

The Legislation Division helps the Department of Taxation provide quality service by supporting the process of transforming tax policy into law. The division is also an important resource both for Ohio's elected leaders and the general public.

## OHIO DEPARTMENT OF TAXATION'S PARTNERS

The Ohio Department of Taxation accomplishes many of its goals through collaborative partnerships with other governmental agencies.

The **Internal Revenue Service** provides data from federal returns which is used to check the accuracy of Ohio income tax returns. For example, the adjusted gross income reported by taxpayers on their federal returns is routinely compared with the adjusted gross income as reported on the Ohio returns. Discrepancies are researched by the department and taxpayers are contacted, if necessary, to verify their correct income.

Two sections of the Office of the **Ohio Attorney General** play key roles in the administration of Ohio taxes. The Taxation Section litigates cases for the Tax Commissioner at the Ohio Board of Tax Appeals and the Ohio Supreme Court, as well as at other state and federal courts. The Collections Enforcement Section of the Attorney General's office performs collection activities on delinquent tax accounts.

The **Treasurer of State** receives all revenue collected by the department. Income tax and other refund checks, as well as electronic deposits to taxpayers' accounts, are generated by the **Auditor of State** based on data provided by ODT. The **Ohio Department of Development** certifies to the department certain credits available to corporations. Pursuant to provisions of the Ohio Revised Code, ODT withholds income tax refunds from parents who are delinquent in their child support. Those amounts are forwarded to the **Ohio Department of Job and Family Services** which, in turn, disburses the money to the county child support enforcement agencies.

The Department of Taxation and the **Ohio Department of Commerce** share information pursuant to provisions of the Ohio Revised Code regarding businesses with liquor permits. The agencies work to ensure that holders of liquor permits remain current in their sales tax and employer withholding tax filings and payments.

The partnerships and collaborations established with other agencies support the Department of Taxation by fairly applying the tax law and by assisting in tax collection and litigation. The department, in turn, also helps several governmental agencies accomplish their missions by distributing revenue, monitoring business tax compliance, and withholding some taxpayer refunds pursuant to statute.

## OPERATIONS CENTER

The Operations Center is the central processing unit for the majority of the business and individual tax returns filed with the Department of Taxation. Over

8.9 million tax returns were processed in 2003 alone. The primary function of the Operations Center is to facilitate voluntary compliance. This is accomplished through receiving and recording tax returns, documents and remittances, by issuing refunds, storing and retrieving tax documents, and through bank deposits of taxpayer payments for purposes of fund distribution to state and local governments. The payments processed from tax returns are the primary source of revenue for the State of Ohio, providing income to elementary/secondary schools, colleges and universities, law enforcement, human services, general government, and property tax relief.

The Operations Center's goals are:

- To provide timely service to each taxpayer and to perform in a manner that instills public confidence and satisfaction;
- To deposit monies in a timely manner;
- To maintain high productivity while providing a quality work product; and
- To utilize technology for a more cost efficient operation.

The Operations Center has experienced record-breaking use of electronic filing since its introduction in 1998. Electronic filing (TeleFile) was first introduced to Ohio taxpayers in 1998 when 232,548, or 4.0 percent, took advantage of that filing option. Electronic filing (through practitioners) was introduced to taxpayers in 1999 and was readily accepted by both taxpayers and tax practitioners alike. The number of electronically filed returns filed in 1999 grew to 19 percent of the total filed. Electronic filing has experienced a steady increase each year thereafter, particularly after the introduction in tax year 2002 of ODT's free Web-based service, Ohio I-File. For tax year 2005, all methods combined of electronic filing accounted for more than 2.98 million, or approximately 56 percent, of all individual income tax returns filed.

Electronic filing not only allows taxpayers to get their refund faster, but it also substantially reduces both the taxpayer and processing errors generally found on paper-filed returns. The ease and efficiency associated with electronically filed returns, versus the labor intensive manual process associated with paper filed returns, saves the citizens of Ohio millions of dollars in processing costs annually. For example, during the 2004 filing season, it cost about \$3.4 million to process over 2.9 million electronically filed returns. By contrast, it cost almost \$8.8 million to process the approximately 2.9 million paper returns filed. As taxpayers become more comfortable with electronic filing and the obvious benefits associated with it, its use is expected to continue to increase in the years ahead.

