LSC Greenbook

Analysis of the Enacted Budget

Department of Taxation

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ATTACHMENTS:

Department of Taxation

- TAX administers and enforces taxes and fees that raise nearly $30 billion in annual revenue
- The STARS project to modernize tax software and hardware continues to be implemented

Overview

This Greenbook consists of three major sections following this Overview. It provides an analysis of the enacted budget of the Ohio Department of Taxation. This is followed by an analysis of the enacted budget for the State Revenue Distributions; this group of line items, described as an agency only for purposes of the state budget, was titled Revenue Distribution Funds in previous biennial budgets. Tax law changes in the enacted budget and their fiscal effects are summarized in the third major section.

Agency Overview

The Ohio Department of Taxation (TAX) is responsible for the administration and enforcement of most state and locally levied taxes. Headed by the Tax Commissioner, the Department administers all state taxes except the insurance taxes and the motor vehicle license tax. 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 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 Public Library Fund (PLF) and the Local Government Fund (LGF).

The budget provides the Department of Taxation with GRF administrative funding of $67.9 million for each of FY 2016 and FY 2017. This amount is $7.1 million (11.7%) higher than FY 2015 expenditures for these line items. The two line items that account for GRF administrative funding are 110321, Operating Expenses, and 110404, Tobacco Settlement Enforcement. Amounts for property tax relief for local governments other than school districts, distributed in previous biennia from the GRF as part of the Department's budget, are included in this budget as part of State Revenue Distributions. Property tax relief includes the 10% and 2.5% property tax rollbacks and the homestead exemption, which reduce tax bills for property owners but result in no loss of revenue for local governments because the tax revenue reductions are reimbursed by the state. The budget provides the Department of Taxation with total administrative funding of

$134.5 million for each of FY 2016 and FY 2017. This amount is $17.6 million (15.0%) higher than expenditures for these line items in FY 2015. These amounts do not include funds that are distributed to other units of government or to taxpayers by the Department of Taxation. Administrative funding accounts for only about 8% of the Department of Taxation's total budget.

Total funding in the budget for the Department of Taxation is $1,690.2 million for FY 2016 and $1,690.0 million for FY 2017. Total appropriations for FY 2016 are $929.7 million (35.5%) lower than expenditures in FY 2015. The decline mainly reflects the shift of property tax relief funding out of the Department's budget and into the State Revenue Distributions, and also results from smaller appropriations for tax refunds in each year of the biennium than actual refunds paid in FY 2015. Recommended total funding for FY 2017 is $0.2 million (0.01%) lower than for FY 2016. These amounts include the funding for tax administration noted above, distributions of tax refunds (by far the largest item in the Department's budget), and other distributions of revenues. Not included are funds in State Revenue Distributions, now including property tax relief funds previously in the budget of the Department of Education as well as the Department of Taxation.

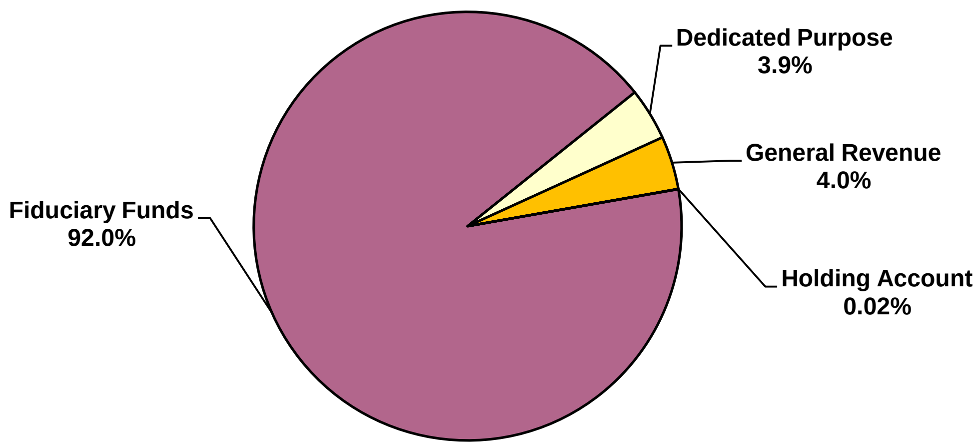
Appropriation Overview

The Department of Taxation's budget includes funds in four fund groups, as shown in Table 1 and Chart 1. Most of TAX's outlays (92%) are from Fiduciary Funds, mainly tax refunds. The General Revenue Fund and Dedicated Purpose Funds each account for about 4% of the Department's budget. The Holding Account Fund Group is less than 1% of the budget.

In the table, FY 2015 actual expenditures by the Department are shown in comparison with FY 2016-FY 2017 appropriations, except that reimbursement payments to local governments for the 10% and 2.5% property tax rollbacks and the homestead exemption are not in the table for FY 2015, even though they were part of the Department's spending in that year, in order to be more directly comparable with appropriations in the current biennium, which do not include these payments. Specifically, in FY 2015 Department of Taxation appropriation item 110901, Property Tax Allocation – Taxation, was used for these reimbursements, but in FY 2016 and FY 2017 these reimbursements are instead through State Revenue Distributions, GRF line item 110908, Property Tax Reimbursement – Local Government.

Department of Taxation Appropriations by Fund Group, FY 2016-FY 2017 (Am. Sub. H.B. 64)					
Fund Group	**FY 2015 expenditures**	**FY 2016**	**% change, FY 2015-FY 2016**	**FY 2017**	**% change, FY 2016-FY 2017**
General Revenue	$60,835,604	$67,937,873	11.7%	$67,937,873	0.0%
Dedicated Purpose	$56,036,616	$66,512,210	18.7%	$66,512,210	0.0%
Fiduciary Funds	$1,857,771,295	$1,555,507,500	-16.3%	$1,555,305,000	0.0%
Holding Account	$0	$280,000	NA	$280,000	0.0%
TOTAL	**$1,974,643,516**	**$1,690,237,583**	**-14.4%**	**$1,690,035,083**	**0.0%**

Chart 1: Biennial Budget by Fund Group, FY 2016-FY 2017



Major Initiatives

The Department's State Taxation Accounting and Revenue System (STARS) project, begun in 2008, remains a priority. STARS is scheduled to be operational in 2017 for all the taxes that the Department administers. The project is replacing 27 legacy systems that generally functioned separately, unable to interact with one another, with an integrated system of hardware and software. The new system would, for example, be able to identify taxpayers delinquent in payment of one tax but owed a refund of another tax. To continue funding the STARS project, the budget shifts up to $6 million, for the biennium, of surplus fund balances from six other funds used by the Department.

Priorities related to the STARS system include training of employees on use of the new system, creation of an audit function within STARS, and enhanced system security. The audit function is expected to reduce manual reviews by agents and generate revenue. Enhancements to system security are to protect confidential information of taxpayers.

The Department saw a large increase in fraudulent income tax returns in the FY 2014-FY 2015 biennium, aimed at stealing tax refunds. Strengthened systems for detecting and thwarting criminal activity are a priority for the Department.

TAX will continue to pursue increased electronic filing of taxes, encouraging more taxpayers to make use of this technology. More electronic filing allows TAX to operate more efficiently, eliminating hand operations including data entry and extraction of mailed paper returns.

Administrative Changes

H.B. 64 makes a number of changes that are generally administrative in nature. These include changes in the allocation of certain tax revenues to funds. The share of commercial activity tax (CAT) revenue credited to the GRF is increased from 50% to 75%, the share credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) is decreased from 35% to 20%, and the share credited to the Local Government Tangible Property Tax Replacement Fund (Fund 7081) is decreased from 15% to 5%. The kilowatt-hour excise tax is credited 100% to the GRF, instead of 88% to the GRF, 9% to the School District Property Tax Replacement Fund (Fund 7053), and 3% to the Local Government Property Tax Replacement Fund (Fund 7054). These changes are effective July 1, 2015, and are in conjunction with resumption of the phase-out of reimbursement for past reductions in taxes on tangible personal property. The act requires transfers from the GRF to Fund 7047 and Fund 7081 if needed to make scheduled reimbursement payments to school districts and other units of local government, and permits transfers of remaining balances to the GRF from each of the other two funds in June of each year.

The act authorizes school districts and other units of local government affected by changes in tangible personal property tax reimbursements to contest the Tax Commissioner's classification of levies or calculation of total resources, a factor in computing reimbursement payments. However, the Tax Commissioner's decision on any such appeal is final, and no adjustments are to be made after June 30, 2016. This provision may result in an increase in administrative cost for the Department of Taxation.

H.B. 64 subjects rules adopted by the Department of Taxation to periodic five-year review, removing a sentence from the Revised Code that exempted the Department from such review.

H.B. 64 establishes the Ohio 2020 Tax Policy Study Commission to review Ohio's tax structure and policies and make recommendations to the General Assembly on how to maximize Ohio's competiveness by the year 2020. The Commission is also to make recommendations on how to transition Ohio's personal income tax to a 3.5% or 3.75% flat tax by tax year 2018 and how to reform Ohio's severance tax. In addition, the Commission is to review state tax credits and to study the effectiveness of the historic building rehabilitation tax credit, including whether to make the credit refundable or to create a grant program. The Commission is to be made up of three members of the House of Representatives, three members of the Senate, and a person appointed by the Governor. The legislative members are to include the chairpersons of the House Ways and Means Committee and the Senate Ways and Means Committee, who are to serve as joint co-chairpersons of the Commission. The seven members are to serve without compensation or reimbursement of expenses. The Legislative Service Commission is to provide necessary services to the Commission. The Commission is to publish reports on specified subjects by October 1 of 2015, 2016, and 2017, after which it is abolished. Accomplishment of these objectives may require increased expenditures depending on the analytical tools used.

The budget act requires the Tax Commissioner to prepare a quarterly report that details (1) the number of tobacco tax-related inspections and investigations conducted during the preceding four months, (2) the number of tobacco tax-related violations found during those months, (3) the number of prosecutions brought during those months in relation to tobacco tax-related violations, and (4) the number of agents designated to enforce tobacco tax-related violations in those months. The first such report is due no later than September 1, 2015, with subsequent reports due no later than the first day of every third month thereafter. The Commissioner is to submit the report to the chairpersons of the House and Senate standing committees that are normally responsible for tax legislation (Ways and Means). The budget act earmarks $250,000 of the Department's GRF appropriation item 110321, Operating Expenses, in each fiscal year for cigarette and other tobacco tax enforcement. This provision may increase revenue from cigarette and other tobacco products taxes, and may increase expenditures by a minimal amount for preparation of the required report.

The act eliminates a requirement that the Tax Commissioner and Director of Budget and Management make recommendations regarding applications for job retention tax credits and data center sales tax exemptions. For an applicant that is an insurance company, a requirement that the Superintendent of Insurance make such a recommendation is eliminated. These officials remain responsible for assessing the economic impact of proposed projects.

The act requires the Tax Commissioner to transfer funds remaining in the Wireless 9-1-1 Government Assistance Fund to the Next Generation 9-1-1 Fund at the direction of the Statewide Emergency Services Internet Protocol Network Steering Committee. Prior law required these monthly transfers to be made without the Steering Committee's direction using excess balances after disbursements were made to counties from the Wireless 9-1-1 Government Assistance Fund. Furthermore, the bill requires that any shortfall in monthly county disbursements from the Wireless 9-1-1 Government Assistance Fund be remedied in the following month. These changes may result in a minimal decrease to the Next Generation 9-1-1 Fund (Revenue Distribution Fund 7093) depending on the excess remaining, if any, in the Wireless 9-1-1 Program Fund, which would no longer be obligated to transfer its excess balance to Fund 7093.

H.B. 64 authorizes the Department of Taxation to disclose information to the Department of Insurance that is necessary to ensure taxpayer compliance with the requirements of tax credits administered by the Superintendent of Insurance. Under continuing law, taxpayer information possessed by the Department of Taxation may not be disclosed to anyone unless the law specifically permits disclosure. The authorization for this disclosure may increase tax compliance under the domestic and foreign insurance taxes.

The act requires the county treasurer to maintain a record of the person or agent to whom each property tax bill is mailed. It waives any penalty due with respect to unpaid property taxes resulting when a mortgage lender fails to notify the county auditor of a satisfied mortgage. The change may result in loss of revenue to some school districts and other political subdivisions, but any loss is likely to be minimal.

Vetoed Provisions

The Governor vetoed a number of provisions of H.B. 64 pertaining to tax law. These items are discussed at the end of the "**TAX PROVISIONS**" section of this Greenbook.

