

Department of Taxation

OVERVIEW

In the past biennium the Ohio Department of Taxation developed a new mission statement. The new mission statement is: “To provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.” Three primary goals for the Department were also set. (1) Develop a taxpayer service approach, similar to what the IRS and other states are implementing; (2) Modernize the Department’s operations through effective deployment of technology and by updating tax policy; and (3) Address the significant human resource development issues facing the Department over the next several years as 50% of the management and experienced staff reaches retirement age. The new mission statement and goals of the Department of Taxation reflect the policies and direction of Tax Commissioner Thomas Zaino, who was appointed after the current budget was enacted.

The Ohio Department of Taxation is responsible for the administration and enforcement of over 20 state and locally levied taxes.¹ 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, the Department of Taxation oversees the administration of the real property tax by local governments. It will no longer administer the Energy Credits program that assists low-income Ohioans with heating bills. The Department of Development assumed responsibility for this program on July 1, 2000.

The Tax Commissioner is responsible for the *collection* of the personal income tax and the horse racing tax while the Treasurer of State collects most other taxes. In addition, the Tax Commissioner is charged with administering the certification procedures for pollution control and energy conservation facilities.

Finally, 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).

Recently, the Department of Taxation made an increased effort to examine the costs associated with administering certain taxes and using the funds available to them from these taxes, rather than using GRF funding to cover these costs.

¹ The Kilowatt-hour tax goes into effect May 1, 2001. The Mcf Tax for natural gas goes into effect July 1, 2001, and the Municipal Income Tax for electric utilities goes into effect January 1, 2002.

The department maintains 12 district offices, including three in other states (the offices are in the vicinity of Chicago, Los Angeles, and New York). The district offices serve taxpayers by providing local access to the department. They also make it easier for tax agents to engage in both auditing and voluntary compliance activities. The out-of-state offices have been established in locations where there are significant potential revenue gains from increasing the Ohio tax law compliance of out-of-state businesses, and significant cost-savings from not having to pay the travel costs of Ohio tax agents.

As of January 2001, the department employed roughly 1,260 full-time tax agents and support personnel. The department's goal had been to increase employment to a target of 1,300. However, given that the executive budget recommendations did not fund all of the department's requests, and the fact that the technology increases being implemented by the Department may make it possible to operate with fewer employees in the long run, the department is re-evaluating its staffing targets. However, as stated in the Department's goals above, the department is facing some human resource challenges.

The largest initiative in the Department of Taxation's budget is the e-Business project. This project is designed to support the department's transition to e-Government. By developing an Extranet it can connect the county auditors to the department's systems to allow exchange of information, and update and retrieve information on-line. It will also create additional paperless filing methods, provide Internet payment options, and provide taxpayers with multiple alternatives for accessing/receiving information. This project will be funded by State Special Revenue Fund 435 (Local Tax Administration).

The executive budget provides the department with GRF funding of \$89,493,893 for FY 2002 (a decrease of 0.25 percent from estimated FY 2001 expenditures) and \$91,486,240 in FY 2003 (an increase of 2.2% over the previous year's recommendation). The two line items that account for this funding are 110-321 (Operating Expenses) and 110-412 (Child Support Administration).

ADDITIONAL FACTS AND FIGURES

Department of Taxation Staffing Levels				
Unit	FY 1994	FY 1996	FY 1998	FY 2000
Administrative Divisions	102	100	96	47
Legal Division				24
Bankruptcy				7
Investigation & Enforcement				21
Budget and Fiscal			34	31
Information Services	92	112	124	132
Property Tax Division	78	64	46	44
Sales and Use Tax Division	151	123	89	97
Excise and Motor Fuel Tax Division	68	63	52	48
Tax Equalization Division	33	32	28	30
District Offices	420	394	380	357
Service Center Division	244	249	209	183
Corporate Franchise Tax Audit Division	47	46	43	29
Income Tax Audit Division	46	45	46	56
Income Tax Support Division	70	61		
Income Tax Operations				4
School District Income Tax Division			9	
Estate Tax Division	17	20	21	20
Public Utilities Division			9	7
Forms and Noticing Division			2	5
Billings and Assessments Division	56	57	71	
Taxpayer Services and Compliance Division			50	3
Compliance Division				69
Taxpayer Services Division				52
Other		3		
Total Permanent Employees	1,424	1,369	1,309	1,266
Temporary Employees	144	144	147	174
Total Employees	1,568	1,513	1,456	1,440

All the staffing numbers presented above are as of the end of the fiscal year. Three things should stand out from the table:

- (i) The department is reorganizing, so the divisions don't match up exactly across fiscal years.
- (ii) Overall employment has been declining.

- (iii) Reorganization is shifting staffing levels across divisions. For example, the information services division has been growing, while staff in the sales and use tax division has shrunk dramatically.

ANALYSIS OF EXECUTIVE PROPOSAL

Tax Administration

Program Series 1

Purpose To administer Ohio's tax laws, efficiently and cost effectively. Administration involves registering taxpayers, processing tax returns, determining tax liabilities, issuing refunds and assessments, and enforcing Ohio tax laws.

