

- Increases in GRF operating appropriations.
- Administers tax exemption for pollution control facilities

## Taxation, Department of

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### ROLE

The Ohio Department of Taxation (ODT) is responsible for the administration and enforcement of over 20 state and locally levied taxes. The Tax Commissioner administers all state taxes except for the insurance taxes and the motor vehicle license tax. Under the categories of administration and enforcement, the Department performs such duties as registering taxpayers, processing tax returns, determining tax liabilities, issuing refunds and assessments, conducting audits, and enforcing Ohio tax laws. In addition, ODT oversees the administration of the real property tax by local governments.

In addition, the Department is responsible for determining the amount of various revenue distributions to local governments, including motor fuel tax distributions, reimbursement of local governments for property tax relief, permissive sales and use tax distributions, and allocations to counties from the Library and Local Government Support Fund (LLGSF), Local Government Fund (LGF), and Local Government Revenue Assistance Fund (LGRAF).

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2004	2005	2004	2005	
1,706	\$1.9 billion	\$2.0 billion	\$553.8 million	\$582.1 million	Am. Sub. H. B. 95

\*Employee head count obtained from the Department of Administrative Services (DAS) payroll reports as of June 28, 2003.

### OVERVIEW

Appropriations for FY 2004 are \$1,889,855,653. This amount is \$72,920,373 less than FY 2003 actual expenditures, a 3.7% decrease. Appropriations for FY 2005 are \$1,959,035,232. This amount is \$69,179,579 greater than FY 2004 appropriations, a 3.7% increase.

General Revenue Fund appropriations for FY 2004 and FY 2005 are \$553,815,222 and \$582,072,003, respectively. The FY 2004 amount is \$12,020,517 less than FY 2003 actual expenditures (a 2.1% decrease) and the FY 2005 amount is \$28,256,781 less than FY 2004 appropriations (a 5.1% increase).

## **BUDGET ISSUES**

### ***DEPARTMENT OF TAXATION STAFFING LEVEL***

Total employment at ODT has declined beginning in the early 1990s. Last fiscal year, ODT hired and planned to hire over 80 new employees. The Department also plans to hire several more in this biennium. The additional costs for some of the new employees' salaries are not included in the FY 2003 actual spending. The full payroll expenses of the additional staff are included in the FY 2004 and FY 2005 appropriations.

### ***MOTOR FUEL TAX ADMINISTRATION FUND***

Am. Sub. H. B. 95 of the 125th General Assembly created the Motor Fuel Tax Administration Fund (Fund 5V7) to pay the expenses of the Department of Taxation to administer the motor fuel tax, and requires that 0.275% of motor fuel tax receipts be credited to the Fund, after the Tax Refund Fund and Waterways Safety Fund are credited.

The Department will fund 70% of the Excise Tax Division, 1.5 FTEs in the Enforcement Division, 1.2 FTEs in the Processing Center, and 1.5 FTEs in the Taxpayer Services Division. In all, 37 FTE employees and their associated activities and equipment, which are currently funded by the GRF, will be funded by the Motor Fuel Tax Administration Fund. The executive budget provides this Fund with \$3.7 million in FY 2004 and \$3.8 million in FY 2005. In previous transportation budget bills, similar amounts were transferred from the Highway Operating Fund (Fund 002) to the GRF to provide for administration of the tax. Thus, this change has no substantive effect on the Highway Operating Fund.

### ***ENFORCEMENT OF THE MOTOR FUEL USE TAX AND MOTOR FUEL TAX LAWS***

Am. Sub. H. B. 95 of the 125th General Assembly increases the penalty for the violation of operating certain commercial cars and commercial tractors with a suspended or surrendered motor fuel use permit from a fourth degree misdemeanor to a fifth degree felony. In addition, the operator may be "detained" until a valid fuel use permit is obtained or reinstated.

