Year in Review

Fiscal Year 2011 (ending June 30, 2011) was a year of transition for the Ohio Department of Taxation (ODT). Ohio voters chose to change governors and that choice, Governor John R. Kasich, brought a new tax commissioner, former Franklin County Auditor Joe Testa, to the department in January 2011. Testa is the 18th tax commissioner appointed by a governor of Ohio since the department was created in 1939.

The new governor and new tax commissioner arrived with a slightly growing economy producing tax revenues sufficient in FY 11 to reverse a four-year decline in the state's general revenue. Driving the growth in revenues were Ohio's two largest taxes, with personal income taxes payments jumping nearly twelve percent and sales tax receipts coming in more than seven percent higher.

ODT: Managing with Economy

Despite some revenue rebound, the state was facing a projected $8 billion deficit in the upcoming biennium (FY 2012-13) and the new administration responded with a charge to focus on managing state government with maximum economy. The Department, with the new eyes and perspectives of a new administration, began a search for economies and efficiencies across ODT's operations.

That search yielded an opportunity for ODT to reduce its size and budget. With the increasing use and impact of technology – more taxpayers filing on-line, an ever-expanding use of a centralized telephone system to provide efficient and consistent taxpayer service, and a shift to a telecommuting business model for auditors and enforcement agents -- fewer customers than ever were visiting the department's eight Taxpayer Service Centers around the state. The decision was made to close all service centers but the one in Columbus at the end of FY 11.

The impact of the service center closings would provide for significant savings in the department's proposed budget and even greater reduction in staff size. With a downsizing totaling 12% of authorized personnel, the budget request for the next biennium recognized savings (all funds) of 9.2%, or more than $30.8 million. The FY 11 operating budget totaled $90.2 million (General Revenue Funds only).

The focus on economizing and efficiency produced other, if somewhat smaller, savings as well. More than one million dollars came from steps taken that vastly improve the processing of tax appeals, which also significantly reduced a backlog of appeals waiting to be resolved. In fewer than six months, the backlog was reduced from 17,500 cases to less than 7,000. The new system is producing better tracking, faster results, lower average cost per case and less storage, paper, and handling.

Reducing the use of paper also cut significantly into the cost of printing and postage in the administration of the income tax. With increasing numbers of taxpayers filing and paying income tax online – 78.5% in Tax Year 2010, up from 72.4% in Tax Year 2009 – the demand for forms and instructional booklets, and the need to correspond with taxpayers by mail has dropped considerably. The result: a savings on printing and postage of nearly $1.2 million dollars.

The priority of driving the department to an even greater use of electronic filings and communications and less reliance on paper prompted two initiatives with potential to produce even more savings. The department is studying ways to facilitate the filing of more of its 1,400 forms online, and is in the process of adopting new web site management tools that will offer better and more services to taxpayers wanting to do business with the department online.

ODT: New Laws; New Initiatives

There was a flurry of legislative and executive initiatives enacted in FY 11 entrusting the Department of Taxation with some major new responsibilities to help taxpayers understand and comply with Ohio's tax laws. Principal among those were two tax amnesty programs scheduled for the following biennium.

Tax Amnesty Programs

The department began planning for a Use Tax Amnesty scheduled to run from October 2011 to May of 2013 and a separate General Tax Amnesty scheduled from May 1 to June 15, 2012. Each amnesty has a somewhat different goal but both offer significant opportunity for taxpayers to save money and come into compliance with tax laws.

The Use Tax Amnesty aims to raise awareness among and help educate Ohio businesses about the little known and often misunderstood use tax. The amnesty is designed to be business friendly and will offer incentives to those taxpayers who come forward to register and pay use tax they owe. Those incentives include limiting potential tax liability to no more than two years, allowing taxpayers with use tax liability to pay their obligation with no penalty or interest, and offering a payment plan for those with liabilities exceeding $500. An important goal of the program is to promote equity by making sure all Ohio businesses are fulfilling their tax obligations.

The General Tax Amnesty is designed to provide all taxpayers, individual and business, an opportunity to settle their tax bills at a lower cost and produce additional revenues to fund services to all Ohioans. This amnesty allows taxpayers who come forward to pay unreported liabilities to avoid penalty and half the interest charge normally imposed. Estimates are that this amnesty could produce up to $40 million dollars for the state and local governments.

