Ohio's Bicentennial Year

Ohio Department of TAXATION

2003 Annual Report

Bob Taft
Governor

Ohio Bicentennial 1803 2003

Thomas M. Zaino
Tax Commissioner

Our Mission:

To provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Our Goals:

1. Enhance taxpayer services and taxpayer compliance with the law
2. Modernize the tax law and the Department's operations
3. Address employee development issues
4. Provide quality in all we do by exceeding expectations

Our Motto:

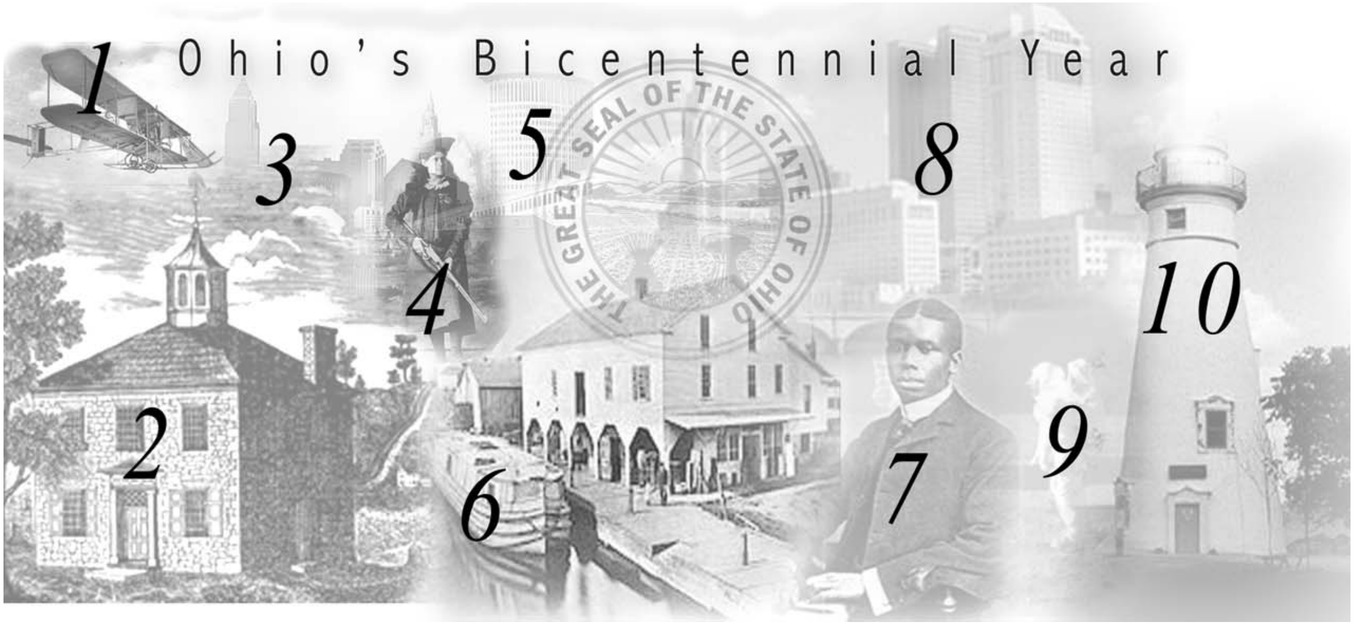
We **CARE** about the quality of our service:

Courteous

Accurate

Responsive

Equitable



Key to Images on Cover

1. The Wright brothers' plane – Constructed by Dayton bicycle shop owners Wilbur and Orville Wright, this craft was the first ever to fly, at Kitty Hawk, North Carolina, in December 1903.

2. Chillicothe – The first statehouse (later the first Ross County court house) was located in this city. Chillicothe was the seat of Ohio's government from statehood in 1803 until 1810. The capital was moved first to Zanesville in 1810 and then to Columbus in 1816.

3. Skyline of Cincinnati.

4. Annie Oakley (1860-1926) – A noted sharpshooter in Buffalo Bill Cody's Wild West Show and later the subject of a Broadway musical, she was born Phoebe Moses in Darke County.

5. Skyline of Cleveland.

6. Ohio Canal – One of many built in the state, it ran from Cleveland to the Dover/New Philadelphia area in the 1830's, expanding trade and stimulating economic growth and prosperity along its route.

7. Paul Lawrence Dunbar (1872-1906) – Born in Dayton, he was the first African-American to gain notoriety as a poet. Dunbar worked as an elevator operator to pay the publisher of his first book of poems.

8. Skyline of Columbus.

9. Neil Armstrong (1930-) – Born in Wapakoneta, he was the first man to walk on the moon. Armstrong was a test pilot before becoming an astronaut and later taught at the University of Cincinnati.

10. Marblehead Lighthouse – In continuous operation since 1822, this structure at the tip of the Marblehead Peninsula on Lake Erie is the oldest lighthouse on the Great Lakes.

Ohio Department of
TAXATION

October 31, 2003

The Honorable Bob Taft
Governor of Ohio
Members of the
Ohio General Assembly

Dear Governor, Senators and Representatives,

It is my responsibility under Ohio Revised Code 5703.42 as well as my privilege to provide you with the **2003 Annual Report of the Ohio Department of Taxation (ODT).**

The report details ODT activities in Fiscal Year 2003 (July 1, 2002 through June 30, 2003). In it you will find a description of and statistical data pertaining to each of the 21 taxes and three local government funds administered by the department. This report also includes a tax-specific update from House Bill 95 of the 125th General Assembly, detailing the most significant changes to Ohio's tax system in 22 years. The annual report highlights several major accomplishments during the year that improved service to taxpayers. It also contains an extensive overview of ODT's divisions and how their functions support the overall mission of the department.

I invite you to read through the annual report and gain a greater understanding of the tax system in Ohio and how it meets the needs of both state residents and government. I believe that you will find the report to be both an interesting and enlightening publication.

Above all, I hope that this report will serve your needs. My promise is that this department will, in all ways, continue to work to that end.

Respectfully submitted,

Thomas M. Zaino

Thomas M. Zaino
Tax Commissioner

Table of Contents

Tax Commissioners & Governors Served, 1939 — Present

Tax Commissioner	Term of Office	Governor Served	Term of Office
William S. Evatt	6/03/39 — 12/31/44	John W. Bricker	1/09/39 — 1/08/45
C. Emory Glander	1/01/45 — 1/31/51	Frank J. Lausche	1/08/45 — 1/13/47
C. Emory Glander	1/01/45 — 1/31/51	Thomas J. Herbert	1/13/47 — 1/10/49
C. Emory Glander	1/01/45 — 1/31/51	Frank J. Lausche	1/10/49 — 1/03/57
John W. Peck	2/01/51 — 1/31/54	Frank J. Lausche	1/10/49 — 1/03/57
Stanley J. Bowers	2/01/54 — 4/14/63	Frank J. Lausche	1/10/49 — 1/03/57
Stanley J. Bowers	2/01/54 — 4/14/63	John W. Brown	1/03/57 — 1/14/57
Stanley J. Bowers	2/01/54 — 4/14/63	C. William O'Neill	1/14/57 — 1/12/59
Stanley J. Bowers	2/01/54 — 4/14/63	Michael V. Disalle	1/12/59 — 1/14/63
Louis J. Schneider	4/15/63 — 12/29/64	James A. Rhodes	1/14/63 — 1/11/71
Gerald A. Donahue	1/04/65 — 3/13/66	James A. Rhodes	1/14/63 — 1/11/71
Gail W. Porterfield	3/13/66 — 1/10/71	James A. Rhodes	1/14/63 — 1/11/71
Robert J. Kosydar	1/11/71 — 1/13/75	John J. Gilligan	1/11/71 — 1/13/75
Gerald S. Collins	1/13/75 — 8/28/75	James A. Rhodes	1/13/75 — 1/10/83
Edgar L. Lindley	9/11/75 — 1/10/83	James A. Rhodes	1/13/75 — 1/10/83
Joanne Limbach	1/10/83 — 1/14/91	Richard F. Celeste	1/10/83 — 1/14/91
Roger W. Tracy	1/14/91 — 1/11/99	George V. Voinovich	1/14/91 — 12/31/98
Roger W. Tracy	1/14/91 — 1/11/99	Nancy Hollister	1/03/99 — 1/10/99
James J. Lawrence	1/11/99— 6/30/99	Bob Taft	1/11/99 — Present
Thomas M. Zaino	7/01/99 — Present	Bob Taft	1/11/99 — Present

Ohio Taxes Through Time

In 2003, Ohio celebrated its 200th year of statehood. This Bicentennial occasion gives opportunity to explore the role of taxes during Ohio's transition from territory to one of this country's most significant states.

Life has changed much in the 200 years since Ohio became a state, and with it, so has the government and tax structure. With all these changes, however, there have been some constants:

- There has been a consistent effort to ensure that all citizens and businesses pay their fair share of the cost of government and the services it provides.
- The most significant changes in Ohio tax laws follow growth in the state's population, significant changes in business and industry, or swings in the economy.
- When business and industry changed, the state would frequently roll out a tax study commission or committee to find and recommend new ways to fund state government.

The most notable constant, perhaps, of Ohio's tax system over 200 years is that it has constantly changed.

For this discussion, those changes have been sorted into four time periods, each having contributed to the composite character of Ohio and its tax system of today. Those periods are:

- The Frontier Era, roughly spanning the transition from the early territory period of the 1700s to the early statehood days ending in the 1820s.
- The Post-Frontier Era covering the years from the 1820s to the Ohio Constitution of 1851.
- The decades following adoption of the Ohio Constitution of 1851 until the establishment of the first Ohio Tax Commission in 1910.
- The Modern Era, moving from the beginnings of the Ohio Tax Commission through and to today's Ohio Department of Taxation as headed by the Ohio Tax Commissioner.

The Frontier Era: Finding a Way Out Of the Wilderness

One of the first known mentions of Ohio and taxes found in the history books chronicled a type of transaction that occurred in 1748, and remains today a prominent part of the tax landscape; e.g. the tax abatement. The request for an abatement came from a group of investors from Maryland and Virginia who asked the British government to forego taxes on 200,000 acres along both sides of the Ohio River in exchange for settling the area. The British government granted the request in an effort to prevent French encroachment into the area. All of this happened while Maryland and Virginia were still British colonies. With this country's independence from England, Ohio and its first government began to emerge from the Northwest Territory created by the Ordinance of 1787. The ordinance defined how new states would be admitted, and five states that were once part of the Northwest Territory, including Ohio, eventually joined the Union.

The first taxes in what is now Ohio were enacted in 1792 by a territorial government that consisted of a governor and three judges, all appointed by Congress. Tax dollars were to be collected based on what territorial officials determined would be the cost of running the government. Those officials appointed commissioners who apportioned sums to be raised from the inhabitants of each county. The territory also received a small amount of revenue from the federal government.

Most of the taxes collected by the territorial government paid for the salaries of territorial officials, for public roads and for surveying public lands.

Each township, village or district in the territory was to have three tax assessors. The assessors were to determine each individual's share of the cost of government based on the amount of property, real and personal, owned by the individual. The more property the individual owned, the more taxes the individual was to pay.

On the same date the territorial government enacted the first taxes, it also enacted laws requiring that some businesses be licensed. Frontier businesses required to have licenses included sellers of whiskey and other spirits, merchants, taverns, auctioneers, ferry operators, and traders and peddlers of foreign merchandise (either made or grown outside the U.S.). Auctioneers, in addition to being required to have licenses, also had to collect and remit taxes on their sales, which may have been the first example of a sales tax in Ohio.

Licenses were an important source of revenue for government during the frontier era, but they also were used to regulate businesses. For example, a tavern in the county had to have at least four rooms, three fireplaces and a stable with six stalls for horses.

The territorial government on January 19, 1795 adopted a system modeled after Pennsylvania's law "…for raising county rates and levies." As a result of these new laws, three commissioners were appointed in each county, and the free inhabitants in each township were to elect a tax assessor on November 3rd annually by ballot. Tax assessors served one-year terms, and if they did not do their duty, they could be fined $20.

Commissioners and assessors appointed tax collectors. The commissioners met on a fixed day each year to hear tax grievances.

The first Ohio Territorial Assembly enacted a law on Dec. 19, 1799 that was more specific than earlier laws regarding what counties could tax. One section, for example, declared what was taxable in towns, such as houses and lots as well as mansions in the country valued at $200 and more. Water and windmills, ferries, livestock and bondservants above the age of 21 also were taxed.

Laws were enacted during the frontier period to tax land on the basis of three grades of soil quality. The rates changed several times, as an example, in 1800 land was taxed at 55, 35 and 17 cents per 100 acres. The taxing of land by soil quality continued into the early years of statehood.

The first general, statewide valuation of real estate was conducted in 1810, seven years after Ohio became a state. As a result of that valuation, land tax revenues rose from $85,964 in 1810 to $170,546 in 1811. General valuations or reappraisals of real property have been conducted in Ohio ever since.

Ohio's territorial government enacted a poll tax, but the only mention of this tax in Ohio's first constitution (written in 1802) was the prohibition of a poll tax at the state or county level. A citizen still had to be a taxpayer to vote, however. Work on township roads could be counted towards the payment of taxes and, therefore, make a citizen an eligible voter.

As a side note, the 1802 constitution denied the governor veto power because a number of vetoes by the territorial governor, Arthur St. Clair, had enraged the territorial legislature. This put most of the powers of state government in the hands of the General Assembly. The General Assembly appointed state-level officials and judges at all levels. Commissioners, sheriffs and coroners were the only popularly elected officials at the county level. This first constitution, incidentally, was adopted without popular vote when Ohio was admitted to the Union on Feb. 19, 1803.

Post-Frontier: Moving Ohio Forward

Many of the dangers of the frontier caused by wars with the Indians came to an end following the War of 1812.

The end of the Indian wars in Ohio brought growth in population and business and ensuing demands on government. The General Assembly authorized the voluntary use of property tax to support schools in 1821. The next year, however, the General Assembly mandated that a portion of the property tax revenues pay for schools.

The middle 1820s saw an end to the practice of taxing land based on soil quality as part of a compromise to win support for the building of the Ohio canal system. The new practice was to tax land at its true value. State officials believed that where the canals ran, land values would rise and with that tax revenues would increase, too.

Everyone paid taxes on personal property, but in the middle 1820s the General Assembly broadened the list of taxable items. The list reflects how far Ohio had come – from the days of hacking its way out of a pure wilderness to a time where lawmakers were adding pleasure carriages to property tax lists.

Concern over everyone paying a fair share of the cost of government was reflected in the creation of county and state boards of tax equalization in the middle 1820s. County boards could raise or lower valuations. The state board could equalize values among counties. The state board's purpose was to prevent counties from adjusting tax rates unfairly, which some had done to attract business and settlement.

Some businesses were specifically exempted from taxes in 1825, but then lost that status in 1831 in a general tightening of tax exemptions. Previously exempted businesses that went back on the tax rolls in 1831 were grist, oil and saw mills, all manufacturers of iron, glass, paper, clocks and nails, all distilleries, breweries and tanneries, and iron, brass and copper foundries. Another example of this tightening was the reduction from 15 to 10 acres of land that was tax exempt for churches or burial grounds.

Other taxes passed during the period included ones for public shows in 1827, insurance companies in 1830 and bridge companies in 1831. Taxes in each instance varied. Insurance companies, for example, paid a 4 percent tax on dividends. Insurance agents for companies incorporated outside of Ohio paid an annual license fee of $50. Each agent also was required to report profits on premiums received annually, and the state auditor taxed those profits 4 percent, less the $50 license fee.

The Ohio economy changed dramatically with the building of the Ohio canal system that was completed in 1831. The canals meant goods in the interior of Ohio could be transported by barge at low cost north to Lake Erie and from there through the Erie Canal and to eastern markets or south to the Ohio River and New Orleans. The result was a 200 percent increase in the value of products produced in the interior of the state.

The success of the canals inspired the state to dive deeper into the direct financing of other "internal improvements," such as railroads and turnpikes. Many railroad ventures failed, however. Those failures combined with a general economic downturn in the late 1830s led to a crisis in government finances.

It was also during this period that county auditors became the most important cogs in what was, in practice, a highly decentralized tax system.

All during this period taxes were continually tinkered with in attempts to make certain that all, individuals and business, were paying their fair share of the cost of government. However, all the tax measures passed during this period were not uniformly enforced. That, along with a general unhappiness with state government, led to the writing of a new constitution.

The Constitution of 1851: A Quest for Fairness

There would have been an Ohio Constitution of 1850, but a cholera epidemic forced postponement of the writing of the new constitution until 1851. The representatives to the constitutional convention that hammered out the new constitution and the constitution itself were approved by popular vote.

The Ohio Constitution of 1802 made almost no mention of taxes, but the Ohio Constitution of 1851 includes an entire section entitled, "Finance and

Taxation." The section was aimed at ending inequalities in and preventing abuses of the state's tax system. Unsound investments during the era of "internal improvements," for example, led to this sentence in the new constitution: "The State shall never contract any debt for the purpose of internal improvement."

Article XII, Section 2, of the 1851 constitution, also attempted to equalize taxes as so many laws before had tried to do by stating: "Laws shall be passed, taxing, by a uniform rule, all moneys, credits, investments in bonds, stocks, joint stock companies and otherwise, and also all real and personal property according to its true value in money…"

And, it continues, "personal property to an amount not exceeding in value $200 on each individual, may, by general laws, be exempted from taxation…"

The constitution introduced uniformity to the tax system by requiring that all classes of property be taxed at the same rate. Prior to this, state and local governments had some latitude in setting tax rates, and they used that freedom to support business development or expansion. The uniformity clause eliminated the latitude with the objective of making certain all taxpayers were subject to the same tax rates.

The law also attempted to curb some abuses. The 1851 constitution refers to corporations and draws the line on using taxes to influence business decisions or otherwise provide favored treatment by stating, "The property of corporations, now existing, or hereafter created shall forever be subject to taxation, the same as the property of individuals."

The constitution directed the General Assembly to "provide for the organization of cities and incorporated villages by general laws, and restrict their power of taxation, assessment, borrowing money, contracting debts, and loaning their credit, so as to prevent the abuse of such power."

The constitution also changed the procedure whereby the General Assembly appointed many state and county officials to one where voters elected them.

Ohio's tax system remained highly decentralized, however, with administration of the state's taxes resting with the county auditors.

The state weathered the Civil War in good financial shape. Dips in the national economy in the 1870s and again in the 1890s led to the birthing of several tax studies and commissions. Their purposes generally concerned the frequent deficits in state spending and the belief among many that the state's tax laws were often ignored and widely abused.

Concerns over the abuse of tax laws were serious enough that in 1888 the General Assembly created the position of Tax Inquisitor. This law allowed county commissioners to hire private individuals to detect and report property kept off the tax duplicate. The program eventually lost favor and the position of Tax Inquisitor was eliminated in 1904.

The principal concern was over property tax, which everyone, individuals and business, was supposed to pay. Individuals also had to pay tax on their personal belongings, to include the table and chairs and many other items in their homes.

One historian summarized many of the concerns people in Ohio had for their tax system at the time, by saying, "The whole tax system of Ohio was one vast system of hypocrisy, evasion, illegal exemption and moral perjury…"

That statement reflects the fact that with tax authorities unable to accurately establish the taxable value of all personal property, most taxpayers vastly underreported their taxable property.

The problem was so serious that one observer noted that the value of personal property reported for tax purposes in Ohio in 1903 was $2 billion, while honest estimates put the true value of the property at $6.5 billion. On that the observer added: "It is a good thing people are not struck dead for withholding their possessions from the tax gatherer. If they were, Ohio would be depopulated every April."

While some taxes were being evaded, the work of various tax studies and tax commissions was producing new taxes. The first tax on cigarettes in Ohio appeared in 1883. Inheritance and business franchise taxes also were enacted during this period, in 1893 and 1902, respectively. Taxes also were levied against railroad sleeping car companies, electric light and gas utilities, natural gas, pipelines, waterworks, street railroads and telegraph and express companies.

The legislature ended the practice of allocating a portion of property taxes to the state, and designated that all property tax receipts go to the counties.

Frequent deficits in state budgets led to voter approval in 1903 of a constitutional amendment that gave the governor the veto, a power that had been denied for 100 years.

The Modern Era: From Commission to Commissioner

Continued displeasure with what many felt were inequalities in a tax system that was too decentralized led to the establishment of the Tax Commission of Ohio in 1910.

The need for the commission was perhaps best expressed by Governor Judson Harmon, who said: "I am more firmly convinced than ever that the cost of the Tax Commission, provided with all the necessary help, is the most productive investment the state can make. But, apart from the returns in actual revenue, however great these may be, the moral affect of the assurances that fairness and justice will rule with respect to all taxpayers alike is an asset in good government whose value cannot be expressed in figures."

Duties assigned to the new commission reflected many of the concerns with Ohio's tax system. The commission was to centralize tax functions spread among many state agencies and departments. It was to promulgate tax rules and regulations, assess taxes, be responsible for the equalization of real estate values, approve bonds and obligations issued by taxing districts and hear appeals from local budget commissions. It also replaced the state board of equalization.

In addition, the new commission was to suggest new tax laws and regulations as well as to see to the enforcement and better administration of existing laws.

The three-member commission's most important role in the beginning was to assess railroads, express, telegraph and telephone companies, railroad sleeping cars, pipelines and equipment companies and public utilities. All had previous been assessed by a number of special boards or officials.

The new commission also was authorized to order reassessment of real and personal property in any taxing district when, in its judgement, the property had not been assessed at its true value in money.

The new commission also recommended and saw passage of a constitutional amendment that abolished the uniformity clause for taxes, which had required all classes of property to be taxed at the same rate. The clause by then was viewed as too restrictive when government wanted to encourage business development.

Three commissioners, with no more than two being from the same political party, were appointed in 1910. A fourth commissioner was added in 1931. The fourth commissioner's sole responsibility was personal property.

Notable changes during the period of the new tax commission were the separating of tangible property from real property and intangible property. Additionally, only businesses were required to pay personal property taxes. Individuals were exempted from that tax.

The early 20th Century further saw the enactment of "sin" taxes. A tax on cigarettes and other tobacco products became law in 1931. Beer and wine were first taxed in 1933, following the repeal of the nationwide prohibition on alcohol. A tax on liquor gallonage was added in 1934.

Ohio also took action to capture revenue from consumer sales transactions. A statewide sales and use tax was enacted in 1935. It first included only retail sales at stores, but was later expanded to include alcohol, cigarettes, and vehicles and a number of other items and services.

The Ohio Department of Taxation, headed by one Ohio Tax Commissioner, replaced the Ohio Tax Commission in 1939. The Department of Taxation created in 1939 exists today very much as it did in 1939.

Ohio continues to rely on tax revenues to fund the operations of government. An individual income tax was first enacted in 1972. The Department of Tax Equalization was created in 1976 to oversee the administration of local property taxes. However, this department was abolished in 1983, and its functions were transferred to ODT. The Department of Taxation also absorbed the processing functions for the sales, corporation franchise and excise taxes from the Treasurer of State in 2002.

While state revenues will fluctuate with the ups and downs of the economy, and tax systems will change, the Ohio Department of Taxation will continue a mission that took root more than 200 years ago of raising the funds – in the fairest possible fashion – required by Ohioans to pay for the government and services of their choosing.

Understanding the Report

The **2003 Annual Report** of the Ohio Department of Taxation is divided into three primary sections: **Understanding the Department; Support and Operating Divisions;** and **Taxes Administered.**

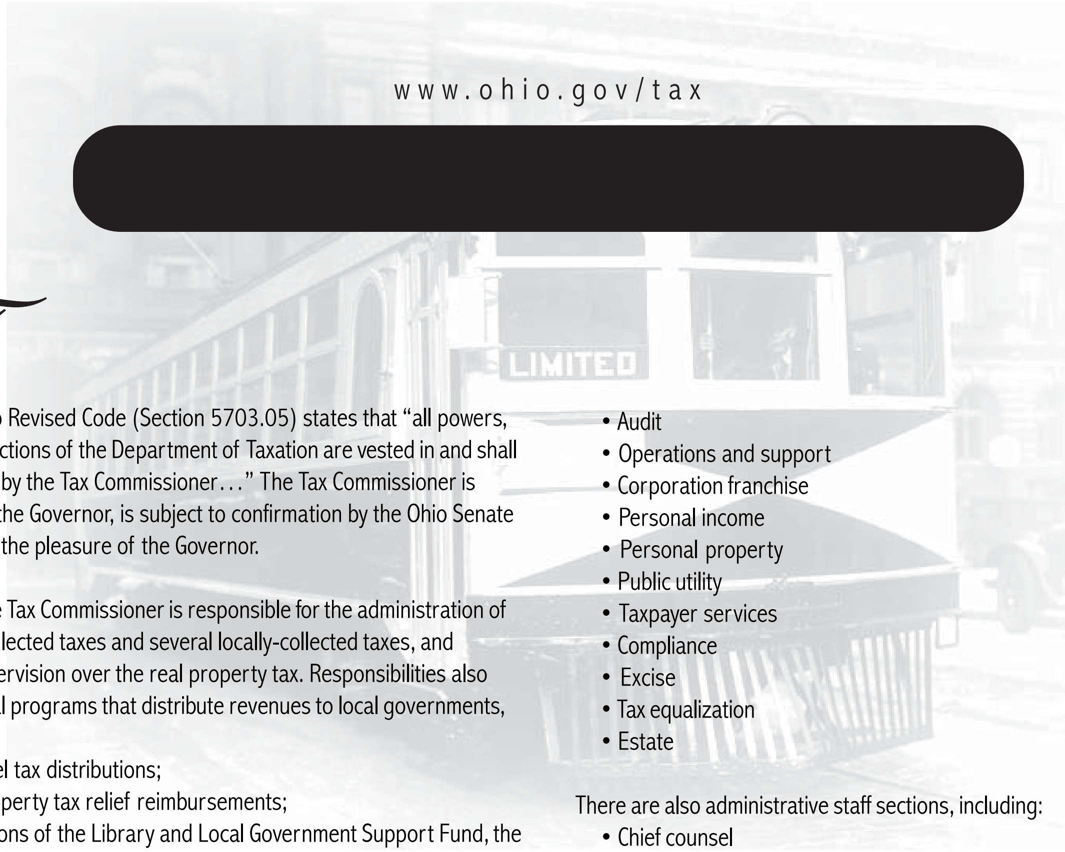
Understanding the Department describes:
- Departmental responsibilities, financial expenditures, and human resources data;
- Major events of the fiscal year, including the department's efforts in strategic planning and goal setting;
- A brief summary of revenue generated by the various taxes; and
- Major pieces of legislation in 2003 that impacted taxation issues.

Support and Operating Divisions outlines:
- The functions of these divisions and how they contribute to the department's overall mission; and
- Each division's significant accomplishments in 2003.

Taxes Administered chapters are organized alphabetically, by tax. Each chapter:
- Explains the tax base, rates, credits and exemptions, and special provisions — including the provisions of House Bill 95, the Fiscal Year 2004-2005 Biennial Budget Bill — in addition to filing and payment information;
- Lists relevant sections of the Ohio Revised Code, information releases, and legislation and court cases that affect the tax under discussion in the chapter; and
- Contains charts and tables detailing various statistical information about each particular tax.

A review of the department's administrative rules follows the three primary sections. An index of charts and tables, organized by chapter, concludes the report.

The Annual Report covers only Fiscal Year 2003 and is not intended as a definitive guide or manual interpreting Ohio's tax laws. For the most up-to-date information on individual taxes, tax filing, publications, historical data and other topics affecting taxation, visit the department's web site (www.ohio.gov/tax).



The Ohio Revised Code (Section 5703.05) states that "all powers, duties and functions of the Department of Taxation are vested in and shall be performed by the Tax Commissioner…" The Tax Commissioner is appointed by the Governor, is subject to confirmation by the Ohio Senate and serves at the pleasure of the Governor.

In general, the Tax Commissioner is responsible for the administration of most state-collected taxes and several locally-collected taxes, and exercises supervision over the real property tax. Responsibilities also involve several programs that distribute revenues to local governments, including:

- Motor fuel tax distributions;
- Local property tax relief reimbursements;
- Distributions of the Library and Local Government Support Fund, the Local Government Fund, the Local Government Revenue Assistance Fund; and
- Distributions of the Local Government Property Tax Replacement Fund.

The Tax Commissioner is empowered to make "all tax assessments, valuations, findings, determinations, computations and orders," which the department is, by law, authorized and required to make, as well as to review or re-determine and to correct previous assessments, valuations or findings. The Tax Commissioner's other principal responsibilities are:

- Promulgating rules and regulations and preparing and distributing tax returns and other reporting forms;
- Auditing returns, levying assessments and penalties, and granting or denying tax refunds; and
- Issuing, revoking or suspending certain licenses and permits.

In addition, the Tax Commissioner has certain specified duties. These are:

- Actual collections of individual income, horse racing, sales, corporation franchise, and excise taxes;
- Operating a central collection and reporting system for the municipal income taxes on electric companies and telephone companies; and
- Maintaining a continuous study of the practical operation of the taxation and revenue laws of the state, the probable revenue effect of possible changes in existing laws, and proposed measures providing for other forms of taxation.

To efficiently perform these numerous functions, the Tax Commissioner is authorized by law to create such divisions and sections of employees as are deemed proper. The organization chart accompanying this chapter indicates the structure of the department as of June 30, 2003. In addition to five Deputy Tax Commissioners, the department has a Chief Information Officer and a Chief Counsel. These executive staff members oversee various operating divisions, including:

- Sales and use
- Audit
- Operations and support
- Corporation franchise
- Personal income
- Personal property
- Public utility
- Taxpayer services
- Compliance
- Excise
- Tax equalization
- Estate

There are also administrative staff sections, including:

- Chief counsel
- Budget and fiscal
- Employee development and training
- Human resources
- Forms
- Enforcement
- Appeals management
- Revenue accounting
- Tax appeals
- Tax analysis
- Legislation
- Communications
- Information services
- Bankruptcy

The department has a Problem Resolution Officer on staff. This officer provides additional assurance to taxpayers that their rights are being protected. To further serve Ohio residents and those in other states that have a business or residential nexus with Ohio, Taxpayer Service Centers are located in eight major cities throughout Ohio.

At the close of Fiscal Year 2003 there were 1,234 permanent employees and 225 intermittent employees within the department. Expenditures of over $107 million were made during the fiscal year to fulfill the department's various functions and responsibilities, a savings of $4 million over the previous fiscal year. Further detail on the number of employees and expenditures is shown in Tables 1 and 2.

The Department of Taxation also has an assessment role which consists of levying assessments against corporations and individuals which either file taxes incorrectly, fail to or do not pay the full amount of taxes due; or for holders of tangible and intangible personal property, the assessment process is used to determine taxable value of the property. For details on the additional revenue collected by these assessments, see the **Compliance Division** section of the **Support and Operating Divisions** chapter.

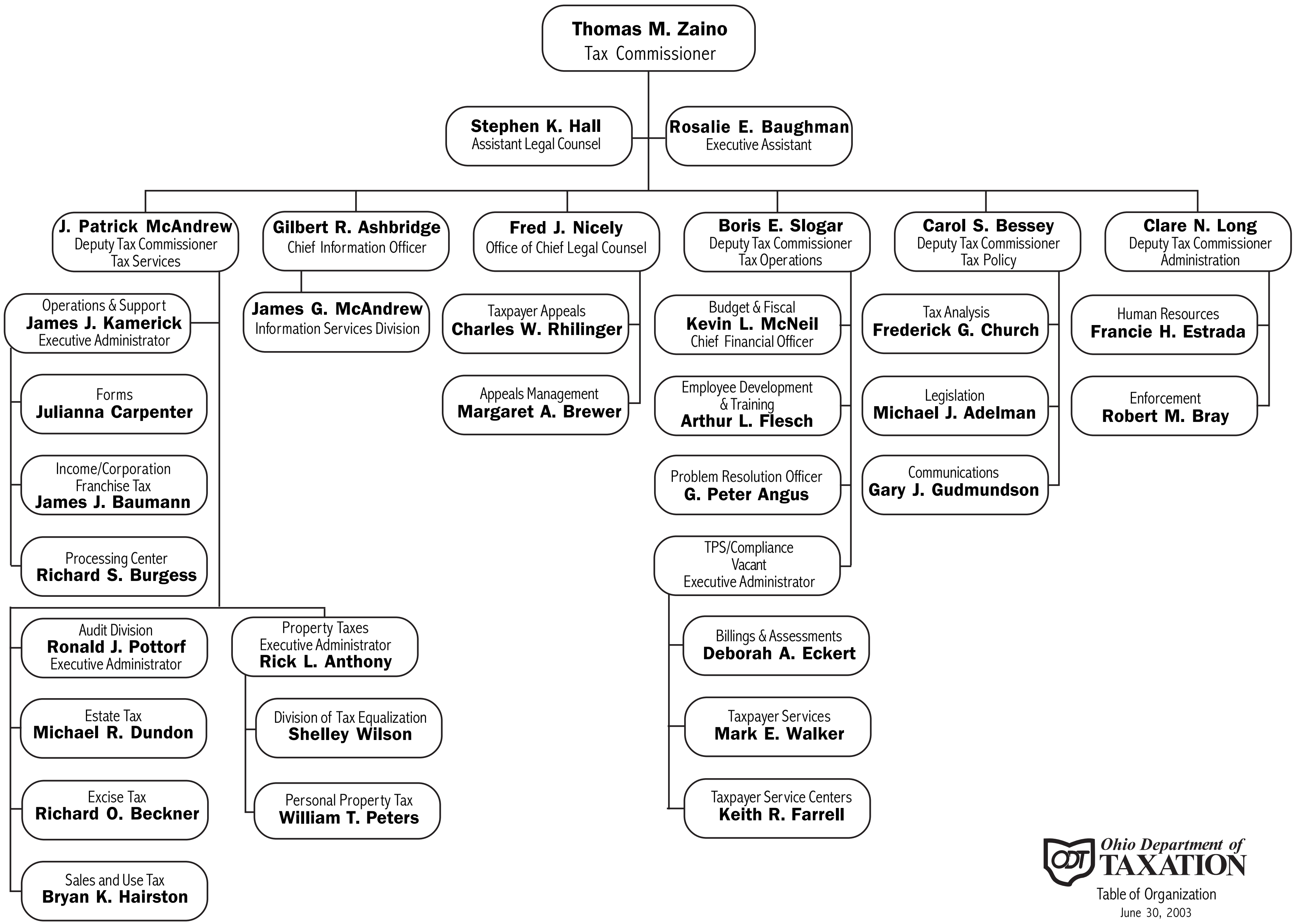
Table 1
ODT Staff Structure & Number of Employees, Fiscal Year 2003

Unit of Organization		Number of Employees June 30, 2003
Administrative Divisions		
Tax Commissioner	14	
Human Resources	12	
Tax Analysis	8	
Employee Dev. & Training	6	
Legislation	5	
Communications	5	
Divisions Total		**50**
Audit		
Administration	5	
Processing & Support	18	
South-Central Region	50	
Northwest Region	88	
Northeast Region	87	
New York	10	
Chicago	10	
Los Angeles	12	
Division Total		**280**
Bankruptcy		**6**
Budget & Fiscal		
Budget & Fiscal	4	
Budgeting/Accounts Payable	4	
Facilities Management	16	
Revenue Accounting	8	
Division Total		**32**
Enforcement		**25**
Estate Tax		**14**
Excise & Motor Fuel Tax		
Administration	4	
Fuel Use	28	
Motor Fuel	12	
Excise Tax	4	
Division Total		**48**
Forms Purchasing		**6**
Income & Corporation Franchise Tax		
Administration	14	
Income Tax Audit	66	
School District Income Tax	10	
Division Total		**90**
Information Services		
Administration	17	
Application/Development	43	
Operations/Production	11	
Technical Services	41	
Info. Technical Planning	13	
Admin./Customer Service	22	
Integrated Business Tax	2	
Division Total		**149**
Chief Counsel		**27**

Unit of Organization		Number of Employees June 30, 2003
Personal Property Tax		
Administration	6	
Information Processing	5	
Inter-County Central Audit	9	
District Support	2	
Citation	8	
Public Utilities	7	
Division Total		**37**
Sales & Use Tax		
Administration	4	
Sales Tax	33	
Division Total		**37**
Taxpayer Service Centers		
Service Center Administration	3	
Akron	16	
Cincinnati	15	
Cleveland	23	
Columbus	18	
Dayton	15	
Toledo	13	
Youngstown	16	
Zanesville	6	
Division Total		**125**
Processing Center		
Administration	4	
Processing & Extraction	57	
Accounting & Cashiers	16	
Data Entry	59	
Files	23	
Mail Room	7	
Division Total		**166**
Tax Equalization		
Administration	16	
Data Collection	6	
Computer Stat. Analysis	4	
Division Total		**26**
Taxpayer Services/Compliance		**29**
Compliance		
Administration	5	
Billings	20	
Assessments	26	
Division Total		**51**
Taxpayer Services		
Administration	3	
Taxpayer Assistance	33	
Division Total		**36**
Total Permanent Employees		**1234**
Intermittent Employees in Pay Status		**225**
Total Employees in Pay Status		**1459**

Table 2
Expenditures of the Ohio Department of Taxation by Division, Fiscal Year 2003

Division	Personal Service and Purchased Personal Service	Maintenance and Equipment	Total
Administrative Divisions	$4,282,786	$599,218	$4,882,004
Audit	18,237,757	1,306,398	19,544,155
Budget & Fiscal	2,125,686	2,134,573	4,260,259
Chief Counsel	2,888,986	137,413	3,026,399
Enforcement	1,516,113	176,862	1,692,975
Estate Tax	1,002,178	36,335	1,038,513
Excise & Motor Fuel Tax	2,914,359	391,796	3,306,155
Forms Purchasing	345,751	2,346,208	2,691,959
Income & Corporation Franchise Tax	5,217,636	140,323	5,357,959
Information Services	16,223,812	5,444,788	21,668,600
Personal Property Tax	1,950,313	68,543	2,018,856
Processing Center	11,150,869	4,217,947	15,368,816
Public Utility Tax	555,218	17,888	573,106
Sales & Use Tax	2,433,523	383,951	2,817,474
Service Centers	8,139,200	852,213	8,991,413
Tax Equalization	1,595,857	66,468	1,662,325
Taxpayer Services/Compliance	$7,323,954	$785,828	$8,109,782
Total	**$87,903,997**	**$19,106,752**	**$107,010,749**



Ohio Department of TAXATION
Table of Organization
June 30, 2003

ADMINISTRATIVE PERSONNEL

Tax Commissioner
Thomas M. Zaino

Deputy Tax Commissioner for Tax Policy
Carol S. Bessey

Deputy Tax Commissioner for Administration
Clare N. Long

Deputy Tax Commissioner for Tax Services
J. Patrick McAndrew

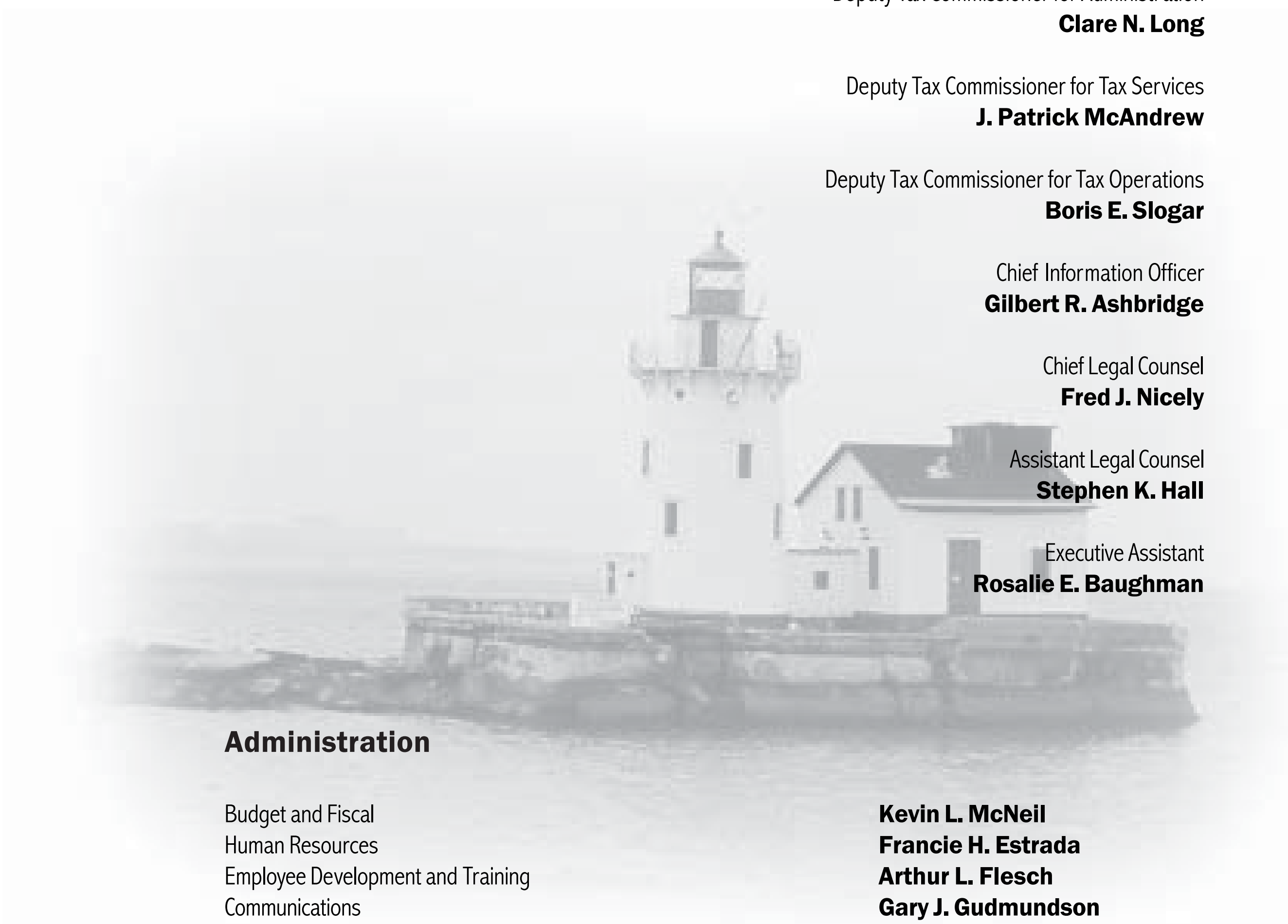
Deputy Tax Commissioner for Tax Operations
Boris E. Slogar

Chief Information Officer
Gilbert R. Ashbridge

Chief Legal Counsel
Fred J. Nicely

Assistant Legal Counsel
Stephen K. Hall

Executive Assistant
Rosalie E. Baughman



Administration

Budget and Fiscal	**Kevin L. McNeil**
Human Resources	**Francie H. Estrada**
Employee Development and Training	**Arthur L. Flesch**
Communications	**Gary J. Gudmundson**
Appeals Management	**Margaret A. Brewer**
Taxpayer Appeals	**Charles W. Rhilinger**
Bankruptcy	**Rebecca L. Daum**
Enforcement	**Robert M. Bray**
Legislation	**Michael J. Adelman**
Tax Analysis	**Frederick G. Church**
Revenue Accounting	**Michael J. O'Leary**
Problem Resolution Officer	**G. Peter Angus**

(as of June 30, 2003)

Information Services Division	
Administrator	**James G. McAndrew**
Property Tax Divisions	
Executive Administrator	**Rick L. Anthony**
Personal Property Division	
Administrator	**William T. Peters**
Tax Equalization Division	
Administrator	**Shelley Wilson**
Operations and Support	
Executive Administrator	**James J. Kamerick**
Income/Corporation Franchise Tax Division	
Administrator	**James J. Baumann**
Forms Division	
Administrator	**Julianna Carpenter**
Processing Center	
Administrator	**Richard S. Burgess**
Sales & Use Tax Division	
Administrator	**Bryan K. Hairston**
Excise and Motor Fuel Tax Division	
Administrator	**Richard O. Beckner**
Estate Tax Division	
Administrator	**Michael R. Dundon**
Taxpayer Services/Compliance	
Executive Administrator	**Vacant**
Taxpayer Services Division	
Interim Administrator	**Mark E. Walker**
Compliance Division	
Administrator	**Deborah A. Eckert**
Audit Division	
Executive Administrator	**Ronald J. Pottorf**
Administrator	**Richard J. Barrett**
Administrator	**Vaughn M. Lombardo**
Taxpayer Service Centers	
Administrator	**Keith R. Farrell**

2003 Year in Review

For the Ohio Department of Taxation (ODT), Fiscal Year 2003 was largely dedicated to rebuilding and reform. Despite and because of the continuing economic slump in the State of Ohio and the nation, ODT began replenishing its ranks and building a platform for reforming and shoring up Ohio's tax system.

ODT began the fiscal year with a payroll of approximately 1,151 full-time employees. By year's end, staff size had grown to 1,234 – well smaller than a department that employed nearly 1,500 people 10 years earlier but still short of an ODT goal of fielding a full-strength organization of 1,386 employees. Much of the growth in staff size during the year occurred as a result of hiring more tax-auditing agents. The department had earlier committed to a strategy of intensifying its auditing activities and by the end of the year had added more than 65 agents making for a total audit staff of more than 230.

Bolstering staff strength was a yearlong effort. Nearly as extended was the focus on developing a tax reform proposal to shore up weaknesses in Ohio's tax system and ensure a reliable stream of revenue for both the state and local governments.

The drive to tax reform proceeded on two fronts; one within the department; the other prompted by legislation which created the Committee to Study State and Local Taxes (CSSLT). The nine-member committee consisted of three members each from the Ohio House of Representatives, the Ohio Senate and the Administration. One of the Administration delegates was the Ohio Tax Commissioner who subsequently was chosen to chair the committee.

The CSSLT began its work in August with the goal of submitting a report to the Governor the following March (2003) with revenue-neutral recommendations for reforming Ohio's tax system. ODT staff, though working a similar timeline and taking a similar look at tax reform, had a very different goal to achieve.

The challenge for ODT's team was to craft a tax reform package that generated revenues sufficient to plug a projected budget deficit exceeding two billion dollars. With direction and support from Governor Taft, a tax reform proposal emerged with policy objectives of increasing fairness in the tax system, broadening of the tax base and lowering tax rates.

A summary of the Governor's reform package would note that it contained 80 separate elements affecting every major state tax and the municipal income tax system. If adopted, those elements combined would have generated nearly $2.3 billion in additional revenue for the state over the next two years. Perhaps more importantly, the reform package would have reshaped Ohio's tax system from one developed for an economy dominated by manufacturing, to one more closely aligned with an economy increasingly driven by service-based businesses. That realignment would yield a more secure base of revenue for the state in the future.

Looking closer at the reform proposal, additional revenues would have been split evenly between business and individual taxpayers by adopting objectives that included:

- Lowering corporation franchise tax rates from 8.5 percent to 7.0 percent while eliminating tax avoidance opportunities. The goal: to reverse a trend showing revenue from the tax as a share of the state's General Revenue Fund slipping from 16 percent in 1977 to less than 5 percent in FY 2002.
- Expanding the sales tax base to include approximately 20 service-oriented businesses.
- Lowering nearly all individual income tax rates while eliminating the tax for more than a half-million of the lowest-income households.
- Simplifying and increasing uniformity of the municipal income tax rules to make it easier for business taxpayers to comply with the 541 different systems around the state.

After considering the reform package, the Ohio General Assembly enacted more than 20 of the reform proposals, but to generate the majority of revenue needed to produce a balanced budget, chose instead to approve a temporary, two-year increase in the state sales tax rate from 5 percent to 6 percent. That sales tax increase was expected to raise more than $2.4 of the $3.0 billion in new taxes included in the FY 2004-2005 budget.

Some of the reform elements that were adopted, include:

- Simplification of the municipal income tax system.
- An increase in the corporate tax minimum and elimination of some corporate tax avoidance opportunities.
- Greater uniformity in the taxation of telecommunications services and subjecting them to sales, corporation franchise and municipal taxes.
- Broadening the base of the sales tax to include some services.
- Accelerating the phase-out of the inventory tax.
- Exempting small businesses that claim less than $10,000 in tangible personal property from filing this tax return, saving approximately 250,000 businesses the costs associated with the filing.

Legislatively, FY 2003 was dominated by tax reform activities but spurring most of the major tax law changes was the need to bring in additional revenue to maintain a balanced budget. One of those changes was the adoption of an accelerated payment system for the collection of sales tax from larger vendors. That shift requires vendors who collect more than $75,000 in sales tax annually, to pay in 75 percent of the tax collected in a given month, by the end of that month. Previously those vendors didn't have to remit taxes collected until the 23rd day of the following month. Moving to this accelerated payment schedule produced a one-time gain of more than $700 million that was used for budget balancing.

Lawmakers also acted to reinforce and expand the department's future budgets and abilities to administer and enforce taxes benefiting schools and local governments. The General Assembly approved the creation of two dedicated funds – the Property Tax Administration Fund and the Motor Fuel Tax Administration Fund – financed by a share of local revenues generated from property and motor fuel taxes. The two funds are expected to provide nearly $16 million to cover ODT's related administrative costs and to hire an additional 25 auditors to more closely monitor compliance and proper reporting of these local taxes. When fully operational, estimates are that the increased compliance efforts will provide more than $50 million in new revenue for schools and local governments.