### ***TAX EXEMPTION FOR POLLUTION CONTROL FACILITIES***

Under Am. Sub. H. B. 95 of the 125th General Assembly the Tax Commissioner creates and administers uniform procedures for application for special-purpose tax-exempt facilities. The Director of Environmental Protection is to provide recommendations regarding applications for water pollution control facilities, and the Director of Development is to provide recommendations regarding applications for energy conversion and thermal efficiency facilities. A fee of one-half of one percent of cost, not to exceed \$2,000 per facility is to be charged for each application, with half of the fee to be credited to a new fund, the Exempt Facility Administrative Fund, for appropriation to the Department of Taxation in administering these tax-exempt facilities. The other half is to be credited to the Clean Air Fund for an air or noise pollution control facility; to the Surface Water Protection Fund for an industrial water pollution control facility; or to the Exempt Facility Inspection Fund, a new fund, for use by the Department of Development in providing recommendations regarding applications for tax exemption for energy conversion facilities, solid waste energy conversion facilities, or thermal efficiency improvement facilities.

Furthermore, Am. Sub. H. B. 95 of the 125th General Assembly provides that a certificate issued by the Tax Commissioner prior to July 1, 2003 may be revoked on the basis of agreement of the Tax Commissioner with an opinion from the Director of Environmental Protection or the Director of Development that a certificate should not have been issued.

Currently, no fee is imposed except for industrial water pollution control applications, which have a \$500 fee. This provision creates two new funds out of which would be paid the costs of administering tax exemption for special-purpose facilities. These new fees would generate larger fee income for facilities costing over \$200,000, and smaller fee income for less costly facilities.

### ***HOMESTEAD EXEMPTION, PROPERTY TAX ROLLBACK, AND TANGIBLE TAX EXEMPTION***

Am. Sub. H. B. 95 of the 125th General Assembly appropriated two GRF line items, 110-901, Property Tax Allocation – Taxation and 110-906, Tangible Tax Exemption – Taxation, to pay the state's costs incurred due to the Homestead Exemption, the Manufactured Home Property Tax Rollback, and the Property Tax Rollback and the tangible personal property tax exemption. These moneys are distributed with county auditors, who distribute the appropriate amounts to the local taxing districts.

### ***MISCELLANEOUS***

#### **Travel Expenses for Streamlined Sales Tax Project**

Am. Sub. H. B. 95 of the 125th General Assembly allows the Tax Commissioner to use funds from appropriation item 110-607, Local Tax Administration (Fund 435) to pay for travel costs associated to Streamlined Sales Tax meetings.

#### **Reporting Requirements for the Tobacco Product Manufacturer Directory Law**

Stamping agent is required to include a list (by brand family) of the total number of cigarettes, or, in the case of roll-your-own, the equivalent stick count, to which the agent affixed a tax stamp or for which the agent otherwise paid the tax due, for the period covered by the report, rather than the previous calendar quarter in a report filed with the Tax Commissioner.

#### **International Registration Plan Audit**

Appropriated line item 110-616, International Registration Plan, (Fund 4C6) in the state special revenue fund group for the audits of persons with vehicles registered under the International Registration Plan.

#### **Litter Control Tax Administration Fund**

Allows some corporate franchise tax revenues to be deposited into the Litter Control Tax Administration Fund (Fund 437).

#### **Municipal Income Tax**

Appropriated line item 110-901, Municipal Income Tax, (Fund 095) in the Agency Fund Group, to make payments to municipal corporations for the municipal income tax on electric companies. This tax is collected and distributed by the Department of Taxation.

### **Tax Refunds**

Am. Sub. H. B. 95 of the 125th General Assembly allows the Tax Commissioner to recover tax refund amounts distributed to counties and transit authorities, if the refund amounts are for a tax that was not levied by the state.


### **Extension of Tax Commissioner's Power to Disregard Sham Transactions**

Am. Sub. H. B. 95 of the 125th General Assembly extends the Tax Commissioner's authority to disregard sham transactions to every tax administered by the Tax Commissioner. Currently it is limited to corporate franchise tax assessments, income tax assessments, and the up-front collection of sales taxes on certain leases.

