

Department of Taxation

House Transportation and Justice Subcommittee

Nickie Evans, Economist

Legislative Service Commission

March 20, 2003

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LSC Redbook for the Department of Taxation

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March 20, 2003

Note: The estimated General Revenue Fund (GRF) spending for FY 2003 used in this LSC Redbook reflects the 2.5% reduction made as a result of the Governor's January 22, 2003 budget cut order. The executive reduction was applied across-the-board to FY 2003 GRF appropriations, subject to certain exceptions. Subsequent to such reductions (and not reflected in the Redbook), state agencies were permitted to reallocate the amount that each of their GRF appropriation line items was reduced, while still absorbing the 2.5% budget cut within the total amount of their GRF appropriations.

Department of Taxation

- The Department expects to increase GRF cash by \$193.2 million over the biennium due to production of its audit staff
- The executive budget recommends an increase in administrative funding of 10.3% for FY 2004 and 1.8% for FY 2005

OVERVIEW

The Ohio Department of Taxation 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, the Department of Taxation oversees the administration of the real property tax by local governments.

During the current biennium the Department of Taxation acquired additional duties that were previously the responsibility of the Office of Treasurer of State (TOS). The Department of Taxation now receives the returns and payments for sales and use, corporate franchise, and excise taxes. These new responsibilities are in addition to the taxes the Department previously collected: the dealers of intangibles tax, the personal income tax, and the horse racing tax.

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).

The executive budget provides the Department with GRF administrative funding of \$92,575,222 for FY 2004. This amount is \$4,749,877 greater than the estimated FY 2003 expenditures, an increase of 5.4%. Recommended administrative GRF funding for FY 2005 is \$94,342,003. This amount is \$1,766,781 greater than FY 2004, an increase of 2.2%. The two line items that account for GRF administrative funding are 110-321, (Operating Expenses) and 110-412, (Child Support Administration). This does not include GRF moneys (such as property tax relief) that are simply distributed by the Department of Taxation.

The executive budget provides the Department with total administrative funding of \$131,159,153 for FY 2004. This amount is \$12,194,606 greater than the estimated 2003 expenditures, an increase of 10.3%. Recommended administrative funding for FY 2005 is \$133,493,632. This amount is \$2,334,479 greater than FY 2004, an increase of 1.8%. These amounts do not include funds that are simply distributed by the Department of Taxation.

Total funding recommendations for the Department of Taxation are \$1,875,955,653 for FY 2004 and \$1,917,835,232 for FY 2005. This represents an increase from the previous year of 2.3% and 2.2%, respectively.

During FY 2003, the Department of Taxation plans to hire 203 new employees. (Please see the Additional Facts and Figures section of this redbook for more information on the Department's hiring plan.) As of February 21, 2003, the Department had hired or selected an applicant for 81 of the 203 positions they hope to fill. Thus, a large portion of the new employees' salaries is not included in the expected spending for FY 2003. The full cost of the additional staff will not be realized until FY 2004. This is one reason for the relatively large increase in administrative funding in FY 2004.

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 and the executive recommended funding levels.

Fund	ALI	Title	FY 2004	FY 2005
GRF	110-321	Operating Expenses	\$92,501,007	\$94,267,788
GRF	110-412	Child Support Administration	\$74,215	\$74,215
433	110-602	Tape File Account	\$96,165	\$96,165
3J6	110-601	Motor Fuel Compliance	\$33,000	\$33,000
4C6	110-616	International Registration Plan	\$706,855	\$706,855
4R6	110-610	Tire Tax Administration	\$65,000	\$65,000
435	110-607	Local Tax Administration	\$13,600,000	\$13,700,000
436	110-608	Motor Vehicle Audit	\$1,350,000	\$1,350,000
437	110-606	Litter Tax and Natural Resources Administration	\$625,232	\$625,232
438	110-609	School District Income Tax	\$2,599,999	\$2,599,999
5N5	110-605	Municipal Income Tax Administration	\$650,000	\$650,000
5N6	110-618	Kilowatt Hour Tax Administration	\$85,000	\$85,000
5V7	110-622	Motor Fuel Tax Administration	\$3,734,036	\$3,833,091
5V8	110-623	Property Tax Administration	\$11,569,719	\$11,938,362
5W4	110-625	Centralized Tax Filing and Payment	\$3,000,000	\$3,000,000
639	110-614	Cigarette Tax Enforcement	\$168,925	\$168,925
688	110-615	Local Excise Tax Administration	\$300,000	\$300,000
Total funding: Tax Administration			\$131,159,153	\$133,493,632

This analysis will focus on the following:

- **Tax Administration and Tax Processing**
 - **Tax Administration**
 - **Property Tax Administration Fund**
 - **Motor Fuel Tax Administration Fund**
 - **Audit Productivity**
 - **Expansion of the Ohio Business Gateway**
 - **Computer Infrastructure Expansion**
 - **Automation Efforts**

Tax Administration

Purpose: Administer the state's tax laws to ensure compliance in filing and payment of taxes and to determine tax liability.

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 evaluate the substantial correctness (which identifies areas of underpayment or overpayment of tax);
- (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; and
- (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; and proposed percentages of real property taxes, public utility property taxes, and tangible personal property taxes, etc.), cigarette license taxes, International Registration Plan (IRP) fees, and motor vehicle title fees and proposed portions of the receipts from the motor fuel taxes.

Line Items: Each of the line items listed in the table on page A3, above.

Implication of the Executive Recommendation: The executive budget provides the Department with total administrative funding of \$131,159,153 for FY 2004. This amount is \$12,194,606 greater than the estimated 2003 expenditures, an increase of 10.3%. Recommended administrative funding for FY 2005 is \$133,493,632. This amount is \$2,334,479 greater than FY 2004, an increase of 1.8%. These amounts do not include funds that are simply distributed by the Department of Taxation.