The following table shows the line items that are used to fund this program series, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2002	FY 2003
GRF	110-321	Operating Expenses	\$89,399,057	\$91,394,397
GRF	110-412	Child Support Administration	\$94,836	\$91,846
433	110-602	Tape File Account	\$92,082	\$96,165
3J6	110-601	Motor Fuel Compliance	\$33,000	\$33,000
4C6	110-616	International Registration Plan	\$669,561	\$706,855
4R6	110-610	Tire Tax Administration	\$65,000	\$65,000
435	110-607	Local Tax Administration	\$29,517,404	\$24,189,026
436	110-608	Motor Vehicle Audit	\$1,687,249	\$1,600,000
437	110-606	Litter Tax and Natural Resources Administration	\$594,726	\$625,232
438	110-609	School District Income Tax	\$2,873,446	\$2,599,999
639	110-614	Cigarette Tax Enforcement	\$161,168	\$168,925
688	110-615	Local Excise Tax Administration	\$300,000	\$300,000
425	110-635	Tax Refunds	\$860,000,000	\$875,000,000
5N6	110-618	Kilowatt Hour Tax Administration	\$85,000	\$85,000
5N7	110-619	Municipal Internet Site	\$10,000	\$10,000
Total funding: Tax Administration			\$1,149,938,045	\$1,132,543,311

This analysis will focus on the following:

- **E-Business Project and the Integrated Tax Administration System**
- **Tax Automation Efforts**
- **Tax Administration / Tax Processing Program**

E-Business Project

The E-Business Project –The Department of Taxation budget includes \$12,520,487 in FY 2002, and \$8,910,655 in FY 2003 for the e-Business project. The e-Business system will be built by outside consultants and maintained by the department. Over the next two years they have budgeted \$10.5 million for consultants, \$8.4 million for equipment, and \$2.5 million for maintenance. This project will be funded entirely by the department's State Special Revenue Fund 435, which supports local governments. The e-Business project is oriented towards supporting local governments. The Department of Taxation sees this project as a capital investment that will have long-term benefits, but is not an on-going project.

The e-Business project is designed to be a significant move toward e-government. The department plans to develop a statewide Extranet tying the county auditors to the Department of Taxation's systems that will allow for the exchange of information. It will also allow taxpayers to update and retrieve information on-line by tying multiple systems together. It will also automate many procedures to provide better, more cost-efficient customer service. By using technology the department will integrate email, call-centers and interactive voice response systems. It will provide Internet payment options to initially pay personal income taxes and file business taxes. 'No tax due' sales tax returns will also be able to be filed on-line. Eventually there will also be web applications for vendors' licenses.

Funding Source: State Special Revenue Fund 435.

Line Items: 110-607.

Implication of the Executive Recommendation: The executive budget fully funds this program.

Integrated Tax Administration System (ITAS) –ITAS, which began in 1996, is a mainframe computer program that integrates into one account business taxpayer data that was previously scattered across divisions that administered particular taxes. Throughout the years, the Department of Taxation has dedicated significant resources to stabilize the system's operational problems. This year the department has decided to start moving away from the ITAS because it was not designed for e-Government. The ITAS will continue to be the Sales Tax, Employer Withholding, and Franchise Tax processing system for the next several years. The department's e-Business system discussed above will allow data in the ITAS to be integrated with other computer systems used by the Department of Taxation.

TAX AUTOMATION

Program Description: Improves service delivery to Ohio's taxpayers and assists the department's operating divisions in using information technology to increase efficiency and effectiveness. This program contains several initiatives:

Telefile – This program allows taxpayers to file their tax returns over the telephone. In CY 1997, the department ran a Telefile pilot project with Form 1040EZ Franklin County taxpayers. In CY 1998, Telefile went statewide. While the program increased the department's spending on phone lines, the program saves the department money by reducing the amount of time the department employees have to spend entering data, and the amount of time correcting mistakes in the data. It also benefits the taxpayers by reducing the waiting time for refunds from 4-6 weeks to 10-14 days.

Last year, 421,483 taxpayers filed their tax returns using Telefile. As of February 20, 2001, 263,129 taxpayers have used Telefile to file their 2000 tax return.

E-File – CY 1999 was the first year for electronic filing of income tax returns through paid preparers. The program has had great success and has exceeded the department's expectation each year. Last year, 953,318 taxpayers e-filed their 1999 tax return. As of

February 21, 2001, 673, 838 taxpayers have e-filed their 2000 tax return.

The Department of Taxation estimates that 1.6 million taxpayers will use either the Telefile or e-file programs to file their 2000 tax returns.

TAX ADMINISTRATION and TAX PROCESSING

Technically these are two separate programs, but they are very closely linked. In fact, since the funding for tax processing is included in the budget for tax administration, this summary discusses them as if they were one program.

Program Description: Tax administration includes six distinct functions:

- (i) Registration of taxpayers;
- (ii) Issuance of billing notices and assessments;
- (iii) Review of returns for mathematical accuracy, and full-blown auditing;
- (iv) Information and education. The department prepares information releases, publishes a quarterly newsletter, conducts technical seminars, and makes presentations to taxpayers in order to facilitate compliance with Ohio's tax laws.
- (v) Administration of property tax relief for local governments other than school districts.
- (vi) Review of appeals of Tax Commissioner findings in tax disputes. The department provides the first level of appeal. Determinations of the department may then be appealed to the Board of Tax Appeals.

Funding Source: State GRF, federal grants for fuel tax collection and enforcement, percentages of local taxes (sales and use, school district income, etc.), cigarette license taxes, International Registration Plan (IRP) fees, and motor vehicle title fees.

Line Items: All of the 16 line items listed in the table on page A1, above.

Implication of the Executive Recommendation: The executive budget provides the department with GRF funding of \$89,493,893 for FY 2002 (a decrease of 0.25 percent from estimated FY 2001 expenditures) and \$91,486,240 in FY 2003 (an increase of 2.2% over the previous year's recommendation)¹. The two line items that account for this funding are 110-321 (Operating Expenses) and 110-412 (Child Support Administration). The reduction vis-à-vis FY 2001 is partially due to the appropriation increases in the non-GRF line items. The Department of Taxation made an increased effort to examine the costs associated with

¹ There have been on-going discussions regarding a potential transfer of some tax collection responsibilities from the Office of Treasurer of State (TOS) to the Department of Taxation. If this were to happen it would require a transfer of personnel and equipment from TOS to TAX. Recommended appropriations do not reflect this potential transfer and appropriations for line item 110-321 might later require an adjustment.

administering certain taxes and using the funds available to them from these taxes, rather than using GRF funding to cover these costs. The use of State Special Revenue Fund 435, Local Tax Administration, to pay for the e-Business project is one example of this. (See “E-Business Project,” above.)

