

Taxation, Department of

House Transportation and Justice Subcommittee

*Ruhaiza Ridzwan, Economist
Legislative Service Commission*

March 8, 2005

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LSC Redbook

for the

Taxation, Department of

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Taxation, Department of

- The Department expects to increase several funds in SSR to provide the necessary funding due to the freeze in GRF funding level
- The executive budget recommends an increase in administrative funding of 7.3% for FY 2006 and 0.3% for FY 2007

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.

The Department of Taxation is also responsible for determining the amounts 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 of Taxation with GRF administrative funding of \$91,511,742 for FY 2006. This amount is the same as the estimated FY 2005 expenditures. Recommended administrative GRF funding for FY 2007 is \$91,511,742. This amount is the same as FY 2006 recommended funding. 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 \$140,242,893 for FY 2006. This amount is \$9,587,522 greater than the estimated 2005 expenditures, an increase of 7.3%. Recommended administrative funding for FY 2007 is \$140,594,162. This amount is \$351,269 greater than FY 2006, an increase of 0.3%. These amounts do not include funds that are simply distributed by the Department of Taxation.

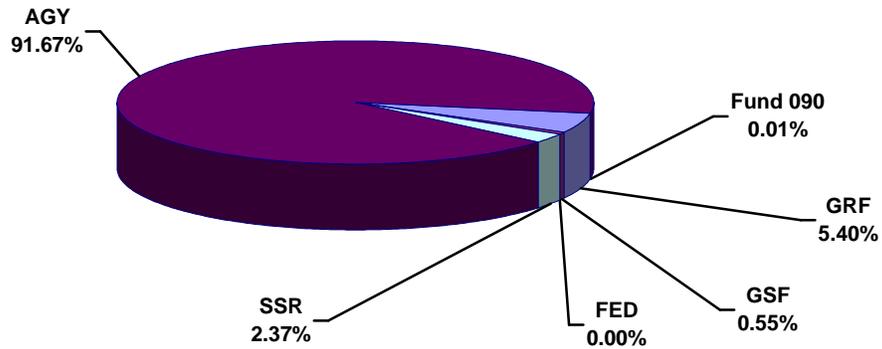
Total funding recommendations for the Department of Taxation are \$2,094,301,496 for FY 2006 and \$2,168,707,345 for FY 2007. This represents an increase from the previous year of 5.8% and 3.6%, respectively. (These amounts include Property Tax Relief funds that are distributed by the Department of Taxation, \$448,458,603 in FY 2006 and \$423,713,183 in FY 2007.)

Summary of FYs 2006-2007 Budget Issues

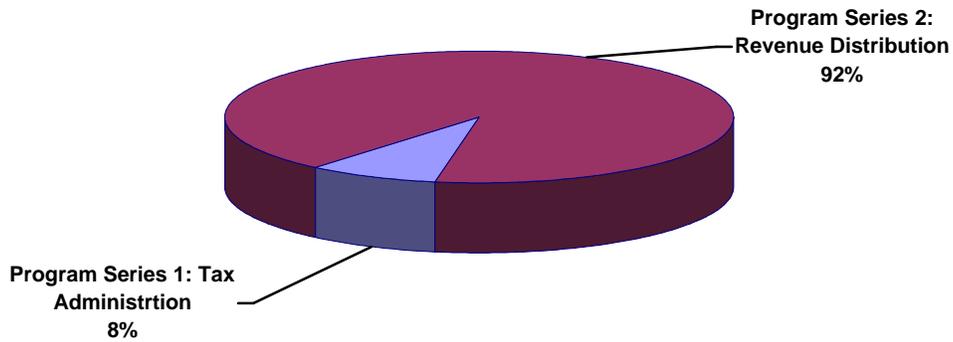
- Increase compliance efforts, with no change to the Department of Taxation’s total FTE, but minor adjustments within various divisions.
- Retain, attract, and equip skilled and sufficient staff to compete with and counteract taxpayers using increasingly aggressive and sophisticated tax planning strategies to limit or avoid state and local taxes.
- Implement a new Enterprise Tax Administration system and replace various antiquated systems with modern technology systems.
- Enhance the level and quality of taxpayer services using cost effective programs and technologies.
- Restructure and reform Ohio’s state and local tax system to encourage capital investment, business development, and job creation.

Table 1: Total Budget By Program Series		
Program Series	FY 2006	FY 2007
Program 1.1: Taxpayer Services Total	\$26,060,329	\$26,060,329
Program 1.2: Tax Processing Total	\$17,998,785	\$17,998,785
Program 1.3: Tax Compliance Total	\$52,446,021	\$52,574,939
Program 1.4: Tax Policy and Analysis Total	\$9,143,976	\$9,143,976
Program 1.5: Local Government Services Total	\$34,593,782	\$34,816,133
Subtotal Program 1: Tax Administration	\$140,242,893	\$140,594,162
Program 2.1: Revenue Accounting Total	\$1,505,600,000	\$1,604,400,000
Subtotal Program 2: Revenue Distribution	\$1,505,600,000	\$1,604,400,000
Program 3: Property Tax Relief	\$448,458,603	\$423,713,183
Subtotal Program 3: Property Tax Relief	\$448,458,603	\$423,713,183
Grand Total	\$2,094,301,496	\$2,168,707,345

Total Budget by Fund Group*



Total Budget by Program Series*



* Total Budget does not include \$872,171,786 in Property Tax Relief Distributions (Program Series 3) in the FY 2006-2007 biennium. This funding is distributed by the Department of Taxation to local governments.

Staffing Levels

The Department of Taxation does not plan to hire additional FTEs in FY 2006 and FY 2007. In the FY 2004-2005 biennium, the Department hired over 80 new employees and reorganized various divisions.

Program Series/Division	2002	2003	2004	2005	Estimated	
					2006	2007
Tax Administration	1,151	1,277	1,382	1,379	1,381	1,381
Taxpayer Services	205	224	249	262	262	262
Tax Processing	207	205	207	183	183.5	183.5
Tax Compliance	398	452	450	456	454	454
Tax Policy & Analysis	76	84	83	84	92	92
Local Government Services	265	312	393	394	389.5	389.5
Totals	1,151	1,277	1,382	1,379	1,381	1,381

As of 2/22/2005, the Department of Taxation has 1,340 FTE equivalents. FY 2006 and FY 2007 are payroll projections.

Table 3 (below) shows FTE counts by division in FY 2002 through FY 2007. The Department of Taxation has reorganized various divisions over the last fiscal years.

