# City of Findlay, Ohio

# Income Tax Department

## Annual Report

## 2009

### 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 most 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. Pinksi, CPA.

| 2009<br>Tax Department Staff | 2009<br>Board of Review | 2009<br>Income Tax Board |
|---|---|---|
| Andrew Thomas | Martin Terry | Mayor Pete Sehnert |
| Angie Stewart | Douglas W. Huffman | David Hackenberg |
| Cindi Kimmet | John W. Pinski, Jr. CPA | Jim Staschiak II |
| Julia Nulton | | Robert C. Sprague |
| Tonya Stillberger | | Randy Ward |

# Income Tax Department Activities

## I. 2009 and 2010 Operating Budgets

As early as mid-August 2008, the Tax Department began reducing its expenses for seasonal employees. For additional budget cuts in 2009, City Council repealed the resident individual mandatory filing requirement upon recommendation by the Income Tax Board and the Tax Administrator.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 also saved labor hours throughout 2009 that would have been required to sort, open, review, and process 5,000 income tax returns that would have yielded no additional revenue to the City. Three thousand taxpayers submitted even returns who were not required to file.

Further, the department excluded over 5,300 additional packages from the 2009 tax return mailing by flagging the accounts that provide their own tax forms through software programs used by professional preparers. Although the unit cost increased, the overall cost decreased. The department has not been invoiced for this project to report the actual cost. The fees to mail the tax year 2009 returns fell by over $1,100 (33.3 percent) despite a 4.7 percent increase in postal rates from the previous year.

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). We'll continue to 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. Taxpayer Data Search Services

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

## III. Village of Arlington

The Tax Department has completed its seventh year of administering the income tax on behalf of the Village of Arlington. The process continues to proceed 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 six years, Arlington has contributed over $60,000 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, we estimate that 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.

The Village of Arlington adopted the relevant and compatible portions of Findlay's Income Tax Ordinance and the Rules and Regulations to be in effect January 1, 2010. The issues in which the Village may experience changes include:

1. Imposition of tax on lottery winnings.
2. Rates and application of penalties and interest.
3. The minimum gross monthly rental charge threshold before a rental is recognized as a business will go from $100 to $300.
4. Refund-tax due threshold will increase from $2 to $5.
5. An Arlington Income Tax Board was established, but with a different composition than the City of Findlay's.

Arlington is prohibited from imposing tax on resident shareholders' distributive shares from S corporations. Bills originating in both the Ohio House and the Senate established voting requirements available only to communities that were imposing tax on this income by ordinance, rule, or regulation as of December 2002, which the Village was not. Senate Bill 180 of the 124th Ohio General Assembly established a November 2003 voting requirement for distributions from *interstate* S corporations, followed by House Bill 127 of the 125th Ohio General Assembly that established a November 2004 voting requirement for distributions from *intrastate* S corporations. As a result, Arlington is eligible to impose tax on S corporations only at the entity level.

## IV. 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 next seminar is slated for 2010.

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 have met 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.

## V. Credit Card Payments

Beginning in March 2006, the Income Tax Department partnered with Official Payments to allow taxpayers to pay 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 1-800-2PAYTAX℠ and use an assigned jurisdiction code (4553). Official Payments charges the users a convenience fee for its electronic transaction services, so there is no expense to the City.

## VI. Equipment Purchases

There were no major equipment or computer equipment purchases in 2009.

## VII. Ohio Business Gateway

The Income Tax Department continued to receive 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.

# Ballot Issues, Ordinances, and Federal & State Legislation

## I. City of Findlay

Findlay City Council passed Resolution #46-2009, as amended to place Ordinance #2009-082 on the November 3 ballot for a three-year one-quarter percent increase in the City's tax rate. Over fifty-four percent of the voters responded in favor of the increase.

The Income Tax Board and Council followed by passing Resolution #70-2009 to approve changes to Articles III, IV, V, and VI of the Rules and Regulations related to the new rate and to wages being taxable whether earned or received. Council also passed Ordinance #2009-109 to amend Section 6 of the income tax ordinance to require employers that conduct business in Findlay to withhold the tax from their resident employees—even if they do not work in Findlay. A similar provision has existed in Article VI of the Rules & Regulations since the tax was enacted.