The executive budget provides the Department of Taxation with a 2.8% increase in *total funding* for FY 2002, and a 1.2% increase in FY 2003.

PERMANENT AND TEMPORARY LAW

Permanent Law

This section describes permanent and temporary law provisions contained in the executive budget that will affect the department's activities during the next biennium. Several of the sections do not affect the Department of Taxation much from a budgetary standpoint. Instead, they affect state agencies funded with GRF money and local governments because the provisions affect taxes that are deposited into the GRF or distributed to local governments.

Electricity and natural gas excise taxes--clarification (ORC Sections 5727.81 and 5727.811 and Sections 138 and 139)

Two new excise taxes recently have been enacted in Ohio to offset the revenue losses from certain property tax reductions for electric companies and natural gas companies. The tax on electricity, or kilowatt-hour tax, is imposed on electricity distributed to a location in this state, and generally is paid by the company distributing the electricity. The tax is paid monthly on the basis of thirty-day distribution periods. Some large electricity users are permitted to pay the tax directly to the state. The tax on these users--called "self-assessing purchasers" or "self-assessors"--is imposed at a lower rate than applies to other users. Electricity users must apply to the state annually in order to be registered as self-assessors.

The bill clarifies how the kilowatt-hour tax is computed for self-assessors, but does not change the tax rate. The tax currently is computed on the basis of two components: the number of kilowatt-hours of electricity distributed to the self-assessor and the price paid for that electricity. The rate on the number of kilowatt-hours is \$.00075 per kilowatt-hour (kWh), but this rate applies only to 504 million kWhs; the rate on the price is 4%. The bill clarifies that the per-kWh rate applies only to the first 504 million kWhs distributed to the user's location during the registration year. The bill defines a registration year as the 12-month period beginning each May 1. The bill also specifies that an electricity user may apply for self-assessor status at any time during the registration year in order to be taxed as a self-assessor for the remainder of the year.

The excise tax on natural gas, or the so-called "Mcf" tax (Mcf is an abbreviation for 1,000 cubic feet), is imposed on companies that distribute natural gas to a location in Ohio. Enacted in recent legislation (S.B. 287 of the 123rd General Assembly), the tax is scheduled to begin July 1, 2001. It is levied on the basis of the volume of natural gas distributed during one-month-long measurement periods. The bill specifies that the tax will apply to all gas distributed during the measurement period that includes July 1, 2001. Thus, the tax will apply to gas distributed before July 1, 2001, if the gas is distributed during a measurement period that includes July 1, 2001.

These provisions will not increase the tax revenues vis-à-vis the estimate in S.B. 287. However, they make it more likely that the amounts estimated in S.B. 287 will be collected. The kilowatt-hour tax provides revenue to the GRF, as well as to local governments. The Mcf tax provides revenue to local governments only.

Corporation franchise tax apportionment formula (O.R.C. 5733.056)

Under current law, the formula to be used by most financial institutions to determine the base upon which their corporation franchise tax is levied is based on an apportionment of sales, property, and payroll factors. An alternative formula, based on deposits, is available to "qualified institutions" (multistate financial institutions that have at least 10% of their deposits in Ohio and have been involved in certain types of mergers) for tax years 1998-2001. The bill makes the alternative formula available through tax year 2003.

This provision was thought to be revenue neutral when originally enacted (in H.B. 215 of the 122nd G.A.). The data are still out on whether or not that is indeed the case.

Freeze on tax receipts credited to local government funds (Section 131)

The bill freezes amounts of state tax receipts that are deposited into and distributed from the Library and Local Government Support Fund (LLGSF), Local Government Fund (LGF), and the Local Government Revenue Assistance Fund (LGRAAF) at the levels of fiscal year 2001. Although June 2001 deposits and July 2001 distributions will be made under existing law (amounts credited one month are distributed the next), the bill makes adjustments to the July 2001 deposits and August 2001 distributions so that the freeze effectively begins with the June 2001 deposits and July 2001 distributions.

The freezes affect deposits of receipts from the public utilities excise tax, the corporate franchise tax, the sales tax, the use tax, the personal income tax, and the kilowatt-hour tax. Tax receipts that would otherwise have been credited to local funds will instead be credited to the General Revenue Fund (an adjustment is made to capture for the General Revenue Fund the June 2001 deposit of kilowatt-hour taxes). Similarly, amounts that would have been transferred from the Income Tax Reduction Fund to the local government funds will also be transferred to the General Revenue Fund.

Based on the January 2001 LSC revenue estimate for FY 2001, 2002 and 2003, the freeze will add \$68.7 million to the GRF in FY 2002 and \$144.2 million in FY 2003. The local government funds will lose similar amounts.

Temporary Law

Litter Control Tax Administration Fund

This bill authorizes some Corporate Franchise Tax revenues to be deposited into the Litter Control Tax Administration Fund (Fund 437). See Catalog of Budget Line Items 110-606, Litter Tax and Natural Resources Administration, for details.

International Registration Plan Audit

The bill earmarks appropriation item 110-616, International Registration Plan, to be used for the audits of persons with vehicles registered under the International Registration Plan.