Property Tax Administration Fund

The executive budget recommendations the creation of a new State Special Revenue Fund 5V8, the Property Tax Administration Fund, within the Department of Taxation's budget. The Department will fund their entire Personal Property Tax Division, the Public Utility Tax Division, and the Tax Equalization Division, as well as a portion of the Audit Division. The 127 FTEs and their associated activities and equipment that will be supported by this fund are currently funded by the GRF. (Please see the analysis included in the Permanent and Temporary Law section of this redbook for more information about the revenue source of the Property Tax Administration Fund.)

Funding Source: Fee charged to school districts and local governments levying a property tax

Line Item: 110-623, Property Tax Administration

Motor Fuel Tax Administration Fund

The executive budget recommendations include the creation of a new State Special Revenue Fund 5V7, the Motor Fuel Tax Administration Fund, within the Department of Taxation's budget. According to the recommendations, the Fund will receive 0.275% of the receipts from the motor fuel taxes, after paying refunds out of those receipts. 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 years, provisions were included in the Transportation Budget that required the Director of Budget and Management to transfer a specified amount from the Highway Operating Fund to the General Revenue Fund to reimburse the Department of Taxation for administration costs associated with the fuel use tax. In FY 2002, the GRF was to receive \$3.7 million from this transfer. In FY 2003, the GRF was to receive \$3.9 million from this transfer.

Funding Source: 0.275% of the receipts from the motor fuel taxes

Line Item: 110-622, Motor Fuel Tax Administration

Audit Productivity

In FY 2002 the gross audit findings were \$170.8 million, with a cash realization of \$70.03 million.¹ At the time, the Department of Taxation's Audit Division had 216 employees. The Department expects its audit staff of 295 employees (by June 2003) to add \$49.4 million cash and \$82.4 million cash to the GRF in FY 2004 and FY 2005, respectively. In addition, the Department estimates local funds will see additional cash revenues at \$33.6 million and \$44.4 million in FY 2004 and FY 2005, respectively.

In addition, the Department plans to increase the audit and compliance staff by 28 employees in FY 2004. In return, they expect to see additional audit revenue growth over the next biennium, both for the state GRF and for local funds. The Department estimates that the added audit staff will generate \$21.1 million additional GRF cash in FY 2004, and \$40.3 million additional GRF cash in FY 2005. Local funds will see additional cash revenues of \$7.3 million, and \$24.1 million in FY 2004 and FY 2005, respectively.

Funding Source: the Audit Division is funded mostly by the GRF, but some administrative funds reported in the above table do include some funding for these activities

Line Items: 110-321, Operating Expenses; 110-607, Local Tax Administration; 110-608, Motor Vehicle Audit; 110-606, Litter Tax and Natural Resources Administration; 110-609, School District Income Tax; 110-605, Municipal Income Tax Administration

¹ These figures do not represent compliance moneys generated by other divisions' tax agents (not auditors) through desk exams, office audits, or computer generated billing programs.

Expansion of The Ohio Business Gateway

The Ohio Business Gateway is a collaborative project of the Ohio departments of Administrative Services, Job and Family Services, Taxation, and Bureau of Workers' Compensation. It provides businesses a single portal for filing certain business taxes and specific other information required by other state agencies. The executive recommendations include a proposal to expand the Gateway by allowing businesses to file municipal business net profits through the Gateway beginning in tax year 2005. It would allow businesses to file municipal withholding taxes through the Gateway beginning in tax year 2007.

The proposed budget provides \$3 million in each year of the biennium for the Department of Taxation to fund and maintain the Gateway expansion. This money will be transferred from the GRF into State Special Revenue Fund 5W4.

Funding Source: \$3 million GRF transfers to SSR Fund 5W4 in FY 2004 and FY 2005.

Line Item: 110-625, Centralized Tax Filing and Payment

Computer Infrastructure Expansion

Included in the executive recommendations are \$3.79 million in FY 2004 and \$1.25 million in FY 2005 for an upgraded computer mainframe. The Department will be switching from 32-bit architecture to 64-bit architecture, completely replacing the current mainframe hardware. The 64-bit architecture is required to run new versions of the operating system. The mainframe upgrade will both improve the performance of existing applications and support new applications.

The Department of Taxation feels this upgrade is imperative to their day-to-day operations. During the month of October, the current mainframe was running at full capacity (over 90% utilization) three-quarters of all prime business hours (8 a.m. to 5 p.m., business days). Deferring the upgrade would force the Department to curtail some customer service activities and delay essential revenue processing operations. A delay may also impact the timely processing of tax returns, generation of assessments and refunds, fund allotment and distribution, and other core Department functions. Postponing the upgrade would have a negative impact on future initiatives including data warehouse, data mining, and data mart applications. Finally, without the upgrade, the Department fears it will have response-time problems during the 2004 tax-filing season resulting in poor customer service and taxpayer complaints.

The cost for this project over the biennium is \$5,037,451. Of this amount, \$4,660,635 will be spent on equipment, \$334,750 will be spent on purchased services, and \$42,062 will be spent on maintenance.

Funding Source: GRF

Line Item: 110-321, Operating Expenses

Tax Automation Efforts

The Department of Taxation continues to increase the electronic filing of tax returns and electronic registration for business. The Department aims to have 80% of all tax returns filed paperless by the 2008 processing season. These programs reduce the amount of time the Department employees spend entering data, and the amount of time correcting mistakes in the data. In fact, if the Department reaches its goal to be 80% paperless by 2008, the Department estimates the processing center's payroll costs will be

\$4.5 million less than the 2002 expenditures. In addition, the costs of printing and mailing will be significantly reduced. On the other hand, the increase in electronic filing will increase administrative spending on technology necessary to handle the workload and ensure the security of the taxpayer information and payments. The Department will also see increases in expenditures for advertising the electronic initiatives.

Electronic filing benefits some businesses by reducing the burden of compliance with Ohio tax laws. By reducing the waiting time for refunds from four to six weeks to seven to ten days, individuals also benefit from the option of filing their personal income tax returns electronically. In 2001, 2.4 million Ohio taxpayers filed their income taxes electronically, either using telefile which allows taxpayers to file their tax returns over the telephone, or by using e-file, which allows the electronic filing of income tax returns through paid preparers. This year the Department has added a new way for personal income tax payers to file their 2002 personal income tax returns with I-File. This program allows taxpayers the option of filing their personal income tax return using a personal computer. As of February 6, 2003, 22,409 taxpayers had used this new option.