Division	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 estimates	FY 2007 estimates
Audit	214	283	323	313	313	313
Budget and Fiscal	34	34	43	43	43	43
Chief Counsel	33	35	38	42	42	42
Communications	3	4	5	4	4	4
Employee, Development and Training	7	8	8	7	7	7
Enforcement	21	26	27	33	33	33
Estate Tax Division	15	15	16	11	11	11
Excise Tax	45	51	52	51	51	51
Forms Purchasing	4	5	5	6	6	6
Human Resources	12	11	15	15	15	15
Business and Corporate Franchise Tax	83	89	51	47	47	47
Personal Income & School District			45	56	56	56
Information Services	134	144	157	155	155	155
Legislation	5	6	6	4	4	4
Personal Property Tax	39	39	41	40	40	40
Processing Center (Operations)	182	181	182	161	161	161
Sales and Use Tax	38	37	38	46	46	46
Tax Analysis	6	9	9	9	9	9
Tax Commissioner	16	17	10	10	10	10
Performance Excellence			7	7	7	7
Tax Equalization	24	24	25	22	22	22
Taxpayer Service Centers	119	129	139	145	145	145
Taxpayer Service/Compliance	118	132	139	154	154	154
Total:	1,152	1,279	1,381	1,381	1,381	1,381

As of 2/22/2005, the Department of Taxation has 1,340 FTE equivalents. FY 2006 and FY 2007 are payroll projections.

MASTER TABLE: EXECUTIVE'S RECOMMENDATIONS FOR FY 2006 AND FY 2007

The following table provides a comprehensive presentation of the Executive's recommendations for each of the agency's line items and the programs each line item supports. Please note that some line items may provide funding for multiple program series and/or programs. See the Analysis of Executive Proposal section for more information on specific program funding.

Executive Recommendations for FY 2006 and FY 2007, By Line Item and Program

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	110-321	Operating Expenses	\$ 91,439,754.00	\$ 91,439,754.00
		<u>Program Series 1: Tax Administration</u>	\$ 91,439,754.00	\$ 91,439,754.00
		Program 1.1: Taxpayer Services	\$ 26,060,329.00	\$ 26,060,329.00
		Program 1.2: Tax Processing	\$ 17,373,553.00	\$ 17,373,553.00
		Program 1.3: Tax Compliance	\$ 38,861,896.00	\$ 38,861,896.00
		Program 1.4: Tax Policy And Analysis	\$ 9,143,976.00	\$ 9,143,976.00
GRF	110-412	Child Support Administration	\$ 71,988.00	\$ 71,988.00
		<u>Program Series 1: Tax Administration</u>	\$ 71,988.00	\$ 71,988.00
		Program 1.5: Local Government Services	\$ 71,988.00	\$ 71,988.00
General Revenue Fund Subtotal			\$ 91,511,742.00	\$ 91,511,742.00
General Services Fund Group				
GSF	110-628	Tax Reform System Implementation	\$ 7,000,000.00	\$ 7,000,000.00
		<u>Program Series 1: Tax Administration</u>	\$ 7,000,000.00	\$ 7,000,000.00
		Program 1.3: Tax Compliance	\$ 7,000,000.00	\$ 7,000,000.00
GSF	110-602	Tape File Account	\$ 96,165.00	\$ 96,165.00
		<u>Program Series 1: Tax Administration</u>	\$ 96,165.00	\$ 96,165.00
		Program 1.5: Local Government Services	\$ 96,165.00	\$ 96,165.00
GSF	110-625	Centralized Tax Filing & Payment	\$ 2,500,000.00	\$ 2,000,000.00
		<u>Program Series 1: Tax Administration</u>	\$ 2,500,000.00	\$ 2,000,000.00
		Program 1.5: Local Government Services	\$ 2,500,000.00	\$ 2,000,000.00
GSF	110-627	Exempt Facility Administration	\$ 36,000.00	\$ 36,000.00
		<u>Program Series 1: Tax Administration</u>	\$ 36,000.00	\$ 36,000.00
		Program 1.5: Local Government Services	\$ 36,000.00	\$ 36,000.00
General Services Fund Subtotal			\$ 9,632,165.00	\$ 9,132,165.00
Federal Special Revenue Fund Group				
FED	110-3J6	Motor Fuel Compliance	\$ 25,000.00	\$ 25,000.00
		<u>Program Series 1: Tax Administration</u>	\$ 25,000.00	\$ 25,000.00
		Program 1.3: Tax Compliance	\$ 25,000.00	\$ 25,000.00
Federal Special Revenue Fund Subtotal			\$ 25,000.00	\$ 25,000.00
State Special Revenue Fund Group				
SSR	110-606	Litter Tax and Natural Resources Administration	\$ 625,232.00	\$ 625,232.00
		<u>Program Series 1: Tax Administration</u>	\$ 625,232.00	\$ 625,232.00
		Program 1.2: Tax Processing	\$ 625,232.00	\$ 625,232.00

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SSR	110-616	International Registration Plan	\$	706,855.00	\$	706,855.00
		<u>Program Series 1: Tax Administration</u>	\$	706,855.00	\$	706,855.00
		Program 1.3: Tax Compliance	\$	706,855.00	\$	706,855.00
SSR	110-610	Tire Tax Administration	\$	65,000.00	\$	65,000.00
		<u>Program Series 1: Tax Administration</u>	\$	65,000.00	\$	65,000.00
		Program 1.3: Tax Compliance	\$	65,000.00	\$	65,000.00
SSR	110-608	Motor Vehicle Audit	\$	1,350,000.00	\$	1,350,000.00
		<u>Program Series 1: Tax Administration</u>	\$	1,350,000.00	\$	1,350,000.00
		Program 1.3: Tax Compliance	\$	1,350,000.00	\$	1,350,000.00
SSR	110-622	Motor Fuel Tax Administration	\$	4,268,345.00	\$	4,397,263.00
		<u>Program Series 1: Tax Administration</u>	\$	4,268,345.00	\$	4,397,263.00
		Program 1.3: Tax Compliance	\$	4,268,345.00	\$	4,397,263.00
SSR	110-614	Cigarette Tax Enforcement	\$	168,925.00	\$	168,925.00
		<u>Program Series 1: Tax Administration</u>	\$	168,925.00	\$	168,925.00
		Program 1.3: Tax Compliance	\$	168,925.00	\$	168,925.00
SSR	110-607	Local Tax Administration	\$	15,880,987.00	\$	16,394,879.00
		<u>Program Series 1: Tax Administration</u>	\$	15,880,987.00	\$	16,394,879.00
		Program 1.5: Local Government Services	\$	15,880,987.00	\$	16,394,879.00
SSR	110-609	School District Income Tax	\$	2,599,999.00	\$	2,599,999.00
		<u>Program Series 1: Tax Administration</u>	\$	2,599,999.00	\$	2,599,999.00
		Program 1.5: Local Government Services	\$	2,599,999.00	\$	2,599,999.00
SSR	110-605	Municipal Income Administration	\$	265,000.00	\$	265,000.00
		<u>Program Series 1: Tax Administration</u>	\$	265,000.00	\$	265,000.00
		Program 1.5: Local Government Services	\$	265,000.00	\$	265,000.00
SSR	110-618	Kilowatt Hour Tax Administration	\$	85,000.00	\$	85,000.00
		<u>Program Series 1: Tax Administration</u>	\$	85,000.00	\$	85,000.00
		Program 1.5: Local Government Services	\$	85,000.00	\$	85,000.00
SSR	110-623	Property Tax Administration	\$	12,758,643.00	\$	12,967,102.00
		<u>Program Series 1: Tax Administration</u>	\$	12,758,643.00	\$	12,967,102.00
		Program 1.5: Local Government Services	\$	12,758,643.00	\$	12,967,102.00
SSR	110-615	Local Excise Tax Administration	\$	300,000.00	\$	300,000.00
		<u>Program Series 1: Tax Administration</u>	\$	300,000.00	\$	300,000.00
		Program 1.5: Local Government Services	\$	300,000.00	\$	300,000.00
SSR	110-613	Ohio Political Party Distribution	\$	600,000.00	\$	600,000.00
		<u>Program Series 2: Revenue Distribution</u>	\$	600,000.00	\$	600,000.00
		Program 2.1: Revenue Accounting	\$	600,000.00	\$	600,000.00
State Special Revenue Fund Subtotal			\$	39,673,986.00	\$	40,525,255.00