Homestead Exemption, property Tax Rollback, and Tangible Tax Exemption

The bill earmarks appropriation item 110-901, Property Tax Allocation – Taxation, to pay the state's costs incurred due to the Homestead Exemption, the Manufactured Home Property Tax Rollback, and the

Property Tax Rollback. It earmarks appropriation item 110-906, Tangible Tax Exemption – Taxation, to pay the state’s cost incurred due to the tangible personal property tax exemption. These moneys are to be distributed to county auditors, who shall distribute the appropriate amounts to the local taxing districts.

Tax Refunds

The temporary law appropriates any additional amounts that are needed to pay tax.

REQUESTS NOT FUNDED

Core budget request						
Fund Line Item	FY 2002 Requested	FY 2002 Recommended	Difference	FY 2003 Requested	FY 2003 Recommended	Difference
GRF 110-321	\$98,150,085	\$89,399,057	(\$8,751,028)	\$107,971,505	\$91,394,397	(\$16,577,108)
GRF 110-412	\$97,728	\$94,836	(\$2,892)	\$99,925	\$91,843	(\$8,082)
Total	\$98,247,813	\$89,493,893	(\$8,753,920)	\$108,071,430	\$91,426,240	(\$16,585,190)

This biennium the Department of Taxation requested \$50 million over their core budget. While all non-GRF requests were funded, the executive budget recommendations fell short of the department's request by more than \$25 million. The majority of the difference between the executive recommendations and the Department of Taxation's budget request lies in the department's requests for personal funding. Currently, the Department of Taxation has approximately 1,260 full time employees (and 147 full-time equivalent intermittent employees), yet they requested funding for 1,300 full time employees¹. OBM funded only current employees and needed intermittent employees. Further, the Department of Taxation requested pay increases for employees. A portion of this was requested in the core budget and was funded in the executive budget. A portion of the pay increases was included in the department's supplemental request. The majority of the supplemental pay increases would benefit long-time employees of the department who show "exemplary performance," as defined by the department and DAS. The department requested \$1.7 million in FY 2001 and \$3.3 million in FY 2003 to allow pay raises for these employees. The executive budget recommended \$500,000 in FY 2002 and \$1,000,000 in FY 2003.

By cutting the department's spending on personal services OBM could fund almost all other program requests. Small budget cuts were made in the field auditing project and the funding for intermittent employees. The executive budget also recommends the department receive \$125,000 for employee computer training. This is just over half of the requested amount for PC training. The only request not given any funding was the department's request for a new Quintus e-mail management system.

¹ The additional positions would have been in the Information Services Division and the Audit Division.

LSC Budget Spreadsheet by Line Item, FY 2002 - FY 2003

Fund	ALI	ALI Title	2000	Estimated 2001	Executive 2002	% Change 2001 to 2002	Executive 2003	% Change 2002 to 2003
TAX Taxation, Department of								
GRF	110-100	Personal Services	\$ 1,257,929	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-200	Maintenance	\$ 413,639	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-321	Operating Expenses	\$ 86,318,508	\$89,657,969	\$ 89,399,057	-0.3%	\$ 91,394,397	2.2%
GRF	110-410	Energy Credit Administration	\$ 394,736	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-412	Child Support Administration	\$ 55,944	\$60,285	\$ 94,836	57.3%	\$ 91,843	-3.2%
GRF	110-506	Utility Bill Credits	\$ 4,748,240	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-901	Property Tax Allocation - TAX	\$ 341,284,980	\$362,100,000	\$ 380,200,000	5.0%	\$ 399,300,000	5.0%
GRF	110-906	Tangible Tax Exemption - TAX	\$ 26,746,255	\$29,000,000	\$ 30,000,000	3.4%	\$ 30,900,000	3.0%
General Revenue Fund Total			\$ 461,220,231	\$ 480,818,254	\$ 499,693,893	3.9%	\$ 521,686,240	4.4%
433	110-602	Tape File Account	\$ 33,182	\$87,557	\$ 92,082	5.2%	\$ 96,165	4.4%
General Services Fund Group Total			\$ 33,182	\$ 87,557	\$ 92,082	5.2%	\$ 96,165	4.4%
3J6	110-601	Motor Fuel Compliance	\$ 73,718	\$50,000	\$ 33,000	-34.0%	\$ 33,000	0.0%
3J7	110-603	International Fuel Tax Agreement	\$ 39,708	\$80,000	\$ 0	-100.0%	\$ 0	N/A
Federal Special Revenue Fund Group Total			\$ 113,426	\$ 130,000	\$ 33,000	-74.6%	\$ 33,000	0.0%
435	110-607	Local Tax Administration	\$ 11,359,719	\$11,108,705	\$ 29,517,404	165.7%	\$ 24,189,026	-18.1%
436	110-608	Motor Vehicle Audit	\$ 1,524,483	\$1,569,645	\$ 1,687,249	7.5%	\$ 1,600,000	-5.2%
437	110-606	Litter Tax and Nat. Resources Admin	\$ 1,371,453	\$1,374,701	\$ 594,726	-56.7%	\$ 625,232	5.1%
438	110-609	School District Income Tax	\$ 2,680,772	\$2,711,122	\$ 2,873,446	6.0%	\$ 2,599,999	-9.5%
4C6	110-616	International Registration Plan	\$ 564,290	\$622,127	\$ 669,561	7.6%	\$ 706,855	5.6%
4R6	110-610	Tire Tax Administration	\$ 7,913	\$150,768	\$ 65,000	-56.9%	\$ 65,000	0.0%
5N6	110-618	Kilowatt Hour Tax Administration	---	\$0	\$ 85,000	N/A	\$ 85,000	0.0%
5N7	110-619	Municipal Internet Site	---	\$0	\$ 10,000	N/A	\$ 10,000	0.0%
639	110-614	Cigarette Tax Enforcement	\$ 138,076	\$151,711	\$ 161,168	6.2%	\$ 168,925	4.8%
642	110-613	Ohio Political Party Distributions	\$ 520,793	\$800,000	\$ 800,000	0.0%	\$ 800,000	0.0%
688	110-615	Local Excise Tax Administration	\$ 316,243	\$343,721	\$ 300,000	-12.7%	\$ 300,000	0.0%
State Special Revenue Fund Group Total			\$ 18,483,742	\$ 18,832,500	\$ 36,763,554	95.2%	\$ 31,150,037	-15.3%
425	110-635	Tax Refunds	\$ 1,190,632,476	\$850,000,000	\$ 860,000,000	1.2%	\$ 875,000,000	1.7%