The executive budget includes a provision allowing the Tax Commissioner to require taxpayers to file their returns electronically. (Please see the Permanent and Temporary Law section of this redbook for more information on this provision of the bill.)

Funding Source: GRF

Line Item: 110-321, Operating Expenses

Revenue Distribution

Program Series 2

Purpose: Distributes revenue by law to the intended parties.

The following table shows the line items that are used to fund this program series and the executive recommended funding levels.

Fund	ALI	Title	FY 2004	FY 2005
642	110-613	Ohio Political Party Distribution	\$600,000	\$600,000
095	110-901	Municipal Income Tax	\$12,000,000	\$12,000,000
425	110-635	Tax Refunds	\$1,296,756,200	\$1,337,119,600
R10	110-611	Tax Distributions	\$50,000	\$50,000
R11	110-612	Miscellaneous Income Tax Receipts	\$50,000	\$50,000
Total Funding: Revenue Distribution			\$1,309,456,200	\$1,349,819,600

This analysis will focus on the following:

- ***Ohio Political Party Distributions***
- ***Municipal Income Tax***
- ***Tax Refunds***
- ***Holding Account Redistributions***

Ohio Political Party Distributions

Line item 110-623, Ohio Political Party Distributions, provides qualifying political parties quarterly payments based upon checks made by taxpayers on their state income tax returns. For each qualifying party, one-half of the receipts go to the treasurer of the state executive committee of the party, and one-half goes to the treasurers of the county executive committees. Taxation determines each county committee’s share by the ratio of the number of checkoffs in that county to the statewide number of checkoffs.

Municipal Income Tax

Line item 110-901, Municipal Income Tax, holds the receipts from the municipal income tax on electric companies collected by the Department of Taxation and wholly distributed to applicable municipalities that impose the city income tax after the deduction of an administrative fee paid to the Department.

Tax Refunds

Line item 110-635, Tax Refunds, is used to pay refunds for taxes or fees that have been overpaid or illegally or erroneously assessed and collected. The refunds are paid from amounts from current receipts of the same tax or fee for which the refund arose.

Holding Account Redistributions

Line items 110-611 and 110-612, Tax Distributions and Miscellaneous Income Tax Receipts, are holding accounts for the Department of Taxation. They are used to temporarily hold checks for sales tax or personal income tax when there is uncertainty as to the proper disposition of the tax payment. The distributions from these funds vary greatly from year to year.

Property Tax Relief Distribution

Program Series 3

Purpose: Reimburses local governments (other than schools) for state property tax relief programs.

The following table shows the line items that are used to fund this program series and the executive recommended funding levels.

Fund	ALI	Title	FY 2004	FY 2005
GRF	110-901	Property Tax Allocation - TAX	\$408,750,000	\$409,440,000
GRF	110-906	Tangible Tax Exemption - TAX	\$26,590,000	\$25,090,000
Total Funding: Property Tax Relief Distribution			\$435,340,000	\$434,530,000

Property Tax Allocation - TAX

Line item 110-901, Property Tax Allocation – TAX, is used to reimburse local governments, other than school districts, for revenue losses incurred as a result of the 10% and 2.5% "rollback" reductions in real and manufactured home property taxes. It also reimburses local governments, other than school districts, for the revenue loss as a result of the Homestead Exemption Program, which exempts a portion of the taxable value of homes owned by low-income seniors and disabled Ohioans.

School district property tax losses due to these programs are reimbursed through line item 200-901 in the Department of Education.

The tax reform package proposed in the executive budget includes a reduction in the 10% rollback for business property and a limit on the 2.5% rollback on homestead property. According to the proposal, tax bills for only agricultural property, property with single-family dwellings, property with two-family dwellings, and property with manufactured or mobile homes will continue to receive the full 10% reduction, or “rollback.” All other property tax bills will be reduced by only 5%. In total, the change to the 10% rollback reduces the cost by \$70.0 million in FY 2004 and by \$144.0 million in FY 2005.

Currently, all owner-occupied property, or “homestead” property receives an additional 2.5% rollback. According to the proposal, only the first \$1.0 million of a home’s value would be eligible for the 2.5% reduction. This proposal reduces the 2.5% rollback by \$2.5 million in FY 2004 and by \$5.2 million in FY 2005.

The appropriation amounts recommended for line item 110-901, (and the Department of Education’s line item 200-901) reflect this proposed change. However, if this portion of the tax reform package is not enacted, the Department of Taxation and the Department of Education would require additional funding.² Table 1 displays in detail the estimated increase each agency would require.³

² Temporary language included in H.B. 95 appropriates any additional funding, beyond what is specifically appropriated in the line items, needed to make payments to the local governments for these programs.

³ Due to the fact that rollbacks are paid on taxes charged by calendar year, rather than fiscal year, and effective date of the bill, the rollback reductions will not be fully realized in FY 2004. Thus, the amounts listed in the table for FY 2004 represent the additional cost for the rollbacks for six months.

Table 1: Estimated Additional Funding Needed If Rollback Reduction and Rollback Limits Are Not Enacted				
	Department of Taxation		Department of Education	
	FY 2004	FY 2005	FY 2004	FY 2005
Reduction in 10% Rollback for Business Real Property	\$25.0 Million	\$51.4 Million	\$45.0 Million	\$92.6 Million
Limit on the 2.5% Rollback	\$0.9 Million	\$1.8 Million	\$1.6 Million	\$3.4 Million
Total Additional Funding	\$25.9 Million	\$53.2 Million	\$46.6 Million	\$96.0 Million

Table 2 contains baseline estimates made by the Department of Taxation and the Legislative Service Commission for the cost of the three programs funded by line item 110-901, Property Tax Allocation – TAX, and 200-901, Property Tax Allocation (in the Department of Education’s appropriation). These cost estimates do not reflect the proposed rollback reduction or the rollback limits. The Department of Taxation’s estimates in the table reflect the sum of the appropriation authority in the proposed budget and the additional funding that would be needed (listed in Table 1) if the rollback reductions and the rollback limits are not enacted.