ANALYSIS OF ENACTED BUDGET – DEPARTMENT OF TAXATION

Introduction

This section provides an analysis of funding for each appropriation item in TAX's budget. In this analysis, TAX's line items are grouped into two major categories. For each category a table is provided listing the appropriation in each fiscal year of the biennium. Following the table, a narrative describes how the appropriation is used and any changes affecting the appropriation. The two categories used in this analysis are as follows:

1. Tax Administration
2. Revenue Distribution

The Revenue Distribution category within the Department of Taxation budget, listed above and in the table that follows, is separate and distinct from the State Revenue Distributions and the funds within that part of the budget. Information on both the Department of Taxation and the State Revenue Distributions is included in this Greenbook.

To aid the reader in finding each item in the analysis of the enacted budget for TAX, Table 2 below shows the category in which each appropriation has been placed, listing the line items in order within their respective fund groups and funds. This is the same order in which the line items appear in the budget bill.

Categorization of TAX's Appropriation Line Items for Analysis of Enacted Budget				
Fund	ALI and Name		Category	
General Revenue Fund Group				
GRF	110321	Operating Expenses	1:	Tax Administration
GRF	110404	Tobacco Settlement Enforcement	1:	Tax Administration
Dedicated Purpose Fund Group				
2280	110628	CAT Administration	1:	Tax Administration
4330	110602	Municipal Data Exchange Administration	1:	Tax Administration
4350	110607	Local Tax Administration	1:	Tax Administration
4360	110608	Motor Vehicle Audit Administration	1:	Tax Administration
4370	110606	Income Tax Refund Contribution Administration	1:	Tax Administration
4380	110609	School District Income Tax Administration	1:	Tax Administration
4C60	110616	International Registration Plan Administration	1:	Tax Administration
4R60	110610	Tire Tax Administration	1:	Tax Administration
5BP0	110639	Wireless 9-1-1 Administration	1:	Tax Administration
5JM0	110637	Casino Tax Administration	1:	Tax Administration
5MN0	110638	STARS Development and Implementation	1:	Tax Administration
5N50	110605	Municipal Income Tax Administration	1:	Tax Administration
5N60	110618	Kilowatt Hour Tax Administration	1:	Tax Administration
5NY0	110643	Petroleum Activity Tax Administration	1:	Tax Administration
5V70	110622	Motor Fuel Tax Administration	1:	Tax Administration
5V80	110623	Property Tax Administration	1:	Tax Administration
5W70	110627	Exempt Facility Administration	1:	Tax Administration
6390	110614	Cigarette Tax Enforcement	1:	Tax Administration
6880	110615	Local Excise Tax Administration	1:	Tax Administration
Fiduciary Fund Group				
4250	110635	Tax Refunds	2:	Revenue Distribution
5CZ0	110631	Vendor's License Application	2:	Revenue Distribution
6420	110613	Ohio Political Party Distributions	2:	Revenue Distribution
7095	110995	Municipal Income Tax	2:	Revenue Distribution
Holding Account Fund Group				
R010	110611	Tax Distributions	2:	Revenue Distribution
R011	110612	Miscellaneous Income Tax Receipts	2:	Revenue Distribution

Tax Administration

The Department of Taxation administers the state's tax laws to ensure compliance in filing and payment of taxes and to determine tax liabilities. The table below shows the line items that are used to fund this function of the Department of Taxation and the amounts appropriated.

Department of Taxation Appropriations for Tax Administration, FY 2016-FY 2017 (Am. Sub. H.B. 64)				
Fund		ALI and Name	FY 2016	FY 2017
General Revenue Fund				
GRF	110321	Operating Expenses	$67,777,493	$67,777,493
GRF	110404	Tobacco Settlement Enforcement	$160,380	$160,380
		General Revenue Fund Subtotal	***$67,937,873***	***$67,937,873***
Dedicated Purpose Fund Group				
2280	110628	CAT Administration	$16,100,000	$16,100,000
4330	110602	Municipal Data Exchange Administration	$175,000	$175,000
4350	110607	Local Tax Administration	$19,006,950	$19,006,950
4360	110608	Motor Vehicle Audit Administration	$1,459,609	$1,459,609
4370	110606	Income Tax Refund Contribution Administration	$38,800	$38,800
4380	110609	School District Income Tax Administration	$5,402,044	$5,402,044
4C60	110616	International Registration Plan Administration	$682,415	$682,415
4R60	110610	Tire Tax Administration	$244,193	$244,193
5BP0	110639	Wireless 9-1-1 Administration	$290,000	$290,000
5JM0	110637	Casino Tax Administration	$75,000	$75,000
5MN0	110638	STARS Development and Implementation	$3,000,000	$3,000,000
5N50	110605	Municipal Income Tax Administration	$150,000	$150,000
5N60	110618	Kilowatt Hour Tax Administration	$100,000	$100,000
5NY0	110643	Petroleum Activity Tax Administration	$1,000,000	$1,000,000
5V70	110622	Motor Fuel Tax Administration	$5,035,374	$5,035,374
5V80	110623	Property Tax Administration	$11,178,310	$11,178,310
5W70	110627	Exempt Facility Administration	$49,500	$49,500
6390	110614	Cigarette Tax Enforcement	$1,750,000	$1,750,000
6880	110615	Local Excise Tax Administration	$775,015	$775,015
		Dedicated Purpose Fund Group Subtotal	***$66,512,210***	***$66,512,210***
Total Funding: Tax Administration			**$134,450,083**	**$134,450,083**

The tax administration function includes several components. The Taxpayer Services Program provides information to taxpayers and improves compliance with tax laws by telephone and email, and through presentations to groups. Tax Processing reviews paper and electronic submissions of tax forms, enters the data into the Department's computer systems, and retains tax returns. Tax Compliance audits returns and issues notices and assessments for unpaid taxes, matches persons delinquent in making child support payments with taxpayers owed Ohio income tax refunds, provides the first level of appeal of the Tax Commissioner's findings in tax disputes, and engages in other enforcement and investigation activities. Tax Policy and Analysis monitors and analyzes tax legislation, gives technical assistance to the executive and legislative branches, and provides for the legal counsel needed in tax cases. Local Government Services gives information and assistance to units of local government, and provides for administration of certain local taxes.

Operating Expenses (110321)

This GRF line item pays for personal service, maintenance, and equipment expenses of TAX that are not offset by specific revenue sources. GRF funding for this line item is $67.8 million in each of FY 2016 and FY 2017, $7.1 million (11.7%) more than expenditures in FY 2015. The administrative costs of the Taxpayer Services, Tax Processing, and Tax Policy and Analysis functions, and about two-thirds of the administrative costs for the Tax Compliance function, are paid from this line item. The budget act earmarks $250,000 of this appropriation item in each fiscal year for cigarette and other tobacco tax enforcement.

Local Tax Administration (110607)

This line item, Fund 4350, pays costs incurred by TAX in collecting and administering the county and regional transit authority sales and use taxes. Funding is from 1% of proceeds from these taxes. The budget appropriates $19.0 million in each of FY 2016 and FY 2017 for this function, an increase of $0.6 million (3.0%) from FY 2015 expenditures.

CAT Administration (110628)

This line item, Fund 2280, provides funding for the costs of collecting and administering the commercial activity tax. This line item is funded by 0.85% of commercial activity tax receipts. The appropriation for ALI 110628 is $16.1 million in each of FY 2016 and FY 2017, an increase of $0.6 million (3.6%) from expenditures in FY 2015. The line item was renamed in H.B. 64, and was previously called Revenue Enhancement.

Property Tax Administration (110623)

Costs for TAX to administer property taxes are paid from this line item, Fund 5V80. Taxes included are those on real property and on public utility personal property. Funding is from 0.48% of taxes charged on real property and 0.951% of taxes levied on public utility personal property. Other taxes for which administrative costs were paid from this line item were eliminated, including the dealers in intangibles tax (ended 2013), the tax on personal property of telephone companies (ended 2011), and the tax on personal property of general business (ended 2009). The appropriation for ALI 110623 is $11.2 million in each of FY 2016 and FY 2017, an increase of $3.4 million (42.9%) from expenditures in FY 2015.

School District Income Tax Administration (110609)

Expenses of TAX to administer the school district income tax are paid from this line item, Fund 4380. Funding is from 1.5% of school district income tax collections. The Department distributed revenues to 190 school districts in the latest quarter. The appropriation for ALI 110609 is $5.4 million in each of FY 2016 and FY 2017, an increase of $0.1 million (1.6%) from expenditures in FY 2015. The line item was renamed in the current main operating budget bill by appending the word "Administration" to the end of the name.

Motor Fuel Tax Administration (110622)

Costs for TAX to administer the motor fuel tax are paid from this line item, Fund 5V70, which is funded by 0.275% of the revenues from the tax. The appropriation is $5.0 million for both FY 2016 and FY 2017, $1.8 million (54.4%) higher than actual expenditures in FY 2015.

STARS Development and Implementation (110638)

This line item, Fund 5MN0, has been used since FY 2014 to pay costs of developing and implementing the State Tax Accounting and Revenue System. The STARS project was begun in 2008, to replace the Department's numerous legacy systems with an integrated package of hardware and software to increase efficiency in tax collection. Under temporary language in the main operating budget bill, funding is from transfers from six of the Department's other administrative funds: Fund 2280, Fund 4350, Fund 4360, Fund 4380, Fund 5V70, and Fund 5V80. The budget appropriates $3.0 million in each of FY 2016 and FY 2017, $0.8 million (38.3%) more than expenditures in FY 2015.

Cigarette Tax Enforcement (110614)

The costs for TAX to enforce cigarette and tobacco tax laws are paid from this line item, Fund 6390. The line item is funded from fees for retail, wholesale, and tobacco product licenses that are renewed annually. The budget appropriates $1.8 million in each of FY 2016 and FY 2017, $0.6 million (49.9%) more than expenditures in FY 2015. In addition, as noted above, the budget act earmarks $250,000 of the Department's GRF appropriation item 110321, Operating Expenses, in each fiscal year for cigarette and other tobacco tax enforcement.

Motor Vehicle Audit Administration (110608)

The Department's costs to investigate sales and use tax returns filed for motor vehicle transactions, to determine if tax liabilities have been met, are paid from this line item, Fund 4360. The source of funding is 25¢ from issuance of each vehicle certificate of title. The budget appropriates $1.5 million in each of FY 2016 and FY 2017, $0.6 million (70.4%) higher than expenditures in FY 2015. The line item was renamed in the current main operating budget act by appending the word "Administration" to the end of the name.

Petroleum Activity Tax Administration (110643)

This line item is used to pay the Department's costs to administer the tax on gross receipts of motor fuel suppliers. It is funded from 1% of the balance, after payment of any refunds, in the Petroleum Activity Tax Fund (Fund R057). The petroleum activity tax is levied at a rate of 0.65%. The budget appropriates $1.0 million in each of FY 2016 and FY 2017. This is a new line item in FY 2016, so there were no expenditures in FY 2015.

Other Tax Administration (110404, 110602, 110605, 110606, 110610, 110615, 110616, 110618, 110627, 110637, and 110639)

Other administrative functions of the Department of Taxation are paid from these 11 line items. Details on each are included in the Catalog of Budget Line Items (COBLI) for TAX. The appropriation for each of these line items is less than $1 million per year in FY 2016 and FY 2017, and they total less than $2.8 million in each year. One line item is new, ALI 110637, Casino Tax Administration (Fund 5JM0), to be used to pay the Department's costs of administering the casino tax. The fund was established in FY 2013 and has received transfers, but through July 2015 had not disbursed funds. The appropriation is $75,000 in each year of the biennium. Appropriations to most of these line items are increased or unchanged from expenditures in FY 2015. In total, the annual appropriation to these 11 line items is $1.1 million higher than expenditures in FY 2015. Line item 110602 was previously named "Tape File Account" and was renamed "Municipal Data Exchange Administration" in the current main operating budget act. The line item previously called "Income Tax Contribution" (ALI 110606) was renamed "Income Tax Refund Contribution Administration." The line item previously called "International Registration Plan" (ALI 110616) was renamed by appending "Administration" to the end of the name.

Revenue Distribution

The Department of Taxation distributes revenue to the parties intended by law. The table below shows the line items that are used to fund this function of the Department of Taxation, and the amounts appropriated for each. As noted above, appropriations included in this Revenue Distribution category within the Department of Taxation's budget do not include the appropriations in State Revenue Distributions.