LSC Budget Spreadsheet by Line Item, FY 2002 - FY 2003

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2000</i>	<i>Estimated 2001</i>	<i>Executive 2002</i>	<i>% Change 2001 to 2002</i>	<i>Executive 2003</i>	<i>% Change 2002 to 2003</i>
TAX Taxation, Department of								
Agency Fund Group Total			\$ 1,190,632,476	\$ 850,000,000	\$ 860,000,000	1.2%	\$ 875,000,000	1.7%
R10	110-611	Tax Distributions	\$ 1,016	\$200,000	\$ 2,000	-99.0%	\$ 2,000	0.0%
R11	110-612	Misc Income Tax Receipts	\$ 3,066	\$500,000	\$ 5,000	-99.0%	\$ 5,000	0.0%
Holding Account Redistribution Fund Group Total			\$ 4,082	\$ 700,000	\$ 7,000	-99.0%	\$ 7,000	0.0%
Total All Budget Fund Groups			\$ 1,670,487,139	\$ 1,350,568,311	\$ 1,396,589,529	3.4%	\$ 1,427,972,442	2.2%

General Revenue Fund

GRF 110-100 Personal Services

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$69,004,380	\$73,141,554	\$1,257,929	\$0	\$0	\$0
	6.0%	-98.3%	-100.0%	N/A	N/A

Source: GRF

Legal Basis: ORC 5703

Purpose: This line item provides funds for payroll and fringe benefits for most employees of the Department of Taxation. It also pays for personal service contracts for various temporary personnel employed during tax filing season. There are employees whose wages and fringe benefits are covered by line items other than this one; appropriations for various line items in the State Special Revenue (SSR) fund group contain money to fund personnel in local tax administration and other areas.

GRF 110-200 Maintenance

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$12,527,667	\$12,307,214	\$413,639	\$0	\$0	\$0
	-1.8%	-96.6%	-100.0%	N/A	N/A

Source: GRF

Legal Basis: ORC 5703

Purpose: This line item provides the primary mechanism for maintenance expenditures for the department, although some line items in the SSR fund group have maintenance funding within their overall appropriations. Expenditures charged to this line item include: travel reimbursement, supply items, publication expenses, telephone charges, rentals, leases, printing (particularly of tax forms) and computer services provided by the Ohio Data Network.

GRF 110-300 Equipment

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$3,334,093	\$5,485,410	\$0	\$0	\$0	\$0
	64.5%	-100.0%	N/A	N/A	N/A

Source: GRF

Legal Basis: ORC 5703

Purpose: This line item provides the primary mechanism for equipment purchases for the department.

GRF 110-321 Operating Expenses

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$0	\$0	\$86,318,508	\$89,657,969	\$89,399,057	\$91,394,397
	N/A	N/A	3.9%	-0.3%	2.2%

Source: GRF

Legal Basis: ORC 5703

Purpose: This line item pays for personal service, maintenance, and equipment expenses of the Department of Taxation that are not offset by specific revenue sources. Line item 110-321 replaced 110-100, 110-200, and 110-300 in the FY 2000-2001 biennium.

GRF 110-410 Energy Credit Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$715,651	\$653,829	\$394,736	\$0	\$0	\$0
	-8.6%	-39.6%	-100.0%	N/A	N/A

Source: GRF

Legal Basis: ORC 5117.01 through ORC 5117.12 (originally established by H.B. 657 of the 113th G.A., effective September 24, 1979)

Purpose: Funds in this line item are used to help administer the Energy Credits program. Disbursements from this account have been growing slowly in the 1990s, but at a much lower level than in the 1980s, in part because there are fewer recipients of the energy assistance due to the income qualifiers not changing. Some administrative costs are overhead and do not respond to the number of recipients, but variable costs should be reduced by the decline in recipients. S.B. 3 of the 123rd G.A. moved this program to the Department of Development beginning July 1, 2000. Funding for this line item will be from 195-409, Utility Payment Administration in the Department of Development's budget.

GRF 110-412 Child Support Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$57,000	\$58,872	\$55,944	\$60,285	\$94,836	\$91,843
	3.3%	-5.0%	7.8%	57.3%	-3.2%

Source: GRF

Legal Basis: ORC 5101.321 (originally established by Sub. S.B. 80 of the 116th G.A.)

Purpose: This line item covers computer costs involved in matching persons delinquent in child support payments with taxpayers owed an Ohio income tax refund. If such a person is owed a refund, it can then be turned over to the Ohio Department of Human Services to be used for child support.

GRF 110-506 Utility Bill Credits

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$6,676,276	\$5,755,878	\$4,748,240	\$0	\$0	\$0
	-13.8%	-17.5%	-100.0%	N/A	N/A

Source: GRF

Legal Basis: ORC 5117.01 through ORC 5117.12 (originally established by H.B. 657 of the 113th G.A., effective September 24, 1979).