Table 2: Baseline Cost Estimates for the Reimbursement of Local Governments and School Districts for the Homestead Exemption and the Property Tax Rollbacks				
	Local Governments		School Districts	
	FY 2004	FY 2005	FY 2004	FY 2005
Department of Taxation	\$434,650,000	\$462,640,000	\$783,350,000	\$822,360,000
Legislative Service Commission	\$435,976,000	\$462,134,000	\$792,959,000	\$840,537,000
Difference	(\$1,326,000)	\$506,000	(\$9,609,000)	(\$18,177,000)

Tangible Tax Exemption - TAX

Line item 110-906, Tangible Tax Exemption – TAX is used to reimburse local governments, other than school districts, for revenue losses incurred as a result of the \$10,000 tangible property tax exemption for incorporated and unincorporated businesses. To provide the information enabling the state reimbursement, taxpayers with less than \$10,000 of assessed value must file an “informational” tax return.

School district property tax losses due to these programs are reimbursed through line item 200-906, in the Department of Education.

The tax reform package proposed in the executive budget would eliminate the requirement for taxpayers with less than \$10,000 of assessed value to file an “informational” tax return beginning in tax year 2004. In addition, the proposal would eliminate the state’s reimbursement of the cost of the exemption over a ten-year period. The reimbursements will be paid based on the last returns filed, decreasing 10% each year.

The appropriation amounts recommended for line item 110-906, (and the Department of Education line item 200-906) reflect this proposed change. However, if this portion of the tax reform package is not

enacted, the Department of Taxation and the Department of Education would require additional funding.⁴ Table 3 displays the Department of Taxation’s estimate for the increase each agency would require. These estimates total \$9.7 million in FY 2004 and \$19.7 million for FY 2005.

Table 3: Estimated Additional Funding Needed If the Elimination of the Reimbursement for the Tangible Tax Exemption Is Not Enacted				
	Department of Taxation		Department of Education	
	FY 2004	FY 2005	FY 2004	FY 2005
Elimination of Reimbursement	\$2.6 Million	\$5.4 Million	\$7.1 Million	\$14.3 Million

Table 4 contains baseline estimates made by the Department of Taxation and the Legislative Service Commission for the cost of the \$10,000 tangible property tax exemption for incorporated and unincorporated businesses funded by line item 110-906, Tangible Tax Exemption – TAX, and 200-906, Tangible Tax Exemption - Education (included in the Department of Education’s appropriations). These cost estimates do not reflect the proposed elimination of the state’s reimbursement of the cost of the exemption over a ten-year period. The Department of Taxation’s estimates in the table reflect the sum of the appropriation authority in the proposed budget and the additional funding that would be needed (listed in the table above) if the elimination is not enacted.

Table 4: Baseline Cost Estimates for the Reimbursement of Local Governments and School Districts for the Tangible Tax Exemption				
	Local Governments		School Districts	
	FY 2004	FY 2005	FY 2004	FY 2005
Department of Taxation	29,190,000	30,490,000	77,810,000	82,010,000
Legislative Service Commission	29,579,000	30,171,000	69,018,000	70,399,000
Difference	(389,000)	319,000	8,792,000	11,611,000

⁴ Temporary language included in H.B. 95 appropriates any additional funding, beyond what is specifically appropriated in the line items, needed to make payments to the local governments for these programs.

ADDITIONAL FACTS AND FIGURES

Department of Taxation Historical Staffing Levels					
	FY 1994	FY 1996	FY 1998	FY 2000	FY 2002
Permanent Employees	1,424	1,369	1,309	1,266	1,152
Temporary Employees	144	144	147	174	113
Total Employees	1,568	1,513	1,456	1,440	1,265

Hiring Plan

As the table above displays, the number of employees at the Department of Taxation has been steadily declining over the past several years. In FY 2002 the Department had a net loss of 101 employees, leaving them with only 1,152 employees at the beginning of FY 2003. To maintain “minimum staffing levels” the Department plans to hire 203 additional employees during FY 2003.⁵ These additional staff members will result in a total staff of 1,353 at the start of the new biennium. Table 1, below, displays the hiring plan, broken down by divisions within the Department. As of February 21, 2003, the Department had hired (or selected an applicant) for 81 of the 203 positions they hope to fill.

Table 1: Department of Taxation Hiring Plan, FY 2003		
Division	Number of New Employees Planned	Planned Number of Employees, End of FY 2003
Audit	81	295
Budget and Fiscal	1	35
Chief Counsel	5	38
Communications	2	5
Employee, Development and Training	3	10
Enforcement	6	27
Estate Tax Division	1	16
Excise Tax	7	52
Forms Purchasing	1	5
Human Resources	1	13
Income and Corporate Franchise Tax	13	96
Information Services	23	157
Legislation	1	6
Personal Property Tax	2	32
Processing Center	8	200
Public Utility Tax	2	9
Sales and Use Tax	0	38
Tax Analysis	3	9
Tax Commissioner	1	17
Tax Equalization	1	25
Taxpayer Service Centers	20	139
Taxpayer Service/Compliance	21	139
Total: Permanent Employees	203	1,363

⁵ The staffing levels and employees discussed in this section do not include temporary employees traditionally hired by the Department of Taxation during prime filing season. Further, it does not include new employees hired to fill a current position that is vacated during the year due to retirement or resignation.

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.

Property Tax Administration

The bill proposes that the Department of Taxation fund their entire Personal Property Tax Division, the Public Utility Tax Division, and the Tax Equalization Division, as well as a portion of the Audit Division, with a new State Special Revenue fund, Property Tax Administration. The 127 FTEs and their associated activities that will be supported by this fund are currently funded by the GRF.