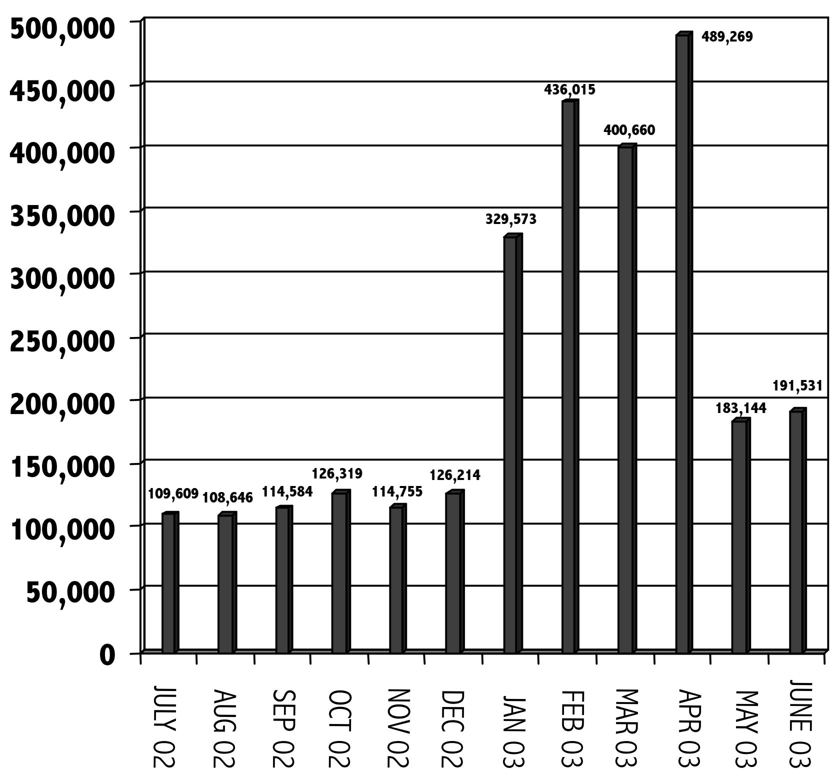
ODT and the state also acted legislatively to align Ohio with other states in the effort to create a national, streamlined sales tax system. The streamlined system is intending to keep Ohio and other states from losing revenue to Internet and catalog sales. ODT estimated that in FY 2003, Ohio would lose nearly $500 million in tax not collected from Internet and catalog sales.

The Internet, in many ways, was an increasingly busy center of activity for ODT. The year brought online a new, Internet-based filing system for individual taxpayers: *Ohio I-File;* and saw the continued growth of the *Ohio Business Gateway* in its second year of providing electronic tax filing services for business taxpayers. *I-File* attracted more than 118,000 customers helping Ohio retain its ranking of second nationally in the number of individuals filing 'paperless' tax returns. More than 2.2 million taxpayers filed their return electronically. Only California had more. The *Ohio Business Gateway,* meanwhile, saw more than 25,000 businesses register to use the system and file more than 100,000 tax returns. The *Ohio Business Gateway* is a single site allowing business taxpayers to file and pay tax returns with four different state agencies. In 2003, ODT expanded the options available for filing and paying sales and withholding taxes.

Taxpayers and visitors to the department's web site (www.ohio.gov/tax), meanwhile, increasingly found the services, forms and information they needed online. Total visits to the site in FY 2003 exceed 2.7 million, nearly tripling the traffic volume from the previous year.

ODT's efforts to improve services to Ohio taxpayers and residents continued with its ongoing participation in the Ohio Award for Excellence (OAE) program. The department has achieved the first – Tier One – of four levels of excellence established by the program. ODT is one of only two state agencies to achieve this status. The department is committed to achieving Tier Two status. OAE is modeled after the Malcolm Baldrige National Quality program, which seeks to promote excellence in private and nonprofit organizations.

ODT Web Site Visits
Fiscal Year 2003
Total — 2,730,319



Revenue From Taxes Administered By The Tax Commissioner

The Tax Commissioner's primary responsibility is the administration of state and some local taxes, which yielded nearly $23.4 billion in net collections during the period of this report. Ohio's 2003 fiscal year was the period from July 1, 2002 through June 30, 2003. A breakdown of the collections from these taxes is shown in Table 3 for both state-collected taxes, on a fiscal year basis, and locally-collected taxes, based on the calendar year.

It should be noted, however, that taxes imposed by one level of government may be collected by another, and that taxes collected by one level of government may be shared with another. For this reason, the tax collection figures attributed to state or local governments in the table do not necessarily indicate amounts available for expenditure by either the state and local governments. In addition, some state taxes (specifically, the foreign and domestic insurance taxes, motor vehicle license tax and liquor gallonage tax) are not administered by the Tax Commissioner but by other state agencies.

Figures for both gross and net tax collections from state-collected taxes are shown in Table 3. Gross collections are equal to total taxes collected, including taxes which were later refunded. Net tax collections are equal to gross collections, less all refunds.

The source for the state-collected taxes is the Office of Budget and Management for both gross and net collections. These figures will differ from data shown elsewhere in this report, which generally represent taxes administered as shown on returns filed during the fiscal year, rather than actual collections during the fiscal year.

The state-collected taxes administered by the Tax Commissioner yielded net tax collections of approximately $20.5 billion during the fiscal year. This was an increase of about $924.2 million from the previous fiscal year. Receipts from locally-collected taxes were nearly $2.9 billion in the 2002 calendar year, or a reduction of about $21.7 million from 2001.

Table 4 shows state General Revenue Fund revenues for Fiscal Year 2003. Excluding federal aid, total revenue amounted to approximately $17.4 billion. As the table shows, the largest single revenue source was the individual income tax, with more than $7.4 billion distributed to the General Revenue Fund. The sales tax was the second largest revenue source, with nearly $6.4 billion going to the General Revenue Fund. Income tax revenue increased 1.0 percent, and sales tax collections went up approximately 6.0 percent from the 2002 to 2003 fiscal years.

The chart at the end of this chapter shows the collections of the four largest taxes over the last 10 years. During this period, the individual income and sales taxes have shown continuous growth. On the other hand, revenues from the corporation franchise and public utilities taxes have grown very little and, except for a $33.9 million increase in corporation franchise revenue in 2003, have actually declined in the past five years. However, the decrease in public utility excise tax revenue is partially offset by the creation of the kilowatt-hour tax in May 2001, which replaced the excise tax for electric and rural electric companies. The kilowatt-hour tax generated $539.4 million in revenue in 2003, but this in itself was a decrease of about $29.8 million from 2002.

Revenue from taxes administered by the Department of Taxation comprised 91.5 percent of the total General Revenue Fund in FY 2003 (this percentage excludes foreign and domestic insurance taxes, which are administered by the Department of Insurance, and the tax on liquor gallonage, which is administered by the Department of Commerce).

The first pie chart at the end of this chapter illustrates the General Revenue Fund tax sources for the fiscal year. The largest source, individual income tax, accounted for approximately 42.7 percent in FY 2002. The total revenue from all state tax sources amounted to approximately $20.4 billion. The second pie chart shows the taxes that comprise this total.

Further information on most of these taxes is contained in other Department of Taxation publications. Many of these publications are available in hard copy by contacting the Tax Analysis Division, at (614) 466-3960, or they can be viewed at the Department of Taxation's web site, (www.ohio.gov/tax).

Table 3
Collections For Taxes Administered By Ohio Tax Commissioner[(a)]

State-Collected Taxes	Gross Tax Collections FY 2002	Gross Tax Collections FY 2003	Net Tax Collections (b) FY 2002	Net Tax Collections (b) FY 2003	Percent Change 02-03
State Sales and Use	$6,391,476,764	$6,761,516,331	$6,343,538,289	$6,701,433,006	5.64%
Local Sales and Use	1,348,123,199	1,401,017,977	1,348,123,199	1,401,017,977	3.92%
Resort Area Excise	665,407	715,125	665,407	715,125	7.47%
State Individual Income	9,129,611,672	9,307,639,047	8,157,146,924	8,256,528,391	1.22%
Municipal Income Tax for Electric Light Companies (c)	0	15,417,358	0	15,417,358	—
Corporation Franchise	1,011,443,330	1,015,027,341	774,367,410	808,257,071	4.38%
Motor Vehicle Fuel	1,405,209,386	1,473,441,294	1,383,330,324	1,456,148,291	5.26%
Public Utility Excise	323,947,903	258,831,809	299,950,367	255,506,074	-14.82%
Kilowatt-Hour Excise	569,196,249	541,959,228	569,189,093	539,448,630	-5.23%
Natural Gas Consumption (d)	55,937,597	83,748,187	55,937,597	83,690,824	49.61%
Cigarette Excise (e)	281,729,758	601,019,521	281,293,723	599,942,531	113.28% (d)
Local Cigarette Excise	4,850,475	7,555,593	4,850,475	4,523,667	-6.74%
Dealers in Intangibles	18,498,916	38,736,266	18,498,916	38,711,817	109.27% (d)
Motor Fuel Use	69,720,661	71,632,445	69,371,398	71,432,336	2.97%
Alcoholic Beverage Excise (f)	56,516,040	57,521,179	56,446,131	57,339,773	1.58%
Replacement Tire Fee	6,304,162	7,102,725	6,304,162	7,059,848	11.99%
Local Alcoholic Beverage (f)	6,196,901	5,997,769	6,196,901	5,997,769	-3.21%
Horse Racing	17,411,384	15,709,179	17,411,384	15,509,069	-10.93%
Severance	8,034,540	7,478,501	8,025,167	7,455,015	-7.10%
School District Income	154,144,052	156,418,642	145,529,302	144,229,668	-0.89%
Total State-Collected Taxes	**$20,859,018,396**	**$21,828,485,516**	**$19,546,176,169**	**$20,470,364,237**	**4.73%**

Locally-Collected Taxes	Tax Collections CY 2001	Tax Collections CY 2002	Percent Change 01 - 02
Tangible Personal Property	$1,802,487,778	$1,768,343,517	-1.89%
Public Utility Property (g)	715,307,242	746,058,859	4.30%
Estate	375,411,087	357,110,953	-4.87%
Total Locally-Collected Taxes	**$2,893,206,107**	**$2,871,513,329**	**-0.75%**

(a) Sources: For state-collected taxes, Office of Budget and Management. For locally-collected taxes, Department of Taxation.
(b) Gross tax collections less refunds.
(c) This tax began in taxable year 2002 with payments beginning in fiscal year 2003.
(d) The cigarette tax increased from $.24 per pack to $.55, effective July 1, 2002; collections also include inventory floor tax of approximately $32 million. Dealers in intangibles collections include first-time payments from qualifying dealers, effective January 1, 2003, of approximately $24.3 million.
(e) Includes other tobacco products tax.
(f) Excludes tax on liquor since it is administered by the Department of Commerce, Division of Liquor Control.
(g) Includes only tangible personal property taxes levied for collection the following year.

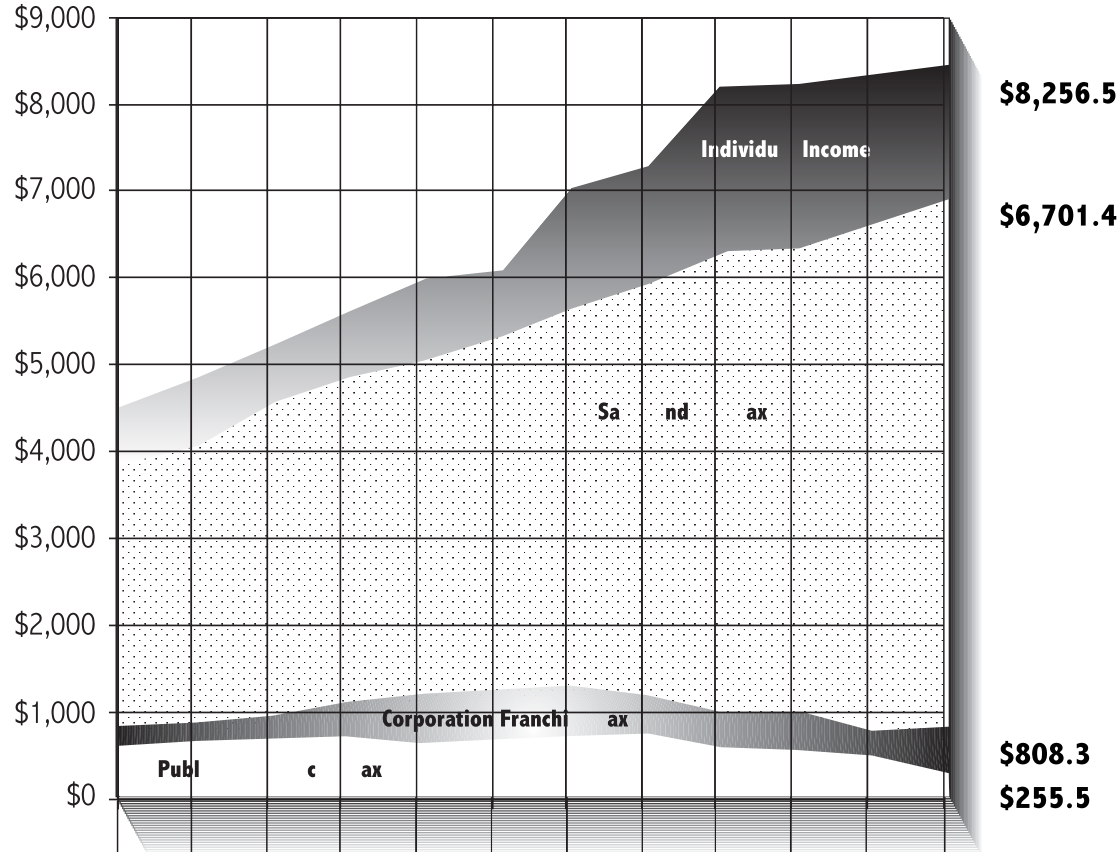
Table 4
General Revenue Fund Sources
Fiscal Year 2003 (excluding federal aid)

Revenue Source	Collections
Individual Income Tax	$7,420,664,632
Sales and Use Tax	6,397,945,455
Corporation Franchise Tax	747,195,828
Public Utility Excise Tax	218,678,072
Kilowatt-Hour Excise Tax	339,852,637
Cigarette Tax	599,940,665
Alcoholic Beverage Taxes (including liquor gallonage)	86,311,038
Total	15,810,588,327
Miscellaneous:	
Domestic Insurance Tax	160,125,622
Estate Tax	100,811,368
Foreign Insurance Tax	216,351,430
Horse Racing Tax	0
Dealers in IntangiblesTax	29,999,716
Total	507,288,135
Non-Tax Revenue:	
Earnings on Investment	14,245,698
Liquor Profits	115,000,000
Miscellaneous*	940,483,555
Total	1,069,729,253
Total	**$17,387,605,716**

NOTE: All amounts are after refunds.

* Includes certain transfers into the General Revenue Fund, licenses and fees, and other income.

Chart
Revenue Collections: Sales and Use, Individual Income, Corporation Franchise, and Public Utility Excise Taxes, Fiscal Years 1993 — 2003
(figures are in millions)



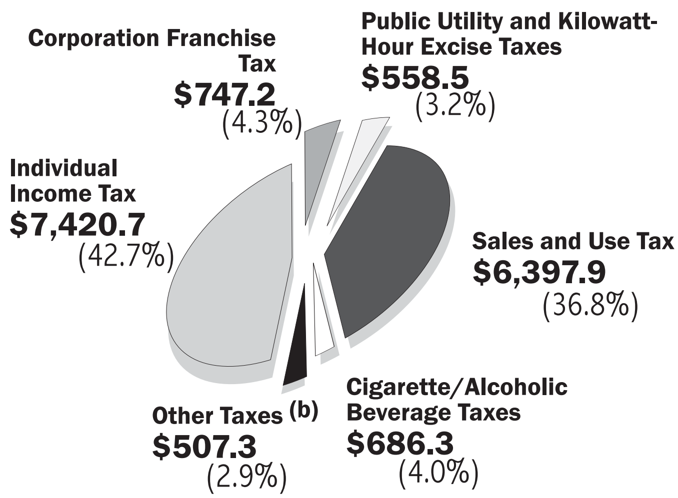
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Individual Income Tax	$4,719.0	$5,088.8	$5,457.4	$5,884.8	$6,018.5	$6,946.2	$7,173.8	$8,084.6	$8,119.3	$8,157.1	$8,256.5
Sales and Use Tax	$3,960.2	$4,468.1	$4,742.5	$4,981.1	$5,223.0	$5,535.1	$5,827.4	$6,214.0	$6,237.1	$6,435.0	$6,701.4
Corporation Franchise Tax	$854.0	$953.6	$1,112.0	$1,181.7	$1,220.3	$1,268.7	$1,150.3	$1,029.9	$973.0	$774.4	$808.3
Public Utility Excise Tax	$647.6	$640.0	$707.3	$653.5	$672.9	$708.0	$670.6	$675.3	$674.3	$300.0	$255.5

General Revenue Fund Tax Sources

Fiscal Year 2003

(figures in millions)

Total: $17,387.6 million(a)



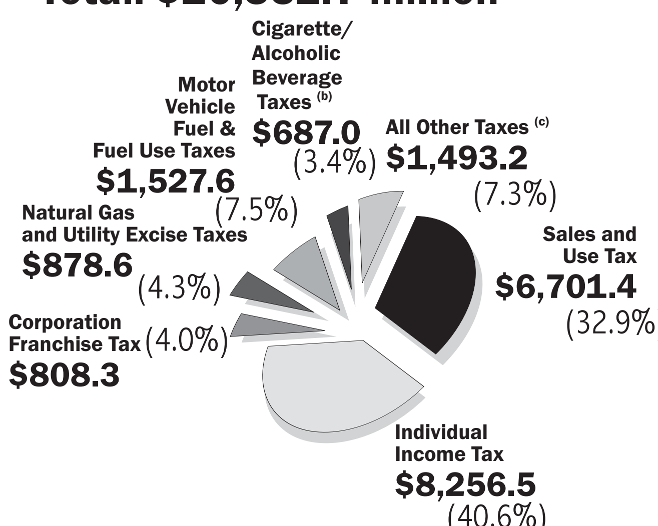
(a) Excludes non-tax revenue of $1,069.7 million. Figures may not add due to rounding.
(b) This figure is comprised of the following state tax revenue sources: domestic insurance, foreign insurance, estate, and dealers in intangibles taxes.

All State Tax Sources

Fiscal Year 2003

(figures in millions)

Total: $20,352.7 million(a)



(a) Figures may not add due to rounding.
(b) Includes tax on liquor of approximately $19.2 million which is administered by the Department of Commerce, Division of Liquor Control.
(c) This figure is comprised of the following state tax revenue sources: motor vehicle license, dealers in intangibles, estate, horse racing, foreign insurance, domestic insurance, severance and replacement tire fee. It excludes all locally-imposed taxes, such as permissive sales and use and local alcohol and cigarette taxes.

Summary of Legislation 2003

Amended Substitute House Bill 95, 125th General Assembly (effective June 26, 2003). (Certain provisions effective September 26, 2003; certain provisions effective on other dates); various Ohio Revised Code sections –

Sales and use tax. Contains a number of changes to Ohio's sales and use tax statutes including the state sales and use tax rate increase to 6 percent effective July 1, 2003, and also provides for the decrease to the previous rate of 5 percent on July 1, 2005. The state rate increase will generate additional state revenues of $1.2 billion in Fiscal Year 2004 and $1.3 billion in Fiscal Year 2005.

Extends the base of the sales and use tax to a wider group of services, thereby better aligning the tax to a service economy. Effective August 1, 2003, laundry, dry cleaning, motor vehicle towing, delivery charges, storage, satellite broadcasting, snow removal, intrastate transportation of persons, and personal care services such as massages, tanning, manicures, and pedicures are subject to the sales tax. The extension of the sales tax to these services is estimated to increase state revenues by $62.0 million in FY 2004 and $71.9 million in FY 2005.

Repeals certain exemptions from the sales tax, effective July 1, 2003, thereby further broadening the tax base. These include WATS/800 service (with an exemption for services provided to call centers), tangible personal property used in mine reclamation, and vehicles used in vanpooling. The repeal of these exemptions is estimated to increase state revenues by $63.8 million in FY 2004 and $67.5 million in FY 2005.

In order to conform Ohio law to the provisions of the Streamlined Sales Tax Project (SSTP) Agreement, the bill makes the following changes in the sales tax statutes:

- Expands the definition of exempt prescription drugs to include any medications prescribed or dispensed by a physician, effective July 1, 2003.
- Expands the definition of exempt medical equipment to include some ambulatory aids, effective July 1, 2003.
- Expands the definition of exempt food to mean any item of nutritional value, including bottled water and chewing gum, effective July 1, 2004.
- Replaces the current sales tax brackets with 5/4 rounding (rather than rounding to the next higher cent), beginning January 1, 2006.

Makes a number of other changes to the sales tax, including a temporary increase in the vendor discount from 0.75 percent to 0.9 percent. This allowance is provided to vendors for the timely filing and remittance of taxes collected from their customers.

The bill increases the threshold for required remittance of sales taxes by Electronic Funds Transfer (EFT) and the accelerated remittance of sales tax. It increases this threshold from $60,000 to $75,000 for the annual sales tax liability.

The bill also caps the sales tax on fractional shares of aircraft and exempts the sales of parts and services used to maintain aircraft which have fractional ownership.

Corporation franchise tax. Increases the minimum tax from $50 to $1,000 for corporations with more than 300 employees or sales over $5 million per year. Adopts the Uniform Division of Income for Tax Purposes Act (UDITPA) method of allocating and apportioning the income of multi-state corporations. This method uses the business/nonbusiness distinction to determine the allocation or apportionment of income among the states for the purpose of taxation. Extends the authorization for the job creation and job retention tax credits from the current maximum of ten years to 15 years.

Tangible personal property tax. Accelerates the phase-out of the inventory component of the tangible personal property tax, lowering the assessment percentage by two percentage points per year, rather than the current one percent, provided that certain conditions are met. Removes the requirement that small businesses with property consisting of taxable value less than $10,000 must file a property tax return. Provides that the state reimbursement to local taxing districts of the revenues foregone by this exemption be phased out over ten years beginning in FY 2004.

Telecommunications industry reform. Modernizes the taxation of local telephone companies bringing them into alignment with their competitors and general business. Removes these companies from the public utility excise tax and makes them subject to the corporation franchise tax and the municipal income tax. Telecommunications services provided by these companies are made taxable under the sales tax. Provides for the phase down of the assessment rate on tangible personal property installed before 1995, from the current rate of 88 percent to the general business rate of 25 percent over three years beginning in tax year 2005.

Municipal income tax reform. Provides a uniform definition of taxable income for the municipal net profits tax, a uniform definition of the withholding tax base, and the option to file business net profits tax returns by means of the Ohio Business Gateway. Allows appeals from the decision of a local appellate board to either the Board of Tax Appeals or the court of common pleas and provides for uniform filing deadlines, extension periods, and the availability of Internet-based requests for filing extensions.

Miscellaneous tax reform provisions. Makes a number of other tax changes including:

- Reforms and streamlines the application procedures for pollution control facility exemptions.
- Allows the depreciation and expensing provisions provided by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 to be

spread over a period of six years for purposes of Ohio corporation franchise and individual income taxes.

- Provides a 30-day credit period for cigarette wholesalers in good standing to purchase tax stamps.
- Expands the definition of Current Agricultural Use Valuation (CAUV) to include land used for soil conservation practices that support farm operations.
- Defers state income tax liability for members of the armed forces serving in Operation Iraqi Freedom.

Am. Sub. Senate Bill 180, 124th General Assembly (effective April 9, 2003).
Various Revised Code sections –
Ohio Venture Capital Program. Establishes the Ohio Venture Capital Program (OVC) to make loans to and invest in venture capital partnerships. The Ohio Venture Capital Authority, a nine-member board appointed by the Governor, will oversee the OVC. The Tax Commissioner and the Director of the Department of Development will serve as ex-officio members of the Authority. The Authority will establish an investment policy for the OVC that will allow it to invest in venture capital funds and thereby increase the amount of investment capital available in Ohio early stage companies and companies developing new technologies. At least 75 percent of money invested in OVC must be directed to Ohio based venture capital funds, and these funds must invest 50 percent of OVC money in Ohio businesses.

Tax credits. The source of funds for the OVC will be loans. These loans will be backed by tax credits that can be issued in the event that the OVC is unable to repay the obligations. The credits may be claimed against the corporation franchise tax, the domestic or foreign insurance tax, or the individual income tax. No credits may be issued that may be claimed in the first four years of the program, and the amount of tax credits that may be issued in any fiscal year may not exceed $20 million. The tax credits may be either nonrefundable or partially refundable, at the election of the lender. If the lender chooses the partially refundable credit and the credit exceeds the amount of the taxpayer's liability, the taxpayer is entitled to a refund of 75 percent of the excess.

Municipal taxation of distributive shares of S-corporations.
Limits municipalities' ability to tax distributive shares of S-corporation earnings. Municipalities may tax the part of the distributive share that represents compensation for services the shareholder performed as an employee, and only the part attributable to the corporation's activities in Ohio. Municipalities that taxed these distributions to a greater extent than allowed by the bill on December 6, 2002 may continue to do so, subject to voter approval at the November 4, 2003 election.

Notification of pollution control facility exemption applications.
Property certified as being used for the reduction of air, noise, and water pollution is exempt from the tangible personal property tax and the public utility property tax. The bill requires the Tax Commissioner to notify the county auditor where the property is located of the application and the valuation of the property that may be exempted. The county auditor is then required to notify the taxing authorities that may be affected by the exemption application.

Extension of right to file real property tax complaints. Allows certain owners of commercial property to file new real property tax assessment complaints, if their previous complaint was dismissed on the grounds that an attorney did not file them.

Eligibility for the Job Retention tax credit. Expands the eligibility criteria for the Job Retention tax credit granted to companies pursuant to an agreement between the company and the Ohio Tax Credit Authority. Allows significant administrative corporate functions at the facility, lowers the required investment at the facility to $100 million, and includes investment in basic research and product development to be included in the required investment.

Am. Sub. H.B. 87, 125th General Assembly (effective March 31, 2003). Various Revised Code sections —
Increases one component of the motor fuel tax, raising it from 2 cents per gallon, in raises of 2 cents per gallon effective at the beginning of each fiscal year from 2003 through 2005. Provides that a portion of this motor vehicle fuel tax component, used entirely for state purposes, be distributed instead to municipal corporations, counties, and townships according to a distribution formula, to pay for local highway-related purposes.

Phases out the additional 3 cents per gallon highway use tax rate by reducing it to 2 cents per gallon on July 1, 2004, and eliminating the additional tax rate on July 1, 2005.

Requires the Tax Commissioner to reimburse a school district for the amount of the new gas tax increases paid by the district for fuel used to transport students in buses owned or leased by the district.

H.B. 675, 124th General Assembly (appropriations sections effective December 13, 2002). Various Revised Code sections –
Creates the Innovation Ohio Loan Program, the Third Frontier Commission and Advisory Board, etc. and makes changes to six tax issues.

Ballot initiative analysis requirement. Lessens the responsibility of the Tax Commissioner to provide estimates regarding ballot initiatives with public expenditure or tax levy implications. Assigns estimating public expenditures to the Office of Budget and Management and tax levies to ODT.

Board of Revisions decision notification. Changes former law regarding the jurisdictional appeal period to the Board of Revisions (BOR). Provides that each party to the complaint has its own appeal period. Changes the former mandatory notice to the Tax Commissioner of an appeal to allow the Commissioner to request a copy of the BOR certifications.

Corporation franchise tax safe harbor correction. Corrects errors in the way interest is calculated on delinquencies for taxpayers that pay on an estimated basis. The penalty provisions are unaffected.

Job Retention tax credit. Expands the Job Retention tax credit to non-manufacturers, conditionally lowers the investment level from $200 million to $100 million, and targets the credit toward new research and product development.

Trust tax corrections. Modifies the definition of qualifying trust income, deletes some unintended consequences for certain trusts, and provides for the allocation and apportionment of trust income in qualifying trusts. Modifies or corrects trust residency rules, the allocation of nonresident trusts' taxable income, and attributing ownership of businesses to trusts.

Harmonization of S.B. 200 and S.B. Bill 143. Harmonizes sales tax provisions drafted simultaneously for S.B. 200, the Taxpayer Services II bill and S.B. 143, the Streamlined Sales Tax bill.

Probate and estate tax thresholds. Clarifies that the threshold for filing an estate tax return remains at $338,333 and not the $2,000 suggested by probate law.

Audit Division

The Audit Division began operations July 1, 2001 to meet one of many objectives that were born during the Ohio Department of Taxation's Strategic Planning retreat that took place in January 2000. The vision behind the birth of the Audit Division was to create a Tax Auditor Agent series that would allow employees with the education, experience and proficiency in auditing the major Ohio business taxes (sales and use tax, personal property tax, corporation franchise tax, pass-through entity tax, and employer withholding tax) the opportunity to devote most of their time to "field" auditing.

The emphasis on field auditing accomplishes three objectives which align themselves with ODT's goals of "enhancing taxpayer services and taxpayer compliance with Ohio tax law" and "modernizing Ohio tax laws and the department's operations." One, it reestablishes a greater face-to-face contact with the taxpayers that the department serves. Second, it enhances ODT's ability to educate these taxpayers on the ever-changing revisions to Ohio statutes. Third, it educates the department on critical tax issues that will help improve how it administers the Ohio tax law.

In order to accomplish these objectives, the Audit Division has placed a special emphasis on the following initiatives:

(1) Creating and using audit project plans for each audit assignment that are used by the auditors to better plan the scope of an audit, create a timeline of deliverables to move the audit efficiently to a conclusion, and to project and track the number of hours used to complete such assignments.
(2) Permitting auditors to share their preliminary proposed audit findings prior to a formal review by the Audit Review staff, to encourage an interaction between auditor and taxpayer on the exact nature of audit issues.
(3) Enhancing the use of a resolution process to address audit issues more quickly and efficiently in order to avoid lengthy and costly litigation.
(4) Increasing the use of electronic downloads of taxpayer data in order to move audits to a quicker completion, while providing more accurate results with fewer hours expended by all parties. This enables the department to more efficiently use auditor hours and thereby provides an opportunity to expand the audit base. Audit Division has created a Computer Audit Assistance Group that helps auditors and taxpayers through these types of audits.
(5) Creating basic and advanced tax-type courses and auditing courses to help auditors identify substantive audit issues and cross-tax initiatives, since all auditors are required to have knowledge of all business tax-types outside their previous tax expertise area.
(6) Creating and implementing a new audit template for each of the business taxes that are audited by the division.
(7) Enhancing audit selection capabilities to encourage auditing of a larger percentage of businesses.

As of June 30, 2003, the Audit Division was staffed by 280 employees. During the fiscal year that ended June 30, 2003, the Audit Division completed the following types of audits:

Tax Type	Total Audits
Sales and Use	1,092
Personal Property	727
Corporation Franchise	1,659
Pass-through Entity	189
Employer Withholding	53
Other	9
Total	**3,729**

During the fiscal year ending June 30, 2004, the Audit Division will hire approximately 20 entry-level auditors and one audit manager. All new auditors will be trained and will receive experience in auditing for all business tax-types within the first two years of their employment.

The efforts of the Audit Division to help taxpayers comply with their responsibilities by identifying appropriate tax liabilities while providing an improved means to educate taxpayers on all provisions of the law.

Budget And Fiscal Division

The Budget and Fiscal Division is comprised of four subordinate units that are directly responsible for internal financial management in the Department of Taxation, as well as distribution of tax revenues. The division also oversees facilities and record-keeping activities.

Budget and Fiscal's subordinate units are: budgeting and accounts payable, facilities management, revenue accounting and records management.

Budgeting and Accounts Payable

This unit prepares and monitors the department's budget for each fiscal year of a biennial budget cycle. The unit's primary responsibilities include managing acquisitions, preparing purchase orders, processing invoices and administering travel expenditures. The unit also administers the department's payment cards, petty cash funds and contracts.

Facilities Management

The facilities unit is responsible for managing, equipping, and maintaining the office facilities, providing office supplies, coordinating safety and security, keeping an inventory of assets and managing the vehicle fleet.

Revenue Accounting

This unit accounts for all tax revenue receipts, reconciles the revenues and then makes distributions to the state and local governments. The unit also works with bad check processing and resolution.

Records Management

The records unit is responsible for the proper identification, maintenance of the retention schedules and disposal of the department's public and nonpublic records.

The Budget and Fiscal Division, by accomplishing its varied missions, helps enable the Department of Taxation to meet its responsibility of providing quality service within government and to other state agencies, as well as to the public.

Office Of Chief Counsel

The Office of Chief Counsel is responsible for the tax legal affairs of the Ohio Department of Taxation. It is divided into four areas: the Appeals Management Division, the Bankruptcy Division, the Tax Appeals Division, and Legal Counsels that provide assistance with specific taxes. The Office of Chief Counsel is also responsible for enacting, amending or rescinding rules promulgated by the Tax Commissioner (see **Rule Review** chapter) and shares responsibility for the issuance of information releases with other divisions of the department.

Note: all case information shown below is on a calendar year basis.

Appeals Management Division

The Appeals Management Division directly interacts with the Attorney General on tax appeals after the Tax Commissioner's Final Determination on a tax matter. The Appeals Management Division had three employees as of June 30, 2003.

	Bd. of Tax Appeals	Ct. of Appeals	Ohio Sup.Ct.
Cases on appeal beyond Taxation as of 12/31/02:	259	8	33
as of 12/31/01:	305	4	25

Bankruptcy Division

The Bankruptcy Division handles the filing of the department's Proofs of Claims with various Bankruptcy Courts throughout the country. The Bankruptcy Division had six employees as of June 30, 2003.

Bankruptcy Proofs of Claims Handled by Bankruptcy Division

Cal.Yr. Filed	Total Notices Received	Total Proofs Processed	Total Amount Filed
2002	12,510	1,535	$46,866,252
2001	12,336	1,468	$39,170,195

Tax Appeals Division

The Tax Appeals Division conducts most of the administrative appeal hearings within the department and issues the Tax Commissioner's Final Determination in these tax matters. The Tax Appeals Division had 14 hearing officers and supervisors and four support staff as of June 30, 2003.

Final Determinations Issued by Tax Appeals Division

Cal. Yr.	Opening Balance	Cases Received	Cases Out	Ending Balance
2002	1,397	821	1,145	1,073
2001	1,240	1,286	1,129	1,397

Legal Counsels

The Department of Taxation has six legal counsels. They are responsible for drafting and reviewing legislation, rules and information releases. The counsels also draft formal and informal tax opinions.

Legal counsels are assigned to the Personal Property Tax, Office of Chief Counsel, Estate Tax, Sales/Use Tax, Tax Equalization, and Personal Income/Corporation FranchiseTaxes divisions.

Formal Tax Commissioner Opinions Issued

Calendar Year 2002: **1**
Calendar Year 2001: **2**

The Office of Chief Counsel provides the legal support necessary to carry out the Department of Taxation's mission of providing quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Information Releases Issued / Updated in Fiscal Year 2003

General Information Releases
G 2002-01 – "Modified Appeal Procedures – Corrected Assessments," December 16, 2002.

Corporation Franchise Tax
PI & CFT 2002-02 – "Ohio Bonus Depreciation Adjustments and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and At-Risk Rules," November 7, 2002.

PI & CFT 2002-01 – "Recently-Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter," July 31, 2002.

Alcoholic Beverages
XT 2002-05 – "Alcoholic Beverage Reporting Changes for Out-of-State Wine Suppliers," July 24, 2002.

Cigarettes and Other Tobacco Products
XT 2003-05 – "Notice About Master Cigarette Settlement Agreement (MSA)," June 12, 2003.
XT 2003-03 – "Notice About Master Cigarette Settlement Agreement (MSA)," March 3, 2003.
XT 2003-02 – "Notice About Cigarette Pricing Change," January 27, 2003.
XT 2003-01 – "Notice About Master Cigarette Settlement Agreement (MSA)," January 6, 2003.
XT 2002-07 – "Notice About Master Cigarette Settlement Agreement (MSA) Reporting," October 18, 2002.
XT 2002-06 – "New Product Subject to the Other Tobacco Products Tax and Restrictions on Cigarette Sales and Packaging," September 3, 2002.

Motor Fuel Tax
XT 2003-04 – "Motor Fuel Tax Increase," June 10, 2003.

Ohio Income Tax
TRUST 2003-01 – "Ohio Law Imposes Ohio Income Tax on Trusts for Taxable Years Beginning in 2002, 2003 and 2004," updated April 14, 2003.
PI & CFT 2002-02 – "Ohio Bonus Depreciation Adjustments and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and At-Risk Rules," November 7, 2002.
PIT 2002-06 – "Personal Income Tax Information Release: Net Operating Loss Carryback Five-Year Rule," August 12, 2002.
PI & CFT 2002-01 – "Recently-Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter," July 31, 2002.
PIT 2001-04 – "ESBT Audit Initiative," July 3, 2002.
PIT 2002-03 – "Pass-Through Entity Tax: Certain Estimated Tax Payments Due September 16, 2002," July 3, 2002.

Personal Property Tax
PP 2003-01 – "New Valuation Schedule for Stand-Alone Computers," February 14, 2003.

Sales and Use Tax
(**note:** includes FY 2004 releases issued in implementation of H.B. 95, 125th General Assembly, FY 2004-2005 Biennial Budget Bill)
ST 2003-13 – "Towing Service," August 1, 2003.
ST 2003-12 – "Laundry and Dry Cleaning," July 31, 2003.
ST 2003-11 – "Storage," July 31, 2003.
"Personal Care Services," July 11, 2003.
ST 2003-10 – "Drugs, Prosthetic Devices, Mobility Enhancing Equipment and Durable Medical Equipment," July 10, 2003.
ST 2003-09 – "Telecommunications Changes," July 10, 2003.
ST 2003-08 – "Leases and Rentals," July 2, 2003.
ST 2003-07 – "Changes to the Definition of Price," July 2, 2003.
ST 2003-06 – "Definition of Tangible Personal Property Including Pre-Written Software," July 2, 2003.
ST 2003-05 – "Exemption Changes," July 2, 2003.
"Notice on Sourcing," May 5, 2003.
"Accelerated Payment Letter," March 6, 2003.
ST 2003-02 – "Landscaping and Lawn Care Services," revised January 2003.
ST 2002-04 – "Building Maintenance and Janitorial Services," updated November 2002.
ST 2002-03 – "Recreation and Sports Club Service," updated July 2002.

Compliance Division

The Compliance Division manages the billing and assessment functions for the individual income tax, employer withholding tax, corporation franchise tax, sales and use tax and school district income tax.

Bills and assessments are generated for actual or potential tax liabilities arising from a taxpayer's failure to file, failure to pay, computation errors, federal adjusted gross income discrepancies, under-reported income, and from field and desk audits. Assessments are the Tax Commissioner's final notification to a taxpayer of a tax deficiency or delinquency. An assessment informs the taxpayer of their legal rights if the assessment remains outstanding, and a debt will be certified to the Attorney General's office for collection if an appeal is not filed in a timely fashion.

The division's assessment section carries the responsibility of being the Department of Taxation's liaison to the Ohio Attorney General's office. All communication regarding collection of deficient or delinquent taxes is coordinated through the assessment section.

Tables 1 through 3 indicate assessments issued for the various taxes administered by the department. Personal property tax assessments shown in Table 1 for tangible and intangible taxes totaled $124.5 million for calendar year 2002. Table 2 indicates that sales and excise tax assessments were about $365.4 million in FY 2003, with $359.9 million of that amount coming from sales and use tax alone. Table 3 shows assessments levied for both the corporation franchise and individual income taxes.

Corporation franchise tax assessments are levied against corporations that: (1) do not file the required annual return; (2) file an incorrect return; or (3) fail to remit the full amount of the tax due. In FY 2003, 7,755 corporation franchise tax assessments were levied, amounting to more than $57.2 million in additional taxes, penalties and interest due from corporations. These assessments must be paid within 60 days after the corporation receives the assessment notice. The assessment may be appealed by the taxpayer.

Individual income tax assessments are levied against employers who fail to remit income tax withheld from their employees, and individuals who either fail to file a tax return during the required time period or fail to pay the full amount of the tax legally due. Individual income tax assessments were levied against 20,989 taxpayers in FY 2003 and amounted to nearly $32.8 million in additional taxes, penalties, and interest due from individual taxpayers. These assessments become due and payable within 60 days after they are received by the taxpayer. The taxpayer may appeal an assessment within 60 days after its receipt.

If an assessment (either corporate franchise or individual income tax) is appealed, the assessment amount must be paid within 60 days of its receipt. The only exception to this is on an assessment resulting from an audit that finds a liability greater than that shown on the original return. The portion of the assessment which represents the additional liability does not have to be paid during the appeal process, if the appeal is based upon a differing interpretation of the Ohio Revised Code.

The Compliance Division also has an administrative review group responsible for resolving non-audit issue petitions (appeals). This enables taxpayers to resolve their assessment issues in an informal manner.

The Compliance Division helps the Department of Taxation ensure that the tax law is fairly applied by collecting the appropriate amounts of tax to provide the revenue necessary for state programs and services.

Table 1
Personal Property Tax Assessments,* Calendar Years 2001 - 2002

Type of Tax	Amount of Assessment	
	Calendar Year 2001	Calendar Year 2002
Tangible Personal Property		
Single-County Corporations and Individual Unincorporated Businesses	$29,503,280	$32,253,598
Inter-County Corporations	72,232,167	91,963,910
Total Tangible Personal Property	$101,735,447	$124,217,508
Dealers in Intangibles	4,223,044	297,328
Total Personal Property and Dealers	**$105,958,491**	**$124,514,836**

*Resulting from audits or delinquent returns.

Table 2
Sales and Excise Tax Assessments Levied and Unpaid Assessments Certified for Collection, Fiscal Years 2002 - 2003

Tax Category	Assessments Levied*				Unpaid Assessments Certified for Collection**	
	Fiscal Year 2002 Amount	Fiscal Year 2002 Number	Fiscal Year 2003 Amount	Fiscal Year 2003 Number	Fiscal Year 2002	Fiscal Year 2003
Sales and Use	$438,594,980	85,510	$359,917,320	106,026	$241,021,530	$224,910,033
Motor Vehicle Fuel	6,384,875	25	3,106,645	21	7,321,164	1,086,293
Motor Fuel Use	8,059	7	3,791	4	3,788	2,625
Cigarette	0	0	266,508	10	0	16,623
Other Tobacco Products	28,849	58	1,305,192	335	175,913	54,034
Beer and Wine	8,578	4	0	0	31,445	26,109
Severance	390,664	246	381,225	33	145,934	81,442
Horse Racing	0	0	0	0	0	0
Tire Replacement	0	0	4,456	2	2,544	0
IFTA***	402,534	353	313,609	209	348,343	164,579
Kilowatt Hour	187,609	2	61,961	3	142,825	0
Natural Gas	0	0	72,729	1	0	72,729
Total	**$446,006,148**	**86,205**	**$365,433,436**	**106,644**	**$249,193,486**	**$226,414,467**

* Represents only assessments levied and not assessments collected.

** Data do not relate to current assessments shown in "Assessments Levied" column. It represents those assessments certified for collection after taxpayers have exhausted all avenues of appeal, and may be from a prior fiscal year. Total number of such assessments were 83,044 in FY 2002 and 71,802 in FY 2003.

*** International Fuel Tax Agreement.

Table 3
Individual Income Tax and Corporation Franchise Tax Assessments Levied Fiscal Years 2000 - 2003

Tax Category	Fiscal Year 2000 Amount	Fiscal Year 2000 Number	Fiscal Year 2001 Amount	Fiscal Year 2001 Number	Fiscal Year 2002 Amount	Fiscal Year 2002 Number	Fiscal Year 2003 Amount	Fiscal Year 2003 Number
Corporation Franchise	$122,606,337	847	$23,322,837	877	$52,046,091	9,439	$57,203,517	7,755
Individual Income	$52,275,907	55,598	$51,199,703	80,999	$142,824,765	154,172	$32,785,324	20,989
Total	**$179,881,244**	**56,445**	**$74,522,540**	**81,876**	**$194,870,856**	**163,611**	**$89,988,841**	**28,744**

Employee Development & Training/ Quality Programs Division

The Employee Development and Training/Quality Programs (ED&T/QP) Division provides practical and applied professional skill development opportunities for all Ohio Department of Taxation employees.

The division works with the tax and administrative divisions to assess their ongoing organizational and staff development needs. It presents appropriate training for bargaining unit clerical/support and administrative staff, and exempt professional and management/executive staff. ED&T staff also coordinates with ODT's Technical Training Managers to support technical training requirements throughout the department.

This training includes job-related skill training as well as general skills improvement training in such areas as interpersonal communications and customer service. Further, ED&T offers supervisors and managers the opportunity to enhance their management skills by attending some or all of the classes comprising ODT's Management Development Curriculum – a series of discrete topic workshops designed to focus on various aspects of the manager's responsibilities in a public organization.

Other ED&T responsibilities include:

- Directing and facilitating the department's quality process improvement initiatives and training, including the Quality Services through Partnership (QStP) program and ODT's applications to the Ohio Award for Excellence (OAE).

- Coordinating ODT's involvement in the statewide Public Practice Continuing Legal Education (PP/CLE) Coalition, including presenting a minimum of two Public Practice CLE seminars per year.

- Providing a range of career development services for ODT employees including the Workforce Development program for bargaining unit employees, the State of Ohio's Exempt Professional Development Program (EPDP) and ODT's TaxTAP tuition reimbursement program for exempt employees, as well as individual career counseling and group workshops.

Several additional job enrichment and employee recognition programs are administered or facilitated by ED&T including: the statewide "Innovation Ohio" suggestion awards program, the "PEP" employee recognition program and the department's "Partners In Education" and "OhioReads" programs. Annually, the ED&T staff also manages the three major statewide charitable campaigns – Operation Feed, the Combined Charitable Campaign and the Holiday Food Basket drive.

A major accomplishment in 2003 was the implementation of a department-wide learning management system (LMS) called TrAX. The LMS supports the goals of employee career and personal growth by supplying the workforce with a tool that it can use to manage training requirements and career development plans. The ODT management team can use the LMS to support succession planning, to track employee progress toward achieving training goals, and to conduct unit competency gap analysis. It also serves as a platform for on-line training.

The accomplishments of the ED&T/QP Division in providing practical and applied professional skill development for ODT employees are a major component of providing quality service to the citizens of Ohio by supporting high standards of competence and professionalism within the department.

Enforcement Division

The Ohio Department of Taxation's Enforcement Division is comprised of 25 sworn police officers that enforce the criminal provisions of Ohio tax laws. Their mission statement is "...to provide quality investigative services to the citizens of the State of Ohio."

The Enforcement Division came into existence in 1971, when it was organized primarily to combat cigarette smuggling and organized crime. Since that time, the division has grown in size and responsibilities. The Enforcement Division now enforces most of the taxes administered by the department, which include the cigarette tax, other tobacco products tax, motor fuel tax, income/withholding tax and the sales and use tax.

In July 2002, the Enforcement Division achieved Law Enforcement Accreditation. The Enforcement Division is the only revenue-type of division in the world with this distinction. The accreditation means the division has met stringent guidelines related to policies and procedures governing the operation of a law enforcement agency. This is an important factor in helping the department achieve the highest level of professionalism possible.

As investigations are made more and more complex by changes in both technology and law, the Enforcement Division has had to become more skilled in combating tax fraud. Enforcement agents employ computers and surveillance equipment in the normal course of their duties. The division has also taken on a homeland security function, through the investigation of cigarette smugglers involved in funneling proceeds to criminal or terrorist groups.

The Enforcement Division is a support branch of ODT. It is, also, a revenue generator for the State of Ohio. In FY 2003, the Enforcement Division brought in over $2.5 million, derived from criminal investigations.

By fulfilling its mission of providing quality investigative services, the Enforcement Division works to fairly apply the tax law and aid in the collection of taxes used to provide daily services to Ohio citizens.

Forms Division

The Forms Division produces hundreds of forms utilized by most divisions of the Department of Taxation. These forms are ultimately used by tax practitioners and taxpayers.

The Forms Division is responsible for composing forms, preparing bid specifications for printing projects, ordering forms for various divisions, distributing forms, acting as a forms liaison between third-party vendors and payroll processing companies, and maintaining an inventory of forms.

When forms are requisitioned, a division submits a work order to the Forms Division. The form is edited and proofread for typographical and other errors, and a print order is submitted to the printer. At this point, the Forms Division is responsible for tracking form production and ensuring on-time delivery. Often, the Forms Division needs to compose or re-create forms in order to ensure consistency of style throughout the department.

The Forms Division continues to improve upon existing forms. For example, one work in progress is constructing fill-in forms. Many of the department's forms have already been completed, while more fill-in forms are being created. The division also produces a compact disc (CD) each year, which contains the most common forms requested by tax practitioners. This CD is distributed to practitioners and anyone else who requests a copy.

Distributing most major forms and handling forms requests from the general public are other responsibilities of the Forms Division. The division also maintains the forms inventory, which entails overseeing a database of forms and envelopes, and a database of practitioners, libraries, post offices and banks, as well as handling internal forms distribution and supplying taxpayer service center office requests.

The Forms page on the department's web site is the most visited page of the site. It is the division's responsibility to continue to make sure that the most up-to-date forms are available on the web site.

Providing forms for both departmental and public use, the Forms Division is one means by which the Department of Taxation is able to provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law.

Human Resources Division

The Human Resources Division is the office in the Ohio Department of Taxation where employee-related and administrative support services reside.

The department employed 1,234 permanent employees and 225 intermittent employees as of June 30, 2003, located throughout Ohio and in three out-of-state locations. This number represents a slight climb in staffing to back near the 2001 level after a steady decline since 1991.

The chart contained in this chapter shows the total number of employees in the department at the end of each fiscal year, over the last 13 years. While ODT added 66 auditor agents and 33 tax commissioner agents in FY 2003 – who are instrumental in increasing tax compliance activities and revenue collection – the department also reduced by 16 non-agent employees. Comparing FY 2003 to 10 years prior, there were 193 fewer permanent employees.

The personnel duties performed by Human Resources include staffing planning, vacancy postings, hiring and civil service compliance. The labor relations duties include contract negotiation and administration for two labor-management agreements, the Ohio Civil Service Employees Association and Fraternal Order of Police Lodge #2. Additional labor relations duties are grievance handling, arbitration services and work rule compliance.

