Year in Review

The 2009 fiscal year was marked by some of the sharpest declines in state tax revenue ever seen in Ohio – the result of a national economic slowdown marked by six of the ten largest bankruptcies in U.S. history, including formerly blue chip entities such as General Motors and Lehman Brothers.

And yet, despite the severe fiscal challenges that resulted, puzzle pieces continued to fall into place on one of the most ambitious packages of tax reforms and reductions ever undertaken in Ohio. Taxpayers saved an estimated $1.4 billion during the 2009 fiscal year alone[1] as a result of the five-year reform plan launched in 2005 and gradually implemented in subsequent years since by the Department of Taxation.

Sharp declines in state revenue

This five-year tax reform plan encountered exceptionally strong headwinds during the 2009 fiscal year.

Overall, tax revenue into the state's General Revenue Fund fell by more than $2.3 billion in 2009 when compared to the previous fiscal year. In percentage terms, this was almost certainly the sharpest decline in state tax revenue since the Great Depression. During the previous 50 years, general fund tax revenue fell on only four other occasions, and never by as much as 3 percent. The 2009 decline amounted to about 12 percent.

Glen Sgobbo, a supervisor in Compliance, sorts through taxpayer correspondence.

Fueling this steep decline in tax revenue was an unprecedented drop in revenue from Ohio's individual income tax. Never, since it was enacted in 1971, had the Ohio individual income tax generated less revenue for the state's general fund than the previous fiscal year. This changed in fiscal year 2009, when revenue from the tax fell by an astounding 16.3 percent. Total individual income tax collections for the state's general fund were about $7,628 million, the lowest total since 2003.

GRF tax revenue, 2004-09
(figures in millions)

	Revenue	change
2004	$17,737.5	+ 8.7%
2005	$19,088.0	+ 7.6%
2006	$19,563.4	+ 2.5%
2007	$19,468.9	– 0.5%
2008	$19,419.5	– 0.3%
2009	$17,093.7	– 12.0%

These sudden, sharp fiscal pressures complicated the legislative task of enacting a two-year state operating budget. House Bill 1, the two-year budget plan enacted in July 2009, assumed about $933 million in revenue over the course of the biennium from the placement of video lottery terminals at Ohio's horse racing tracks. Two months later, this revenue potential was undermined when the Ohio Supreme Court ruled that the portions of H.B. 1 pertaining to the lottery plan were subject to referendum. State leaders responded in December by temporarily postponing an income tax rate reduction originally scheduled for the 2009 taxable year. The income tax rates used for 2008 will also apply to the 2009 and 2010 taxable years. The fifth and final rate reduction included in the 2005 tax reform plan is now scheduled for 2011, when tax rates will be 21 percent lower across the board than they were for 2004.

Personal property tax ends after 163 years

Otherwise, Ohio stayed the course on its tax reform plan. Among the milestones for the 2009 fiscal year was the end of Ohio's general tax on tangible personal property used in business.

Businesses in Ohio had paid property taxes on the value of their personal property since 1846, when a Whig-led General Assembly enacted the state's first law requiring the uniform taxation of all property, whether real or personal. In recent decades, business leaders had become increasingly critical of the personal property tax, which they believed hurt Ohio's ability to compete for jobs by placing an undue burden on corporations that choose to invest in Ohio by locating machinery and equipment here.

A major component of the 2005 tax reform package was the elimination of the personal property tax through a gradual reduction of the percentage of true value on which the property is taxed. For the 2008 tax year, businesses paid taxes based on 6.25 percent of their true value. This was half the "listing percentage" of the previous year and one-quarter of the listing percentage that held sway before the tax reform effort began.

For the 2009 tax year, the listing percentage fell to zero. Thus, for the first time in 163 years, the vast majority of Ohio businesses faced no tax on the value of their machinery, equipment, furniture and inventory. The only exceptions to this were telephone companies, which will continue to pay the tax through 2010, and certain public utilities, which are not subject to the phase-out.

1 This was the FY 2009 savings as estimated by the Ohio Office of Budget and Management in the 2010-11 executive budget proposal. See page B-5 of the "Blue Book."

Other pieces of the tax reform puzzle also fell into place during the 2009 calendar year. For example, corporations subject to the phase-out of the corporation franchise tax were taxed at just 20 percent of what their liability would have been before the reform effort began. Also, the full commercial activity tax (CAT) rate of 0.26 percent took effect on April 1, 2009. The CAT serves as a partial replacement for the corporation franchise and general personal property taxes; during the 2009 fiscal year, all CAT revenue was used to hold school districts and local governments harmless from losses in revenue associated with the phase-out of the general personal property tax.

Improvements to customer service and efficiency

The department also continued working to improve customer service while trimming costs where possible.

The task of efficiently processing more than 5 million individual income tax returns obviously poses a challenge for a tax agency, but Ohio has been able to improve the speed with which it delivers income tax refund payments to taxpayers. In 2007, the Department of Taxation finished processing requests for refunds from timely-filed returns on July 9. In 2009, the department finished this task on June 9, a full month earlier.

The department has also improved the speed with which it deposits checks received from taxpayers who have a balance due for the year and who filed on time. In 2007, the department finished depositing checks from such returns on May 16. In 2009, this work was finished on April 28. This improvement is important; the more quickly payments received by the department can be deposited, the more quickly this tax revenue can be put to work serving Ohioans.

The department also continued to increase the percentage of tax returns submitted through alternatives to pen and paper.

During 2009, the department offered several paperless filing options for individual income taxpayers, including two Web-based systems (known as "I-File" and "eForms"), a telephone-based system ("TeleFile") and participation in the Internal Revenue Service's "eFile" system. All told, the department received about 66 percent of its returns through these systems – another high water mark.

These paperless filing principles were extended to the sales tax in 2009, when, starting with the monthly returns due Feb. 23, all returns were to be filed electronically absent special permission from the state tax commissioner. The changes were mandated by House Bill 562, which was enacted in June 2008. The move to electronic filing was supported by the department as a way to reduce processing costs.

As the department looked ahead to 2010, it was preparing to implement a similar mandate for the individual income tax that would apply to paid tax preparers who filed 75 or more returns during the 2008 calendar year or any subsequent year.