The source of funds for the Property Tax Administration Fund is a fee charged to local taxing districts. The amount credited to the Fund is calculated by summing of the following:

Amount of the Rollbacks Paid on Real Property⁶ x 0.003

Amount of Taxes Levied Against Public Utility Personal Property⁷ x 0.0015

Amount of Taxes Levied Against Tangible Personal Property⁸ x 0.0075

According to the executive budget, the revenues that will be credited to the Property Tax Administration Fund will be provided by a transfer from GRF funds that would have otherwise been transferred into line items 110-901, Property Tax Allocation – TAX, and 200-901, Property Tax Allocation – EDU, which provides reimbursements to school districts and local governments for the 10% rollbacks on real property taxes. (More information about these funds and the proposed changes for this Fund are provided above in the Analysis of the Executive Proposal section of this redbook.)

The fee is to be computed once each year by the Tax Commissioner, and one-fourth of the computed amount is to be paid from the General Revenue Fund four times during each fiscal year, on August 1, November 1, February 1, and May 1. The fee amount is computed separately for each taxing district based on the taxable property in the district, and the amount is deducted from the district's share of the 10% rollback reimbursement. The amount deducted may not be greater than the district's share of the reimbursement. But if the computed deduction exceeds a district's share, the difference must be returned to the General Revenue Fund from the Property Tax Administration Fund.

⁶ The cost of reimbursing school districts and local governments for the 10% and 2.5% rollbacks provided on real property taxes was \$991.4 million in CY 2001. Under the proposal, the Property Tax Administration Fund would have benefited by approximately \$3.0 million ($\$991,379,237 \times 0.003 = \$2,974,138$). However, if the proposed tax reform, reducing the rollback on business real property and limiting the 2.5% rollback on owner occupied real property is enacted, the cost of reimbursing school districts and local governments will be substantially less.

⁷ Taxes charged on public utility tangible personal property in 2001 (collected in 2002) totaled \$715.3 million. Under the proposal, the Property Tax Administration Fund would have benefited by approximately \$1.07 million ($\$715,307,000 \times 0.0015 = \$1,072,961$).

⁸ Taxes charged on tangible personal property in 2001 (collected in 2002) totaled \$1.8 billion. Under the proposal, the Property Tax Administration Fund would have benefited by approximately \$13.5 million ($\$1,802,487,778 \times 0.0075 = \$13,518,658$).

In FY 2004, the fee may be determined at any time after the bill becomes law, and the deductions from reimbursements payable to taxing districts in FY 2004 may be made semiannually or all at once at the second reimbursement payment in February. The transfer of the fee from the GRF to the Fund in FY 2004 may occur in three installments rather than four.

The executive budget proposal provides line item 110-623, Property Tax Administration, with \$11,569,719 of appropriation authority in FY 2004 and \$11,938,362 of appropriation authority FY 2005.

Centralized Tax Filing and Payment

The Ohio Business Gateway is a collaborative project of the Ohio departments of Administrative Services, Job and Family Services, Taxation, and Bureau of Workers' Compensation. It provides businesses a single portal for filing certain business taxes and specific other information required by various state agencies. The executive recommendations include a proposal to expand the Gateway to include municipal income taxes. (Please see analysis included in the Analysis of Executive Proposal section of this redbook, for more information.)

Motor Fuel Tax Administration Fund

The executive budget recommendations include the creation of a new State Special Revenue Fund 5V7, the Motor Fuel Tax Administration Fund, within the Department of Taxation's budget. According to the recommendations, the Fund will receive 0.275% of the receipts from the motor fuel taxes, after transfers are made to the Waterways Safety Fund and paying refunds out of those receipts.

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, specific dollar amounts were transferred from the Highway Operating Fund to the GRF to provide for administration of the tax.

Rollback Reduction and Rollback Limits

The tax reform package proposed in the executive budget includes a reduction in the 10% rollback for business property and a limit on the 2.5% rollback on homestead property. (Please see analysis included in the Analysis of Executive Proposal section of this redbook, for more information.)

Elimination of the Tangible Tax Exemption Reimbursement

The tax reform package proposed in the executive budget would eliminate the requirement for taxpayers with less than \$10,000 of assessed value to file and "informational" tax return beginning in tax year 2004. In addition, the proposal would eliminate the state's reimbursement of the cost of the exemption over a ten-year period. (Please see analysis included in the Analysis of Executive Proposal section of this redbook, for more information.)

Electronic Filing of Tax Returns and Payments

Currently, the Tax Commissioner may authorize an electronic or other alternative means for filing tax returns and making tax payments. The executive budget includes a provision that would expand the

Commissioner's authority to *require* electronic filing and payment. Further, the provision allows the Commissioner to require electronic filing or payment for all taxpayers or for only certain classes or groups of taxpayers. (Please see the Analysis of Executive Proposal section of this redbook for more information on automation efforts made by the Department.)

Housing Officers Granted Jurisdiction

Included in the executive recommendations is a provision that withdraws jurisdiction of the Tax Commissioner to hear complaints that challenge the continued exemption of property located in a community reinvestment area (CRA)⁹ and grants jurisdiction to the housing officer which 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.

Criminal Forfeiture Fund

The bill establishes a fund to receive the proceeds from property or money seized in the course of enforcement actions by the Department of Taxation's Enforcement Division. Credited to the fund would be interest or other earnings arising from the investment of money or of proceeds from selling property seized by the Department. The Department may only use money in the fund to pay for equipment costs of the Enforcement Division. Each year, the Tax Commissioner must report to the Attorney General on the use of money in the fund.

The Department of Taxation has not been able to accept these moneys in the past, and is uncertain how much revenue will be credited to this fund, however it does not anticipate the amount to be large.

Delegation of the Tax Commissioner's Investigative Powers

Currently, the Tax Commissioner may delegate his or her investigative powers to employees of the Department who have been certified by the Ohio Peace Officer Training Commission and are engaged in the enforcement of the motor fuel, sales and use, cigarette, or income tax laws. The bill repeals the existing provisions in the motor fuel, sales and use, cigarette, and income tax laws, and enacts a general provision delegating investigative powers to enforce all laws relating to taxes and fees that the Tax Commissioner is responsible for administering.

Authorization of Taxation Employees to Inspect Motor Fuel Tanks

The bill expands the Tax Commissioner's enforcement authority for purposes of the motor fuel use and fuel tax laws. In addition to examining records and books, the Commissioner may examine invoices, storage tanks, and any other equipment related to motor fuel to determine whether motor fuel taxes have been paid. The bill eliminates the prohibition against disclosing information.

