OHIO's statetaxreport

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Comments from the commissioner

Tax Reform Package Offers Relief to Taxpayers

Commissioner Wilkins

Nearly every Ohio taxpayer - both individual and business - will see some tax relief as a result of a sweeping tax reform package initiated and recently signed into law by Ohio Gov. Bob Taft. The tax changes are part of the biennial state budget bill that took effect July 1.

The reform substantially modernizes state tax laws and includes significant tax cuts to state income and sales taxes. In addition, the budget bill phases out two major business taxes for most businesses – corporation franchise and tangible personal property – and phases in the new commercial activity tax (CAT).

The challenge for ODT is to help taxpayers understand and adapt to the changes. This is a huge educational process. We're sending out more than a million pieces of mail. We'll be at numerous seminars and workshops. We're posting information on our web site and making other changes, all to convey information about the new laws. We understand that change isn't always easy, but we're committed to providing the support it takes to make the transition as smooth as possible for all taxpayers.

One of the most significant tax law changes is the introduction of the CAT, an annual business privilege tax measured by the gross receipts of businesses. The amount of taxable gross receipts determines whether or how the CAT applies.

Businesses with annual gross receipts of $150,000 or less are not subject to the CAT. Those with receipts from $150,001 to $1 million pay a minimum $150 tax. Businesses with receipts exceeding $1 million will be taxed at a rate of 0.26 percent when the tax is fully phased in. The tax rate for the first tax period, from July 1, 2005 to December 31, 2005, is only 0.06 percent.

Businesses subject to the CAT must register by Nov. 15, 2005. Registration includes a one-time fee of $15 for registering online or a $20 fee for paper registration. The registration fee can be applied toward CAT liability on the first return. Online registration is available at the Ohio Business Gateway (**obg.ohio.gov**). Paper applications will be available on the ODT web site (tax.ohio.gov). ODT will soon mail information on filing and paying the CAT to all registered taxpayers. The first CAT returns are due by Feb. 10, 2006.

Other important tax law changes include the following:

—Phase-out over five years of the corporation franchise tax for most businesses at the rate of 20 percent annu-

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ally beginning in tax year 2006.

—Phase-out of the tangible personal property (TPP) tax on most businesses' inventory, manufacturing machinery and equipment and furniture and fixtures over four years at about 25 percent annually beginning in tax year 2006. Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to TPP tax.

—Reduction of individual income tax rates for all tax brackets of 4.2 percent for taxable year 2005 and an additional 4.2 percent (from 2004 rates) each subsequent year through 2009 for a total cut of 21 percent.

—Reduction of the state sales tax rate from 6 to 5.5 percent.

—Increase in cigarette excise tax of 70 cents to a total of $1.25 per pack of 20 cigarettes.

—Elimination of the 10 percent property tax rollback on most commercial and industrial real property. The rollback remains for residential and agricultural real property.

—Ohio's additional estate tax (sponge tax) is eliminated. The Ohio basic estate tax remains in effect.

ODT encourages taxpayers to visit the ODT web site (**tax.ohio.gov**) for information and updates.

Trusts Again Owe Estimated Income Taxes

Trusts again owe estimated income taxes. Under the budget act, signed by Governor Bob Taft on June 30, the income taxation of trusts is now permanent.

Generally, each trust that must file the IRS fiduciary income tax return (IRS form 1041) must also file the Ohio fiduciary income tax return (IT-1041).

The Ohio Department of Taxation revised the estimated income tax fiduciary worksheet to make it clear that trusts as well as estates must pay the estimated tax. The first payment of estimated income tax for trusts for taxable year 2005 is due September 15, 2005.

For more information on the taxation of trusts, please see the information release at **http://tax.ohio.gov/divisions/communications/information_releases/trust200301.stm.** The annual fiduciary income tax return (Ohio form IT-1041) and the quarterly estimated fiduciary income tax coupons (Ohio form IT-1041ES) are available on ODT's website at **tax.ohio.gov**. To access these forms, click on the "forms" icon at the top of the left margin of the page and then enter the appropriate information requested.

