal year 2008, the net effect of these reforms was estimated to be $502 million in foregone revenue – meaning, revenue that would have been collected for the state's General Revenue Fund had the tax changes contained within House Bill 66 not been enacted. Natural growth due to economic factors offset most, but not all, of that much larger potential loss.

Historic tax relief for senior citizens

Additional tax relief was made available to senior citizens and permanently and totally disabled Ohioans through an expansion of the homestead property tax exemption contained in House Bill 119, the 2008-09 operating budget plan signed into law by Governor Strickland.

Before the expansion, most senior citizen homeowners had been excluded from the homestead exemption because of complex income tests that completely disqualified many and a tiered benefit scheme that limited benefits for others. Under the new rules, all eligible homeowners are now able to shield a full $25,000 of the market value of their homestead from all local property taxes, regardless of income.

The result was a dramatic increase in the amount of tax relief available to seniors. For the 2006 tax year – meaning bills payable in 2007 – state government distributed about $70 million to local governments to hold them harmless from the fiscal effect of the homestead exemption. The following year, this reimbursement shot up to $317 million. This $247 million increase is almost entirely the result of the expansion of the homestead exemption contained within House Bill 119.

State tax burden lower after reforms

New data from the U.S. Census Bureau continues to show that Ohio's tax burden has fallen substantially when compared to other states since 2005, when House Bill 66 was enacted.

According to the latest census figures, state tax collections in Ohio ranked 35th highest during fiscal year 2008 – meaning, the burden of state taxes was lower in Ohio than all but 15 other states.

Ohio's state tax burden, ranked on a per-capita basis

Fiscal Year	ranking
2005	27th
2006	32nd
2007	35th
2008	35th

SOURCE: Analysis of data from the U.S. Census Bureau

Since the last Department of Taxation released its last annual report, the U.S. Census Bureau restated its Ohio tax collection figures for 2006 and 2007. But the updated figures did not change the overall trend, which is that Ohio's state tax burden – never on the high end – has fallen compared to other states since House Bill 66 was enacted.

Living within our means

The department responded to falling revenues by controlling its operating costs. As of June 30, 2008, the department had 1,358 employees –12 fewer than the previous year and 52 fewer than two years before.

The department also found other ways to become more efficient.

The 2008 income tax filing season saw the start of eForms – Adobe Acrobat PDF forms that allow taxpayers to fill in their tax return information online, much as they would on a paper return. The information can then be printed, saved to a hard drive or submitted to the department. For the 2007 taxable year, the new technology supplemented earlier electronic filing methods, including the IRS e-file program, the department's Web-based I-File software and TeleFile.

Fiscal year 2008 saw progress on the state's effort to become a full member of the Streamlined Sales and Use Tax Agreement, a multi-state effort to harmonize sales tax rules across state lines. The hope is that the compact will make it easier for out-of-state sellers to collect and remit sales tax, as Ohio-based brick and mortar retailers already do.

Specifically, the year saw changes in the taxed delivery sales in an effort to balance the needs of small business owners with the goal of creating a more level playing field for all Ohio businesses when it comes to Ohio's sales tax.

During fiscal year 2007, Ohio was phasing in a requirement for vendors who engage in delivery sales to move toward destination sourcing of those sales – meaning calculating the rate at the destination of the sale rather than the location of the vendor. Vendors with $30 million or more in delivery sales in the previous year were required to make this switch by May 1, 2007, and the plan called for all other vendors to follow suit by Jan. 1, 2008.

But concern among small business owners prompted the General Assembly to put the effort on hold for smaller vendors.

In late 2007, the Streamlined Sales Tax Governing Board agreed to allow states like Ohio to become full members while continuing to permit origin sourcing of intrastate delivery sales of tangible personal property. In response, the General Assembly enacted House Bill 429 in the spring of 2008. This legislation requires the relative few delivery sellers who already made the switch to destination sourcing to go back to origin sourcing of delivery sales by Jan. 1, 2010.

As the department looked ahead to 2009, these efforts to make tax collections more productive within the framework of existing tax laws were expected to continue.