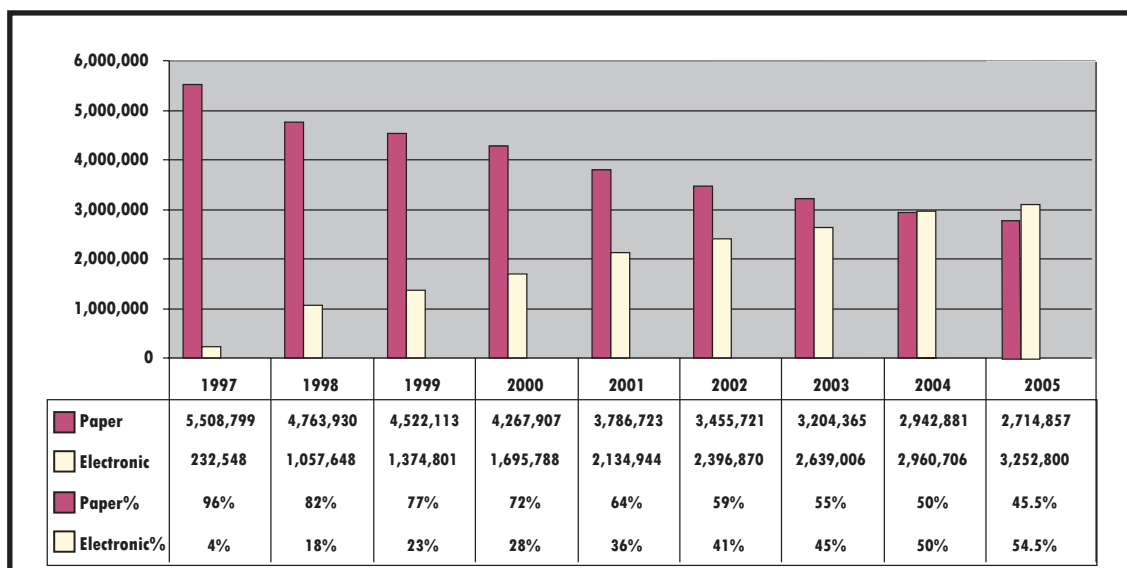
Beginning with the 2003 individual income tax return the Department of Taxation sent out post cards to taxpayers that had either filed electronically or filed with a practitioner. This step saves the state on booklets and postage costs each filing year.

### INCOME & SCHOOL DISTRICT INCOME TAX RETURN FILING, 1997 - 2005

Tax Return Year	1997	1998	1999	2000	2001	2002	2003	2004	2005*
1040 Paper	4,289,454	3,195,691	2,967,340	2,645,743	2,585,136	2,430,889	2,259,825	2,116,327	1,719,515
EZ Paper	771,244	1,133,422	1,130,605	1,203,655	814,473	663,406	593,326	490,907	673,625
<b>Total Paper</b>	<b>5,060,698</b>	<b>4,329,113</b>	<b>4,097,945</b>	<b>3,849,398</b>	<b>3,399,609</b>	<b>3,094,295</b>	<b>2,853,151</b>	<b>2,607,234</b>	<b>2,393,140</b>
1040 ELF	-0-	645,300	879,837	1,141,239	1,396,931	1,616,387	1,837,659	2,069,655	2,348,330
1040 TEL	232,548	365,881	421,483	468,930	621,810	534,787	435,883	375,960	292,540
WEB File	-0-	-0-	-0-	-0-	-0-	118,444	213,815	303,844	345,963
<b>Total Electronic</b>	<b>232,548</b>	<b>1,011,181</b>	<b>1,301,320</b>	<b>1,610,169</b>	<b>2,018,741</b>	<b>2,269,618</b>	<b>2,487,357</b>	<b>2,749,459</b>	<b>2,986,833</b>
<b>Total IT Returns</b>	<b>5,293,246</b>	<b>5,340,294</b>	<b>5,399,265</b>	<b>5,459,567</b>	<b>5,418,350</b>	<b>5,363,913</b>	<b>5,340,508</b>	<b>5,356,693</b>	<b>5,379,973</b>
<b>Paper%</b>	<b>95.6%</b>	<b>81.1%</b>	<b>75.9%</b>	<b>70.5%</b>	<b>62.7%</b>	<b>57.7%</b>	<b>53.4%</b>	<b>48.7%</b>	<b>44.5%</b>
<b>Electronic%</b>	<b>4.4%</b>	<b>18.9%</b>	<b>24.1%</b>	<b>29.5%</b>	<b>37.3%</b>	<b>42.3%</b>	<b>46.6%</b>	<b>51.3%</b>	<b>55.5%</b>
SD100 Paper	448,101	434,817	424,168	418,509	387,114	361,426	351,214	335,647	321,717
SD 100 ELF	-0-	46,467	73,481	85,619	116,203	127,252	151,649	183,777	224,825
SD 100 WEB								27,470	41,142
<b>Total School District Returns</b>	<b>448,101</b>	<b>481,284</b>	<b>497,649</b>	<b>504,128</b>	<b>503,317</b>	<b>488,678</b>	<b>502,863</b>	<b>546,894</b>	<b>587,684</b>
<b>Paper%</b>	<b>100%</b>	<b>90.4%</b>	<b>85.2%</b>	<b>83.0%</b>	<b>76.9%</b>	<b>64.0%</b>	<b>69.8%</b>	<b>61.4%</b>	<b>54.7%</b>
<b>Electronic%</b>	<b>-0-</b>	<b>9.6%</b>	<b>14.8%</b>	<b>17.0%</b>	<b>23.1%</b>	<b>26.0%</b>	<b>30.2%</b>	<b>38.6%</b>	<b>45.3%</b>
Total IT & SD	5,741,347	5,821,578	5,896,914	5,963,695	5,921,667	5,852,591	5,843,371	5,903,587	5,967,657
Paper Total	5,508,799	4,763,930	4,522,113	4,267,907	3,786,723	3,455,721	3,204,365	2,942,881	2,714,857
Electronic	232,548	1,057,648	1,374,801	1,695,788	2,134,944	2,396,870	2,639,006	2,960,706	3,252,800
<b>Total Paper %</b>	<b>96%</b>	<b>82%</b>	<b>77%</b>	<b>72%</b>	<b>64%</b>	<b>59%</b>	<b>55%</b>	<b>50%</b>	<b>45.5%</b>
<b>Total Electronic %</b>	<b>4%</b>	<b>18%</b>	<b>23%</b>	<b>28%</b>	<b>36%</b>	<b>41%</b>	<b>45%</b>	<b>50%</b>	<b>54.5%</b>