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Agency Fund Group			
AGY	110-901	Municipal Income Tax	\$ 21,000,000.00 \$ 21,000,000.00
		<u>Program Series 2: Revenue Distribution</u>	\$ 21,000,000.00 \$ 21,000,000.00
		Program 2.1: Revenue Accounting	\$ 21,000,000.00 \$ 21,000,000.00
AGY	110-635	Tax Refunds	\$ 1,483,900,000.00 \$ 1,582,700,000.00
		<u>Program Series 2: Revenue Distribution</u>	\$ 1,483,900,000.00 \$ 1,582,700,000.00
		Program 2.1: Revenue Accounting	\$ 1,483,900,000.00 \$ 1,582,700,000.00
Agency Fund Subtotal			\$ 1,504,900,000.00 \$ 1,603,700,000.00
Holding Account Redistribution Fund Group			
R10	110-611	Tax Refunds	\$ 50,000.00 \$ 50,000.00
		<u>Program Series 2: Revenue Distribution</u>	\$ 50,000.00 \$ 50,000.00
		Program 2.1: Revenue Accounting	\$ 50,000.00 \$ 50,000.00
R11	110-612	Tax Distributions	\$ 50,000.00 \$ 50,000.00
		<u>Program Series 2: Revenue Distribution</u>	\$ 50,000.00 \$ 50,000.00
		Program 2.1: Revenue Accounting	\$ 50,000.00 \$ 50,000.00
Holding Account Redistribution Fund Subtotal			\$ 100,000.00 \$ 100,000.00
Agency Total Funding			\$ 1,645,842,893.00 \$ 1,744,994,162.00
Property Tax Relief Distributions - General Revenue Fund Group			
GRF	110-901	Property Tax Allocation - TAX	\$ 430,102,680.00 \$ 409,946,241.00
GRF	110-906	Tangible Tax Exemption - TAX	\$ 18,355,923.00 \$ 13,766,942.00
Property Tax Relief Distributions - General Revenue Fund Subtotal			\$ 448,458,603.00 \$ 423,713,183.00
Grand Total			\$ 2,094,301,496.00 \$ 2,168,707,345.00

ANALYSIS OF EXECUTIVE PROPOSAL

Program Series 1

Tax Administration

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

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

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	110-321	Operating Expenses	\$91,439,754	\$91,439,754
GRF	110-412	Child Support Administration	\$71,988	\$71,988
General Revenue Fund Subtotal			\$91,511,742	\$91,511,742
State Special Revenue Fund				
SSR	110-605	Municipal Income Administration	\$265,000	\$265,000
SSR	110-606	Litter Tax and Natural Resources Administration	\$625,232	\$625,232
SSR	110-607	Local Tax Administration	\$15,880,987	\$16,394,879
SSR	110-608	Motor Vehicle Audit	\$1,350,000	\$1,350,000
SSR	110-609	School District Income Tax	\$2,599,999	\$2,599,999
SSR	110-610	Tire Tax Administration	\$65,000	\$65,000
SSR	110-614	Cigarette Tax Enforcement	\$168,925	\$168,925
SSR	110-615	Local Excise Tax Administration	\$300,000	\$300,000
SSR	110-616	International Registration Plan	\$706,855	\$706,855
SSR	110-618	Kilowatt Hour Tax Administration	\$85,000	\$85,000
SSR	110-622	Motor Fuel Tax Administration	\$4,268,345	\$4,397,263
SSR	110-623	Property Tax Administration	\$12,758,643	\$12,967,102
State Special Revenue Fund Subtotal			\$39,073,986	\$39,925,255
General Services Fund				
GSF	110-602	Tape File Account	\$96,165	\$96,165
GSF	110-625	Centralized Tax Filing & Payment	\$2,500,000	\$2,000,000
GSF	110-627	Exempt Facility Administration	\$36,000	\$36,000
GSF	110-628	Tax Reform System Implementation	\$7,000,000	\$7,000,000
General Services Fund Subtotal			\$9,632,165	\$9,132,165
Federal Special Revenue Fund				
FED	110-601	Motor Fuel Compliance	\$25,000	\$25,000
Federal Special Revenue Fund Subtotal			\$25,000	\$25,000
Total Funding: Tax Administration			\$140,242,893	\$140,594,162

This analysis focuses on the following specific programs within the Tax Administration program series:

- **Program 1.1 Taxpayer Services**
- **Program 1.2 Tax Processing**
- **Program 1.3 Tax Compliance**
- **Program 1.4 Tax Policy And Analysis**
- **Program 1.5 Local Government Services**

Program 1.1 Taxpayer Services

Program Description: 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 Taxpayer Services program provides the delivery of services to the taxpayers as a means of increasing tax compliance.

Funding Source: GRF

Line Items: 110-321

Implication of Executive Recommendation: The executive budget provides the Taxpayer Services program with total GRF funding of \$26,060,329 each in FY 2006 and FY 2007.

Temporary Law Provisions: None

Permanent Law Provisions:

Registration and fee (R.C. 5751.05(B) and 5751.11)

Every legal person subject to the new Commercial Activity Tax (CAT) must register with the Tax Commissioner by November 15, 2005, or within 30 days after first becoming subject to the tax. The registration must be made on a form provided by the Commissioner that must include various items of information about the taxpayer. (See below, ***Tax Commissioner authorized to require identifying information from persons filing tax documents with the Department of Taxation.***)

The budget request proposes a one-time \$15 registration fee payable if the person registers electronically; if registration is not done electronically, the fee is \$20. If a person registers after the due date, an additional fee of up to \$100 per month may be charged, up to \$1,000. Persons that would otherwise be subject to the tax but that begin business after November 30 in any year are exempt from the fee, as are persons that do not surpass the \$40,000 taxable gross receipts threshold as of December 1. The registration fee may be waived by the Tax Commissioner. Fee collections are credited to a fund to defray the Commissioner's costs of administering the tax, including promoting awareness of the tax during its initial implementation. This proposed one-time fee will be used to assist with the implementation costs of tax reform.