Department of Taxation Appropriations for Revenue Distribution, FY 2016-FY 2017 (Am. Sub. H.B. 64)				
Fund	**ALI and Name**		**FY 2016**	**FY 2017**
Fiduciary Fund Group				
4250	110635	Tax Refunds	$1,546,800,000	$1,546,800,000
5CZ0	110631	Vendor's License Application	$340,000	$340,000
6420	110613	Ohio Political Party Distributions	$267,500	$265,000
7095	110995	Municipal Income Tax	$8,100,000	$7,900,000
		Fiduciary Fund Group Subtotal	***$1,555,507,500***	***$1,555,305,000***
Holding Account Fund Group				
R010	110611	Tax Distributions	$230,000	$230,000
R011	110612	Miscellaneous Income Tax Receipts	$50,000	$50,000
		Holding Account Fund Group Subtotal	***$280,000***	***$280,000***
Total Funding: Revenue Distribution			**$1,555,787,500**	**$1,555,585,000**

Tax Refunds (110635)

Appropriations to this line item are used to pay refunds for taxes or fees for which amounts in excess of those owed have been paid. Amounts in this line item are by far the largest in the budget for TAX. Receipts of the Tax Refund Fund are transferred from current receipts of the same tax or fee for which the refund arose. The appropriation for both FY 2016 and FY 2017 is $1,546.8 million, $304.0 million (16.4%) less than expenditures in FY 2015. Any additional amounts needed to pay required refunds are appropriated by the budget act.

Municipal Income Tax (110995)

Municipal corporations with a municipal income tax generally either administer their own income taxes or contract with one of two outside organizations in Ohio that perform this service. However, for the municipal income tax for electric light companies and local exchange telephone companies, the Department of Taxation collects and distributes the tax, less an administrative fee. The funding for this line item covers the anticipated amounts to be distributed by TAX to the municipal corporations. The budget includes $8.1 million for FY 2016 and $7.9 million for FY 2017 for this purpose.

The FY 2016 appropriation is $1.6 million (25.3%) higher than expenditures in FY 2015. Any additional amounts needed to make required payments are appropriated by H.B. 64.

Other Revenue Distributions (110611, 110612, 110613, and 110631)

Other line items in the Department of Taxation revenue distribution category have total funding of $0.9 million in FY 2016 and FY 2017, up from expenditures of $0.5 million in FY 2015. The largest item is ALI 110631, Vendor's License Application (Fund 5CZ0). Amounts collected by the Department for this purpose are distributed back to counties. Any additional amounts needed to make required payments are appropriated by the budget bill. The next largest item is ALI 110613, Ohio Political Party Distributions (Fund 6420), used to receive funds from the state income tax check-off to support public financing of Ohio political parties and distribute the funds to qualified political parties. Revenue to Fund 6420 is distributed completely to the two major statewide political parties, and has been trending lower.

ANALYSIS OF ENACTED BUDGET – STATE REVENUE DISTRIBUTIONS

Introduction

The State Revenue Distributions section of the budget act contains appropriations for line items used by agencies to distribute money to designated recipients under various programs. Each line is administered by a state agency, but the funds are not included as part of the budget of the administering agency.

Appropriations in State Revenue Distributions total $7.4 billion in FY 2016 and $7.5 billion in FY 2017. TAX uses 17 of the 28 line items in the State Revenue Distributions section of the budget, accounting for 71% of the dollar value of these appropriations. The next largest agency, in terms of the dollar value of appropriations in State Revenue Distributions, is the Department of Education with 20%, in two line items. The budget includes language increasing an appropriation in the State Revenue Distributions section that is insufficient for the required distribution.

Notable changes in the budget for these funds include shifting the property tax relief program from the budgets of the departments of Education and Taxation into State Revenue Distributions. This program reimburses school districts and local governments for revenue losses resulting from the 10% and 2.5% real property tax rollbacks and the homestead exemption. The shift of the appropriations to a different section of the budget act is not associated with any other changes to the program. Instead of payments to school districts from GRF line item 200901, Property Tax Allocation – Education, in the Department of Education budget, payments are made starting in FY 2016 from GRF line item 200903, Property Tax Reimbursement – Education, in the State Revenue Distributions budget. Instead of payments to other units of local government from GRF line item 110901, Property Tax Allocation – Taxation, in the Department of Taxation budget, payments are made from GRF line item 110908, Property Tax Reimbursement – Local Government, in the State Revenue Distributions budget. Any additional amounts needed to make required payments are appropriated by the budget bill. Reimbursements are budgeted to grow 2.2% in FY 2016 to school districts, and 3.0% to other units of local government. Appropriations to both grow 1.7% in FY 2017.

Appropriations ended in FY 2015 to the Local Government Property Tax Replacement – Business line item, ALI 110981 (Fund 7081), and the Local Government Property Tax Replacement – Utility line item, ALI 110954 (Fund 7054), replaced by appropriations to the Property Tax Replacement Phase Out – Local Government line item, ALI 110907 (Fund 7081). Similarly, appropriations ended in FY 2015 in the Department of Education budget to the School District Property Tax Replacement – Business line item, ALI 200909 (Fund 7047), and the School District Property Tax Replacement – Utility line item, ALI 200900 (Fund 7053), replaced by appropriations to the Property Tax Replacement Phase Out – Education line item in State Revenue Distributions, ALI 200902 (Fund 7047). These appropriations reimburse local governments for revenue foregone as a result of elimination of tangible personal property taxes on general business and reduction of assessment rates on tangible property of electric and natural gas utilities. The appropriations reflect a resumption of the reductions in reimbursements in previous budgets.

The budget act includes temporary language effective for the biennium that suspends codified law regarding the PLF and the LGF. The PLF is to receive, each month of the biennium, 1.7% of total GRF tax revenue received the preceding month; the PLF share will revert to its statutory 1.66% share in July 2017. Distributions from the LGF are modified during the biennium as well. Direct distributions to municipalities from the state by way of the LGF will be reduced $1 million each month, in the aggregate statewide. These amounts will be distributed instead through county undivided local government funds to all townships and to villages with populations less than 1,000. A similar funding mechanism redirects a total of $15 million in the biennium to continuing professional training for law enforcement, reducing direct distributions to municipalities by this amount.

Line items are listed below in the same order in which they appear in the budget act, except for those included in the "other" category at the end of this section. The following table shows the line items that are included in State Revenue Distributions, as well as the enacted appropriation amounts.

Enacted Budget Amounts for State Revenue Distributions				
Fund		**ALI and Name**	**FY 2016**	**FY 2017**
General Revenue Fund				
GRF	110908	Property Tax Reimbursement – Local Government	$664,740,000	$675,760,000
GRF	200903	Property Tax Reimbursement – Education	$1,181,760,000	$1,201,340,000
		General Revenue Fund Subtotal	**$1,846,500,000**	**$1,877,100,000**
Revenue Distribution Fund Group				
5JG0	110633	Gross Casino Revenue County Distribution	$123,500,000	$114,100,000
5JH0	110634	Gross Casino Revenue County Student Distribution	$82,300,000	$76,100,000
5JJ0	110636	Gross Casino Revenue Host City Distribution	$12,100,000	$11,100,000
7047	200902	Property Tax Replacement Phase Out– Education	$361,773,101	$251,560,497
7049	336900	Indigent Drivers Alcohol Treatment	$2,250,000	$2,250,000
7050	762900	International Registration Plan Distribution	$20,000,000	$20,000,000
7051	762901	Auto Registration Distribution	$345,000,000	$345,000,000
7060	110960	Gasoline Excise Tax Fund	$395,000,000	$395,000,000
7065	110965	Public Library Fund	$389,520,000	$404,310,000
7066	800966	Undivided Liquor Permits	$14,100,000	$14,100,000
7068	110968	State and Local Government Highway Distributions	$196,000,000	$196,000,000
7069	110969	Local Government Fund	$383,520,000	$399,310,000
7081	110907	Property Tax Replacement Phase Out– Local Government	$66,070,450	$40,444,766
7082	110982	Horse Racing Tax	$100,000	$100,000
7083	700900	Ohio Fairs Fund	$1,200,000	$1,200,000
		Revenue Distribution Fund Group Subtotal	***$2,392,433,551***	***$2,270,575,263***
Fiduciary Fund Group				
4P80	001698	Cash Management Improvement Fund	$3,100,000	$3,100,000
6080	001699	Investment Earnings	$100,000,000	$120,000,000
7001	110996	Horse-Racing Tax Municipality Fund	$125,000	$125,000
7062	110962	Resort Area Excise Tax Distribution	$1,200,000	$1,200,000
7063	110963	Permissive Tax Distribution	$2,356,000,000	$2,475,000,000
7067	110967	School District Income Tax Distribution	$430,000,000	$453,000,000
7085	800985	Volunteer Firemen's Dependents Fund	$300,000	$300,000
7093	110640	Next Generation 9-1-1	$2,600,000	$2,600,000
7094	110641	Wireless 9-1-1 Government Assistance	$28,200,000	$28,200,000

Enacted Budget Amounts for State Revenue Distributions				
Fund		ALI and Name	FY 2016	FY 2017
7099	762902	Permissive Tax Distribution – Auto Registration	$184,000,000	$184,000,000
		Fiduciary Fund Group Subtotal	***$3,105,525,000***	***$3,267,525,000***
Holding Account Fund Group				
R045	110617	International Fuel Tax Distribution	$40,000,000	$40,000,000
		Holding Account Fund Group Subtotal	***$40,000,000***	***$40,000,000***
Total Funding: State Revenue Distribution			**$7,384,458,551**	**$7,455,200,263**

Property Tax Reimbursements

In Ohio, property tax rollbacks and the homestead exemption would reduce real property tax receipts of local governments, except for reimbursements from the GRF by the state. Real property taxes owed by residential and agricultural real property owners are reduced 10%, commonly referred to as the 10% rollback. Business property owners do not receive the rollback. Homeowners are eligible for an additional 2.5% rollback of taxes on their owner-occupied primary residences. The rollbacks were limited to existing levies and renewal levies beginning with those approved by voters in November 2013, eliminating rollbacks for new or replacement levies approved in that month's election and thereafter. Lower-income homeowners age 65 or older or totally and permanently disabled are eligible for a further tax reduction, known as the homestead exemption, for up to $25,000 of market value of their homes. Homeowners who received the homestead exemption for tax year 2013, when means-testing was reinstated, are eligible to continue receiving the exemption without regard to income.

Property Tax Reimbursement – Local Government (110908)

Appropriation item 110908 is used to pay these reimbursements to units of local government other than school districts. For FY 2016, the appropriation is $664.7 million, an increase of 3.0% from actual spending in FY 2015. For FY 2017, $675.8 million is appropriated, an increase of 1.7% from FY 2016.

Property Tax Reimbursement – Education (200903)

This appropriation item funds the rollback and homestead exemption reimbursements for school districts and joint vocational school districts (JVSDs). A provision of temporary law directs the Department of Education to make these payments directly to school districts. For FY 2016, the appropriation is $1,181.8 million, an increase of 2.2% from actual spending in FY 2015. For FY 2017, $1,201.3 million is appropriated, an increase of 1.7% from FY 2016.

Gross Casino Revenue County Distribution (110633)

This fund receives 51% of casino tax revenues. The money is distributed to all counties in the state in proportion to population. Appropriations to this line item total $123.5 million in FY 2016, $14.2 million (10.3%) less than expenditures in FY 2015, and $114.1 million in FY 2017, $9.4 million (7.6%) less than in FY 2016.

Property Tax Replacement Phase Out-Education (200902)

This appropriation item provides direct reimbursements to school districts and JVSDs for the value of the lost property tax revenue above the increase in state aid caused by the phase-out of the tax on general business tangible personal property and reduction in tax assessment rates on deregulated electric and natural gas utility tangible personal property. The budget act resumes the phase-out of these reimbursements, and combines funding of the reimbursements for revenue losses from taxes on general business and utilities in a single line item. The reimbursements are funded by 20% of revenues from the commercial activity tax (CAT). The kilowatt-hour (kWh) tax, previously a funding source for reimbursements, is now directed 100% to the GRF. The appropriation to this line item is $361.8 million in FY 2016, $147.7 million (29.0%) less than expenditures in FY 2015 from the two line items previously used for these reimbursements. The appropriation is $251.6 million in FY 2017, $110.2 million (30.5%) less than in FY 2016. The budget act provides that the Director of Budget and Management may transfer from the GRF to Fund 7047 amounts necessary to fund required reimbursements, may make temporary transfers from the GRF to ensure sufficient balances in that fund, and may replenish the GRF for such transfers.