In late 2008, in response to that year's 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 agreed and passed Ordinance #2008-086 and Resolution #50-2008 effective January 2009.

To date, the Tax Department has granted credits of $428,000 for 2007 and $423,000 for 2008. This is the basis for the projected $400,000 annual increase in revenue this measure is likely to raise. The initial impact in revenue was expected to be felt in 2009 by an increase in the affected residents' estimate payments, followed by settlement payments in 2010 when their 2009 returns are filed.

The 2007 and 2008 amounts mentioned previously were pulled directly from the 'credit' field of residents' 2007 and 2008 records to which we have posted tax return data. For tax years 2009 and thereafter, we will post no data to this 'credit' field and residents who work in other communities will no longer be required to submit W-2 tax information to account for tax they have paid in other communities. As a result, there will be no new available information upon which to report exactly how much revenue this measure will have generated.

When the imposition of tax on lottery winnings was implemented (2001), winners did not have to report proceeds that were less than the IRS W-2G reporting threshold of $600. Further, players were able to deduct the cost of lottery tickets, which was intended to mimic Federal treatment of gambling winnings. In 2008, we informed the Income Tax Board and Council that the hindrances these two provisions had placed on the Tax Department's compliance efforts outweighed the conveniences, if any, they offered to the taxpayers or to the practitioners. Council responded by passing Ordinance 2008-093 and Resolution 46-2008 to repeal both provisions. As a result, the City imposes tax on the gross lottery winnings effective January 1, 2009.

**II. State of Ohio**

On November 19, Representative Tyrone Yates (D-33rd District) introduced Ohio HB 378 "to eliminate the authority of municipal corporations to exempt stock options and nonqualified deferred compensation from municipal income taxation." The bill was assigned to the House Ways and Means Committee, of which Mr. Yates is a member. (Note: On January 21, 2010, Governor Ted Strickland appointed Mr. Yates to the bench of Hamilton County Municipal Court effective January 29.)

**III. United States Congress**

In April 2009, U. S. Representative Henry C. Johnson of Georgia introduced House Resolution 2110 in the 111th Congress "to limit the authority of States to tax certain income of employees for employment duties performed in other States." Officially dubbed the "Mobile Workforce State Income Tax Fairness and Simplification Act," the measure would limit states' "taxation of the wages or other remuneration of any employee who performs duties in more than one state to: (1) the state of the employee's residence; and (2) the state in which the employee is present and performing employment duties for more than 30 days," unless the 'employee' is a professional athlete, entertainer, or public figure. The bill was referred to the Subcommittee on Commercial and Administrative Law, where it resides. Representative Jim Jordan, from Ohio's fourth Congressional District, is one of the 15 cosponsors. This essentially replaces House Resolution 3359 introduced by Representative Johnson in the 110th Congress.

Present and historic legislative acts contribute to a 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.