Upcoming Workshops Offer Tax Information for Small Business Owners and Self-Employed

New or prospective small business owners and self-employed persons can learn about their tax rights and responsibilities by attending one of the many upcoming Small Business Tax Workshops. These workshops are offered free of charge and are sponsored by the Internal Revenue Service and the Ohio Department of Taxation. Most workshops are offered in cooperation with the Ohio Small Business Development Centers (SBDC). Workshops are designed to provide a general overview of business taxes. Participants receive workbooks and a business tax kit that contain forms and publications necessary for complying with business tax requirements. Please note that the following schedule of workshops is subject

to change. Cancellations may occur and other workshops may be scheduled throughout the year. For the latest updates call the number listed for the workshop you are interested in attending. If you are unable to attend a workshop after registering, please call and cancel. Class sizes are limited and others are waiting for reservations.

Agenda
General Business Workshops

Types of Businesses & Business Structure

•Sole Proprietor
•Sub S-Corporation
•Partnership
•C-Corporation
•Advantages/disadvantages of each type
•Federal tax filing requirements
•Record keeping
•Preparation of Schedule C and SE
•Estimated tax requirements
•Employment taxes

Ohio Business Taxes

•Sales Tax
•Personal Property Tax
•State Tax Withholding

Schedule

Butler County
September 29, 2005 & October 26, 2005, 9 a.m. – 4 p.m.
BizTech Center and Mid-Miami Valley SBDC Hamilton Satellite
20 South High Street, Suite 110, First Floor
Hamilton, OH 45011
Register by phone (513) 737-6543, fax (513) 737-6755, online at www.biztechcenter.com or e-mail to MCollmer@biztechcenter.com

Clark County
November 18, 2005, 9 a.m. – 4:00 p.m.
Small Business Development Center
300 East Auburn Avenue
Springfield, OH 45505-4703
Register by phone (937) 322-7821, fax (937) 332-7874 or e-mail to joann@smbusdev.org

Franklin County
August 24, September 21, October 26, November 16 & December 14, 2005
9 a.m. – 4 p.m
Ohio Small Business Development Center
Columbus State Community College
Electrical Trades Center
947 Goodale Blvd., Room 216
Columbus, OH 43212
Register by phone (614) 287-5300, e-mail to tlamar@cscc.edu or mail to Region 1 Ohio Small Business Development Center
37 N. High St, Columbus, OH 43215

Jackson County
September 14, 2005, 9 a.m. – 3 p.m.
Small Business Administration
OSU Jackson Extension Office Training Room
17 Standpipe Road
Jackson, OH 45640
Register by phone (740) 289-2071, fax (740) 289-4591 or e-mail to welch.183@osu.edu

Lucas County
September 30 & December 16, 2005
9 a.m. – 4:30 p.m.
Toledo Small Business Development Center
Toledo Edison Building
300 Madison Avenue, 8th Floor
Toledo, OH 43604
Register by phone (419) 243-8191 (Ext. 228) or mail to Toledo Area Chamber of Commerce
300 Madison Ave., Toledo, OH 43064

Pike County
December 1, 2005
9 a.m. – 3 p.m.
Small Business Administration
Ohio State Small Business Development Center
The Endeavor Center
1864 Shyville Road
Piketon, OH 45661
Register by phone (740) 289-2071, fax (740) 289-4591 or e-mail to welch.183@osu.edu

Summit County
September 15, 2005
10 a.m. – 4 p.m.
Ohio Small Business Development Center
Greater Akron Chamber, One Cascade Plaza, 17th Floor
Akron, OH 44308 330-375-2111
Register by e-mail to info@akronsbdc.org

Ohio Small Business Development Center at Kent State University – Tuscarawas Campus
Science & Advanced Technology Center
330 University Drive NE
New Philadelphia, OH 44663
Register by phone (330) 308-7434, fax (330) 308-7552 or mail to the above address.

Tuscarawas County
August 10 & October 19, 2005
All 9 a.m. – 4 p.m.
Ohio Small Business Development Center at Kent State University – Tuscarawas Campus
Science & Advanced Technology Center
330 University Drive NE
New Philadelphia, OH 44663
Register by phone (330) 308-7434, fax (330) 308-7552 or mail to the above address.