General administration of Department of Taxation (R.C. 5751.05, 5751.06, 5751.07, 5751.08, 5751.081, 5751.09, 5751.10, 5751.11, and 5751.12)

The executive budget proposes permanent law related to the Department of Taxation's general administration of the new commercial activity tax, particularly tax payments procedure, tax assessments, penalties and interest, refunds, and record keeping.

Tax Commissioner authorized to require identifying information from persons filing tax documents with the Department of Taxation

The bill authorizes the Tax Commissioner to require any person filing a tax document with the Department of Taxation to provide identifying information requested by the Commissioner, including the person's social security number, federal employer identification number, or other identification number requested by the Commissioner. A person who is required to provide identifying information is required to notify the Commissioner of any changes with respect to that information prior to, or at the time of, filing the next tax document requiring identifying information. The bill states that the Tax Commissioner is being granted authority to request identifying information in order to increase the efficiency with which the Commissioner administers taxes and fees.

Confidentiality of social security numbers

The bill permits the Commissioner to impose penalties for failures to provide identifying information. If the Commissioner requests identifying information from a person and the person does not respond by providing valid identifying information within 30 days after the request is made, the Commissioner may impose a penalty upon that person of up to \$100. If, after the expiration of the initial 30-day period, the Commissioner makes one or more subsequent requests for identifying information, and valid identifying information is not provided to the Commissioner within 30 days after the Commissioner makes the subsequent request, the Commissioner may impose an additional penalty of up to \$200 for each subsequent request that a person fails to comply with in a timely fashion. The bill provides, further, that if a person required to provide identifying information fails to notify the Commissioner of a change with respect to that information within 30 days after filing the next tax document requiring the identifying information, the Commissioner may impose a penalty upon that person of up to \$50.

Under the bill, penalties imposed by the Commissioner may be billed and assessed by the Commissioner in the same manner as the tax or fee with respect to which the Commissioner seeks the identifying information. The bill specifies that the penalties are in addition to any applicable criminal penalties and any other penalties that the Commissioner is authorized by law to impose.

Criminal penalties

Continuing law makes it a criminal offense to file a false or fraudulent document with the Department of Taxation with the intent to defraud the state or any of its political subdivisions. Violation of this criminal prohibition constitutes a felony of the fifth degree, which is punishable by six to twelve months of confinement and a fine of up to \$5,000, upon which a court may impose an additional fine of up to \$7,500. The bill specifies that the criminal prohibition for filing false or fraudulent tax documents with intent to defraud applies with respect to tax documents containing false or fraudulent identifying information.

Transmission to the Treasurer of State of sales and use taxes collected by court clerks upon issuing certificates of title (R.C. 1548.06 and 4505.06)

Under continuing law, applications for certificates of title for motor vehicles, watercraft, and watercraft outboard motors are filed with the clerks of the courts of common pleas, and the clerks are required to collect unpaid sales and use taxes from the applicants at the time the applications are filed. The clerks retain a poundage fee for collecting the taxes. Under existing law, the clerks forward the taxes collected by them to the Treasurer of State in a manner prescribed by the Tax Commissioner.

Taxpayer audits (R.C. 5703.50)

Under current law, various rights are granted to taxpayers that become effective when a taxpayer is subjected to an audit by the Department of Taxation or a county auditor, including the right to receive information about the Department's role in the audit and the taxpayer's right to be represented or accompanied by an attorney, accountant, tax professional, or other competent advisor. (The rights are set forth in R.C. 5703.51.) What constitutes an "audit," and therefore what invokes a taxpayer's rights, is specifically defined by current law: "audit" means the examination of a taxpayer or the inspection of the taxpayer's books, records, memoranda, or accounts for the purpose of determining tax liability. Current law, unchanged by the bill, requires that the Department notify a taxpayer when an audit is considered to have begun. The bill changes the definition of "audit," and therefore what activity invokes a taxpayer's rights under an audit. The bill defines "audit" as a visit by an employee of the Department of Taxation to one or more of the taxpayer's business locations or other locations designated by the taxpayer to inspect the taxpayer's books, records, memoranda, or accounts for the purpose of determining tax liability. "Audit" does not include being served an assessment (i.e., formal notice of outstanding liability) or any other type of document or notification, and does not include an investigation by an enforcement agent or other Department employee to verify that a taxpayer has the appropriate license or registration, to conduct a test purchase, or to conduct a "similar" investigation.

Changes to distribution of the kilowatt-hour tax (R.C. 5727.84(B))

Revenues from the kWh tax are deposited in the Kilowatt-Hour Tax Receipts Fund, to the credit of five funds. The bill revises the percentages of kWh tax revenues that are credited to those funds after July 31, 2005.

Local Government Funds (Section 557.12)

The bill reduces the amount of state tax revenue credited to the three state local revenue sharing funds, and thus the amount of revenue available for distribution to counties, municipal corporations, townships, public library systems, and other special-purpose subdivisions receiving revenue sharing payments. The revenue sharing funds involved are the Local Government Fund (LGF), the Local Government Revenue Assistance Fund (LGRAf), and the Library and Local Government Support Fund (LLGSF). The bill also makes several changes to the distributions process and procedures.

Program 1.2: Tax Processing

Program Description: This program provides for all processing services of tax returns and related documents.

Funding Source: The Tax Processing program is funded by GRF line item 110-321 and Litter Tax and Natural Resources Administration Fund (Fund 437), line item 110-606.

Line Items: 110-321 and 110-606

Implication of Executive Recommendation: The executive budget provides the Tax Processing program with total funding of \$17,998,785 for FY 2006. Recommended funding for FY 2007 is the same as in FY 2006.

Temporary Law Provisions: Litter Tax and Natural Resources Administration – Allows some corporate franchise tax revenues to be deposited into the Litter Tax and Natural Resources Administration Fund (Fund 437), line item 110-606.

Permanent Law Provisions: See *Permanent Law Provisions under Taxpayer Services program*.

Program 1.3: Tax Compliance

Program Description: This program conducts audits of taxpayers' returns and records for mathematical accuracy, evaluates the substantial correctness (which identifies areas of underpayment or overpayment of tax), and issues notices and assessments to taxpayers who have not paid tax liabilities. This program also provides for the matching of persons delinquent in child support payments with taxpayers due an Ohio income tax refund. This program also reviews 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. Tax compliance also includes enforcement and investigation activities associated with the investigation of fraud, coordinated efforts with other enforcement agencies, tracking of evidence, and testimony for trial cases.