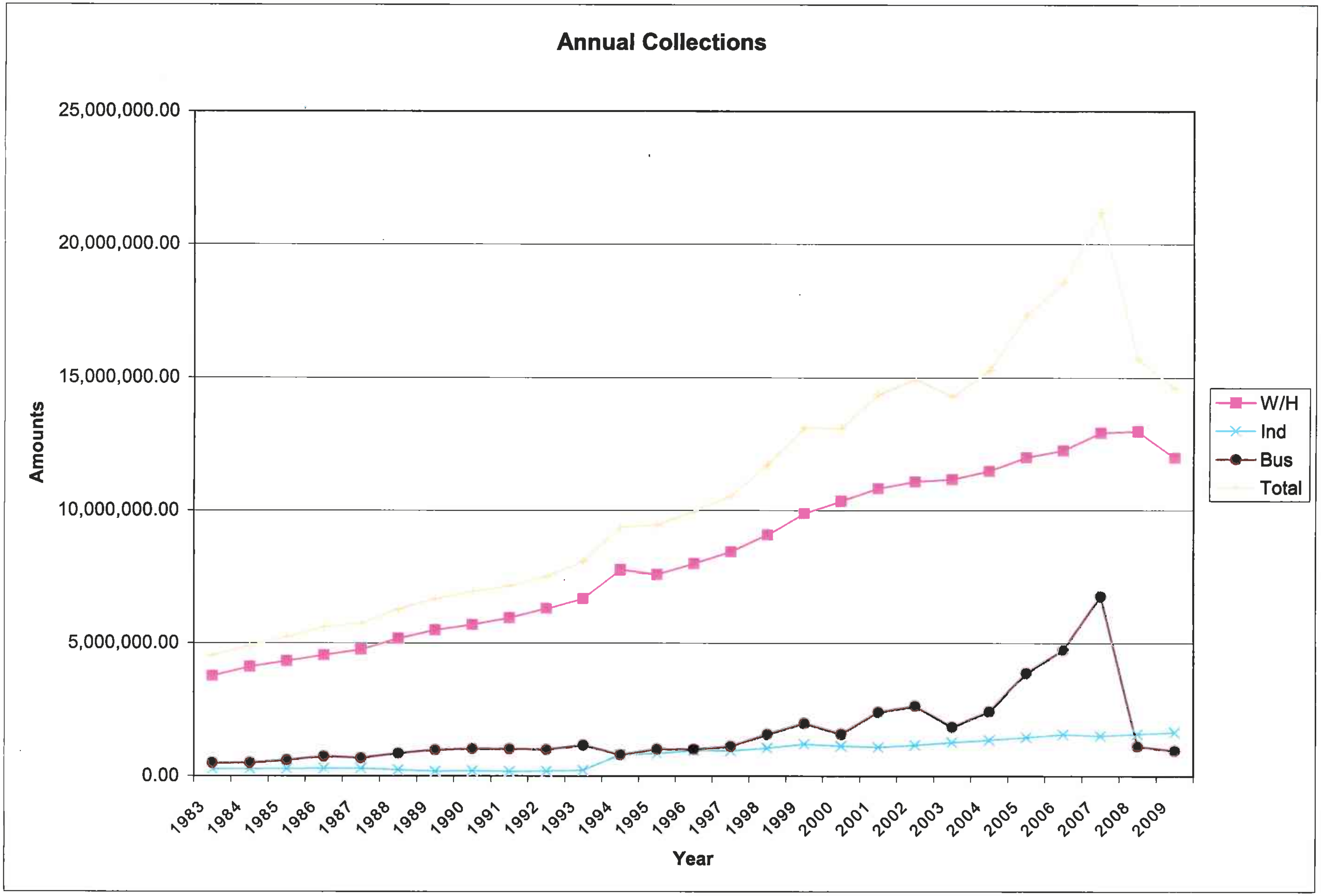
## Income Tax Board Activities

The Income Tax Board's activities relate to legislative issues that are discussed in part I of the section above entitled *Ballot Issues, Ordinances, and Federal & State Legislation.*

## 2009 Collections

Following the record decrease in overall collections in 2008, Findlay experienced a record decrease in employer withholding collections. 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 2008 when it grew by a meager .485 percent. Unfortunately, the typically-reliable employer withholding category fell further in 2009 by decreasing 7.687 percent. Business collections, from tax on businesses' net profits, continued to decline by 14.742 percent and represented a record low of only 6.515 percent of total collections—down from a record high of 31.854 percent of total collections in 2007. The average annual increase in total collections since 1983 dropped from 5.1 percent through 2008 to approximately 4.6 percent through 2009.

| 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% |
| 2009 | 11,990,526.45 | 1,640,212.82 | 949,911.69 | | | | 14,580,650.96 | -7.045% |



Annual Collections
25,000,000.00
20,000,000.00
15,000,000.00
10,000,000.00
5,000,000.00
0.00
Amounts
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Year
W/H
Ind
Bus
Total