The 2004 ODT Annual Report is Here

Profiles! Breakdowns! Stats! They're all here in the newly-released fiscal year 2004 edition of the Ohio Department of Taxation's Annual Report.

The annual report profiles each of the major taxes administered by the department, contains information about ODT's organization and its support and operating divisions and chronicles the major events and legislation of the fiscal year, notable tax changes brought about by the fiscal year 2004-2005 budget bill (HB 95) and the transition to provisions of the Streamlined Sales Tax Project.

Over 100 charts and graphs detail total revenues during the fiscal year and break down the specific sources and distribution of the major taxes.

The report also provides a wealth of statistical data showing the percentage of taxes paid within income brackets and demographic segments of business and property taxpayers.

Hard copies of the Annual Report have been distributed throughout ODT and over 1,200 have been mailed to external customers. The entire report is available under "Research—Publications" on the ODT web site. A limited number of hard copies are available from ODT's Communications Office.

COURT*decisions*

The following are significant decisions of the Board of Tax Appeals (BTA), the Ohio Courts of Appeals and the Ohio Supreme Court from April through June, 2005. These informational summaries of tax decisions are compiled by Peter Angus, Legal Counsel, Compliance Division.

Corporation Franchise Tax

Wesnovtek Corp. v. Wilkins (2005),105 Ohio St.3d 312

The taxpayer incurred a loss on the bulk sale of some inventory items which it had acquired from its predecessor. The Supreme Court held that, pursuant to former Ohio Revised Code (R.C.) section 5733.051, a gain or loss from the bulk sale of inventory must be apportioned rather than allocated. The taxpayer also sought a deviation from the statutory formula for calculating the apportionment factor. However, the court held that, pursuant to former R.C. section 5733.05(B)(2)(d), such request must be submitted in writing and accompany the corporate franchise tax report. Since the request in this case was not submitted pursuant to statute, the BTA affirmed the tax commissioner's denial for a deviation from the statutory formula.

Personal Income Tax

Buckley v. Wilkins (2005), 105 Ohio St.3d 350

Several Ohio taxpayers contended that their wages and salaries were not "income" subject to Ohio individual income tax and that the assessments against them were faulty for a number of reasons. The Supreme Court held that, under Chapter 5747 of the R.C. , wages are included in income. The court also held that the income tax statute is not unconstitutionally vague and that the tax commissioner through his agents may examine returns filed. The court also affirmed the frivolous filing penalties imposed under R.C. section 5747.15(A)(15).

Public Utility Personal Property Tax

Cincinnati Bell Telephone Co. v. Zaino (June 10, 2005), BTA 2003-765; 2003-1612

The value of the taxpayer's personal property was increased on audit for years 2000, 2001 and 2002. The taxpayer appealed, contending that the rate at which its personal property is taxed is disproportionate to that of its competition, thereby resulting in violations of the Equal Protection Clauses of the Ohio and United States Constitutions. The BTA took evidence on this argument, but ruled that it was without authority to find an act of the General Assembly unconstitutional. The taxpayer also argued that the method used by the Tax Commissioner in determining the value of depreciable business property reported by telephone companies does not accurately reflect the value of appellant's property due to increased market competition, dramatic technological advances and an absence of a resale market. The BTA reviewed the appraisals submitted by the taxpayer but found that they were not sufficient to demonstrate "special and unusual circumstances" nor any other basis for setting aside the valuations performed on audit. The taxpayer also contended that the Commissioner erred in taxing certain equipment attached to its motor vehicles that are used by appellant in delivering telecommunications services to the public. However, this argument was rejected because the taxpayer did not provide evidence to support its assertion.

Alltel Ohio, Inc. v. Wilkins (June 30, 2005), BTA 2004-566
Western Reserve Telephone Co. v. Wilkins (June 30, 2005), BTA 2004-567

The BTA dismissed purported appeals from the Tax Commissioner's final determinations because the taxpayers did not comply with Ohio Revised Code section 5717.02 in filing copies of the notices of appeal with the Tax Commissioner by personal delivery, certified mail, express mail or authorized delivery service within 60 days of receipt of the Tax Commissioner's final determinations.