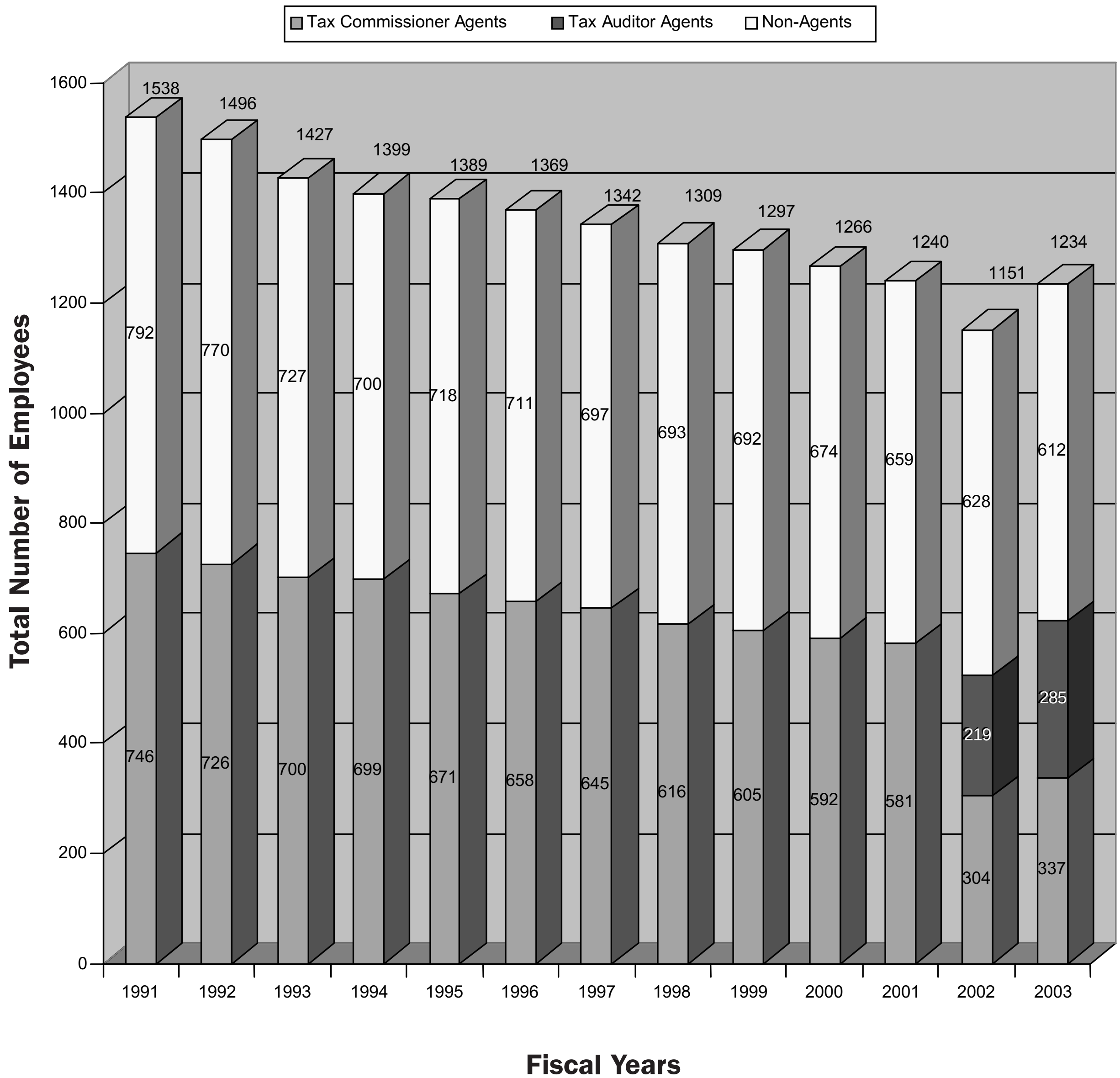
Payroll services is located in Human Resources, as well as benefit administration. Questions pertaining to health insurance plans and open enrollment can be answered by the staff. The disability program and Ohio Worker's Compensation plan are both maintained in the division.

Human Resources is also charged with administration of the Equal Employment Opportunity (EEO) Program. This involves the EEO Strategic Plan development and handling of discrimination complaints, both formal and informal.

Employment law training, policy and directive review, as well as liaison to the Ohio Attorney General's office and the Ohio Highway Patrol, are other roles performed by Human Resources.

The Human Resources Division helps the Department of Taxation provide quality service in its role as a resource center for the department, one that is committed to customer service for all employees, both management and bargaining unit.

ODT
Total Number Of Permanent Employees
Fiscal Years 1991-2003



Information Services Division

The Information Services Division (ISD) supports the Department of Taxation's business program areas through the development and support of computer information systems. It provides a secure, flexible, and appropriately scaled architecture for the exchange of information with internal and external customers, while at the same time measuring information technology performance to ensure efficiency and value. The division also identifies emerging technologies and trends to improve employee productivity and reduce operating costs, advises management of information technology best practices, and delivers timely and quality services to customers in a professional and courteous manner.

The statistics listed below provide an overview of ISD's activities during FY 2003:

- Completed 36 projects
- Completed 670 customer service requests
- Completed 11,395 problem tickets for internal department technology issues
- Processed 4,690 security requests
- Processed over 2.2 million individual electronic returns
- Processed 20,000 credit card transactions for a total of $10.5 million
- Processed over $400 million in Automated Clearing House debit payments
- Processed over $9 billion in Automated Clearing House credit payments
- Processed 800,000 direct deposit requests
- Maintained network availability at 99.97 percent
- Maintained mainframe availability at 99.92 percent

The following accomplishments in FY 2003 were achieved through partnership and strategic planning with the department's program areas:

- Launched Ohio I-File (filing and payment of Ohio income tax over the web)
- Implemented S.B. 261, which enacted an income tax on trusts
- Implemented an external e-mail management system, which offers taxpayers a new service channel for contacting the department
- Implemented Telefiling for sales tax vendors over the Interactive Voice Response system
- Implemented a new high-speed fiber optic network backbone

The ISD performed the following tasks in support of the tax reform provisions of H.B. 95:

- Implemented the new state sales tax increase
- Provided new payment options on the Interactive Voice Response system
- Implemented a two-month temporary discount for all sales tax vendors

The value of ISD comes from its ability to apply technology to increase the effective use of information in order to drive positive innovation. In this way, the division supports the department's mission of providing quality service to Ohio taxpayers.

Legislation Division

The Legislation Division is the legislative coordinating unit for the Department of Taxation, monitoring all tax-related legislation as it progresses through the General Assembly. The division's responsibilities include routing legislation to the operating divisions for analysis and maintaining the Legislative Repository, an information database that serves as a resource to department staff. The division staff attends legislative committee hearings, prepares and presents testimony on tax policy issues, and coordinates special events such as bill-signing ceremonies.

The division provides information to the general public, state agencies, and elected officials about tax policy and the department's policies and procedures. The Legislation Division also serves as a resource to members of the General Assembly, providing three primary services:

- Assisting with constituent inquiries or problems;
- Providing briefings or background information concerning tax issues; and
- Analyzing and reviewing proposed legislation.

A snapshot of the division's workload during FY 2003 follows:

Information Requests and Bills Monitored by the Legislation Division

Number of bills tracked	268
Requests for Information:	
General Assembly	627
General Public	213
Governor's Office	30
State Agencies	30
U.S. Congress	10
Total Requests	**910**

In FY 2003, the division successfully guided a number of bills through the legislative process that made important changes to Ohio's tax system. Among them were the biennial budget bill, H.B. 95; the capital appropriations bill, H.B. 675; the transportation budget bill, H.B. 87; the Ohio Venture Capital Authority bill, S.B. 180; and a budget corrections bill, H.B. 40 (see **Summary of Legislation** chapter).

The Legislation Division helps the Department of Taxation provide quality service by supporting the process of transforming tax policy into law. The division is also an important resource both for Ohio's elected leaders and the general public.

Ohio Department Of Taxation's Partners

The Ohio Department of Taxation accomplishes many of its goals through collaborative partnerships with other governmental agencies.

The **Internal Revenue Service** provides data from federal returns which is used to check the accuracy of Ohio income tax returns. For example, the adjusted gross income reported by taxpayers on their federal returns is routinely compared with the adjusted gross income as reported on the Ohio returns. Discrepancies are researched by the department and taxpayers are contacted, if necessary, to verify their correct income.

Two sections of the office of the **Ohio Attorney General** play key roles in the administration of Ohio taxes. The Taxation Section litigates cases for the tax commissioner at the Ohio Board of Tax Appeals and the Ohio Supreme Court, as well as at other state and federal courts. The Collection Enforcement Section of the Attorney General's office performs collection activities on delinquent tax accounts.

The **Treasurer of State** receives all revenue collected by the department. Income tax and other refund checks, as well as electronic deposits to taxpayers' accounts, are generated by the **Auditor of State** based on data provided by ODT. The **Ohio Department of Development** certifies to the department certain credits available to corporations. Pursuant to provisions of the Ohio Revised Code, ODT withholds income tax refunds from parents who are delinquent in their child support. Those amounts are forwarded to the **Ohio Department of Job and Family Services** which, in turn, disburses the money to the county child support enforcement agencies.

The Department of Taxation and the **Ohio Department of Commerce** share information pursuant to provisions of the Ohio Revised Code regarding businesses with liquor permits. The agencies work to ensure that holders of liquor permits remain current in their sales tax and employer withholding tax filings and payments.

The partnerships and collaborations established with other agencies support the Department of Taxation by fairly applying the tax law and by assisting in tax collection and litigation. The department, in turn, also helps several governmental agencies accomplish their missions by distributing revenue, monitoring business tax compliance, and withholding some taxpayer refunds pursuant to statute.

Processing Center

The Processing Center is the central processing unit for the majority of the business and individual tax returns filed with the Department of Taxation. Over 8.5 million tax returns were processed in 2002 alone.

The primary function of the Processing Center is to facilitate voluntary compliance. This is accomplished through receiving and recording tax returns, documents and remittances; issuing refunds; storing and retrieving tax documents; and through bank deposits of taxpayer payments for purposes of fund distribution to state and local governments. The payments processed from tax returns are the primary source of revenue for the State of Ohio, providing income to elementary/secondary schools, colleges and universities, law enforcement, human services, general government, and property tax relief.

The Processing Center's goals are:

- To provide timely service to each taxpayer and to perform in a manner that instills public confidence and satisfaction;
- To maintain high productivity while providing a quality work product; and
- To utilize technology for a more cost efficient operation.

The Processing Center has experienced record-breaking use of electronic filing since its introduction in 1998. Electronic filing (TeleFile) was first introduced to Ohio taxpayers in 1998 when 232,548, or 4 percent, took advantage of that filing option. E-file was first introduced to taxpayers in 1999 and was readily accepted by taxpayers and tax practitioners alike. The number of electronically filed returns filed in 1999 grew to 19 percent of the total. Electronic filing has experienced a steady increase each year thereafter, and in 2002 it accounted for nearly 2.3 million, or 42 percent, of the income tax returns filed.

Electronic filing not only allows taxpayers to get their refund faster, but it also substantially reduces taxpayer and processing errors generally found on paper-filed returns. The ease and efficiency associated with electronically filed returns, versus the labor intensive manual process associated with paper filed returns, saved the citizens of Ohio an estimated $1.5 million in processing costs during the 2002 filing season. As taxpayers become more comfortable with electronic filing and the obvious benefits associated with it, its use is expected to continue to increase in the years ahead.

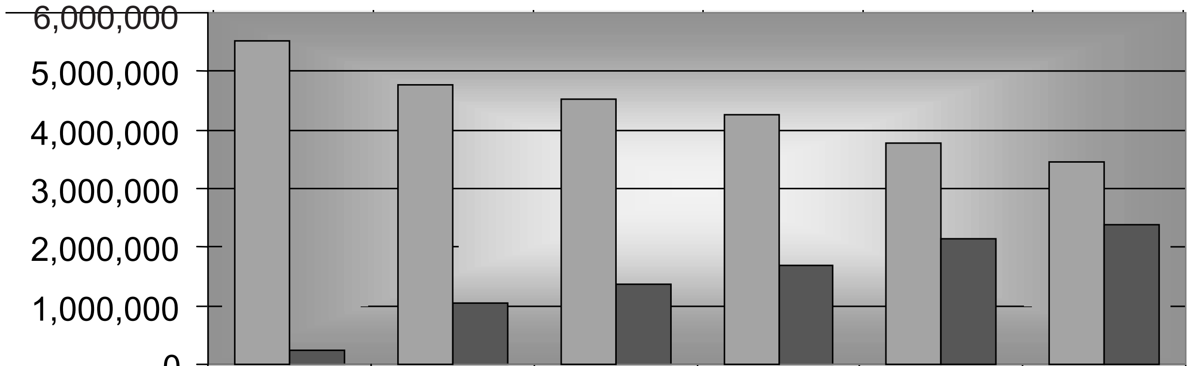
For the 2002 individual income tax return (returns filed in the 2003 income tax filing season), the Department of Taxation introduced I-File (Internet filing), which provides taxpayers with yet another convenient and safe electronic option to file their income tax return.

Income & School District Income Tax Returns, 1997-2002

Type of Return	1997	1998	1999	2000	2001	2002*
1040 Paper	4,289,454	3,195,691	2,967,340	2,645,743	2,585,136	2,433,598
EZ Paper	771,244	1,133,422	1,130,605	1,203,655	814,473	664,447
Total Paper	5,060,698	4,329,113	4,097,945	3,849,398	3,399,609	3,098,045
1040 ELF	-0-	645,300	879,837	1,141,239	1,396,931	1,613,052
1040 TEL	232,548	365,881	421,483	468,930	621,810	534,830
I-File	-0-	-0-	-0-	-0-	-0-	118,087
Total Electronic	232,548	1,011,181	1,301,320	1,610,169	2,018,741	2,265,969
Total IT Returns	5,293,246	5,340,294	5,399,265	5,459,567	5,418,350	5,364,014
SD100 Paper	448,101	434,817	424,168	418,509	387,114	367,155
SD 100 ELF	-0-	46,467	73,481	85,619	116,203	127,187
Total SD Returns	448,101	481,284	497,649	504,128	503,317	494,342
Total IT & SDIT	**5,741,347**	**5,821,578**	**5,896,914**	**5,963,695**	**5,921,667**	**5,858,356**

* Includes some estimated filings for 2002 through 12/31/03 .

Ohio Individual Income Tax Returns
Filed For Tax Return Years 1997-2002
Paper vs. Electronic



	1997	1998	1999	2000	2001	2002
Paper	5,508,799	4,763,930	4,522,113	4,267,907	3,786,723	3,465,200
Electronic	232,548	1,057,648	1,374,801	1,695,788	2,134,944	2,393,156
Paper %	96	82	77	71	64	58
Electronic %	4	18	23	29	36	42

Revenue Accounting

Revenue Accounting, one of four units within the Budget and Fiscal Division, is responsible for a variety of duties within the Department of Taxation that directly impact local governments and the services received daily by Ohio residents.

One of the primary duties of Revenue Accounting is the distribution of tax revenue. In FY 2003, Revenue Accounting distributed approximately $3.7 billion to/from the following funds and agencies:

- Local Government Fund;
- Local Government Revenue Assistance Fund;
- Library and Local Government Support Fund;
- Gasoline tax;
- Sales and use tax;
- School district income tax;
- Municipal income tax for electric light companies and telephone companies;
- Property tax rollback;
- Manufactured home tax;
- Tangible personal property tax;
- Kilowatt and Mcf (1,000 cubic feet) Property Tax Replacement Fund;
- Dealers in intangibles tax;
- Political party check-off;
- Resort tax;
- Horse racing tax;
- Scenic Rivers and Wildlife check-offs;
- Cuyahoga County beer, wine, cigarette and liquor taxes;
- Litter tax; and
- Ohio Turnpike.

In addition, Revenue Accounting records most of the revenue receipts and refund deposits for the Department of Taxation for the following taxes:

- Individual income tax;
- Employer withholding tax;
- Sales and use tax;
- Corporation franchise tax;
- School district income tax;
- Motor fuel and use tax;
- International Fuel Tax Agreement; and
- Municipal income tax for electric light companies and telephone companies.

The unit also handles the accounting and reversals for all tax payment errors. This includes checks, Electronic Funds Transfers (EFTs), Ohio Business Gateway$_{SM}$ (OBG), and Treasurer of State debits and credits. Revenue Accounting is tasked with the reconciliation of EFT payments, OBG payments, and credit card payments. The unit is responsible for certifications to the local governments four times a year, and is charged with maintaining the tax rates for sales and use taxes, as well as school district and municipal income taxes.

Revenue Accounting has the additional responsibility of assisting the Office of Budget and Management with the state Comprehensive Annual Financial Report.

The Revenue Accounting unit supports the Budget and Fiscal Division fulfill the role of providing quality service by ensuring that tax dollars are properly deposited and distributed in accordance with current law.

Tax Analysis Division

The Tax Analysis Division (TAD) serves as the research arm of the Ohio Department of Taxation. Although it is a small unit, the division serves more types of customers than any other single department division, providing both packaged data, quantitative analysis, and policy analysis to internal and external customers. The customers for TAD products include, but are not limited to, the Governor's office, members of the General Assembly, other divisions of the department, and all levels of local government.

Many of TAD's products are prepared on a regular basis. Each legislative session, the division provides revenue estimates for scores of bills that have proposed tax law changes and many proposals that never reach bill form.

The tax data series on the department's Internet site contains a number of data products that are updated monthly, quarterly, or annually. When the biennial budget is prepared, TAD provides assistance to the Office of Budget and Management in forecasting tax revenues. Once the forecasts are finalized, the division then tracks revenue on a monthly basis and assists the Office of Budget and Management with any updates of the forecasts. Tax Analysis also provides estimates of all of the Governor's tax proposals in the executive budget, and produces the Tax Expenditure Report, traditionally "book two" of the executive budget.

The division also produces research publications that are meant as educational aids to decision makers. One such publication is the "Property Taxation and School Funding" report that was originally published in May, 2000 and recently updated for 2003 as a resource for the Governor's Blue Ribbon Task Force on education financing. Another example would be the division's report on "The Financial Impact of Inventory Tax Reductions," published in September, 2000 as an aid to financial planning for schools and local governments. Finally, the division produces statistics, tables, graphs, and interstate comparison data for departmental publications such as the "Brief Summary of Major State and Local Taxes in Ohio" and the "Annual Report."

The division provides a number of services to local governments. It produces dozens of estimates of school district income tax revenues each year. The division also produces (in conjunction with the Revenue Accounting Division) estimates of the distributions to the three local government funds, and handles the estate tax settlements from local governments. TAD also provides informal consulting to school districts and other local governments on property tax questions and permissive sales tax questions. Tax Analysis staffers frequently do presentations for county auditors, school officials, and other local governments, explaining property tax law, school district income taxes, state revenue sharing, and utility deregulation impacts.

In addition to its regular duties, TAD is involved in a number of special projects each year. The projects themselves are as diverse as analyzing the costs and potential cost savings of State Issue I (the drug treatment ballot initiative from November 2002) or preparing an *amicus* brief for the Tax Commissioner in the 2001 DeRolph IV school funding case.

The year 2003 was again a busy year for the division. TAD not only prepared the numerical estimates of the Governor's tax reform package for the FY 2004-2005 executive budget, but also provided narratives that laid out the philosophical foundation for the tax reform initiative. When the budget moved into the General Assembly, the division estimated a number of alternative tax reform proposals for both the House and the Senate.

In 2003, the division continued to add to its database of large corporate taxpayers, which continues to produce improvements in simulating proposed changes in corporation franchise tax law. The division has also refined its income tax simulation models in response to the demands of the Governor's tax reform package and the requests of legislators. The division's income tax simulators can now produce not only estimated revenue impacts from proposed income tax changes but also distributional analyses. Finally, the division continues to work with the Office of Budget and Management to develop more rigorous and accurate forecasting methods for General Revenue Fund tax revenues.

Tax Analysis continues to work on improving and expanding its research capability to better support the department's efforts to provide quality service not only throughout state government, but also to Ohio local governments and school districts.

Taxpayer Service Centers and Service Center Administration

The Taxpayer Service Centers and Service Center Administration became integrated into the Department of Taxation's Taxpayer Services/Compliance Division in 2002. This consolidation combined the overlapping functions of four divisions, moving the department closer to the implementation of a global strategy to service taxpayers and conduct unified compliance initiatives.

Currently, the Department of Taxation maintains nine Taxpayer Service Centers strategically located throughout Ohio (Akron, Cincinnati, Cleveland, two in Columbus, Dayton, Toledo, Youngstown and Zanesville). The staff of Tax Commissioner Agents and support personnel in these offices is the "face" of the department. The number and locations of the field service centers evolved from a commitment to provide equitable service to all Ohio taxpayers through a network of strategically situated local branches, offering convenient access to services in regional population centers.

The Taxpayer Service Centers constitute both a local resource for assistance, and a local presence to implement and enforce the various statutorily mandated and department-promulgated compliance and service programs, in an efficient and cost-effective manner. In addition, the service centers provide a convenient work location for agents of the Audit Division. All service centers report directly to the Taxpayer Service Center Administrator.

The staff of the Taxpayer Service Centers, both Tax Commissioner Agents and support personnel, is cross-trained to provide a variety of services to taxpayers and to support the compliance efforts of the department. Taxpayers visit the service centers to receive professional tax assistance and advice when filing required tax returns for both business taxes (e.g., sales and use tax, corporation franchise tax, excise tax and employer withholding tax) and income taxes (e.g., individual income tax and school district income tax).

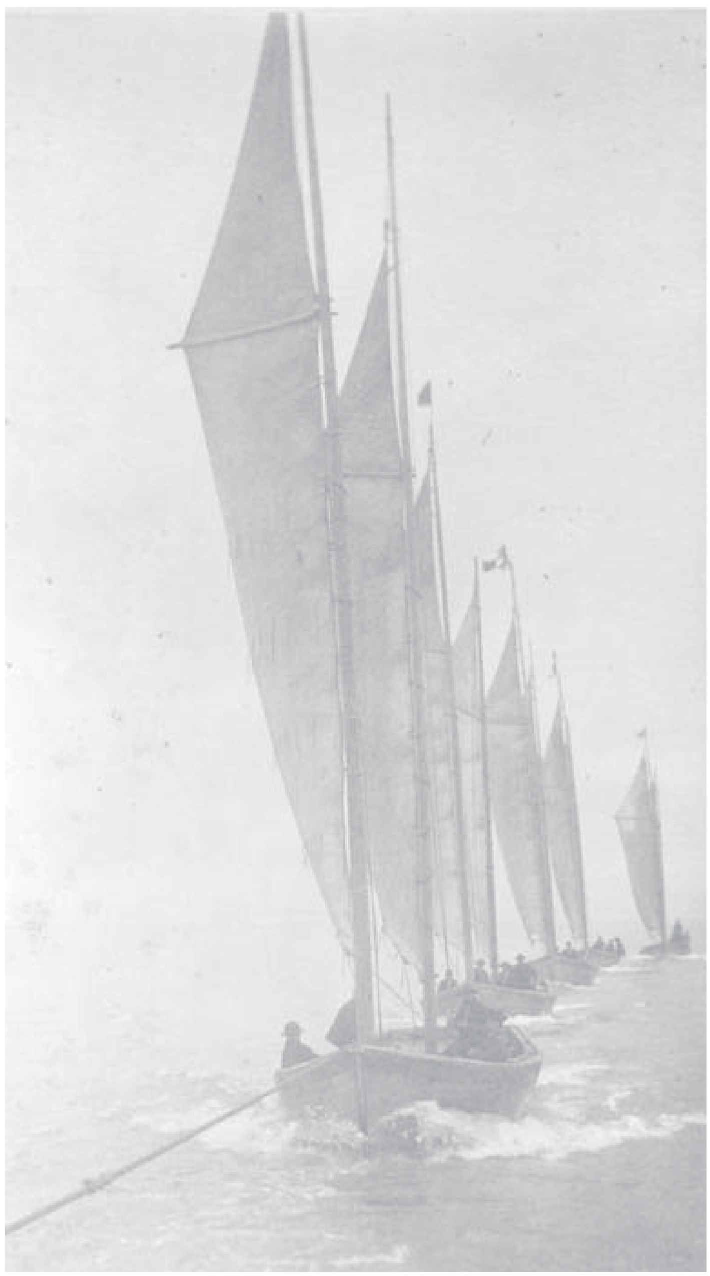
The service centers employ a variety of traditional and innovative methods in support of the department's strategic plan, to include Telefile, I-File and Ohio Business Gateway$_{SM}$, etc. that simplify and expedite compliance by filers. Annually, Taxpayer Service Centers assist more than 80,000 walk-in taxpayers.

The Taxpayer Service Centers also implement and monitor a number of compliance initiatives. Service center personnel participate in numerous tax delinquency programs to secure tax returns and revenue from non-filers, as well as monitoring vendor compliance with the sales and use tax as part of the Habitual Offender Program. Tax Commissioner Agents in the service centers conduct examinations of transactions involving the casual sale of motor vehicles, and review the personal property tax single county returns. Senior level agents conduct office audits and evaluate refund claims in partnership with agents in the Audit Division.

Service center personnel assist with telephone inquiries received locally and those relayed from the Columbus Contact Center, a total in excess of 180,000 calls every year. Each location also receives and processes taxpayer registrations for a variety of vendor's license types. Additionally, service centers process correspondence arising from numerous billing programs.

The service centers also maintain constant communication with federal, state and local government agencies and provide a variety of educational outreach programs to taxpayers, the surrounding area and tax professionals.

Taxpayer Service Centers are not only the public face of the Department of Taxation, they provide a valuable means of educating the community and ensuring taxpayer compliance. The personnel assigned to the service centers have the front line duty of providing quality service to Ohio taxpayers.



Alcoholic Beverage Tax

The Department of Taxation and the Division of Liquor Control, under the Department of Commerce, share responsibilities for the administration of the laws regarding alcoholic beverages. The Division of Liquor Control is responsible for issuing, suspending and revoking permits to manufacture, distribute, and sell all alcoholic beverages.

The Department of Taxation is responsible for the administration of the taxes on beer, wine, and mixed beverages. This does not include distilled beverages over 21 percent alcohol by volume. This chapter of the ***Annual Report*** covers only the role of the Department of Taxation.

Tax liabilities from the excise taxes on beer, wine, and mixed beverages were $58.4 million in FY 2003, approximately $1.0 million more than FY 2002. All of these liability payments go into the General Revenue Fund, except for five cents of the tax on each gallon of wine. This revenue is designated for the research and study of grapes and grape products under the direction of the Ohio Grape Industries Committee.

The General Assembly, in 1986, authorized county governments to levy a permissive tax of $3.00 per gallon on liquor for the purpose of funding sports facilities. In 1990, the General Assembly authorized counties to levy taxes on all alcoholic beverages to operate or service the debt of a sports facility operated by the county or a development corporation.

The law allowed counties to levy a tax of up to 32 cents per gallon on wine and mixed beverages, 24 cents per gallon on cider, and 16 cents per gallon on beer. Cuyahoga County enacted such levies at the maximum rates effective August 1, 1990. The Department of Taxation administers the taxes on beer and wine, while the Division of Liquor Control, Department of Commerce administers the tax on liquor gallonage.

The state collects the county levies through a local tax return filed by taxpayers doing business in Cuyahoga County. All exemptions and credits allowed for the state tax on alcoholic beverages apply to the county levies. Taxpayers filing returns in a timely fashion and making timely payments receive a 2.5 percent discount. These collections are returned to Cuyahoga County in the month following their collection. The Department of Taxation retains 2 percent of the collections from the county beer and wine taxes for administrative expenses.

RATES:

Type of Product	Revised Code Section	Unit of Measure	Tax Rate
Beer in bottles or cans	4301.42	6 oz. or fractional part thereof	0.84 cent*
Wine (containing alcohol 4% by volume to 14% by volume)	4301.43 – 4301.432	Gallon	32 cents
Wine (containing alcohol 14% to 21% by volume)	4301.43 – 4301.432	Gallon	$1.00
Vermouth	4301.43 – 4301.432	Gallon	$1.10
Sparkling and carbonated wine and champagne	4301.43 – 4301.432	Gallon	$1.50
Cider	4301.43	Gallon	24 cents
Mixed Beverages	4301.43	Gallon	$1.20
Beer in barrels	4305.01	31 Gallons	$5.58

* The rate on bottles and cans having less than 12 ounces is 0.14 cent per ounce.

COUNTY LEVIES:

Type of Product	Revised Code Section	Unit of Measure	Tax Rate
Wine and mixed beverages	4301.421	Gallon	Up to 32 cents
Beer	4301.421	Gallon	Up to 16 cents
Cider	4308.421	Gallon	Up to 24 cents

TAX BASE (R.C. 4301.01):

Type of Product	Definition
Beer	Brewed or fermented malt product containing not less than 0.5% by volume and not more than 12.0% alcohol by weight.
Mixed Beverages	Mixture of wine or distilled spirits with carbonated or non-carbonated flavoring materials and containing not less than 0.5% and not more than 21% of alcohol by volume.
Wine (including sparkling wine and vermouth)	Fermented juices of grapes, fruits or other agricultural products and containing not less than 0.5% and not more than 21% of alcohol by volume.
Cider	Fermented juices of apples including flavored, sparkling, or carbonated cider containing more than 0.5% and not more than 6.0% of alcohol by weight.

TAXPAYER:

Type of Product	Revised Code Section	Taxpayer
Bottle and canned beer	4301.42	Manufacturer, bottler, canner or wholesale dealer
Wine	4301.43	Manufacturer, wholesale dealer or retail dealer
Mixed Beverage	4301.43	Manufacturer, wholesale dealer or retail dealer
Barrel beer	4305.01	Manufacturer or consignee

FILING AND PAYMENT DATES (R.C. 4303.33):

Beer Permit Holders:

Advance Payment — On or before the 18th day of each month for that month's estimated tax liability.

Monthly Payment — On or before the 10th day of the month for the previous month's liability.

Wine and Mixed Beverage Permit Holders:

Monthly Payment — On or before the 18th day of each month for the previous month's liability.

County Permissive Levies (R.C. 4301.422):

Monthly Payment — On or before the last day of the month for the previous month's liability.

EXEMPTIONS AND REFUNDS (R.C. 4301.23, 4303.332, 4303.333, 4307.05):

1. Sacramental wine used in religious rites.
2. Sales to the federal government.
3. Sales in interstate commerce.
4. Any licensed Ohio brewer whose total production, wherever produced, does not exceed 31,000,000 gallons in a calendar year will receive a credit against their excise tax the following year, and a refund on any excise tax paid during the current year, on up to 9,300,000 gallons of beer distributed in Ohio.
5. Any licensed Ohio wine producer whose sales do not exceed 500,000 gallons in a calendar year will be granted an exemption from the excise tax during the following year and a refund on any excise tax paid during the current year.

DISCOUNTS AND ADDITIONAL CREDITS (R.C. 4303.33):

Discounts and additional credits are in consideration for collection and timely payment of tax liability by permit holders.

Beer Permit Holders:

Advance Pay Credit: Three percent of the amount of tax received by the 18th day of the month for which the tax is paid.

Discount: A discount is offered on the balance of tax due (after the advance payment) if received by the 10th day of the following month. It is the smaller of the following: 3 percent of 10 percent of the advance payment or 3 percent of the net amount of tax due after deducting the advance payment.

Wine and Mixed Beverage Permit Holders:
Three percent discount on the amount of monthly payment if the payment is received on or before the 18th day of the month for the previous month's tax liability.

County Permissive Levies (R.C. 4301.422):
Taxpayers filing timely returns and making timely payments receive a 2.5 percent discount on the tax liability due.

DISPOSITION OF REVENUE (R.C. 924.51-924.55, 4301.43, 4301.432, 4301.46, 4305.01):

Grape Industries Special Account: Five cents per gallon of the excise tax levied on wine is paid into this account to provide funds for research, development, and marketing of grape products in Ohio.

General Revenue Fund: Remainder of the excise tax levied on wine and all of the excise tax levied on beer, cider, and mixed beverages is paid into this fund.

County Permissive Levies (R.C. 4301.423): The Local Excise Tax Administrative Fund receives 2 percent of all collections with the remainder to the county.

ADMINISTRATION (R.C. 4307.04):

The Tax Commissioner administers alcoholic beverage taxes, and the Division of Liquor Control, under the Department of Commerce, administers the liquor gallonage tax.

OHIO REVISED CODE CITATIONS:

Chapters 924, 4301, 4303, 4305, 4307, 4309.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective July 1, 2003, 2004-2005 Biennial Budget Bill).
R.C. 4301.43 – Enacts a two-year continuation of the two cents per gallon credit to the Ohio Grape Industries Fund on tax paid on wine, vermouth, and sparkling and carbonated wine and champagne.

Sub. H.B. 371, 124th General Assembly (effective October 11, 2002). R.C. 4301.01(B)(20)– Beer, malt beverages and malt liquor were all defined the same. The bill changed the definition of beer to mean ale, porter, stout and other similar fermented beverages, including sake. The maximum alcoholic content was also increased from 6 percent to 12 percent by weight.

R.C. 4301.433 – A supplier of wine that is bottled outside Ohio and shipped into and intended for sale in Ohio was required to furnish two copies of the invoice to the Tax Commissioner. The supplier may furnish the invoice information electronically in a format prescribed by the Tax Commissioner. All such invoices shall be open to public inspection during regular business hours.

H.B. 94, 124th General Assembly (effective July 1, 2001).
R.C. 4301.43 – Enacted a two-year continuation of the two cents per gallon credit to the Ohio Grape Industries Fund on tax paid on wine, vermouth, and sparkling and carbonated wine and champagne.

R.C. 4301.422, 4303.33 and 4303.331 – Transferred tax payment functions previously assigned to the Treasurer of State to the Tax Commissioner.

RECENT INFORMATION RELEASES:

XT 2002-05 – "Alcoholic Beverage Reporting Changes for Out-of-State Wine Suppliers," July 24, 2002.

Table 1
Alcoholic Beverage Taxes — Payments and Credits, Fiscal Year 2003

Type of Beverage	Gross Tax	Credits and Discounts	Net Tax Receipts
Beer			
Advance tax payments	$37,818,070	$1,085,070	$36,733,000
Payment with return	11,743,590	78,647	11,664,943
Other payments	0	0	0
Total	$49,561,660	$1,163,717	$48,397,943
Wine and Mixed Beverages			
Payment with return	$9,385,857	$266,840	$9,119,017
Other payments	0	0	0
Total	$9,385,857	$266,840	$9,119,017
Total	**$58,947,517**	**$1,430,557**	**$57,516,960**

Source: Department of Taxation, as reported on tax returns.

Table 2
Alcoholic Beverage Taxes — Liability as Reported on Returns
Fiscal Years 2001 - 2003

Type of Beverage	Amount of Tax Liability		
	2001	2002	2003
Beer	$48,144,546	$48,258,101	$49,028,203
Wine 14% or less alcohol	3,965,541	4,009,136	4,338,635
Wine 14-21% alcohol	1,052,396	1,042,352	1,007,148
Mixed beverages	3,122,132	3,071,425	3,010,419
Vermouth	93,802	114,449	106,984
Sparkling wine	876,769	858,374	885,078
Cider	51,762	49,010	34,599
Total	**$57,306,948**	**$57,402,847**	**$58,411,066**

Note: Amounts represent tax liability as opposed to tax payments in Table 1.

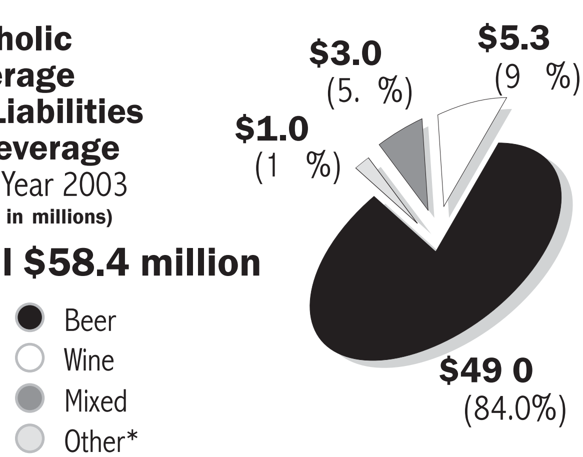
Table 3
Cuyahoga County Beer and Wine Liabilities as Reported on Returns
Fiscal Years 2001 - 2003

Type of Beverage	2001	2002	2003
Beer	$4,889,852	$5,089,549	$5,072,439
Wine	961,653	951,551	1,019,504
Total	**$5,851,505**	**$6,041,100**	**$6,091,943**

Source: Department of Taxation, as reported on tax returns.

Alcoholic Beverage Tax Liabilities by Beverage
Fiscal Year 2003
(figures in millions)

Total $58.4 million



* Other types of beverages include vermouth, sparkling wine and cider.

Cigarette Tax

An excise tax on cigarettes has been levied in Ohio since 1931. In 1981, cigarettes also became subject to the Ohio sales tax. The excise tax rate increased to 18 cents per pack on July 15, 1987 and to 24 cents per pack effective January 1, 1993. Am. Sub. S.B. 261, 124th General Assembly, increased the rate to 55 cents per pack effective July 1, 2002.

The tax is paid primarily by wholesale dealers through the purchase of stamps or meter impressions (tax indicia) that are affixed to cigarette packs. Retailers, individuals, and other consumers are responsible for paying the tax on cigarettes not taxed at the wholesale dealer level. The Tax Commissioner can authorize dealers to purchase the tax indicia on credit payable within 30 days during July through April.

The cigarette tax is credited to the state General Revenue Fund. In FY 2003, total receipts from the sale of stamps were $538.9 million (not including other tobacco products). An additional $35.3 million was collected from the inventory floor tax.

An excise tax on other tobacco products was enacted effective February 1, 1993. These products include cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. The tax is levied on the wholesale price of other tobacco products manufactured in Ohio or imported into Ohio that are to be sold for resale at retail. The rate is 17 percent of the wholesale price.

The other tobacco products tax is credited to the state General Revenue Fund. In FY 2003, total receipts were $25.7 million.

In 1986, the Ohio General Assembly gave authorization to county governments to levy a permissive tax of .225 cents per cigarette (4.5 cents per package of 20) for the purpose of funding the operation or servicing the debt of a sports facility operated by the county or a development corporation. Cuyahoga County enacted such a levy at the maximum rate effective August 1, 1990. The Department of Taxation administers and collects the tax, distributing the collections to Cuyahoga County on a monthly basis. The levy produced revenues of $4.4 million during FY 2003.

All state cigarette tax exemptions and credits apply to the county levies. The state collects the county levies through sales of tax indicia for cigarettes to be sold in Cuyahoga County. These collections are returned to Cuyahoga County in the month following their collection. The Department of Taxation retains 2 percent of the collections for administrative expenses.

TAX BASE (R.C. 5743.02, 5743.023, 5743.32, 5743.322, 5743.51):

The sale of cigarettes in Ohio (R.C. 5743.02, 5743.023).
The use, consumption, or storage for consumption of cigarettes in Ohio (R.C. 5743.32, 5743.322).
The receipt or import of other tobacco products for resale (R.C. 5743.51).

RATES (R.C. 5743.02, 5743.32, 5743.023, 5743.322, 5743.024, 5743.51):

Ohio Revised Code Section	Tax Rate Per Pack of 20	Tax Rate Per Pack of 25
5743.02 (Sale)		
5743.32 (Use)	55 cents	68.75 cents
5743.024 (County)	4.5 cents	05.625 cents

The rate on other tobacco products is 17 percent of the wholesale price (R.C. 5743.51, 5743.63).

EXEMPTIONS (R.C. 5743.05):

Cigarettes sold in interstate or foreign commerce or to the U.S. government or its agencies.

SPECIAL PROVISIONS (R.C. 5743.024):

Counties may, with voter approval, levy a permissive cigarette tax of up to 2.25 mills (4.5 cents per pack of 20) per cigarette. The levy must be for the purpose of servicing the debt of a sports facility.

TAXPAYER (R.C. 5743.01):

Cigarettes:
Wholesale Dealers —
Those who purchase cigarettes directly from manufacturers, producers, importers, or other wholesalers, who then sell cigarettes to retailers for the purpose of resale.

Retail Dealers —
Includes everyone, other than a wholesale dealer, engaged in the sale of cigarettes. Retail dealers must remit the tax on any cigarettes not previously taxed.

Persons —
Individuals, companies, and other consumers who have cigarettes in their possession on which the excise tax has not been paid.

Other Tobacco Products:
Wholesalers —
Distributors who receive other tobacco products for sale to retailers or wholesalers for resale within the state.

Manufacturers —
Those manufacturers who sell other tobacco products to retailers for resale within the state.

Retailers —
Those retailers who import into Ohio untaxed other tobacco products.

METHOD OF TAX PAYMENT:

All cigarette taxpayers are required to pay for stamps from the Treasurer of State at the time of purchase. When it is more practical to collect the tax without the use of stamps or meter impressions (for example, manufacturers' gift samples), the tax is paid with returns or by direct payment to the Department of Taxation.

FILING AND PAYMENT DATES:

Wholesale dealers are required to file a semi-annual return even though they may have paid all their tax through the purchase of stamps. Any payment due on cigarettes not previously taxed is included. Others who have untaxed cigarettes file a monthly use tax return along with payment of the tax.

DISCOUNTS (R.C. 5743.05 and 5743.52):

As a consideration for affixing and canceling cigarette stamps, retail and wholesale dealers receive a discount off the face value of stamps. The discount decreased from 3.6 percent to 1.8 percent effective December 13, 2001.

Other tobacco product taxpayers receive a 2.5 percent discount for timely payment of the tax.

Method of Payment	Revised Code Section	Description of Payment
Cash payments	5743.03	Dealers are required to pay for stamps and meter impressions at the time of purchase unless they have been authorized to make credit purchases.
Credit payments	5743.05	The Tax Commissioner may authorize wholesale dealers to purchase stamps on credit payable within 30 days. Credit sales are allowed during July through April of each fiscal year.
Direct payments	5743.33	Direct payments are made primarily by manufacturers on gift samples of cigarettes, but also include assessments and deficiency payments, and voluntary payments by consumers.

Type of Return	Filing Date	Revised Code Section	Taxpayer
Semi-annual	By July 31 for the preceding January – June period; by January 31 for the preceding July – December period.	5743.03	Wholesale dealers
Monthly	By the 15th of each month for the preceding month. By the last day of each month for the preceding month.	5743.33 5743.52	Persons with untaxed cigarettes Distributors or importers of tobacco products
Quarterly	By April 30, July 31, October 31 and January 31 for the previous quarter's liability.	5743.52	Distributors or importers of tobacco products

DISPOSITION OF REVENUE:

Tax Rate	Code Section	Disposition of Revenue
2.75 cents per cigarette effective July 1, 2002	5743.021	State General Revenue Fund
17 percent of wholesale price of other tobacco products	5743.51	State General Revenue Fund
County levy: Up to .225 cents per cigarette	5743.024	2 percent to the Local Excise Tax Administration Fund and the remainder to the county

OHIO REVISED CODE CITATIONS:

Chapter 5743.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective September 26, 2003).
R.C. 5743.05, 5743.051 –
Allows wholesale cigarette dealers that have been in good standing for five years to purchase stamps and meter impressions on credit without a bond. Payment by Electronic Funds Transfer (EFT) is required.

R.C. 5743.21 (effective July 1, 2003) –
Provides for the confiscation and destruction of cigarettes and roll-your-own tobacco that is not approved for sale in Ohio by the Attorney General (per the tobacco Master Settlement Agreement).

R.C. 1346.04 – 1346.10 (effective July 1, 2003) –
Provides for the office of the Attorney General to list on their web site the cigarette brands that may be sold in Ohio that the manufacturers have certified to be in compliance with the tobacco Master Settlement Agreement. Cigarette wholesalers and other tobacco products distributors must provide the Department of Taxation with an e-mail address so they can be notified of additions and deletions to the list.

Am. Sub. S.B. 261, 124th General Assembly (effective July 1, 2002).
R.C. 5743.02, 5743.32 and Section 3 –
Increased the cigarette tax from 12 mills to 27.5 mills per cigarette resulting in the tax on a package of 20 cigarettes increasing from 24 cents to 55 cents per package. The increase also applied to the inventory of stamped packages and unaffixed stamps held in inventory by cigarette wholesalers and retailers on July 1, 2002. Dealers were required to file returns and pay the additional tax (31 cents per package of 20 cigarettes or the equivalent stamp) in three equal installments. For the period from July 1, 2002, through April 30, 2003, wholesalers could purchase stamps by paying cash for old face value of 24 cents with the remaining 31 cents due within 30 days. They could also delay payment of the 24 cents by 30 days by posting a bond.

Am. Sub. S.B. 242, 124th General Assembly (various effective dates).
R.C. 183.02, 1333.11, 2927.02 and 5743.03 (effective July 1, 2002) –
Provided for the transfer of funds in each year from 2003 to 2025 from payments pursuant to the tobacco Master Settlement Agreement to the Tax Commissioner to pay the costs of administering divisions (F) and (G) of R.C. 5743.03 for costs pertaining to the tobacco Master Settlement Agreement (R.C. 1333.11). The wholesale cigarette minimum markup was increased from 2.5 percent to 3.5 percent and the retail cigarette minimum markup was increased from 6 percent to 8 percent (R.C. 2927.02).This law prohibits the manufacture, sale or distribution of packages of cigarettes containing fewer than 20 cigarettes or packages of roll-your-own tobacco containing less than six-tenths of one ounce. Cigarettes may not be sold in a smaller quantity than that placed in by the manufacturer, effective September 19, 2002 (R.C. 5743.03). Persons filing cigarette or other tobacco products tax returns are required to report the quantity of all cigarettes and roll-your-own cigarette tobacco sold in Ohio for each brand not covered by the tobacco Master Settlement Agreement. A penalty of up to $250 per month may be imposed for not filing the report (replaces requirements in Rule 5703-15-19).

Am. Sub. H.B. 405, 124th General Assembly (effective December 13, 2001).
R.C. 1333.11 and 5743.05 –
The wholesale cigarette minimum markup was increased from 2 percent to 2.5 percent. The cigarette stamping allowance was reduced from 3.6 percent to 1.8 percent of the value of the stamps.

RECENT INFORMATION RELEASES:

XT 2003-05 – "Notice About Master Cigarette Settlement Agreement (MSA)," June 12, 2003.
XT 2003-03 – "Notice About Master Cigarette Settlement Agreement (MSA)," March 3, 2003.
XT 2003-02 – "Notice About Cigarette Pricing Change," January 27, 2003.
XT 2003–01 – "Notice About Master Cigarette Settlement Agreement (MSA)," January 6, 2003.
XT 2002–07 –"Notice About Master Cigarette Settlement Agreement (MSA) Reporting," October 18, 2002.
XT 2002–06 – "New Product Subject to the Other Tobacco Products Tax and Restrictions on Cigarette Sales and Packaging," September 3, 2002.

Table 1
Cuyahoga County Cigarette Stamp Sales, Fiscal Years 1999 - 2003

Fiscal Year	Gross Stamp Tax	Discount	Net Sales
1999	$5,598,388	$201,542	$5,396,846
2000	5,235,090	188,463	5,046,627
2001	5,333,080	191,991	5,141,089
2002	4,894,766	129,619*	4,765,147
2003	4,455,341	80,196*	4,375,145

Source: Treasurer of State
*Discount reduced from 3.6% to 1.8% on December 13, 2001.

Table 2
Cigarette Tax Receipts,
Fiscal Years 1999 - 2003

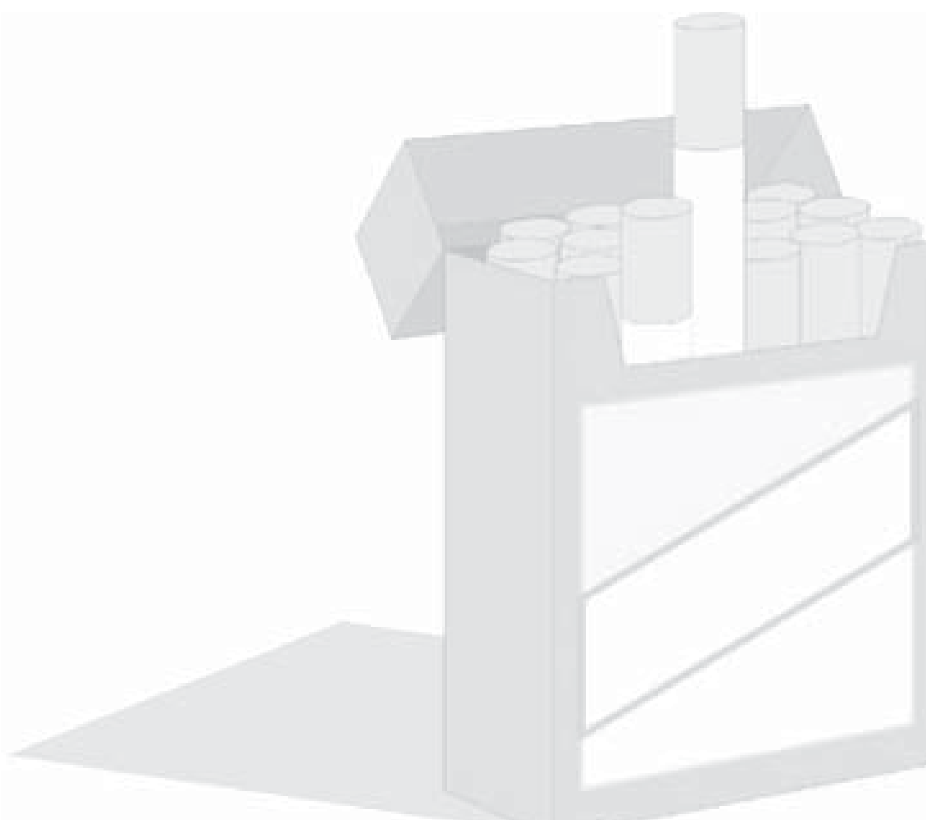
Fiscal Year	Gross Tax	Discount	Net Tax Collected
1999	$277,474,569	$ 9,915,856	$267,558,713
2000	271,259,739	9,765,351	261,494,388
2001	272,598,343	9,813,540	262,784,803
2002	264,300,240	7,008,887*	257,291,353
2003	548,764,842**	9,877,767*	538,887,075**

Source: Treasurer of State
* Discount reduced from 3.6% to 1.8% on December 13, 2001.
** Does not include $35,300,703 from inventory floor tax.