Auto Registration Distribution (762901)

This appropriation item is used by the Registrar of Motor Vehicles to return money to the counties and districts of registration. The counties and districts use the money for planning, construction, and maintenance of public roads and related purposes. For each of FY 2016 and FY 2017, the appropriation is $345.0 million, $27.5 million (8.6%) more than expenditures in FY 2015.

Gasoline Excise Tax Fund (110960)

This appropriation item is used to distribute funds to municipal corporations, counties, and townships for construction and maintenance of public highways and roads, and related purposes. These distributions are funded from motor vehicle fuel taxes. For each of FY 2016 and FY 2017, the appropriation is $395.0 million, $16.3 million (4.3%) more than expenditures in FY 2015.

Public Library Fund (110965)

Money from the PLF is distributed through counties to individual libraries. In a few counties, a small portion is paid to municipal corporations. In permanent law, 1.66% of total GRF tax revenues each month is distributed to counties the following month. During the current biennium, a provision of temporary law in H.B. 64 directs that the percentage to be used is instead 1.70%. For FY 2016, the appropriation is $389.5 million, $29.0 million (8.1%) more than expenditures in FY 2015. For FY 2017, $404.3 million is appropriated, $14.8 million (3.8%) more than in FY 2016.

State and Local Government Highway Distributions (110968)

This line item is used to appropriate funding for payments to units of local government. The amount of this fund's balance that is derived from applying the variable cents per gallon levy to fuel sales at stations operated by the Ohio Turnpike Commission is paid to the Commission. The remaining balance is distributed among counties, municipal corporations, townships, and the state Highway Operating Fund, to be spent for construction and maintenance of public highways and roads, and related purposes. For each of FY 2016 and FY 2017, $196.0 million is appropriated, $3.4 million (1.8%) more than expenditures in FY 2015.

Local Government Fund (110969)

Money is distributed through the LGF directly to counties and some municipalities. Counties further distribute part of this money to municipalities, townships, and special districts, and retain part for county use. In permanent law, 1.66% of total GRF tax revenues each month is distributed the following month. Distributions to each county from the LGF are at least $750,000 or the amount distributed to the county in FY 2013, whichever is less. The proportionate shares of other counties are adjusted to produce the funds needed to meet this minimum distribution requirement.

Uncodified law in the enacted budget reduces the amounts that would be paid directly to municipalities by $1 million each month of the biennium. The budget then increases amounts paid to townships by $833,333 per month, and amounts paid to villages with populations less than 1,000 by $166,667 per month. The Tax Commissioner is to distribute the increased money for townships to county undivided local government funds such that half of the $833,333 can be distributed equally to each township in the state and half can be distributed to townships proportional to township road miles. Similarly, the Commissioner is to distribute the $166,667 to county undivided local government funds such that each qualifying village in the state can get an equal share of half of this money, and half such that qualifying villages receive funds in proportion to their village road miles.

The budget act makes another change to the distribution of money in the LGF, specifying that $5 million in FY 2016 and $10 million in FY 2017 is to be distributed to the Law Enforcement Assistance Fund (Fund 5L50), instead of directly from the Department of Taxation to those municipal corporations that receive direct distributions. This funding will reimburse public authorities for the cost of required continuing professional training for law enforcement (peace officers and troopers).

H.B. 64 also reduces LGF payments to subdivisions required to file a report of traffic camera fine receipts in an amount equal to the gross amount of fine receipts reported by the subdivision, and eliminates LGF payments to a subdivision that is required to but does not submit such a report or statement until the subdivision files the required report or statement. This may result in loss of LGF distributions for certain political subdivisions. LGF payments withheld from a noncomplying subdivision are to be redistributed on a pro rata basis to other political subdivisions within that subdivision's county, and are to resume to the noncomplying subdivision once it complies with the requirements. The reporting requirement specifies that any local authority that operated a traffic law photo-monitoring device between March 23, 2015, and June 30, 2015, was required to file with the Auditor of State on or before July 31, 2015, either of the following: (1) if the local authority complied with the traffic camera law, a statement of compliance with the traffic camera law or (2) if the local authority did not comply with the traffic camera law, a report including the civil fines the local authority billed to drivers for any violation of any municipal ordinance based upon evidence recorded by a traffic camera. Additional statements or reports are required if a traffic camera is operated during subsequent three-month periods. The Auditor of State is to forward these reports or statements of compliance to the Tax Commissioner, and to notify the Tax Commissioner when political subdivisions have failed to make the required filings and when political subdivisions that were the subject of such a notification make the required filings.

For FY 2016, the appropriation is $383.5 million, $18.1 million (4.9%) more than expenditures in FY 2015. For FY 2017, $399.3 million is appropriated, an increase of $15.8 million (4.1%) from FY 2016.

Investment Earnings (001699)

This appropriation item is used to pay investment earnings from the State Treasurer's investment pool to the funds that ultimately receive them, including the GRF. Increases in amounts appropriated in the biennium reflect an expectation of higher interest rates, as well as a higher investable balance in the Budget Stabilization Fund. For FY 2016, the appropriation is $100.0 million, an increase of $57.4 million (135.0%) from FY 2015. For FY 2017, the appropriation is $120.0 million, an increase of $20.0 million (20.0%) from FY 2016.

Permissive Tax Distribution (110963)

This appropriation item, with the largest appropriations of any single line item in the State Revenue Distributions, is used by the Tax Commissioner to distribute revenue from county and transit authority permissive taxes to the county or transit authority of origin. The revenue distributed is from county and transit authority permissive sales and use taxes and from county permissive cigarette taxes and alcoholic beverage taxes. All 88 counties levy sales and use taxes, but Cuyahoga County is the only county levying excise taxes on cigarettes and alcoholic beverages. For FY 2016, the appropriation is $2,356.0 million, a decrease of $19.9 million (0.8%) from actual spending in FY 2015. For FY 2017, $2,475.0 million is appropriated, an increase of $119.0 million (5.1%) from FY 2016.

School District Income Tax Distribution (110967)

This line item is used by the Tax Commissioner to distribute school district income tax collections to the districts of origin. The Department's costs for administration of the tax are covered by retaining 1.5% of the amounts collected. For FY 2016, the appropriation is $430.0 million, an increase of $37.0 million (9.4%) from actual spending in FY 2015. For FY 2017, $453.0 million is appropriated, an increase of $23.0 million (5.3%) from FY 2016.

Permissive Tax Distribution – Auto Registration (762902)

This appropriation item is used by the Registrar of Motor Vehicles to distribute motor vehicle license taxes paid with applications for motor vehicle registration to the local governments levying these taxes. For FY 2016 and FY 2017, the appropriation is $184.0 million, an increase of $13.2 million (7.7%) from actual spending in FY 2015.

Other State Revenue Distributions (001698, 110617, 110634, 110636, 110640, 110641, 110907, 110962, 110982, 110996, 336900, 700900, 762900, 800966, and 800985)

Appropriations to the 15 other items in the State Revenue Distributions are each under $100 million per year and total $273.6 million in FY 2016 and $240.8 million in FY 2017, 4% and 3%, respectively, of total appropriations in this section of the act. Appropriations to these items range from $82.3 million in FY 2016 to Gross Casino Revenue County Student Distribution, ALI 110634, down to $100,000 in each year of the biennium to Horse Racing Tax, ALI 110982. As noted above, ALI 110907, Property Tax Replacement Phase Out – Local Government is a new line item that replaces two previous line items that provided reimbursements to local governments other than school districts for reductions in tangible personal property taxes. The appropriation for the new line item is $66.1 million in FY 2016, which is $66.1 million (50.0%) less than total FY 2015 expenditures from the two predecessor line items; the reduction is due to resumption of phasing out the reimbursements.

Each of these 15 appropriation items is described in LSC's Catalog of Budget Line Items.

ANALYSIS OF ENACTED BUDGET – TAX PROVISIONS

Introduction

This section provides an analysis of the tax provisions included in the main operating budget. Estimates of the change in revenue that will result from each tax law change are also included where applicable. Further information on the tax law changes is in the Legislative Service Commission's Final Analysis of Am. Sub. H.B. 64.

The budget act reduced state personal income tax rates by 6.3% across the board, and changed taxation of business income by increasing the allowed deduction and taxing business income in excess of the deduction at a flat 3% rate. Resulting revenue losses to the state were partially offset by increasing taxes on cigarettes, by means-testing retirement income and senior citizen credits, and by other changes. The net revenue loss to the GRF results in reduced distributions to the LGF and PLF, but the amounts to be distributed to the PLF during the biennium were increased by temporarily raising the share of GRF revenues paid to the PLF from 1.66% to 1.70%. Resumption of the phase-out of reimbursement payments to school districts and other local governments allows more of the tax revenue from the commercial activity tax, and all of the revenue from the kilowatt-hour tax, to be directed to the GRF. These changes and other tax provisions of H.B. 64 are described below.

Among the changes made in the budget act are a few that relate to tax credits. The budget act also includes an administrative requirement imposed on the Director of Development Services related to tax credits. It requires the Director to make available to the public an estimate of total revenue foregone as a result of tax incentives approved by the Tax Credit Authority, within 30 days after approval.

The sections that follow are generally organized by type of tax, followed by miscellaneous provisions. Tax provisions in the bill as passed by the Legislature that were vetoed by the Governor are listed at the end of this section. Changes affecting revenue sharing with local governments are found in the "**STATE REVENUE DISTRIBUTIONS**" section.

Personal Income Tax

Income Tax Rate Reduction

The budget act reduces income tax rates for all brackets by 6.3%, for taxable years beginning in 2015 or thereafter. The rate reduction decreases personal income tax revenue, on an all-funds basis, by an estimated $617.8 million for tax year (TY) 2015 and $645.8 million for TY 2016. Distributions to the LGF and PLF, and amounts retained by the GRF, are reduced by 1.66%, 1.70%, and 96.64% of these amounts, respectively, in these years. Depending on the timing and magnitude of withholding rate changes, additional revenue losses in millions of dollars related to withholding changes could occur in either FY 2016 or FY 2017.

Revisions to the Small Business Income Tax Deduction

H.B. 64 increases the business income tax deduction to 75% of business income up to $250,000 (up to $125,000 for taxpayers filing separately) for taxable years beginning in 2015, and to 100% of such income for tax years starting in 2016 and thereafter. Business income in excess of these amounts is subject to tax at a flat 3%. Personal and dependent exemptions are permitted to be used only to reduce nonbusiness income subject to tax. Under prior law, the business income tax deduction equaled 50% of business income for such years, and business income in excess of the deduction was included with each taxpayer's other income in determining the amount of tax using the nine income tax brackets to which nonbusiness income remains subject.

Estimates of the fiscal impact of this change are subject to considerable uncertainty. The change is estimated to reduce personal income tax revenue, on an all-funds basis, by $303 million in FY 2016 and $490 million in FY 2017. Losses may be somewhat less than this adjusted to take account of the 6.3% personal income tax rate reduction that is also in H.B. 64. The tax revenue reduction resulting from the changes to the small business income tax deduction, relative to taxes on this income at the lower tax rates, is $258 million in FY 2016 and $443 million in FY 2017. Transfers to each of the LGF and PLF would be reduced by about $4 million in FY 2016 and $7 million to 8 million in FY 2017.

Means-Test for Retirement Income and Senior Citizen Tax Credits

H.B. 64 applies a means-test to the retirement income credit, the lump-sum retirement credit, the lump-sum distribution credit, and the senior citizen credit. For taxable years beginning in 2015 and thereafter, only taxpayers with Ohio taxable income of less than $100,000 would be eligible for the credits. Means-testing these credits increases personal income tax revenue by an estimated $24.9 million in FY 2016 and $25.5 million in FY 2017. Distributions to each of the LGF and the PLF would increase an estimated $0.4 million in each year. Revenue retained by the GRF, net of these distributions, would increase an estimated $24.1 million in FY 2016 and $24.6 million in FY 2017. Revenue gains would grow in future years as numbers of retirees increase. Retirement income credits were 77% of the total of these four types of credits in tax year 2013 (latest published), and senior citizen credits were 20%.

Wishes for Sick Children Income Tax Refund Check-off

The budget act creates an income tax refund contribution check-off to fund a program administered by a nonprofit corporation that grants the wishes of individuals who are under the age of 18, are residents of the state, and have been diagnosed with a life-threatening medical condition. The act establishes the Wishes for Sick Children

Income Tax Contribution Fund in the state treasury, puts the fund under the control of the Department of Health, and directs that Department to distribute all contributions to the eligible nonprofit corporation to administer the program. The revenue gain to the fund would likely be in the hundreds of thousands annually, based on experience with other income tax check-offs.

