



BUILDING FOR OHIO'S NEXT GENERATION

BUDGET OF THE STATE OF OHIO • FISCAL YEARS 2018-2019

SIMPLIFYING LOCAL TAXES FOR JOB CREATORS

New Reforms Lift a Cumbersome Burden from Businesses Seeking to Comply with Ohio's Complicated Filing System for Municipal Tax on Net Profits

More than 600 cities and villages in Ohio levy a tax on net profits, requiring a business to separately file a return and pay taxes to each of those municipalities where the business earned any portion of its profits. Each municipality can have own forms, collection practices and interpretations of law, creating a paperwork nightmare for businesses struggling to comply with these laws. Businesses operating in multiple municipalities (some in hundreds of cities and villages) often pay more to prepare all those returns than the total amount of taxes owed.

THE GOVERNORS REFORMS

In his Executive Budget, Governor John R. Kasich is proposing - and business groups are supporting - a solution that provides one centralized filing system to serve all businesses and municipalities at a lower cost to all involved. These reforms will:

- Expand the existing capability of the Ohio Business Gateway (OBG) to process all municipal net profits tax returns. Currently about 4,000 business tax returns are filed annually via OBG. Once scaled up OBG would be employed to process all returns and payments from the hundreds of thousands of businesses filing this tax.
- Engage the Ohio Department of Taxation to administer the filing process, audit returns when appropriate, and distribute tax receipts to the intended municipality at a lower cost than most municipalities currently pay for these services.

BENEFITS TO BUSINESS

- Uniformity and simplicity: one return, one place to file, one set of rules, one (potential) audit rather than responding to multiple audit requirements from municipalities imposing tax.
- Reduced cost of compliance, bookkeeping, paperwork and red tape,

BENEFITS TO MUNICIPALITIES

- Reduced administrative costs: the Ohio Department of Taxation would retain only one percent of the collections vs. the 2.5-3.0 percent rate now charged to the cities by third party administrators.
- Increased compliance/collections through enhanced screening and cross-checking of returns filed for other Ohio taxes.
- Municipalities would retain control of tax rates and credits.

BOTTOM LINE: For decades, businesses, study commissions and tax analysts have identified Ohio's municipal income tax system as a significant compliance challenge for businesses. The General Assembly made some improvements to the system two years ago, but Ohio's antiquated system remains one of the most complex and administratively burdensome setups in the country. Centralizing the filing of the municipal tax on business profits, as in the same manner used successfully for years in Ohio with the sales tax, school district income tax

and municipal tax paid by public utilities, would greatly simplify the process, ease the burden and cost of compliance borne by businesses, and deliver cost savings and additional revenues to municipalities.