Sales/Use Tax

Crew 4 You, Inc. v. Wilkins (2005), 105 Ohio St.3d 356

The taxpayer is a firm which supplies technicians to work on mobile broadcasting facilities at sporting events. It was assessed sales tax under Ohio Revised Code section 5739.01(JJ) as an employment service because it was supplying employees who were to be supervised by the customer. The taxpayer was not entitled to the resale exemption of 5739.01(B)(3)(k) because the services were used by the mobile equipment companies and broadcast companies and were not resold in the same form in which they were received.

Iams Company v. Zaino (June 30, 2005), BTA 2003-1254

A pet food manufacturing company objected to the use tax assessment on its purchase of screeners which remove the burrs on kibbled dog and cat food. The BTA found from the evidence presented that if the burrs were not removed from the ends of the kibbles, too many fine particles would settle to the bottom of the pet food packages, causing consumers to mis-measure portions for their pets and possibly causing the pets to reject the food. The screeners and equipment to transport the product to the screeners were found to be used within the manufacturing process and were therefore exempt under Ohio Revised Code section 5739.011.

Jerry Jennings v. McAndrew (June 17, 2005) BTA 2004-33; 2004-32

The taxpayer is a vendor of mobile homes and manufactured homes. He was assessed for failing to remit sales/use tax on some transactions as provided in Ohio Revised Code section 5739.0210(E) under which the mobile home vendor is the consumer and is required to pay sales/use tax on the amount the vendor paid for the mobile home. The tax is paid at the time the mobile home is sold to the home buyer. The BTA ordered the removal from the assessment of some transactions that were duplicated in the audit, but otherwise affirmed the assessment.

Real Property Exemption

Case W. Res. Univ. v. Wilkins (2005),105 Ohio St.3d 276

A real estate tax exemption was sought for a student housing building owned by Case Western Reserve University and leased to a sorority's housing corporation. The corporation leased rooms in the building to members of the sorority. The Supreme Court held that no exemption was available under Ohio Revised Code (R.C.) section 5709.12(B) because that section requires that the property be owned by an institution and be used exclusively for charitable purposes. Although the building in question is owned by an institution, the use of it for sleeping rooms for sorority members is not a charitable use. An exemption under R.C. section 5709.121(B) was denied because the building was not used in furtherance of Case Western Reserve University's charitable purposes, which would be required for exemption under that section. An exemption under R.C. section 5709.07(A)(4) was denied because the sorority's right to the exclusive use of the subject property was not an educational use by Case Western Reserve University.

Parma Hts. v. Wilkins (2005), 105 Ohio St.3d 463

The City of Parma Heights sought an exemption for an ice skating rink that it leased to a private, for-profit company, which operated it as a skating facility. Exemption was sought under: (1) Ohio Revised Code (R.C.) section 5709.08, which

exempts from taxation any "public property used exclusively for a public purpose"; (2) R.C. section 5709.081, which exempts certain publicly owned athletic facilities; and (3) R.C. section 5709.12, which exempts some public property used for charitable purposes. The Supreme Court found that the use of the rink by the for-profit company did not meet the requirements of any of these provisions and therefore affirmed the denial of the exemption.

TAXenforcementnews

The following convictions were secured by the Enforcement Division of the Ohio Department of Taxation in February, March and April 2005. Enforcement News is compiled by Robert M. Bray, Administrator, Enforcement Division. Fraud complaints can be e-mailed to Taxenforcement@tax.state.oh.us.

Pursuant to a complaint from a fellow law enforcement agency requesting assistance identifying counterfeit cigarettes, agents from the Toledo office of the Ohio Department of Taxation Enforcement Division investigated a Michigan resident. The Enforcement Division found that the suspect, previously convicted of felony tobacco tax violations, was importing non-taxed other tobacco products into Ohio from various wholesalers in the United States. The suspect then transferred the products to multiple storage locations in Toledo. The suspect visited the storage units and collected various amounts of other tobacco products to transport to multiple Michigan locations for sale at retail. Ohio Tax Enforcement agents along with Bureau of Alcohol, Tobacco and Firearms agents executed search warrants on the storage locations and found a large amount of untaxed other tobacco products including over a million cigars. The Bureau of Alcohol, Tobacco and Firearms also seized 20 cases of counterfeit cigarettes. The suspect has subsequently been charged with numerous federal drug and cigarette smuggling charges. The state of Ohio will also be charging the suspect locally with multiple felony other tobacco products related charges.