Sales and Use Tax

Exemption for Meat Sanitation Services

Am. Sub. H.B. 64 exempts from sales and use tax the provision of sanitation services to a meat slaughtering or processing operation necessary for the operation to comply with federal meat safety regulations beginning October 1, 2015. The Tax Department estimates this provision would reduce state sales tax revenue by $1.7 million and $2.6 million in FY 2016 and FY 2017, respectively. The revenue loss would reduce GRF revenue and transfers to the LGF and PLF. This provision would reduce permissive county and transit authorities' sales tax revenue by $0.4 million and $0.6 million, respectively, in FY 2016 and FY 2017.

Exemption for Rental Vehicles Provided by Warrantor

The budget act exempts from sales and use tax any transaction by which a rental vehicle is provided to someone whose motor vehicle is undergoing repair or maintenance, if the cost for the rental vehicle is reimbursed by the manufacturer, warrantor, or other provider of a maintenance or service contract or agreement, with respect to the vehicle being repaired or maintained. Am. Sub. H.B. 64 requires the Tax Commissioner to abate all unpaid sales and use taxes and corresponding penalties and interest stemming from the provision of rental vehicles before the effective date of Section 757.110 of the budget act, and prohibits the Commissioner from making an assessment for such unpaid taxes, penalties, and interest. However, the act limits eligibility for the abatement and the prohibition on assessment to only those persons who, as of September 1, 2015, have no other outstanding Ohio sales or use tax liabilities. These provisions are to reduce sales tax revenue by about $2.6 million in FY 2016 and $2.7 million in FY 2017, according to the Department of Taxation. Corresponding losses to counties and transit authorities would be $0.6 million and $0.7 million.

Out-of-State Seller Liability for Use Tax

The budget act prescribes new criteria for determining whether sellers have "substantial nexus" with Ohio, and are therefore required to register with the Tax Commissioner, and collect and remit use tax for out-of-state purchases by Ohio consumers. The act expresses the nexus criteria as presumptions that can be rebutted by sellers, and permits a seller presumed to have substantial nexus with Ohio to rebut that presumption by demonstrating that the activities conducted by a person on the seller's behalf are not significantly associated with the seller's ability to establish or maintain an Ohio market for the seller's sales. The act also requires a person or that person's affiliates, before the person sells or leases tangible personal property or services to a state agency, to register with the Tax Commissioner and collect and remit use tax. These provisions may increase sales and use tax revenues by up to $25 million per year. Gains for counties and transit authorities that levy permissive taxes may be up to $6 million annually.

Use Tax Collections by Remote Sellers and Income Tax Reduction Fund Transfers

Am. Sub. H.B. 64 makes several changes to the transfer of new use tax collections by remote sellers to the Income Tax Reduction Fund (ITRF). The budget act delays the first date that the Director of Budget and Management is required to transfer such new tax collections to the 31st day of January or July following the effective date of any federal law that authorizes states to require sellers that lack substantial nexus to the state to collect and remit use tax, from July 1, 2015, the required date under prior law. It also postpones the biannual deadline for ITRF transfers in each year thereafter from the first day of January and July to the last day of January and July. The budget act creates a rebuttable presumption that sellers registering with the Tax Commissioner after the effective date of such federal legislation are "remote sellers" for the purposes of computing new use tax collections. The budget act also modifies the computation of new remote seller use tax collections for the purpose of making the required transfers to the ITRF by changing the baseline amount for computing "new" use tax collections from the total amount that was voluntarily remitted in FY 2013 by sellers that did not have substantial nexus with the state to a new baseline predicated on the enactment of future federal legislation. These changes to the transfer of new use tax collections by remote sellers to the ITRF have no fiscal effect until such time as federal law is changed.

Elimination of Retailer Compensation for Cash Register Adjustments

Am. Sub. H.B. 64 repeals a section of the Revised Code that required counties and transit authorities to compensate vendors for the expense of adjusting cash registers when a local government sales and use tax rate was increased or a new tax was imposed. The repeal is effective for taxes increased or imposed on or after July 1, 2015. Prior law required such compensation to be up to $50 per cash register or up to $100 if only one register was in the place of business. This provision will result in minimal gains to counties and transit authorities.

Creation of Tourism Development Districts

Am. Sub. H.B. 64 authorizes municipal corporations and townships in a county with a population between 375,000 and 400,000 that levies no more than a 0.5% county sales tax to designate a special district of not more than 200 contiguous acres as a tourism development district (TDD). Currently only Stark County meets the criteria.

The budget act confines the boundaries of a township tourism development district to the unincorporated area of the township. However, the budget act prohibits the creation or enlargement of such a district after 2018.

The budget act authorizes a subdivision to levy up to a 2% tax on gross receipts from sales made in the district, and to issue bonds backed by TDD revenue to fund tourism promotion and development in the district.

Am. Sub. H.B. 64 allows counties and transit authorities to make payments from their general funds to a municipal corporation or township designating a district of any increased revenue derived from county or transit authority sales taxes levied in the district, upon the request of that municipal corporation or township. Am. Sub. H.B. 64 requires a municipal corporation or township designating a district to provide sufficient detail for the Tax Commissioner to determine if a particular business is located in the district and to report information to the Commissioner on businesses operating in the district. The creation of a TDD may result in additional revenue to municipal corporations and townships from taxes or fees, and also in additional expenditures for tourism promotion and development.

Commercial Activity and Petroleum Activity Taxes

CAT Exclusion for Certain Beauty and Health Product Supply Chain Receipts

Am. Sub. H.B. 64 excludes, for purposes of calculating the base of the commercial activity tax (CAT), "qualifying integrated supply chain receipts." In order to qualify for the exclusion, receipts must be from the sale of qualified property, defined to be certain types of property used in producing or distributing beauty, health, personal care, or aromatic products. Several other restrictions must be met for receipts to qualify for the exclusion, among which the most notable are that both the seller and the buyer in the transaction are members of an integrated supply chain and that both vendors are located on the same parcel or collection of parcels, which must be located in a county with a population between 165,000 and 170,000 according to the 2010 federal decennial census, and in a municipal corporation with a population between 7,500 and 8,000 in that census (which limits the location to New Albany in Licking County). The budget act specifies that the exclusion, which applies retroactively to July 1, 2011, be construed as "clarifying" the law, subject to existing statutes of limitations that generally impose a four-year limit on claiming CAT refunds or issuing CAT assessments. The Department of Taxation estimates this provision would reduce CAT revenue by $5 million in FY 2016 and $3 million in FY 2017. CAT revenue is deposited into the GRF, which receives 75% of the revenue, the School District Tangible Property Tax Replacement Fund (Fund 7047, 20%) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 5%).

Changes to the Petroleum Activity Tax

Beginning July 2014, the petroleum activity tax (PAT) replaced the CAT as it applied to receipts from the sale or exchange of motor fuel used to propel vehicles on public roads. Am. Sub. H.B. 64 authorizes a taxpayer, beginning July 1, 2015, to claim a nonrefundable credit against the PAT on the basis of the PAT remitted by another supplier that sells "blend stocks," or additives that are sold for blending with motor fuel, to the taxpayer. This provision will reduce revenue by an uncertain magnitude to several state funds, primarily the Petroleum Activity Tax Public Highways Fund (Fund 5NZ0), the Highway Operating Fund (Fund 7002) and the GRF.

The budget act also modifies, beginning July 1, 2015, the base upon which the PAT is imposed in the case of liquid petroleum gas (also called propane or LPG) by using the average market price of propane, instead of diesel, to calculate a taxpayer's gross receipts. It permits the Department of Taxation to post on its website the first average wholesale price of a gallon of propane, for the calendar quarter that begins July 1, 2015, as late as July 31, 2015 (without this provision, the Department would have been required to publish the first average market price for propane on June 15, 2015). The Department of Taxation estimates this change will reduce PAT revenue by $2.1 million and $2.8 million, respectively, in FY 2016 and FY 2017, and reduce revenue to several state funds, primarily the Petroleum Activity Tax Public Highways Fund (Fund 5NZ0), the Highway Operating Fund (Fund 7002), and the GRF by those amounts.

Cigarette and Other Tobacco Products Taxes

Cigarette Tax Rate Increase

The budget act increases the rate of the cigarette excise tax from $1.25 per pack of 20 cigarettes to $1.60 per pack beginning July 1, 2015. The tax on tobacco products other than cigarettes was unchanged. This provision is estimated to increase cigarette tax receipts by $208.6 million in FY 2016 and $170.3 million in FY 2017. Cigarette tax receipts are deposited in the GRF.

Tobacco Enforcement

As noted above, H.B. 64 requires the Tax Commissioner to prepare a quarterly report on tobacco tax-related inspections and investigations, violations found, prosecutions, and agents designated to enforce tobacco tax-related violations. In addition, the budget act earmarks $250,000 in each fiscal year for these enforcement functions.

Stamp Purchases

Between July 1 and May 1 of each fiscal year, prior law authorized cigarette dealers to buy cigarette tax stamps on credit if the dealer paid for the stamps within 30 days. The budget act lengthens the period of time during which dealers may purchase cigarette tax stamps on credit to between July 1 and June 23 of each fiscal year, but requires dealers to pay for stamps purchased on credit no later than June 23 if the stamps are purchased within 30 days before that date. The changes have no fiscal effect as the payments will occur within the same fiscal year.

Tax Credits

Extension of a Historic Rehabilitation Tax Credit Certificate

H.B. 64 extends, to July 1, 2017, a provision authorizing owners of a historic rehabilitation tax credit certificate to claim the credit against the CAT if the owner could not claim the credit against another tax. H.B. 483 of the 130th General Assembly authorized such credit claims against the CAT only for tax periods ending before July 1, 2015. This provision may reduce CAT revenue by several millions in FY 2016 or FY 2017.

New Market Tax Credits

The budget act authorizes the Ohio New Markets Tax Credit (NMTC) to be claimed against the retaliatory tax levied on foreign insurance companies based in other states that charge a higher foreign insurance company premiums tax rate than Ohio. It also bases the calculation of an NMTC on the full amount paid for a qualified equity investment approved as eligible for the credit by the Director of Development Services, but generally requires those investments to be made in low-income businesses in Ohio. Finally, the budget act authorizes credits awarded to a pass-through entity to be allocated to the owners or that entity. These provisions increase potential credit claims against the domestic and foreign insurance taxes, and the financial institutions tax, which would reduce revenue to the GRF. However, the state annual cap of up to $10 million per fiscal year for the NMTC program is unchanged.

Modifications to Job Creation and Job Retention Tax Credits

H.B. 64 makes several changes to the Job Creation Tax Credits (JCTCs) and Job Retention Tax Credits (JRTCs).

Prior law required both credits to be calculated as a percentage of the taxpayer's Ohio income tax withholdings, which could include nonresidents working in Ohio. H.B. 64 revises the computation of JCTCs so that the amount of the credit equals an agreed-upon percentage of the taxpayer's Ohio employee payroll (taxable income paid to Ohio residents) minus baseline payroll (taxable income paid to Ohio residents during the 12 months preceding the agreement). The employee payroll would be based on the amount of compensation paid and used in computing the employer's withholding requirements, and employee payroll would also include retirement and other benefits and compensation paid to nonresident employees not exempt from Ohio income tax under a reciprocity agreement with another state.

For JRTCs, the amount of the credit would equal an agreed-upon percentage of the taxpayer's Ohio employee payroll, and H.B. 64 removes the 75% cap placed on the JRTC percentage in prior law, such that the credit is multiplied by the taxpayer's Ohio employee payroll to determine the amount of the credit available to the taxpayer.

For JCTC or JRTC agreements approved after 2014, the bill authorizes the Tax Credit Authority (TCA) to require the taxpayer to refund all or a portion of a JCTC or JRTC if the taxpayer fails to substantially meet the job creation, payroll, or investment requirements included in the tax credit agreement, or if the taxpayer files for bankruptcy. This provision may increase revenue.

The budget act reduces from 60 to 30 days the amount of time a taxpayer has to submit a copy of a JCTC or JRTC certificate after a request of the Tax Commissioner or the Superintendent of Insurance.

