

City of Findlay, Ohio

Income Tax Department

Annual Report

2008

Structure and Composition

The Income Tax Department is comprised of an Administrator, three full-time staff members, and one part-time staff member who are responsible for administering and enforcing the Income Tax Ordinance and the Rules and Regulations. The Department's mission is to respectfully encourage the highest level of voluntary compliance by assisting, educating, and informing customers and stakeholders efficiently, effectively, and accurately.

The Administrator is appointed by and reports to the Mayor, who serves as Chairman of the Income Tax Board. The Administrator reports also to this board, which was designed to depoliticize the Income Tax Department and to protect it from improper influence. The other Board members include the Law Director, Treasurer, Auditor, and Council's Appropriations Committee Chairman, who are responsible for offering oversight and counsel to the Income Tax Department and initiating some legislation during a minimum of four quarterly public meetings each year to ensure the department's funding, accountability, independence, and objectivity. The Tax Administrator is neither a voting nor a non-voting member of the Income Tax Board.

The Mayor, Law Director, and Treasurer each appoint an elector for lifetime service to the Board of Review, whose purpose is to rule on taxpayers' initial formal appeals. The Board of Review members are Mayoral appointment Martin Terry, Law Director appointment Douglas W. Huffman, and Treasurer appointment John W. Pinski, CPA.

2008 **Tax Department Staff**

Andrew Thomas
Angie Stewart
Cindi Kimmet
Julia Nulton
Tonya Stillberger

2008 **Board of Review**

Martin Terry
Douglas W. Huffman
John W. Pinski, Jr. CPA

2008 **Income Tax Board**

Mayor Pete Sehnert
David Hackenberg
Deborah Preston
Robert C. Sprague
Randy Ward

Income Tax Department Activities

I. 2008 and 2009 Operating Budgets

Beginning in mid-August, the Tax Department reduced its budget for seasonal employees by 30 percent for a savings of over \$6,900 from the year before. This was partly due to the anticipated drop in collections and partly due to the success, efficiency, and productivity of the 2008 tax season. The sorely-needed increased work-flow space in room 115 and the Shear Tech check endorsing machine purchased in July 2007 also contributed to the savings.

For additional budget cuts in 2009, City Council repealed the resident individual mandatory filing requirement upon recommendation by the Income Tax Board and the Tax Administrator. There was an immediate savings of approximately \$3,000 in tax forms, \$1,800 in postage costs, and \$1,000 in returned mail fees. The department will also save 1,400 to 1,600 labor hours throughout 2009 that would have been required to sort, open, review, and process the estimated 8,000 income tax returns that would have yielded no additional revenue to the City.

Further, the department is poised to exclude approximately 6,000 additional packages from the 2009 tax return mailing by flagging the accounts that provide their own forms for filing. This will reduce the overall cost of the forms, but the unit cost will rise. This is all in addition to the nearly 40 percent savings the department has experienced since 2005 from eliminating the need for “intelligent inserting” by printing the taxpayers’ names on the original outgoing envelopes only, rather than on each applicable form that is inserted into the envelope. (See “Annual Savings on Income Tax Forms” in previous annual reports). The cost of providing tax forms was as high as \$16,578 in 2003, but will be a projected \$6,000 in 2009. We must still evaluate the risk of positioning ourselves out of printing market viability (i.e., being too small of a project for a firm that can provide these services reliably and being too large of a project for a non-fulfillment print shop).

II. Rent Expense Deductions

Tax Department staff recorded over \$109 million in rent expense deductions from 2006 and 2007 annual income tax returns reported by just over 800 businesses in which the recipients of the income were not easily ascertainable. The department issued letters to the payers requesting they identify the recipients. Federal law may not require that Forms 1099-MISC be issued to corporations, so much of this information is not voluntarily submitted to the Tax Department. However, this does not preclude the City from requesting or obtaining the necessary information. Any entity that owns real estate or tangible personal property within Findlay that is rented to others is subject to the income tax.

III. Taxpayer Data Search Services

Beginning in 2009, the Tax Department will switch to LexisNexis® for taxpayer data search services. The LexisNexis® service appears to be far more comprehensive and 60 percent less expensive than the current service.