Fiscal Year 2011 included the launching of some other major tax initiatives; one that will provide a major cut in Ohio tax, the other a major opportunity to spur investment in Ohio businesses and the state's economy.

Repealing Ohio's Estate Tax

Legislation approved in FY 11 will eliminate the Ohio estate tax effective January 1, 2013. That tax generated more than $374 million in Fiscal Year 2011. Local governments receive eighty percent of the estate tax; state government receives twenty percent. The tax has roots in Ohio tracing back to 1893.

InvestOhio: Boosting Ohio's Small Businesses

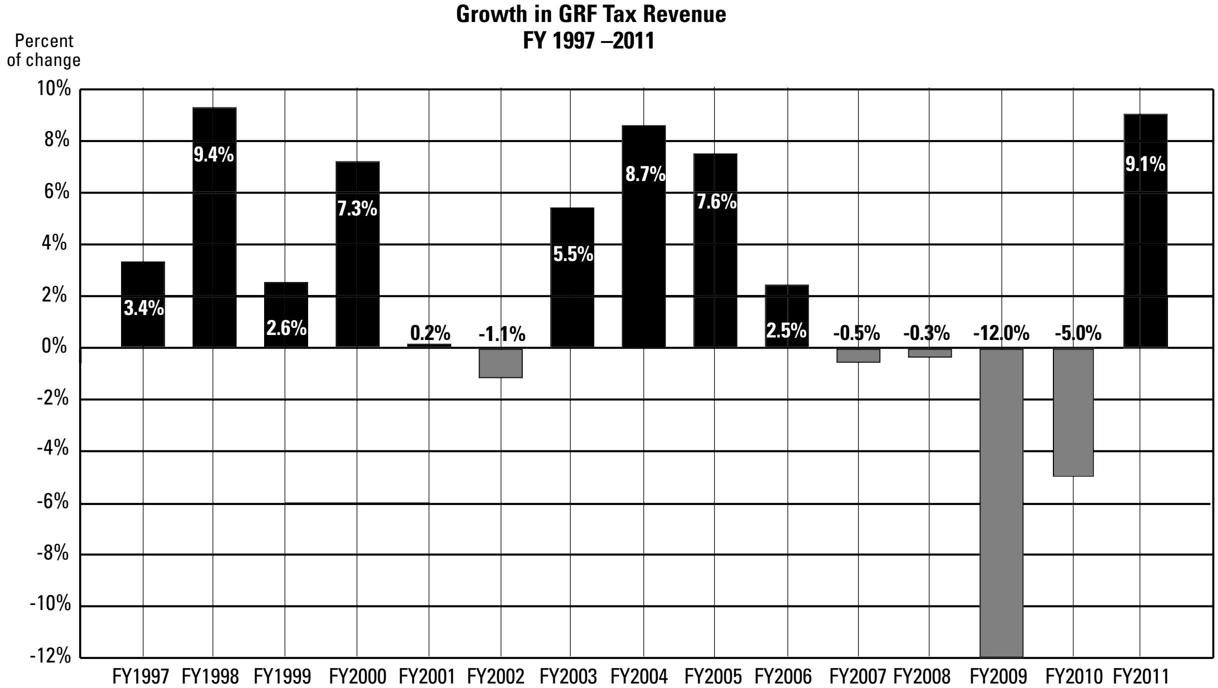
The Governor and General Assembly also agreed in FY 11 to create a new program to spur investments in Ohio small businesses of up to one billion dollars over the next biennium. The program is called InvestOhio. The program allows investors to take a non-refundable credit on their Ohio income tax equal to ten percent of their investment. The investment must be held for two years. Allowable credits are capped at $100 million over the biennium.

Preserving the Income Tax Cut

Fiscal Year 2011 also included the revival of a 4.2% cut in Ohio's income tax rates, the fifth and final installment of a planned 21% cut that began in 2005. This final reduction had been delayed for two years because of the state's budget difficulties. This final cut will put an estimated $446 million back into the wallets of Ohio taxpayers.

State income tax payers benefitted during FY 11 from another measure that saved them approximately $25 million. Ohio, for the first time, began adjusting its income tax brackets to account for inflation. Ohio joined about a dozen other states that index for inflation.

Growth in GRF Tax Revenue
FY 1997 –2011



GRF tax revenue, 2004-11
(figures in millions)

	Revenue	change
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%
2010	$16,233.6	-5.0%
2011	$17,706.1	+9.1%