Finally, H.B. 64 authorizes the TCA, upon mutual agreement of the taxpayer and the Development Services Agency, to revise JCTC agreements originally approved in 2014 or 2015 to conform with the act's revisions to the credit. The act also requires TCA, upon the request of a taxpayer subject to an existing JCTC or JRTC agreement, to amend the agreement to account for changes in state income tax rates. Such amendments to the agreement must be made only for a year in which the taxpayer is 100% in compliance with the agreement's terms regarding employment, payroll, and investment commitments. The tax credit percentage and any threshold excess income tax revenue (in the case of a JCTC) or income tax revenue (in the case of a JRTC) would be increased by the same percentage that state income tax rates decreased since the agreement's effective date or June 30, 2013, whichever is later. The act clarifies that taxpayers that entered into a JCTC or JRTC agreement before October 16, 2009, are eligible to request that the agreement be modified to account for decreases in the state income tax rate since tax year 2013.

Modifications to the JRTC and the JCTC in H.B. 64 are likely to reduce revenue from insurance taxes, the financial institutions tax, the commercial activity tax, the personal income tax, and the petroleum activity tax. However, the potential revenue loss is uncertain, as any such reductions would depend on the tax credit agreements.

Property Tax

Tangible Personal Property Tax Replacement Payments – Schools

The budget resumes the phase-out of the state's payments to school districts that partly reimburse districts for the loss of general business and public utility tangible personal property (TPP) tax revenue beginning in FY 2016. Reimbursements will be based on a district's combined general business and utility property tax replacement payments in FY 2015. The budget also prescribes different phase-out schedules for different classes of tax levies as follows:

(1) **Current expense levies**: Replacement payments for such levies are to be phased out according to the ratio of a district's FY 2015 payment amount to its total operating revenue from state and local sources ("total sources") and according to a district's tax capacity, a measure that considers both a district's property wealth and income wealth. School districts are grouped into five quintiles by tax capacity. For a 5th quintile (highest capacity) district, the act specifies that the replacement payment will only be made in FY 2016 if the district's FY 2015 payment represents more than 2% of its total resources. The percentage threshold increases to 4% in FY 2017 and by 2 percentage points each year thereafter. The budget prescribes the initial percentage and annual increment for a 4th quintile district at 1.75%, a 3rd quintile district at 1.5%, a 2nd quintile district at 1.25%, and a 1st quintile (lowest capacity) district at 1%. For all joint vocational school districts (JVSDs), the initial percentage is specified to be 2% and annual increments are 2 percentage points. Under prior law, school districts and JVSDs received annual payments equal to the amount by which a district's FY 2011 payment exceeded 4% of its total resources or the amount the district received in FY 2013.

(2) **Noncurrent-expense, nondebt levies**: Replacement payments are to be made in FY 2016 at the level of 50% of a district's FY 2015 payment. Replacement payments for these levies are eliminated beginning in FY 2017. Prior law provided for annual payments equal to 50% of the payment the district received in FY 2011.

(3) **Emergency and other fixed-sum levies**: Replacement payments for such levies are phased out in one-fifth increments over five years beginning in 2017 for utility TPP payments and in 2018 for business TPP payments. Prior law ended such payments in 2017 for utility TPP and in 2018 for business TPP.

(4) **Debt levies**: The act retains current law for debt levy reimbursement payments. Replacement payments for voter-approved fixed-sum debt levies will be made at the 2014 payment levels until the levy is no longer imposed. Payments for "inside-mill" debt levies that qualify for reimbursement in FY 2015 will be reimbursed through FY 2016 for utility TPP and through FY 2018 for business TPP.

The provision would reduce TPP reimbursement payments for school districts and JVSDs. The budget appropriates from the Property Tax Replacement Phase Out – Education (Fund 7047) $360.9 million for FY 2016 and $249.8 million in FY 2017 for TPP reimbursement payments for school districts and JVSDs. In FY 2015, TPP reimbursements to school districts and JVSDs totaled $510 million.

Property Tax Replacement Payments to Local Taxing Units

The budget resumes the phase-out of business and utility tangible personal property (TPP) reimbursement payments for local taxing units other than school districts and joint vocational school districts beginning in FY 2016. Reimbursements will be based on each unit's combined business and utility TPP reimbursement payments received in FY 2015. The budget specifies that replacement payments for current expense levies be phased out according to the ratio of a taxing unit's FY 2015 payment amount to its total operating revenue from state and local sources ("total sources"). The budget also specifies that the replacement payment will only be made in FY 2016 if the unit's FY 2015 payment represents more than 2% of its total resources. Subsequently, the budget increases the percentage threshold to 4% in FY 2017 and by two percentage points each year thereafter. Under prior law, local taxing units received annual payments equaled to the amounts by which their CY 2010 payments exceed 6% of their total resources or the reimbursement amounts for TY 2013.

The budget retains previous law for debt levy reimbursement payments. Payments for "inside-mill" debt levies that qualify for reimbursement in CY 2015 will be reimbursed through CY 2016 for utility TPP and through CY 2017 for business TPP. The budget requires each county auditor, by July 31, 2015, to certify to the Tax Commissioner the amount of money distributed from the County Public Library Fund in 2014 to each public library system that received a TPP reimbursement in 2014, for purposes of computing a library system's total resources used in TPP reimbursement determinations.

The budget creates a special payment under the TPP tax reimbursement scheme for municipal corporations where a user of a substantial (at least 7 million kilowatt-hour (kWh) per year) amount of wind-generated energy is located. The budget provides that the payment equals the amount of kWh excise tax paid on the basis of wind-generated electricity received by the user. The budget requires the municipal corporation to use the payments to provide grants, tax reductions, or other financial assistance to the user of the wind-generated electricity. The budget requires the Tax Commissioner to compute such payments beginning in FY 2016. The budget also allows the Commissioner to require an electric distribution company or the end user, who is a self-assessing purchaser, to report the number of qualifying kilowatt-hours distributed through the meter of the qualifying end user to the Commissioner.

The provision would reduce the reimbursements to counties, townships, municipal corporations, other local taxing units, and public libraries. The budget appropriates from the Property Tax Replacement Phase Out – Local Government (Fund 7081) $65.9 million in FY 2016 and $40.2 million in FY 2017 for reimbursement payments for local government. In FY 2015 TPP reimbursement payments for local government total $127.6 million.

Tax Valuation for Farmland Storing Dredged Material

H.B. 64 allows unproductive farmland to continue to be valued for property tax purposes according to its current agricultural use value (CAUV) for up to five years if the land is being used to store or deposit materials dredged from Ohio's waters pursuant to a contract between the landowner and the Department of Natural Resources (ODNR) or U.S. Army Corps of Engineers. The act applies the valuation method to tax years 2015 and thereafter. Potentially, this provision could affect the dredging program that ODNR is undertaking at Buckeye Lake.

Qualified Energy Project Tax Exemption

The budget bill extends by five years the deadlines by which the owner or lessee of a qualified energy project must submit a property tax exemption application, submit a construction commencement application, begin construction, and place into service an energy facility using renewable energy resources (wind, solar, biomass, etc.) to qualify for an ongoing real and tangible personal property tax exemption. Extending the deadline allows qualified energy projects placed into service between 2017 and 2021 to remit a payment in lieu of taxes (PILOT) for an amount equivalent to approximately 20% of the tax liability. The revenue loss is permissive for counties, whereas school districts, municipalities, and townships must abide by their respective county's approval of the PILOT.

Abatement for Submerged Land Leases Held by a Municipal Corporation

H.B. 64 establishes a temporary procedure by which a municipal corporation may apply for a property tax exemption and the abatement of unpaid property taxes, penalties, and interest charged and payable in 2000 and thereafter for a submerged land lease held by the municipal corporation pursuant to an assignment of the lease from a previous lessee. The bill stipulates that the unpaid charges must exceed the assessed value of the property for 2014. The act prohibits taxes, penalties, or interest from being abated for any tax year in which the property was used in the operation of a business.

Granting the exemption created by the budget bill will reduce the amount of taxes charged by the local authorities, but actual collections may not decrease depending on collections received from the applicable municipal corporation. Under continuing law, municipally owned property is tax-exempt if it is used "exclusively for a public purpose," but such property may not be exempted if more than three years' worth of taxes remains unpaid.

Property Tax exemption for Fraternal Organizations

The budget act extends the property tax exemption for real estate held or occupied by a fraternal organization to property that is used to provide, on a not-for-profit basis, educational or health services. Under continuing law, property of a fraternal organization qualifies for exemption when used primarily for meetings and the administration of the organization. This provision may increase the real property tax revenue loss to school districts and other units of local government.

Extension of Township Tax Increment Financing (TIF) Exemptions

H.B. 64 authorizes the board of trustees of a township with a population of 15,000 or more to amend a TIF resolution adopted before December 31, 1994, to extend the exemption of the parcel or parcels included in the TIF for up to an additional 15 years. The amendment may not increase the percentage of improvements exempted from taxation. The township is required to notify the affected school districts and counties before adopting the amendment. This provision may result in payment of service payments in lieu of property taxes on parcels for which the exemption is extended, which may result in loss of revenues for subdivisions not required to be reimbursed for such foregone taxes.

Maximum Term of Property Tax Levies for Cemeteries

The budget lengthens the maximum term, to any specified number of years, for which a subdivision may levy a property tax for the purpose of operating a cemetery. Under prior law, the maximum period for which such a tax may be levied was five years.

Municipal Income Tax

The budget act allows a municipal corporation to tax an individual's foreign (non-U.S.) income if (1) the income is employee compensation that either (a) is included in the taxpayer's federal gross income or (b) would have been included in federal gross income if the taxpayer did not elect to exclude the income under section 911 of the Internal Revenue Code (IRC),[1] (2) the amount was not subject to federal or municipal income tax withholding in any previous year, and (3) the amount will not be subject to federal income tax withholding in any future year. Prior municipal income tax law did not make specific reference to foreign earned income. This provision may increase revenue for municipalities that use federal adjusted gross income in their municipal tax ordinance.

The budget act clarifies a municipal income tax law, effective January 1, 2016, that temporarily reduces the amount of net operating loss (NOL) that a business may deduct and carry-forward to 50% of the amount otherwise allowed. The temporary limit applies to NOLs incurred after 2016 and claimed on tax returns filed for taxable years 2018 through 2022. H.B. 64 clarifies that, if an amount is not fully utilized due to this temporary limit and is carried forward to the 2019, 2020, 2021, or 2022 taxable year, the 50% limit continues to apply to that carried-forward amount. This provision has no fiscal effect.

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[1] IRC 911 authorizes U.S. citizens and residents living abroad for an extended period to elect to exclude foreign-earned income from their U.S. gross income for federal tax purposes under certain conditions.

Current law requires beginning in 2016 that all municipal corporations must tax C corporations at the entity level, while all pass-through entities must be taxed at the owner level. The budget act allows a publicly traded partnership (defined as any partnership, an interest in which is publicly traded on an established securities market) to elect to be taxed as if the partnership were a C corporation for municipal income tax purposes. This provision may result in potential municipal tax gain or loss for municipalities.

Under continuing law, a municipality that adopted Ohio adjusted gross income (OAGI) as the municipality's tax base before January 1, 2012, may continue to use that tax base instead of the tax base prescribed in Chapter 718. of the Revised Code. However, the tax base that may be used is that which was in effect on December 31, 2013, and no further adjustments may be made. The budget act allows a municipal corporation that has adopted OAGI as its tax base to make adjustments to that tax base with respect to resident individuals.

H.B. 64 specifies that taxpayers seeking damage awards on the basis of actions or omissions regarding municipal income taxes may sue the municipal corporation, but not the tax administrator.[2] Prior law allowed taxpayers aggrieved by an action or omission of a municipal tax administrator, an administrator's employee, or a municipal employee to bring an action against the tax administrator or the municipal corporation to recover compensatory damages and costs. This provision has no fiscal impact.

The budget act allows a municipal corporation that shares at least 70% of its territory with a school district to enter into an agreement to share municipal income tax revenue with the school district, provided that a portion of the remaining 30% of school district territory lay within another municipal corporation with a population of 400,000 or more. School district income taxes (SDIT) may be levied only on the income of residents of the school district. Authorizing a municipal income tax and sharing the proceeds with the school district would potentially yield a greater amount of revenue available to a school district than an SDIT with a comparable rate because municipal income tax revenue may include taxes paid by nonresidents. This provision is only applicable to those municipal corporations adjacent to Columbus.