\*Projected totals for 2005 through Dec. 31, 2006.

### PAPER VS. ELECTRONIC RETURNS, 1997 - 2005



By maximizing electronic means to ensure the timely and efficient processing of tax returns, the Operations Center aids the department in providing quality service through capturing revenue to fund state services while putting refunds back into the hands of Ohio taxpayers as soon as possible.

## REVENUE ACCOUNTING

Revenue Accounting, one of four units within the Budget and Fiscal Division, is responsible for a variety of duties within the Department of Taxation that directly impact local governments and the services received daily by Ohio residents.

One of the primary duties of Revenue Accounting is the distribution of tax revenue. In Fiscal Year 2006, Revenue Accounting distributed more than \$4.2 billion to/from the following funds and agencies:

- Local Government Fund;
- Local Government Revenue Assistance Fund;
- Library and Local Government Support Fund;
- gasoline tax;
- sales and use tax;
- school district income tax;
- municipal income tax for electric light companies and telephone companies;
- property tax rollback;
- manufactured home tax;
- tangible personal property tax;
- Property Tax Replacement Fund (from kilowatt-hour and natural gas taxes);
- Property Tax Replacement Fund (from commercial activity tax);
- dealers in intangibles tax;
- political party check-off;
- resort tax;
- horse racing tax;
- Scenic Rivers, Wildlife, and Military Injury Relief check-offs;
- Cuyahoga County beer, wine, cigarette, and liquor taxes; and
- litter tax.

In addition, Revenue Accounting records most of the revenue receipts and refund deposits for the Department of Taxation for the following taxes:

- individual income tax;
- employer withholding tax;
- sales and use tax;
- corporation franchise tax;
- school district income tax;
- motor fuel and use tax;
- International Fuel Tax Agreement;
- commercial activity tax; and
- municipal income tax for electric light companies and telephone companies.

The unit also handles the accounting and reversals for all tax payment errors. This includes checks, electronic funds transfers (EFTs), Ohio Business Gateway (OBG), and Treasurer of State debits and credits.

Revenue Accounting reconciles EFT payments, OBG payments, and credit card payments.

Revenue Accounting has the additional responsibility of assisting the Office of Budget and Management with the state **Comprehensive Annual Financial Report**.

The Revenue Accounting unit supports the Budget and Fiscal Division in fulfilling the role of providing quality service by ensuring that tax dollars are properly deposited and distributed in accordance with current law.

## TAX ANALYSIS DIVISION

The Tax Analysis Division (TAD) serves as the research arm of the Ohio Department of Taxation. Although it is a small unit, the division serves more types of customers than any other single department division, providing packaged data, quantitative analysis, revenue forecasts, and policy analysis to internal and external customers. The customers for TAD products include, but are not limited to, the Governor's office, members of the General Assembly, other divisions of the department, and all levels of local government.

Many of TAD's products are prepared on a regular basis. Each session of the Ohio General Assembly, the division provides revenue estimates for scores of bills that have proposed tax law changes and many proposals that never reach bill form. This activity is augmented by analyses of federal legislation that may impact Ohio state or local government finances. In addition to revenue estimates for specific law changes, TAD also does overall revenue estimating for the state budget, contributing to the formal process within the Office of Budget and Management.

The tax data series on the department's Internet site contains a number of data products that are updated monthly, quarterly, or annually. When the biennial budget is prepared, TAD provides assistance to the Office of Budget and Management (OBM) in forecasting tax revenues. Once the forecasts are finalized, the division then tracks revenue on a monthly basis and assists OBM with any updates of the forecasts. Tax Analysis also provides estimates of the Governor's tax proposals in the executive budget. In addition, TAD produces the Tax Expenditure Report, traditionally "Book Two" of the executive budget.

The division also produces or contributes to research publications that are meant as educational aids to decision makers. One such publication is the **Property Taxation and School Funding** report. In addition, the division produces statistics, tables, graphs, and interstate comparison data for departmental publications such as the **Brief Summary of Major State and Local Taxes in Ohio** and the **Annual Report**.

The division provides a number of services to local governments. It produces dozens of estimates of school district income tax revenues each year. The division also produces (in conjunction with the Revenue Accounting Division) estimates of the distributions to the three local government funds, and handles the estate tax settlements from local governments. TAD also provides informal consulting to school districts and other local governments on property tax ques-