Cigarette Tax Violations

NAME	BUSINESS	CITY	VIOLATION
V. Chris Foght	Gary R. Armstrong	Bucyrus	1 Count No Cigarette License
Ariam Yukunoamlak	Discount Tobacco	Cincinnati	1 Count No Cigarette License
Joseph A. Meyer	Mike's Pony Keg	Silverton	1 Count No Cigarette License
Boby Patel	NHNKB Enterprises	Cincinnati	1 Count No Cigarette License
Jeffrey Yount	Murray's Drive Thru	Cincinnati	1 Count No Cigarette License
Gary L. King	Gary L. King	Cincinnati	1 Count Retailer in Possession of Cigarettes Not Bearing Tax Stamps
Catherine Heidelburg	Rainbow Carry Out	Fremont	1 Count Retailer in Possession of Cigarettes Not Bearing Tax Stamps,1 Count Selling Cigarettes Without Tax Stamps

Sales Tax Violations

NAME	BUSINESS	CITY	VIOLATION
Tammy Bielik	Tammy Bielik	Youngstown	1 Count No Vendor License
Jeffrey Niles	Jeffrey Niles	Youngstown	1 Count No Vendor License
Frank Shevitz	Frank Shevitz	Youngstown	1 Count No Vendor License
Brad Ramlow	Ramlow Brothers	Bowling Green	1 Count No Vendor License

Assorted Sales Tax Violations (continued)