The bill also permits an employee of the Department of Taxation, who is so authorized by the Tax Commissioner, to physically inspect, examine, or search any tank, reservoir, or other container that can or may be used for the production, storage, or transportation of fuel, fuel dyes, or fuel markers, and books

⁹ A community reinvestment area (CRA) is an area in which housing facilities or structures of historical significance are located and new housing construction and repair of existing facilities or structures are discouraged. Newly constructed or remodeled structures located in a CRA may qualify for an exemption from real property taxation.

and records, if any, that are maintained at the place of inspection and are kept to determine motor fuel tax liability.

Temporary Law

Centralized Tax Filing and Payment

This bill requires the Director of Budget and Management to transfer \$3.0 million from the GRF to the Centralized Tax Filing and Payment Fund, a State Special Revenue fund in the Department of Taxation's budget.

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 refunds.

REQUESTS NOT FUNDED

All funding requests made by the Department of Taxation were fully funded.

General Revenue Fund

GRF 110-100 Personal Services

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$1,257,929	\$0	\$0	\$0	\$0	\$0
		N/A	N/A	N/A	N/A

Source: General Revenue Fund

Legal Basis: Discontinued line item - ORC 5703

Purpose: This line item provided funds for payroll and fringe benefits for most employees of the Department of Taxation. It also paid for personal service contracts for computer consultants and various temporary personnel employed during tax filing season. There were 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 also contained money to fund personnel in local tax administration and other areas.

GRF 110-200 Maintenance

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$413,639	\$0	\$0	\$0	\$0	\$0
		N/A	N/A	N/A	N/A

Source: General Revenue Fund

Legal Basis: Discontinued line item - ORC 5703

Purpose: This line item provided 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 included the following: computer hardware and software maintenance, travel reimbursement, supply items, publication expenses, telephone charges, rentals, leases, printing (particularly of tax forms), and postage.

GRF 110-321 Operating Expenses

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$86,318,508	\$88,385,981	\$85,885,059	\$87,738,019	\$92,501,007	\$94,267,788
	2.4%	-2.8%	2.2%	5.4%	1.9%

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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$394,736	\$27,946	\$0	\$0	\$0	\$0
	-92.9%		N/A	N/A	N/A

Source: General Revenue Fund

Legal Basis: Discontinued line item (originally established by H.B. 657 of the 113th G.A., effective September 24, 1979)

Purpose: Funds in this line item were used to help administer the Energy Credits program. S.B. 3 of the 123rd G.A. moved this program to the Department of Development beginning July 1, 2000. This program is now funded through line item 195-409, Utility Payment Administration in the Department of Development's budget.

GRF 110-412 Child Support Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$55,944	\$15,391	\$122,993	\$87,326	\$74,215	\$74,215
	-72.5%	699.1%	-29.0%	-15.0%	0.0%

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. It also includes personal services in answering taxpayer inquiries and postage costs in mailing notices to taxpayers. If such a person is owed a refund, it can then be turned over to the Ohio Department of Job and Family Services to be used for child support.

GRF 110-506 Utility Bill Credits

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$4,748,240	\$603,052	\$125	\$0	\$0	\$0
	-87.3%	-100.0%	-100.0%	N/A	N/A

Source: General Revenue Fund

Legal Basis: Discontinued line item (originally established by H.B. 657 of the 113th G.A., effective September 24, 1979)

Purpose: This appropriation was 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. (Since FY 2000 this amount has been adjusted for inflation based on the GDP deflator.)

S.B. 3 of the 123rd G.A. moved this program to the Department of Development beginning July 1, 2000. This program is now funded through line item 195-505, Utility Bill Credits, in the Department of Development's budget.

GRF 110-901 Property Tax Allocation - TAX

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$341,284,980	\$363,912,241	\$351,001,027	\$399,300,000	\$408,750,000	\$409,440,000
	6.6%	-3.5%	13.8%	2.4%	0.2%

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 and manufactured home 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. All real property taxes are reduced by 10 percent reduction. In addition, owner-occupied residential real property 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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$26,746,255	\$27,136,148	\$27,842,883	\$30,900,000	\$26,590,000	\$25,090,000
	1.5%	2.6%	11.0%	-13.9%	-5.6%

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.

General Services Fund Group

433 110-602 Tape File Account

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$33,182	\$120,772	\$96,736	\$96,165	\$96,165	\$96,165
	264.0%	-19.9%	-0.6%	0.0%	0.0%

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

Legal Basis: ORC 5703.41 and 5747.18 (originally established by Controlling Board in 1972)

Purpose: Revenues are used to maintain and replace computer equipment, for computer programming, 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.

Federal Special Revenue Fund Group

3J6 110-601 Motor Fuel Compliance

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$73,718	\$25,191	\$36,570	\$33,000	\$33,300	\$25,000
	-65.8%	45.2%	-9.8%	0.9%	-24.9%

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.

The funding for this federal award has diminished significantly and will expire on September 30, 2004.

3J7 110-603 International Fuel Tax Agreement

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$39,708	\$79,470	\$70,675	\$0	\$0	\$0
	100.1%	-11.1%	-100.0%	N/A	N/A

Source: FED: CFDA 20.205, Highway Planning and Construction

Legal Basis: Discontinued line item (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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$11,359,719	\$11,032,157	\$19,521,060	\$24,199,026	\$13,600,000	\$13,700,000
	-2.9%	76.9%	24.0%	-43.8%	0.7%

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

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

Purpose: The moneys help defray the costs of collecting and administering the county, additional county, and regional transit authority sales and use taxes. In the absence of rate changes, revenue for this line item grows at the rate of taxable sales.