Table 3
Other Tobacco Products Tax Liabilities
Fiscal Years 1999 - 2003

Fiscal Year	Gross Liability	Discount	Net Liability
1999	$21,768,013	$533,005	$21,235,008
2000	22,793,655	552,442	22,241,213
2001	23,963,624	578,178	23,385,446
2002	25,353,802	620,798	24,733,004
2003	26,382,986	643,520	25,739,466

Source: Department of Taxation



Corporation Franchise Tax

Legislation enacted during 2003 includes the following key franchise tax provisions applicable to taxable years ending after June 25, 2003 (a summary of the franchise tax portion of the legislation is found at the end of this chapter):

- Enacts business/nonbusiness income treatment;
- Business income is apportioned, nonbusiness income is allocated;
- Internal Revenue Code (I.R.C.) section 179 depreciation adjustment;
- Revision of sham transaction statute;
- Increase of minimum fee for certain large corporations; and
- Net worth apportionment ratio may differ from the net income apportionment ratio.

The Ohio corporation franchise tax came into effect in 1902 at a one-mill (0.1 percent) rate on the value of capital stock (net worth) in Ohio. The tax rate remained at one mill until 1959 when it was increased to three mills, followed by one-mill increases in 1967 and 1969, respectively. In 1971, the five-mill net worth tax was complemented by a new tax based on net income in Ohio. With the enactment of this new tax base, taxpayers were required to compute both the net worth tax and the net income tax, and to pay the higher of the two tax calculations.

During the 1980s and 1990s many changes were made to the corporation franchise tax rates, and the litter tax and a (now repealed) surtax were enacted. However, from 1988 to 1998 the franchise tax rates remained constant, with a 5.82 mill net worth tax rate and a 5.1 percent rate on the first $50,000 of net income, and an 8.9 percent rate on remaining net income.

In 1999, major changes were made to the tax, including reductions in the net worth tax rate (to four mills) and the top net income tax rate (to 8.5 percent). Among the many other changes that took effect in 1999 was the imposition of a $150,000 cap on the net worth tax and the replacement of the two-factor net worth apportionment formula with the three-factor net income apportionment formula (see **Exhibits 1 and 2** for further details on the apportionment formula).

Financial institutions are treated in a different manner than general corporations under the corporation franchise tax. Financial institutions are subject to a 13-mill net worth tax (net income tax and litter tax do not apply) and have different apportionment provisions than those for general corporations.

In FY 2003, the corporation franchise tax generated just under $808.3 million in total (all funds) revenue. The franchise tax produces the third highest amount of revenue among the taxes that support Ohio's General Revenue Fund.

Of this total, 5.1 percent or $41.5 million was distributed to the Local Government Fund, 0.7 percent or $5.9 million to the Local Government Revenue Assistance Fund, and 92.5 percent or $747.2 million was distributed to the General Revenue Fund. This distribution was in accordance with the provisions of H.B. 94, the FY 2002/2003 Biennial Budget Bill.

The tables in this chapter provide tax year 2002 data on the distribution of the corporation franchise tax among the alternative tax bases for various industrial classifications and tax liability levels. The data were taken from franchise tax reports that were due in 2002, with the bulk of the taxes collected between January and May 2002 (FY 2002).

For all corporation franchise taxpayers except financial institutions, the reported liability before credits, not including Tier I and Tier II litter taxes, was $763.7 million, but tax credits reduced the liability to $621.5 million.

About 21 percent of the corporations paid the tax on net income and that 21 percent paid about 75 percent of the total tax liability before credits. In addition, 33 percent of the corporations paid the tax based on net worth, and another 46 percent paid the minimum tax. These data exclude the reports of financial institutions, which are shown in the final table.

Financial institutions reported a total tax liability before credits of $157.9 million for tax year 2002. Banks filed 60 percent of the financial institution returns and paid 76 percent of the total tax liability reported by financial institutions. Savings and loans filed 28 percent of these returns, but paid only 22 percent of the total tax liability. Other financial institutions accounted for the balance of these returns and tax liability.

TAX BASE (R.C. 5709.50, 5709.65, 5733.04, 5733.05, 5733.051, 5733.056):

The franchise tax is levied on the value of a corporation's issued and outstanding shares of stock. Generally a taxpayer corporation must determine the value of its issued and outstanding shares of stock under both the net income base and the net worth base, and pay the tax on the base that produces the greater tax. However, different rules apply to financial institutions, qualifying holding companies and certain high-tech start-up companies:

- Financial institutions are not subject to the tax on the net income base but are subject to the tax on the net worth base at a higher rate than other taxpayers;
- Qualifying holding companies and certain high-tech start-up companies are not subject to the tax on the net worth base but are subject to the tax on the net income base.

1. Net Worth Base (R.C. 5733.05(C):

The net worth base value of issued and outstanding shares of stock is determined from the books of the corporation as of the beginning of the taxpayer's annual accounting period that includes the first day of January of the tax year. Net worth is determined by subtracting from book net worth those items excluded by statute (see **Exemptions and Exclusions** section). For taxpayers other than financial institutions, qualifying holding companies and high-tech start-up companies, the tax on the net worth base is calculated by multiplying the corporation's adjusted net worth by the corporation's net worth apportionment ratio by the net worth tax rate for general taxpayers. For financial institutions, the tax is determined by multiplying the taxpayer's adjusted net worth by the taxpayer's Ohio apportionment ratio by the net worth rate for financial institutions. Qualifying holding companies and certain high-tech start-up companies are not subject to tax on the net worth base (see **Exhibit 1**).

2. Net Income Base (R.C. 5733.05(B):

The net income base value of issued and outstanding shares is calculated by making certain deductions from and additions to federal taxable income before net operating loss deductions and special deductions for the taxable year (see **Exemptions and Exclusions** section). The adjusted income is then allocated or apportioned within and outside of Ohio, depending on its source. The net income base does not apply to financial institutions.

Allocable Income (for taxable years ending before June 26, 2003) (R.C. 5733.051) –

Income from the sources listed below is allocable regardless of whether that income is business income or nonbusiness income. Ohio franchise tax law makes no distinction between business and nonbusiness income for taxable years ending prior to June 26, 2003. Unless the Tax Commissioner requires an alternative method of allocation or unless the Tax Commissioner approves the taxpayer's requested alternative method, income from the following sources is allocated in or outside Ohio as listed below:

a) Net rents and royalties from real property and tangible personal property;
b) Capital gains and losses from the sale or other disposition of real property, tangible personal property, and dividend producing intangible property;
c) Dividends;
d) Net patent and copyright royalties (not representing principal source of gross receipts);
e) Technical assistance fees (not representing principal source of gross receipts); and
f) State lottery income.

Allocable Income (for taxable years ending after June 25, 2003) (R.C. 5733.051) –

Unless the Tax Commissioner requires an alternative method of allocation or unless the Tax Commissioner approves the taxpayer's requested alternative method, only nonbusiness income is allocated in and outside Ohio.

Apportionable Income (for taxable years ending before June 26, 2003) –

Unless the Tax Commissioner approves or requires an alternative method of apportionment, income from all non-allocable sources is apportioned to Ohio according to a weighted three-factor property, payroll and sales formula. The formula and the three weighted factors are shown in **Exhibit 2.**

Apportionable Income (for taxable years ending after June 25, 2003) –

Unless the Tax Commissioner approves or requires an alternative method of apportionment, business income is apportioned to Ohio according to a weighted three-factor property, payroll and sales formula. The formula and the three weighted factors are shown in **Exhibit 2.**

Net Income –

The sum of the income allocated and apportioned to Ohio less Ohio net operating losses carried forward from an earlier year equals Ohio taxable income to which the net income tax rate is applied.

TAX RATES (R.C. 5733.06):

1. Franchise Tax Rates:

Taxpayers must determine the value of issued and outstanding shares of stock under both the net income base and the net worth base and pay the tax on the base that produces the greater tax. The net income base does not apply to financial institutions and the net worth base does not apply to qualifying holding companies and high tech start-up companies.

Net Worth –

Net worth taxable value is taxed at the rate of 4.00 mills (.004). The maximum tax on the net worth base is $150,000 per taxpayer.

Net Income –

Net income is taxed at the rate of 5.1 percent on the first $50,000 of Ohio taxable income and 8.5 percent on Ohio taxable income in excess of $50,000. Corporations that meet the ownership requirements to file a combined report must share the $0 to $50,000 tax bracket to which the 5.1 percent rate applies, regardless of whether or not they actually file a combined return.

Minimum fee –

- For taxable years ending before June 26, 2003, the minimum tax liability for each taxpayer is $50.
- For taxable years ending after June 25, 2003, the minimum tax liability for certain large taxpayers is $1,000.

2. Litter Tax Rates (R.C. 5733.065 and 5733.066):

Tier I litter tax applies to all corporations except family farm corporations and financial institutions. The rates are:

Net Worth – 0.14 mills (.00014) on the taxable value of the corporation, or
Net Income – 0.11 percent on the first $50,000 of Ohio taxable income plus 0.22 percent on Ohio taxable income in excess of $50,000.

The Tier I litter tax charged any taxpayer or group of combined taxpayers is limited to $5,000.

Tier II litter tax applies to taxpayers that manufacture or sell litter stream products in Ohio. The Tier II litter tax rates are:

Net Worth – 0.14 mills (.00014) on the taxable value of the corporation, or
Net Income – 0.22 percent on the Ohio taxable income in excess of $50,000.

The Tier II tax charged any taxpayer or group of combined taxpayers is limited to $5,000.

Litter stream products include general beverages, beverage containers and packaging, take-out food packaging, tobacco products, candy, and gum.

3. Financial Institutions Rate (R.C. 5733.06):
Financial institutions are subject to tax on the net worth base at a rate of 13 mills (.013). Financial institutions are not subject to tax on the net income base.

EXEMPTIONS, EXCLUSIONS, DEDUCTIONS AND ADDITIONS:

1. Corporations not Subject to the Franchise Tax (R.C. 1733.43, 5733.01, 5733.04, 5733.06, 5733.09, and 5733.10):

a) Nonprofit corporations (except certain agricultural and consumer cooperatives);
b) Municipal corporations;
c) Public utilities subject to public utility excise tax;
d) Credit unions;
e) Dealers in intangibles;
f) Corporations required to file annual reports with the Superintendent of Insurance;
g) "Real estate investment trusts," "regulated investment companies,"

Exhibit 1 — Corporation Franchise Tax
Net Worth Tax Base

Ohio Taxable Value = Net Value of Stock* X [(Property factor x .20) + (Payroll Factor x .20) + (Sales Factor x .60)]

*Excludes value of pollution control, coal conversion, and energy conversion facilities property, qualified property in an enterprise zone, and land devoted exclusively to agriculture. See Exhibit 2 for explanation of factors.

Exhibit 2 – Corporation Franchise Tax
Net Income Tax Base (does not apply to financial institutions)

Ohio Taxable Income* = Allocable Income Within Ohio + Ohio Apportioned Net Income — Ohio Net Operating Loss Deduction

* Also includes income (or deducts a loss) from a transferor corporation and includes positive adjustments (or deducts negative adjustments) for related entities and related members.

1. Net Income Apportionment Formula:

Ohio Apportioned Net Income = Apportionable Income x [(Property Factor x.20) + (Payroll Factor x.20) + (Sales Factor x.60)]

2. The factors are computed as follows*:

Property Factor = Average cost of owned or rented real and tangible personal property used in business in Ohio / Average cost of such property used everywhere**

Payroll Factor * = Total compensation paid in Ohio / Total compensation paid everywhere**

Sales Factor** = Sales in Ohio / Sales everywhere**

* The net income base factors do not include property, payroll or sales relating to nonbusiness income for taxable years ending after June 25, 2003. For all taxable years, proceeds from the sale or exchange or other disposition of capital assets and I.R.C. section 1231 assets are not included in the sales factor for either base.

** The cost of pollution control, coal conversion, solid waste energy conversion, thermal efficiency improvement, and energy conversion facilities; property that generates rental income; and property used exclusively for qualified research in Ohio is excluded from the numerator and denominator only. The cost of qualifying improvements to property in an enterprise zone is excluded from the numerator only.

*** Excludes compensation to certain employees at a qualified facility in an enterprise zone, and compensation to employees engaged in qualified research in Ohio.

**** For sales of tangible personal property, sales inside and outside of Ohio are determined by the final destination of the property sold; other sales are sitused according to where the income-producing activity takes place. Sales derived from allocable income are not included in this factor.

and "real estate mortgage investment conduits" as defined in the I.R.C;

h) Corporations electing treatment as an "S" corporation under the I.R.C. and their Qualified Subchapter S Subsidiaries (QSSS);

i) Limited Liability Companies (LLCs), if treated as a partnership for federal tax purposes; and

j) Corporations in Chapter 7 bankruptcy proceedings are not subject to the franchise tax except for the portion of the current tax year such corporation had the power to exercise its corporate franchise unimpaired by such proceedings.

2. Deductions in Determining Net Worth (R.C. 5709.25, 5709.35, 5709.50, 5709.65, 5915.29, 6111.36 and 5733.056):

a) Certified Ohio pollution control facilities;

b) Certain facilities designed to convert coal into other fuels or to desulfurize coal (applies only to financial institutions and assets excluded only for 30 years);

c) Certified Ohio civil defense structures;

d) Certified Ohio energy conversion, thermal efficiency improvement, and solid waste energy conversion facilities for years ending prior to June 26, 2003;

e) Qualified improvements to property located in an enterprise zone (applies only to financial institutions);

f) Land in Ohio devoted exclusively to agriculture; and

g) Appreciation and goodwill (applies only to financial institutions).

3. Adjustments in Determining Ohio Net Income (R.C. 5709.35, 5733.04, 5733.042, 5733.053, 5733.054, 5733.055, and 5733.058):

a) Deduct certain income from sources outside the United States;

b) Deduct I.R.C. section 243 dividends received deduction;

c) To the extent not otherwise deducted, deduct dividends received from public utilities, insurance companies and financial institutions in which the taxpayer has the ownership interests as described by statute (receipts from these companies are eliminated in determining the sales factor for apportioning net income and net worth);

d) Deduct gains and add losses from the sale of capital assets and I.R.C. section 1231 assets to the extent such gains and losses occurred prior to becoming a taxpayer;

e) Deduct net income arising from facilities designed to convert coal into other fuels, to desulfurize coal, or as a coal research and development project (exempt for 30 years);

f) Deduct interest on Ohio public and purchase obligations and gains from the sale of Ohio public obligations (losses from sales of Ohio public obligations are added to net income);

g) Deduct wage and salary expense not otherwise deducted for federal tax purposes because of the targeted jobs tax credit and/or the work opportunity tax credit;

h) Deduct net interest income on federal government obligations;

i) Deduct Ohio net operating loss carried forward from the prior 20 years (there is no Ohio net operating loss carry-back provision);

j) Deduct amounts contributed to an individual development account program;

k) Deduct net income attributable to an "exempted investment" in a public utility (net loss from exempted investment in a public utility is added to net income);

l) Add the amount claimed as a credit for taxes paid by a qualifying pass-through entity to the extent that the amount was deducted or excluded from the corporation's federal taxable income;

m) Add interest and intangibles expense paid to certain related members;

n) Add income (and deduct losses) earned by a transferor corporation that merges into the taxpayer in a tax-free reorganization; and

o) Add (and later deduct) depreciation expense adjustment for I.R.C. section 168(k) bonus depreciation and additional I.R.C. section 179 depreciation.

CREDITS:

1. Credit for Recycling and Litter Prevention Donations (R.C. 5733.064):

Taxpayers may claim a credit equal to 50 percent of cash donations for litter control made to municipalities, counties, and townships that qualify for grants from the litter control and recycling special account. This credit is limited to the lesser of cash donations or 50 percent of the additional tax liability from the litter tax rates.

2. Enterprise Zone Day Care and Training Credits (R.C. 5709.65(A)):

Taxpayers that locate in an enterprise zone and hold a tax incentive qualification certificate issued by the Department of Development may claim a credit equal to:

a) The amount reimbursed to specified employees for the cost of day care services up to a maximum of $300 per child;

b) The amount reimbursed to specified employees for training costs up to a maximum of $1,000 per employee.

3. Credit for Savings and Loan Association Fees (R.C. 5733.063):

Savings and loan associations are permitted a credit against the total tax due equal to the amount of the annual assessment the association paid during the taxable year to the Division of Savings and Loan Associations under R.C. 1155.13, less the amount the association paid in supervisory fees during the taxable year to the Federal Savings and Loan Insurance Corporation, or in the case of a savings and loan association not insured by the Federal Savings and Loan Insurance Corporation, the amount it would have paid if insured.

4. Credit for Taxes Paid by a Qualifying Pass-Through Entity (R.C. 5733.0611):

A corporation that is a qualifying investor in a qualifying pass-through entity can claim a nonrefundable credit equal to the corporation's proportionate share of the tax paid by the qualifying pass-through entity.

5. Export Sales Credit (R.C. 5733.069):

For tax years prior to 2001, corporations that increased export sales and increased Ohio payroll or property were allowed a credit. For tax years 2001 through 2005, only unused amounts carried forward from prior years are allowed.

6. New Jobs Credit (R.C. 5733.0610):

A taxpayer may claim a refundable credit for new jobs created pursuant to an agreement with the Tax Credit Authority created under R.C. 122.17. The credit equals a designated percentage of the total amount of Ohio income tax withheld from new employees during the taxable year. The percentage is established by agreement between the taxpayer and the Tax Credit Authority. The credit is permitted for a period of up to 10 years.

7. **Credit for Grape Production Property (R.C. 5733.32):** A taxpayer may claim a credit equal to 10 percent of the cost of purchasing and installing or constructing qualifying property used to produce grapes in Ohio.
8. **Credit for Eligible New Employees in an Enterprise Zone (R.C. 5709.66):** A taxpayer that is issued a tax credit certificate for an eligible employee may claim a $1,000 nonrefundable credit for each taxable year covered under the enterprise zone agreement during which the eligible employee is employed by the taxpayer.
9. **Edison Center Credit for Research and Development Investors (R.C. 5733.35):** Investors that provide capital to certain qualifying small, Ohio-based research and development or technology transfer companies may be eligible for a nonrefundable credit equal to 25 percent of the taxpayer's at-risk investment. The credit must be approved by the State Industrial Technology and Enterprise Board. The maximum cumulative value of credits granted to all taxpayers cannot exceed $10 million.
10. **Credit for Eligible Costs Associated with a Voluntary Action (R.C. 5733.34):** Taxpayers may claim a nonrefundable credit for costs incurred in completing a voluntary clean-up of a contaminated site pursuant to an agreement with the state Director of Development. The credit is aimed at restoring contaminated industrial sites. The credit equals the lesser of $500,000 or 10 percent of the eligible costs incurred in performing the voluntary clean-up. If the clean-up action is undertaken in certain "economically disadvantaged" areas, the credit equals the lesser of $750,000 or 15 percent of the eligible costs. The maximum cumulative value of credits granted to all taxpayers cannot exceed $30 million.
11. **Credit for Purchases of New Manufacturing Machinery and Equipment – 7.5 Percent/13.5 Percent Credit (R.C. 5733.33):** New manufacturing machinery and equipment purchased by manufacturers between July 1, 1995 and December 31, 2005 for installation in Ohio is eligible for an investment tax credit. The credit equals 7.5 percent of the amount by which the cost of qualifying equipment purchased during a calendar year qualifying period for use in an Ohio county exceeds the taxpayer's "base investment" for that county. The credit rate for investments in certain eligible areas (inner city areas, distressed areas, labor surplus areas, and situational distress areas) is 13.5 percent (rather than 7.5 percent). One-seventh of the credit may be claimed in each of the seven tax years following the purchase year.
12. **Day Care Credits (R.C. 5733.36, 5733.37 and 5733.38):** Three separate tax credits are available for tax years 1999 through 2003 for costs associated with child day care. One of these credits equals 50 percent of the payments made by the taxpayer to support a qualified day care center that may be used by the taxpayer's employees. Another credit equals 50 percent of the start-up expenses of a day care center established on the taxpayer's site and used by the taxpayer's employees (the maximum credit is $100,000). The final credit equals 50 percent of the reimbursements made by a taxpayer to its employees for day care expenses of dependents, with a maximum $750 annual credit per child. Unused credits with respect to establishing on-site day care centers can be carried forward for five tax years. The other two day care credits have no carry-forward period and thus have expired.
13. **Credit for Qualifying Affiliated Groups (R.C. 5733.068):** If as a result of the related entity and related member adjustments, an affiliated group will pay over $3.5 million more franchise tax than the members of the group otherwise would have paid had the members of the group not made the related entity and related member adjustment, then the members of the affiliated group may claim a credit equal to the difference between the additional tax and $3.5 million. However, the credit is limited to $1.5 million for the affiliated group (even if the additional tax exceeds $5 million).
14. **Job Training Credit (R.C. 5733.42):** This temporary credit applies to franchise taxpayers for tax years 2004, 2005 and 2006 that incurred "eligible training costs" and received a tax credit certificate from the state Director of Job and Family Services with respect to an "eligible training program" for "eligible employees." The Director may not issue tax credit certificates which in total exceed $20 million per calendar year. The Director will review job training credit applications and authorize credits to qualified applicants in the order in which the applicants submit complete and accurate applications.
15. **Credit for Maintaining Railroad Crossing Warning Devices (R.C. 5733.43):** Railroad companies can claim a credit for maintaining signs, signals, gates and other electrical warning devices at public highway-railway crossings in Ohio at common grade. The credit equals 10 percent of the sum of the annual maintenance expenditures for each active grade crossing warning device in Ohio for which such expenditures were made during the taxable year. The credit may not exceed $200 for each device in Ohio for which such expenditures were made during the taxable year.
16. **Job Retention Credit (R.C. 5733.0610(B)):** This credit applies to taxpayer-manufacturers that make a capital investment of at least $200 million (or under certain conditions $100 million, see **Recent Legislation**) at a single Ohio project site during three consecutive calendar years in the period January 1, 2002 and ending December 31, 2006. As a prerequisite, the taxpayer must employ an average of 1,000 full-time employees at the project site during each of the twelve months preceding application. In addition, the taxpayer must retain at least 1,000 full-time employees at the project site for the entire term of the credit agreement. The credit equals a percentage of the Ohio income tax withheld from the taxpayer's employees at the project site as set forth in the agreement between the taxpayer and the Ohio Tax Credit Authority. The credit begins in tax year 2003 and is limited to a term of 10 years.
17. **Ethanol Plant Investment Credit (R.C. 5733.46 and 901.13):** This nonrefundable credit equals 50 percent of the amount of money that the taxpayer invests in R.C. 901.13 certified ethanol plants in the calendar year preceding the tax year. The credit is limited to $5,000 per taxpayer per certified ethanol plant regardless of the number of years in which the taxpayer makes such investments. The credit applies to tax years 2003 through 2013.
18. **Credit for Qualified Research Expense (R.C. 5733.351):** For years 2004 and thereafter the credit equals 7 percent of the amount by which the taxpayer's "qualified research expense"

incurred in Ohio during the taxable year exceeds the taxpayer's average annual qualified research expenses incurred in Ohio for the three preceding taxable years. The term "qualified research expense" has the same meaning as in section 41 of the I.R.C.

19. **Lottery Commission Withholding Credit (R.C. 5747.062(B)(2)):**
A refundable credit is available in that amount equal to the amount the Ohio Lottery Commission withheld from payments to the taxpayer.

20. **Coal Credit for Electric Companies (R.C. 5733.39):**
Beginning in tax year 2003, an electric company may claim a nonrefundable credit for Ohio coal used in any part of its coal-fired electric generating units after April 30, 2002 but before January 1, 2005. The credit is computed at the rate of $3 per ton of Ohio coal burned in a coal-fired electric generating unit.

SPECIAL PROVISIONS:

1. Although a corporation that dissolves its Ohio charter or surrenders its license to conduct business in Ohio prior to January 1 of the tax year is not subject to the franchise tax, the corporation may be subject to an "exit tax" on its unreported Ohio net income. Any income earned by an exiting corporation in the two calendar years prior to the tax year (to the extent that such income was not previously included on a franchise tax report) is subject to the exit tax. The exit tax is not computed on the net worth base and does not apply to financial institutions (see R.C. 5733.06(H)).
2. A transferee corporation that receives substantially all the assets of a transferor corporation in a tax-free reorganization is required to include in its income the income of the transferor if the transferor is not subject to the franchise tax (see R.C. 5733.053).
3. A corporation that claims the credit for its proportionate share of taxes paid by a qualifying pass-through entity must add to federal taxable income the amount claimed as a credit, to the extent such amount was deducted or excluded from the corporation's federal taxable income (see R.C. 5733.04(I)(14)).
4. Qualifying pass-through entities (partnerships, S corporations, and LLCs treated as a partnership for federal income tax purposes) that are doing business in Ohio or otherwise have nexus with Ohio are required to pay tax on the qualifying investors' share of the pass-through entity's Ohio profits. Among the investors excluded from the definition of "qualifying investors" are individual investors who are Ohio residents; nonresident individuals on whose behalf the entity files Ohio Form IT-4708; investment pass-through entities; and corporate investors that submit a statement to the qualifying pass-through entity agreeing that the investor is subject to Ohio corporation franchise tax on its distributive share of income from the entity. The pass-through entity is subject to a 5 percent withholding tax on the sum of qualifying individual investors' distributive shares of the entity's Ohio income and gain. For qualifying investors that are not individuals, the entity is subject to an 8.5 percent tax on the sum of such investors' distributive shares of Ohio income and gain. No tax is due if Ohio income and gain do not exceed $1,000 (see R.C.5733.40, 5733.41, 5733.04(I)(14) and 5733.0611, and R.C. income tax sections 5747.41 through 5747.453, 5747.01(A)(16), and 5747.059).
5. Companies defined as "financial institutions" under R.C. 5725.01 are subject to a net worth based franchise tax that differs substantially from the net worth base tax for regular corporations (see R.C. 5733.056).
6. Each taxpayer must include in its adjusted qualifying amounts, allocable income or loss, apportionable income or loss, property, compensation, and sales, the taxpayer's proportionate or distributive share of such items for any pass-through entity in which the taxpayer has a direct or indirect ownership interest (see R.C. 5733.057).
7. If more than half of the capital stock, with voting rights, of the taxpayer is owned or controlled by another corporation or related interests, the Tax Commissioner may permit or require the combining of net income for purposes of calculating the tax base. In addition, two or more corporations subject to the tax that meet the above ownership requirements may elect to file a combined report if each of the corporations has nondividend income from sources within Ohio. Once made, this election may not be changed by the taxpayer without the Tax Commissioner's consent. The combination provisions apply only to the net income base, not the net worth base (see R.C. 5733.052).
8. Intangible expenses and costs paid to certain related members are added to income (see R.C. 5733.042).

TAXPAYER (R.C. 5733.01):

The Ohio corporation franchise tax is imposed on both domestic and foreign corporations organized for profit for the privilege of doing business in Ohio, owning capital or property in Ohio, holding a charter or certificate of compliance authorizing the corporation to do business in Ohio, or otherwise having nexus with Ohio during the calendar year in which the tax is payable.

Unless an exemption applies, each for profit domestic corporation (a corporation organized for profit under the laws of Ohio) and each Chapter 1729 corporation (agricultural cooperative) organized not for profit under the laws of Ohio, is subject to the Ohio franchise tax. In addition, unless an exemption applies, each foreign corporation (a corporation organized under the laws of another state, a possession or instrumentality of the United States, or a foreign country) organized for profit, and each not for profit foreign agricultural cooperative organized or operating in the same or similar manner as a Chapter 1729 agricultural cooperative, for the privilege of doing business in Ohio, owning or using part or all of its capital or property in Ohio, holding a certificate of compliance with the laws of Ohio authorizing it to do business in Ohio, or otherwise having nexus with Ohio under the Constitution of the United States, is subject to the franchise tax. Business trusts defined in R.C. 1746.01 having nexus with Ohio are also subject to the corporation franchise tax.

FILING AND PAYMENT DATES (R.C. 5733.02, 5733.021, 5733.022 and 5733.13):

January 31 —
If by this date the corporation does not file the annual report and make full payment of the tax due, then the corporation must file an estimated report and pay one-third of that estimated liability. If the estimated tax liability is the minimum fee, the corporation must make full payment by January 31.

March 31 —
By this date the corporation must either file its franchise tax report and

pay the remaining tax due or the corporation must file a request for extension and pay the second one-third of its estimated tax liability.

May 31 —
By this date, a corporation which by March 31 filed a request for extension and paid the second one-third of its estimated tax due, must either file the annual report and pay the remaining tax due or file a request for additional extension and pay the remaining one-third of its estimated franchise tax liability. A corporation receiving this extension must file its annual report and pay any remaining tax liability by the 15th day of the month following the extended due date for filing its federal corporation income tax return.

The interest rate on both underpayments and overpayments is based on the average federal short-term rate in effect in July of the previous year plus three percentage points. For calendar year 2003, the rate is 6 percent. The rate will decrease to 4 percent in calendar year 2004.

DISPOSITION OF REVENUE (R.C. 4981.09, 5733.12, 5733.122):

After making any necessary deposits to the Attorney General Claims Fund, the Litter Control Tax Administration Fund, and the Recycling and Litter Prevention Fund, the Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund receives 0.6 percent, and the General Revenue Fund receives 95.2 percent of collections.
H.B. 94,124th General Assembly, FY 2002/2003 Biennial Budget Bill, temporarily replaced the revenue distribution described above.

During each month of the July 2001 – May 2002 period and the July 2002 – May 2003 period, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received during the corresponding month of the July 2000 – May 2001 period. For June 2002 and June 2003 the funds received the same amount they received in June 2000.

The amount appropriated annually for administration of the litter tax is credited to the Litter Control Tax Administration Fund. The annual amount credited to the Recycling and Litter Prevention Fund equals the litter tax liability in the second preceding year.

OHIO REVISED CODE CITATIONS:

Chapters 122, 1733, 4981, 5703, 5709, 5733, and 5915.

ADMINISTRATION:

The corporation franchise tax is administered by the Department of Taxation. However, certain franchise tax credits are administered by the Department of Development. Tax payments are payable to the Treasurer of State but are received by the Department of Taxation. Certain large taxpayers are required to pay by Electronic Funds Transfer (EFT). Taxpayers that are required to pay by EFT must register through the Treasurer of State.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective June 26, 2003). Effective for taxable years ending on or after June 26, 2003, Am. Sub. H.B. 95 enacts significant franchise tax amendments pertaining to the apportionment and allocation of income to Ohio.
This new law distinguishes business income from nonbusiness income and defines those terms –

- ***Business income*** means income arising from transactions, activities, and sources in the regular course of a trade or business and includes income from real property, tangible personal property, and intangible personal property if the acquisition, rental, management, and disposition of the property constitute integral parts of the regular course of a trade or business operation. 'Business income' includes income, including gain or loss, from a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill (see R.C. 5733.04(Q) as enacted by Am. Sub. H.B. 95, 125th General Assembly);
- ***Nonbusiness income*** means all income other than business income (see R.C. 5733.04(R) as enacted by Am. Sub. H.B. 95, 125th General Assembly).

The new law requires the apportionment of all business income and the allocation of nonbusiness income.

In addition to amending the law regarding whether income is apportionable business income or allocable nonbusiness income, the new law amends how certain nonbusiness income is allocated. Every item of net nonbusiness income from sources other than those specified in R.C. 5733.051 is allocated entirely to Ohio except to the extent the allocation of such item of net nonbusiness income entirely to Ohio is not within the taxing power of this state under the Constitution of the United States. To the extent such allocation entirely to Ohio is not within the taxing power of this state under the Constitution of the United States such nonbusiness income is apportionable.

Property, payroll and sales factor provisions –

- **Net income base apportionment.** For taxable years ending on or after June 26, 2003 the numerator and the denominator of the net income base property, payroll and sales factors specifically **exclude** the portion of property, payroll, and sales otherwise includible in the factors to the extent that the portion relates to, or is used in connection with, the production of nonbusiness income allocable under R.C. 5733.051 (see R.C. 5733.05(B)(2)).
- **Property factor.** For taxable years ending on or after June 26, 2003 the numerator and the denominator of the property factor specifically **include** real property and tangible personal property that the corporation rents, subrents, leases, or subleases to others if the income or loss from such rentals, subrentals, leases, or subleases is business income.
- **Net worth base apportionment.** For taxable years ending on or after June 26, 2003 the numerator and the denominator of the net income base property, payroll and sales factors must be adjusted to include the portion of any real and tangible personal property, payroll, and sales, respectively, relating to, or used in connection with the production of, nonbusiness income allocated under R.C. 5733.051. For example, real property that generates nonbusiness rental income allocated to Ohio is excluded from the numerator and the denominator of the net income base property factor but for the net worth base the property factor is adjusted to include such property.

- **5/6 – 1/5 adjustment for I.R.C. section 179 expense.** In determining Ohio taxable income taxpayers must add to Ohio taxable income 5/6 of the "qualifying section 179 depreciation expense" deducted in determining federal taxable income for the taxable year. "Qualifying section 179 depreciation expense" means the difference between (1) the amount of depreciation expense directly or indirectly allowed to the taxpayer under section 179 of the I.R.C., and (2) the amount of depreciation expense directly or indirectly allowed to the taxpayer under section 179 of the I.R.C. as that section existed on December 31, 2002 (see R.C. 5733.04(I)(17)(a)(ii) as enacted by Am. Sub. H.B. 95, 125th General Assembly). Then, for each of the succeeding five tax years (2005 through 2009) the taxpayer must deduct 1/5 of the amount previously added back.
- **Minimum fee increased to $1,000 for larger corporations.** For taxable years ending on or after June 26, 2003 the minimum franchise tax fee is $1,000 if (1) the sum of the taxpayer's gross receipts from its activities within and without Ohio during the taxable year equals or exceeds $5 million, or (2) the total number of the taxpayer's employees within and without Ohio at any time during the taxable year equals or exceeds 300. For all other taxpayers the minimum fee remains $50.
- **Telephone Companies.** A telephone company that no longer pays an excise tax under R.C. 5727.30 on its gross receipts billed after June 30, 2004, is subject to franchise tax for tax years 2005 and thereafter. For tax year 2005, a telephone company with a taxable year ending in 2004 must compute its Chapter 5733 franchise tax by multiplying by 50 percent of the tax otherwise due, net of all nonrefundable credits, and must compute the net operating loss carried forward from tax year 2005 to a future year by multiplying by 50 percent the net operating loss otherwise computed for the taxable year ending in 2004.
- **Telecommunications Companies.** R.C. 5733.05(B)(2)(e) provides that the Tax Commissioner may adopt rules providing for alternative allocation and apportionment methods, and alternative calculations of a corporation's base, that apply to corporations engaged in telecommunications.

Am. Sub. S.B. 180, 124th General Assembly (effective April 9, 2003). Job Retention Tax Credit amendments, R.C. 122.171 and 5733.0610(B) –

Under prior law (as enacted by Am. Sub. H.B. 405, 124th General Assembly, effective December 13, 2001) a taxpayer could claim a credit as provided in an agreement between the taxpayer and the Ohio Tax Credit Authority if pursuant to the agreement and during three consecutive calendar years in the period beginning January 1, 2002 and ending December 31, 2006, the taxpayer made an investment in physical plant of at least $200 million toward the taxpayer's approved project at the taxpayer's approved project site and the taxpayer employed at least 1,000 full-time employees at the project site. For each of the years set out in the agreement the amount of the credit equaled a percentage (as specified in the agreement, but not to exceed 75 percent) of the Ohio individual income tax withheld from the taxpayer's employees at the project site. The purpose of the credit was to encourage large employers to maintain jobs in Ohio.

This law lessened the requirements for credit eligibility as follows:

- At the taxpayer's project site to which the credit applied a taxpayer could perform "significant corporate administrative functions." Under prior law the taxpayer's primary operations at the project site were limited to manufacturing.
- If the average wage of all full-time employment positions at the project site was greater than 400 percent of the federal minimum wage, then the company was required to make payment toward the project of only $100 million over the three consecutive calendar year investment period. Prior law required an investment of $200 million regardless of the average wage. Current law continues to require a $200 million investment if the 400 percent federal minimum wage standard is not met.
- The taxpayer's investment project could include the capitalized costs of basic research and new product development determined in accordance with Generally Accepted Accounting Principles (GAAP). Prior law required that the investment be entirely in physical plant.
- The project site could include an integrated complex of facilities located within a 15-mile radius. Prior law required that those facilities be within a five-mile radius.

Credit for losses on loans made to the Ohio Venture Capital Program, R.C. 150.01 to 150.10, 5733.49, 5733.98, 5747.80 and 5747.98 –

The law established the Ohio Venture Capital (OVC) program for the purpose of increasing the amount of private investment capital available to both (1) Ohio-based business enterprises in the seed or early stages of business development that require initial or early stage funding, and (2) established Ohio-based business enterprises that require funding for developing new methods or technologies. The law also established a franchise tax credit and an individual income tax credit to provide OVC lenders and investors some security against losses on their loans to the OVC program. Although the Ohio Tax Credit Authority may authorize tax credits any time after the Authority establishes its investment policy, a taxpayer may not claim those credits during the first four years of the OVC program (measured by the date the Authority establishes its investment policy). Therefore, this credit does not appear on the 2004 Ohio franchise tax report.

Sub. S.B. 200 (Taxpayer Services II), 124th General Assembly (effective September 6, 2002). This law enacted several provisions in various Revised Code sections –

- **Uniform application for refund procedure (R.C. 5703.70).** Established the following uniform application for refund procedure applicable to franchise tax and various other taxes: (1) if the Tax Commissioner determines that the amount of the refund to which the applicant is entitled is less than the amount claimed, the Commissioner must notify the applicant in writing of the lesser refund amount; (2) the applicant has 60 days from the date the Commissioner mails the notice to provide additional information or to request a hearing; (3) if within the 60-day period the applicant neither requests a hearing nor provides additional information, the Commissioner will take no further action, and the amount denied becomes final; (4) if within the 60-day period the applicant requests a hearing, the Commissioner must assign a time and place for the hearing. After the hearing, the Commissioner may adjust the refund and must issue a final determination; (5) if within the 60-day period the applicant does not request a hearing, but provides additional information, the Commissioner will review the information, make such adjustments to the refund as the Commissioner finds proper and issue a final determination; (6) the taxpayer may appeal the Commissioner's final determination to the Board of Tax Appeals pursuant to R.C. 5717.02.
- **Uniform petition for reassessment procedure (R.C. 5703.60).** Established a uniform petition for reassessment procedure and a

uniform assessment correction procedure applicable to franchise tax and various other taxes. If the taxpayer has properly filed a franchise tax petition for reassessment, this law permits the Tax Commissioner, upon receipt of additional information from the taxpayer, to correct an assessment without issuing a final determination and without a hearing. In addition, this law permits the Commissioner to correct an assessment even if the taxpayer has not filed a petition for reassessment or has not filed a proper petition for reassessment.

- **Late payment penalty (R.C. 5733.28 and 5733.021(C).** If a taxpayer fails to pay the amount of tax required by the date prescribed, the Tax Commissioner may impose a penalty not to exceed 15 percent of the delinquent payment. Under prior law the R.C. 5733.28(A)(2) penalty for late payment could not exceed twice the interest charged under R.C. 5733.26(A).
- **Penalty safe-harbor for estimated payments (R.C. 5733.021(C)).**
  - For purposes of determining the R.C. 5733.28(A)(2) failure to pay penalty for any period of delinquency ending prior to the first day of June of the tax year, the Tax Commissioner may charge a penalty on the delinquent portion of the estimated tax. Estimated tax means the lesser of 100 percent of last year's tax or 90 percent of this year's tax.
  - For purposes of determining the R.C. 5733.28(A)(2) failure to pay penalty for any period of delinquency commencing the first day of June of the tax year and concluding on the extended due date, the Commissioner may charge a penalty on the delinquent portion of the estimated tax. Estimated tax means 90 percent of this year's tax.
- **Ohio net operating losses (R.C. 5733.04(I)(1)).** For Ohio net operating losses incurred in taxable years beginning on or after August 6, 1997, the designated carry-over period is 20 consecutive taxable years following the taxable year in which the net operating loss occurs. Ohio net operating losses may not be carried back.
- **Refund statute of limitations (R.C. 5733.12).** For purposes of the refund statute of limitations, payments made before the due date or extended due date for filing the report to which the payment relates, are deemed to have been made on the due date or extended due date.

Am. Sub. S.B. 261, 124th General Assembly (effective June 5, 2002). This law enacted franchise tax changes in several sections of the Revised Code –

- **Bonus depreciation (R.C. 5733.04(I)(17) and (I)(18).** Taxpayers whose taxable year ended on or after June 5, 2002 are required to add back 5/6 of their I.R.C. section 168(k) bonus depreciation. Then, for each of the succeeding five tax years the taxpayer must deduct 1/5 of the amount previously added back (the Department of Taxation refers to this provision as the 5/6 – 1/5 rule). Taxpayers that claimed bonus depreciation for the taxable year ending before June 5, 2002 must apply one of two options for that year:

  Option A – Elect to apply the 5/6 –1/5 rule to assets acquired during the taxable year ending after September 10, 2001 and before June 5, 2002.

  Option B – Recompute federal depreciation expense as it would have been without enactment of I.R.C. section 168(k) and add to federal taxable income the difference between the taxpayer's depreciation expense actually deducted for the taxable year and the recomputed depreciation expense.

- **Disregarded entities (R.C. 5733.01(F)).** For purposes of the franchise tax, the term "disregarded entity" means an entity that for its taxable year is by default, or has elected to be, disregarded as an entity separate from its owner pursuant to 26 Code of Federal Regulations 301.7701-3. A corporation's ownership interest in a disregarded entity is treated as ownership of the assets and liabilities of the disregarded entity itself and a disregarded entity's income, including gains or losses, is included in the owner's Chapter 5733 net income. Any sale or other disposition of an interest in a disregarded entity is treated as a sale or other disposition of the disregarded entity's underlying assets and liabilities and the gain or loss from such sales is included in the corporation's Chapter 5733 net income. A disregarded entity's property, payroll and sales are included in the owner's property, payroll and sales. If the disregarded entity has nexus with Ohio, then the corporate owner has nexus with Ohio.

RECENT SIGNIFICANT COURT DECISIONS:

LSDHC Corp. v. Zaino **(2003), 98 Ohio St.3d 450 .**

Issue: Is the federal protection from the franchise tax net income base afforded by Public Law (P.L.) 86-272 Section 381, Title 15 U.S. Code determined by the taxpayer's business activities during the tax year, the calendar year for which the tax is imposed, or, instead by the taxpayer's business activities during the taxable year by which the net income is measured?

Holding: The Ohio Supreme Court reversed the earlier decision of the Board of Tax Appeals and held that the issue of whether or not P.L. 86-272, Section 381, Title 15 U.S. Code prohibits the imposition of franchise tax measured by the net income base is determined by the taxpayer's activities during the taxable year in which the taxpayer earned that income – not by the taxpayer's activities during the subsequent tax year or on January 1 of the tax year. If the taxpayer's activities in Ohio during the taxable year exceeded the activities protected by P.L. 86-272 but in the subsequent tax year the taxpayer's activities did <u>not</u> exceed the protected activities, then P.L. 86-272 offers no protection for the tax year, and for that tax year the corporation is subject to the franchise tax on the net income base. Conversely, if the taxpayer's activities in Ohio during the taxable year did <u>not</u> exceed the activities protected by P.L. 86-272 but in the subsequent tax year the taxpayer's activities did exceed the protected activities, P.L. 86-272 does offer protection for the tax year, and for that tax year the corporation is <u>not</u> subject to the franchise tax on the net income base.

Duramed Pharmaceuticals, Inc. v. Zaino **(March 7, 2003) BTA No. 2002-V-164.**

Issue: Does the term "new manufacturing machinery and equipment," as defined in R.C. 5733.33(A)(2), include manufacturing machinery and equipment that a manufacturer purchased during the qualifying purchase period if, prior to the purchase period for which the credit applies, the purchaser-manufacturer originally used the equipment in this state as a lessee? That is, if a taxpayer first used manufacturing machinery prior to the qualifying purchase period as a lessee, is the taxpayer entitled to the credit upon purchasing the equipment during the qualifying period?

Facts:

- Duramed leased manufacturing machinery and equipment from Ortho-McNeil Pharmaceuticals Corp. in 1994. Duramed installed the equipment in Ohio in late 1994 and first used the equipment to produce product in the first half of 1995.

- The lease contained a purchase option, which Duramed exercised in September 1997.
- The lease was apparently an operating lease (that is, the lease was not in substance a purchase by Duramed when entered into in 1994) because the Board of Tax Appeals found no evidence to suggest that the lease was considered a purchase for either federal income tax purposes or under GAAP.

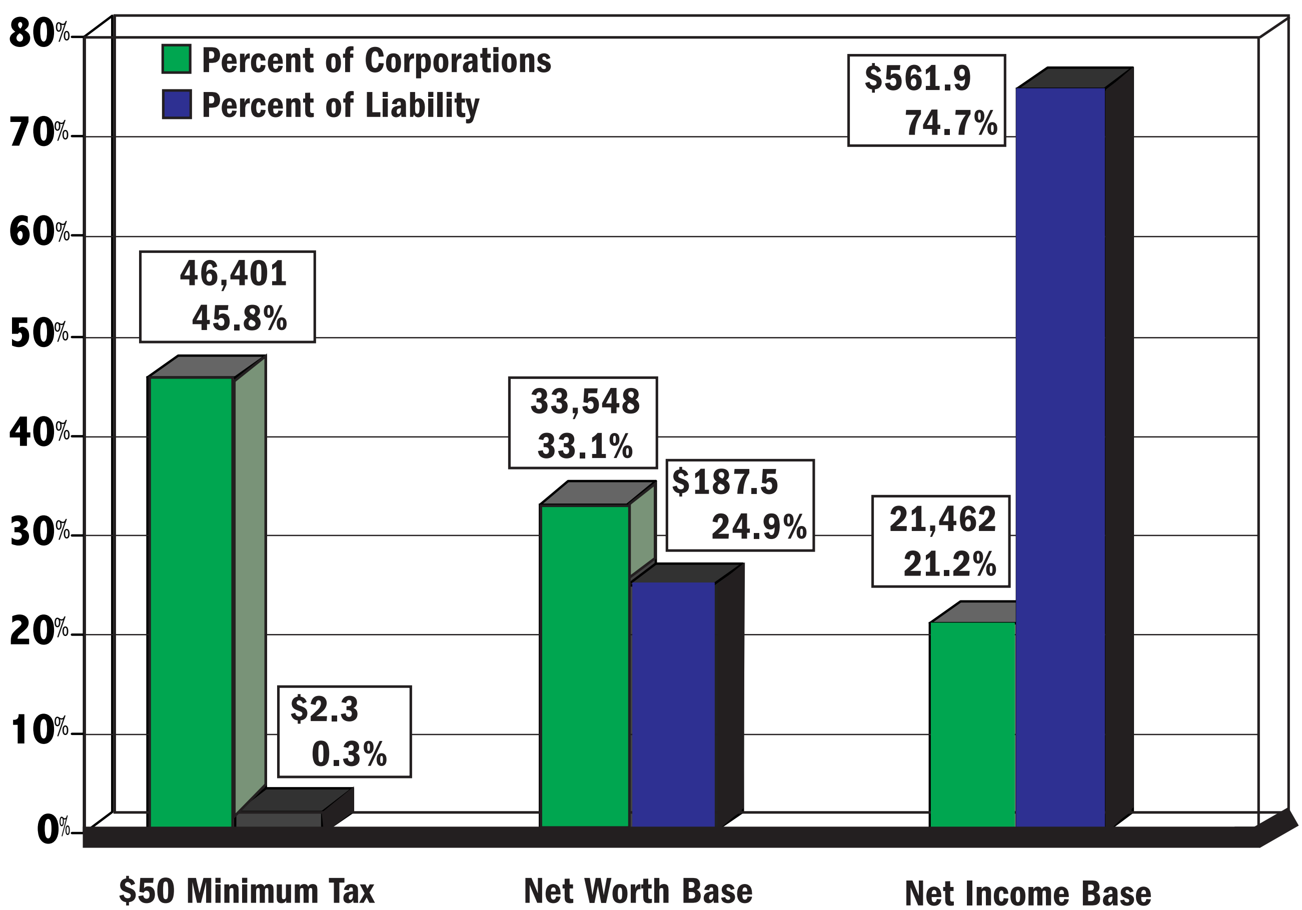
Statute: R.C. 5733.33(A) "As used in this section: . . . (2) 'New manufacturing machinery and equipment' means manufacturing machinery and equipment, the original use in this state of which commences with the taxpayer or with a partnership of which the taxpayer is a partner. . ."

Holding: The Board of Tax Appeals held that Duramed may claim the R.C. 5733.33 manufacturer's credit on manufacturing equipment whose original use in Ohio began with Duramed prior to the qualifying purchase period under a lease and which equipment the taxpayer purchased during the qualifying purchase period upon exercising an option in the lease agreement. Finding nothing in the record suggesting that the lease was treated as a purchase for federal income tax purposes or under GAAP, the Board held that the existence of the lease does not operate to defeat the credit. The Board found that the definition of "new" machinery is unambiguous and requires only that the original use in Ohio begin with the taxpayer, and such original use is not restricted or limited to the qualifying purchase period.