NAME	BUSINESS	CITY	VIOLATION
Douglas Mitchell	Absolute Graphics	Aberdeen	1 Count Failure To File Sales Tax Returns
Jesse Walker	Techsonics Enterprises	Eaton	1 Count Failure To File Sales Tax Returns
Judith Halcomb	1st Choice Wholesale	Hamilton	1 Count Failure To File Sales Tax Returns
Douglas Groth	Franklin Truck Wash	Franklin	1 Count Failure To File Sales Tax Returns
Debra Newsome	Pinnacle Catering	Troy	1 Count Failure To File Sales Tax Returns
Sharon Butler	Sharon Butler	Fairborn	1 Count Failure To File Sales Tax Returns
Dennie Fitzgerald	Group F Enterprises	Franklin	1 Count Failure To File Sales Tax Returns
Martin South	South & Son's Panels	Franklin	1 Count Failure To File Sales Tax Returns
Myong C. Thayer	Myong's Café	Fairborn	1 Count Failure To File Sales Tax Returns
Terrence Ochterski	Suburban Veterinary	Cleveland	1 Count Failure To File Sales Tax Returns
Craig Benson	Craig Benson	Mentor	3 Counts Failure To File Sales Tax Returns
Saed Omar	S.M. Omar	Columbus	1 Count Failure To File Sales Tax Returns
Frank Duff	Frank Duff	Gahanna	1 Count Failure To File Sales Tax Returns
Janet Fuller	Lucasville Sand/Gravel	Lucasville	1 Count Failure To File Sales Tax Returns
Jack S. Davis	Davis Funeral Home	Webster	1 Count Failure To File Sales Tax Returns
Cathy Holland	C.L. Holland	Sciotoville	1 Count Failure To File Sales Tax Returns
Kenneth Lavinder	K.A. Lavinder	Portsmouth	1 Count Failure To File Sales Tax Returns
Joellen Duckworth	Joellen Duckworth	Columbus	1 Count Failure To File Sales Tax Returns
Jon Gross	Premier Landscape	Columbus	1 Count Failure To File Sales Tax Returns
Jason Gross	Forrestview Mgmt.	Westerville	1 Count Failure To File Sales Tax Returns
Mary Paxton	Mary Paxton	Laurelville	1 Count Failure To File Sales Tax Returns
Jay Whitmore	Whitmore AG Service	Piketon	1 Count Failure To File Sales Tax Returns
Charles Woods	Tequila Dave's Bar&Grill	Vermilion	1 Count Failure To File Sales Tax Returns
Cecil Weatherspoon	Flash Enterprises	Sandusky	2 Counts Failure To File Sales Tax Returns
Jenny Cipollo	Garden Products	Sandusky	2 Counts Failure To File Sales Tax Returns
Dianne S. Dix	Dianne S. Dix	Sandusky	2 Counts Failure To File Sales Tax Returns
John Hagele	Hagele's Pro-Tech	Toledo	2 Counts Failure To File Sales Tax Returns
Robert J. Miller	R.J. Miller Interiors	Maumee	1 Count Failure To File Sales Tax Returns
Kenneth Priest	Class 8 Mechanical	Millbury	1 Count Failure To File Sales Tax Returns
Judy English	Elery Supper Club	Malinta	1 Count Failure To File Sales Tax Returns
Paula Korecky	Sorella Bridal	Findlay	2 Counts Failure To File Sales Tax Returns
Terrence Murphy	Terrence Murphy	Toledo	1 Count Failure To File Sales Tax Returns
Ron W. Smail Jr.	Hair & Scalp Clinic	Toledo	1 Count Failure To File Sales Tax Returns
Delano Kight	Lawn Pro Napoleon	Toledo	1 Count Failure To File Sales Tax Returns
Gloria Calhoun	Starr Fitness	Napoleon	2 Counts Failure To File Sales Tax Returns
John Reed	Charles Reed Music	Sandusky	2 Counts Failure To File Sales Tax Returns
Darrin Hildebrand	Sandusky Bay Cigars	Sandusky	1 Count Failure To File Sales Tax Returns
Kyle Hanlon	Always & Forever Photo	Col. Grove	1 Count Failure To File Sales Tax Returns
Alvis Knowles	Al & Aarons Repair/Tow	Toledo	1 Count Failure To File Sales Tax Returns
Pam Ferguson	O'Flaherty Marathon	Carey	1 Count Failure To File Sales Tax Returns
Glenn Fulpher	Fulpher's Auto Parts	Vermilion	1 Count Failure To File Sales Tax Returns
John Karin	Great Lakes Engraving	Toledo	1 Count Failure To File Sales Tax Returns
Richard Schorling	Schorling Automotive	Toledo	1 Count Failure To File Sales Tax Returns
Jeffrey Harper	County Wide Security	Columbus	1 Count No Vendor License
Robert D. Minor	Robert D. Minor	Middletown	1 Count No Vendor License
Kathy Reardon	Kathy Reardon	Youngstown	1 Count No Vendor License

PRO-*files*

By Peter Angus, Legal Counsel, Compliance Division/Taxpayer Service Divisions

How ODT & IRS Work Together to Gain Compliance

Practitioners assisting Ohio taxpayers may benefit from knowing how the Internal Revenue Service (IRS) and the Ohio Department of Taxation (ODT) partner in information sharing and compliance initiatives. Current IRS-ODT initiatives include the following:

Information received from the IRS

Throughout the year, ODT receives information from the IRS in various ways and various forms. The four major IRS files which come to ODT are the Individual Master File (IMF), Individual Transaction Master File (ITMF), Business Master File (BMF) and Business Transaction Master File (BTMF). The IMF contains return header and other information, such as military combat zone indicators for income taxpayers with Ohio addresses. The ITMF contains 1040 return information for any returns received by the IRS in a given 12-month period ending in the third week of August. In other words, in the third week of every August, the IRS sweeps all return information received from whatever tax years since the previous August and puts it into the ITMF. ODT receives the IMF and ITMF late in the calendar year. In similar fashion, the IRS compiles the BMF and the BTMF. The business files contain data from the 1120s and other business entity forms.

Federal Adjusted Gross Income (FAGI) Program

The FAGI program is run off the ITMF data. The Adjusted Gross Income (AGI), filing status and number of exemptions reported on the IRS returns are compared with what was reported on the Ohio returns. The most common causes of discrepancies are part-year Ohio residents who put only their Ohio income on line 1 instead of starting with their full-year AGI and taxpayers who file under a different status for Ohio than they did for their federal return. The most recent Federal Adjusted Gross Income (FAGI) program resulted in 23,000 notices to Ohio taxpayers and an additional $2.9 million in revenue.

