

# Year in Review

**T**he Ohio Department of Taxation (ODT) began Fiscal Year (FY) 2005 linked firmly to the past but ended the year launched fully into the future.

By year's end, two touchstones of the department — state tax law and the facilities where the department conducts its primary operations — would to a significant degree be deemed obsolete and consigned to a status of times passed. With this shift to the future, ODT found itself working to simultaneously administer and adapt to a major reform of the state's tax laws while also planning a massive move into a new Columbus operations center housing more than 70 percent of the department's staff. And these two developments were just some of the story of FY 2005.

## Task: Tax Reform

Governor Bob Taft continued in FY 2005 a push for meaningful modernization and reform of state tax laws that he'd first begun in the assembling of the FY 2004-2005 state budget. The first effort resulted in a number of changes to tax law, largely targeted and specific revisions of varying aspects of a spectrum of different taxes. The renewed push in FY 2005 yielded a vastly different result. The Governor, with key support of legislative leaders and many sectors of the Ohio business community, pulled together a fundamental change in the state's tax structure.

The sweep of tax reform cast in FY 2005 reached back through the years to embrace the spirit and adopt some of the specifics of the many preceding Tax Study Councils (1967, 1982, 1995, 2003). It did not stop there, however. The reforms of '05 moved beyond a cautious tinkering to profoundly touch all of the primary and largest taxes effecting individual and business taxpayers in Ohio (for more specifics, see the **Ohio Tax Reform** chapter in this report). As approved, individuals and businesses paying the Ohio income tax will see rates drop a total of 21 percent over five years. Then simultaneously an even more profound change for business taxpayers will complete in five years the elimination of the corporation franchise tax, while in four years phasing out the tangible personal property tax.

Concurrently, ODT will be phasing in the completely new commercial activity tax (CAT), a broad-based, low rate tax on the taxable gross receipts of most businesses in Ohio. In the years to follow, the reforms chosen in FY 2005 will ultimately lift more than \$2.0 billion a year off the current burden of Ohio taxpayers.

## Moving Out; Moving In

Many of the tax reform changes affected in FY 2005, as part of the new biennium budget bill for Fiscal Years 2006-2007, would be part of an extended process of phasing-in or phasing-out the changes adopted in law. The move of ODT's operations and processing facility, however, would need to necessarily be accomplished in a much more compressed time frame. Planning for the move would be an extended and exhaustive exercise. The move would take more than 1,000 ODT staff from four locations around Columbus and consolidate them in a renovated building in north Columbus that once housed a department store in a large but now shuttered shopping mall. Many of these staff people had been working in an aging warehouse

that ODT had leased for more than 30 years. The new facility is designated as a processing center for nearly all of the tax returns that ODT handles, as office space for multiple divisions within the department, and as one of two Taxpayer Service Centers in Columbus. ODT maintained the Tax Commissioner's and administrative offices, as well as some tax divisions, and a second Taxpayer Service Center in the Rhodes office tower in downtown Columbus.

## What a Site: Growing Web Services and Business

ODT continued to expand the menu of electronic services available via its Web site and the Ohio Business Gateway, and the volume of electronic — paperless — transactions continued trending upward in FY 2005.

To the freshly redesigned Web site, ODT added two significant services meant to improve the visitor's experience and provide critical information to determine taxpayer location and the pertinent tax rates anywhere in Ohio. The first feature was added to the Forms section, which is the most visited area of the ODT Web site. Site managers bundled the hundreds of state tax forms in one location and added a search engine to make it easier to find the form a taxpayer needed.

A different service, also dedicated to pinpointing locations, came on-line with a name that simultaneously spelled out the mission. **The Finder** is an on-line service that delivers the tax rate(s) and taxing district for every address in Ohio. The Finder, if given an address, a zip code, or latitude-longitude coordinates, will provide the corresponding tax rate(s) and taxing jurisdiction(s) for three taxes: sales and use, municipal income, and school district income.

ODT, for the first time, took in more state income tax returns electronically than came on paper through the mail. In FY 2005, almost 51 percent of the 5.4 million returns were filed over the Internet or by telephone, an increase of more than 300,000 returns from the previous year. Internet filing options using ODT's **I-File** also expanded to make it available to more income taxpayers and also, for the first time, allowed the filing of school district income tax returns.

The department also saw tremendous growth in electronic filings by business taxpayers using the **Ohio Business Gateway** (OBG). On OBG in FY 2005, the number of registered business users was up nearly 50 percent from the previous year, while the number of tax returns and payments reported more than doubled from FY 2004. While not directly responsible for administering municipal taxes, ODT was a prime contributor of staff and resources to an expansion of OBG to include aspects of municipal taxes on business. The OBG also added the option of requesting an extension to make estimated payments, the first of several planned features to make it more convenient for business taxpayers to comply with the hundreds of tax systems and thousands of tax rules of municipalities in Ohio.

## Shifting Landscape: Streamlined Sales Tax

Ohio continued its active participation in the national Streamlined Sales Tax Project (SSTP) in FY 2005, and that prompted new laws designed to keep the

state eligible. The year started with a new and expanded legal definition of food, the result of which made water, chewing gum, ice, high juice-content drinks and certain other consumable products exempt from tax. This change was estimated to save consumers \$21 million annually. During the year, two SSTP-related bills became law; both dealt with the “sourcing” of sales and whether and when to charge the sales tax rate where the product is sold (origin-based) or where the purchaser takes possession of the product (destination-based).

The SSTP is an on going effort by nearly all states with a sales tax to create a simpler system of tax rules with hopes of convincing retailers to voluntarily begin collecting the tax. Federal courts have ruled that unless a retailer has a physical presence in a state, the retailer does not have to collect that state’s tax. Ohio estimates it loses approximately \$500 million of tax annually because certain Internet and catalogue retailers with no physical presence in the state are not collecting sales tax on purchases by customers in Ohio.

#### **Internal Affairs: Continuing on a Path of Progress**

ODT’s objectives remained fixed in FY 2005 on a future that incorporates contemporary technology and a staff equipped with the resources and training needed to respond effectively and efficiently to taxpayers, tax professionals, and other interested parties. The department continued work toward migrating to an internal information system that consolidated the functions and information now dispersed among multiple systems. As well, ODT continued to rebuild ranks depleted by retirements and attrition toward its approved staff size of 1,381.

Each day, ODT performs its mission of providing quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law. The department also maintains its focus on administering a system of taxes that produces approximately 93 percent of the General Revenue Fund for the State of Ohio.