IV. Third-party Collection Services

On October 16, 2007 Findlay City Council passed ordinance number 2007-083 to authorize the Department to employ the services of a collection agency to collect post-judgment and pre-judgment past-due taxes. The ordinance also permits the City to hold the delinquent taxpayers responsible for the fees and costs charged by the third party. The Department has employed the services of attorney Roger L. Rader.

V. NWOTCA and OML

The department continues its active participation in the Ohio Municipal League Income Tax Committee and, one of its regional arms, the Northwest Ohio Tax Commissioners Association. Members of the NWOTCA generally meet monthly in the northwest Ohio area to offer training and interdependent assistance and to discuss tax policies and procedures as well as current and emerging legislative issues. The NWOTCA also hosts a biannual municipal income tax seminar for area tax professionals. The 2008 seminar was again held at the historic Maumee Indoor Theater.

The Ohio Municipal League Income Tax Committee is comprised of income tax administrators and commissioners from each of the major cities and from several other communities across the State. The committee functions in a similar fashion as the regional groups, but works directly with the OML. Statewide, many of these same colleagues meet more specifically as part of the Ohio Municipal Tax Task Force to influence legislative issues and to encourage uniform municipal income tax policies, procedures, and practices by Ohio municipalities.

VI. Village of Arlington

The Tax Department has completed its sixth year of administering the income tax on behalf of the Village of Arlington. The process is proceeding smoothly and routinely. The Tax Department administers approximately 125 employer withholding accounts and approximately 740 individual and business accounts, of which nearly one half are returns in which the tax liability equals the Arlington tax withheld or equals the Arlington credit allowed. In the first five years, Arlington has contributed just over \$49,000 toward the Tax Department's operating budget. Arlington incurs their own costs for refunds, tax forms, and court costs.

We continue to find the practice beneficial to both municipalities. As anticipated, we have a greater opportunity to serve a wider range of Findlay taxpayers—non-residents who are employed within our City limits. Notably, Findlay derives 40 to 50 percent of its employer withholding revenue from non-residents. Considering the nation's climate toward state and local taxes, particularly in Ohio over the past several years, it is vital for municipalities statewide to diligently and comprehensively serve the interests of non-residents who pay municipal income taxes to the communities where they work. We welcome the opportunity to extend our services to other communities should favorable and mutually-beneficial circumstances arise.

VII. Credit Card Payments

Beginning in March 2006, the Income Tax Department partnered with Official Payments to allow taxpayers to pay past-due taxes using Visa®, MasterCard®, American Express®, and Discover® credit and debit cards. Taxpayers can visit www.officialpayments.com directly or through a link on the City's Internet site, or they can call 1-800-2PAYTAXSM and use an assigned jurisdiction code (4553). The Tax Department positions its use toward collecting past-due taxes. Official Payments charges the users a convenience fee for its electronic transaction services, so there is no expense to the City.

Official Payments, of Tier Technologies Inc., accepts payments on behalf of the Internal Revenue Service, the State of Ohio, 24 other states, and more than 2,500 local governments including several northwest Ohio communities.

VIII. Equipment Purchases

Perry Corporation stopped supplying the ink cartridge used in the Canon fax machine that was purchased ten years ago. In a combined attempt to replace an aging printer (also ten years old), the department purchased a Hewlett Packard multi-function printer, scanner, copier, and fax. The unit will serve primarily as a printer, then as a fax machine.

IX. Ohio Business Gateway

The Income Tax Department received a growing number of extension requests, estimate payments, income tax return filings, and employer withholding remittances through the Ohio Business Gateway. The employer withholding remittances began for all Ohio municipal income tax departments in 2007. The Ohio Business Gateway is administered, primarily, by an arm of the Ohio Department of Taxation in conjunction with several other participating State agencies.

X. 2007 EZ Tax Returns Filed On-line

With the implementation of the software package the Tax Department has been using since October 2003, the department implemented "EZ" income tax return filings on-line beginning in 2006 (tax year 2005 income tax returns). This paperless process was available to resident individual taxpayers who had all their Findlay taxes properly withheld by their employers, had no other taxable income, and filed by the traditional April 15 deadline. Over 220 individuals used this medium to file their 2007 EZ income tax returns. Because mandatory filing for resident individuals has been repealed, this method of filing will not be necessary or available in 2009.