Income Tax Delinquency Program

The income tax delinquency program is run by comparing the list of taxpayers who filed a federal return with an Ohio address for a particular year with the list of those who filed an Ohio return. Many of the taxpayers submit returns after being contacted through the delinquency program. A sizeable number of those contacted do not owe an Ohio return such as nonresident military persons stationed in Ohio and aged nonresidents whose federal return is filed by their Ohio relatives using the Ohio relatives' address. In the most recent delinquency program about 15,000 notices were issued.

CP2000

In the late 1980's, the IRS initiated a program which matched miscellaneous income with federal 1040s to check for discrepancies in unreported income. The idea was that the program would clean up such discrepancies by the year 2000, hence the name of the program. Twice a year, after the IRS has run its matches and notified taxpayers of any discrepancies, a subset of the data is provided to ODT. The most recent CP2000 program involved notices to 5,500 taxpayers and generated $800,000 revenue.

Revenue Agent Reports (RAR) – Individual & Corporate

Every month the IRS provides ODT with information regarding Ohio individual and corporate taxpayers that have been audited. Under the Ohio statute, taxpayers are required to file amended Ohio returns within 60 days of the finalization of their federal audit. The data from the IRS is compared with amended returns on file with ODT. Those taxpayers who have not complied with the statute and filed amended returns are contacted. The initial letter includes a spreadsheet showing the estimated additional Ohio tax liability based on IRS information. Up to this point, the handling of RARs has been a manual process which requires agents to review IRS information one taxpayer at a time. Plans are underway to modernize and computerize ODT's handling of both individual and corporate RARs.

Motor Fuel Tax

Prior to 1996, motor fuel was taxed under both the federal and Ohio statutes when it was withdrawn from large storage tanks by dealers. Since the point of taxation was the same, there was considerable information sharing between the IRS and ODT regarding disbursements. However, in 1996 the Ohio statute was changed to make the incident of taxation the sale, use or distribution by a dealer of motor fuel. Because of this, there has been less routine information sharing and more joint cooperation on specific projects such as terminal inspections.

Dyed Diesel Fuel

Diesel fuel that has been sold tax-exempt is dyed and may not be used in motor vehicles on the highway. The Internal Revenue Code provides civil penalties for violations, and the Ohio Revised Code provides criminal penalties. Both agencies have been enforcing their respective provisions since the inception of the dyed fuel statute in 1994. In November, 2004, the IRS and ODT signed a Memorandum of Understanding authorizing the exchange of information regarding dyed-fuel inspections. The memorandum permits each agency to take samples for the other and to collaborate on the use of laboratory facilities. In December, 2004, the first joint operation was held in south Columbus and it netted two violations.

Treasury Offset Program (TOP)

TOP was begun in Ohio in 2001. Under this program, IRS refunds are intercepted from taxpayers owing Ohio income tax debts from tax years within the past decade. In the 2003 filing season, 6,076 TOP notices were sent and Ohio collected about $3.6 million in revenue from IRS refunds.

State Income Tax Levy Program (SITLP)

The mirror of TOP is SITLP, which was begun in ODT in 2002. Under this program, IRS debts are offset against Ohio income tax refunds. In the 2003 filing season, 11,841 SITLP notices were issued and about $2.25 million in federal revenue was offset from ODT refunds.

Requests for Specific Taxpayer Information

ODT agents request IRS information in order to conduct taxpayer audits involving a variety of issues: (1) proper treatment of pass-through entity income, (2) income sources of non-filers and (3) results of criminal IRS investigations. The requests for information are fulfilled through the IRS Chicago office. About 200 requests are made and fulfilled each year.

SS-8 Determinations

Workers who have been treated by their employers as independent contractors rather than employees may petition the IRS for a determination of their proper employment classification. The IRS conducts an investigation by taking information

from both the employer and the employee, then renders its decision as to whether or not the worker is an employee for which withholdings should be made. In those cases in which it is determined that the Ohio worker is an employee, the IRS sends ODT the results of the investigation. The Income Tax Division follows up by making sure that the employer withholds taxes for the employee.