### **Housing Officers Granted Jurisdiction**

Under Am. Sub. H. B. 95 of the 125th General Assembly, the Tax Commissioner will not have any jurisdiction to hear complaints that challenge the continued exemption of property located in a community reinvestment area (CRA). This bill grants jurisdiction to the housing officer that granted the exemption. The provision counters the Ohio Supreme Court's 2001 decision, *Gahanna-Jefferson Local School Dist. Bd. of Educ. v. Zaino*, in which the court ruled the Tax Commissioner had jurisdiction to hear CRA complaints under current law.

### **Centralized Tax Filing and Payment**

Am. Sub. H. B. 95 of the 125th General Assembly requires the Director of Budget and Management to transfer \$3.0 million from the GRF to the Centralized Tax Filing and Payment Fund, Fund 5W4, in the state special revenue fund group in the Department of Taxation's budget. 

**FY 2004 - 2005 Final Appropriation Amounts**

**All Fund Group**

**Line Item Detail by Agency**

**FY 2001:      FY 2002:      FY 2003:      FY 2004 Appropriations:      % Change 2003 to 2004:      FY 2005 Appropriations:      % Change 2004 to 2005:**

**Report For: Main Operating Appropriations Bill**

**Version: Enacted**

<b>TAX Taxation, Department of</b>									
GRF	110-321	Operating Expenses	\$ 88,385,981	\$ 85,885,059	\$86,188,942	\$ 92,501,007	7.32%	\$ 94,267,788	1.91%
GRF	110-410	Energy Credit Administration	\$ 27,946	---	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-412	Child Support Administration	\$ 15,391	\$ 122,993	\$78,521	\$ 74,215	-5.48%	\$ 74,215	0.00%
GRF	110-506	Utility Bill Credits	\$ 603,052	\$ 125	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-901	Property Tax Allocation - TAX	\$ 363,912,241	\$ 351,001,027	\$451,575,366	\$ 434,650,000	-3.75%	\$ 462,640,000	6.44%
GRF	110-906	Tangible Tax Exemption - TAX	\$ 27,136,148	\$ 27,842,883	\$27,992,910	\$ 26,590,000	-5.01%	\$ 25,090,000	-5.64%
<b>General Revenue Fund Total</b>			<b>\$ 480,080,758</b>	<b>\$ 464,852,087</b>	<b>\$ 565,835,739</b>	<b>\$ 553,815,222</b>	<b>-2.12%</b>	<b>\$ 582,072,003</b>	<b>5.10%</b>
433	110-602	Tape File Account	\$ 120,772	\$ 96,736	\$98,050	\$ 96,165	-1.92%	\$ 96,165	0.00%
<b>General Services Fund Group Total</b>			<b>\$ 120,772</b>	<b>\$ 96,736</b>	<b>\$ 98,050</b>	<b>\$ 96,165</b>	<b>-1.92%</b>	<b>\$ 96,165</b>	<b>0.00%</b>
3J6	110-601	Motor Fuel Compliance	\$ 25,191	\$ 36,570	\$15,703	\$ 33,300	112.06%	\$ 25,000	-24.92%
3J7	110-603	International Fuel Tax Agreement	\$ 79,470	\$ 70,675	\$0	\$ 0	N/A	\$ 0	N/A
<b>Federal Special Revenue Fund Group Total</b>			<b>\$ 104,661</b>	<b>\$ 107,245</b>	<b>\$ 15,703</b>	<b>\$ 33,300</b>	<b>112.06%</b>	<b>\$ 25,000</b>	<b>-24.92%</b>
5N5	110-605	Municipal Income Tax Administration	---	\$ 184,274	\$346,242	\$ 650,000	87.73%	\$ 650,000	0.00%
437	110-606	Litter Tax and Nat. Resource Tax Admi	\$ 1,366,546	\$ 546,590	\$414,603	\$ 625,232	50.80%	\$ 625,232	0.00%
435	110-607	Local Tax Administration	\$ 11,032,157	\$ 19,521,060	\$15,954,816	\$ 13,600,000	-14.76%	\$ 13,700,000	0.74%
436	110-608	Motor Vehicle Audit	\$ 1,207,651	\$ 1,118,269	\$950,100	\$ 1,350,000	42.09%	\$ 1,350,000	0.00%
438	110-609	School District Income Tax	\$ 2,444,737	\$ 2,221,394	\$1,798,506	\$ 2,599,999	44.56%	\$ 2,599,999	0.00%
4R6	110-610	Tire Tax Administration	\$ 37,846	\$ 169,575	\$49,022	\$ 65,000	32.59%	\$ 65,000	0.00%
642	110-613	Ohio Political Party Distribution	\$ 488,760	\$ 517,492	\$488,217	\$ 600,000	22.90%	\$ 600,000	0.00%
639	110-614	Cigarette Tax Enforcement	\$ 143,660	\$ 152,903	\$111,617	\$ 168,925	51.34%	\$ 168,925	0.00%
688	110-615	Local Excise Tax Administration	\$ 356,752	\$ 203,082	\$115,535	\$ 300,000	159.66%	\$ 300,000	0.00%
4C6	110-616	International Registration Plan	\$ 585,261	\$ 630,770	\$687,811	\$ 706,855	2.77%	\$ 706,855	0.00%
5N6	110-618	Kilowatt Hour Tax Administration	---	\$ 69,498	\$72,794	\$ 85,000	16.77%	\$ 85,000	0.00%
5N7	110-619	Municipal Internet Site	---	\$ 2,451	\$1,849	\$ 0	-100.00%	\$ 0	N/A
5V7	110-622	Motor Fuel Tax Administration	---	---	\$0	\$ 3,734,036	N/A	\$ 3,833,091	2.65%
5V8	110-623	Property Tax Administration	---	---	\$0	\$ 11,569,719	N/A	\$ 11,938,362	3.19%
5W4	110-625	Centralized Tax Filing and Payment	---	---	---	\$ 3,000,000	N/A	\$ 3,000,000	0.00%
<b>State Special Revenue Fund Group Total</b>			<b>\$ 17,663,370</b>	<b>\$ 25,337,357</b>	<b>\$ 20,991,112</b>	<b>\$ 39,054,766</b>	<b>86.05%</b>	<b>\$ 39,622,464</b>	<b>1.45%</b>
425	110-635	Tax Refunds	\$ 1,417,186,988	\$ 1,295,681,977	\$1,357,674,143	\$ 1,296,756,200	-4.49%	\$ 1,337,119,600	3.11%