RECENT INFORMATION RELEASES:

G 2002-01 —"Modified Appeal Procedures – Corrected Assessments," Dec. 16, 2002.
PI & CFT 2002-02 — "Ohio Bonus Depreciation Adjustment and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and At-Risk Rules," Nov. 7, 2002.
PI & CFT 2002-01 —"Recently-Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending in 2001 and Thereafter," July 31, 2002.
PIT 2001-03 —"Pass-through Entity Tax: Certain Estimated Tax Payments Due September 16, 2002," July 3, 2002.

Percentage of Corporations and Tax Liability by Tax Base, Tax Year 2002
Total Number of Corporations—101,411
Total Reported Tax Liability—$751.8 million
(figures in millions)
(excludes financial institutions)



(Some figures may not add due to rounding.)

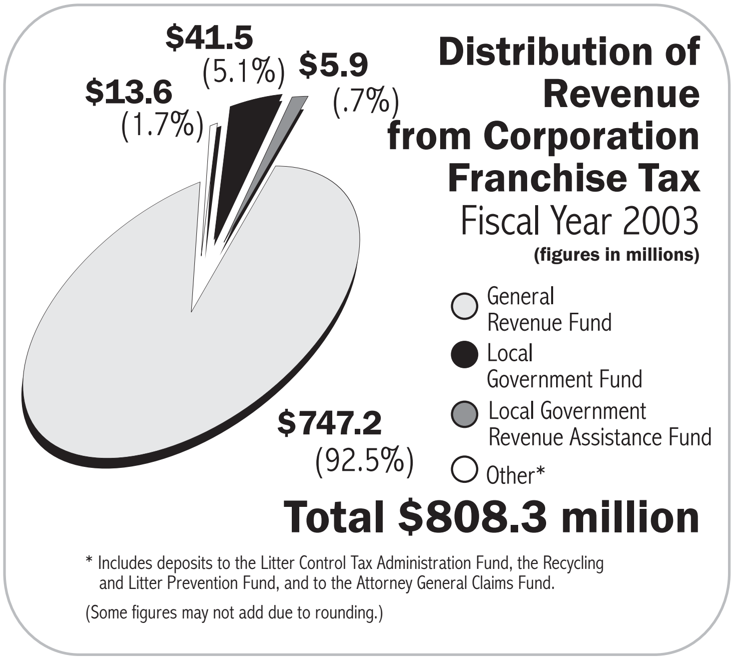


Table 1
Corporation Franchise Tax Collections, Fiscal Years 1999 - 2003

Fiscal Year	Gross Tax Collections	Refunds	Net Tax Collections
1999	$1,333,022,664	$182,696,830	$1,150,325,834
2000	1,219,484,766	189,600,815	1,029,883,951
2001	1,158,910,767	185,943,569	972,967,198
2002	1,011,443,330	237,075,921	774,367,410
2003	1,015,027,341	206,770,271	808,257,070

Table 2
Corporation Franchise Tax — Number of Corporations by Tax Base and Industry Tax Year 2002

	Number of Corporations by Tax Base			
Industry	Minimum	Net Worth	Net Income	Total
Agriculture & Forestry	322	466	314	1,102
Mining	260	306	133	699
Construction	2,398	2,783	1,719	6,900
Manufacturing	3,114	5,164	2,287	10,565
Transport, Communication, Utility	1,333	1,207	613	3,153
Wholesale Trade	1,750	2,861	1,612	6,223
Retail Trade	3,010	4,004	2,146	9,160
Finance, Insurance, Real Estate	3,804	3,015	1,982	8,801
Services	9,982	6,716	4,280	20,978
Unknown*	20,428	7,026	6,376	33,830
TOTAL	**46,401**	**33,548**	**21,462**	**101,411**

*Industry classification was not indicated by the taxpayer.

Table 3
Corporation Franchise Tax — Number of Corporations By Tax Base and Tax Liability Level, Tax Year 2002

Tax Liability Level	Number of Corporations by Tax Base: Minimum	Net Worth	Net Income	Total
Minimum	46,401	—	—	46,401
$51 - 1,000	—	19,412	8,292	27,704
1,001 - 2,000	—	4,753	3,476	8,229
2,001 - 3,000	—	2,323	2,046	4,369
3,001 - 4,000	—	1,306	963	2,269
4,001 - 5,000	—	822	747	1,569
5,001 - 10,000	—	1,800	1,904	3,704
10,001 - 15,000	—	746	859	1,605
15,001 - 20,000	—	446	530	976
20,001 - 25,000	—	288	380	668
25,001 - 30,000	—	219	252	471
30,001 - 35,000	—	150	229	379
35,001 - 50,000	—	324	447	771
50,001 - 100,000	—	447	588	1,035
100,001 - 200,000	—	512	325	837
200,001 - 500,000	—	—	268	268
500,001 - 1,000,000	—	—	89	89
Over $1,000,000	—	—	67	67
TOTAL	**46,401**	**33,548**	**21,462**	**101,411**

Table 4
Corporation Franchise Tax —
Reported Tax Liability by Tax Base and Industry,
Tax Year 2002

Industry	Tax Liability Before Litter Tax and Credits by Tax Base				Litter Tax (a)	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
	Minimum	Net Worth	Net Income	Total				
Agriculture & Forestry	$16,100	$817,691	$1,244,832	$2,078,623	$47,175	$2,125,798	$90,490	$2,035,308
Mining	13,000	2,926,638	3,540,463	6,480,101	154,211	6,634,312	1,565,751	5,068,561
Construction	119,900	5,468,926	21,231,205	26,820,031	527,046	27,347,077	190,146	27,156,931
Manufacturing	155,700	62,792,926	168,890,531	231,839,157	3,684,762	235,523,919	69,127,878	166,396,041
Transport, Communication, Utility	66,650	9,836,555	116,533,437	126,436,642	554,514	126,991,156	32,780,994	94,210,162
Wholesale Trade	87,500	15,385,793	50,758,045	66,231,338	1,124,879	67,356,217	7,269,277	60,086,940
Retail Trade	150,500	11,631,228	52,679,809	64,461,537	1,061,852	65,523,389	2,968,472	62,554,917
Finance, Insurance, Real Estate	190,200	16,730,909	28,087,315	45,008,424	926,853	45,935,277	6,733,730	39,201,547
Services	499,100	18,133,607	40,328,226	58,960,933	1,296,276	60,257,209	6,055,106	54,202,103
Unknown (b)	1,021,400	43,747,686	78,587,083	123,356,169	2,619,545	125,975,714	15,416,650	110,559,064
Total	**$2,320,050**	**$187,471,959**	**$561,880,946**	**$751,672,955**	**$11,997,113**	**$763,670,068**	**$142,198,494**	**$621,471,574**

(a) Combines Tier I litter tax, which is paid by all corporations, and Tier II litter tax, which is paid only by "litter stream" corporations.
(b) Industry classification was not indicated by taxpayer.

Table 5
Corporation Franchise Tax — Reported Tax Liability By Tax Base and Tax Liability Level, Tax Year 2002

Tax Liability Before Litter Tax and Credits By Tax Base								
Tax Liability Level	Minimum	Net Worth	Net Income	Total	Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
Minimum	$2,320,050	—	—	$2,320,050	—	$2,320,050	$4,845,015	-$2,524,965
$51 - 1,000	—	$6,872,232	$3,484,500	10,356,732	$309,251	10,665,983	167,599	10,498,384
1,001 - 2,000	—	6,769,249	5,072,782	11,842,031	343,250	12,185,281	1,679,602	10,505,679
2,001 - 3,000	—	5,719,070	4,919,788	10,638,858	306,491	10,945,349	556,227	10,389,122
3,001 - 4,000	—	4,352,817	3,275,087	7,627,904	224,316	7,852,220	444,593	7,407,627
4,001 - 5,000	—	3,556,043	3,278,004	6,834,047	199,204	7,033,251	1,429,330	5,603,921
5,001 - 10,000	—	12,375,043	13,144,677	25,519,720	740,274	26,259,994	2,196,438	24,063,556
10,001 - 15,000	—	8,994,169	10,258,236	19,252,405	558,936	19,811,341	1,632,324	18,179,017
15,001 - 20,000	—	7,406,886	9,023,417	16,430,303	468,317	16,898,620	1,757,414	15,141,206
20,001 - 25,000	—	6,196,102	8,256,765	14,452,867	415,385	14,868,252	1,634,018	13,234,234
25,001 - 30,000	—	5,925,079	6,753,937	12,679,016	350,070	13,029,086	1,670,135	11,358,951
30,001 - 35,000	—	4,690,551	7,269,413	11,959,964	350,621	12,310,585	1,132,260	11,178,325
35,001 - 50,000	—	13,223,276	18,348,517	31,571,793	885,900	32,457,693	5,529,237	26,928,456
50,001 - 100,000	—	30,067,768	40,317,160	70,384,928	1,924,479	72,309,407	9,482,942	62,826,465
100,001 - 200,000	—	71,323,674	44,111,263	115,434,937	2,992,659	118,427,596	34,378,891	84,048,705
200,001 - 500,000	—	—	79,688,392	79,688,392	1,233,287	80,921,679	13,192,044	67,729,635
500,001 - 1,000,000	—	—	60,209,695	60,209,695	390,865	60,600,560	10,041,753	50,558,807
Over$1,000,000	—	—	244,469,313	244,469,313	303,808	244,773,121	50,428,672	194,344,449
TOTAL	**$2,320,050**	**$187,471,959**	**$561,880,946**	**$751,672,955**	**$11,997,113**	**$763,670,068**	**$142,198,494**	**$621,471,574**

*Combines Tier I litter tax, which is paid by all corporations, and Tier II litter tax, which is paid only by "litter stream" corporations.

Table 6
Corporation Franchise Tax — Number of Manufacturing Corporations By Tax Base and Industry Tax Year 2002

Industry	Number of Manufacturing Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Food	153	221	165	539
Tobacco Manufacturers	6	3	5	14
Apparel and Other Textiles	86	107	48	241
Lumber and Wood Products	145	209	116	470
Paper	98	148	58	304
Printing and Publishing	270	384	161	815
Chemicals	225	370	169	764
Petroleum and Coal	34	40	21	95
Rubber and Plastics	205	323	147	675
Leather Products	9	14	3	26
Stone, Clay & Glass Products	120	209	133	462
Primary Metal	88	176	47	311
Fabricated Metal	601	1,262	520	2,383
Machinery (non-electrical)	351	599	214	1,164
Electrical Machinery	249	372	149	770
Transportation Equipment	114	164	72	350
Miscellaneous Manufacturing	360	563	259	1,182
TOTAL	**3,114**	**5,164**	**2,287**	**10,565**

Table 7
Corporation Franchise Tax —
Number of Manufacturing Corporations
By Tax Base and Tax Liability Level
Tax Year 2002

Tax Liability Level	Number of Manufacturing Corporations by Tax Base			
	Minimum	Net Worth	Net Income	Total
Minimum	3,114	—	—	3,114
$51 - 1,000	—	1,949	439	2,388
1,001 - 2,000	—	812	275	1,087
2,001 - 3,000	—	433	180	613
3,001 - 4,000	—	268	94	362
4,001 - 5,000	—	190	94	284
5,001 - 10,000	—	492	229	721
10,001 - 15,000	—	190	146	336
15,001 - 20,000	—	141	98	239
20,001 - 25,000	—	94	88	182
25,001 - 30,000	—	51	43	94
30,001 - 35,000	—	54	47	101
35,001 - 50,000	—	121	108	229
50,001 - 100,000	—	164	170	334
100,001 - 200,000	—	205	104	309
200,001 - 500,000	—	—	102	102
500,001 - 1,000,000	—	—	41	41
Over $1,000,000	—	—	29	29
TOTAL	**3,114**	**5,164**	**2,287**	**10,565**

Table 8
Corporation Franchise Tax — Reported Tax Liability for Manufacturing Corporations, by Tax Base and Industry Classification, Tax Year 2002

	Tax Liability Before Litter Tax and Credits By Tax Base							
Industry	Minimum	Net Worth	Net Income	Total	Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
Food	$7,650	$3,740,401	$24,379,356	$28,127,407	$343,751	$28,471,158	$5,892,776	$22,578,382
Tobacco Manufacturers	300	12,595	13,694,812	13,707,707	38,362	13,746,069	—	13,746,069
Apparel and Other Textiles	4,300	660,202	1,240,529	1,905,031	47,147	1,952,178	183,127	1,769,051
Lumber and Wood Products	7,250	1,541,011	1,803,697	3,351,958	85,496	3,437,454	735,261	2,702,193
Paper	4,900	2,791,190	3,507,686	6,303,776	137,197	6,440,973	3,119,174	3,321,799
Printing and Publishing	13,500	2,731,608	9,520,609	12,265,717	217,531	12,483,248	2,523,601	9,959,647
Chemicals	11,250	8,752,376	21,578,663	30,342,289	425,583	30,767,872	5,804,508	24,963,364
Petroleum and Coal	1,700	1,132,877	2,770,780	3,905,357	61,176	3,966,533	1,470,343	2,496,190
Rubber and Plastics	10,250	3,040,418	5,966,434	9,017,102	199,281	9,216,383	3,063,936	6,152,447
Leather Products	450	226,623	34,536	261,609	8,791	270,400	1,181	269,219
Stone, Clay & Glass Products	6,000	2,967,352	4,423,866	7,397,218	164,933	7,562,151	2,932,812	4,629,339
Primary Metal	4,400	3,313,717	4,228,186	7,546,303	155,234	7,701,537	4,051,166	3,650,371
Fabricated Metal	30,050	7,841,021	20,277,732	28,148,803	541,008	28,689,811	9,060,707	19,629,104
Machinery (non-electrical)	17,550	4,905,892	6,819,456	11,742,898	279,772	12,022,670	2,502,896	9,519,774
Electrical Machinery	12,450	6,948,463	19,269,866	26,230,779	353,176	26,583,955	5,635,476	20,948,479
Transportation Equipment	5,700	5,068,955	16,227,109	21,301,764	250,746	21,552,510	17,982,303	3,570,207
Miscellaneous Manufacturing	18,000	7,118,225	13,147,214	20,283,439	375,578	20,659,017	4,168,611	16,490,406
TOTAL	**$155,700**	**$62,792,926**	**$168,890,531**	**$231,839,157**	**$3,684,762**	**$235,523,919**	**$69,127,878**	**$166,396,041**

* Tier I litter tax is paid by all corporations. Tier II litter tax is paid only by "litter stream" corporations.

Table 9
Corporation Franchise Tax — Reported Tax Liability For Manufacturing Corporations, by Tax Base and Tax Liability Level, Tax Year 2002

Tax Liability Before Litter Tax and Credits By Tax Base								
Tax Liability Level	Minimum	Net Worth	Net Income	Total	Litter Tax*	Liability Before Tax Credits	Tax Credits	Liability After Tax Credits
Minimum	$155,700	—	—	$155,700	—	$155,700	$943,408	-$787,708
$51 - 1,000	—	$802,854	$199,120	1,001,974	$32,156	1,034,130	88,285	945,845
1,001 - 2,000	—	1,173,405	406,105	1,579,510	49,627	1,629,137	193,639	1,435,498
2,001 - 3,000	—	1,022,702	430,048	1,452,750	45,297	1,498,047	279,467	1,218,580
3,001 - 4,000	—	896,870	325,131	1,222,001	38,302	1,260,303	226,515	1,033,788
4,001 - 5,000	—	819,923	415,942	1,235,865	37,497	1,273,362	254,134	1,019,228
5,001 - 10,000	—	3,382,383	1,644,211	5,026,594	153,474	5,180,068	1,235,709	3,944,359
10,001 - 15,000	—	2,328,839	1,720,779	4,049,618	116,745	4,166,363	922,379	3,243,984
15,001 - 20,000	—	2,335,162	1,728,081	4,063,243	117,306	4,180,549	1,408,619	2,771,930
20,001 - 25,000	—	2,036,217	1,928,691	3,964,908	117,541	4,082,449	1,026,886	3,055,563
25,001 - 30,000	—	1,341,933	1,168,359	2,510,292	72,853	2,583,145	979,375	1,603,770
30,001 - 35,000	—	1,677,653	1,494,822	3,172,475	100,384	3,272,859	736,635	2,536,224
35,001 - 50,000	—	4,941,821	4,471,153	9,412,974	263,773	9,676,747	2,946,702	6,730,045
50,001 - 100,000	—	11,176,712	11,738,743	22,915,455	642,115	23,557,570	6,090,726	17,466,844
100,001 - 200,000	—	28,856,452	14,257,634	43,114,086	1,128,564	44,242,650	20,822,824	23,419,826
200,001 - 500,000	—	—	30,243,374	30,243,374	473,116	30,716,490	7,650,698	23,065,792
500,001 - 1,000,000	—	—	28,920,633	28,920,633	161,673	29,082,306	6,943,362	22,138,944
Over $1,000,000	—	—	67,797,705	67,797,705	134,339	67,932,044	16,378,515	51,553,529
TOTAL	**$155,700**	**$62,792,926**	**$168,890,531**	**$231,839,157**	**$3,684,762**	**$235,523,919**	**$69,127,878**	**$166,396,041**

*Combines Tier I litter tax, which is paid by all corporations, and Tier II litter tax, which is paid only by "litter stream" corporations.

Table 10
Corporation Franchise Tax —
Number of Financial Institutions and Reported Tax Liability, By Type of Institution
Tax Year 2002

Tax Liability Level	Number of Corporations By Type				Tax Liability Before Credits By Type				
	Banks	Savings & Loans	Other*	Total	Banks	Savings & Loans	Other*	Total	Tax Credits
$51 - 1,000	16	7	31	54	$3,064	$377	$2,808	$6,249	—
1,001 - 2,000	—	—	—	—	—	—	—	—	—
2,001 - 3,000	—	—	2	2	—	—	5,003	5,003	—
3,001 - 4,000	4	—	—	4	14,357	—	—	14,357	—
4,001 - 5,000	2	—	1	3	8,622	—	4,283	12,905	—
5,001 - 10,000	7	1	3	11	45,969	5,973	19,326	71,268	—
10,001 - 15,000	6	3	2	11	80,664	39,970	27,621	148,255	$1,877
15,001 - 20,000	3	1	2	6	51,907	15,831	32,471	100,209	—
20,001 - 25,000	4	1	—	5	88,641	24,622	—	113,263	5,744
25,001 - 30,000	1	2	—	3	28,704	52,353	—	81,057	4,690
30,001 - 35,000	5	2	—	7	161,151	65,728	—	226,879	4,446
35,001 - 50,000	19	8	3	30	767,718	331,251	113,470	1,212,439	8,719
50,001 - 100,000	65	29	4	98	4,763,975	2,172,242	249,125	7,185,342	29,389
100,001 - 200,000	48	26	2	76	6,829,076	3,772,948	358,753	10,960,777	218,424
200,001 - 500,000	47	26	—	73	14,475,665	8,065,532	—	22,541,197	214,539
500,001 - 1,000,000	16	8	—	24	11,429,135	5,620,561	—	17,049,696	596,344
Over $1,000,000	13	5	1	19	81,720,135	15,093,097	1,367,258	98,180,490	616,745
TOTAL	**256**	**119**	**51**	**426**	**$120,468,783**	**$35,260,485**	**$2,180,118**	**$157,909,386**	**$1,700,917**

*Primarily credit agencies that accept deposits.

Dealers In Intangibles Tax

Ohio law provides for the taxation of shares in and capital employed by dealers in intangibles. In calendar year 2003, tax assessments on dealers in intangibles resulted in collections totaling nearly $11.5 million, with approximately $7.2 million distributed to local governments and $4.3 million to the state General Revenue Fund.

TAX BASE (R.C. 5725.13, 5725.14, 5725.15):

The tax base for dealers in intangibles is either:

1. Shares of stock of incorporated dealers in intangibles and unincorporated dealers in intangibles with capital stock divided into shares; or
2. Capital employed in Ohio by an unincorporated dealer in intangibles with capital stock not divided into shares.

For dealers in intangibles with offices in more than one state, the tax base is allocated to Ohio based on gross receipts from offices in Ohio as compared to gross receipts from all offices.

RATES (R.C. 5707.03):

Rate on fair value of shares or capital employed is eight mills.

EXEMPTIONS (R.C. 5725.01 and 5725.26):

The following are excluded from the definition of a dealer in intangibles:

1. Institutions used exclusively for charitable purposes;
2. Insurance companies; and
3. Financial institutions.

TAXPAYER (R.C. 5725.01):

Firms having an office in Ohio and engaged in:

- lending money;
- discounting, buying, or selling bills of exchange, drafts, acceptances, notes, mortgages, or other evidences of indebtedness; or
- buying or selling bonds, stocks, or other investment securities.

FILING AND PAYMENT DATES (R.C. 5725.10, 5725.14, 5725.16, 5725.22):

Second Monday in March — Returns must be filed by this date unless a time extension (not to exceed 30 days) is allowed by the Tax Commissioner.

First Monday in May — Tax Commissioner certifies the assessment of the shares or property representing capital to the Treasurer of State.

The Treasurer of State issues a tax bill within 20 days of certification by the Tax Commissioner with payment due 20 to 30 days from the date the bill is mailed.Taxes are collected by the Treasurer of State.

DISPOSITION OF REVENUE (R.C. 5725.24):

1. Three mills of receipts credited to the state General Revenue Fund for dealers that are not "qualifying dealers."
2. Five mills of receipts distributed to the county where the firm's capital was employed (determined on the basis of gross receipts) for dealers that are not "qualifying dealers," placed in each county's undivided Local Government Fund and distributed among the local subdivisions by the county budget commission.
3. Beginning in tax year 2003, all the tax paid by "qualifying dealers" is paid to the state General Revenue Fund.

ADMINISTRATION (R.C. 5725.14):

Returns are filed with the Tax Commissioner, who determines the taxable values.

OHIO REVISED CODE CITATIONS:

Chapters 5707, 5709, and 5725.

RECENT LEGISLATION:

H.B. 405, 124th General Assembly (effective December 13, 2001). R.C. 5725.24 and 5733.45 —
Beginning in tax year 2003, a "qualifying dealer" is defined to be a dealer in intangibles that is a member of a controlled group of which a financial institution or insurance company is also a member. The tax paid by qualifying dealers is credited to the state General Revenue Fund.

R.C. 5725.14 — Beginning in tax year 2003, the billing address of a customer determines where the commission is sitused for dealers principally engaged in the business of buying stocks, bonds or other similar securities.

R.C. 5725.14 — Beginning in tax year 2003, 1 percent of all other receipts is no longer included when determining gross receipts for all dealer taxpayers.

Table 1
Dealers in Intangibles Taxes Levied, Calendar Years 1999-2003

Distribution	1999	2000	2001	2002	2003*
Local Share	$10,290,306	$12,238,408	$12,575,695	$11,229,780	$7,176,496
State Share	6,174,486	7,343,049	7,545,420	7,072,345	4,305,900
Total Assessed	**$16,464,792**	**$19,581,457**	**$20,121,115**	**$18,302,126**	**$35,782,066**

*Includes $24,299,670 in taxes levied on qualifying dealers in intangibles.

Table 2
County Share of Intangible Property Taxes Assessed on Dealers in Intangibles, Tax Year 2003

County	County Share of Assessed Taxes	County	County Share of Assessed Taxes	County	County Share of Assessed Taxes
ADAMS	$1,640	HARRISON	$0	PORTAGE	$10,684
ALLEN	18,009	HENRY	2	PREBLE	4
ASHLAND	3,283	HIGHLAND	1,094	PUTNAM	4
ASHTABULA	7,269	HOCKING	1,255	RICHLAND	41,925
ATHENS	2,163	HOLMES	205	ROSS	12,108
AUGLAIZE	10,824	HURON	1,667	SANDUSKY	1,788
BELMONT	1,508	JACKSON	6,556	SCIOTO	4,034
BROWN	201	JEFFERSON	5,448	SENECA	1,298
BUTLER	23,444	KNOX	2,716	SHELBY	7,404
CARROLL	3	LAKE	81,644	STARK	143,479
CHAMPAIGN	979	LAWRENCE	2,688	SUMMIT	341,871
CLARK	9,191	LICKING	15,228	TRUMBULL	35,088
CLERMONT	17,342	LOGAN	4,345	TUSCARAWAS	10,148
CLINTON	22,525	LORAIN	98,949	UNION	902
COLUMBIANA	10,386	LUCAS	208,629	VAN WERT	1
COSHOCTON	1,557	MADISON	1,073	VINTON	2
CRAWFORD	1,063	MAHONING	109,454	WARREN	275,506
CUYAHOGA	1,913,333	MARION	10,559	WASHINGTON	4,811
DARKE	2,712	MEDINA	20,708	WAYNE	42,934
DEFIANCE	4,589	MEIGS	99	WILLIAMS	109
DELAWARE	18,004	MERCER	2,144	WOOD	7,237
ERIE	10,735	MIAMI	12,658	WYANDOT	527
FAIRFIELD	12,364	MONROE	0		
FAYETTE	5,425	MONTGOMERY	338,550	Total Local	
FRANKLIN	1,727,453	MORGAN	0	Revenue	
FULTON	4	MORROW	676	(5 mills)	$7,176,496
GALLIA	13,659	MUSKINGUM	22,677		
GEAUGA	2,482	NOBLE	0	State General	
GREENE	26,821	OTTAWA	12	Revenue (3 mills)*	$4,305,900
GUERNSEY	5,828	PAULDING	0		
HAMILTON	1,391,512	PERRY	14	**TOTAL**	**$35,782,066**
HANCOCK	15,844	PICKAWAY	2,637		
HARDIN	254	PIKE	537		

*Includes $24,299,670 in taxes levied on qualifying dealers in intangibles.

Estate Tax

The basic Ohio estate tax is levied against the value of a resident decedent's gross estate less deductions and exemptions. Graduated rates range up to $23,600 plus 7 percent on that portion of taxable value which exceeds $500,000. Large estates may also be subject to an "additional" tax, which is levied solely to ensure full benefit to Ohio of credits the federal government allows taxpayers against federal estate tax liability, for their payment of state "death" taxes. Ohio also taxes nonresident estates on real and tangible personal property sitused in Ohio.

Total revenue produced by Ohio's estate tax amounted to $357.7 million in FY 2003, as shown in the table in this chapter. The table displays the breakdown of monies distributed to local governments and the remainder retained by the state.

S.B. 108 (123rd General Assembly) resulted in significant tax cuts to the Ohio estate tax. For dates of death on or after January 1, 2002, every estate receives a tax credit of $13,900.

S.B. 108 also changed the distribution of the estate tax revenue. For estates with dates of death on or after January 1, 2002 (see **Disposition of Revenue**), the revenue distribution is 80 percent to local governments and 20 percent (less costs of administration) to the state General Revenue Fund.

In addition to the credit increases, S.B. 108 also enacted R.C. 5731.20, which permits a deduction for qualified family business interests. As long as the family business meets the qualifications set forth in Internal Revenue Code (I.R.C.) 2057, the estate may claim an Ohio deduction for that family-owned business. The maximum deduction allowed cannot exceed $675,000. The election for Ohio can be made even though no election is made at the federal level.

TAX BASE:

1. Resident:
The net taxable estate is the value of a decedent's gross estate, less deductions (R.C. 5731.15-17). In general, the gross estate equals the aggregate market value at time of death, or on the alternate valuation date (see **Special Provisions**), of all property, wherever situated, held by the decedent. Excepted are real and tangible personal property situated outside of Ohio, and "qualified farm property," which may be valued according to its actual "qualified use" (R.C. 5731.01, 5731.011, 5731.03-13).

The "net taxable estate" equals the gross estate less the following deductions:

a) Marital deduction, where there is a surviving spouse;
b) Funeral expenses and costs of administering the estate;
c) Outstanding and unpaid claims against the estate at time of the decedent's death;
d) Unpaid mortgage or other indebtedness against property where the value of that property is included in the gross estate valuation;
e) Charitable deductions; and
f) A deduction for the decedent's qualified interest in a family-owned business.

2. Nonresident:
The nonresident estate tax base is comprised of real and tangible personal property located or having a situs in Ohio, and intangible personal property used in business within Ohio unless exempt pursuant to R.C. 5731.34.

Tax for both nonresident estate and nonresident additional taxes is determined by (1) calculating tax which would be due from the estate, at a rate applicable to resident estates, if the decedent had died a resident of Ohio with all property situated or located in Ohio; and (2) multiplying the resultant amount by a fraction representing the ratio of gross estate value attributable in Ohio to gross estate value wherever situated.

RATES (R.C. 5731.02):

Rates are generated through "taxable estate" brackets, as shown in the **exhibit** at the end of this chapter. The rates range from not less than 2 percent to not more than 7 percent plus $23,600.

FILING REQUIREMENTS (R.C. 5731.21):

For dates of death prior to January 1, 2001, estates with gross values over $25,000 were required to file an estate tax return.

For dates of death on or after January 1, 2001 through December 31, 2001, estates with gross values over $200,000 were required to file an estate tax return.

For dates of death on or after January 1, 2002, estates with gross values over $338,333 are required to file an estate tax return.

MARITAL DEDUCTION (R.C. 5731.15):

A marital deduction is allowed in an amount equal to the net value of any asset passing from the decedent to the surviving spouse to the extent that the asset is included in the value of the gross estate.

TAX CREDITS (R.C. 5731.02):

For estates with dates of death prior to January 1, 2001, $500 or the full amount of the tax, whichever was less.

For estates with dates of death from January 1, 2001 through December 31, 2001, $6,600 or the full amount of the tax, whichever was less.

For estates with dates of death on or after January 1, 2002, $13,900 or the full amount of the tax, whichever is less.

SPECIAL PROVISIONS:

1. The Ohio additional tax (R.C. 5731.18) is a pick-up tax that captures any unused portion of the allowable federal estate tax credit. This additional tax is for state death taxes paid where the federal credit actually exceeds the Ohio estate taxes assessed. The tax is levied in an amount equal to the difference between the maximum allowable federal credit for state death taxes and state death taxes actually paid to Ohio or any other U.S. state, territory, or the District of Columbia. Due to the interaction of the federal state death tax credit schedule and the Ohio estate tax rate structure, this tax in general affects only larger estates. Under the Economic Growth and Tax Relief Reconciliation Act of 2001, the federal credit for state death taxes was reduced incrementally beginning in 2002, and is fully repealed in 2005. Ohio law, however, does not allow for a credit reduction.
2. An alternate valuation date (R.C. 5731.01) may be elected, which is the date six months after the decedent's death, or, in the case of the property's earlier disposition, on such dates of disposition. If the alternate valuation date is elected, the election is required to be made within one year from the time the return is required to be filed.
3. Under certain conditions, an extension of time to pay Ohio estate tax because of undue hardship (R.C. 5731.25) applies. An estate may receive an extension of the time to pay the estate tax, not to exceed one year beyond the time the tax would otherwise be due, if conditions exist as defined in R.C. 5731.25. In the case of continuing undue hardship, the estate may apply for an additional extension(s). The total of all extensions granted may not exceed 14 years.
4. A qualified farm property valuation and recapture provision (R.C. 5731.011) applies to some estates. Under certain conditions, an estate may elect to have farm property that passes to a qualified heir valued at its agricultural use value. A prospective supplemental tax lien remains on the property for four years when this election is used. The lien is equal to the tax savings realized due to the election and becomes effective if the farm property is disposed of (other than to another qualified heir), or ceases to be devoted exclusively to agricultural use within the four-year limitation.

TAXPAYER:

Administrator, executor, or other estate representative, in possession of the property subject to tax.

FILING AND PAYMENT DATES:

In general, as follows:
Tax Return (R.C. 5731.21) —
To be filed within nine months of the decedent's death with the probate court of the county in which the estate is administered, unless an extension is granted.
However, an automatic six-month extension is granted to all estates.
Tax Payment (R.C. 5731.23) —
Due within nine months of the decedent's death, regardless of any extension of time to file, to the treasurer of the county in which the decedent resided.

DISPOSITION OF REVENUE (R.C. 5731.48-5731.51):

In general, for revenue distribution purposes, the tax on the transfer of real and tangible personal property located within Ohio originates in the municipal corporation(s) or township(s) in which such property is physically located. In the case of a resident decedent's intangible or tangible personal property located outside of Ohio, the domicile of the decedent is determinative. In the case of intangibles of a nonresident decedent, origin is derived from Ohio domicile, location or place of business or custody of the person, bank, institution, or other entity having such property in possession or custody.

For estates with dates of death on or after January 1, 2002, 80 percent of gross estate tax revenues is distributed to the municipal corporations or townships in which the tax originates and 20 percent (less costs of administration) is distributed to the state General Revenue Fund.

ADMINISTRATION (R.C. 5731.44, 5731.45, 5731.46):

The Tax Commissioner is responsible for administration of the estate tax. The tax is collected locally by the treasurer of the county in which the decedent was a resident.

OHIO REVISED CODE CITATIONS:

Chapter 5731.

RECENT LEGISLATION:

H.B. 242, 124th General Assembly (effective May 16, 2002).
R.C. 2105.31 through 2105.39 –
Shortened the amount of time that another person must survive a decedent in order to inherit. Also expands the presumptive order of death to include probate and nonprobate transfers.

H.B. 85, 124th General Assembly (effective October 31, 2001).
R.C. 2106, 2107, and 2109 –
Made changes relative to the surviving spouse's election to follow the terms of the will, and also reduced the time period for the filing of a final and distributive account where no estate tax return is required to be filed.

S.B. Bill 152, 123rd General Assembly (effective March 22, 2001).
R.C. 2105, 2106, and 2101 –
Adopted provisions of the uniform Probate Code regarding elective share of the surviving spouse in augmented estates.

S.B. 108, 123rd General Assembly (effective September 29, 2000).
R.C. 5731.02 –
Estates with dates of death from January 1, 2001 to December 31, 2001, received a $6,600 credit. Estates with dates of death on or after January 1, 2002, received a $13,900 credit.

R.C. 5731.20 –
For estates with dates of death on or after January 1, 2001, created a deduction for the decedent's qualified interest in a family-owned business.

R.C. 5731.48 –
Estate tax revenue from estates with dates of death from January 1, 2001 to December 31, 2001, was distributed 70 percent to local governments and 30 percent to the state General Revenue Fund. Revenue from estates with dates of death on or after January 1, 2002 is distributed 80 percent to local governments and 20 percent to the state General Revenue Fund.

R.C. 1339.412 –
A trustee's duty to distribute income at least annually to a surviving spouse from an IRA marital deduction trust was satisfied so long as the language is in place to require that distribution.

H.B. 313, 123rd General Assembly (effective August 29, 2000). R.C. 2113, 5731, et al. –
Permitted transfer of titled assets of the decedent to persons who pay or are eligible to pay for the decedent's funeral expenses.

RECENT SIGNIFICANT COURT DECISIONS:

***PNC Bank, Ohio, N.A. v Roy* (2003), 152 Ohio App. 3d 439.**
R.C. 2113.87 provides that a fiduciary may apply to the court that has jurisdiction of an estate to request the court to determine the apportionment of the estate tax. However, any intent on the part of the testator that estate taxes are to be paid in a manner contrary to the apportionment guidelines set forth in RC 2113.86 must be clearly expressed in the will. Thus, the apportionment statute will apply unless the clear intent of the testator is shown to have been otherwise. Because a bequest of "money and/or property in an amount equal to eighteen (18%) percent of the gross estate…" was deemed a pecuniary gift of a specified amount, the beneficiaries of said bequest were not determined to be residuary beneficiaries and thus not required to share in the apportionment of the estate tax.

Table
Estate Tax Collections and Distributions, Fiscal Years 1999-2003 (figures in millions)

Fiscal Year	Total Collections	State General Revenue*	Local Governments*
1999	$407.1	$144.5	$262.6
2000	434.7	140.0	294.7
2001	451.6	166.0	285.6
2002	375.4	116.3	259.2
2003	357.7	100.8	256.9

* State General Revenue Fund figures are based on actual receipts reported by the Office of Budget and Management. Local government figures represent a liability, because the figures are based on the certification of the local share (including fees) from the semi-annual settlements that occur each year.

Exhibit — Estate Tax
Taxable Estate Brackets
(RC. 5731.02)

Taxable Estates:		Tax Rate:	
Not over	$40,000	2% of taxable estate	
Over $40,000 but not over	100,000	$800 + 3% of excess over	$40,000
Over 100,000 but not over	200,000	2,600 + 4% of excess over	100,000
Over 200,000 but not over	300,000	6,600 + 5% of excess over	200,000
Over 300,000 but not over	500,000	11,600 + 6% of excess over	300,000
Over $500,000		23,600 + 7% of excess over	$500,000

Horse Racing Tax

Ohio has permitted horse racing and pari-mutuel wagering on horse racing since 1933. The regulation of horse racing is the responsibility of the State Racing Commission, which consists of five members appointed by the Governor and confirmed by the Ohio Senate.The State Racing Commission issues racing permits and sets the racing dates for each meet. Since 1953, the Department of Taxation has administered the tax on pari-mutuel wagering.

Permit holders retain 18 percent of all money wagered and 4.0 percent of “exotic” wagering as their commission, subject to payments to the Tax Commissioner of the taxes on pari-mutuel and exotic wagering.

After state taxes, 50 percent of the commission must be used for purse money. In addition, part of the commission, along with a portion of the state’s wagering tax, is used to develop and promote horse breeding and racing in Ohio. Permit holders also retain the breakage (the odd cents remaining after pari-mutuel winning tickets are paid off at the next lowest multiple of 10 cents). However, 40 percent of this amount must be used for purse money and 25 percent must be paid to the Horsemen’s Health and Retirement Fund. Another source of revenue to permit holders is the authorization to conduct pari-mutuel wagering on televised simulcasts of racing at other tracks.

To encourage the construction and improvement of racing facilities, there are two capital improvement credits that reduce the tax liability of permit holders. The first is a reduction of 0.75 percent of the amount wagered for the construction of a new facility or the improvement of an existing track. The second is a reduction of 1 percent of the amount wagered for the major renovation of an existing facility if the cost is $6 million or more. These projects must be approved by the State Racing Commission and can run concurrently.

The tax on total wagering of $530.6 million in FY 2003 provided $15.4 million in tax revenue and funds for horse racing development in Ohio.

TAX BASE (R.C. 3769.08, 3769.28, 3769.087):

1. Amount wagered each day on all pari-mutuel racing.
2. Amount wagered each day on exotic races.
3. Total amount wagered at each horse race meeting of a permit holder.

RATES:

Pari-Mutuel Wagering Tax (R.C. 3769.08) –

Amount Wagered Daily		Rate
First	$200,000	1%
Next	100,000	2
Next	100,000	3
Over	400,000	4

Exotic Wagering Tax (R.C. 3769.087) –
In addition to the pari-mutuel wagering tax, there is a special tax of 3.0 percent of the amount wagered daily on other than win, place, and show. This is termed “exotic” wagering and includes the Daily Double, Perfecta, Quinella, and Trifecta.

Additional Pari-Mutuel Wagering Tax (R.C. 3769.28) –
This money is distributed to the municipal corporation or township in which racing takes place and is intended to reimburse these areas for expenses incurred due to racing meets. The municipal corporations and townships receiving the money may reimburse an adjoining political subdivision which also had expenses because of racing meets. The tax is levied as follows:

Total Amount Wagered Each Horse Racing Meet	Rate
Less than $5,000,000	0.10%
$5,000,000 or more	0.15%
The maximum tax liability is $15,000 from each horse racing meet.	

EXEMPTIONS (R.C. 3769.28):

Agricultural societies are not subject to the additional pari-mutuel wagering tax.

SPECIAL PROVISIONS (R.C. 3769.08, 3769.089, 3769.20, 3769.26):

1. Some racing permit holders can qualify for a Capital Improvement Credit. With the approval of the State Racing Commission, permit holders making capital improvements, constructing new racing facilities, or reconstructing facilities damaged by fire or other cause that have a total cost of $100,000 or more, can reduce their tax

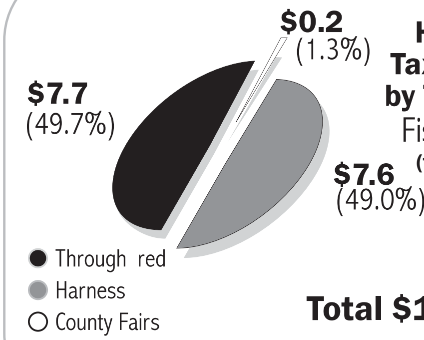
liability by 0.75 percent of the amount wagered. For projects approved prior to March 29, 1988, the reduction continues for a period of 15 years on capital improvements and reconstruction and a period of 25 years on new race track construction, or until the total reduction in tax liability equals 70 percent of construction costs, whichever occurs first. For projects approved on or after March 29, 1988, the reduction is limited to 10 years or 70 percent of costs.

2. Large projects may qualify a permit holder for a Major Capital Improvement Credit. Permit holders renovating, reconstructing, or remodeling an existing race track facility at a cost of $6 million or more can reduce their tax liability by 1 percent of the amount wagered for a period of 10 years or until the cost of the project plus debt service is reached, whichever occurs first. If the reduction exceeds the tax on wagering, the abatement may be carried forward and applied against future tax liability. The tax reduction is in addition to the 0.75 percent Capital Improvement Credit.
3. Permit holders may conduct electronically televised simulcasts of horse races from facilities inside or outside of Ohio, and conduct pari-mutuel wagering thereon.
4. Off-Track Betting (OTB) has been allowed by law since September 27, 1994. The first two facilities began operating in October 1999 and March 2000.

TAXPAYER (R.C. 3769.08):

The racing permit holder remits to the Tax Commissioner the tax on the amount wagered as described in the **Rates** section. The Tax

Horse Racing Tax Collections by Type of Meet
Fiscal Year 2003
(figures in millions)



Total $15.4 million

Source: Department of Taxation, as reported on tax returns.
(Some figures may not add due to rounding.)

Commissioner in turn distributes the tax as described in the section on **Disposition of Revenue.**

FILING AND PAYMENT DATES (R.C. 3769.08, 3769.28):

Each Day of Racing —
Permit holder remits to the Tax Commissioner by the following day the pari-mutuel wagering and exotic wagering taxes collected.

Close of Horse Race Meeting —
Within 10 days, the additional pari-mutuel wagering tax is remitted to the Tax Commissioner.

Receipts from Pari-Mutuel Wagering:

Distributed to	Source of Receipts (Wagering On)	Distribution Percent
Passport Fund	Thoroughbred, harness, and quarter horse	25% of gross tax, .50% of amount wagered at an off-track betting parlor, 2.5% of the amount paid on winning tickets at an off-track betting parlor
Ohio Fairs Fund	Thoroughbred, harness, and quarter horse	0.5% of amount wagered
Ohio Thoroughbred Race Fund	Thoroughbred	1.125% of amount wagered
	Harness racing at events at other than agricultural expositions and fairs	0.50% of amount wagered
Ohio Standardbred Development Fund	Harness	1.125% of amount wagered
Quarter Horse Development	Quarter horse	0.625% of amount wagered
Agricultural Societies	Thoroughbred, harness, and quarter horse racing at agricultural expositions and fairs	Net receipts after payments to the Ohio Fairs Fund, Standardbred Fund, Quarter Horse Fund, and Thoroughbred Race Fund
State Racing Commission Operating Fund	Thoroughbred, harness, and quarter horse	0.25% of amount wagered

Receipts from Exotic Wagering:

Distributed To	Source of Receipts (Wagering On)	Distribution Percent
Ohio Passport Fund	Thoroughbred, harness, and quarter horse	25% of gross tax
Ohio Fairs Fund	Thoroughbred, harness, and quarter horse	8.3% of amount wagered
Ohio Thoroughbred Race Fund	Thoroughbred	8.3% of amount wagered from thoroughbred racing
Ohio Standardbred Development Fund	Harness	8.3% of amount wagered from harness racing
Quarter Horse Development Fund	Quarter Horse	8.3% of amount wagered from quarter horse racing
Agricultural Societies	Thoroughbred, harness, and quarter horse at agricultural expositions and fairs	16.7% of amount wagered
State Racing Commission Operating Fund	Thoroughbred, harness, and quarter horse at commercial track	16.7% of amount wagered

Receipts from the Additional Pari-Mutuel Wagering Tax:

Distributed To	Source of Receipts (Wagering On)	Distribution Percent
General Revenue Funds of municipalities and townships	Thoroughbred, harness, and quarter horse	0.10 % of amount wagered if the total amount wagered is less than $5 million; 0.15% of amount wagered if the total amount wagered is $5 million or more (maximum of $15,000)

DISPOSITION OF REVENUE (R.C. 3769.08, 3769.087, 3769.26):

Each permit holder pays the Tax Commissioner a sum equal to the percentage of money wagered as described in the **Rates** section, reduced by any capital improvements deduction. The Tax Commissioner then distributes the receipts to the funds shown in the charts: **Receipts from Pari-Mutuel Wagering, Receipts from Exotic Wagering** and **Receipts from the Additional Pari-Mutuel Wagering Tax.**

OHIO REVISED CODE CITATIONS:

R.C. 3769.08, 3769.081, 3769.087.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective July 1, 2003).
R.C. 3769.087 –
The 0.25 percent of exotic wagering retained by permit holders will be paid to the Tax Commissioner as a tax and distributed to the Racing Commission Operating Fund from July 1, 2003 through June 30, 2004.

Sub. H.B. 94, 124th General Assembly (effective June 6, 2001).
R.C. 3769.08 –
Removed the $2.5 million limit on the amount of money that the State Racing Commission Operating Fund could receive in a calendar year from allocations of the horse racing tax. Removed the deadline for State Racing Commission approval of tax reductions for large capital improvement projects. Modified the length of the tax reduction period for those projects when the State Racing Commission approved the construction of a new race track or capital improvement after the bill's effective date, until the total tax reduction equals 100 percent of the project's approved cost. Required the Tax Commissioner, rather than the Director of Budget and Management, to distribute amounts from the Horse Racing Tax Fund to county agricultural societies.

R.C. 3769.087 –
Established a horse racing permit holder retention of wagering pool monies requirement relative to wagering pools other than win, place, and show, replacing the former permissive retention provisions. Required half of the amount retained (e.g., 0.25 of 1 percent) to be paid to the Tax Commissioner as a tax and to be deposited into the State Racing Commission Operating Fund.

Table 1
Amount Wagered on Horse Racing and Net Tax by Type of Event
Fiscal Years 1999 – 2003

Fiscal Year	Commercial Thoroughbred Racing	Commercial Harness Racing	Agricultural Societies Racing	Quarter Horse Racing	Total
Pari-Mutuel Wagering					
1999	$333,831,969	$289,440,191	$6,389,133		$629,661,293
2000	331,094,156	283,819,954	6,197,606		621,111,716
2001	324,096,113	280,974,629	6,017,577		611,088,319
2002	303,245,672	273,401,726	5,585,845		582,233,243
2003	277,080,736	247,780,758	5,268,726	$465,665*	530,595,885
Net Tax Receipts					
1999	8,708,713	7,524,827	248,226		16,481,766
2000	8,759,923	7,690,488	243,938		16,694,349
2001	8,685,741	7,798,868	240,019		16,724,628
2002	8,360,225	8,322,836	216,736		16,899,797
2003	7,660,350	7,559,068	206,438	10,398	15,436,254

Source: Department of Taxation, as reported on tax returns.
*First year quarter horse reported separately.

Table 2
Amount Wagered on Horse Racing, Tax Levied and Distribution of Receipts by Type of Event
Fiscal Year 2003

	Commercial Thoroughbred Race Days	Commercial Harness Race Days	County Agricultural Societies	Quarter Horse Racing	Total
Number of Days	**1,084**	**1,371**	**172**	**6**	**2,633**
Total Pari-Mutuel Wagering	$277,080,736	$247,780,758	$5,268,726	$465,665***	$530,595,885
Exotic Wagering*	182,658,408	175,864,378	3,080,824	272,150	361,875,760
Total Tax Levied **	**10,307,448**	**8,371,597**	**206,438**	**15,118**	**18,900,601**
Less Credits:					
Capital Improvement	0	60,642	0	0	60,642
Major Capital	2,647,098	751,887	0	4,720	3,403,705
Net Tax Collected	**$7,660,350**	**$7,559,068**	**$206,438**	**$10,398**	**$15,436,254**
Distribution of Receipts:					
Agricultural	2,011	4,799	108,653	0	115,463
Standardbred Devel. Fund	0	2,133,595	40,564	0	2,174,159
Quarter Horse Special Acct.	0	0	69	2,554	2,623
Ohio Fairs Fund	1,288,053	1,109,448	34,046	2,140	2,433,687
Thoroughbred Special Acct.	2,498,823	843,658	0	0	3,342,481
Operating Fund	1,586,229	1,436,921	23,106	2,493	3,048,749
Passport Fund	2,285,234	2,030,647	0	3,211	4,319,092
Total Amount	**$7,660,350**	**$7,559,068**	**$206,438**	**$10,398**	**15,436,254**

* Included in total pari-mutuel wagering but subject to an additional 3% tax.
** Includes credit balance.
*** First year quarter horse reported separately.

Individual Income Tax - School District

In 1981, the Ohio General Assembly granted school districts the authority to levy an income tax. Certain provisions of that law were repealed in 1983 so that no additional school districts could levy the tax. Any school district enacting the tax before August 3, 1983, could continue to levy the tax. Prior to the repeal, voters approved the tax in six school districts, one of which repealed the tax through voter referendum in 1986. In 1989, the General Assembly reinstated provisions of the original law allowing additional school districts to levy the tax.

The school district income tax is imposed on the incomes of residents and estates of decedents who at the time of death were residents of the school district. The Department of Taxation administers the tax. Collections are made through employer withholding, individual quarterly estimated payments, and annual returns. During FY 2003, total net collections for all districts were approximately $141 million, after deductions for administrative costs and refunds, as shown in the table in this chapter. As of June 30, 2003, there are 134 school districts (out of 612 in the state) that levy the tax.