436 110-608 Motor Vehicle Audit

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$1,524,483	\$1,207,651	\$1,118,269	\$1,600,000	\$1,350,000	\$1,350,000
	-20.8%	-7.4%	43.1%	-15.6%	0.0%

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)©

Purpose: Funds from this line item are used by the Tax Commissioner to investigate sales and use tax returns filed for motor vehicle transactions in order to ensure that the proper 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. Resource Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$1,371,453	\$1,366,546	\$546,590	\$625,232	\$625,232	\$625,232
	-0.4%	-60.0%	14.4%	0.0%	0.0%

Source: SSR: Litter tax - special tax in addition to regular corporate franchise tax; natural resources - up to 2 1/2 percent of total amount contributed under the natural resources areas and preserves and endangered wildlife check offs on the personal income tax return

Legal Basis: ORC 5747.11.3; also, section 109 of Am. Sub. H.B. 94 of the 124th G.A. (originally established by Am. Sub. H.B. 361 of the 113th G.A.)

Purpose: Funds from this line item cover the costs of collecting and administering the litter 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 requested substantially less funding for this program in FYs 2002 and 2003, and continues to do so.

438 110-609 School District Income Tax

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$2,680,772	\$2,444,737	\$2,221,394	\$2,599,999	\$2,599,999	\$2,599,999
	-8.8%	-9.1%	17.0%	0.0%	0.0%

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 in 1987. Am. Sub. S.B. 28 of the 118th G.A. reauthorized new enactments of voter-approved school district income taxes. In FY 2002, 130 school districts had a school district income tax.

4C6 110-616 International Registration Plan

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$564,290	\$585,261	\$630,770	\$706,855	\$706,855	\$706,855
	3.7%	7.8%	12.1%	0.0%	0.0%

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 Fund 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 three 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 Fund 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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$7,913	\$37,846	\$169,575	\$65,000	\$65,000	\$65,000
	378.3%	348.1%	-61.7%	0.0%	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 tire tax.

5N5 110-605 Municipal Income Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$184,274	\$650,000	\$650,000	\$650,000
	N/A	N/A	252.7%	0.0%	0.0%

Source: SSR: 1.5 percent of municipal income tax collections.

Legal Basis: Am. Sub. S.B. 287 of the 123rd G.A., Sec. 5

Purpose: Moneys in this fund are used to cover the cost to administer the municipal income tax.

5N6 110-618 Kilowatt Hour Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$69,498	\$85,000	\$85,000	\$85,000
	N/A	N/A	22.3%	0.0%	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 kilowatt hour tax.

5N7 110-619 Municipal Internet Site

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$2,451	\$10,000	\$0	\$0
	N/A	N/A	308.1%	-100.0%	N/A

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 (originally established by Sub. H.B. 477 of the 123rd G.A.)

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. It must also provide links to each municipal corporation that has established its own site, thus providing a uniform resource locator. The Department of Taxation has decided to not charge for this service.

5V7 110-622 Motor Fuel Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$0	\$0	\$3,734,036	\$3,833,091
	N/A	N/A	N/A	N/A	2.7%

Source: SSR: 0.275 percent from motor fuel taxes collected after refunds.

Legal Basis: Proposed in the main operating appropriations bill of the 125th G.A.

Purpose: This fund will pay for the administration of the motor fuel tax.

5V8 110-623 Property Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$0	\$0	\$11,569,719	\$11,938,362
	N/A	N/A	N/A	N/A	3.2%

Source: SSR: 0.3 percent of the amount by which each parcel of real property listed on the general tax list and duplicate of real and public property for the preceding tax year was reduced pursuant to section 319.302 of the Revised Code; 0.15 percent of the amount of taxes levied against public utility personal property on the real and public utility property tax list and duplicate for the proceeding tax year; 0.75 percent of the amount of taxes levied against tangible personal property of the general personal property tax list and duplicate for the preceding tax year

Legal Basis: Proposed in the main operating appropriations bill of the 125th G.A.

Purpose: This fund will pay for the administration of the personal property tax, dealers of intangibles tax, public utilities tax and real property tax equalization.

5W4 110-625 Centralized Tax Filing and Payment

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$0	\$0	\$3,000,000	\$3,000,000
	N/A	N/A	N/A	N/A	0.0%

Source: SSR:

Legal Basis: Proposed in the main operating appropriations bill of the 125th G.A.

Purpose:

639 110-614 Cigarette Tax Enforcement

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$138,076	\$143,660	\$152,903	\$168,925	\$168,925	\$168,925
	4.0%	6.4%	10.5%	0.0%	0.0%

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 Distribution

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$520,793	\$488,760	\$517,492	\$800,000	\$600,000	\$600,000
	-6.2%	5.9%	54.6%	-25.0%	0.0%

Source: SSR: State income tax check-off 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 check offs in that county to the total statewide number of check-offs. Fund revenue and expenditures declined through FY 1998.

688 110-615 Local Excise Tax Administration

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$316,243	\$356,752	\$203,082	\$300,000	\$300,000	\$300,000
	12.8%	-43.1%	47.7%	0.0%	0.0%

Source: SSR: Two percent of Cuyahoga 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 Fund 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

095 110-901 Municipal Income Tax

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$0	\$0	\$0	\$13,000,000	\$12,000,000	\$12,000,000
	N/A	N/A	N/A	-7.7%	0.0%

Source: AGY: The amounts of taxes collected by the State from municipal electric companies in behalf of local governments where this tax applies.

Legal Basis: ORC 5745.03; 5745.04

Purpose: This fund is used to distribute taxes collected by the State from municipal electric companies to the local governments where this tax applies.

425 110-635 Tax Refunds

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$1,190,632,476	\$1,417,186,988	\$1,295,681,977	\$1,270,497,800	\$1,296,756,200	\$1,337,119,600
	19.0%	-8.6%	-1.9%	2.1%	3.1%

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 administered by the Department of Taxation.

Legal Basis: ORC 5703.052 and Section 109 of Am. Sub. H.B. 94 of the 124th G.A.

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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$1,016	\$0	\$50	\$2,000	\$50,000	\$50,000
		N/A	3900.0%	2400.0%	0.0%

Source: 090: Sales tax payments

Legal Basis: Section 109 of Am. Sub. H.B. 94 of the 124th G.A. (originally established by Controlling Board action # 933 in 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

2000	2001	2002	2003 Estimate	2004 Executive Proposal	2005 Executive Proposal
\$3,066	\$3,382	\$0	\$5,000	\$50,000	\$50,000
	10.3%		N/A	900.0%	0.0%

Source: 090: Personal income tax payments

Legal Basis: Section 109 of Am. Sub. H.B. 94 of the 124th G.A. (originally established by Controlling Board action # 933 in 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.