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 portions of the receipts from the motor fuel taxes.

Line Items: 110-321,110-628,110-601,110-616,110-610, 110-622, and 110-614

Implication of Executive Recommendation: The executive budget provides the Tax Compliance program with total funding of \$52,446,021 for FY 2006. Recommended funding for FY 2007 is \$52,574,939. This amount is \$128,918 greater than FY 2006, an increase of 0.2%. The executive recommendation includes funding of \$7 million in each fiscal year for the new tax reform projects. The recommendation also provides the necessary funding from various special revenue funds to offset the "freeze" in GRF funding levels in FY 2006 and FY 2007. The funding for activities that are performed by the tax administration program series in support of administrative and compliance responsibilities related to various special funds are funded from specified special revenue funds.

Temporary Law Provisions:

Tax Reform System Implementation Fund

Line item 110-628, Tax Reform System Implementation (Fund 228), provides funding for an integrated tax system that will accommodate the needs of tax reform and allow for improved customer service, processing efficiency, compliance, enforcement, and reporting. The proposed budget provides \$7 million in each fiscal year of the biennium for the Department of Taxation to implement this new system.

International Registration Plan Audit

Line item 110-616, State Special Revenue Fund 4C6, International Registration Plan, provides funding for the audits of persons with vehicles registered under the International Registration Plan. The executive budget recommends \$706,855 in each fiscal year of the biennium.

Motor Fuel Tax Administration Fund

Line item 110-622, State Special Revenue Fund 5V7, Motor Fuel Tax Administration Fund, provides funding for the Department of Taxation to administer the motor fuel tax. The executive budget provides this fund with \$4,268,345 in FY 2006 and \$4,397,263 in FY 2007. This fund receives 0.275% of the receipts from the motor fuel taxes.

Permanent Law Provisions:

Funding for Department of Taxation's administration of fee on tire sales (R.C. 3734.9010)

Under existing law, 4% of all amounts paid to the Treasurer of the State pursuant to the Scrap Tire Management Program must be certified directly to the credit of the Tire Fee Administrative Fund for appropriation to the Department of Taxation for use in paying the Department's costs in administering the fee on tires that is used to fund the program. The bill reduces the amount of money that the Department receives from 4% to 2%.

Challenging legality of commercial activity tax application (R.C. 5751.31)

The bill provides for taxpayer appeals directly to the Ohio Supreme Court when the Tax Commissioner issues a final determination in response to a taxpayer's challenge of an assessment and the primary issue raised by the taxpayer is the constitutionality of the bill's "bright-line presence" provision as a standard conferring Ohio nexus status on a person. The appeal must be made within 30 days after issuance of the final determination. If the bill's bright-line presence standard is ruled unconstitutional under the Ohio Constitution or United States Constitution, the bill authorizes the Tax Commissioner to require taxpayers having taxable gross receipts in Ohio to provide a report detailing purchases they make from persons that are not registered to collect the commercial activity tax.

Also, see *Permanent Law Provisions under Taxpayer Services program*.

Program 1.4: Tax Policy and Analysis

Program Description: This program provides administrative, advisory, and technical assistance to the legislative and executive branches, while working closely with industry, trade group, and professional organizations and the media. The program also facilitates tax policy, monitors and analyzes tax legislation, and provides legal counsel necessary for the management of tax related legal issues and bankruptcy cases.

Funding Source: GRF

Line Items: 110-321

Implication of Executive Recommendation: The executive budget provides the Tax Policy and Analysis program with total GRF funding of \$9,143,976 in each of FYs 2006 and FY 2007. This program is fully funded by the GRF.

Temporary and Permanent Law Provisions: None

Program 1.5 Local Government Services

Program Description: This program provides information and assistance to local governments and school districts. This program also provides for the administration of some local taxes.

Funding Source: GRF, GSF, and SSR

Line Items: 110-412,110-602, 110-625, 110-627, 110-607, 110-609, 110-605, 110-618, 110-623, 110-615

Implication of Executive Recommendation: The executive budget provides the Local Government Services program with total funding of \$34,593,782 for FY 2006. Recommended funding for FY 2007 is \$34,816,133. This amount is \$223,351 greater than FY 2006. The recommendation provides the offset costs associated with various local government tax and fee administration and the funding needed to modernize the computer systems, methods of filing, and taxpayer services.

Temporary and Permanent Law Provisions:

Centralized Tax Filing and Payment

The proposed budget provides \$4.5 million in the biennium for the Department of Taxation to maintain and complete phases 2 and 3 of the Business Gateway expansion. This money will be transferred from the GRF into the General Service Fund (Fund 5W4). The Ohio Business Gateway is a collaborative project of the Ohio departments of Administrative Services, Job and Family Services, Taxation, and the Bureau of Workers' Compensation. It provides businesses a single portal for filing certain business taxes, and specific other information required by various state agencies.

Travel Expenses for Streamlined Sales Tax Project

The proposed budget allows the Tax Commissioner to use funds from the State Special Revenue Fund, Local Tax Administration (Fund 435), line item 110-607, to pay for travel costs associated with Streamlined Sales Tax Project meetings.

Also, see *Permanent Law Provisions under Taxpayer Services program*.

Program Series 2

Revenue Distribution

Purpose: Distributes revenue by law to the intended parties.

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

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
SSR	110-613	Ohio Political Party Distribution	\$600,000	\$600,000
State Special Revenue Fund Subtotal			\$600,000	\$600,000
Agency Fund				
AGY	110-901	Municipal Income Tax	\$21,000,000	\$21,000,000
AGY	110-635	Tax Refunds	\$1,483,900,000	\$1,582,700,000
Agency Fund Subtotal			\$1,504,900,000	\$1,603,700,000
Holding Account Redistribution Fund				
R10	110-611	Tax Distributions	\$50,000	\$50,000
R11	110-612	Miscellaneous Income Tax Receipts	\$50,000	\$50,000
Holding Account Redistribution Fund Subtotal			\$100,000	\$100,000
Total Funding: Revenue Distribution			\$1,505,600,000	\$1,604,400,000

This analysis focuses on the following specific program within the program series:

■ **Program 2.1 Revenue Accounting**

Program 2.1 Revenue Accounting

Program Description: There are five line items under this program series: Ohio Political Party Distributions, Municipal Income Tax, Tax Refunds, Tax Distributions, and Miscellaneous Income Tax Receipts.

Line item 110-613, 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. The Department of Taxation determines each county committee’s share by the ratio of the number of checkoffs in that county to the statewide number of checkoffs.

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.

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.

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.

Funding Source: SSR, AGY, and Fund 090 (Holding Account Redistribution Fund)

Line Items: 110-613, 110-901, 110-635, 110-611, and 110-612

Implication of Executive Recommendation: The executive budget provides the Revenue Accounting program with total funding of \$1,505,600,000 for FY 2006. Recommended funding for FY 2007 is \$1,604,400,000. This amount is \$98,880,000 greater than FY 2006. All of the funds are nonoperating funds and only used for the distribution of refunds, local revenue, payments to political parties, and misdirected payments.