TAX BASE (R.C. 5748.01):

For individuals, Ohio adjusted gross income for state income tax purposes less $1,250 for each exemption in 2003. For estates, Ohio taxable income for state income tax purposes.

RATES (R.C. 5748.02):

Rates must be multiples of a quarter of one percent. The rate must be approved by a vote of the school district residents before implementation. The tax rates range from 0.50 percent to 2.0 percent.

SPECIAL PROVISIONS:

Senior Citizen Credit: A taxpayer 65 years of age or older during the taxable year receives a $50 credit against the amount of school district income tax due. Only one credit is allowed for each return.

TAXPAYER (R.C. 5748.01):

Every individual residing in and every estate of a decedent who at the time of death was residing in a school district which imposes the school district income tax.

FILING AND PAYMENT DATES (R.C. 5747.06 – 5747.09):

Individuals and Estates:

1. Calendar year taxpayer files an annual return between January 1 and April 15.
2. Fiscal year taxpayer files by the 15th day of the fourth month after the end of the fiscal year.
3. The taxpayer must file a quartely estimated return if the taxpayer expects to be under-withheld by more than $500 for the combined school district and Ohio individual income taxes. For calendar year taxpayers, quarterly payments of the tax must be made on or before April 15, June 15, and September 15 of the current year and January 15 of the next year. For fiscal year taxpayers, quarterly payments of tax must be made on the 15th day of the fourth, fifth, and ninth months of the fiscal year and on the 15th day following the end of the fiscal year.

Employers:

1. If the employer remits on a quarterly basis for state income tax purposes, payment is due for both taxes by the last day of the month following March, June, September, and December.
2. If the employer remits on a monthly or Electronic Funds Transfer (EFT) basis for state income tax purposes, remittances of school district income taxes withheld are made within 15 days after the end of each month.

DISPOSITION OF REVENUE (R.C. 5747.03):

Collections are deposited into a School District Income Tax Fund to be distributed to the school district less 1.5 percent retained for state administrative purposes. Distributions are made to school districts on the last day of April, July, October and January. Payments are for the net amount in each school district's account, after refunds and administrative fees, as of the end of the prior calendar quarter.

OHIO REVISED CODE CITATIONS:

Chapters 5747 and 5748.

Table
School District Income Tax Collections for Fiscal Years 2000 - 2003

All Districts	2000[a]	2001[b]	2002[c]	2003[d]
Individual Returns	$47,076,661	$54,022,501	$46,532,185	$45,282,962
Employer Withholding	103,006,381	107,234,557	107,611,867	111,135,680
Total Collections	$150,083,042	$161,257,058	$154,144,052	$156,418,642
Refunds and Administration	$10,037,370	$10,437,911	$10,926,908	$14,535,252
Interest earned	1,519,951	1,897,444	1,403,636	930,035
Net to school districts	**$141,565,623**	**$152,716,592**	**$144,620,780**	**$140,953,356**

(a) Includes collections for 123 school districts.
(b) Includes collections for 121 school districts.
(c) Includes collections for 123 school districts.
(d) Includes collections for 134 school districts.

Source: Department of Taxation, as reported on tax returns.

Individual Income Tax - State

The Ohio income tax on individuals and estates was enacted in December of 1971 and took effect January 1, 1972. An income tax on trusts was enacted June 4, 2002, becoming effective for taxable years ending on or after June 4, 2002, December 31, 2003 and December 31, 2004.

Two new adjustments appeared on the 2003 Ohio income tax returns. Taxpayers were required to add back 5/6 of the qualifying Internal Revenue Code (I.R.C.) section 179 depreciation expense. "Qualifying I.R.C. section 179 expense" is the difference between (1) the amount of depreciation expense directly or indirectly allowed to the taxpayer under I.R.C. section 179 and (2) the amount of depreciation expense directly or indirectly allowed to the taxpayer under I.R.C. section 179 as that section existed on December 31, 2002.

Job training credits (for eligible employee training costs) were first available on the 2003 return.

To facilitate compliance by the taxpayer and administration by the state, Ohio's individual income tax law is based closely on federal income tax law. The "starting point" for the computation of the Ohio individual income tax is federal adjusted gross income as defined in the I.R.C. The "starting point" for estates and trusts is taxable income as defined in the I.R.C. Taxpayers then add and subtract certain adjustments and apply Ohio's graduated tax rates to the remaining amount (Ohio taxable income) to calculate the tax liability. From this figure, certain credits may be subtracted to arrive at the final income tax liability.

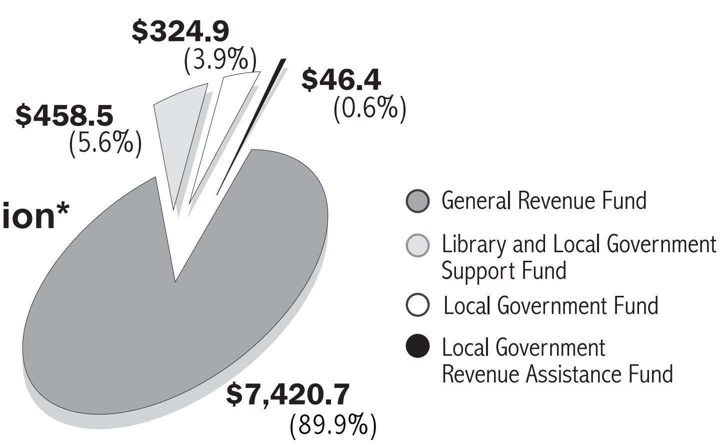
Under temporary law, subsequently made permanent, statutory tax rates were reduced each year from 1996-2000, due to surplus revenues. There was no tax rate cut in 2001, 2002 or 2003. In 2003, the personal exemption amount was $1,250. Each year, the personal exemption amount is indexed for inflation.

The individual income tax is the largest revenue producer for the state. Total collections for FY 2003 were $8,256.5 million. Of this amount, 5.6 percent or $458.5 million was distributed to the Library and Local Government Support Fund, 3.9 percent or $324.9 million to the Local Government Fund, 0.6 percent or $46.4 million to the Local Government Revenue Assistance Fund, and 89.9 percent or $7,420.7 million was distributed to the General Revenue Fund.

The **Exhibit — State Individual Income Tax** illustrates the percentage distribution by income level of 2001 tax returns, federal adjusted gross income, and income tax liability. Tables 1 through 12 also include information compiled from the 2001 Ohio individual income tax returns, which were due by April 16, 2002. Table 1 contains detailed data from the returns categorized in 43 income levels. The data shows that 5,386,612 taxpayers filed individual income tax returns, reporting total federal adjusted gross income of approximately $256 billion, an average of roughly $47,521 per return. Applying the tax rates to this income and then subtracting allowable tax credits yields a figure for total individual income tax liability of $7,844.2 million. This amounts to an average income tax liability of $1,456 per return.

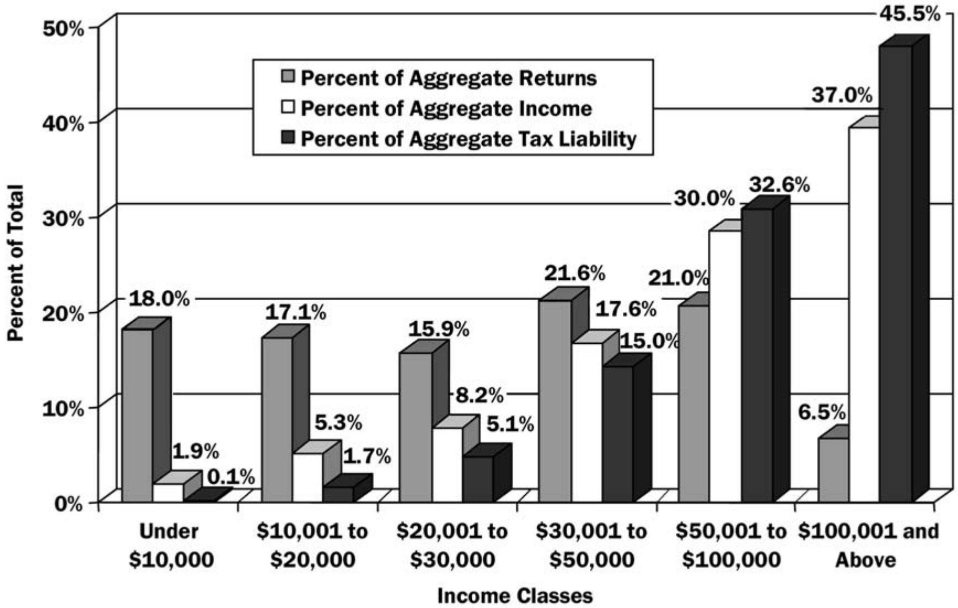
Table 2 compares total returns filed for 2000 and 2001, grouped by major income levels, while Table 3 compares only taxable individual income tax returns for 2000 and 2001. Table 4 is a summarized version

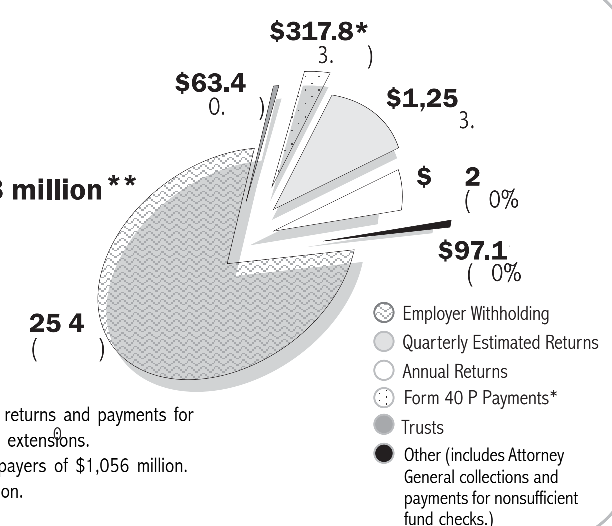
Distributions of Revenue from Individual Income Tax
Fiscal Year 2003
(figures in millions)
Total $8,256.5 million*



*Includes Attorney General collections and political party contributions of $6.0 million.
Source: Office of Budget and Management.

Exhibit — State Individual Income Tax 2001 Individual Income Tax Returns, Income and Tax, by Income Level





Type of Payment from Individual Income Tax
Fiscal Year 2003
(figures in millions)
Total: 9,312.8 million**

* Payments for electronic returns and payments for taxpayers that received extensions.
** Includes refunds to taxpayers of $1,056 million.
Source: Department of Taxation.

of Table 1, showing some of the major data categorized into just nine income levels. Tables 5, 6 and 7 show individual income tax returns by the same nine income levels, but also by filing status – married joint, single and married separate.

Table 8 classifies the number of returns and tax liability by Ohio taxable income levels rather than federal adjusted gross income. The "Ohio Taxable Income" figure for individuals is the amount to which the graduated tax rates of 0.743 to 7.5 percent for 2001 were directly applied.

Table 9 contains information on the joint filer credit, as it pertains to a 2001 joint return filed by a husband and wife each earning at least $500 of qualifying Ohio adjusted gross income. Qualifying income does not include income from interest, dividends and distributions, royalties, rents, capital gains, and state or municipal income tax refunds. Table 10 provides information pertaining to the senior citizen credit. Table 11 indicates the number of individual income tax returns filed, income and tax liability for residents of each of Ohio's 88 counties.

Cuyahoga County had the largest number of individual income tax returns filed with 632,094, reporting $28.5 billion of income and approximately $1,019 million of individual income tax liability. Residents of the 10 largest counties filed roughly 2.63 million individual income tax returns, out of the statewide total of nearly 5.29 million individual income tax returns indicating a county of residence.

Table 12 indicates the average income per individual income tax return for residents of each county. Delaware County individual income taxpayers reported the highest figure with an average income of

$75,346, while Morgan County had the lowest average income, at $29,263.

TAX BASE (R.C. 5747.01):

The tax base is the amount of federal adjusted gross income (individuals) or taxable income (estates and trusts) as defined in the I.R.C., plus or minus the adjustments according to Ohio income tax law (see General Computation of Tax Liability for the 2003 Individual Income Tax Return, below).

GENERAL COMPUTATION OF TAX LIABILITY FOR THE 2002 INDIVIDUAL INCOME TAX RETURN

Starting Point: Federal Adjusted Gross Income

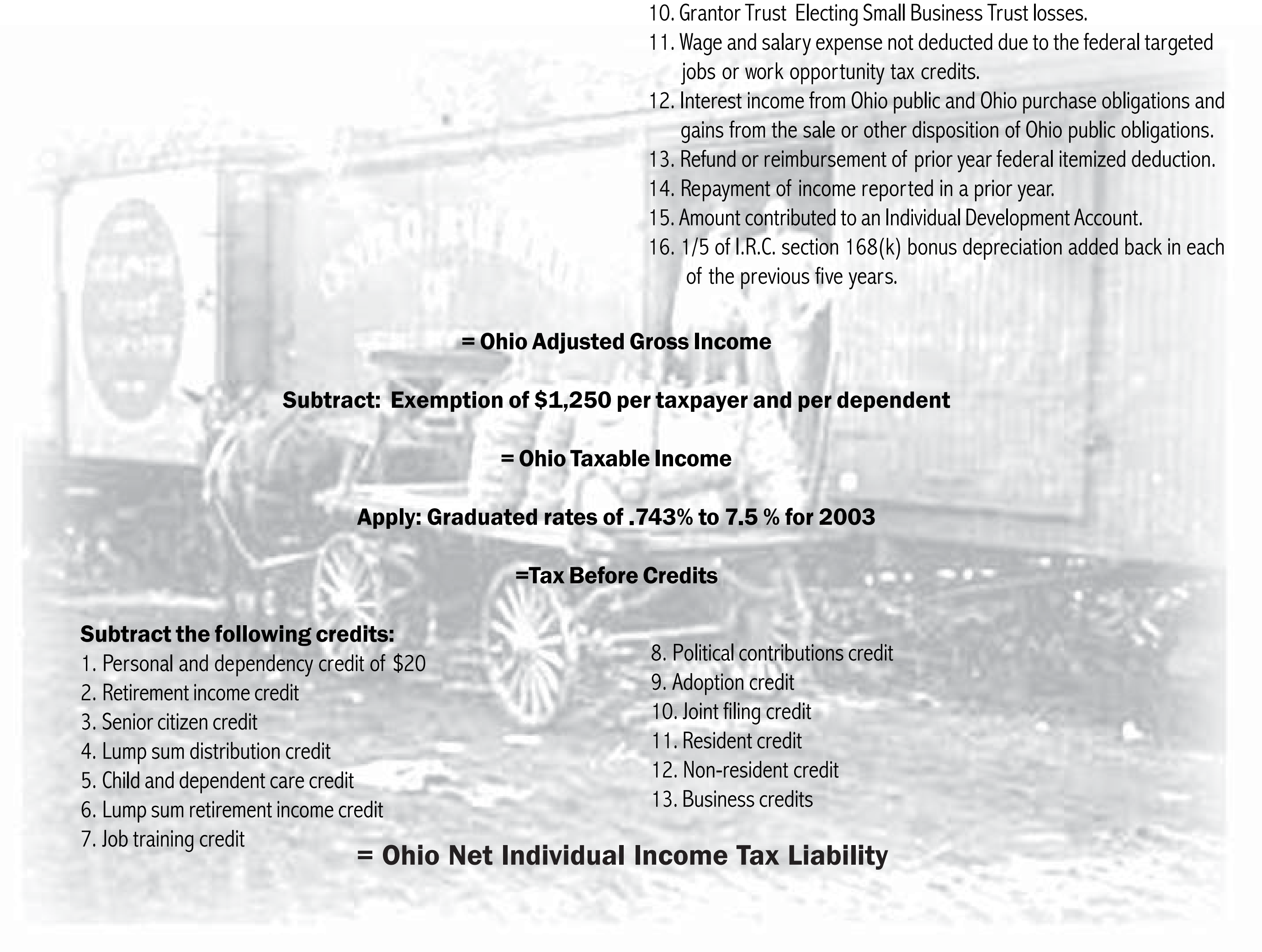
Plus or Minus

Additions to the extent not included in FAGI

1. Non-Ohio state or local government interest and dividends.
2. Pass-through entity add-back.
3. Grantor Trust Electing Small Business Trust income.
4. Federal interest/dividends subject to state tax.
5. Reimbursement of tuition expenses previously deducted on an Ohio income tax return.
6. Losses from the sale or other disposition of Ohio public obligations.
7. Non-medical withdrawals from an Ohio Medical Savings Account.
8. Reimbursements of expenses deducted in a prior year.
9. Non-education expenditures from a college savings account.
10. 5/6 of I.R.C. section 168(k) bonus depreciation claimed on the federal income tax return.

Deductions to the extent not excluded or deducted from FAGI

1. Certain federal interest and dividends.
2. Income tax paid to other states.
3. State or municipal income tax overpayments deducted on a prior year's federal income tax return.
4. Disability and survivorship benefits.
5. Social Security and some railroad retirement benefits.
6. Contributions to a college savings account.
7. Tuition expense paid to an Ohio-based institution (limited deduction).
8. Unsubsidized health insurance, long-term care insurance and excess medical expense deduction.
9. Funds deposited into, and earnings on, an Ohio Medical Savings Account.
10. Grantor Trust Electing Small Business Trust losses.
11. Wage and salary expense not deducted due to the federal targeted jobs or work opportunity tax credits.
12. Interest income from Ohio public and Ohio purchase obligations and gains from the sale or other disposition of Ohio public obligations.
13. Refund or reimbursement of prior year federal itemized deduction.
14. Repayment of income reported in a prior year.
15. Amount contributed to an Individual Development Account.
16. 1/5 of I.R.C. section 168(k) bonus depreciation added back in each of the previous five years.



= Ohio Adjusted Gross Income

Subtract: Exemption of $1,250 per taxpayer and per dependent

= Ohio Taxable Income

Apply: Graduated rates of .743% to 7.5 % for 2003

=Tax Before Credits

Subtract the following credits:

1. Personal and dependency credit of $20
2. Retirement income credit
3. Senior citizen credit
4. Lump sum distribution credit
5. Child and dependent care credit
6. Lump sum retirement income credit
7. Job training credit
8. Political contributions credit
9. Adoption credit
10. Joint filing credit
11. Resident credit
12. Non-resident credit
13. Business credits

= Ohio Net Individual Income Tax Liability

TAX RATES (R.C. 5747.02):

Ohio taxable income	2003 tax rate
0 - $5,000	.743 of Ohio taxable income
$5,000 - $10,000	$37.15 plus 1.486% of excess over $5,000
$10,000 - $15,000	$111.45 plus 2.972% of excess over $10,000
$15,000 - $20,000	$260.05 plus 3.715% of excess over $15,000
$20,000 - $40,000	$445.80 plus 4.457% of excess over $20,000
$40,000 - $80,000	$1,337.20 plus 5.201% of excess over $40,000
$80,000 - $100,000	$3,417.60 plus 5.943% of excess over $80,000
$100,000 - $200,000	$4,606.20 plus 6.9% of excess over $100,000
Over $200,000	$11,506.20 plus 7.5% of excess over $200,000

EXEMPTIONS AND ADJUSTMENTS:

1. **Personal and Dependent Exemptions (R.C. 5747.025):** For the 2003 individual income tax return, a personal exemption is available for each taxpayer in the amount of $1,250. In addition, a taxpayer can claim a deduction of $1,250 for each dependent. Each year the personal and dependent exemption amount is increased based upon the gross domestic product deflator.
2. **Adjustments to Federal Adjusted Gross Income for Individuals:** For a complete listing and explanation of the adjustments to federal adjusted gross income, go to the Department of Taxation web site @ www.Ohio.gov/tax and look under the heading "Forms" for Form IT-1040, Ohio Income Tax Return Instructions.
3. **Adjustments to Federal Taxable Income for Estates and Trusts:** For a complete listing and explanation of the adjustments, go to the department web site @ www.Ohio.gov/tax and look under the heading "Forms" for Form IT-1041, Ohio Fiduciary Income Tax Return Instructions.

PERSONAL CREDITS:

1. **Personal and Dependent Exemption Credit (R.C. 5747.022):** Individual taxpayers are allowed to take a credit of $20 against the Ohio income tax for each personal and dependent exemption.
2. **Retirement Income Credit (R.C. 5747.055):** Individual and estate taxpayers, receiving retirement benefits, annuities or distributions from a retirement or profit sharing plan which are included in Ohio adjusted gross income, are allowed a credit based on the amount of retirement income received during the taxable year. The maximum credit is $200.
3. **Senior Citizens Credit (R.C. 5747.05(C)):** Individual and estate taxpayers may claim a $50 credit if the taxpayer was 65 years of age on or before December 31st of the taxable year.
4. **Lump Sum Distribution Credit (R.C. 5747.05(D)):** Individual taxpayers over 65 years of age may claim this credit if they received a lump sum distribution from a pension, retirement or profit sharing plan. The calculation is based upon the expected remaining life years times the senior citizens credit amount.
5. **Child & Dependent Care Credit (R.C. 5747.054):** Individual and estate taxpayers with an income of less than $40,000 may claim this credit if they made payments that qualified for the federal child and dependent care credit on the federal income tax return.
6. **Lump Sum Retirement Income Credit (R.C. 5747.055(C),(D),(E)):** Individual taxpayers may claim this credit if they received a lump sum distribution on account of retirement from a qualified pension, retirement or profit sharing plan during one tax year.
7. **Job Training Credit (R.C. 5747.27):** An individual taxpayer may claim a credit for training expenses incurred within 12 months of losing or leaving a job due to abolishment of position or shift. The maximum credit is 50 percent of the training expenses or $500, whichever is lower.
8. **Political Contributions Credit (R.C. 5747.29):** Individual and estate taxpayers may claim a credit for contributions made to campaign committees of candidates for Ohio state office. The maximum credit is $50 for single, head of household and married separate filers and $100 for married filing joint filers.
9. **Adoption Credit (R.C. 5747.37):** Individual taxpayers may claim a credit for adoption expenses up to a maximum of $500 per child. Adoption of stepchildren does not qualify for this credit.
10. **Joint Filer Credit (R.C. 5747.05(G)(1)):** A husband and wife who file a joint individual return are allowed a tax credit if each spouse has qualifying Ohio adjusted gross income of $500 or more. Qualifying income does not include income from interest, dividends and distributions, royalties, rents, capital gains and state or municipal income tax refunds. The maximum credit is $650. The credit is a percentage of the tax after all credits (other than the resident, nonresident, part-year resident and business credits).
11. **Resident Credit (R.C. 5747.05(B)):** Resident individuals, resident estates and trusts may calculate a tax credit if part or all of their income is subjected to tax in another state. The calculation for trusts differs from the calculation used for individuals and estates.
12. **Nonresident Credit (R.C. 5747.05(A)):** Nonresident individuals and nonresident estates may calculate a credit if part of their income was not earned or received in Ohio. Ohio lottery winnings do not qualify for this credit.

Business Credits –
Note: The following business credits apply to individuals, estates and trusts. You can find additional explanation in the **Corporation Franchise Tax** *chapter of this report. Note that only the Ohio Job Creation Credit and Pass-Through Entity Credit are refundable.*

1. **Credit for purchases of new manufacturing machinery and equipment (7.5 percent—13.5 percent credit) (R.C. 5747.31).**
2. **Credit for new employee in an enterprise zone (R.C. 5709.66(B)).**

3. **Credit for eligible costs associated with a voluntary clean-up action (carry-forward only through 2006) (R.C. 5747.32 and 122.16).**
4. **Credit for employers that establish on-site day care centers (five-year carry-forward only through 2007) (R.C. 5747.35).**
5. **Credit for investment in a certified ethanol plant (R.C. 5747.75).**
6. **Credit for purchases of grape production property (R.C. 5747.28).**
7. **Export sales (credit carry-forward only through 2004) (R.C. 5747.057).**
8. **Edison Center credit for research and development investors (R.C. 5747.33, 122.15, 122.151 to .154).**
9. **Enterprise zone day care and training credit (R.C. 5709.65(A)(4) and (A)(5)).**
10. **Refundable job creation credit (R.C. 5747.058).**
11. **Refundable pass-through entity credit (R.C. 5747.059).**

SPECIAL PROVISIONS:

1. Military pay is taxable for residents. Ohio residents pay Ohio income tax on military pay regardless of duty station (except for combat pay). If the taxpayer is not an Ohio resident, Ohio does not tax his/her military pay. Ohio will tax non-military pay earned in Ohio that is included in federal adjusted gross income.
2. Reciprocity (R.C. 5747.05(A)(3)) may affect filing of an Ohio return. Because of "reciprocity agreements" Ohio has with the border states of Indiana, Kentucky, West Virginia, Michigan and Pennsylvania, an individual does not have to file a 2003 Ohio income tax return if:
   - They were a full-year resident of one of the five listed states for 2003, and
   - Their only source of income within Ohio was from wages, salaries, tips, or commissions.

   Exception: Reciprocal agreements do not apply if the individual owns directly or indirectly at least 20 percent of a pass-through entity having nexus in Ohio.
3. Residency status affects payment of income tax. Individual taxpayers who spend less than 120 days in Ohio and who have a permanent abode outside of Ohio for the entire year may declare themselves to be a nonresident of Ohio. Without jeopardizing their nonresidency status, the taxpayer can spend up to an additional 30 days in Ohio for specific reasons (attending a funeral, charity functions, doctor visits). Taxpayers claiming nonresidency status should attach a statement to their tax return setting forth the facts supporting nonresidency status.

TAXPAYER (R.C. 5747.01(N)):

Every individual and every estate residing in Ohio or earning or receiving income in Ohio is subject to the Ohio income tax. Every resident trust and certain nonresident trusts that earn income from Ohio sources are subject to the Ohio income tax.

FILING AND PAYMENT DATES (R.C. 5747.07-5747.09):

For Individuals, Estates and Trusts:

1. Annual return is due between January 1 and April 15 for calendar year taxpayers without an extension. Fiscal year returns are due by the 15th day of the fourth month after the fiscal year end. The return reconciles the tax liability with the amount remitted through withholding by the employer or quarterly estimated payments by the taxpayer.
2. Taxpayers must file quarterly declarations if they expect to be underwithheld by more than $500. Such taxpayers must make estimated payments on or before April 15, June 15 and September 15 of the current year and January 15 of the next year.

For Employers:

An employer accumulating undeposited taxes of $100,000 or more is required to make payment within one banking day by Electronic Funds Transfer (EFT). Otherwise, the following rules apply:

1. If an employer withheld no more than $2,000 during the year ending June 30 of the preceding year, payments are due within 30 days after the quarter ending in March, June, September and December.
2. If an employer withheld more than $2,000 and less than $84,000 during the year ending June 30 of the preceding year, payments are due within 15 days after the end of the month.
3. If an employer withheld at least $84,000 during the year ending June 30 of the preceding year, payments are due within three banking days after the end of the partial weekly period and must be made by EFT.

DISPOSITION OF REVENUE:

1. During FY 2003, 5.6 percent or $458.5 million was distributed to the Library and Local Government Support Fund, 3.9 percent or $324.9 million to the Local Government Fund, 0.6 percent or $46.4 million to the Local Government Revenue Assistance Fund, and 89.9 percent or $7,420.7 million was distributed to the General Revenue Fund.
2. The Ohio Constitution requires that at least 50 percent of the income tax collections be returned to the county of origin. This provision is met primarily through General Revenue Fund allocations to education, Local Government Fund distributions, and local property tax relief (12.5 percent property tax rollback and homestead exemption).

ADMINISTRATION:

The Department of Taxation administers the Ohio income tax on individuals, estates and trusts.

OHIO REVISED CODE CITATIONS:

Chapter 5747.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective June 26, 2003). R.C. 5747.01 (A)(20), 5/6 – 1/5 adjustment for I.R.C. section 179 expense —

In determining Ohio taxable income taxpayers must add to Ohio taxable income 5/6 of the "qualifying section 179 depreciation expense" deducted in determining federal taxable income for the taxable year. "Qualifying section 179 depreciation expense" means the difference between (1) the amount of depreciation expense directly or indirectly allowed to the taxpayer under I.R.C. section 179 and (2) the amount of depreciation expense directly or indirectly allowed to the taxpayer under

I.R.C. 179 as that section existed on December 31, 2002. Then, for each of the succeeding five taxable years the taxpayer must deduct 1/5 of the amount previously added back. Uncodified section 178 clarifies that Ohio law, as it existed before the effective date of this legislation, requires that net operating loss carry-backs must be reduced by (1) 5/6 of the I.R.C. section 168(k) bonus depreciation and (2) 5/6 of the I.R.C. section 179 qualifying depreciation. For additional discussion, see the first page of this chapter's summary.

R.C. 5747.02(E) –
The income tax does not apply to pre-need funeral contract trusts, established pursuant to R.C. 1111.19, for taxable years ending after June 25, 2003.

R.C. 5747.26 –
Extensions to file and an extension to pay are granted for members of the National Guard and for members of the Reserve Components of the U.S. Armed Forces called to duty under operation Iraqi Freedom. Extension expires 60 sixty days after duty terminates.

Am. Sub. S.B. 180, 124th General Assembly (effective April 9, 2003). R.C. 5747.98(A)(19) and (35) –
Provided a credit for losses on loans made to the Ohio Venture Capital Program. Per R.C. 150.07(B), these credits cannot be claimed until the fifth year after the Venture Capital Program Authority establishes the investment policy with respect to these loans.

R.C. 5747.058 –
Relaxed the requirements for eligibility for the job retention tax credit.

Sub. S.B. 200, 124th General Assembly (effective September 6, 2002). R.C. 5703.60 –
Provided for uniform and "taxpayer friendly" procedures to contest tax assessments (bills).

Am. Sub. S.B. 261, 124th General Assembly (effective June 5, 2002). R.C. 5747.01 and .02 –
Provided that trusts which reside in Ohio and certain nonresident trusts are subject to the income tax. The starting point is taxable income plus or minus applicable adjustments. One unique deduction is the deduction for undistributed farm income.

R.C. 5747.01(A)(21) and (S)(14)) –
Required that individuals, estates and trusts must add back 5/6 of the I.R.C. section 168(k) bonus depreciation claimed on the federal return for the taxable year. Taxpayers will then be permitted to deduct 1/5 of the add-back on the succeeding five tax returns.

R.C. 5747.02(A)) –
Beginning in 2005, the income tax rates will be adjusted for inflation.

R.C. 5747.01(B)) –
Definition of business income was expanded to include capital gains/goodwill when a business is liquidated.

Am. Sub. S.B. Bill 144, 124th General Assembly (effective March 21, 2002). R.C. 5747.75 –
Permitted individuals, estates and trusts to claim a credit for investment in an ethanol production plant. Maximum credit is 50 percent of the money invested or $5,000 per year, whichever is lower.

RECENT INFORMATION RELEASES:

PI & CFT 2002 - 02 – "Ohio Bonus Depreciation Adjustments and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and at-Risk Rules," Nov. 7, 2002.
PIT 2002-06 – "Net Operating Loss Carry-back Rule," Aug.12, 2002.
PI & CFT 2002-01 –"Recently Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter," July 31, 2002.
PIT 2001-04 –"Electing Small Business Trust Audit Initiative," July 3, 2002.

Table 1
2001 Ohio Individual Income Tax Returns, by Income Level *

Income Level (Federal Adjusted Gross Income)			Number of Returns	Federal Adjusted Gross Income	Ohio Adjusted Gross Income	Reported Value Personal Exemptions	Ohio Taxable Income	Tax Before Credits	Joint Filer Credit	Tax Liability after all Tax Credits
0	-	$1,000	62,968	$37,585,251	$37,373,028	$79,112,352	$658,087	$4,972	$0	$3,291
$1,000	-	2,000	100,702	151,895,726	150,073,138	129,528,331	33,813,632	240,725	0	1,145
2,000	-	3,000	108,146	270,969,096	267,516,208	143,541,980	130,461,270	956,333	0	1,619
3,000	-	4,000	110,296	386,284,707	380,965,315	152,722,834	231,201,560	1,706,425	4	9,574
4,000	-	5,000	111,545	502,081,623	493,892,851	160,142,724	335,183,984	2,482,071	35	402,772
5,000	-	6,000	100,155	550,455,456	540,574,059	149,395,121	392,326,171	2,912,518	72	876,626
6,000	-	7,000	95,802	622,578,026	610,365,657	149,012,291	462,005,484	3,610,917	162	1,418,651
7,000	-	8,000	94,194	706,186,639	691,226,752	151,893,047	539,868,281	4,694,195	271	2,182,097
8,000	-	9,000	92,114	783,072,201	765,203,999	153,652,129	612,038,740	5,778,875	1,757	2,895,890
9,000	-	10,000	91,103	865,684,320	844,641,678	156,795,661	688,305,040	6,916,668	3,309	3,631,700
10,000	-	11,000	92,312	968,965,069	945,361,419	165,262,623	780,480,756	8,221,946	6,552	4,440,210
11,000	-	12,000	89,713	1,031,777,451	1,005,549,350	160,410,850	845,513,810	9,567,390	11,200	5,512,926
12,000	-	13,000	90,243	1,128,343,930	1,100,533,772	164,054,773	936,876,407	11,726,977	17,539	7,156,566
13,000	-	14,000	92,014	1,242,785,485	1,212,076,458	169,269,740	1,043,788,706	14,364,036	31,037	9,131,989
14,000	-	15,000	92,873	1,346,809,032	1,313,767,602	172,363,660	1,141,717,468	16,989,713	47,287	11,126,647
15,000	-	16,000	93,347	1,447,076,515	1,411,719,173	175,370,388	1,236,582,394	19,663,089	73,687	13,230,938
16,000	-	17,000	93,526	1,543,163,265	1,506,328,671	176,933,013	1,329,620,142	22,485,906	98,544	15,559,358
17,000	-	18,000	93,367	1,633,940,513	1,595,286,708	178,510,961	1,416,974,017	25,490,968	130,089	18,177,831
18,000	-	19,000	92,885	1,718,448,153	1,679,225,002	179,774,569	1,499,629,183	28,540,365	181,494	20,914,205
19,000	-	20,000	92,297	1,799,788,909	1,757,516,900	180,300,157	1,577,476,976	31,523,464	242,199	23,859,515
20,000	-	22,500	226,287	4,806,804,370	4,696,826,161	448,474,283	4,248,811,984	91,527,527	924,971	73,066,175
22,500	-	25,000	218,298	5,183,314,838	5,062,973,041	436,145,849	4,627,177,231	110,178,108	1,438,238	92,066,713
25,000	-	27,500	209,380	5,496,145,149	5,362,370,450	422,186,075	4,940,494,829	127,647,734	2,002,901	109,609,655
27,500	-	30,000	204,246	5,871,537,875	5,717,519,127	414,872,460	5,302,944,296	145,941,230	2,342,364	127,375,654
30,000	-	32,500	189,039	5,904,316,703	5,739,133,187	392,843,932	5,346,473,284	154,522,680	2,655,703	136,362,977
32,500	-	35,000	171,781	5,794,998,436	5,626,624,346	370,163,022	5,256,628,294	158,123,636	3,265,091	140,221,307
35,000	-	37,500	157,624	5,712,021,622	5,538,735,566	352,499,866	5,186,389,893	161,260,778	4,004,882	143,306,528
37,500	-	40,000	145,726	5,645,382,855	5,462,168,575	336,081,911	5,126,218,901	163,804,452	4,805,741	145,471,176
40,000	-	42,500	137,691	5,678,502,871	5,491,441,132	329,000,765	5,162,902,128	169,130,786	5,850,090	150,412,857
42,500	-	45,000	128,412	5,615,736,959	5,428,284,844	316,841,814	5,111,540,727	171,994,322	6,773,852	152,710,075
45,000	-	47,500	119,044	5,504,594,545	5,316,594,095	302,451,347	5,014,231,328	173,333,329	7,735,916	153,532,754
47,500	-	50,000	112,348	5,476,254,570	5,284,800,126	293,955,352	4,990,933,379	176,858,734	8,927,158	156,037,111
50,000	-	55,000	206,191	10,815,587,635	10,437,270,872	562,447,843	9,874,959,427	361,370,735	19,499,740	318,685,077
55,000	-	60,000	181,837	10,445,781,636	10,069,430,456	518,217,188	9,551,356,506	362,273,756	17,982,013	321,943,704
60,000	-	65,000	157,636	9,842,817,039	9,482,882,992	469,317,428	9,013,664,317	352,144,332	19,304,091	312,080,874
65,000	-	70,000	134,743	9,086,193,486	8,758,847,044	414,447,324	8,344,494,556	334,227,245	19,584,177	295,604,356
70,000	-	75,000	113,292	8,206,046,997	7,920,980,902	359,160,436	7,561,895,156	309,372,323	19,011,585	272,969,245
75,000	-	80,000	94,570	7,321,399,655	7,076,126,542	306,750,067	6,769,452,432	282,034,361	15,986,246	250,328,585
80,000	-	90,000	143,275	12,134,261,577	11,732,643,504	475,115,125	11,257,645,172	481,026,102	17,137,663	436,366,587
90,000	-	100,000	97,833	9,264,350,022	8,969,801,017	329,382,225	8,640,494,043	383,735,305	12,928,556	347,930,656
100,000	-	150,000	199,786	23,762,056,003	23,058,666,086	681,780,047	22,377,003,799	1,090,155,519	35,373,015	978,106,106
150,000	-	200,000	60,092	10,301,848,844	10,021,598,834	207,497,324	9,814,131,952	539,756,889	16,094,036	473,841,149
200,000	AND	ABOVE	87,879	59,368,488,106	58,518,744,413	299,855,587	58,218,917,258	4,060,222,499	27,394,524	2,115,654,676
Total			**5,386,612**	**$255,976,333,160**	**$249,083,661,052**	**$12,187,534,474**	**$236,973,283,000**	**$10,578,519,935**	**$271,867,791**	**$7,844,217,547**

* As reported on returns due April 15, 2002.

Table 2
Comparison of 2000 and 2001 Individual Income Tax Returns

Income Level (Federal Adjusted Gross Income)	Number of Returns 2000	Number of Returns 2001	Federal Adjusted Gross Income 2000	Federal Adjusted Gross Income 2001	Ohio Taxable Income 2000	Ohio Taxable Income 2001	Joint Filer Credit 2000	Joint Filer Credit 2001	Ohio Income Tax 2000	Ohio Income Tax 2001
0 - $5,000	501,005	493,657	$1,375,858,086	$1,348,816,403	$772,987,683	$731,318,533	$75	$39	$300,785	$418,401
$5,000 - 10,000	489,357	473,368	3,647,206,621	3,527,976,642	2,842,664,341	2,694,543,716	6,025	5,571	10,638,222	11,004,964
10,000 - 15,000	464,382	457,155	5,808,644,817	5,718,680,967	4,897,160,247	4,748,377,147	117,538	113,615	36,233,703	37,368,338
15,000 - 20,000	470,232	465,422	8,227,582,017	8,142,417,355	7,218,979,975	7,060,282,712	716,553	726,013	88,081,843	91,741,847
20,000 - 40,000	1,514,155	1,522,381	44,147,673,517	44,414,521,848	40,082,296,059	40,035,138,712	20,606,952	21,439,891	900,883,942	967,480,185
40,000 - 80,000	1,379,202	1,385,764	77,621,413,424	77,992,915,393	71,371,401,060	71,395,429,956	133,651,384	140,654,868	2,210,710,628	2,384,304,638
80,000 - 100,000	237,037	241,108	21,041,859,047	21,398,611,599	19,669,946,397	19,898,139,215	26,842,613	30,066,219	721,205,076	784,297,243
100,000 - 200,000	265,489	259,878	34,931,566,776	34,063,904,847	33,127,398,503	32,191,135,751	47,941,260	51,467,051	1,393,905,382	1,451,947,255
200,000 & Above	95,231	87,879	70,943,531,862	59,368,488,106	70,102,409,579	58,218,917,258	28,610,883	27,394,524	2,279,587,360	2,115,654,676
Total	**5,416,090**	**5,386,612**	**$267,745,336,167**	**$255,976,333,160**	**$250,085,243,844**	**$236,973,283,000**	**$258,493,283**	**$271,867,791**	**$7,641,546,941**	**$7,844,217,547**

Table 3
Comparison of 2000 and 2001 Individual Income Tax Returns with Tax Liability

Income Level (Federal Adjusted Gross Income)	Number of Returns with Tax Liability 2000	Number of Returns with Tax Liability 2001	Ohio Income Tax 2000	Ohio Income Tax 2001
0 - $5,000	82,368	92,701	$300,785	$418,401
$5,000 - 10,000	352,776	335,134	10,638,222	11,004,964
10,000 - 15,000	372,618	362,614	36,233,703	37,368,338
15,000 - 20,000	420,295	415,506	88,081,843	91,741,847
20,000 - 40,000	1,490,546	1,496,399	900,883,942	967,480,185
40,000 - 80,000	1,366,604	1,372,844	2,210,710,628	2,384,304,638
80,000 - 100,000	234,944	238,914	721,205,076	784,297,243
100,000 - 200,000	262,653	256,904	1,393,905,382	1,451,947,255
200,000 & above	92,632	85,106	2,279,587,360	2,115,654,676
Total	**4,675,436**	**4,656,122**	**$7,641,546,941**	**$7,844,217,547**

Table 4
2001 Ohio Individual Income Tax Returns for All Filing Status Categories

Income Level (Federal Adjusted Gross Income)	Number of Returns	Federal Adjusted Gross Income	Ohio Taxable Income	Joint Filer Credit	Ohio Income Tax	Effective Tax Rate*
0 - $5,000	493,657	$1,348,816,403	$731,318,533	$39	$418,401	0.03%
$5,000 - 10,000	473,368	3,527,976,642	2,694,543,716	5,571	11,004,964	0.31
10,000 - 15,000	457,155	5,718,680,967	4,748,377,147	113,615	37,368,338	0.65
15,000 - 20,000	465,422	8,142,417,355	7,060,282,712	726,013	91,741,847	1.13
20,000 - 40,000	1,522,381	44,414,521,848	40,035,138,712	21,439,891	967,480,185	2.18
40,000 - 80,000	1,385,764	77,992,915,393	71,395,429,956	140,654,868	2,384,304,638	3.06
80,000 - 100,000	241,108	21,398,611,599	19,898,139,215	30,066,219	784,297,243	3.67
100,000 - 200,000	259,878	34,063,904,847	32,191,135,751	51,467,051	1,451,947,255	4.26
200,000 & Above	87,879	59,368,488,106	58,218,917,258	27,394,524	2,115,654,676	3.56
Total	**5,386,612**	**$255,976,333,160**	**$236,973,283,000**	**$271,867,791**	**$7,844,217,547**	**3.06%**

* Ohio income tax divided by federal adjusted gross income.

Table 5
2001 Ohio Individual Income Tax Returns Claiming Married Filing Joint Status

Income Level (Federal Adjusted Gross Income)	Number of Returns	Federal Adjusted Gross Income	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - $5,000	14,799	$44,870,370	$10,321,693	$2,288	0.01%
$5,000 - 10,000	37,507	292,887,765	163,748,217	79,357	0.03
10,000 - 15,000	68,468	867,768,831	617,619,702	1,481,684	0.17
15,000 - 20,000	92,595	1,626,344,971	1,270,954,544	7,829,850	0.48
20,000 - 40,000	402,568	12,145,031,220	10,218,805,836	201,912,837	1.66
40,000 - 80,000	829,947	48,696,953,043	43,877,884,125	1,416,424,376	2.91
80,000 - 100,000	197,018	17,500,500,047	16,210,986,798	633,421,096	3.62
100,000 - 200,000	220,910	28,995,081,372	27,385,292,868	1,230,427,862	4.24
200,000 & Above	74,168	47,730,041,377	46,774,436,231	1,767,831,433	3.70
Total	**1,937,980**	**$157,899,478,996**	**$146,530,050,014**	**$5,259,410,783**	**3.33%**

* Ohio income tax divided by federal adjusted gross income.

Table 6
2001 Ohio Individual Income Tax Returns Claiming Single Filing Status

Income Level (Federal Adjusted Gross Income)	Number of Returns	Federal Adjusted Gross Income	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - $5,000	472,886	$1,287,007,668	$711,495,021	$406,346	0.03%
$5,000 - 10,000	423,935	3,141,966,003	2,456,418,556	10,525,350	0.33
10,000 - 15,000	365,826	4,560,137,184	3,877,745,984	33,215,586	0.73
15,000 - 20,000	336,046	5,866,673,718	5,204,747,676	74,398,421	1.27
20,000 - 40,000	884,981	25,202,660,300	23,246,909,152	588,592,934	2.34
40,000 - 80,000	384,852	20,182,281,172	18,839,986,153	653,984,500	3.24
80,000 - 100,000	29,547	2,613,390,797	2,448,137,409	98,249,514	3.76
100,000 - 200,000	28,568	3,730,848,482	3,511,732,634	158,975,215	4.26
200,000 & Above	10,340	8,683,655,791	8,550,037,365	250,456,284	2.88
Total	**2,936,981**	**$75,268,621,115**	**$68,847,209,950**	**$1,868,804,150**	**2.48%**

* Ohio income tax divided by federal adjusted gross income.

Table 7
2001 Ohio Individual Income Tax Returns Claiming Married Separate Filing Status

Income Level (Federal Adjusted Gross Income)	Number of Returns	Federal Adjusted Gross Income	Ohio Taxable Income	Ohio Income Tax	Effective Tax Rate*
0 - $5,000	5,972	$16,938,364	$9,501,817	$9,768	0.06%
$5,000 - 10,000	11,929	93,122,875	74,376,942	400,259	0.43
10,000 - 15,000	22,860	290,774,955	253,011,460	2,671,066	0.92
15,000 - 20,000	36,781	649,398,667	584,580,492	9,513,576	1.46
20,000 - 40,000	234,831	7,066,830,329	6,569,423,725	176,974,412	2.50
40,000 - 80,000	170,964	9,113,681,177	8,677,559,677	313,895,763	3.44
80,000 - 100,000	14,543	1,284,720,755	1,239,015,008	52,626,634	4.10
100,000 - 200,000	10,399	1,337,974,992	1,294,110,249	62,544,178	4.67
200,000 & Above	3,371	2,954,790,939	2,894,443,662	97,366,959	3.30
Total	**511,650**	**$22,808,233,053**	**$21,596,023,032**	**$716,002,615**	**3.14%**

* Ohio income tax divided by federal adjusted gross income.

Table 8
2001 Ohio Individual Income Tax Returns by Ohio Taxable Income Level

Income Level (Ohio Taxable Income)	Number of Returns*	$20 Exemption Credit	Joint Filer Credit	Ohio Income Tax
0 - $5,000	690,150	$13,821,524	$127	$1,481,017
$5,000 - 10,000	491,463	13,076,689	43,217	17,143,469
10,000 - 15,000	475,131	13,601,438	483,933	56,126,683
15,000 - 20,000	474,206	16,135,307	1,909,754	124,893,770
20,000 - 40,000	1,499,882	55,455,847	32,297,073	1,112,097,753
40,000 - 80,000	1,252,002	61,660,702	138,511,516	2,409,126,838
80,000 - 100,000	198,734	11,448,085	25,417,153	711,749,069
100,000 - 200,000	223,069	13,262,780	47,448,502	1,348,627,610
200,000 & Above	81,991	4,868,664	25,756,713	2,062,971,367
Total	**5,386,628**	**$203,331,036**	**$271,867,988**	**$7,844,217,576**

*Differs from other tables due to methodology of computation.

Table 9
2001 Ohio Individual Income Tax Returns Claiming the Joint Filer Credit, by Income Level

Income Level (Federal Adjusted Gross Income)	Number of Returns Claiming Credit	Federal Adjusted Gross Income	Ohio Taxable Income	Ohio Income Tax
0 - $5,000	34	$155,852	$116,000	$120
$5,000 - 10,000	1,243	10,855,157	8,141,852	22,014
10,000 - 15,000	9,682	126,100,670	96,223,327	443,994
15,000 - 20,000	26,790	479,465,701	388,461,970	2,825,117
20,000 - 40,000	215,900	6,666,451,065	5,718,197,554	108,471,706
40,000 - 80,000	633,625	37,622,587,986	34,335,605,802	1,098,462,688
80,000 - 100,000	160,082	14,214,161,329	13,298,272,655	521,026,300
100,000 - 200,000	166,901	21,698,090,066	20,646,917,512	930,995,791
200,000 & Above	43,160	22,515,010,205	22,069,202,920	987,628,586
Total	**1,257,417**	**$103,332,878,031**	**$96,561,139,592**	**$3,649,876,316**

Table 10
2001 Ohio Individual Income Tax Returns Claiming the Senior Citizen Credit, by Income Level

Income Level (Federal Adjusted Gross Income)	Number of Returns Claiming Credit	Federal Adjusted Gross Income	Ohio Taxable Income	Senior Citizen Credit	Retirement Income Credit*	Ohio Income Tax
0 - $5,000	13,971	$48,242,929	$26,935,232	$698,102	$545,872	$3,333
$5,000 - 10,000	51,099	403,763,152	309,078,314	2,559,269	4,152,158	51,800
10,000 - 15,000	82,526	1,039,120,378	849,738,048	4,126,021	9,710,434	1,442,747
15,000 - 20,000	85,594	1,491,075,939	1,249,201,232	4,278,963	11,747,948	5,406,391
20,000 - 40,000	178,969	5,091,762,193	4,090,644,829	8,947,584	27,006,927	60,287,620
40,000 - 80,000	133,418	7,491,059,287	5,629,275,044	6,670,752	20,199,304	155,076,597
80,000 - 100,000	22,754	2,021,273,637	1,580,756,375	1,137,517	3,321,294	56,378,218
100,000 - 200,000	29,480	3,932,969,457	3,278,380,832	1,473,782	4,061,627	141,765,649
200,000 & Above	13,040	11,452,514,008	11,024,613,137	652,009	1,506,454	330,046,507
Total	**610,851**	**$32,971,780,980**	**$28,038,623,043**	**$30,543,999**	**$82,252,018**	**$750,458,862**

*This represents only the amount of the retirement income credit taken by senior citizen credit claimants. The total amount of the retirement income credit reported on the tax returns is $122.0 million.