Taxpayer Address Report (TAR)

The IRS provides ODT with updates on addresses for Ohio taxpayers. This is a valuable aid in maintaining ODT's master income taxpayer file.

IRS-ODT Joint Training

The IRS provides ODT with opportunities for training through the programs produced at New York University and broadcast via satellite. Recent offerings have included classes on (1) consolidated corporate returns, (2) IRS practice and procedure and (3) abusive trusts. Last October, the IRS and ODT collaborated on training on abusive tax avoidance transactions. Tax administrators from the major Ohio cities also attended.

INFORMATION*releases*

The Ohio Department of Taxation recently issued the following information releases. To view the releases, please visit our Web site at **tax.ohio.gov** and click on "Releases" in the Popular Links section at the top of the home page.

General

Ohio Budget Bill (Fiscal Years 2006-07); Major Ohio Tax Law Changes – June 2005.

G 2001-02 - Discretionary Penalty - April 2005.

Cigarettes and Other Tobacco Products

XT 2005-05 - Cigarette Tax Increase for All Ohio Non-Stamping Cigarette Wholesalers - June 23, 2005.

XT 2005-04 - Cigarette Tax Increase for All Ohio Stamping Cigarette Wholesalers - June 23, 2005.

XT 2005-03 - Cigarette Tax Increase for All Ohio Cigarette Retailers - June 22, 2005.

Motor Fuel Tax

XT 2005-02 - Motor Fuel Tax Increase - June 3, 2005.

XT 2005-08 - Motor Fuel Shrinkage Allowance Reduction for Ohio Motor Fuel Dealers - June 28, 2005.

XT 2005-01 - Proper Reporting of Biodiesels (including soy oil and soy diesels) - May 16, 2005.

Fiduciary

TRUST 2003-01 - Ohio Law Imposes Ohio Income Tax on Trusts - April 14, 2003.

Sales Tax

ST 2005-03 - Electronic Payment Methods - Issued May, 2005.

ST 2005-02 - Exemption Certificate Forms - Issued May, 2005.

ST 2005-04 - Information Retention and Sharing Practices Related to Sales and Use Tax - Issued May, 2005.

ST 2004-02 - Sourcing and Law Change Update – June, 2005.

ST 2005-01 - Vendor Compensation – April 2005.

Sign Up Now to Attend an Upcoming Seminar on Tax Reform

Make plans to attend one of the following seminars on tax reform. The seminars are a joint effort of the Ohio Department of Taxation, Ohio Society of CPAs, Ohio Manufacturers' Association and Ohio State Bar Association. These seminars provide an excellent opportunity for education. The following dates were open as of August 1: **September 15 in Toledo**, **October 17 in Coumbus** and **October 21 in Cleveland**. Please visit ODT's website at **http://tax.ohio.gov/divisions/communications/tax_reform_informational_seminars.stm** for more details on these seminars.

Tax Calendar at-a-Glance

July	
15	Monthly Income Tax Withholding Return
20	Monthly Kilowatt Hour (KWH) Tax Return
25	Monthly and Semiannual Sales Tax Return
25	Monthly Consumer Use and Direct Pay Return
25	Quarterly Consumer Use Tax Return
25	Quarterly Direct Pay Sales Tax Return
Aug.	
1	Quarterly Income Tax Withholding Return
15	Monthly Income Tax Withholding Return
22	Monthly Kilowatt Hour (KWH) Tax Return
22	Quarterly Natural Gas Distribution (MCF) Tax Return
23	Monthly Sales Tax Return
23	Monthly Consumer Use and Direct Pay Returns
Sept.	
15	Monthly Income Tax Withholding Return
15	Quarterly Estimated Income Tax Return
20	Monthly Kilowatt Hour (KWH) Tax Return
23	Monthly Sales Tax Return
23	Monthly Consumer Use and Direct Pay Return

Our Mission:
To provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Our Motto:
We CARE about the quality of our service.
Courteous
Accurate
Responsive
Equitable

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