**FY 2004 - 2005 Final Appropriation Amounts**

**All Fund Group**

<b>Line Item Detail by Agency</b>				<b>FY 2004</b>	<b>% Change</b>	<b>FY 2005</b>	<b>% Change</b>			
				<b>Appropriations:</b>	<b>2003 to 2004:</b>	<b>Appropriations:</b>	<b>2004 to 2005:</b>			
				<b>FY 2001:</b>	<b>FY 2002:</b>	<b>FY 2003:</b>				
<b>TAX Taxation, Department of</b>										
<b>Agency Fund Group Total</b>				<b>\$ 1,417,186,988</b>	<b>\$ 1,295,681,977</b>	<b>\$ 1,357,674,143</b>	<b>\$ 1,296,756,200</b>	<b>-4.49%</b>	<b>\$ 1,337,119,600</b>	<b>3.11%</b>
R10	110-611	Tax Distributions		----	\$ 50	\$0	\$ 50,000	N/A	\$ 50,000	0.00%
R11	110-612	Misc Income Tax Receipts		\$ 3,382	----	\$0	\$ 50,000	N/A	\$ 50,000	0.00%
<b>Holding Account Redistribution Fund Group Total</b>				<b>\$ 3,382</b>	<b>\$ 50</b>	<b>\$ 0</b>	<b>\$ 100,000</b>	<b>N/A</b>	<b>\$ 100,000</b>	<b>0.00%</b>
<b>Taxation, Department of Total</b>				<b>\$ 1,915,159,930</b>	<b>\$ 1,786,075,453</b>	<b>\$ 1,944,614,747</b>	<b>\$ 1,889,855,653</b>	<b>-2.82%</b>	<b>\$ 1,959,035,232</b>	<b>3.66%</b>