Table 11
2001 Ohio Individual Income Tax Returns, by County

County	Number of Returns	Federal Adjusted Gross Income	Ohio Income Tax
ADAMS	11,853	$348,660,277	$9,030,984
ALLEN	50,123	1,913,411,979	61,331,604
ASHLAND	23,777	851,409,876	25,232,370
ASHTABULA	46,049	1,504,944,068	42,253,377
ATHENS	22,415	750,552,180	22,365,041
AUGLAIZE	22,248	861,226,716	27,290,459
BELMONT	30,411	984,095,612	27,419,335
BROWN	18,254	612,526,812	17,123,062
BUTLER	155,251	7,116,345,496	245,630,458
CARROLL	12,867	426,815,066	11,973,324
CHAMPAIGN	17,742	665,638,837	19,878,657
CLARK	64,997	2,429,590,392	74,089,750
CLERMONT	85,980	3,961,151,610	137,329,995
CLINTON	20,356	736,718,827	21,952,567
COLUMBIANA	48,175	1,589,227,123	44,685,510
COSHOCTON	16,442	545,127,987	15,459,724
CRAWFORD	22,770	739,733,435	20,242,883
CUYAHOGA	632,094	28,473,285,651	1,018,545,613
DARKE	26,034	918,133,983	26,851,718
DEFIANCE	19,633	744,247,012	22,350,854
DELAWARE	60,850	4,584,829,713	204,190,221
ERIE	38,598	1,560,664,640	51,602,846
FAIRFIELD	59,295	2,627,459,851	88,118,796
FAYETTE	13,207	440,511,794	12,650,896
FRANKLIN	521,187	24,013,014,087	868,010,609
FULTON	20,809	791,643,275	23,846,305
GALLIA	12,781	440,214,238	13,131,404
GEAUGA	43,744	2,639,536,178	107,406,937
GREENE	68,384	3,215,931,195	110,581,350
GUERNSEY	17,929	543,051,897	14,659,567
HAMILTON	401,034	20,246,052,515	779,853,943
HANCOCK	34,291	$1,470,244,294	$50,021,087
HARDIN	13,943	466,710,446	12,961,730
HARRISON	6,883	202,302,073	5,076,701
HENRY	14,255	524,165,308	15,520,591
HIGHLAND	17,365	551,330,677	15,183,887
HOCKING	12,354	393,745,981	10,775,750
HOLMES	14,009	480,376,872	14,396,324
HURON	30,050	1,104,623,570	34,114,791
JACKSON	13,569	433,672,929	12,161,506
JEFFERSON	32,012	1,064,482,490	29,813,329
KNOX	24,760	914,471,486	27,579,890
LAKE	115,261	5,003,172,383	169,247,635
LAWRENCE	24,315	759,292,393	20,044,135
LICKING	71,084	2,943,700,844	96,697,102
LOGAN	22,176	841,106,897	26,216,579
LORAIN	134,719	5,490,084,868	177,923,341
LUCAS	204,532	8,573,281,306	290,644,701
MADISON	17,907	$724,582,581	$23,049,318
MAHONING	114,168	4,304,033,099	137,717,264
MARION	29,146	1,037,740,897	30,927,471
MEDINA	76,616	3,741,350,550	133,131,599
MEIGS	8,808	274,730,459	7,351,639
MERCER	20,401	718,341,863	20,999,423
MIAMI	48,791	2,029,091,430	66,876,654
MONROE	6,075	180,350,181	4,460,239
MONTGOMERY	257,131	10,950,654,446	366,635,413
MORGAN	5,473	160,158,912	4,048,179
MORROW	13,415	475,729,840	13,769,623
MUSKINGUM	39,158	1,336,894,651	40,168,210
NOBLE	4,996	147,058,105	3,745,010
OTTAWA	21,305	845,789,728	26,340,003
PAULDING	9,411	326,647,491	9,182,388
PERRY	14,614	450,837,158	11,953,159
PICKAWAY	21,688	829,110,510	24,915,722
PIKE	11,776	369,887,789	10,045,748
PORTAGE	70,129	2,847,778,747	92,714,345
PREBLE	18,326	681,376,088	20,024,793
PUTNAM	17,578	657,575,574	19,588,380
RICHLAND	58,345	2,137,638,284	65,937,047
ROSS	32,404	1,155,303,778	34,164,041
SANDUSKY	30,609	1,076,426,924	31,540,203
SCIOTO	28,977	950,803,066	26,974,898
SENECA	27,725	939,911,746	27,194,689
SHELBY	24,168	898,526,692	27,940,121
STARK	178,560	7,081,298,420	232,488,337
SUMMIT	254,948	11,475,365,737	407,895,874
TRUMBULL	104,861	3,876,944,351	117,975,112
TUSCARAWAS	44,147	1,504,859,627	44,359,267
UNION	19,404	894,622,692	30,196,099
VAN WERT	14,633	502,988,899	14,180,425
VINTON	4,664	152,387,373	4,554,231
WARREN	78,377	4,400,301,621	166,866,786
WASHINGTON	28,563	1,029,200,192	30,655,387
WAYNE	52,393	1,996,170,221	62,247,459
WILLIAMS	19,003	685,226,574	20,709,498
WOOD	56,497	2,535,428,880	87,995,307
WYANDOT	11,151	372,128,410	10,377,162
COUNTY TOTAL	**5,287,208**	**$225,247,770,725**	**$7,685,365,761**
OTHER(a)	**99,414**	**30,728,562,431**	**158,851,812**
STATE TOTAL(b)	**5,386,622**	**$255,976,333,156**	**$7,844,217,573**

(a) Includes returns from out-of-state filers and returns not indicating county of residence.
(b) Differs from other tables due to methodology of computation.

Source: Department of Taxation.

Table 12
Rank of Counties by Average Income as Reported on 2001 Ohio Individual Income Tax Returns

County	Average Federal Adjusted Gross Income	Percent of State Average	Rank
ADAMS	$29,415	69.05%	86
ALLEN	$38,174	89.61%	29
ASHLAND	$35,808	84.05%	48
ASHTABULA	$32,681	76.71%	72
ATHENS	$33,484	78.60%	63
AUGLAIZE	$38,710	90.86%	27
BELMONT	$32,360	75.96%	75
BROWN	$33,556	78.76%	62
BUTLER	$45,838	107.59%	10
CARROLL	$33,171	77.86%	68
CHAMPAIGN	$37,518	88.06%	35
CLARK	$37,380	87.74%	37
CLERMONT	$46,071	108.14%	9
CLINTON	$36,192	84.95%	45
COLUMBIANA	$32,989	77.43%	70
COSHOCTON	$33,155	77.82%	69
CRAWFORD	$32,487	76.26%	74
CUYAHOGA	$45,046	105.74%	11
DARKE	$35,267	82.78%	52
DEFIANCE	$37,908	88.98%	33
DELAWARE	$75,346	176.86%	1
ERIE	$40,434	94.91%	24
FAIRFIELD	$44,312	104.01%	14
FAYETTE	$33,354	78.29%	66
FRANKLIN	$46,074	108.15%	8
FULTON	$38,043	89.30%	31
GALLIA	$34,443	80.85%	56
GEAUGA	$60,341	141.64%	2
GREENE	$47,028	110.39%	6
GUERNSEY	$30,289	71.10%	83
HAMILTON	$50,485	118.50%	4
HANCOCK	$42,876	100.64%	16
HARDIN	$33,473	78.57%	64
HARRISON	$29,392	68.99%	87
HENRY	$36,771	86.31%	42
HIGHLAND	$31,750	74.53%	78
HOCKING	$31,872	74.81%	77
HOLMES	$34,291	80.49%	58
HURON	$36,760	86.29%	43
JACKSON	$31,961	75.02%	76
JEFFERSON	$33,253	78.05%	67
KNOX	$36,933	86.69%	41
LAKE	$43,407	101.89%	15
LAWRENCE	$31,227	73.30%	80
LICKING	$41,412	97.20%	20
LOGAN	$37,929	89.03%	32
LORAIN	$40,752	95.66%	21
LUCAS	$41,917	98.39%	18
MADISON	$40,464	94.98%	23
MAHONING	$37,699	88.49%	34
MARION	$35,605	83.57%	50
MEDINA	$48,832	114.62%	5
MEIGS	$31,191	73.21%	81
MERCER	$35,211	82.65%	53
MIAMI	$41,587	97.62%	19
MONROE	$29,687	69.68%	84
MONTGOMERY	$42,588	99.97%	17
MORGAN	$29,263	68.69%	88
MORROW	$35,463	83.24%	51
MUSKINGUM	$34,141	80.14%	59
NOBLE	$29,435	69.09%	85
OTTAWA	$39,699	93.19%	25
PAULDING	$34,709	81.47%	55
PERRY	$30,850	72.41%	82
PICKAWAY	$38,229	89.73%	28
PIKE	$31,410	73.73%	79
PORTAGE	$40,608	95.32%	22
PREBLE	$37,181	87.27%	38
PUTNAM	$37,409	87.81%	36
RICHLAND	$36,638	86.00%	44
ROSS	$35,653	83.69%	49
SANDUSKY	$35,167	82.55%	54
SCIOTO	$32,812	77.02%	71
SENECA	$33,901	79.58%	61
SHELBY	$37,178	87.27%	39
STARK	$39,658	93.09%	26
SUMMIT	$45,011	105.65%	12
TRUMBULL	$36,972	86.78%	40
TUSCARAWAS	$34,087	80.01%	60
UNION	$46,105	108.22%	7
VAN WERT	$34,374	80.68%	57
VINTON	$32,673	76.69%	73
WARREN	$56,143	131.78%	3
WASHINGTON	$36,033	84.58%	47
WAYNE	$38,100	89.43%	30
WILLIAMS	$36,059	84.64%	46
WOOD	$44,877	105.34%	13
WYANDOT	$33,372	78.33%	65
COUNTY TOTAL	**$42,602**	**100.00%**	*

* Includes only returns indicating a county of residence.

Kilowatt-Hour Tax

The kilowatt-hour tax, and its companion self-assessor option tax, was created by Sub. S.B. 3, 123rd General Assembly, as part of electric utility de-regulation. This tax, effective May 1, 2001, replaced the public utility excise tax on electric and rural electric companies. It also replaced the tax losses from the reduction in electric and rural electric tangible personal property tax assessment rates.

The kilowatt-hour tax is levied on electric distribution companies with end-users in this state. It levies one of three rates depending on the kilowatt-hour consumption of the individual end-user of electricity. For certain large consumers of electricity, there exists a self-assessor option tax. This tax is partially based on price and partially based on consumption. Companies that provide both electric and other services must separate the charges for electricity from the other services they provide.

The tax is paid monthly. The first payment was in June 2001 and was based upon May 2001 liability. In FY 2003, the tax generated approximately $538.8 million in total revenue.

Am. Sub. S.B. 287, 123rd General Assembly, made several changes to the tax prior to its taking effect. First, it lowered the threshold to qualify as a self-assessor and “capped” the consumption portion of the self-assessor tax. It provided that the exempt qualified end-users will remit tax on the nonqualified portion of the electricity consumption. An exemption was enacted for qualified re-generation facilities. It also allowed for businesses to declare that they will have enough electricity consumption in the upcoming year so they may self-assess, with a “recapture tax,” if that business fails to meet the self-assessor threshold. The bill also contained a provision that if a self-assessor is served by a municipal electric utility and is located within that municipality, the tax will be remitted to the municipality (see **Municipal Income Tax for Electric Light Companies and Telephone Companies** chapter).

H.B. 94, 124th General Assembly, also made several changes to the tax. First, it made a clarification to the “cap” on the consumption portion of the self-assessor option tax that was enacted under Sub. S.B. 287. It also clarified the annual application process for the self-assessor option. Several administrative and technical corrections were also made to the methodology of operations of the School District Property Tax Replacement Fund and the Local Government Property Tax Replacement Fund. H.B. 94 also “froze” the Local Government Fund and the Local Government Revenue Assistance Fund. In general, these funds were frozen at their FY 2001 level for the FY 2002 and FY 2003 monthly distributions. However, since the kilowatt-hour tax was not in effect for the whole of FY 2001, there were no distributions from the revenue to either of these two funds.

TAX BASE (R.C. 5727.81):

1. For end-users that do not self-assess, the base is on the amount of the kilowatt-hours distributed to them per month.
2. For end-users above 45 million kilowatt-hours of annual consumption who opt to self-assess, the base is partially based on the number of kilowatt-hours distributed to them per month and partially on the total price per month. The consumption portion of this option is capped at the first 504 million kilowatt-hours distributed to the end-user annually.

EXEMPTIONS AND DEDUCTIONS (R.C. 5727.80, 5727.81):

Exempt end-users of electricity:

- Federal government;
- End-users located at a federal facility that uses electricity to process uranium;
- The qualified use of electricity used by a qualified end-user; and
- Qualified re-generation facilities.

CREDITS:

There are no credits applicable to this tax.

RATES (R.C. 5727.81):

1. Electric distribution companies pay rates based on the monthly consumption by each end-user, using the following schedule:

Monthly Kilowatt-Hours Distributed to the End-User	Rate per Kilowatt-Hour
0 – 2,000 kilowatt-hours	$0.00465
2001 – 15,000 kilowatt-hours	$0.00419
Over 15,000 kilowatt-hours	$0.00363

2. For end-users above 45 million kilowatt-hours in annual consumption, there is an option to self-assess the tax. This self-assessor tax is calculated as the sum of 4 percent of the total price plus $.00075 per kilowatt-hour on the first 504 million kilowatt-hours of annual consumption.

FILING AND PAYMENT DATES (R.C. 5727.82):

For kilowatt-hour and self-assessing taxpayers, the filing date is the 20th day of each month. The payment will reflect the amount of

electricity distributed to the end-users during the preceding month.
An annual application for registration as a self-assessing purchaser shall be made on a form prescribed by the Tax Commissioner. The registration year begins on the first day of May and ends on the following 30th day of April. Persons may apply after the first day of May for the remainder of the registration year.

DISPOSITION OF REVENUE (R.C. 5727.84):

Fund	Percentage
a) General Revenue Fund	59.976%
b) Local Government Fund*	2.646
c) Local Government Revenue Assistance Fund*	0.378
d) School District Property Tax Replacement Fund	25.400
e) Local Government Property Tax Replacement Fund	11.600
Total Distribution	**100%**

*H.B. 94, 124th General Assembly, temporarily froze the Local Government and Local Government Revenue Assistance Funds (see the **Local Government Funds, State and County** chapter). In general, the funds were frozen at their FY 2001 level for FY 2002 and FY 2003. Since the kilowatt-hour tax was in effect for only one month of FY 2001, no distributions from the tax were made to those two funds during the FY 2002 and FY 2003 periods.

OHIO REVISED CODE CITATIONS:

Chapter 5727.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective July 1, 2003, FY 2004-2005 Biennial Budget Bill).
Section 139 –
For the period July 1, 2003, through June 30, 2005, no amounts shall be credited to the Local Government Fund or the Local Government Revenue Assistance Fund. Such amounts shall be credited to the General Revenue Fund.

Sub. H.B. 129, 124th General Assembly (effective June 3, 2002).
R.C. 5727.84 –
Reduced the distribution to the School District Property Tax Replacement Fund from 25.9 percent to 25.4 percent and increased the distribution to the Local Government Property Tax Replacement Fund from 11.1 percent to 11.6 percent.

Am. Sub. H. B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill).
R.C. 5727.81, 5727.82, et al. –
Effective January 1, 2003, transferred functions previously assigned to the Treasurer of State (particularly tax payment functions) to the Tax Commissioner.

R.C. 5727.81 –
Clarified the cap on the consumption portion of the self-assessor tax and the annual application process for the self-assessors.

R.C. 5727.84 - 5727.87 –
Provided for several technical and administrative changes to the method of School District Property Tax Replacement Fund and Local Government Property Tax Replacement Fund operations.

Section 140 (Temporary Law) – Provided for a temporary freeze on the distributions of the Local Government Fund and Local Government Revenue Assistance Fund. No kilowatt-hour tax revenue was distributed to these funds during FY 2002 and FY 2003.

Am. Sub. S.B. 287, 123rd General Assembly (effective December 21, 2000).
R.C. 5727.81 –
Lowered the self-assessor threshold from 120 million kilowatt-hours of annual consumption to 45 million kilowatt-hours. Capped the consumption portion of the self-assessor tax formula at 504 million kilowatt-hours of annual consumption. Allowed businesses to declare that they will have enough electricity consumption in the upcoming year so they may self-assess. Provided for a recapture tax if the taxpayer fails to meet the self-assessor threshold.

R.C. 5727.81 and 5727.82 –
Provided that the qualified end-user will remit tax (either as a self-assessor or via its electricity distributor under the kilowatt-hour tax) on the nonqualified portion of their electricity consumption.

R.C. 5727.81 –
Provided for an exemption from the tax for qualified re-generation facilities.

R.C. 5727.81 –
Provided that if a self-assessor is served by a municipal electric company and is within the municipal boundary, the taxpayer will remit the self-assessor tax to the municipality.

R.C. 5727.81 –
Required that electric distribution companies “un-bundle” the charges for electricity, from other services provided, for self-assessor tax purposes.

Table
Kilowatt-Hour Tax Collections and Distributions
Fiscal Years 2001 — 2003

Fiscal Year	Total Collections	State General Revenue Fund	Local Government Fund	Local Government Revenue Assistance Fund	School District Property Tax Replacement Fund	Local Government Property Tax Replacement Fund
2003[a]	$538,798,600	$339,443,118	0[a]	0[a]	$136,854,845[b]	$62,500,637[b]
2002[a]	513,846,350	323,723,200	0[a]	0[a]	132,893,346	57,229,804
2001[c]	38,026,260	22,806,630	1,006,175	143,739	9,848,801	4,220,915

(a) There were no distributions made to the Local Government or Local Government Revenue Assistance Funds.
See **Local Government Funds, State and County** chapter for further information.
(b) Distribution rates changed June 3, 2002.
(c) This tax became effective starting May 1, 2001. Only one months' collection occurred in Fiscal Year 2001.

Source: Department of Taxation, as reported on tax returns.

The 115th General Assembly, in H.B. 291, created the Library and Local Government Support Fund (LLGSF) to replace the locally-collected intangible property tax, which was repealed in calendar year 1986. The LLGSF provides aid from state income tax collections to counties on a monthly basis to libraries and local governments that were receiving revenue from the intangible property tax. H.B. 291 also created a 12-member Public Library Financing and Support Committee to assist the General Assembly and the Governor in developing an equitable method of distributing the funds among the counties. A distribution formula was incorporated in H.B.146 and became law on July 12, 1985.

In 2002, $457.7 million was distributed from the fund. This represents a 7.8 percent decrease over the prior year. Nearly all the money in the LLGSF is distributed to libraries.

H. B. 94, 124th General Assembly, the FY 2002-2003 Biennial Budget Bill, temporarily set aside the distribution formula described above. Between July 2001 and July 2003, counties received the same amounts they received during the corresponding months of the July 2000 through June 2001 period. However, each county's monthly distribution was reduced by the county's proportion of the amount required to be transferred to the Ohio Public Library Information Network (OPLIN) Technology Fund. Additionally, distributions in July 2002 and July 2003 were reduced as a result of H.B. 405 adjustments.

This "freeze" was continued with H.B. 95, 125th General Assembly, the FY 2004-2005 Biennial Budget Bill (see **Recent Legislation**).

REVENUE SOURCE (R.C. 131.44, 5747.03):

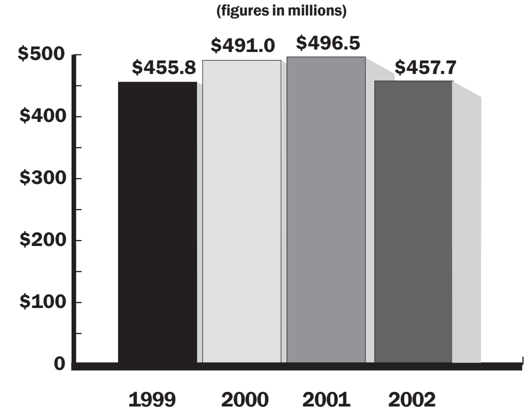
According to permanent law, the LLGSF receives 5.7 percent of the individual income tax collections. However, the LLGSF funding levels were reduced according to uncodified Section 70 of H.B. 94. That section required the transfer of $6,361,095 from the LLGSF to the OPLIN Technology Fund in FY 2002. In FY 2003, the transfer equals $6,477,962. (According to a schedule issued by the Office of Budget and Management, the transfers will occur in equal monthly installments in both fiscal years).

DISTRIBUTIONS TO COUNTIES (R.C. 5747.46):

The distribution formula contained in R.C. 5747.46 consists of two parts: the guaranteed share and the share of the excess.

The guaranteed share is equal to the previous year's fund total plus an inflation factor. This portion of the fund is distributed to counties based on each county's share of the previous year's fund total. When there is an amount in excess of the guaranteed share, it is distributed among counties based on their equalization ratios. The equalization ratio is determined by the county's most recent percentage of the state's population and the county's percentage share of the previous year's total distribution. Each county's equalization ratio is multiplied by the total amount of the share of the excess to determine each county's portion of that amount. The ratio allows those counties that have had the lowest per capita LLGSF distributions in prior years to see the greatest per capita growth in funding, while assuring that all counties have relative growth.

Library & Local Government Support Fund
Calendar Years 1999-2002
(figures in millions)



MONTHLY DISTRIBUTION PROCEDURE (R.C. 5747.47, 5747.48):

H.B. 94 temporarily replaced the statutory funding mechanism described above. According to uncodified Section 140 of the bill, during each month of the July 2001-May 2002 period and the July 2002-May 2003 period, the fund received the same amount it received during the corresponding month of the July 2000 through May 2001 period. In addition, during June 2002 and June 2003 the fund received the same amount it received in June 2000, less any H.B. 405 and H.B. 40 adjustments.

Allocations from the previous month's LLGSF balance to counties are made on or before the 10th of each month. The Department of Taxation determines the total amount available and the allocation to be made to each county. The allocation of the county LLGSF is made by the county treasurer to the county, boards of public library trustees, municipal corporations, and the board of township park commissioners on or before the 15th of each month.

USE OF FUNDS DISTRIBUTED (R.C. 3375.05, 3375.121, 3375.40, 3375.403, 3375.82, 3375.85, 5705.32):

County budget commissions determine the amounts to be given to all libraries. The amount given to each library is based on its needs for building construction and improvement, operations, maintenance, and other expenses required by the library and its branches. The amount paid to all libraries shall never be a smaller percentage than the average percentage of the county's classified property taxes that were distributed to libraries in 1982, 1983, and 1984. After fixing the amount to be distributed to libraries in the county, the county budget commission shall fix an amount to distribute to municipal corporations in the county. Each municipal corporation shall receive a percentage of the remainder equal to the percent received of classified property taxes originating from such municipality in 1984.

REVENUE ENTITLEMENTS TO COUNTIES (R.C. 5747.47):

The Department of Taxation certifies three estimated entitlement figures to counties for each year: one by July 20th of the previous year, one in December of the previous year, and another in June of the distribution year. Each December, the Department also certifies the actual amount each county was entitled to receive under the distribution formula during the current calendar year, the amount each county actually received, and the difference between the two. During the first six months of the next year, each county's distribution will be adjusted for any overpayment or underpayment in the preceding year. Table 1 shows the amounts actually distributed to the counties in 2002, which totaled $457.7 million.

RECENT LEGISLATION:

H.B. 95, 125th General Assembly (effective June 26, 2003, FY 2004-2005 Biennial Budget Bill).
Section 139 –
Continues the "freeze" on deposits to and distributions from the LLGSF. The bill dictates that each month during August 2003 through July 2004 each county will receive the same amount it received during August 2002 through July 2003. June 2004 distributions will be reduced by the July 2003 H.B. 405 adjustment ($31.4 million). However, this amount will be added back to the July 2004 distribution. Monthly distributions will also be reduced in August 2003 through July 2004 by transfers to the OPLIN Technology Fund. The monthly transfers total $5 million in fiscal year 2004.

H.B. 40, 125th General Assembly (effective March 7, 2003).
Section 140 –
Provided the administration the authority to reduce the LLGSF, LGF, and LGRAF funds by $30 million to address budgetary shortfalls for FY 2003.

H.B. 405, 124th General Assembly (effective December 31, 2001, Section 140) and H.B. 390, 124th General Assembly (effective March 4, 2002).
Section 140 –
Allowed the General Revenue Fund to be credited in February 2002, June 2002, February 2003 and June 2003 the difference between the "base year" freeze amounts and the amounts actually deposited in the LLGSF, if the funds had not been frozen. Each recipient's distribution was reduced by a pro rata share of the amount credited to the General Revenue Fund from the LLGSF.

H.B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill).
Section 140 –
Temporarily replaced the statutory funding mechanism and the county allocation formula for the LLGSF. Instead of receiving 5.7 percent of collections from the state income tax during each month of the July 2001 – May 2002 period and the July 2002 – May 2003 period, the fund received the same monthly amount received during the July 2000 through May 2001 period. In addition, during June 2002 and June 2003 the fund received the same amount received in June 2000.

From July 2001 through July 2003, each county received the same amount received during the July 2000 - June 2001 "base year" period.

Uncodified Section 70 –
Transfers were required to be made from the LLGSF to the OPLIN Technology Fund. In FY 2002, $6,361,095 was transferred from the LLGSF to the OPLIN Technology Fund. In FY 2003, the transfer was $6,477,962. Because of these transfers, each county's LLGSF distribution was reduced based on its percentage share of the LLGSF.

Table 1
Library and Local Government Support Fund, Total Amounts Distributed to Counties, Calendar Years 1987-2002

Calendar Year	Guaranteed Share	Equalization Share	Total Distribution	Percent Change in Total Distribution
1987	$181,080,868	$26,292,922	$207,373,790	16.4%
1988	215,253,994	3,009,660	218,263,654	5.3
1989	226,775,936	24,554,945	251,330,881	15.2
1990	262,655,557	0	262,655,557	4.5
1991	268,793,142	0	268,793,142	2.3
1992[a]	268,793,142	0	268,793,142	0.0
1993[b]	276,856,936	7,843,064	284,700,000	5.9
1994	293,810,400	3,172,181	296,982,901	4.3
1995	303,813,180	15,019,721	318,832,901	7.4
1996	329,035,554	13,564,940	342,600,494	7.5
1997	352,535,908	23,461,438	375,997,346	9.7
1998	384,269,286	40,394,095	424,663,381	12.9
1999	431,882,659	23,881,967	455,764,626	7.3
2000	465,355,682	25,664,582	491,000,264	7.7
2001[c]	—	—	496,458,342	1.1
2002[d]	—	—	457,671,290	-7.8

(a) Distributions during calendar year 1992 were capped at the 1991 dollar level.
(b) Total calendar year 1993 distributions were guaranteed to equal at least $284.7 million.
(c) Distributions during calendar year 2001 were frozen in July 2001 at the amount received during July 2000 – December 2000. These amounts also reflect the OPLIN adjustments made.
(d) Distributions during calendar year 2002 were frozen based upon distribution amounts from July 2000-June 2001. These amounts reflect OPLIN and H.B. 405 adjustments made.

Table 2
Library and Local Government Support Fund — Amounts Distributed to Counties,* Calendar Year 2002

County	Amount
ADAMS	$995,853
ALLEN	4,200,217
ASHLAND	1,929,180
ASHTABULA	3,774,489
ATHENS	2,205,880
AUGLAIZE	1,772,429
BELMONT	2,701,187
BROWN	1,396,566
BUTLER	11,545,266
CARROLL	1,035,154
CHAMPAIGN	1,353,033
CLARK	5,497,614
CLERMONT	5,979,998
CLINTON	1,452,130
COLUMBIANA	4,121,415
COSHOCTON	1,381,250
CRAWFORD	1,826,390
CUYAHOGA	65,241,701
DARKE	2,027,364
DEFIANCE	1,487,807
DELAWARE	2,987,388
ERIE	3,171,606
FAIRFIELD	4,267,168
FAYETTE	1,048,680
FRANKLIN	41,443,888
FULTON	1,541,893
GALLIA	1,184,460
GEAUGA	3,874,676
GREENE	5,367,746
GUERNSEY	1,483,681
HAMILTON	48,338,996
HANCOCK	2,991,885
HARDIN	1,158,877
HARRISON	686,751
HENRY	1,085,133
HIGHLAND	1,410,720
HOCKING	1,001,391
HOLMES	1,290,563
HURON	2,199,833
JACKSON	1,194,182
JEFFERSON	2,955,289
KNOX	1,890,973
LAKE	8,749,608
LAWRENCE	2,334,731
LICKING	5,014,659

County	Amount
LOGAN	$1,632,710
LORAIN	10,312,115
LUCAS	18,650,011
MADISON	1,445,975
MAHONING	10,151,997
MARION	2,443,740
MEDINA	4,965,679
MEIGS	872,885
MERCER	1,524,907
MIAMI	3,744,262
MONROE	567,561
MONTGOMERY	23,945,465
MORGAN	528,786
MORROW	1,085,528
MUSKINGUM	3,144,415
NOBLE	459,349
OTTAWA	1,564,952
PAULDING	751,700
PERRY	1,214,947
PICKAWAY	1,851,505
PIKE	967,074
PORTAGE	5,479,588
PREBLE	1,528,479
PUTNAM	1,275,821
RICHLAND	5,023,619
ROSS	2,674,666
SANDUSKY	2,346,588
SCIOTO	2,996,837
SENECA	2,308,066
SHELBY	1,779,309
STARK	14,919,374
SUMMIT	21,450,222
TRUMBULL	8,666,587
TUSCARAWAS	3,254,559
UNION	1,341,726
VAN WERT	1,141,385
VINTON	433,350
WARREN	4,775,313
WASHINGTON	2,366,955
WAYNE	4,208,532
WILLIAMS	1,465,421
WOOD	4,957,151
WYANDOT	852,481
TOTAL	**$457,671,290**

* Amounts shown are the actual distributions made to counties in CY 2002, including any statutory adjustments.

Local Government Funds — State and County

This chapter deals with two major programs that share state revenues with local governments: the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF). These funds are both supported by six state-imposed taxes; however, the relative shares of these taxes are different (see **Revenue Sources**).

The LGF has existed since the inception of the state sales tax in 1935. The fund has undergone many changes in the last 65 years, but the basic elements of the program remain the same: a designated portion of state revenues are deposited into the LGF; a statutory formula is used to allocate the monies monthly to the county undivided LGF of the 88 counties; and the county budget commissions authorize and determine the distribution of the undivided fund monies to the subdivisions.

Since July 1989, the state LGRAF has also provided local subdivisions with shared state tax revenues. The LGRAF is approximately one-seventh the size of the LGF. The LGRAF is allocated to each of the 88 counties' undivided LGRAF according to each county's share of the total state population (see **Distribution Base**).

The accompanying tables show state and county undivided LGF and state and county undivided LGRAF statistics for calendar year 2002. The total state LGF was $681.5 million, and the total state LGRAF was $95.8 million in 2002.

REVENUE SOURCES (R.C. 131.44, 5727.45, 5727.84, 5733.12, 5739.21, 5741.03, 5747.03):

The state LGF is composed of 4.2 percent of five state taxes: sales and use, individual income, corporation franchise, and public utility excise. In addition, 2.646 percent of the kilowatt-hour tax is deposited into the LGF. The state LGRAF, which came into being July 1, 1989, is composed of 0.6 percent of the five taxes and 0.378 percent of the kilowatt-hour tax.

H.B. 94, 124th General Assembly, FY 2002-2003 Biennial Budget Bill, temporarily replaced the permanent LGF and LGRAF funding mechanism described above. According to uncodified Section 140 of the bill, during each month of the July 2001 – May 2002 period and the July 2002 – May 2003 period, the funds received the same amount they received during the corresponding months of the July 2000 through May 2001 period. In addition, during June 2002 and June 2003, the funds received the same amount they received in June 2000.

The bill also temporarily set aside the distribution formulas described below. Between July 2001 and July 2003, counties and municipalities receiving a direct distribution from the LGF received the same amounts they received during the corresponding month of the July 2000 through June 2001 period, less any H.B. 405 and H.B. 40 adjustments. (The method for distributing monies from the county undivided LGF and LGRAF to the subdivisions is not affected by this law change.)

This "freeze" was continued with H.B. 95, 125th General Assembly, FY 2004-2005 Biennial Budget Bill (see **Recent Legislation**).

DETERMINATION OF COUNTY AND MUNICIPAL PORTIONS (R.C. 5747.50):

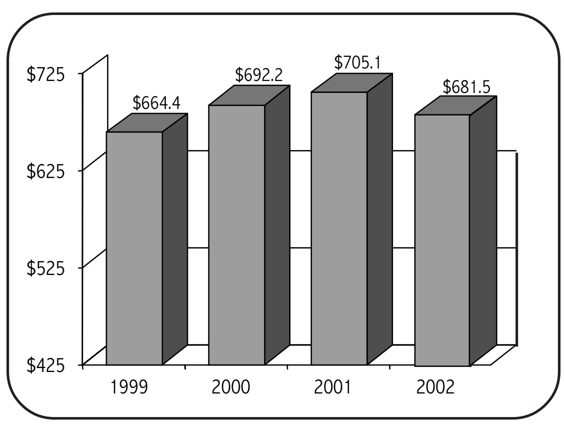
Before state LGF revenues are distributed to local governments, the total amount in the fund is divided into county and municipal portions. This division of the state LGF is determined by statutory formula. The total amount distributed to the county undivided LGF equals: (1) nine-tenths of the difference between the amount transferred to the state LGF and 145.45 percent of the 1983 deposits tax revenue, plus (2) 145.45 percent of the 1983 deposits tax revenue, less (3) $6 million. The remainder (one-tenth of the difference between the amount transferred and 145.45 percent of the 1983 deposits tax revenue plus $6 million) is distributed directly to municipalities. Unlike the state LGF, there is no direct distribution to municipalities from the state LGRAF. All monies in this fund are distributed to the county undivided LGRAF.

DISTRIBUTION BASE (R.C.5747.501, 5747.61):

Each year, each county's share of the LGF is determined as follows:

Formula 1: Each county receives 145.45 percent of the deposits tax

Distributions from State Local Government Fund, Calendar Years 1999 - 2002 (figures in millions)



it actually received from financial institutions in 1983. Nine-tenths of the remaining revenue in the fund (less $6 million) is distributed on the basis of the county's population at the last decennial census and the value of property within municipalities in the county for the second preceding year (25 percent is distributed based on population and 75 percent is distributed based on municipal property values). The minimum distribution from the population/valuation segment is $225,000. These two amounts are added together to determine the county's "Formula 1" amount.

Formula 2: Nine-tenths of the total state LGF (less $6 million) is distributed to the counties based on county population and county municipal property values (25 percent based on population and 75 percent based on property values). The minimum distribution is $225,000. This is the county's "Formula 2" amount.

The higher of these two formula allocations (called the "assigned amount') is taken for each county, and these amounts for the 88 counties are added together to get a statewide total. Each county's assigned amount is then computed as a percentage of the total of the 88 assigned amounts. Each county's percentage is its share of the county portion of the state LGF. These percentages are applied against the total amount in the fund to determine each county's distribution. However, regardless of the resulting amounts, each county is guaranteed at least the amount it actually received in 1983. In addition, each county undivided LGF receives five mills of the tax on dealers in intangibles attributed to that county.

Each county's share of the state LGRAF is determined each year based upon the county's population as a share of the total population for the state. The population figure used is the more recent of either the latest federal estimated census figures or the latest decennial census figures that include population totals as of June 1 of the preceding year.

DIRECT DISTRIBUTIONS TO MUNICIPALITIES (R.C. 5747.50):

Each municipality levying an income tax in the preceding year is eligible to receive a share of the municipal portion of the state LGF. The share each receives equals its percentage of total municipal income taxes collected as compared to the amount collected statewide in the second preceding year.

MONTHLY DISTRIBUTION PROCEDURE (R.C. 5747.50, 5747.61):

Allocations from the state LGF to both municipal corporations and counties and from the state LGRAF to counties are made on or before the 10th of each month. Only the portion of the state LGF distributed to the counties is subject to possible further adjustments, to meet a minimum allocation per month of $25,000 and a minimum allocation per year equal to the amount actually received in calendar year 1983. The statutes authorize adjustments to be made in December to ensure each county the minimum allocation to which it is entitled for the entire calendar year. They also authorize monies to be withheld during December of the ensuing calendar year so that the total amount received by a county does not exceed the proportionate share to which it is entitled or its statutory minimum, whichever is greater.

USE OF FUNDS DISTRIBUTED TO MUNICIPALITIES AND COUNTIES (R.C. 5747.50-5747.53, 5747.61-5747.63):

All amounts received by a municipal corporation from the municipal portion of the state LGF are paid into the municipality's general fund to be used for any lawful purpose. However, the amount which a county receives from the state LGF is expressly designated for deposit into the county's undivided LGF, where it is combined with revenue from state collected intangibles taxes (paid by dealers in intangibles) which are returned to the counties of origin.

The amount which a county receives from the state LGRAF is expressly designated for deposit into the county's undivided LGRAF. From the county undivided LGF and the county undivided LGRAF, the monies are disbursed to local governments to be used for current operating expenses of the county government, municipalities, townships, and certain special districts. The statutes provide for these fund distributions to be made according to percentage determinations previously arrived at by each county budget commission on the basis of revenue estimates supplied by the Department of Taxation. This is done according to specific statutory guidelines which are intended to yield a distribution that reflects the "needs" of the various recipient governmental units or according to alternative apportionment methods or formulas devised by the county budget commission. Alternative apportionment methods are authorized if approved by subdivisions within the county as required by statute.

REVENUES DISTRIBUTED TO LOCAL GOVERNMENTS IN 2002:

In 2002, approximately $670.3 million from the state LGF and $95.8 million from the state LGRAF was distributed to local governments. An additional $11.2 million was distributed to the county undivided LGF from the tax on dealers in intangibles. Table 1 shows the amounts distributed from the state LGF to counties and municipalities in 2002. Table 2 shows the amounts distributed from the state LGRAF to counties in 2002.

RECENT LEGISLATION:

H.B. 95, 125th General Assembly (effective June 26, 2003, FY 2004-2005 Biennial Budget Bill).
Section 139 – Continues the "freeze" on deposits to and distributions from the LGF and LGRAF. The bill dictates that each month from August 2003 through July 2004 each county will receive the same amount it received during August 2002 through July 2003. June 2004 distributions will be reduced by the July 2003 H.B. 405 adjustment ($25.3 million and $3.7 million for LGRAF). However, this amount will be added back to the July 2004 distribution.

H.B. 40, 125th General Assembly (effective March 7, 2003).
Section 140 –
Provided the administration the authority to reduce the LLGSF, LGF, and LGRAF funds by $30 million to address budgetary shortfalls for FY 2003.

H.B. 405, 124th General Assembly (effective December 31, 2001) and H.B. 390, 124th General Assembly (effective March 4, 2002).
Section 140 –
Allowed the General Revenue Fund to be credited in February 2002, June 2002, February 2003, and June 2003 the difference between the "base year" freeze amounts and the amounts actually deposited in the LGF and LGRAF, if the funds had not been frozen. A pro rata share of the amount credited to the General Revenue Fund from the LGF and the LGRAF could reduce each recipient's distribution. Additionally, there were no amounts credited to the LGF or the LGRAF from the kilowatt-hour tax during the freeze.

H.B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill).
Section 140 –
Temporarily replaced the statutory funding mechanism and the county allocation formula for the LGF and LGRAF.

During each month of the July 2001 – May 2002 period and the July 2002 – May 2003 period, the funds received the same amounts that were received during the corresponding months of the July 2000 through May 2001 period. In addition, from June 2002 to June 2003 the funds received the same amount received in June 2000. From July 2001 through July 2003, each county and municipality receiving a direct distribution from the LGF received the same amount that was received during the July 2000 – June 2001 "base year" period.

Table 1
Total State Local Government Fund and Dealers in Intangibles Distributions, Calendar Years 1996 – 2002

	Total State Local Government Fund		Dealers in Intangibles Tax		State LGF and Intangibles Tax Combined	
Calendar Year	Amount	Percent Change	Amount	Percent Change	Amount	Percent Amount
1996	$543,853,000	3.17%	$9,593,486	0.41%	$553,446,486	3.12%
1997	579,850,588	6.62	11,021,316	14.88	590,871,904	6.76
1998	632,501,558	9.08	9,983,867	-9.41	642,485,425	8.74
1999	664,772,737	5.10	10,697,411	7.15	675,470,148	5.13
2000	692,233,886	4.13	13,901,032	29.95	706,134,918	4.54
2001	705,421,757	1.90	15,905,620	14.42	721,327,377	2.15
2002	670,302,107	-4.98	11,229,780	-29.40	681,531,887	-5.51

Table 2
Total State Local Government Revenue Assistance Fund Distributions, Calendar Years 1996 – 2002

Calendar Year	Amount	Change
1996	$77,784,374	6.15%
1997	82,876,465	7.05
1998	90,398,292	9.08
1999	95,014,290	5.11
2000	98,953,115	4.15
2001	100,780,133	1.8
2002	95,808,389	-4.93

Table 3
State Local Government Fund[a]: Amounts Distributed to Counties and Municipalities, by County, Calendar Year 2002

County	To County Undivided Local Government Fund	To Municipalities	Total	County	To County Undivided Local Government Fund	To Municipalities	Total
ADAMS	$654,600	$857	$655,457	LICKING	$6,622,420	$364,615	$6,987,035
ALLEN	4,490,974	320,964	4,811,938	LOGAN	1,747,985	119,389	1,867,374
ASHLAND	2,068,608	167,604	2,236,212	LORAIN	16,847,303	1,136,317	17,983,620
ASHTABULA	3,882,687	237,246	4,119,933	LUCAS	25,493,368	3,577,564	29,070,932
ATHENS	1,899,032	143,616	2,042,648	MADISON	1,351,777	78,662	1,430,439
AUGLAIZE	2,323,483	178,077	2,501,560	MAHONING	9,972,651	754,028	10,726,680
BELMONT	2,759,505	23,866	2,783,371	MARION	2,587,349	202,093	2,789,442
BROWN	977,563	16,705	994,269	MEDINA	6,848,322	323,854	7,172,176
BUTLER	14,281,017	1,134,291	15,415,308	MEIGS	564,124	10,182	574,306
CARROLL	696,917	15,594	712,511	MERCER	1,852,452	71,556	1,924,008
CHAMPAIGN	1,380,068	87,815	1,467,883	MIAMI	5,240,551	429,962	5,670,513
CLARK	5,506,786	526,989	6,033,774	MONROE	361,198	5,881	367,080
CLERMONT	3,672,663	54,039	3,726,702	MONTGOMERY	32,788,584	4,039,102	36,827,686
CLINTON	1,600,912	62,801	1,663,713	MORGAN	371,086	9,528	380,614
COLUMBIANA[a]	3,573,486	196,146	3,769,632	MORROW	636,463	21,220	657,684
COSHOCTON	1,390,959	59,006	1,449,965	MUSKINGUM	2,911,123	220,268	3,131,391
CRAWFORD	2,088,378	138,989	2,227,367	NOBLE[b]	331,515	0	331,515
CUYAHOGA	118,271,427	13,237,457	131,508,884	OTTAWA	1,623,857	64,173	1,688,030
DARKE	2,352,325	104,607	2,456,932	PAULDING	628,205	1,971	630,176
DEFIANCE	1,782,462	114,450	1,896,912	PERRY	811,314	19,285	830,599
DELAWARE	4,893,595	216,917	5,110,512	PICKAWAY	1,714,300	85,995	1,800,294
ERIE	3,762,882	178,469	3,941,350	PIKE	680,883	17,539	698,421
FAIRFIELD	4,845,503	263,339	5,108,843	PORTAGE	6,108,619	474,611	6,583,229
FAYETTE	1,131,234	64,956	1,196,190	PREBLE	1,419,557	72,503	1,492,060
FRANKLIN	80,822,894	10,452,779	91,275,673	PUTNAM	1,418,841	60,598	1,479,439
FULTON	1,979,853	160,221	2,140,074	RICHLAND	6,142,810	562,214	6,705,024
GALLIA	868,864	29,227	898,091	ROSS	2,733,943	167,605	2,901,547
GEAUGA	2,474,032	110,794	2,584,826	SANDUSKY	2,860,910	179,789	3,040,698
GREENE	8,355,640	277,501	8,633,141	SCIOTO	2,326,649	117,430	2,444,080
GUERNSEY	1,424,699	62,060	1,486,759	SENECA	2,717,227	220,234	2,937,460
HAMILTON	55,603,006	6,866,404	62,469,410	SHELBY	2,430,798	229,459	2,660,257
HANCOCK	4,310,557	248,115	4,558,672	STARK	15,559,720	1,328,743	16,888,463
HARDIN	1,163,634	63,273	1,226,907	SUMMIT	36,365,073	3,538,184	39,903,256
HARRISON	528,156	14,783	542,939	TRUMBULL	8,858,961	541,585	9,400,546
HENRY	1,214,734	59,825	1,274,559	TUSCARAWAS	4,341,484	210,256	4,551,740
HIGHLAND	1,286,091	70,959	1,357,050	UNION	1,473,169	80,715	1,553,884
HOCKING	785,301	40,523	825,824	VAN WERT	1,294,512	90,430	1,384,942
HOLMES	808,277	14,456	822,733	VINTON[b]	293,443	0	293,443
HURON	2,685,120	257,125	2,942,245	WARREN	7,060,924	434,538	7,495,462
JACKSON[b]	1,091,240	0	1,091,240	WASHINGTON	2,238,774	138,240	2,377,015
JEFFERSON	3,963,322	213,966	4,177,287	WAYNE	4,895,869	273,540	5,169,408
KNOX	1,898,410	127,022	2,025,432	WILLIAMS	1,962,364	152,729	2,115,093
LAKE	18,177,689	1,337,042	19,514,731	WOOD	5,628,435	491,223	6,119,657
LAWRENCE	1,680,025	40,200	1,720,224	WYANDOT	1,036,096	59,391	1,095,487
				TOTAL	**$622,563,618**	**$58,968,269**	**$681,531,887**

(a) Includes $1,471,198 redirected to a bank designated as the county's fiscal agent.
(b) Counties in which no municipality levies an income tax, and to which no direct distributions of state LGF to municipalities are made.

Table 4
State Local Government Revenue Assistance Fund*: Amounts Distributed to Counties, by County, Calendar Year 2002

County	To County Undivided Local Government Revenue Assistance Fund	County	To County Undivided Local Government Revenue Assistance Fund
ADAMS	$244,290	LOGAN	$396,952
ALLEN	912,342	LORAIN	2,405,503
ASHLAND	444,107	LUCAS	3,814,416
ASHTABULA	881,002	MADISON	353,382
ATHENS	524,827	MAHONING	2,163,103
AUGLAIZE	401,937	MARION	562,547
BELMONT	600,014	MEDINA	1,243,913
BROWN	351,659	MEIGS	204,716
BUTLER	2,832,351	MERCER	350,389
CARROLL	249,013	MIAMI	839,658
CHAMPAIGN	327,466	MONROE	131,416
CLARK	1,237,396	MONTGOMERY	4,797,812
CLERMONT	1,513,964	MORGAN	123,887
CLINTON	344,412	MORROW	271,624
COLUMBIANA*	949,803	MUSKINGUM	721,906
COSHOCTON	308,370	NOBLE	117,309
CRAWFORD	401,583	OTTAWA	350,899
CUYAHOGA	11,728,583	PAULDING	171,171
DARKE	461,393	PERRY	292,232
DEFIANCE	338,713	PICKAWAY	456,670
DELAWARE	842,322	PIKE	237,865
ERIE	665,558	PORTAGE	1,291,140
FAIRFIELD	1,070,597	PREBLE	369,770
FAYETTE	242,486	PUTNAM	300,362
FRANKLIN	8,739,622	RICHLAND	1,096,860
FULTON	358,719	ROSS	644,782
GALLIA	284,122	SANDUSKY	528,499
GEAUGA	761,013	SCIOTO	685,137
GREENE	1,262,478	SENECA	510,815
GUERNSEY	349,344	SHELBY	407,048
HAMILTON	7,191,337	STARK	3,181,642
HANCOCK	590,006	SUMMIT	4,585,570
HARDIN	270,146	TRUMBULL	1,920,360
HARRISON	137,119	TUSCARAWAS	756,323
HENRY	254,879	UNION	343,016
HIGHLAND	347,719	VAN WERT	256,972
HOCKING	248,114	VINTON	104,663
HOLMES	324,872	WARREN	1,280,655
HURON	515,164	WASHINGTON	538,813
JACKSON	278,123	WAYNE	943,480
JEFFERSON	631,336	WILLIAMS	322,812
KNOX	457,444	WOOD	1,022,783
LAKE	1,924,515	WYANDOT	195,091
LAWRENCE	548,931		
LICKING	1,165,233	**TOTAL**	**$95,808,389**

* Includes $443,083 redirected to a bank designated as the county's fiscal agent.

Motor Vehicle Fuel Tax

An excise tax is imposed on all dealers in motor vehicle fuel upon the use, distribution, or sale within the state of Ohio of fuel used in generating power for the operation of motor vehicles.