The budget act requires municipal corporations to publish a summary of taxpayers' rights and responsibilities online. It allows a municipal income taxpayer to submit an affidavit to a tax administrator certifying that the person is no longer a taxpayer in the municipal corporation; upon submitting the affidavit, the former taxpayer is no longer required to file a tax return for that municipal corporation for

[2] A tax administrator can include any individual or entity retained by a municipal corporation to administer its income tax, including the Regional Income Tax Agency and the Central Collection Agency.

future years, unless the tax administrator has information that conflicts with the affidavit or the person's circumstances change. Beginning January 1, 2016, the budget act requires municipal tax administrators to grant taxpayers a six-month filing extension for a municipal income tax return even if the taxpayer did not request a corresponding federal extension. The budget act changes the annual return filing deadline for municipal income taxpayers that are not individuals to the fifteenth day of the fourth month following the end of the taxpayer's taxable year (prior law required all municipal income tax returns for all taxpayers – individuals and entities – to be required to be filed on or before the date prescribed for filing individual state income tax returns). Finally, H.B. 64 allows the municipal tax administrator of a municipal corporation that adopted Ohio adjusted gross income as the municipality's tax base before January 1, 2012, to require an individual taxpayer to submit their Ohio individual tax return form (IT-1040) along with the individual's municipal income tax return. These provisions have minimal, if any, fiscal impact.

Lodging Tax

Lodging Tax and Financing for a Sports Park

H.B. 64 authorizes a county with a population in the 2010 Census between 75,000 and 78,000 to increase its general hotel tax rate by 1% for the purpose of paying the costs of constructing, maintaining, acquiring, and renovating a sports park and promoting tourism in the county. The county may pledge any lodging tax it levies towards financing a sports park, not just the 1% increase. That county is authorized to enter into a cooperative agreement with port authorities, nonprofit corporations, and operating companies governing the construction, financing, and operation of a sports park. The 1% increased rate is authorized to apply countywide, even if a municipal corporation or township in the county has levied a 3% lodging tax in addition to a separate 3% lodging tax. County commissioners are authorized to amend the county's existing lodging tax to use all or a portion of that tax to finance a sports park. The provision affects only Erie County, and may raise an estimated $2.3 million per year.

Lodging Tax for County Agricultural Societies

The budget act authorizes a county with a county or independent agricultural society hosting an annual harness horse race with at least 40,000 attendees per day to levy, subject to the approval of county voters, a lodging tax of up to 3% for up to five years to pay for permanent improvements at sites where an agricultural society conducts fairs or exhibits. Only Delaware County appears to qualify. The tax may raise about $0.2 million per year, based on 2012 data.

Lodging Tax for Lake Erie Shoreline Improvements

H.B. 64 authorizes a county on the Lake Erie shore to levy a lodging tax of up to 2% to fund shoreline improvements. Eligibility is restricted to a county that has Lake Erie shoreline equal in length to at least 50% of the length of the county's border with other Ohio counties. The improvements would be carried out by a port authority under an agreement between the county and port authority, and the port authority is authorized to issue bonds backed by the lodging tax revenue, with terms to maturity of up to 30 years. The county's levy of the lodging tax would be subject to referendum. The lodging tax rate in some or all qualifying counties will likely rise by up to two percentage points to fund the specified improvements.

County Lodging Tax for Sports Facilities

The budget act authorizes a county with a population between 175,000 and 225,000, that has an amusement park with an average annual attendance over two million, and that levied a 3% lodging tax on December 31, 2014, to levy an additional 1% lodging tax for the purpose of constructing and maintaining county-owned sports facilities and financing efforts by the convention and visitors bureau to promote travel and tourism with respect to the sports facilities. (Under continuing law, lodging tax rates are generally capped at 6% with up to 3% levied by the county and up to an additional 3% levied by the municipalities and townships located within the county.) Only Warren County appears to qualify currently. This provision may result in additional lodging tax revenues and additional expenditures on sports facilities in the county.

County Lodging Tax for Permanent Improvements

H.B. 64 authorizes a county with a 2010 population of between 39,000 and 40,000 that does not currently levy a lodging tax and a county with a 2010 population between 71,000 and 75,000 that currently levies a 3% lodging tax for a convention and visitors bureau to levy a lodging tax of up to 3% for the purpose of financing permanent improvements. The act provides that the tax would apply throughout the county, including in any township, city, or village that levies its own lodging tax, and provides that the levy of the tax would be subject to a referendum if 10% of the county's electors sign and file petitions within 30 days after the county commissioners adopt the tax measure. Currently most counties do not have authority to levy lodging taxes for permanent improvements. Several counties have special authority to levy lodging taxes for specific kinds of improvements such as convention centers and sports facilities. The provision will likely lead to increased lodging tax revenues in Defiance and Hancock counties, which had 2010 populations of between 39,000 and 40,000, and 71,000 and 75,000, respectively. Lodging taxes in 2012 at a rate of 3% in Hancock County and in Findlay, located in that county, raised revenue totaling about $1.0 million.

Other Tax Provisions

Financial Institutions Tax

Exclusion for Production Credit and Agricultural Credit Associations

The budget act subjects production credit associations ("PCAs") and agricultural credit associations ("ACAs") to the CAT instead of the financial institutions tax (FIT). Previously, PCAs were explicitly subject to the FIT, while ACAs are neither explicitly subject to, nor exempt from, the FIT. This provision applies the changes to tax years beginning on and after January 1, 2014, and is estimated to reduce FIT revenue by about $0.4 million per year. Revenue from the FIT is distributed to the GRF.

Commissions of Executors and Administrators

The budget allows executors and administrators the same commissions as existed before the repeal of the estate tax,[3] and clarifies that the executor's or administrator's fee for property not subject to administration and the value of that property are determined as of the date of the decedent's death. This provision has no fiscal effect.

Tax Liability of Company that Donates Electricity to Political Subdivisions

The budget clarifies that a company that generates electricity but donates all of that electricity to a political subdivision is not subject to the kilowatt-hour (kWh) tax or public utility tangible personal property tax. Under prior law, most property used to supply electricity to other persons was taxable by local taxing units, and most companies that distributed electricity to end users in Ohio were subjected to the kWh tax. The budget also specifies that a political subdivision that receives donated electricity may not be considered as an "end user", which is subjected to the kWh tax. Under prior law, the end user of electricity was required to pay the kWh tax on donated electricity if the company that supplied the electricity was not required to pay the tax. This provision ensures that neither the electricity supplier nor the political subdivision will pay the tax on donated electricity.

Wine Tax Revenue Credited to the Ohio Grape Industries Fund

H.B. 64 extends through June 30, 2017, the 2¢ per gallon of wine tax revenue that is credited to the Ohio Grape Industries Fund (Fund 4960) and is subject to expiration. The fund also receives 3¢ cents per gallon that is not for a specified period of time. This maintains the current amount of wine tax revenue credited to Fund 4960 through the FY 2016-FY 2017 biennium to support marketing and production in the grape industry. Receipts from the wine tax are otherwise credited to the GRF. Revenue to Fund 4960 was $1.1 million in FY 2015.

[3] H.B. 153 of the 129th General Assembly repealed the Ohio estate tax for the estates of individuals dying on or after January 1, 2013.

County Land Reutilization Corporations

The budget act removes the population threshold (previously more than 60,000) necessary for a county to adopt and implement the procedures for the effective reutilization of nonproductive land through a county land reutilization corporation (CLRC). This will allow all counties to implement CLRCs, which may reduce property maintenance costs to counties in some cases.

Enterprise Zone Agreement Extension

H.B. 64 extends the time during which local governments may enter into enterprise zone agreements by two years until October 15, 2017, from October 15, 2015, under prior law.

Vetoed Tax Provisions

The Governor vetoed a number of tax-related provisions of H.B. 64 as enacted by the legislature. These provisions are summarized below.

Income Tax Rate Reduction Based on Vetoed Provisions

A vetoed provision would have required the Tax Commissioner, in consultation with the Director of Budget and Management, (1) to determine the total amount of appropriations and expenditures in the bill that were vetoed by the Governor and that would have required an expenditure from the GRF of at least $5 million in FY 2016 and $6 million in FY 2017 and (2) to reduce income tax rates based upon the expenditures that would not have to be made because of the vetoed provisions. Furthermore, the income tax rate reduction would have been permanent and would have applied beginning with the 2015 taxable year. The bill stated that this provision did not preclude the General Assembly from overriding the Governor's veto.

Tax identity Verification

Another vetoed provision would have limited the information that the Tax Commissioner could require a person to verify, to confirm the person's identity, to information compiled or created less than five years before the required verification.

Income Tax Deduction Related to Hope for a Smile Program

Creation of a new state income tax deduction was vetoed. The deduction, to be used by a dentist or dental hygienist, would have equaled the fair market value of the services provided for free under the vetoed Hope for a Smile Program, aimed at improving the oral health of school age children.

Tax Amnesty Program

A new tax amnesty program was vetoed. The bill required the Tax Commissioner to administer a temporary tax amnesty program from January 1, 2016, to February 15, 2016, with respect to delinquent state taxes, tangible personal property taxes, county and transit authority sales taxes, and school district income taxes, due and payable as of May 1, 2015, and which remained unpaid on the date on which the program commenced. The bill required the Commissioner to waive or abate all applicable penalties and half of any interest accrued on the taxes, if during the program the taxpayer paid the full amount of delinquent taxes owed and half of any accrued interest. The bill appropriated $2,500,000 in FY 2016 to fund promotion and administration of the program.

Change to Remittance of Sales Tax by Motor Vehicle Dealers

The Governor vetoed a provision of the bill allowing new and used motor vehicle dealers licensed in Ohio to remit the sales and use tax collected on vehicle sales directly to the state on the dealer's monthly sales or use tax return. (Under current law, such dealers are required to remit the tax to the Clerk of the Court of Common Pleas along with the application for a certificate of title for the vehicle. The bill would have required dealers that did not remit the tax with their returns to remit the tax due to the Clerk.)

Petroleum Activity Tax on Receipts from Sales of Certain Diesel Fuel

A reduction in the petroleum activity tax (PAT) rate was vetoed. The reduction would have been applicable to gross receipts from the sale of dyed diesel fuel when the end user of the fuel would be a railroad company, from the current PAT rate of .65% to .26% (equal to the commercial activity tax rate).

Draft Legislation on Aviation Fuel Tax

A vetoed provision of the bill would have required the Ohio Department of Transportation, in collaboration with the aviation industry and other interested parties, to prepare draft legislation that would have required all revenue from the sales and use tax on sales of aviation fuel to be used exclusively for airport improvement-related purposes enumerated in the bill. The draft legislation was to be submitted to the Ohio Aerospace and Aviation Technology Committee by the end of FY 2016.

Water-works Tangible Personal Property Tax Assessment

The bill would have required that all new water-works company tangible personal property first subject to taxation in tax year 2015 or thereafter be assessed at 25% rather than 88% of its capitalized cost less depreciation allowances. This change was vetoed. The provision lowered potential tax receipts collected by local taxing authorities beginning in FY 2016, with the magnitude of the loss dependent on the value of water-works property placed into service in calendar year 2014 and thereafter.

Repeal of Tax on Electric Company Generation Property

The Governor vetoed a provision exempting electric company generation, and "other" tangible personal property that is not transmission and distribution ("T&D") property or energy conversion equipment, from property taxation. (Under current law, the assessment rate for such property is 24%.) The Tax Commissioner was required to calculate an increased assessment rate each year for electric company T&D property and energy conversion equipment, and to increase that rate annually by the percentage necessary to raise the amount of revenue that would have been collected with respect to the newly-exempted generation and "other" property that tax year. (The current assessment rate is 85%.) The revenue from the increased assessment rate was to be used to reimburse local governments for the revenue they would lose due to the repeal of the tax on generation and "other" property. Electric companies would have been permitted to recover from customers the increased tax on T&D property and energy conversion equipment resulting from this provision. The veto eliminated new RDF appropriation item 110644, Production Equipment Property Tax Replacement (Fund 7102), with an appropriation of $95,000,000 in each of FY 2016 and FY 2017 for use in reimbursing local governments for the lost revenue.

Tangible Personal Property Tax Replacement payments – Schools (Partial Veto)

Another vetoed provision in the bill as enacted by the legislature would have exempted, from the resumption of the phase-out of personal property tax replacement payments, a school district with a nuclear power plant located in the district's territory, and with the most recent year's replacement payments for fixed-rate levies equal to 10% or more of the district's total resources. Such a school district would have continued to receive an annual payment equal to the payment it received in 2014, provided it continued to levy the tax for which the reimbursement was being paid. The bill increased RDF Fund 7047 appropriation item 200902 by $900,000 in FY 2016 and $1,800,000 in FY 2017 to pay the additional cost.