Purpose: This appropriation is used to pay a credit against residential energy bills for qualified customers during the months of December through April. The credit is available to heads of households (or spouses) age 65 or older and to totally and permanently disabled individuals. The recipient's annual household income may not exceed \$9,000.

S.B. 3 of the 123rd G.A. moved this program to the Department of Development beginning July 1, 2000. Funding for this program will be from 195-505, Utility Bill Credits, in the Department of Development's budget.

GRF 110-901 Property Tax Allocation - TAX

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$300,084,084	\$318,216,099	\$341,284,980	\$362,100,000	\$380,200,000	\$399,300,000
	6.0%	7.2%	6.1%	5.0%	5.0%

Source: GRF

Legal Basis: ORC 319.301 and ORC 323.151 through ORC 323.157

Purpose: This line item is used to reimburse local governments other than school districts for losses incurred as a result of the 10 percent and 2.5 percent "rollback" reductions in real property taxes and as a result of the "homestead exemption" reductions in taxes. School district property tax losses due to these programs are reimbursed through line item 200-901 in the Department of Education.

The rollback program actually has two components. Every real property taxpayer is granted a 10 percent reduction in his or her tax bill. Also, owner-occupied residential housing gets an additional 2.5 percent reduction.

The homestead exemption is a partial exemption from real property taxation that is provided to elderly homeowners, or to the permanently and totally disabled. Am. Sub. H.B. 117, the FY 1996-1997 biennial budget act, increased the income limits for the program, with the intent of increasing eligibility and providing greater relief to those already eligible. Income is defined as federal adjusted gross income (FAGI), but with numerous positive and negative adjustments. The homestead exemption is granted on a sliding scale, where the percentage of valuation exempted decreases as income rises.

This line item was transferred from the Auditor of State by Controlling Board action in FY 1986.

GRF 110-906 Tangible Tax Exemption - TAX

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$25,971,420	\$26,650,697	\$26,746,255	\$29,000,000	\$30,000,000	\$30,900,000
	2.6%	0.4%	8.4%	3.4%	3.0%

Source: GRF

Legal Basis: ORC 5709.01

Purpose: This line item reimburses local governments other than school districts for losses incurred due to the creation of the \$10,000 tangible property tax exemption (the "small business" exemption) for both incorporated and unincorporated businesses. The \$10,000 exemption applies to the assessed value of the property, not the market value, so it is equivalent to an exemption of \$40,000 of market value. Since most businesses have more than \$10,000 of tangible assessed value, year-to-year changes in the amount of the exemption are mostly due to changes in the number of businesses receiving it. In this way, the amount serves as a kind of rough economic indicator, where bigger annual increases mean more net business formations and a stronger economy.

The sharp decline in disbursements after FY 1997 is due to the creation of ALI 200-906 in the Department of Education. This line item now pays the school district portion of the tangible exemption, which was paid out of this line item through FY 1997.

General Services Fund Group

433 110-602 Tape File Account

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$105,634	\$60,356	\$33,182	\$87,557	\$92,082	\$96,165
	-42.9%	-45.0%	163.9%	5.2%	4.4%

Source: GSF: fees charged to local governments for tax-related computer services and data

Legal Basis: Originally established by Controlling Board in 1972

Purpose: Revenues are used to maintain and replace computer equipment, and to purchase computer tapes. The department provides computer listings of the names and addresses of taxpayers in local taxing districts (but does not share financial information on taxpayers). The fees for this service are established by the department's own computer personnel, based on their time and the costs involved in producing the lists. In addition, the department charges the Division of Tax Equalization a fee of \$4,200 per quarter for use of computer lists.

Federal Special Revenue Fund Group

3J6 110-601 Motor Fuel Compliance

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$541	\$20,511	\$73,718	\$50,000	\$33,000	\$33,000
	3691.3%	259.4%	-32.2%	-34.0%	0.0%

Source: FED: CFDA 20.205, Highway Planning and Construction

Legal Basis: Originally established by Controlling Board action in September, 1992

Purpose: Revenues offset expenses for the Department of Taxation in participating in the joint state-federal (IRS) "Fuel Tax Compliance Project." This money has been made available to the IRS and to states throughout the country for investigating and combating state and federal motor fuel tax evasion.

3J7 110-603 International Fuel Tax Agreement

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$29,248	\$56,290	\$39,708	\$80,000	\$0	\$0
	92.5%	-29.5%	101.5%	-100.0%	N/A

Source: FED: CFDA 20.205, Highway Planning and Construction

Legal Basis: Originally established by Controlling Board in September, 1992

Purpose: All states have been mandated by the federal government (Public Law 102-240, December 18, 1991) to join the International Fuel Tax Agreement (IFTA) or lose the right to collect and levy a motor fuel use tax. IFTA is a base state agreement whereby trucking companies register for fuel use tax in their home state and file one tax return in their home state instead of registering and filing in each state in which they operate. The base state then makes payments to other jurisdictions that are owed some of the fuel tax, and also collects tax it is owed from other jurisdictions.

Am. H.B. 515 of the 120th G.A. permitted Ohio to enter IFTA. Ohio became part of IFTA in FY 1995.

Federal Special Revenue Fund 3J7, International Fuel Tax Agreement, and 3J6, Motor Fuel Compliance, are funded by through the same federal grant. Beginning in FY 2002 the two funds will be combined into Federal Special Revenue Fund 3J6.