LSC Budget Spreadsheet by Line Item, FY 2004 - FY 2005

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2002</i>	<i>Estimated 2003</i>	<i>Executive 2004</i>	<i>% Change 2003 to 2004</i>	<i>Executive 2005</i>	<i>% Change 2004 to 2005</i>
TAX Taxation, Department of								
GRF	110-321	Operating Expenses	\$ 85,885,059	\$87,738,019	\$ 92,501,007	5.4%	\$ 94,267,788	1.9%
GRF	110-412	Child Support Administration	\$ 122,993	\$87,326	\$ 74,215	-15.0%	\$ 74,215	0.0%
GRF	110-506	Utility Bill Credits	\$ 125	\$0	\$ 0	N/A	\$ 0	N/A
GRF	110-901	Property Tax Allocation - TAX	\$ 351,001,027	\$399,300,000	\$ 408,750,000	2.4%	\$ 409,440,000	0.2%
GRF	110-906	Tangible Tax Exemption - TAX	\$ 27,842,883	\$30,900,000	\$ 26,590,000	-13.9%	\$ 25,090,000	-5.6%
General Revenue Fund Total			\$ 464,852,087	\$ 518,025,345	\$ 527,915,222	1.9%	\$ 528,872,003	0.2%
433	110-602	Tape File Account	\$ 96,736	\$96,165	\$ 96,165	0.0%	\$ 96,165	0.0%
General Services Fund Group Total			\$ 96,736	\$ 96,165	\$ 96,165	0.0%	\$ 96,165	0.0%
3J6	110-601	Motor Fuel Compliance	\$ 36,570	\$33,000	\$ 33,300	0.9%	\$ 25,000	-24.9%
3J7	110-603	International Fuel Tax Agreement	\$ 70,675	\$0	\$ 0	N/A	\$ 0	N/A
Federal Special Revenue Fund Group Total			\$ 107,245	\$ 33,000	\$ 33,300	0.9%	\$ 25,000	-24.9%
435	110-607	Local Tax Administration	\$ 19,521,060	\$24,199,026	\$ 13,600,000	-43.8%	\$ 13,700,000	0.7%
436	110-608	Motor Vehicle Audit	\$ 1,118,269	\$1,600,000	\$ 1,350,000	-15.6%	\$ 1,350,000	0.0%
437	110-606	Litter Tax and Nat. Resource Tax Administration	\$ 546,590	\$625,232	\$ 625,232	0.0%	\$ 625,232	0.0%
438	110-609	School District Income Tax	\$ 2,221,394	\$2,599,999	\$ 2,599,999	0.0%	\$ 2,599,999	0.0%
4C6	110-616	International Registration Plan	\$ 630,770	\$706,855	\$ 706,855	0.0%	\$ 706,855	0.0%
4R6	110-610	Tire Tax Administration	\$ 169,575	\$65,000	\$ 65,000	0.0%	\$ 65,000	0.0%
5N5	110-605	Municipal Income Tax Administration	\$ 184,274	\$650,000	\$ 650,000	0.0%	\$ 650,000	0.0%
5N6	110-618	Kilowatt Hour Tax Administration	\$ 69,498	\$85,000	\$ 85,000	0.0%	\$ 85,000	0.0%
5N7	110-619	Municipal Internet Site	\$ 2,451	\$10,000	\$ 0	-100.0%	\$ 0	N/A
5V7	110-622	Motor Fuel Tax Administration	---	\$0	\$ 3,734,036	N/A	\$ 3,833,091	2.7%
5V8	110-623	Property Tax Administration	---	\$0	\$ 11,569,719	N/A	\$ 11,938,362	3.2%
5W4	110-625	Centralized Tax Filing and Payment	---		\$ 3,000,000	N/A	\$ 3,000,000	0.0%
639	110-614	Cigarette Tax Enforcement	\$ 152,903	\$168,925	\$ 168,925	0.0%	\$ 168,925	0.0%
642	110-613	Ohio Political Party Distribution	\$ 517,492	\$800,000	\$ 600,000	-25.0%	\$ 600,000	0.0%
688	110-615	Local Excise Tax Administration	\$ 203,082	\$300,000	\$ 300,000	0.0%	\$ 300,000	0.0%
State Special Revenue Fund Group Total			\$ 25,337,357	\$ 31,810,037	\$ 39,054,766	22.8%	\$ 39,622,464	1.5%

LSC Budget Spreadsheet by Line Item, FY 2004 - FY 2005

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2002</i>	<i>Estimated 2003</i>	<i>Executive 2004</i>	<i>% Change 2003 to 2004</i>	<i>Executive 2005</i>	<i>% Change 2004 to 2005</i>
TAX Taxation, Department of								
095	110-901	Municipal Income Tax	---	\$13,000,000	\$ 12,000,000	-7.7%	\$ 12,000,000	0.0%
425	110-635	Tax Refunds	\$ 1,295,681,977	\$1,270,497,800	\$ 1,296,756,200	2.1%	\$ 1,337,119,600	3.1%
Agency Fund Group Total			\$ 1,295,681,977	\$ 1,283,497,800	\$ 1,308,756,200	2.0%	\$ 1,349,119,600	3.1%
R10	110-611	Tax Distributions	\$ 50	\$2,000	\$ 50,000	2,400.0%	\$ 50,000	0.0%
R11	110-612	Misc Income Tax Receipts	---	\$5,000	\$ 50,000	900.0%	\$ 50,000	0.0%
Holding Account Redistribution Fund Group Total			\$ 50	\$ 7,000	\$ 100,000	1,328.6%	\$ 100,000	0.0%
Total All Budget Fund Groups			\$ 1,786,075,453	\$ 1,833,469,347	\$ 1,875,955,653	2.3%	\$ 1,917,835,232	2.2%