



Ohio Legislative Service Commission

Phil Cummins

Fiscal Note & Local Impact Statement

Bill: H.B. 402 of the 130th G.A.

Date: February 3, 2014

Status: As Introduced

Sponsor: Reps. Duffey and Landis

Local Impact Statement Procedure Required: Yes

Contents: Requires the Tax Commissioner to notify taxpayers of tax or fee overpayments, and permits the Commissioner to credit the excess against future obligations or issue a refund

State Fiscal Highlights

STATE FUND	FY 2014	FY 2015	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Increase of \$924,000	Increase
Local Government Fund (Fund 7069), Public Library Fund (Fund 7065)			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Decrease equal to revenue loss	Decrease equal to revenue loss

Note: The state fiscal year is July 1 through June 30. For example, FY 2014 is July 1, 2013 – June 30, 2014.

- The bill requires the Tax Commissioner to review taxpayers' accounts and notify taxpayers of any credit balances identified.
- This review would likely find overpayments, possibly of large amounts.
- Refunds or credits against future taxes or fees owed would likely reduce net revenues to the GRF and other funds to less than would otherwise be retained.
- The bill increases the amount appropriated for Department of Taxation operating expenses by \$924,000 in FY 2015 to cover one-time costs of the bill, and the Department would incur ongoing costs for reviews and notifications.
- Loss of GRF revenue would reduce transfers to the Local Government Fund (LGF) and Public Library Fund (PLF), which each receive 1.66% of amounts credited to the GRF in the preceding month. All LGF and PLF revenues are distributed to local governments and libraries in the month received.

Local Fiscal Highlights

- The bill would reduce LGF and PLF revenues to counties and municipal governments. Counties further distribute LGF revenues to other units of local government and PLF revenues mainly to libraries.

Detailed Fiscal Analysis

H.B. 402 requires the Tax Commissioner to review taxpayers' accounts and notify them of any overpayments of taxes or fees. The review and notification are to be done at least 60 days before each deadline for a taxpayer to file a refund application for the tax or fee. The Tax Commissioner may either apply the amount of any credit balance owed to the taxpayer's liability in the next reporting period for that tax or fee, or issue a refund, net of any tax debt of that taxpayer certified to the Attorney General for collection.

The Department of Taxation will incur costs for these reviews and notifications. The bill includes a supplemental appropriation to GRF line item 110321, Operating Expenses, of \$924,000 in FY 2015. This cost would be for one-time outlays on computer systems. Costs for reviews and notifications would continue in future years.

Reviews required by the bill could be expected to identify overpayments for which taxpayers had not filed refund applications or amended returns, and likely would not timely file to recover these overpayments in the absence of such reviews. The amount of such overpayments is not known, but could be substantial. In the absence of the bill, some portion of overpayments would be identified by taxpayers as due back to them, within the time period for filing for refunds. Some portion likely would not be so identified, and the bill could result in loss of net revenue to the GRF and other funds, possibly of sizable amounts. The Department of Taxation administers numerous taxes and fees. Revenues are deposited into a number of funds, with the largest share paid into the GRF.

A November 2013 Report of Investigation from the Office of the Inspector General indicates overpayment balances totaled over \$234 million, on taxpayer accounts that each had an overpayment of more than \$5,000, as of July 2012. Overpayment balances regardless of the amount of the overpayment on the individual account totaled over \$294 million, though in many of the individual accounts the overpayment was less than \$1. Although the Inspector General's report makes reference to an earlier request for overpayment balances over a three-year period, the report is not clear as to whether the above-referenced amounts also pertain to a three-year period, so would fall within the period within which a taxpayer could request a refund.

The Inspector General's report notes that accounts may show overpayments because of advance payments by taxpayers, or because of mathematical or data entry errors by the taxpayer or the Department that are later corrected. That report indicates that a review of overpayments conducted by the Department found, for four types of taxes (corporate franchise, employer withholding, school district withholding, and sales and use) with overpayments totaling about \$74 million, that overpayments of \$31 million were refundable, overpayments of \$19 million were nonrefundable, and

more information would be needed to determine the status of overpayments totaling \$24 million.

Each month, 1.66% of total tax revenue credited to the GRF in the previous month is credited to the Local Government Fund (LGF) and Public Library Fund (PLF). All amounts credited to each of these funds are paid in the month received to counties and municipal corporations. Counties further distribute part of revenues from the LGF to other units of local government, primarily municipalities and townships, and retain part. Counties distribute the vast majority of revenue from the PLF to libraries, and pay the rest to municipal corporations in a few counties. Thus any reduction in GRF revenues resulting from the bill would reduce funding to units of local government and to public libraries.

In addition, the Department administers the school district income tax. The review and notification required by the bill could result in loss of revenue from this tax, likely of only a small amount based on the figures reported in the Inspector General's report.