Temporary Law Provisions:

Municipal Income Tax

Line item 110-901, Agency Fund, Fund 095, Municipal Income Tax, provides payments for 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, provides funding for refunds for taxes or fees that have been overpaid or illegally or erroneously assessed and collected. The funds are transfers from current receipts of the same tax or fee for which the refund arose.

Also, see Permanent Law Provisions under Taxpayer Services program.

Program Series 3

Property Tax Relief

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 the Property Tax Relief program series, as well as the Governor’s recommended funding levels.

Fund	ALI	Title	FY 2006	FY 2007
General Revenue Fund				
GRF	110-901	Property Tax Allocation – TAX	\$430,102,680	\$409,946,241
GRF	110-906	Tangible Tax Exemption - TAX	\$18,355,923	\$13,766,942
General Revenue Fund Subtotal			\$448,458,603	\$423,713,183
Total Funding: Property Tax Relief			\$448,458,603	\$423,713,183

This analysis focuses on the following specific program within the program series:

■ **Program 3 Property Tax Relief**

Program Description: The two line items under this program series provide for the reimbursement of local governments other than school districts for the revenues lost due to property tax relief programs.

Funding Source: GRF

Line Items: 110-901, 110-906

Implication of Executive Recommendation: All of the funding is used for the distribution of property tax relief to local governments.

Temporary Law Provisions:

Homestead Exemption, Property Tax Rollback, and Tangible Tax Exemption

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.

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.

Permanent Law Provisions:

Property Taxes and Transfer Fees

Elimination of the 10% rollback in real property taxes for certain real property (R.C. 319.302 and 323.152; Section 557.15)

Under current law, all real property, and manufactured and mobile homes that are treated as real property for purposes of property taxation, receive a reduction of 10% of the property tax bill (known as the "rollback"). Beginning in tax year 2006, the bill requires that the county auditor classify each parcel of real property according to its principal, current use, and apply the 10% rollback only to property that is classified as "qualifying property" or to manufactured or mobile homes. Under the bill, only lands and improvements thereon that are used for residential or agricultural purposes may be classified as "qualifying property." All other lands and improvements thereon, and minerals or rights to minerals, will no longer receive the rollback. The bill requires that the Tax Commissioner adopt rules governing this classification of property, and no property may be classified except in accordance with those rules.

Under the bill, the county auditor also must reclassify each parcel of real property whose principal, current use has changed from the preceding year to reflect the use of the property as of January 1 of the current tax year. Continuing law provides for the reduction of real property taxes on homesteads and manufactured home taxes on manufactured or mobile homes, in an amount equal to one-fourth of the amount by which taxes are reduced under the 10% rollback (which equals two and one-half percent). The bill replaces this equation with language that simply states that to provide a partial exemption, real property taxes on homesteads and manufactured home taxes on manufactured or mobile homes is two and one-half percent of the amount of taxes to be levied on the homestead or home.

Increase in real property transfer fee (R.C. 319.54; Section 557.18)

Continuing law requires that county auditors charge fees for transferring real property or used manufactured or mobile homes. Currently, the fee is \$1, or 10¢ for each \$100 or fraction of \$100, whichever is greater, of the value of the real property, used manufactured home, or used mobile home transferred. The bill increases the fee to the greater of \$1, or 20¢ for each \$100 or fraction of \$100 of the value of the property or home transferred. The increase applies to any conveyance of real property presented to the county auditor on or after July 1, 2005, regardless of its time of execution or delivery. The bill requires that the county auditor deposit the greater of \$1 or one-half of the fee in the county treasury to the credit of the county general fund, and deposit the balance in the state treasury to the credit of the General Revenue Fund (GRF). The deposit to the credit of the GRF must be made by the 15th day of the month following the date the fee was received by the county auditor. If the county auditor fails to make the deposit by that time, the Tax Commissioner may withhold Local Government Fund money allocated to the county until such time the deposit is made.

Reimbursement of local taxing units (R.C. 5751.21 to 5751.22)

The bill provides reimbursement to school districts and other local taxing units for some of the net revenue reduction that would result from the bill's exemption of newly installed machinery and equipment, phase-out of existing machinery and equipment, and the accelerated business inventory phase-out. Reimbursement is to be paid to school districts and joint vocational school districts from the newly created School District Tangible Property Tax Replacement Fund, and to other local taxing units through the newly created Local Government Tangible Property Tax Replacement Fund. These funds are to be funded by a portion of the Commercial Activity Tax proposed by the bill. The bill prescribes specific computations and procedures for the Tax Commissioner and the Department of Education to implement the reimbursement.

Accelerate phase-out of state reimbursement for \$10,000 business property Exemption (R.C. 321.24(G))

Continuing law exempts the first \$10,000 of a business' tangible personal property from property taxation (R.C. 5709.01(C)(3)). Currently, the state reimburses local taxing districts for the resulting revenue reduction, but Am. Sub. H.B. 95 of the 125th General Assembly phases out the state's reimbursement for the exemption, over ten years. Under the phase-out, county treasurers receive a payment each year from the General Revenue Fund that is a reduced percentage of the county's FY 2003 reimbursement. The payment is then apportioned among the county's taxing districts as if levied and collected as personal property taxes. No further reimbursements are to be paid after FY 2012.

The bill accelerates the phase-out period so that no reimbursement payments are made after FY 2009.

Computation used to determine amounts deposited each year in the Property

Tax Administration Fund changed

(R.C. 321.24 and 5703.80)

Continuing law provides for a percentage of real property tax rollback reimbursements to local governments to be diverted to a special fund known as the Property Tax Administration Fund to be used by the Department of Taxation to defray its costs of administering property taxation and of equalizing real property. The Department oversees the equalization of real property valuation throughout the state, and administers the assessment of all public utility property and tangible personal property of businesses operating in more than one county. The bill changes the computation used to determine the portion of the 10% rollback reimbursement to be diverted to the fund.

Also, see Permanent Law Provisions under Taxpayer Services program.

General Revenue Fund

GRF 110-321 Operating Expenses

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$85,885,059	\$86,188,942	\$83,676,665	\$91,439,754	\$91,439,754	\$91,439,754
	0.4%	-2.9%	9.3%	0.0%	0.0%

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 110-412 Child Support Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$122,993	\$78,521	\$59,247	\$71,988	\$71,988	\$71,988
	-36.2%	-24.5%	21.5%	0.0%	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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$125	\$0	\$0	\$0	\$0	\$0
	-100.0%	N/A	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: 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.)