State Special Revenue Fund Group

435 110-607 Local Tax Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$9,370,300	\$9,524,096	\$11,359,719	\$11,108,705	\$29,517,404	\$24,189,026
	1.6%	19.3%	-2.2%	165.7%	-18.1%

Source: SSR: one percent of the proceeds from county permissive sales taxes and regional transit authority sales taxes

Legal Basis: ORC 5739.21 (B) and ORC 5741.03(B)

Purpose: The moneys help defray the costs of collecting and administering the permissive sales and use taxes. In the absence of rate changes, revenue for this line item grows at the rate of taxable sales. However, spending has shown more variation, due to the accumulation of balances in the fund, and then the expenditure of those balances. This biennium the Local Tax Administration Fund will cover the cost of the e-Business project.

436 110-608 Motor Vehicle Audit

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$1,401,606	\$1,219,105	\$1,524,483	\$1,569,645	\$1,687,249	\$1,600,000
	-13.0%	25.0%	3.0%	7.5%	-5.2%

Source: SSR: \$0.25 charge levied against every motor vehicle transaction (technically against every certificate of title issued)

Legal Basis: ORC 4505.09 (B)(2)(c)

Purpose: Funds from this line item are used by the Tax Commissioner to investigate sales and use tax returns filed for motor vehicles in order to ensure that the tax liability is paid. Revenues to this fund are at least roughly correlated with unit sales of automobiles, rising and falling with sales. Expenditures move loosely with revenues, although the use of accumulated balances can make revenues and spending vary in any given year.

437 110-606 Litter Tax and Nat. Resources Admin

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$1,200,075	\$1,192,037	\$1,371,453	\$1,374,701	\$594,726	\$625,232
	-0.7%	15.1%	0.2%	-56.7%	5.1%

Source: SSR: litter tax - special tax in addition to regular corporate franchise tax.

Legal Basis: Am. Sub. H.B. 215 of the 122nd G.A., Sec. 114. Each biennial budget bill re-authorizes this line, originally created by Am. Sub. H.B. 361 of the 113th G.A (see below).

Purpose: Funds from this line item cover the costs of collecting and administering a tax on corporations in addition to the regular corporate franchise tax. The "Litter Tax" is composed of two tiers, the first of which applies to all non-financial corporate taxpayers, and the second of which applies only to corporations that make or sell "litter stream" products. The tax was first imposed by Am. Sub. H.B. 361 of the 113th G.A., which established a comprehensive statewide litter control program, and created this line item to receive some of the revenues from this tax.

Through their efforts to examine the actual costs associated with administering each tax, the Department of Taxation has requested substantially less funding for this program in FY 2002 and FY 2003.

438 110-609 School District Income Tax

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$2,333,927	\$2,453,037	\$2,680,772	\$2,711,122	\$2,873,446	\$2,599,999
	5.1%	9.3%	1.1%	6.0%	-9.5%

Source: SSR: 1.5 percent of school district income tax collections (see below)

Legal Basis: ORC 5747.03(C)

Purpose: Moneys are used to reimburse the Department of Taxation for expenses incurred in administering the school district income taxes. Through FY 1993, this line item received three percent of total school district income tax collections. Am. Sub. H.B. 152 of the 120th G.A. (the biennial operating budget for FY 1994-1995) reduced the percentage of collections that the line item receives to 2.5 percent in FY 1994 and 2.0 percent in FY 1995. Am. Sub. H.B. 117 of the 121st G.A.(the biennial operating budget for FY 1996-1997) again reduced the percentages, to 1.75 percent in FY 1996 and 1.5 percent in FY 1997 and thereafter. These changes were made because of balances that had been accumulating in the fund. It was apparent that the Tax Department was not spending all the administrative money, so the decision was made to lower the administration percentages and return more money to the school districts.

The original law authorizing the school district income tax went into effect in November, 1981. H.B. 291 of the 115th G.A. repealed the authority of any school district to enact a new income tax after August 2, 1983. At that time, only six districts used an income tax. One was repealed effective 1987. Am. Sub. S.B. 28 of the 118th G.A. reauthorized new enactments of voter-approved school district income taxes. In FY 2000, 127 school districts had a school district income tax.

4C6 110-616 International Registration Plan

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$427,697	\$435,081	\$564,290	\$622,127	\$669,561	\$706,855
	1.7%	29.7%	10.2%	7.6%	5.6%

Source: SSR: revenues from the IRP registration fees are deposited into the International Registration Plan Distribution Fund (IRPDF); distributions are made from the IRPDF to the International Registration Plan Auditing Fund (IRPAF) in an amount estimated to cover the annual costs of the Department of Taxation for auditing persons who have registered motor vehicles under the IRP

Legal Basis: ORC 5703.12 and ORC 4501.044

Purpose: Am. Sub. H.B. 831 of the 118th G.A. eliminated the old highway use tax (axle-mile tax) effective January 1, 1991. The act required the Registrar of Motor Vehicles in Ohio to apply for membership in a reciprocal registration agreement known as the International Registration Plan (IRP). The highway use tax and the various commercial vehicle registration taxes effective under prior law were replaced with a system of registration fees based on gross vehicle weight and a 3 cents per gallon fuel use surcharge for vehicles subject to the IRP. Revenues from the IRP registration fees are deposited into the International Registration Plan Distribution Fund (IRPDF). Distributions are to be made from the IRPDF to the International Registration Plan Auditing Fund (IRPAF) in an amount estimated to cover the annual costs of the Department of Taxation for audits of persons who have registered motor vehicles under the IRP. The IRPAF is created in ORC 5703.12, as enacted by Am. Sub. H.B. 831 of the 118th G.A. Ohio Revised Code section 4501.044 authorizes the actual distribution of moneys from the IRPDF to the Auditing Fund.

