

City of Findlay, Ohio

Income Tax Department

Annual Report

2017

Structure and Composition

The Income Tax Department is comprised of an Administrator, three full-time City employees, and two to five full-time and part-time staff members employed through employment agencies who are responsible for administering and enforcing the Income Tax Ordinance and the applicable 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 Tax Administrator is appointed by and reports to the Mayor, who serves as Chairman of the Income Tax Board. The Tax 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 recommending 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 not a member of the Income Tax Board.

Pursuant to Section 718.11 of the Ohio Revised Code (Substitute House Bill 5 of the 130th Ohio General Assembly), the Mayor and Council appoint a total of three members to the newly-named Local Board of Tax Review, whose purpose is to rule on taxpayers' initial formal appeals. During the February 2, 2016 Council meeting, Mayor Mihalik appointed John W. Pinski Jr., CPA and City Council appointed attorneys Douglas W. Huffman and Roger L. Miller. All three members are eligible for unlimited renewable terms. By the new State law, Council must renew each of its two appointees every two years.

2017 **Tax Department Staff**

Andrew Thomas
Tonya Stillberger
Melanie Donaldson
Mary Snodgrass
Julia Rodgers
Joe Hoover

2017 **Local Board of Tax Review**

John W. Pinski, Jr. CPA
Douglas W. Huffman
Roger L. Miller

2017 **Income Tax Board**

Mayor Lydia Mihalik
Don Rasmussen
Susan Hite
Jim Staschiak II
R. Ronald Monday

Income Tax Department Activities

1. Villages of Arlington, Mount Cory, and Vanlue

The Tax Department has completed its fifteenth 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 100 employer withholding accounts and approximately 700 individual and business accounts for the Village.

The Tax Department began administering the taxes on behalf of the Villages of Mount Cory and Vanlue in 2016 when these villages initiated their municipal income tax ordinances. All three villages incur their own costs for refunds, tax forms, and court fees.

We continue to find the practice beneficial to all four municipalities. As anticipated, we have a greater opportunity to serve a wider range of Findlay taxpayers—non-resident individuals who are employed within our City limits. Notably, we estimate that Findlay derives 40 to 50 percent of its employer withholding revenue from non-resident individuals. 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.

All three villages are prohibited from imposing tax on resident shareholders' distributive shares from S corporations. Bills originating in both the Ohio House and the Ohio 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 villages were 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 of these two bills, the villages are limited to imposing tax on S corporations only at the entity level.

The Ohio Auditor of State audited the villages of Arlington and Mount Cory in 2017.

2. Software

We have been using our existing proprietary database software package developed, supported, and maintained specifically for Findlay since October 2003. We moved the database, reports, and presentation to a virtual server in late 2016.

The server migration eliminates the need for upgrading hardware when implementing software advancements. If more resources are needed, such as RAM processors and storage, they will be allocated to the new virtual machine. The uptime and availability of a virtual server is also greatly increased, because the virtual server can immediately “fail-over” to any one of many different physical hosts. The security is also substantially heightened, because the database is no longer stored in a shared environment with other programs or vendors. The database is segregated in its own space which limits access only to users who need it. (B. Schroeder)

The software engineer's completed activities for 2017 include:

- Added the ability to search for specific types of batches aside from the number and date
- Added a compliance-watch function to taxpayers' accounts accompanied by a report
- Added navigation to the data-entry screens to facilitate data entry
- Added a net-profit-watch function to taxpayers' accounts accompanied by a report
- Added major functionality to expedite the "assessment" requirements of House Bill 5
- Added direct links from taxpayers' records to the Hancock County Auditor's Office property search page for eMIT mailing addresses and physical addresses
- Added improvements to facilitate Ohio Business Gateway imports
- Added joint-filer connections to the account creation screen
- Added a W-2/W-3 compliance request letter with automatic note population
- Integrated multiple-agency account creation
- Integrated multiple-agency account maintenance
- Added a "suspend court" feature to prevent premature and erroneous court cases
- Added date of estate field to the account page to exhaustively record deceased individuals
- Added csv files for water-sewer imports and state data imports so taxpayers' names and addresses can be included on the introductory letters (i.e., eliminates mailing labels)
- Added a multiple sort feature to the notes query page

3. Tax Forms Mailing

This marked the seventh year that the Tax Department mailed postcard filing notices to individual and business taxpayers in lieu of tax forms packages for an approximate annual savings of at least \$10,000. To facilitate this change, we maintain the "findlaytaxforms.com" domain for customers to recall and access the Tax Department's website more easily.

4. 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 bimonthly 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 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. The focus of this year's meetings was the municipal income tax reform bill, Substitute House Bill 5 of the 130th Ohio General Assembly, and Amended Substitute House Bill 49 of the 132nd Ohio General Assembly.

5. Ohio Business Gateway

The Ohio Business Gateway is administered primarily by an arm of the Ohio Department of Administrative Services in conjunction with at least eight other State agencies. The Income Tax Department continues to receive a growing number of extension requests, estimate payments, income tax return filings, and employer withholding remittances through the Gateway.