Am. Sub. 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$351,001,027	\$451,575,366	\$444,982,717	\$462,640,000	\$430,102,680	\$409,946,241
	28.7%	-1.5%	4.0%	-7.0%	-4.7%

Source: GRF

Legal Basis: ORC 319.301 and 323.151 through 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% and 2.5% "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%. In addition, owner-occupied residential real property gets an additional 2.5% 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 of the 121st G.A. 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$27,842,883	\$27,992,910	\$25,214,074	\$22,944,904	\$18,355,923	\$13,766,942
	0.5%	-9.9%	-9.0%	-20.0%	-25.0%

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.

Reimbursement rates are phased out beginning in FY 2004 under Am. Sub. H. B. 95 of the 125th G.A. The rate is reduced 10% per year for 10 years; the rate is 90% for FY 2004 and 80% for FY 2005.

General Services Fund Group

225 110-626 Enforcement and Forfeiture Collection

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$25,684	\$0	\$0	\$0
	N/A	N/A	-100.0%	N/A	N/A

Source: GSF:

Legal Basis:

Purpose:

228 110-628 Tax Reform System Implementation

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$0	\$0	\$7,000,000	\$7,000,000
	N/A	N/A	N/A	N/A	0.0%

Source: GSF:

Legal Basis:

Purpose:

433 110-602 Tape File Account

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$96,736	\$98,050	\$76,612	\$96,165	\$96,165	\$96,165
	1.4%	-21.9%	25.5%	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.

5W4 110-625 Centralized Tax Filing and Payment

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$143,244	\$3,000,000	\$2,500,000	\$2,000,000
	N/A	N/A	1994.3%	-16.7%	-20.0%

Source: GSF: GRF transfer of \$3 million in each of FYs 2004 and 2005.

Legal Basis: Section 104 of Am. Sub. H.B. 95 of the 125th G.A.

Purpose: These moneys will be used to finance modifications to the Ohio Business Gateway electronic tax filing and payment system.

5W7 110-627 Exempt Facility Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$0	\$0	\$36,000	\$36,000
	N/A	N/A	N/A	N/A	0.0%

Source: GSF:

Legal Basis:

Purpose:

Federal Special Revenue Fund Group

3J6 110-601 Motor Fuel Compliance

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$36,570	\$15,703	\$12,792	\$25,000	\$25,000	\$25,000
	-57.1%	-18.5%	95.4%	0.0%	0.0%

Source: FED: CFDA 20.205, Highway Planning and Construction

Legal Basis: Section 104 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Controlling Board 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, 2003.

3J7 110-603 International Fuel Tax Agreement

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$70,675	\$0	\$0	\$0	\$0	\$0
	-100.0%	N/A	N/A	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 through the same federal grant.

State Special Revenue Fund Group

435 110-607 Local Tax Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$19,521,060	\$15,954,816	\$12,851,358	\$13,700,000	\$15,880,987	\$16,394,879
	-18.3%	-19.5%	6.6%	15.9%	3.2%

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 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$1,118,269	\$950,100	\$1,222,630	\$1,350,000	\$1,350,000	\$1,350,000
	-15.0%	28.7%	10.4%	0.0%	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)(c)

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 Natural Resource Tax Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$546,590	\$414,603	\$551,146	\$625,232	\$625,232	\$625,232
	-24.1%	32.9%	13.4%	0.0%	0.0%

Source: SSR: Litter Tax, a special tax in addition to the regular corporate franchise tax; Natural Resources Tax of up to 2.5% of the 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; Section 104 of Am. Sub. H.B. 95 of the 125th 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$2,221,394	\$1,798,506	\$2,389,992	\$2,599,999	\$2,599,999	\$2,599,999
	-19.0%	32.9%	8.8%	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 3% of total school district income tax collections. Am. Sub. H.B. 152 of the 120th G.A. reduced the percentage of collections that the line item receives to 2.5% in FY 1994 and 2% percent in FY 1995. Am. Sub. H.B. 117 of the 121st G.A. again reduced the percentages to 1.75% in FY 1996 and 1.5% in FY 1997 and thereafter. These changes were made because of balances that had been accumulating in the fund. It was apparent that the 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 2003, 126 school districts had a school district income tax.

4C6 110-616 International Registration Plan

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$630,770	\$687,811	\$469,819	\$706,855	\$706,855	\$706,855
	9.0%	-31.7%	50.5%	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 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$169,575	\$49,022	\$45,527	\$65,000	\$65,000	\$65,000
	-71.1%	-7.1%	42.8%	0.0%	0.0%

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

Legal Basis: ORC 3734.9010

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

5N5 110-605 Municipal Income Tax Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$184,274	\$346,242	\$315,733	\$650,000	\$265,000	\$265,000
	87.9%	-8.8%	105.9%	-59.2%	0.0%

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

Legal Basis: Section 104 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Am. Sub. S.B. 287 of the 123rd G.A.)

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

5N6 110-618 Kilowatt Hour Tax Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$69,498	\$72,794	\$25,000	\$85,000	\$85,000	\$85,000
	4.7%	-65.7%	240.0%	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 Am. Sub. 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$2,451	\$1,849	\$0	\$0	\$0	\$0
	-24.5%	-100.0%	N/A	N/A	N/A

Source: SSR: Fees that 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$3,478,127	\$3,833,091	\$4,268,345	\$4,397,263
	N/A	N/A	10.2%	11.4%	3.0%

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

Legal Basis: Section 104 of the Am. Sub. H.B. 95 of the 125th G.A.

Purpose: This fund will pay for the administration of the motor fuel tax. These costs were previously funded through annual assessments paid to the GRF from motor fuel taxes.

5V8 110-623 Property Tax Administration

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$9,261,096	\$11,938,362	\$12,758,643	\$12,967,102
	N/A	N/A	28.9%	6.9%	1.6%

Source: SSR: 0.3% 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 ORC 319.302; 0.15% 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% 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: Section 104 of Am. Sub. H.B. 95 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. Administrative costs were formerly paid by the GRF.

639 110-614 Cigarette Tax Enforcement

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$152,903	\$111,617	\$89,926	\$168,925	\$168,925	\$168,925
	-27.0%	-19.4%	87.8%	0.0%	0.0%

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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$517,492	\$488,217	\$491,095	\$600,000	\$600,000	\$600,000
	-5.7%	0.6%	22.2%	0.0%	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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$203,082	\$115,535	\$179,302	\$300,000	\$300,000	\$300,000
	-43.1%	55.2%	67.3%	0.0%	0.0%

Source: SSR: 2% of Cuyahoga County excise tax collections on cigarettes and alcoholic beverages

Legal Basis: ORC 5743.024 and 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 is 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 2% 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 2% of county cigarette tax money into this fund is contained in ORC 5743.024. Authority to deposit 2% 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$18,161,279	\$10,456,939	\$25,000,000	\$21,000,000	\$21,000,000
	N/A	-42.4%	139.1%	-16.0%	0.0%

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

Legal Basis: ORC 5745.03 and 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$1,295,681,977	\$1,357,674,143	\$1,339,699,546	\$1,337,119,600	\$1,483,900,000	\$1,582,700,000
	4.8%	-1.3%	-0.2%	11.0%	6.7%

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 administered by the Department of Taxation.