4R6 110-610 Tire Tax Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$138,000	\$780	\$7,913	\$150,768	\$65,000	\$65,000
	-99.4%	914.5%	1805.3%	-56.9%	0.0%

Source: SSR: four percent of the \$0.50 tire tax

Legal Basis: ORC 3734.9010

Purpose: The Tax Department uses its share of the tax (the rest of which goes to EPA's Scrap Tire Management Fund) for administration of the tax.

5N6 110-618 Kilowatt Hour Tax Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$0	\$0	\$0	\$0	\$85,000	\$85,000
	N/A	N/A	N/A	N/A	0.0%

Source: SSR: Annual fee of \$500 collected from large industrial firms that register with the Department of Taxation to pay the self-assessing purchasers' tax option of the kilowatt-hour tax.

Legal Basis: ORC 5727.81 (Originally established by S.B. 3 of the 123rd G.A.)

Purpose: This fund pays for the administration of the self-assessing purchasers' tax.

5N7 110-619 Municipal Internet Site

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$0	\$0	\$0	\$0	\$10,000	\$10,000
	N/A	N/A	N/A	N/A	0.0%

Source: SSR: A fee may be charged to municipal corporations to defray the cost of establishing and maintaining the Internet site.

Legal Basis: ORC 5703.49

Purpose: The Department of Taxation is required to establish an Internet site that provides access for a municipal corporation that has not established its own electronic site to post documents or other required information. The Department of Taxation must also provide links to each municipal corporation that has established its own site, thus providing a uniform resource locator.

639 110-614 Cigarette Tax Enforcement

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$70,930	\$191,374	\$138,076	\$151,711	\$161,168	\$168,925
	169.8%	-27.9%	9.9%	6.2%	4.8%

Source: SSR: : 47.5 percent of wholesale cigarette license tax revenue; 15 percent of retail cigarette license tax revenue

Legal Basis: ORC 5743.15

Purpose: Moneys in this fund are used to defray the costs of enforcing cigarette tax law.

642 110-613 Ohio Political Party Distributions

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$582,486	\$612,974	\$520,793	\$800,000	\$800,000	\$800,000
	5.2%	-15.0%	53.6%	0.0%	0.0%

Source: SSR: state income tax checkoff money: \$1 for single returns or \$2 for joint returns

Legal Basis: ORC 3517.16

Purpose: Money is distributed to qualified political parties. For each qualifying party, one-half of the receipts goes to the treasurer of the state executive committee of the party, and one half goes to the treasurers of each county executive committee. Each county committee's share is determined by the ratio of the number of checkoffs in that county to the total statewide number of checkoffs. Fund revenue and expenditures declined through FY 1998.

688 110-615 Local Excise Tax Administration

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$293,533	\$207,290	\$316,243	\$343,721	\$300,000	\$300,000
	-29.4%	52.6%	8.7%	-12.7%	0.0%

Source: SSR: two percent of county excise tax collections on cigarettes and alcoholic beverages

Legal Basis: ORC 5743.024 and ORC 4301.423

Purpose: Cuyahoga County has been collecting voter-approved local option excise taxes on cigarettes, beer, wine, and mixed beverages since August 1, 1990. Revenue from these taxes are used to pay debt service on the bonds issued for the construction of the Gateway project sports complex (Jacobs Field houses baseball's Cleveland Indians and Gund Arena hosts the NBA Cleveland Cavaliers) in Cuyahoga County. The two percent of total tax collections received by this fund are for the purpose of defraying the cost of administering the tax. Administrative activities include auditing and enforcement. Authority to deposit two percent of county cigarette tax money into this fund is contained in ORC 5743.024. Authority to deposit two percent of the county tax on beer, wine, and mixed beverages into this fund is contained in ORC 4301.423.

Agency Fund Group

425 110-635 Tax Refunds

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$1,058,524,220	\$1,308,260,804	\$1,190,632,476	\$850,000,000	\$860,000,000	\$875,000,000
	23.6%	-9.0%	-28.6%	1.2%	1.7%

Source: AGY: The amount transferred to the tax refund fund by the Treasurer of State is derived from current receipts of the same tax or the fee for which the refund arose. In the case of a tax credit refund, the transfer comes from the current receipts of the taxes levied by sections 5739.02 (sales tax) and 5741.02 (use tax).

Legal Basis: ORC 5703.052

Purpose: The fund is used to pay refunds for taxes or fees illegally or erroneously assessed or collected, or for any other reason overpaid.

Holding Account Redistribution Fund Group

R10 110-611 Tax Distributions

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$189,346	\$51,554	\$1,016	\$200,000	\$2,000	\$2,000
	-72.8%	-98.0%	19585.0%	-99.0%	0.0%

Source: 090: sales tax payments

Legal Basis: Budget bills – originally CB #933, December 1985

Purpose: This line item functions as a holding account for sales tax payments when there is uncertainty as to the proper disposition of the payment. The line item also temporarily holds checks that include payment for more than one purpose, such as sales tax and employers' workers' compensation premiums. The function of this line item used to be performed by the depository trust fund, which was abolished by Am. Sub. H.B. 201 of the 116th G.A. Disbursements from the fund vary greatly from year to year, depending on the volume of misdirected sales tax payments.

R11 110-612 Misc Income Tax Receipts

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$64,373	\$4,781	\$3,066	\$500,000	\$5,000	\$5,000
	-92.6%	-35.9%	16207.9%	-99.0%	0.0%

Source: 090: personal income tax payments

Legal Basis: Budget bills – originally CB #933, December 1985

Purpose: This line item functions as a holding account for Ohio personal income tax payments when there is uncertainty as to the proper disposition of the payment. The function of this line item used to be performed by the depository trust fund, which was abolished by Am. Sub. H.B. 201 of the 116th G.A. As with line item 110-611, annual revenues and disbursements for this fund are very volatile.