6. Equipment Purchases

We purchased a Samsung 50 inch LED television to aid a staff member's performance and for staff member training.

Income Tax Board Activities

The Income Tax Board's activities relate to legislative issues that will be discussed in part 1 of the section below entitled *Ballot Issues, Ordinances, and Federal & State Legislation*.

Ballot Issues, Ordinances, and Federal & State Legislation

1. State of Ohio

After over three years of discussion and debate, the 130th Ohio General Assembly passed Substitute House Bill 5, which was signed by the Governor on December 19, 2014. Unless specifically stated, most of the provisions of the bill became effective January 1, 2016. Interpretations, summaries, and impacts of the bill are beyond the scope of this report. The bill can be viewed at: http://archives.legislature.state.oh.us/bills.cfm?ID=130_HB_5.

In Senate Bill 172, the 131st Ohio Legislature amended an extraneous House Bill 5 provision by returning the due date for quarterly withholding remittances to the last day of the month following the end of each calendar quarter.

Another Senate Bill 172 provision established the timeliness of monthly employer withholding remittances by the postmark date rather than by the received date [718.03(B)(1)(a)].

2. City of Findlay

In 2015, Findlay City Council passed Ordinance Number 2015-101 in response to the Ohio House Bill 5 municipal income tax uniformity requirements. The ordinance was effective January 1, 2016.

2017 Collections

1. Past-due Collections

Past-due collections in 2017 amounted to at least \$594,767.48. This was an increase of at least \$66,936.79 over 2016.

2. Collections

Total collections for 2017 were \$23,316,214.67. Compared to 2016, this was a 7.02 percent decrease in the amount of \$1,761,530.55. We anticipated and budgeted for the major decrease in Business collections that fueled the reduction.

Effective January 1, 2016, Substitute Ohio House Bill 5 of the 130th Ohio General Assembly established employer withholding remittance frequency thresholds for tax years after 2015. Section 718.03(B)(1)(a) of the Ohio Revised Code now reads, in part, that “taxes required to be deducted and withheld shall be remitted monthly to the Tax Administrator if the total taxes deducted and withheld or required to be deducted and withheld by the employer, agent, or other payer on behalf of the municipal corporation in the preceding calendar year exceeded two thousand three hundred ninety-nine dollars, or if the total amount of taxes deducted and withheld or required to be deducted and withheld on behalf of the municipal corporation in any month of the preceding calendar quarter exceeded two hundred dollars.”

Approximately 210 Findlay employers were officially affected by the change, but an additional 340 began remitting monthly on a voluntary basis despite remaining within the quarterly threshold. The impact on November and December 2016 collections was not immediately noticeable because November 2016 Employer Withholding collections decreased \$462,789 (28.94 percent) from 2015 and December 2016 Employer Withholding collections increased only \$119,198 (11.52 percent), ending a modest 2016 year-end increase of 2.92 percent. However, we collected \$200,000 of Employer Withholding remittances in November and December 2016 that we budgeted to receive in 2017.

A. Employer Withholding

Collections in this category are comprised of withholding remittances from Findlay employers that withhold the tax from their employees who work in the City and from non-Findlay employers that voluntarily withhold the tax from their employees who live in the City.

B. Individual

Collections in this category are from resident individuals who earn wages from employers that do not withhold the tax, from resident individuals who earn profits from rental properties or business operations located anywhere, and from non-resident individuals who earn profits from rental properties or businesses located in Findlay.

C. Business

Collections in this category are from tax on net profits apportioned to Findlay from C corporations, S corporations, partnerships, limited liability companies, and trusts that own rental properties, conduct business, perform services, solicit sales, operate, or maintain offices in Findlay.

Actual Collections	Withholding	Individual	Business	Total
Actual Collection Amount	\$17,787,528.79	\$2,430,940.97	\$3,097,744.91	\$23,316,214.67
Increase or Decrease from Previous Year	\$466,262.35	\$31,325.85	-\$2,259,118.75	-\$1,761,530.55
Percent Increase or Decrease	2.692%	1.305%	-42.172%	-7.024%
Percent of Total Collections	76.288%	10.426%	13.286%	100.0%

One Percent Collections	Withholding	Individual	Business	Total
One Percent Collection Amount	\$17,787,767.88	\$2,402,018.49	\$3,096,726.61	\$23,286,512.98
Increase or Decrease from Previous Year	\$469,630.86	\$30,869.90	-\$2,259,121.97	-\$1,758,621.21
Percent Increase or Decrease	2.712%	1.302%	-42.180%	-7.022%
Percent of Total Collections	76.387%	10.315%	13.298%	100.0%
Compound Annual Growth Rate Since 1983	4.68%	6.80%	5.55%	4.94%
Compound Annual Growth Rate Since 1998	3.61%	4.44%	3.64%	3.68%
Compound Annual Growth Rate Since 2004	3.42%	4.51%	1.90%	3.30%

3. Ohio House Bill 49

The impact House Bill 49 of the 132nd Ohio General Assembly could have had on 2018 collections is unknown.