Property Tax Replacement Payments to Local Taxing Units (Partial Veto)

The Governor also vetoed a provision to exempt from the resumption of the phase-out of personal property tax replacement payments a township, public library, or other taxing unit, other than a county or municipal corporation, if a nuclear power plant was located in the taxing unit's territory and the most recent year's replacement payments for fixed-rate levies equaled 10% or more of the unit's total resources. The local government entity would instead have continued to receive an annual payment equal to the payment it received in 2014, provided it continued to levy the tax for which the reimbursement was being paid.

Uniform Rules for Appraisal of Real Estate

A vetoed provision required that the rules for real estate appraisal, established by the Tax Commissioner under continuing law, include definitions necessary to clarify appraisal methods, and specified that, where the Commissioner had not explicitly designated a rule, "The Appraisal of Real Estate, 14th Edition" and "The Dictionary of Real Estate Appraisal, 5th Edition" published by the Appraisal Institute, be controlling. The bill required that rules established by the Commissioner be applied uniformly to all parcels.

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FY 2016 - FY 2017 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

Report For Main Operating Appropriations Bill **Version: As Enacted**

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
TAX	**Department of Taxation**							
GRF	110321	Operating Expenses	$ 63,639,063	$ 60,671,411	$ 67,777,493	11.71%	$ 67,777,493	0.00%
GRF	110404	Tobacco Settlement Enforcement	$ 118,933	$ 164,193	$ 160,380	-2.32%	$ 160,380	0.00%
GRF	110901	Property Tax Allocation - Taxation	$ 642,920,529	$ 645,272,431	$ 0	-100.00%	$ 0	N/A
General Revenue Fund Total			**$ 706,678,526**	**$ 706,108,036**	**$ 67,937,873**	**-90.38%**	**$ 67,937,873**	**0.00%**
2280	110628	CAT Administration	$ 14,095,020	$ 15,539,153	$ 16,100,000	3.61%	$ 16,100,000	0.00%
4330	110602	Municipal Data Exchange Administration	$ 78,437	$ 97,346	$ 175,000	79.77%	$ 175,000	0.00%
4350	110607	Local Tax Administration	$ 20,647,600	$ 18,449,942	$ 19,006,950	3.02%	$ 19,006,950	0.00%
4360	110608	Motor Vehicle Audit Administration	$ 717,882	$ 856,456	$ 1,459,609	70.42%	$ 1,459,609	0.00%
4370	110606	Income Tax Refund Contribution Administration	$ 39,179	$ 38,800	$ 38,800	0.00%	$ 38,800	0.00%
4380	110609	School District Income Tax Administration	$ 5,178,722	$ 5,316,139	$ 5,402,044	1.62%	$ 5,402,044	0.00%
4C60	110616	International Registration Plan Administration	$ 605,631	$ 524,048	$ 682,415	30.22%	$ 682,415	0.00%
4R60	110610	Tire Tax Administration	$ 213,845	$ 154,386	$ 244,193	58.17%	$ 244,193	0.00%
5AP0	110632	Discovery Project	$ 1,823,510	$0	$0	N/A	$0	N/A
5BP0	110639	Wireless 9-1-1 Administration	$ 40,817	$ 203,573	$ 290,000	42.46%	$ 290,000	0.00%
5JM0	110637	Casino Tax Administration	$0	$0	$ 75,000	N/A	$ 75,000	0.00%
5MN0	110638	STARS Development and Implementation	$ 4,540,095	$ 2,169,081	$ 3,000,000	38.31%	$ 3,000,000	0.00%
5N50	110605	Municipal Income Tax Administration	$ 53,388	$ 7,560	$ 150,000	1,884.13%	$ 150,000	0.00%
5N60	110618	Kilowatt Hour Tax Administration	$ 51,976	$ 21,416	$ 100,000	366.95%	$ 100,000	0.00%
5NY0	110643	Petroleum Activity Tax Administration	$0	$0	$ 1,000,000	N/A	$ 1,000,000	0.00%
5V70	110622	Motor Fuel Tax Administration	$ 2,874,152	$ 3,261,965	$ 5,035,374	54.37%	$ 5,035,374	0.00%
5V80	110623	Property Tax Administration	$ 10,393,909	$ 7,822,786	$ 11,178,310	42.89%	$ 11,178,310	0.00%
5W70	110627	Exempt Facility Administration	$ 60,440	$0	$ 49,500	N/A	$ 49,500	0.00%
6390	110614	Cigarette Tax Enforcement	$ 956,936	$ 1,167,437	$ 1,750,000	49.90%	$ 1,750,000	0.00%
6880	110615	Local Excise Tax Administration	$ 352,829	$ 406,530	$ 775,015	90.64%	$ 775,015	0.00%

Line Item Detail by Agency

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
TAX	**Department of Taxation**							
Dedicated Purpose Fund Group Total			**$ 62,724,368**	**$ 56,036,616**	**$ 66,512,210**	**18.69%**	**$ 66,512,210**	**0.00%**
4250	110635	Tax Refunds	$ 2,083,547,994	$ 1,850,775,868	$ 1,546,800,000	-16.42%	$ 1,546,800,000	0.00%
5CZ0	110631	Vendor's License Application	$ 311,575	$ 337,100	$ 340,000	0.86%	$ 340,000	0.00%
6420	110613	Ohio Political Party Distributions	$ 269,558	$ 195,720	$ 267,500	36.67%	$ 265,000	-0.93%
7095	110995	Municipal Income Tax	$ 7,995,077	$ 6,462,606	$ 8,100,000	25.34%	$ 7,900,000	-2.47%
Fiduciary Fund Group Total			**$ 2,092,124,204**	**$ 1,857,771,295**	**$ 1,555,507,500**	**-16.27%**	**$ 1,555,305,000**	**-0.01%**
R010	110611	Tax Distributions	$ 125,000	$ 0	$ 230,000	N/A	$ 230,000	0.00%
R011	110612	Miscellaneous Income Tax Receipts	$0	$0	$ 50,000	N/A	$ 50,000	0.00%
Holding Account Fund Group Total			**$ 125,000**	**$ 0**	**$ 280,000**	**N/A**	**$ 280,000**	**0.00%**
Department of Taxation Total			**$ 2,861,652,098**	**$ 2,619,915,947**	**$ 1,690,237,583**	**-35.49%**	**$ 1,690,035,083**	**-0.01%**

FY 2016 - FY 2017 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

Report For Main Operating Appropriations Bill **Version: As Enacted**

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
RDF	**State Revenue Distributions**							
GRF	110908	Property Tax Reimbursement - Local Government	$0	$0	$ 664,740,000	N/A	$ 675,760,000	1.66%
GRF	200903	Property Tax Reimbursement - Education	$0	$0	$ 1,181,760,000	N/A	$ 1,201,340,000	1.66%
General Revenue Fund Total			**$0**	**$0**	**$ 1,846,500,000**	**N/A**	**$ 1,877,100,000**	**1.66%**
5KT0	955501	Racetrack Host Supplement	$ 12,000,000	$0	$ 0	N/A	$ 0	N/A
Dedicated Purpose Fund Group Total			**$ 12,000,000**	**$0**	**$ 0**	**N/A**	**$ 0**	**N/A**
5JG0	110633	Gross Casino Revenue County Distribution	$ 140,683,100	$ 137,699,091	$ 123,500,000	-10.31%	$ 114,100,000	-7.61%
5JH0	110634	Gross Casino Revenue County Student Distribution	$ 92,702,868	$ 91,008,048	$ 82,300,000	-9.57%	$ 76,100,000	-7.53%
5JJ0	110636	Gross Casino Revenue Host City Distribution	$ 13,792,461	$ 13,499,911	$ 12,100,000	-10.37%	$ 11,100,000	-8.26%
7047	200902	Property Tax Replacement Phase Out - Education	$0	$0	$ 361,773,101	N/A	$ 251,560,497	-30.46%
7049	335900	Indigent Drivers Alcohol Treatment	$ 1,593,852	$ 795,874	$ 0	-100.00%	$ 0	N/A
7049	336900	Indigent Drivers Alcohol Treatment	$0	$0	$ 2,250,000	N/A	$ 2,250,000	0.00%
7050	762900	International Registration Plan Distribution	$ 15,398,922	$ 18,066,303	$ 20,000,000	10.70%	$ 20,000,000	0.00%
7051	762901	Auto Registration Distribution	$ 326,065,837	$ 317,547,604	$ 345,000,000	8.65%	$ 345,000,000	0.00%
7054	110954	Local Government Property Tax Replacement - Utility	$ 9,578,170	$ 9,552,476	$ 0	-100.00%	$ 0	N/A
7060	110960	Gasoline Excise Tax Fund	$ 372,845,367	$ 378,718,321	$ 395,000,000	4.30%	$ 395,000,000	0.00%
7065	110965	Public Library Fund	$ 340,998,647	$ 360,495,239	$ 389,520,000	8.05%	$ 404,310,000	3.80%
7066	800966	Undivided Liquor Permits	$ 14,080,807	$ 14,374,752	$ 14,100,000	-1.91%	$ 14,100,000	0.00%
7068	110968	State and Local Government Highway Distribution	$ 188,612,824	$ 192,623,455	$ 196,000,000	1.75%	$ 196,000,000	0.00%
7069	110969	Local Government Fund	$ 347,337,595	$ 365,443,496	$ 383,520,000	4.95%	$ 399,310,000	4.12%
7081	110907	Property Tax Replacement Phase Out - Local Government	$0	$0	$ 66,070,450	N/A	$ 40,444,766	-38.79%
7081	110981	Local Government Property Tax Replacement - Business	$ 166,774,048	$ 122,576,325	$ 0	-100.00%	$ 0	N/A
7082	110982	Horse Racing Tax	$ 58,802	$ 61,085	$ 100,000	63.71%	$ 100,000	0.00%
7083	700900	Ohio Fairs Fund	$ 903,669	$ 815,337	$ 1,200,000	47.18%	$ 1,200,000	0.00%
Revenue Distribution Fund Group Total			**$ 2,031,426,968**	**$ 2,023,277,317**	**$ 2,392,433,551**	**18.25%**	**$ 2,270,575,263**	**-5.09%**

FY 2016 - FY 2017 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

			FY 2014	FY 2015	Appropriation FY 2016	FY 2015 to FY 2016 % Change	Appropriation FY 2017	FY 2016 to FY 2017 % Change
RDF	**State Revenue Distributions**							
4P80	001698	Cash Management Improvement Fund	$ 74,998	$ 33,534	$ 3,100,000	9,144.35%	$ 3,100,000	0.00%
6080	001699	Investment Earnings	$ 31,735,265	$ 42,553,363	$ 100,000,000	135.00%	$ 120,000,000	20.00%
7001	110996	Horse-Racing Tax Municipality Fund	$ 122,975	$ 197,333	$ 125,000	-36.66%	$ 125,000	0.00%
7062	110962	Resort Area Excise Tax Distribution	$ 1,172,376	$ 1,278,664	$ 1,200,000	-6.15%	$ 1,200,000	0.00%
7063	110963	Permissive Tax Distribution	$ 2,142,429,548	$ 2,375,851,831	$ 2,356,000,000	-0.84%	$ 2,475,000,000	5.05%
7067	110967	School District Income Tax Distribution	$ 380,854,119	$ 393,032,684	$ 430,000,000	9.41%	$ 453,000,000	5.35%
7085	800985	Volunteer Firemen's Dependents Fund	$ 234,900	$ 221,225	$ 300,000	35.61%	$ 300,000	0.00%
7093	110640	Next Generation 9-1-1	$0	$0	$ 2,600,000	N/A	$ 2,600,000	0.00%
7094	110641	Wireless 9-1-1 Government Assistance	$ 13,485,958	$ 25,689,296	$ 28,200,000	9.77%	$ 28,200,000	0.00%
7099	762902	Permissive Tax Distribution - Auto Registration	$ 151,000,537	$ 170,791,212	$ 184,000,000	7.73%	$ 184,000,000	0.00%
	Fiduciary Fund Group Total		**$ 2,721,110,676**	**$ 3,009,649,142**	**$ 3,105,525,000**	**3.19%**	**$ 3,267,525,000**	**5.22%**
R045	110617	International Fuel Tax Distribution	$ 35,659,614	$ 37,472,065	$ 40,000,000	6.75%	$ 40,000,000	0.00%
	Holding Account Fund Group Total		**$ 35,659,614**	**$ 37,472,065**	**$ 40,000,000**	**6.75%**	**$ 40,000,000**	**0.00%**
State Revenue Distributions Total			**$ 4,800,197,259**	**$ 5,070,398,524**	**$ 7,384,458,551**	**45.64%**	**$ 7,455,200,263**	**0.96%**