Legal Basis: ORC 5703.052; Section 104 of Am. Sub. H.B. 95 of the 125th 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

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$50	\$0	\$0	\$50,000	\$50,000	\$50,000
	-100.0%	N/A	N/A	0.0%	0.0%

Source: 090: Sales tax payments

Legal Basis: Section 104 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Controlling Board 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 Miscellaneous Income Tax Receipts

2002	2003	2004	2005 Estimate	2006 Executive Proposal	2007 Executive Proposal
\$0	\$0	\$0	\$50,000	\$50,000	\$50,000
	N/A	N/A	N/A	0.0%	0.0%

Source: 090: Personal income tax payments

Legal Basis: Section 104 of Am. Sub. H.B. 95 of the 125th G.A. (originally established by Controlling Board 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 2006 - FY 2007

Fund	ALI	ALI Title	2004	Estimated 2005	Executive 2006	% Change 2005 to 2006	Executive 2007	% Change 2006 to 2007
TAX Taxation, Department of								
GRF	110-321	Operating Expenses	\$ 83,676,665	\$91,439,754	\$ 91,439,754	0.0%	\$ 91,439,754	0.0%
GRF	110-412	Child Support Administration	\$ 59,247	\$71,988	\$ 71,988	0.0%	\$ 71,988	0.0%
GRF	110-901	Property Tax Allocation - TAX	\$ 444,982,717	\$462,640,000	\$ 430,102,680	-7.0%	\$ 409,946,241	-4.7%
GRF	110-906	Tangible Tax Exemption - TAX	\$ 25,214,074	\$22,944,904	\$ 18,355,923	-20.0%	\$ 13,766,942	-25.0%
General Revenue Fund Total			\$ 553,932,703	\$ 577,096,646	\$ 539,970,345	-6.4%	\$ 515,224,925	-4.6%
225	110-626	Enforcement and Forfeiture Collection	\$ 25,684	\$0	\$ 0	N/A	\$ 0	N/A
228	110-628	Tax Reform System Implementation	---	\$0	\$ 7,000,000	N/A	\$ 7,000,000	0.0%
433	110-602	Tape File Account	\$ 76,612	\$96,165	\$ 96,165	0.0%	\$ 96,165	0.0%
5W4	110-625	Centralized Tax Filing and Payment	\$ 143,244	\$3,000,000	\$ 2,500,000	-16.7%	\$ 2,000,000	-20.0%
5W7	110-627	Exempt Facility Administration	---	\$0	\$ 36,000	N/A	\$ 36,000	0.0%
General Services Fund Group Total			\$ 245,540	\$ 3,096,165	\$ 9,632,165	211.1%	\$ 9,132,165	-5.2%
3J6	110-601	Motor Fuel Compliance	\$ 12,792	\$25,000	\$ 25,000	0.0%	\$ 25,000	0.0%
Federal Special Revenue Fund Group Total			\$ 12,792	\$ 25,000	\$ 25,000	0.0%	\$ 25,000	0.0%
435	110-607	Local Tax Administration	\$ 12,851,358	\$13,700,000	\$ 15,880,987	15.9%	\$ 16,394,879	3.2%
436	110-608	Motor Vehicle Audit	\$ 1,222,630	\$1,350,000	\$ 1,350,000	0.0%	\$ 1,350,000	0.0%
437	110-606	Litter Tax and Natural Resource Tax Administration	\$ 551,146	\$625,232	\$ 625,232	0.0%	\$ 625,232	0.0%
438	110-609	School District Income Tax	\$ 2,389,992	\$2,599,999	\$ 2,599,999	0.0%	\$ 2,599,999	0.0%
4C6	110-616	International Registration Plan	\$ 469,819	\$706,855	\$ 706,855	0.0%	\$ 706,855	0.0%
4R6	110-610	Tire Tax Administration	\$ 45,527	\$65,000	\$ 65,000	0.0%	\$ 65,000	0.0%
5N5	110-605	Municipal Income Tax Administration	\$ 315,733	\$650,000	\$ 265,000	-59.2%	\$ 265,000	0.0%
5N6	110-618	Kilowatt Hour Tax Administration	\$ 25,000	\$85,000	\$ 85,000	0.0%	\$ 85,000	0.0%
5V7	110-622	Motor Fuel Tax Administration	\$ 3,478,127	\$3,833,091	\$ 4,268,345	11.4%	\$ 4,397,263	3.0%
5V8	110-623	Property Tax Administration	\$ 9,261,096	\$11,938,362	\$ 12,758,643	6.9%	\$ 12,967,102	1.6%
639	110-614	Cigarette Tax Enforcement	\$ 89,926	\$168,925	\$ 168,925	0.0%	\$ 168,925	0.0%
642	110-613	Ohio Political Party Distribution	\$ 491,095	\$600,000	\$ 600,000	0.0%	\$ 600,000	0.0%
688	110-615	Local Excise Tax Administration	\$ 179,302	\$300,000	\$ 300,000	0.0%	\$ 300,000	0.0%
State Special Revenue Fund Group Total			\$ 31,370,751	\$ 36,622,464	\$ 39,673,986	8.3%	\$ 40,525,255	2.1%

LSC Budget Spreadsheet by Line Item, FY 2006 - FY 2007

<i>Fund</i>	<i>ALI</i>	<i>ALI Title</i>	<i>2004</i>	<i>Estimated 2005</i>	<i>Executive 2006</i>	<i>% Change 2005 to 2006</i>	<i>Executive 2007</i>	<i>% Change 2006 to 2007</i>
TAX Taxation, Department of								
095	110-901	Municipal Income Tax	\$ 10,456,939	\$25,000,000	\$ 21,000,000	-16.0%	\$ 21,000,000	0.0%
425	110-635	Tax Refunds	\$ 1,339,699,546	\$1,337,119,600	\$ 1,483,900,000	11.0%	\$ 1,582,700,000	6.7%
Agency Fund Group Total			\$ 1,350,156,485	\$ 1,362,119,600	\$ 1,504,900,000	10.5%	\$ 1,603,700,000	6.6%
R10	110-611	Tax Distributions	\$ 0	\$50,000	\$ 50,000	0.0%	\$ 50,000	0.0%
R11	110-612	Miscellaneous Income Tax Receipts	\$ 0	\$50,000	\$ 50,000	0.0%	\$ 50,000	0.0%
Holding Account Redistribution Fund Group Total			\$ 0	\$ 100,000	\$ 100,000	0.0%	\$ 100,000	0.0%
Total All Budget Fund Groups			\$ 1,935,718,271	\$ 1,979,059,875	\$ 2,094,301,496	5.8%	\$ 2,168,707,345	3.6%