Ballot Issues, Ordinances, and Federal & State Legislation

I. City of Findlay

In response to the falling revenues, the Income Tax Board recommended that City Council repeal the remaining one-half percent credit allowed to resident individuals who work and pay municipal income tax in other communities. Council concurred by passing Ordinance #2008-086 and Resolution #50-2008 effective January 2009.

During 2008, the Tax Department had granted just over \$400,000 in credits for tax year 2007. Employers in Kenton, North Baltimore, and Fostoria have already announced layoffs or closings that may decrease the projected \$400,000 annual increase in revenue this measure is expected to raise. Further, some residents may not pay the additional tax due until April 2010, when their 2009 tax returns are due. For mutual interests however, the Tax Department will use targeted mailings and news releases to diligently encourage these individuals to double their 2009 estimate payments accordingly.

In 2001, when the imposition of tax on lottery winnings was implemented, winners did not have to report proceeds that were less than the IRS W-2G reporting threshold of \$600. Similarly, players were able to deduct the cost of lottery tickets, intended to mimic Federal treatment of gambling winnings. We informed the Income Tax Board and Council that the hindrances these two provisions have placed on the Tax Department's compliance efforts outweigh the conveniences, if any, they offer to the taxpayers or to the practitioners. They responded by passing Ordinance 2008-093 and Resolution 46-2008 to repeal both provisions effective January 2009.

II. State of Ohio

Prior to mid-2007, a few Ohio municipalities had been holding insurance companies responsible for tax on third-party sick-pay benefits. In response, the insurance companies successfully lobbied the Ohio Legislature to have an exemption included in Amended Substitute House Bill 119 of the 127th General Assembly. The intent was to maintain the taxable status of third-party sick pay, but eliminate the insurance companies' withholding liabilities and responsibilities. Sadly, it appears the text was written in such a way as to exempt third-party sick pay altogether effective July 1, 2007. The Tax Department continued the exemption through 2008 and will through 2009.

III. United States Congress

In August 2007, U. S. Representative Henry C. Johnson of Georgia introduced House Resolution 3359 "to limit the authority of States and localities to tax certain income of employees for employment duties performed in other States and localities." Officially dubbed the "Mobile Workforce State Income Tax Fairness and Simplification Act of 2007," the measure would limit

localities to imposing income tax on wages of 1) residents, and 2) non-resident employees who work in the taxing jurisdiction for more than 60 days of a calendar year. The bill has 16 additional cosponsors, of which two are from Ohio including Representative Jim Jordan from Ohio's fourth Congressional District. Through the House Committee on the Judiciary, the bill was ultimately referred to the Subcommittee on Commercial and Administrative Law in November 2007 for hearings. A delegation led by Columbus Tax Administrator Mindy Frank was informally successful, for now, in having the language that referenced localities stripped from the measure.

Present and historic legislative acts contribute to a growing list of lost revenue sources including Internal Revenue Code Section 125 "cafeteria plan" contributions, long-term third-party sick pay, 12-day incomes of non-resident itinerant employees, and non-Ohio S corporation distributions to resident individuals.

Income Tax Board Activities

James P. Thomas, CPA, who was appointed by then Treasurer J. Steve Welton, resigned from the Income Tax Board of Review after more than 20 years of voluntary service to the City. Mr. Thomas moved out of the City limits and was thus no longer eligible to serve. As Treasurer, Deborah L. Preston appointed John W. Pinski, CPA of Coward, Pinski, & Associates to fill the vacancy. This follows David A. Hackenberg's 2006 appointment of Douglas W. Huffman, of Firmin, Sprague, and Huffman Co. LPA, who replaced DuWayne Chambers. Mr. Chambers had to end his many valued years of voluntary service when he also moved out of the corporation limits. Mayoral appointed Marty Terry is the third member of the Board of Review.