4. Estimate Payments

In response to massive decreases in collections of 25.96 percent in 2008 and 7.05 percent in 2009, primarily in the Business category, the Tax Department administers a provision in the estimate payment requirements that enables any taxpayer to request permission to pay the entire amount of tax due when the annual income tax return is filed by the original or the extended due date.

Section 7(F)(1) of Chapter 194 reads, “In the event the requirements prescribed herein may cause hardship to the taxpayer or to the City, and subject to prior written approval by the Tax Administrator, the taxpayer may disregard the estimate payment requirements and pay the entire amount of tax due for the year when the return is filed, provided the payment is made and the return is filed on or by the original or extended due date as prescribed in Section 194.09 of this Chapter.”

Business collections, which are taxes imposed on businesses’ net profits apportioned to Findlay, are historically volatile. Estimate payment requirements often make collections in this category even more volatile because the latter three of the four payments are due two weeks before the

fiscal quarters end and six weeks before the quarterly results are announced. Thus, seven estimate payments will have been made before the first of those seven payments can be evaluated against the annual income tax return for its accuracy. As a result, estimate payments are too often based on the previous-year estimates rather than the current-year financial results.

The goals of the policy are to ease the taxpayers' compliance burden, to stabilize the business tax collections at least to the stability of the apportioned net profits themselves, to maintain a reliable annual revenue stream for the City, to reduce substantial overpayments, and to minimize unnecessary refunds which are an expense item in the Tax Department's operations budget and tend to siphon valuable funds from other departments' financial needs.

By monitoring and evaluating the legitimacy of estimate payments, rejecting those that seem unnecessary, and granting permission for some taxpayers to pay the tax when the returns are filed and the tax certified as due by the taxpayers, the Tax Department has reduced *refunds* to businesses from highs of \$189,000 in 2007 and \$215,500 in 2009, to lows of \$63,549 in 2012 and \$64,036 in 2014. This has reduced the Tax Department's budget for refund expenses by approximately \$125,500 to \$151,500. Further, excluding extraordinary transfers of overpayments that occurred in 2008 and thereafter, the Tax Department has reduced *transfers* of overpayments from a high of \$1,266,000 in 2007 to a low of \$310,000 in 2013. This is a difference of nearly one million dollars.

As recently as this year (2017), the Tax Administrator has been privy to timely, yet unsolicited conversations among his colleagues who have specifically mentioned the burdens and pitfalls caused by taxpayers' excessive, unsubstantiated, and unwarranted estimate payments that ultimately are not due. Fortunately, the consequences for these communities have been far less damaging than those experienced by Findlay in 2008 and 2009. The City of Findlay has methodically and formally addressed this capricious compliance burden through legitimately-passed, adequately-vetted, and fairly-administered legislation. In doing so, the Tax Administrator was able to quantify for Mayor Mihalik's administration by the end of September 2016 that forthcoming calendar-year 2017 income tax collections would not be what the City has experienced in very recent years. This gave the Mihalik administration ample forewarning in preparations for the 2017 operations budget season. The alternative would have been for the Tax Administrator to have to inform the Mayor well into 2016, that 2016 collections would fall well short of the estimated collections upon which the 2016 operations budget had already been based.

On or about November 4, 2016, as part of the 2017 budget preparations, the Tax Administrator informed Mayor Mihalik's administration that he estimated 2017 Business tax collections at \$2,780,000. Actual 2017 Business collections of \$3,097,745 exceeded his estimate by 11.43 percent or \$317,745.

Under the traditional and conventional method of accepting estimate payments and basing Business collections on historical data, Mr. Thomas' estimate for 2016 Business tax collections that would have been prepared in November 2015 would have been overstated by \$2.1 to \$2.7 million with unknown budget consequences to the City during the 2016 year. As such, Mayor Mihalik's administration was able to prepare months in advance for the anticipated drop in 2017 Business collections.

Despite watching businesses' estimate payments closely, the Tax Department issued \$39,385 in refunds to businesses during 2017 and transferred \$558,462 in overpayments. These two amounts are 19 percent of the total 2017 Businesses 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%
2009	11,990,526.45	1,640,212.82	949,911.69				14,580,650.96	-7.045%
2010	15,385,538.83	1,973,146.33	1,218,868.23				18,577,553.39	27.412%
2011	17,136,493.06	2,465,978.05	1,429,072.43				21,031,543.54	13.209%
2012	17,850,224.19	2,505,396.68	1,688,434.43				22,044,055.30	4.814%
2013	15,811,122.25	2,486,360.48	6,684,682.49				24,982,165.22	13.328%
2014	15,711,917.16	2,067,176.01	3,679,406.21				21,458,499.38	-14.105%
2015	16,830,156.15	2,098,015.79	4,341,478.57				23,269,650.51	8.440%
2016	17,321,266.44	2,399,615.12	5,356,863.66				25,077,745.22	7.770%
2017	17,787,528.79	2,430,940.97	3,097,744.91				23,316,214.67	-7.02%

Annual Collections