2008 Collections

After several years of favorable and near-record increases, Findlay income tax collections experienced a record decrease in 2008. Driven heavily by the enormous volatility in business collections that were just \$28 shy of 1997's business collections, total collections dropped nearly 26 percent from 2007. The average annual increase in total collections since 1983 dropped from 6.64 percent through 2007 to approximately 5.1 percent through 2008. Except for 1995 (the year following the heightened frequency in employer withholding remittances from quarterly to monthly) and for 2003 (the year Intersil ultimately closed), withholding collections have never failed to increase by at least two percent—until this year. The typically-reliable employer withholding category stabilized by growing a meager .5 percent, with no significant single factor to blame. Despite this year's lackluster finish, the annual change in employer withholding collections, historically, has been the best source for measuring trends and for estimating future collections.

Year	Withholding	Individuals	Business	Penalty	Interest	Court Costs	Annual Total	Percent Change
1983	3,759,023.38	256,561.98	492,979.21	10,343.79	7,712.11		4,526,620.47	
1984	4,099,910.71	261,778.12	500,817.35	18,472.18	8,775.69		4,889,754.05	8.022%
1985	4,319,335.66	266,777.96	597,036.91	19,363.93	9,217.38		5,211,731.84	6.585%
1986	4,535,912.71	280,826.24	735,800.80	23,635.45	10,229.30		5,586,404.50	7.189%
1987	4,742,921.72	277,580.70	669,662.73	22,763.67	8,740.45		5,721,669.27	2.421%
1988	5,163,757.03	226,986.09	848,066.77	25,897.25	9,846.35		6,274,553.49	9.663%
1989	5,476,502.70	170,799.84	979,710.34	26,058.96	10,949.12		6,664,020.96	6.207%
1990	5,675,101.72	188,207.58	1,025,850.19	24,888.77	9,346.84		6,923,395.10	3.892%
1991	5,931,941.86	166,208.66	1,010,756.14	27,302.08	10,643.97		7,146,852.71	3.228%
1992	6,289,451.95	186,443.83	988,063.95	33,152.40	9,890.77		7,507,002.90	5.039%
1993	6,684,164.38	205,929.18	1,155,081.49	9,493.19	6,478.25		8,061,146.49	7.382%
1994	7,758,133.70	799,090.40	795,075.82	5,872.52	9,425.80		9,367,598.24	16.207%
1995	7,575,764.07	840,226.83	1,009,398.45	8,527.82	12,019.63	2,007.15	9,447,943.95	0.858%
1996	7,980,004.16	953,301.40	998,036.93	8,179.61	16,439.74	2,192.61	9,958,154.45	5.400%
1997	8,428,257.21	940,620.66	1,114,185.32	28,090.57	17,095.17	2,443.46	10,530,692.39	5.749%
1998	9,072,423.87	1,052,110.75	1,570,677.71	9,235.34	13,624.36	2,288.12	11,720,360.15	11.297%
1999	9,898,733.34	1,200,636.61	1,984,944.09	13,131.96	22,186.85	3,293.53	13,122,926.38	11.967%
2000	10,349,064.23	1,124,236.26	1,579,555.77	15,574.38	24,984.17	3,861.17	13,097,275.98	-0.195%
2001	10,824,788.06	1,083,722.97	2,409,620.03	15,791.53	22,365.10	4,404.67	14,360,692.36	9.646%
2002	11,081,952.87	1,158,561.01	2,640,371.74	16,413.76	25,945.33	7,461.63	14,930,706.34	3.969%
2003	11,168,674.96	1,265,421.63	1,844,708.55				14,278,805.14	-4.366%
2004	11,487,765.80	1,353,537.81	2,424,514.11				15,265,817.72	6.912%
2005	12,000,950.29	1,461,004.10	3,869,817.42				17,331,771.81	13.533%
2006	12,266,197.92	1,561,949.10	4,714,847.44				18,542,994.46	6.988%
2007	12,926,239.03	1,511,186.46	6,748,538.47				21,185,963.96	14.253%
2008	12,988,959.04	1,582,588.29	1,114,157.16				15,685,704.49	-25.962%

Annual Collections