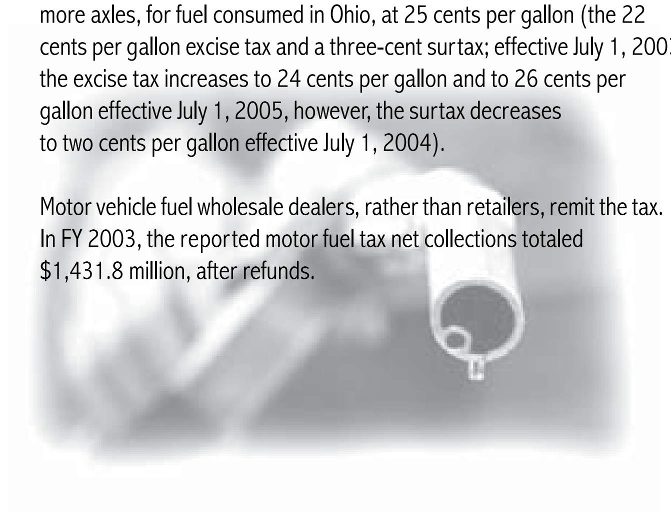
The fuel tax is actually composed of five separate levies: three levies of two cents each; one levy of one cent; and a cents per gallon rate. The cents per gallon rate in effect is 15 cents per gallon, and the total of the excise tax rates for FY 2003 were 22 cents per gallon. Effective July 1, 2003, one levy is increased to four cents per gallon bringing the total rate in FY 2004 to 24 cents. The rate will increase to 26 cents per gallon effective July 1, 2004, and to 28 cents on July 1, 2005 if certain changes are not made to the federal gasoline tax distribution formula.

After amounts are set aside for refunds and highway bond retirement, 0.875 percent of revenue from the tax is allocated to the Waterways Safety Fund, .125 percent to the Wildlife Boater Angler Fund, and an amount equal to collections from one cent of the cents per gallon rate is set aside for the Local Transportation Improvement Program Fund. Also, an amount totaling $100,000 is transferred each month to the Grade Crossing Fund. Effective July 1, 2003, .275 percent of revenue is allocated to the Motor Fuel Tax Administrative Fund.

The remaining fuel tax receipts are distributed in approximately the following proportions: 75 percent to the state, 10.7 percent to municipalities, 9.3 percent to counties and 5 percent to townships. All of this money is earmarked for highway-related purposes in accordance with Article XII, Section 5a of the Ohio Constitution.

There are also two other provisions in Ohio law concerning the taxation of motor fuel and distribution of tax receipts. A portion of the motor fuel tax collected on fuel sold at stations on the Ohio Turnpike is returned to the Ohio Turnpike Commission for turnpike projects. In addition, a use tax is imposed on operators of commercial vehicles with three or more axles, for fuel consumed in Ohio, at 25 cents per gallon (the 22 cents per gallon excise tax and a three-cent surtax; effective July 1, 2003, the excise tax increases to 24 cents per gallon and to 26 cents per gallon effective July 1, 2005, however, the surtax decreases to two cents per gallon effective July 1, 2004).

Motor vehicle fuel wholesale dealers, rather than retailers, remit the tax. In FY 2003, the reported motor fuel tax net collections totaled $1,431.8 million, after refunds.



TAX BASE (R.C. 5735.06):

Gallons of motor vehicle fuel sold, used, or distributed in Ohio.

RATES:

July 1, 2002 - June 30, 2003		Effective
R.C. Section	**Tax Rate Per Gallon**	**July 1, 2003**
5735.30	1.0 cent	1.0 cent
5735.05	2.0 cents	2.0 cents
5735.25	2.0 cents	2.0 cents
5735.29	2.0 cents	4.0 cents
5735.05*	15.0 cents	15.0 cents
Total Rate Per Gallon	**22.0 cents**	**24.0 cents**

* Cents per gallon rate – see description under **Special Provisions.**

DEDUCTIONS, REFUNDS, AND CREDITS:

1. **Dealers may claim the following deductions from their reported gallonage (see R.C. 5735.05 and 5735.06):**

   a) For motor fuel other than gasoline and clear diesel fuel sold for use other than operating motor vehicles on public highways or on waters within Ohio;
   b) Sales of motor fuel by licensed wholesale dealers to other licensed wholesale dealers;
   c) Export of motor fuel to other states or foreign countries;
   d) Sales of motor fuel for exclusive use of the United States government or its agencies;
   e) Sales of motor fuel that is in the process of transportation in either interstate or foreign commerce;
   f) Sales of motor fuel to be used exclusively for the propulsion of aircraft;
   g) Three percent of net taxable gallons of motor fuel to cover the costs of compiling reports, evaporation, shrinkage, and other losses. This deduction is only 2 percent on motor fuel sold to a retailer. The retailer is entitled to 1 percent; and
   h) Sales of motor fuel for use in vessels if such use would otherwise qualify for a refund under R.C. 5735.14.

2. **Persons who have purchased motor vehicle fuel on which the fuel tax has been paid may receive a refund**

under the following conditions (see R.C. 5735.13, 5735.14, 5735.141, 5735.142, 5735.18):

a) Motor fuel used in the following ways: to operate or propel stationary gas engines; tractors used for off-highway purposes; unlicensed motor vehicles used exclusively in intraplant operations;
b) Motor fuel used by watercraft in the following ways: vessels used entirely for commercial purposes such as trade or fishing; vessels used in Boy Scout training; vessels used or owned by railroad car ferry companies; vessels used or owned by federal, state and local governments;
c) Motor fuel used for cleaning or dyeing;
d) Motor fuel used by local transit systems except for the one-cent bond retirement levy;
e) Motor fuel used in aircraft;
f) One percent of the motor fuel tax paid on fuel purchased by retailers to cover losses from shrinkage and evaporation;
g) Motor fuel lost or destroyed through theft, fire, explosion, lightning, and other natural disasters; and
h) Any person, other than a dealer, who sells the fuel or uses the fuel outside Ohio, or who sells the fuel to the U.S. Government or any of its agencies.

TAXPAYER (R.C. 5735.01):

Dealers who import from another state or foreign country or acquire motor fuel by any means into a terminal in this state; import motor fuel from another state or foreign country in bulk lot vehicles for subsequent sale and distribution in this state from bulk lot vehicles; refine motor fuel in this state; acquire motor fuel from a motor fuel dealer for subsequent sale and distribution in this state from bulk lot vehicles; or who possess an unrevoked permissive motor fuel dealer's license.

SPECIAL PROVISIONS:

Fuel Use Tax (R.C. 5735.31) –

1. The Ohio motor vehicle fuel use tax is imposed on the amount of motor fuel consumed in Ohio that was purchased outside of Ohio for any vehicle that had been subject to the highway use tax. A refund or credit is allowed for the tax on fuel purchased in Ohio for use in another state, provided that state imposes a tax on such fuel and allows a similar credit or refund.

2. An additional three cents per gallon fuel use tax became effective January 1, 1991. This additional tax was enacted to partially replace the revenue lost due to the repeal of the highway use tax effective January 1, 1991, as part of Ohio's entry into the International Registration Plan for commercial vehicles. Persons who were liable for the highway use tax must now pay the three cents per gallon fuel use tax on fuel used in Ohio (in addition to the 24 cents per gallon motor vehicle fuel tax as of July 1, 2003).

3. In FY 2003, $68.9 million was collected from the fuel use tax and was distributed to the Highway Operating Fund.

FILING AND PAYMENT DATES (R.C. 5735.06):

By the last day of each month for the preceding month's tax liability; filed with the Department of Taxation.

DISPOSITION OF REVENUE:

The motor vehicle fuel tax is composed of five separate levies. Each of these levies is distributed in a different manner. After refunds, the following transfers of receipts are made:

1. Waterways Safety Fund receives 0.875 percent (R.C. 5735.051).
2. Wildlife Boater Angler Fund receives 0.125 percent (R.C. 5735.051).
3. The amount needed to ensure that there are sufficient funds to meet all payments for highway bond retirement.
4. An amount equal to five cents times the number of gallons sold at stations operated by the Ohio Turnpike Commission to the Commission for turnpike projects (paid from the cents per gallon tax) (R.C. 5735.23).

The remainder is distributed as follows:

1) 2 cents per gallon (R.C. 5735.05, 5735.23):
- 2/17 of $100,000 is transferred monthly to the Grade Crossing Fund with the remainder distributed as follows:
- 30 percent to municipal corporations in proportion to their motor vehicle registrations;*
- 25 percent to all counties in equal amounts;*
- 45 percent to the state.

2) 2 cents per gallon (R.C. 5735.25, 5735.26, 5735.27):
- 67.5 percent to the state;
- 7.5 percent to all counties in equal amounts;*
- 17.5 percent to all townships in equal amounts;*
- 7.5 percent to municipalities in proportion to their motor vehicle registrations.*

3) 2 cents per gallon (R.C. 5735.29, 5735.291):
- 100 percent to the state for highway bond retirement funds, as long as required; thereafter, 100 percent to the State Highway Operating Fund.

4) 1 cent per gallon (R.C. 5735.30):
- 100 percent to the state for highway bond retirement funds, as long as required; thereafter, 100 percent to the State Highway Operating Fund.

5) Cents per gallon tax, 15 cents per gallon (R.C. 5735.05, 5735.23):
- Collections from 1 cent of the cents per gallon tax transferred to the Local Transportation Improvement Program Fund and 15/17 of $100,000 is transferred monthly to the Grade Crossing Fund, with the balance distributed as follows:
- 75.0 percent to the state;
- 10.7 percent to municipalities in proportion to their motor vehicle registrations;^
- 9.3 percent to all counties in equal amounts; ^
- 5.0 percent to all townships in equal amounts.^

* Proceeds are deposited by the state in the Gasoline Excise Tax Fund and distributed monthly to the counties, townships, and municipalities.
^ Proceeds are deposited by the state in the Local Government Highway Distribution Fund and distributed monthly to counties, townships and municipalities.

OHIO REVISED CODE CITATIONS:

Chapters 5728 and 5735.

RECENT LEGISLATION:

Am. H.B. 95, 125th General Assembly (effective July 1, 2003, FY 2004-2005 Biennial Budget Bill).
R.C. 5728.04, 5728.06, 5728.99, 5735.05, 5735.14, 5735.142, 5735.15, 5735.19, 5735.23, 5735.26, 5735.291, 5735.30 and 5735.99 –

- Increases the penalty for operating a truck on a suspended fuel use tax permit from a fourth degree misdemeanor to a first degree misdemeanor.
- Creates the Motor Fuel Tax Administrative Fund and transfers .275 percent of the motor fuel tax revenue to the fund.
- Provides for a refund of 95 percent of the tax paid on water that is intentionally added to diesel fuel.
- Amends the school district refund provision created in Am. Sub. H.B. 87 to include joint vocational schools and educational service centers. Fuel that qualifies for refund is amended to be all fuel purchased and not sold that is used for school purposes.

Am. Sub. H.B. 87, 125th General Assembly (effective July 1, 2003, Transportation Biennial Budget Bill).
R.C. 5728.06, 5735.142, 5735.23, 5735.27, 5735.29, 5735.291 and 5735.292 –

- Increases the motor fuel tax from 22 cents to 24 cents per gallon effective July 1, 2003; and to 26 cents per gallon effective July 1, 2004. The tax rate will increase to 28 cents per gallon on July 1, 2005 if certain changes are not made to the federal gasoline tax distribution formula.
- Decreases the motor fuel use tax surcharge from three cents to two cents per gallon effective July 1, 2004. Eliminates the surcharge July 1, 2005, if certain changes are made to the federal gasoline tax distribution formula.
- Provides for a refund to city, exempted village and local school districts of all but two cents of the tax levied by R.C. 5735.29 on all fuel purchased and used in their vehicles to transport pupils.
- Sets a schedule of funds to be transferred from the Department of Transportation for distribution to municipalities, townships and counties that previously was earmarked for the Ohio Highway Patrol.
- Establishes a new distribution formula of the tax over 22 cents and the new funds transferred from the Department of Transportation effective August 15, 2003, 2004 and 2005.

Sub. S.B. 200, 124th General Assembly (effective September 6, 2002).
R.C. 5728, 5734.14, 5735.18, 5735.31, 5735.311 –

- The levy of the motor fuel use tax was in Chapter 5735, and administered by reference to Chapter 5728 that contained the repealed highway use tax. This law moved the fuel use tax provisions from Chapter 5735 to Chapter 5728, and replaced all references to the repealed highway use tax with motor fuel use tax.
- Broadened the Tax Commissioner's powers to share fuel use tax information with other jurisdictions for the purpose of enforcing the International Fuel Tax Agreement.
- Extended the exemption from the fuel use tax to other states and their political subdivisions if they extend a similar exemption to Ohio government vehicles.
- Changed the motor fuel refund provisions to eliminate the mere sale of fuel to a non-dealer as a basis for refund.
- Provided for a refund directly to the United States government for its purchase of tax-paid fuel.

Am. Sub. H.B. Bill 94, 124th General Assembly (effective September 6, 2001, 2001-2002 Biennial Budget Bill).
R.C. 5728.08, 5735.08, 5735.06 (effective January 1, 2003)–
Transferred tax payment functions previously assigned to the Treasurer of State to the Tax Commissioner.

Sub. H.B. 73, 124th General Assembly (effective July 1, 2001).
R.C. 5735.051 –
Increased from 0.75 percent to 0.875 percent the proportion of motor vehicle fuel tax that is allocated to the Waterways Safety Fund. Allocated 0.125 percent of the motor vehicle fuel tax to the Wildlife Boater Angler Fund.

House Bill 612, 123rd General Assembly (effective September 29, 2000).
R.C. 5728.02 and 5728.03 –
Eliminated the $2 fee for fuel use and International Fuel Tax Agreement permits.

R.C. 5728.08 –
Extended the fuel use tax annual option to all taxpayers whose liability does not warrant quarterly filing.

R.C. 5735.05 –
Created an exemption for the sale of motor fuel for use in certain vessels if such use would otherwise qualify for a refund under R.C. 5735.14.

R.C. 5735.01 –
Changed the point of taxation for ethanol to be the same as gasoline.

R.C. 5735.012 –
Required the reporting of gross gallons.

R.C. 5735.14, 5735.141, 5735.142, and 5735.18 –
Extended the time limitation to file refund claims.

RECENT INFORMATION RELEASES:

XT 2003-04 – "Motor Fuel Tax Increase," June 10, 2003.
XT 2003-06 – "Motor Fuel Tax Increase and Filing Period Adjustment for Refund Claims for Agricultural, Industrial, and Miscellaneous Refund Claimants," July 3, 2003.
XT 2003-08 – "Motor Fuel Tax Refund for School Districts or Educational Service Centers," July 7, 2003.

Table 1
Distributions of Motor Fuel Tax, Fiscal Year 2003

Distribution	Dollar Amount	Percentage
Highway Operating Fund	$887,132,214	60.9%
Local Transportation Improvement Program Fund	65,783,365	4.5
Highway Bond Retirement	141,148,898	9.7
To Municipalities	147,133,198	10.1
To Counties	127,753,608	8.8
To Townships	68,721,702	4.7
Other*	18,475,306	1.3
Total	**$1,456,148,291**	**100.0%**

*Includes Grade Crossing Fund, Waterway Safety Fund, Wildlife Boater Angler Fund and amounts distributed to Ohio Turnpike Commission.
Source: This table is based on amounts reported in the June 2003 Office of Budget and Management monthly revenue report (RRVSM015), modified to reflect various fund transfers and the allocation of the Gasoline Excise Tax Fund and the State and Local Government Highway Distribution Fund among categories of local governments.

Table 2
Motor Vehicle Fuel Tax Gross Collections Reported on Tax Returns, Refunds and Net Tax After Refunds, Fiscal Years 1999-2003

Fiscal Year	Gross Collections	Refunds	Net Tax After Refunds
1999	$1,424,124,333	$17,380,990	$1,406,743,343
2000	1,442,523,096	14,567,193	1,427,955,903
2001	1,431,047,864	18,469,543	1,412,578,321
2002	1,431,155,848	20,966,674	1,410,189,174
2003	1,449,431,940	17,672,693	1,431,759,247

Source: Department of Taxation, as reported on tax returns.

Table 3
Taxable Gallons of Motor Vehicle Fuel, Fiscal Years 1999-2003

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Gasoline	5,046,826,237	5,081,430,735	5,037,369,959	5,095,295,036	5,130,381,553
Special Fuels*	1,430,921,397	1,472,626,579	1,468,433,330	1,416,257,268	1,466,855,681
Total	**6,477,747,634**	**6,554,057,314**	**6,505,803,289**	**6,511,552,304**	**6,597,237,234**

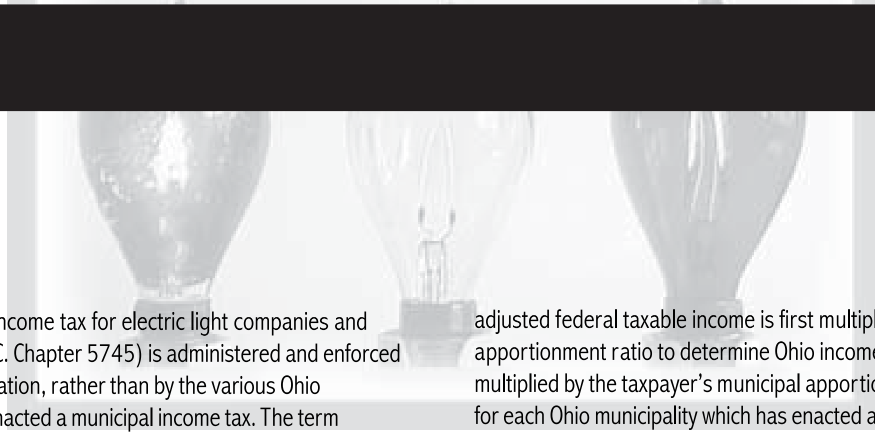
*Fuels other than gasoline used to operate motor vehicles on public highways and waterways.
Source: Department of Taxation, as reported on tax returns.

Table 4
Amounts of Motor Vehicle Fuel Tax Revenue Distributed to Local Governments, by County, Calendar Year 2002

County	Total*	Amount Distributed To: County	Townships	Municipalities
ADAMS	$2,320,945	$1,387,402	$752,987	$180,556
ALLEN	3,150,399	1,387,402	602,390	1,160,607
ASHLAND	2,685,858	1,387,402	752,987	545,468
ASHTABULA	3,707,502	1,387,402	1,355,377	964,723
ATHENS	2,453,132	1,387,402	702,788	362,942
AUGLAIZE	2,674,382	1,387,402	702,788	584,191
BELMONT	2,876,378	1,387,402	803,187	685,790
BROWN	2,511,401	1,387,402	803,187	320,813
BUTLER	5,470,665	1,387,402	652,589	3,430,674
CARROLL	2,220,703	1,387,402	702,788	130,512
CHAMPAIGN	2,368,377	1,387,402	602,390	378,585
CLARK	3,176,172	1,387,402	501,992	1,286,778
CLERMONT	2,561,584	1,387,402	702,788	471,394
CLINTON	2,576,557	1,387,402	652,589	536,566
COLUMBIANA	3,302,108	1,387,402	903,585	1,011,121
COSHOCTON	2,843,103	1,387,402	1,104,382	351,319
CRAWFORD	2,818,599	1,387,402	803,187	628,010
CUYAHOGA	23,579,671	1,387,402	100,398	22,091,870
DARKE	2,972,599	1,387,402	1,003,983	581,214
DEFIANCE	2,437,795	1,387,402	602,390	448,003
DELAWARE	3,078,904	1,387,402	903,585	787,917
ERIE	2,888,460	1,387,402	451,792	1,049,265
FAIRFIELD	3,216,062	1,387,402	652,589	1,176,071
FAYETTE	2,206,688	1,387,402	501,992	317,295
FRANKLIN	21,483,880	1,387,402	853,386	19,243,092
FULTON	2,447,896	1,387,402	602,390	458,104
GALLIA	2,272,690	1,387,402	752,987	132,300
GEAUGA	2,496,299	1,387,402	803,187	305,711
GREENE	4,155,323	1,387,402	602,390	2,165,531
GUERNSEY	2,663,715	1,387,402	953,784	322,529
HAMILTON	11,584,462	1,387,402	602,390	9,594,670
HANCOCK	3,289,237	1,387,402	853,386	1,048,449
HARDIN	2,481,617	1,387,402	752,987	341,227
HARRISON	2,295,909	1,387,402	752,987	155,519
HENRY	2,372,624	1,387,402	652,589	332,633
HIGHLAND	2,546,559	1,387,402	853,386	305,771
HOCKING	2,110,392	1,387,402	552,191	170,799
HOLMES	2,204,802	1,387,402	702,788	114,612
HURON	3,150,583	1,387,402	953,784	809,397
JACKSON	2,282,690	1,387,402	602,390	292,898
JEFFERSON	2,905,951	1,387,402	702,788	815,761
KNOX	2,918,552	1,387,402	1,104,382	426,768
LAKE	5,191,646	1,387,402	250,996	3,553,248
LAWRENCE	2,520,825	1,387,402	702,788	430,635
LICKING	4,490,894	1,387,402	1,254,979	1,848,513

County	Total*	Amount Distributed To: County	Townships	Municipalities
LOGAN	$2,727,417	$1,387,402	$853,386	$486,629
LORAIN	6,512,119	1,387,402	903,585	4,221,132
LUCAS	8,659,901	1,387,402	552,191	6,720,308
MADISON	2,518,112	1,387,402	702,788	427,922
MAHONING	4,280,348	1,387,402	702,788	2,190,158
MARION	2,999,884	1,387,402	752,987	859,495
MEDINA	4,023,026	1,387,402	853,386	1,782,238
MEIGS	2,130,839	1,387,402	602,390	141,047
MERCER	2,558,224	1,387,402	702,788	468,034
MIAMI	3,424,320	1,387,402	602,390	1,434,528
MONROE	2,383,473	1,387,402	903,585	92,486
MONTGOMERY	10,171,931	1,387,402	451,792	8,332,737
MORGAN	2,163,823	1,387,402	702,788	73,633
MORROW	2,348,681	1,387,402	803,187	158,092
MUSKINGUM	3,335,657	1,387,402	1,254,979	693,276
NOBLE	2,206,299	1,387,402	752,987	65,910
OTTAWA	2,380,715	1,387,402	602,390	390,923
PAULDING	2,184,287	1,387,402	602,390	194,495
PERRY	2,359,333	1,387,402	702,788	269,142
PICKAWAY	2,597,933	1,387,402	752,987	457,544
PIKE	2,231,974	1,387,402	702,788	141,784
PORTAGE	3,667,684	1,387,402	903,585	1,376,698
PREBLE	2,446,828	1,387,402	602,390	457,036
PUTNAM	2,498,770	1,387,402	752,987	358,380
RICHLAND	3,948,177	1,387,402	903,585	1,657,190
ROSS	2,793,102	1,387,402	803,187	602,514
SANDUSKY	2,618,097	1,387,402	602,390	628,305
SCIOTO	2,676,997	1,387,402	803,187	486,409
SENECA	2,888,025	1,387,402	752,987	747,636
SHELBY	2,733,292	1,387,402	702,788	643,101
STARK	5,606,339	1,387,402	853,386	3,365,551
SUMMIT	10,508,394	1,387,402	501,992	8,619,000
TRUMBULL	4,680,420	1,387,402	1,204,780	2,088,238
TUSCARAWAS	3,677,182	1,387,402	1,104,382	1,185,399
UNION	2,488,545	1,387,402	702,788	398,355
VAN WERT	2,306,382	1,387,402	602,390	316,590
VINTON	2,073,253	1,387,402	602,390	83,461
WARREN	3,684,687	1,387,402	552,191	1,745,094
WASHINGTON	3,018,170	1,387,402	1,104,382	526,387
WAYNE	3,376,707	1,387,402	803,187	1,186,119
WILLIAMS	2,441,766	1,387,402	602,390	451,974
WOOD	3,781,330	1,387,402	953,784	1,440,144
WYANDOT	2,328,005	1,387,402	652,589	288,014
Total	**$328,405,040**	**$122,091,380**	**$65,710,700**	**$140,602,959**

* County total may not add due to rounding.



The Ohio municipal income tax for electric light companies and telephone companies (R.C. Chapter 5745) is administered and enforced by the Department of Taxation, rather than by the various Ohio municipalities that have enacted a municipal income tax. The term "electric light company" includes "electric companies" and certain electing marketers and brokers of electricity. The statute refers to a marketer or broker of electricity as "an electric light company that is not an electric company."

Electric light companies and telephone companies are subject to the Chapter 5745 municipal income tax for any Ohio municipality which has enacted a municipal income tax and in which the company has property, payroll or sales during the taxable year.

An electric company was first subject to the Chapter 5745 municipal income tax reporting and payment requirements for the electric company's taxable year that included January 1, 2002. For taxable years prior to the taxable year that included January 1, 2002, electric companies were exempt from municipal income tax.

A telephone company is first subject to taxation under Chapter 5745 for its taxable year that begins on or after January 1, 2004. A telephone company with a taxable year ending in 2004 shall compute the tax imposed under this chapter, or shall compute its net operating loss carried forward for that taxable year, by multiplying the tax owed, or the loss for the taxable year, by 50 percent.

An "electric light company that is not an electric company" could elect to be a Chapter 5745 taxpayer for its taxable year that included December 31, 2002 (see Section 7 of S.B. 287, 123rd General Assembly). Unlike an "electric company," an "electric light company that is not an electric company" was not exempt from municipal income tax for taxable years prior to the taxable year that included December 31, 2002.

A municipality that has enacted an income tax may not require a Chapter 5745 municipal income taxpayer to file a municipal income tax return for that municipality. However, to the extent necessary for a municipality to compute a Chapter 5745 taxpayer's property, payroll, and sales factors for that municipality, the municipality may require the Chapter 5745 taxpayer to report to the municipality the value of the taxpayer's real and tangible personal property situated in the municipality, the taxpayer's compensation paid to its employees in the municipality and the taxpayer's sales made in the municipality (see R.C. 5745.03(E)).

TAX BASE (R.C. 5745):

The starting point for Chapter 5745 municipal income taxpayers is federal taxable income after certain adjustments (see next section). In determining the Chapter 5745 municipal income tax, the taxpayer's adjusted federal taxable income is first multiplied by the taxpayer's Ohio apportionment ratio to determine Ohio income. Then, Ohio income is multiplied by the taxpayer's municipal apportionment ratio and tax rate for each Ohio municipality which has enacted a municipal income tax, and in which the taxpayer has taxable nexus. A taxpayer's taxable year for Chapter 5745 municipal income tax purposes is the same as the taxpayer's taxable year for federal income tax purposes, regardless of when during the taxable year the taxpayer first entered Ohio and regardless of when during the taxable year the taxpayer first became subject to the Chapter 5745 tax in a particular municipality.

ADJUSTMENTS TO FEDERAL TAXABLE INCOME:

1. **Internal Revenue Code (I.R.C.) section 168(k) and "new" I.R.C. section 179 bonus depreciation adjustment.** Compute federal depreciation expense as it would have been computed without enactment of I.R.C. section 168(k), and amended I.R.C. section 179, and add to federal taxable income the difference between the depreciation actually deducted on the federal income tax return and the depreciation as it would have been computed prior to the enactment of I.R.C. section 168(k) and amended I.R.C. section 179.
2. **Net intangible income (R.C. 5745.01(G)(1) and (G)(2)).** Deduct the taxpayer's intangible income as defined in R.C. 718.01, less expenses incurred in the production of such intangible income to the extent that the income and expenses are used in determining federal taxable income.
3. **Book-tax differential (R.C. 5745.01(G)(3)).** Add or subtract the net book-tax differential on "qualifying assets" sold or disposed of in taxable transactions during the taxable year. If the net book-tax differential is a positive amount (that is, the assets' net book value on December 31, 2000 is greater than the assets' adjusted basis on that date), enter it in parenthesis and deduct it from federal taxable income. If the net book-tax differential is a negative amount (that is, the assets' net book value on December 31, 2000 is less than the assets' adjusted basis on that date), enter it as a positive amount and add it to federal taxable income.
4. **Proration factor.** Electric companies are not subject to the proration factor for a taxable year that begins in 2003. A telephone company subject to taxation by a municipal corporation in Ohio for a taxable year ending in 2004 must compute the tax imposed under this chapter, or must compute its net operating loss carried forward for that taxable year, by multiplying the tax owed, or the loss for the taxable year, by 50 percent.

Ohio Apportionment Ratio (R.C. 5745.02):
The Chapter 5745 municipal income tax Ohio apportionment ratio is similar to the Chapter 5733 Ohio franchise tax apportionment ratio.

Municipal Apportionment Ratio (R.C. 5745.02(C)):
For purposes of determining the taxpayer's apportionment ratio for each municipality, the taxpayer's payroll, sales and property are generally sitused consistent with the franchise tax situsing provisions. However, for purposes of the municipal payroll factor, compensation is sitused based upon the amount of compensation that is earned during the taxable year in the municipality by the taxpayer's employees for services performed for the taxpayer, and that is subject to income tax withholding by the municipality. In addition, for purposes of the municipal income tax sales factor, sales of electricity directly to the consumer are considered sales of tangible personal property and thus sitused to the municipality where the electricity is used.

TAX RATE (R.C. 5745.03(F)):

In determining the tax payable to each municipality for the taxpayer's taxable year, the taxpayer must use the certified tax rate in effect for that municipality on the first day of January of the taxpayer's taxable year. If a taxpayer's taxable year is for a period of less than 12 months and that taxable year does not include the first day of January, the tax rate used is the tax rate in effect in a municipality on the first day of January of the preceding taxable year.

CREDITS (R.C. 5745.06):

If the taxpayer has an interest in a pass-through entity that is also subject to and paid the Chapter 5745 municipal income tax for Chapter 5745 taxpayers, then the taxpayer may claim as a credit against the taxpayer's own Chapter 5745 municipal income tax, for a particular municipality, the taxpayer's proportionate share of the tax paid by the pass-through entity to that same municipality. The credit equals the qualifying taxpayer's proportionate share of the lesser of the Chapter 5745 tax due from, or the Chapter 5745 tax paid, by the qualifying pass-through entity to that municipality for the pass-through entity's taxable year ending in the taxpayer's taxable year. The taxpayer must claim the credit for the taxpayer's taxable year in which the pass-through entity's taxable year ends.

SPECIAL PROVISIONS (R.C. 5745.031, 5745.01(C), 5745.02(F)):

1. An "electric light company that is not an electric company" can elect to be a taxpayer under Chapter 5745 if during the company's most recently concluded taxable year, not less than 50 percent of the company's total sales in Ohio, as determined under R.C. 5733.059, consist of sales of electricity and other energy commodities. The company must make the election in writing to the Tax Commissioner before the first day of the first taxable year to which the election is to apply. The election is effective for five consecutive taxable years and, once made, is irrevocable for those five years. An electric light company that does not meet the requirements to make the election, or meets the requirements but does not make a timely election, is subject to the filing and payment requirements of each municipality which has enacted an income tax and in which the company has taxable nexus.
2. If a Chapter 5745 taxpayer is a qualified subchapter S subsidiary as defined in I.R.C. section 1361 or a disregarded entity, the company's parent S corporation or owner is the taxpayer for the purposes of the Chapter 5745 municipal income tax.
3. If the taxpayer is a "combined company," it must adjust the numerator of its municipal property, payroll and sales factors (but not the numerator of its Chapter 5745 Ohio property, payroll and sales factors) to include only the company's activity as an electric company, because "for a combined company, only the income attributed from the activity of an electric company shall be subject to taxation by a municipal corporation" (see R.C. 1701.18(F)(6)).
4. Alternative apportionment methods may also be available to Chapter 5745 taxpayers (see R.C. 5745.02(E)). If the above provisions for apportioning adjusted federal taxable income to Ohio or for apportioning Ohio net income to an Ohio municipality do not fairly represent business activity in Ohio or in a municipality, the Tax Commissioner may adopt rules for apportioning such income by an alternative method that does fairly represent business activity in Ohio or Ohio's municipalities. In addition, if any of the above provisions for apportioning adjusted federal taxable income to Ohio or for apportioning Ohio net income to an Ohio municipality do not fairly represent the extent of a taxpayer's business activity in Ohio or Ohio's municipalities, the taxpayer may request, or the Tax Commissioner may require, that the taxpayer's adjusted federal taxable income or Ohio net income be determined by an alternative method, including any of the alternative methods enumerated in R.C. 5733.05(B)(2)(d). A taxpayer requesting an alternative method must make the request in writing to the Tax Commissioner either with the annual report, a timely filed amended report, or a timely filed petition for reassessment.

TAXPAYER (R.C. 5745):

The term "taxpayer" means an entity that is subject to the Chapter 5745 municipal income tax. Taxpayers include:

- **Electric company.** A person is an electric company when engaged in the business of generating, transmitting or distributing electricity within Ohio for use by others; a rural electric company is excluded (see R.C. 5727.01(D)(3);
- **Combined company.** A person is a combined company when engaged in the activity of an electric company or rural electric company, and is also engaged in the activity of a heating company or a natural gas company, or any combination thereof (see R.C. 5727.01(L));
- **Certain marketers or brokers of electricity** that meet the requirements and make the election set out in R.C. 5745.031; and
- **Telephone companies** for taxable years beginning after January 1, 2004.

FILING AND PAYMENT DATES (R.C. 5745.02, 5745.03, 5745.04, 5745.041):

Remittances are payable to the Treasurer of State.

Estimated payment requirements for the taxable year beginning in 2003:

As used below, the term "combined tax liability" means the total of the taxpayer's income tax liabilities to all Ohio municipalities for a taxable year. For its taxable year beginning in 2003 and each taxable year thereafter, each Chapter 5745 taxpayer must file a declaration of estimated tax report and make payment as follows:

1. Not later than the 15th day of the fourth month after the end of the preceding taxable year, the taxpayer must pay at least 25 percent of

the combined tax liability for the preceding taxable year, or 20 percent of the combined tax liability for the current taxable year.

2. Not later than the 15^{th} day of the sixth month after the end of the preceding taxable year, the taxpayer must pay at least 50 percent of the combined tax liability for the preceding taxable year, or 40 percent of the combined tax liability for the current taxable year.
3. Not later than the 15^{th} day of the ninth month after the end of the preceding taxable year, the taxpayer must pay at least 75 percent of the combined tax liability for the preceding taxable year, or 60 percent of the combined tax liability for the current taxable year.
4. Not later than the 15^{th} day of the 12^{th} month after the end of the preceding taxable year, the taxpayer must pay at least 100 percent of the combined tax liability for the preceding taxable year, or 80 percent of the combined tax liability for the current taxable year.

Extension to file return:

Without an extension, the annual Chapter 5745 municipal income tax return for an electric light company or telephone company is due by the 15^{th} day of the fourth month following the end of the taxpayer's taxable year. The due date of the annual municipal income tax return is extended to the due date of the taxpayer's federal income tax return if, by the 15^{th} day of the fourth month following the end of its taxable year, the taxpayer filed with the Tax Commissioner a copy of the taxpayer's federal extension. The granting of an extension does not extend the last day for paying taxes without penalty unless the Tax Commissioner extends the payment date. So, if the taxpayer does not file their Chapter 5745 municipal income tax return by the 15^{th} day of the fourth month following the end of their taxable year, they must nevertheless pay any remaining tax due by that date.

Tax payment by Electronic Funds Transfer (R.C. 5745.03(E), 5745.04(E) and 5745.041):

If any remittance of estimated Chapter 5745 municipal income tax is for $1,000 or more, or if the amount payable with the report exceeds $1,000, the taxpayer must make the remittance by Electronic Funds Transfer (EFT).

DISPOSITION OF REVENUE (R.C. 5745.05):

Prior to the first day of March, June, September, and December, the Tax Commissioner must certify to the Director of Budget and Management the amount to be paid to each municipal corporation, as indicated on the declaration of estimated tax reports and annual reports received, less any amounts previously distributed and the net of any audit adjustments made by the Tax Commissioner. Not later than the first day of March, June, September, and December, the Director of Budget and Management must provide for payment of the amount certified to each municipal corporation from the Municipal Income Tax Fund, plus a pro rata share of any investment earnings accruing to the fund since the previous payment.

OHIO REVISED CODE CITATIONS:

Chapters 5745, 718, 4928, 5703, 5727, and 5733.

ADMINISTRATION (R.C. 5745):

The municipal income tax for electric light companies and telephone companies is administered and enforced by the Department of Taxation, rather than by the various Ohio municipalities that have enacted a municipal income tax.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125^{th} General Assembly (effective June 26, 2003).

R.C. 5745.01 –

Subjects telephone companies to Chapter 5745 municipal income tax for taxable years beginning on or after January 1, 2004.

Sub. S.B. 200 (Taxpayer Services II), 124^{th} General Assembly (effective September 6, 2002).

R.C. 5703.70 –

This law codified a uniform application for refund procedure applicable to municipal income tax and various other taxes.

R.C. 5703.60 –

This law established a uniform petition for reassessment procedure and a uniform assessment correction procedure applicable to municipal income tax and various other taxes. If the taxpayer properly filed a franchise tax petition for reassessment, this law permits the Tax Commissioner, upon receipt of additional information from the taxpayer, to correct an assessment without issuing a final determination and without a hearing. In addition, this law permits the Commissioner to correct an assessment, even if the taxpayer has not filed a petition for reassessment or has not filed a proper petition for reassessment.

The natural gas consumption tax was created by Am. Sub. S.B. 287, 123rd General Assembly. This tax, effective July 1, 2001, replaced the revenue local governments lost when the assessment rate for natural gas distribution companies' personal property was reduced from 88 percent to 25 percent. The tax is levied on natural gas distribution companies for the purpose of raising revenue for public education and state and local government operations. In FY 2003, the tax generated approximately $83.6 million in total revenue.

TAX BASE (R.C. 5727.811):

The natural gas consumption tax base is the amount of natural gas distributed through the meter of an end user in this state.

RATES (R.C. 5727.811):

1.

Mcf (1,000 cubic feet) of Natural Gas Distributed to an End User per Month	Rate per Mcf
0 - 100 Mcf's	$.1593
101 - 2000 Mcf's	$.0877
2001 and above Mcf's	$.0411

2. The rate to a flex customer is $.02 per Mcf. A flex customer is an industrial or a commercial facility that has consumed more than one billion cubic feet of natural gas a year at a single location during any of the previous five years, or has purchased natural gas distribution services at discounted rates or charges established in any of the following:
   a) A special arrangement subject to review and regulation by the Public Utilities Commission under R.C. 4905.31;
   b) A special arrangement with a natural gas distribution company pursuant to a municipal ordinance; and
   c) A variable rate schedule that permits rates to vary between defined amounts, provided that the schedule is on file with the Public Utilities Commission.
3. A natural gas distribution company with 50,000 customers or less may elect to apply the rates to the total of the natural gas distributed to all its customers in this state.

EXEMPTIONS AND DEDUCTIONS (R.C. 5727.811):

1. Federal government;
2. Natural gas produced by an end user in this state and consumed by the natural gas producer or its affiliates, and not distributed through the facilities of a natural gas company.

CREDITS:

There are no credits applicable to this tax.

FILING AND PAYMENT DATES (R.C. 5727.82):

Quarterly Returns	Due Date
January - March	May 20
April - June	August 20
July - September	November 20
October - December	February 20

DISPOSITION OF REVENUE (R.C. 5727.84):

Fund	Percentage
School District Property Tax Replacement Fund	68.7%
Local Government Property Tax Replacement Fund	31.3 %

OHIO REVISED CODE CITATIONS:

Chapter 5727.

RECENT LEGISLATION:

Sub. H.B. 129, 124th General Assembly (effective June 3, 2002). R.C. 5727.84 –
Reduces the distribution to the School District Property Tax Replacement fund from 70 percent to 68.7 percent and increases the distribution to the Local Government Property Tax Replacement Fund from 30 percent to 31.3 percent.

Am. Sub. H.B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill). R.C. 5727.81, effective July 1, 2001 –
Clarified that the tax applies to natural gas that is included in a measurement period that includes July 1, 2001.

R.C. 5727.82, effective January 1, 2003 –
Transferred tax payment functions previously assigned to the Treasurer of State to the Tax Commissioner.

R.C. 5727.84 –
Changed the distribution of the tax.

Am. Sub. 287, 123rd General Assembly (effective December 21, 2000).
R.C. 5727.80 - 5727.99, effective July 1, 2001 –
Enacted the natural gas consumption tax.

Table
Natural Gas Consumption Tax
Collections and Distributions
Fiscal Years 2002(1) – 2003

Fiscal Year	Total Collections	School District Property Tax Replacement Fund	Local Government Property Tax Replacement Fund
2003	$83,633,402	$57,456,147 (2)	$26,177,255 (2)
2002(1)	55,937,596	39,155,962	16,781,634

(1) Only nine months' collections occurred in FY 2002.
(2) Distribution rates changed June 3, 2002, under the provisions of Sub. H.B. 129 (see **Recent Legislation**).
Source: Returns filed with the Department of Taxation.

Pass-Through Entity and Trust Withholding Tax

H.B. 215, 122nd General Assembly, enacted a method for the collection of tax on the distributive shares of income earned by qualifying investors from their investment in any qualifying pass-through entity doing business in Ohio. The pass-through entity and trust withholding tax is not so much a separate tax but rather a mechanism designed to collect individual income tax or corporation franchise tax, which is otherwise due and payable by pass-through entity investors pursuant to Ohio tax law. A pass-through entity is an S corporation, a partnership, or a Limited Liability Company (LLC) treated as a partnership for federal income tax purposes.

For taxable years beginning after December 31, 1997, each qualifying pass-through entity doing business in Ohio or otherwise having nexus with Ohio under the Constitution of the United States is subject to the pass-through entity tax. (Qualifying trusts are also subject to the tax – see **Special Provisions**).

The tax is a 5.0 percent withholding tax on income of qualifying individual investors, and an 8.5 percent entity tax on income of qualifying investors that are not individuals. The tax is based upon each investor's share of the qualifying pass-through entity's profits apportioned to Ohio. This tax is calculated on Form IT-1140. Each qualifying investor can claim an income tax or corporation franchise tax credit based upon the investor's proportionate share of the pass-through entity tax.

Many pass-through entities are not "qualifying" pass-through entities and are therefore not subject to this tax. Pass-through entities not subject to the tax include entities whose investors are entirely comprised only of full-year Ohio resident individuals, Ohio estates, and/or corporations that pay the Ohio corporation franchise tax. (A more complete listing of exempt pass-through entities is available in **Exemptions and Exclusions**).

The most recent data for pass-through entity tax collections is from fiscal and tax year 2002. In tax year 2002, there were 5,752 pass-through entity tax returns filed. The liability from the 5.0 percent withholding tax component of the pass-through entity tax was $35.6 million. The 8.5 percent entity tax liability amounted to $5.1 million. Thus, the total tax year 2002 pass-through entity tax liability was $40.7 million. In tax year 2001, the total liability was $35.1 million, resulting in a $5.6 million increase in 2002.

Revenue collected from the composite income tax paid on behalf of nonresident investors in pass-through entities in FY 2002 amounted to about $49.4 million.

Entities are not subject to the pass-through entity and trust withholding tax if they file Ohio Form IT-4708 on behalf of all their investors who are not full-year Ohio resident individuals or Ohio resident estates.

Form IT-4708 is another mechanism for collection of Ohio income tax due on an investor's share of pass-through entity income. Form IT-4708 is a composite return filed by the pass-through entity on behalf of one or more of the entity's investor(s), except for investors that are C corporations (income passing through either directly or indirectly to C corporations cannot be included in Form IT-4708). Payment of the tax due is made by the pass-through entity with Form IT-4708.

The primary benefit of filing Form IT-4708 is that the composite return constitutes each investor's Ohio return with respect to the pass-through entity income. Thus, by being included in Form IT-4708, each nonresident investor has met their filing and payment obligation with respect to that income and need not file a separate return unless they have other Ohio-source income. The tax is calculated at the highest tax rate for the taxable year for which the return is filed. The pass-through entity using Form IT-4708 cannot claim individual income tax credits but can claim the business credits.

TAX BASE (R.C. 5733.40, 5747.02, 5747.08, 5747.40, 5747.401):

Form IT-1140 —
The tax base is the sum of the "adjusted qualifying amounts" of the entity's qualifying investors. The "adjusted qualifying amount" is the net sum of each qualifying investor's distributive share of the income, gain, expense, or loss of a pass-through entity, multiplied by the corporation franchise tax apportionment fraction.

Form IT-4708 —
The tax base is the sum of the allocated and apportioned distributive share income amounts for those investors for which the pass-through entity has not filed Form IT-1140.

RATES (R.C. 5733.41, 5747.08, 5747.41):

Form IT-1140 —
A 5.0 percent tax rate is applied to the sum of adjusted qualifying amounts for those investors who are individuals. An 8.5 percent tax rate is applied to the sum of adjusted qualifying amounts for those investors that are not individuals.

No tax is due if the total adjusted qualifying amount is $1,000 or less.

Form IT-4708 —
The highest marginal tax rate, currently 7.5 percent.

EXEMPTIONS AND EXCLUSIONS (R.C. 5733.40, 5733.401, 5733.402, 5747.08(0), 5747.401):

Form IT-1140 —

Pass-through entities not subject to tax:

1. Entities having no qualifying investors (see below for a list of investors that do not qualify);
2. Pension plans and charities;
3. Publicly-traded partnerships;
4. Real estate investment trusts, regulated investment companies, and real estate mortgage investment conduits;
5. Any entity treated as a "disregarded entity" for federal income tax purposes (see "Check the Box" U.S. Treasury regulations); and
6. Qualified Subchapter S subsidiary corporations (if the parent S corporation has qualifying investors, the parent S corporation is a pass-through entity which must compute the tax on a consolidated basis with all its qualifying subchapter S subsidiaries).

A qualifying investor does not include the following:

1. Investors which are pension plans or charities;
2. Investors which are publicly-traded partnerships;
3. Investors which are colleges or universities;
4. Investors which are public utilities in Ohio and required to pay the Ohio gross receipts excise tax;
5. Investors which are insurance companies, fraternal corporations, beneficial corporations, bond investment corporations, health maintenance organizations, or any other corporation required to file an annual report with the Ohio Superintendent of Insurance;
6. Investors which are dealers in intangibles;
7. Investors which are real estate investment trusts, regulated investment companies, and real estate mortgage investment conduits;
8. Investors who are individuals and residents of Ohio for the pass-through entity's entire taxable year;
9. Investors which are estates or trusts that are residents of Ohio for the pass-through entity's entire taxable year;
10. Nonresident individuals on whose behalf the qualifying pass-through entity files Ohio Form IT-4708, "Annual Composite Income Tax Return for Investors in Pass-Through Entities;"
11. Investors that are financial institutions required to pay the Ohio corporation franchise tax;
12. Investors which are themselves qualifying pass-through entities if those qualifying pass-through entities' investors during the three-year period beginning 12 months prior to the first day of the taxable year are limited to those investors listed in items 1 through 11 above;
13. Investors which are themselves pass-through entities if the owners of those pass-through entities are limited to the investors listed in items 1-11 above;
14. Corporate investors which satisfy the following three requirements: (1) the investor submits a written statement to the qualifying pass-through entity stating that the investor agrees that the investor has nexus with Ohio and is liable for corporation franchise tax with respect to the investor's distributive share of income attributable to the pass-through entity, (2) the investor makes a good faith and reasonable effort to comply with the corporation franchise tax reporting and payment requirements, and (3) neither the investor nor the qualifying pass-through entity carries out any transactions that would result in a reduction or deferral of corporation franchise tax;
15. Investors that are either trusts or funds whose beneficiaries are limited to the following during the taxable year of the qualifying pass-through entity: (1) persons that are or may be beneficiaries of a pension plan trust, profit-sharing trust, a stock bonus plan trust or similar retirement trust, or (2) persons that are or may be beneficiaries of or the recipients of payments from a trust or fund that is a nuclear decommissioning reserve fund, a designated settlement fund, or any other similar trust or fund established to resolve and satisfy injury claims, or (3) persons who are or may be the beneficiaries of a complex trust, but only if the trust irrevocably agrees in writing that, for the taxable year during or for which the trust distributes any of its income to any of its beneficiaries who are individuals residing outside Ohio, the trust will withhold tax as required under R.C. 5747.41 through 5747.453;
16. Investors which are corporation franchise taxpayers, but only if all the other investors in the qualifying pass-through entity are limited to: (1) other corporations which are paying the corporation franchise tax and/or (2) corporations which would be paying the corporation franchise tax if they were not eligible for an exemption set forth in R.C. 5733.09; and
17. Investors which are "investment pass-through entities;" but only if the investment pass-through entity provides to the qualifying pass-through entity the name, address, and social security number of each person who has invested in the investment pass-through entity.

Form IT-4708 —

These entities cannot be investors included in Form IT-4708:

1. C corporations subject to the tax imposed by R.C. 5733.06;
2. An investor that is a trust to the extent that any direct or indirect, current, future, or contingent beneficiary of the trust is a C corporation subject to the tax imposed by R.C. 5733.06; and
3. An investor that is itself a pass-through entity to the extent that any direct or indirect investor in that pass-through entity is a C corporation subject to the tax imposed by R.C. 5733.06.

CREDITS (R.C. 5733.0611, 5747.08, 5747.059):

A refundable Ohio individual income tax credit is available for qualifying investors subject to the Ohio individual income tax. A nonrefundable corporation franchise tax credit is available for qualifying investors subject to the corporation franchise tax. Certain corporate qualifying investors exempt from corporation franchise tax are able to claim a refundable credit. The credits described above are based upon the investor's proportionate share of the 5.0 percent withholding tax or the 8.5 percent entity tax paid on the qualified investor's distributive share of income from the qualifying pass-through entity. In order to claim this credit, the qualifying investor must provide a copy of IRS Form K-1, indicating the amount of the 8.5 percent entity tax paid and/or 5.0 percent withholding tax paid which is attributable to the qualifying investor.

If the investor has deducted its proportionate share of 5.0 percent withholding tax or 8.5 percent entity tax from its income, the investor must add back such tax as income on the Ohio individual income tax return or corporation franchise tax return.

If an investor is required to file another return (e.g., IT-1040) and make payment of taxes on account of the investor's income not included in the pass-through entity's return, then the investor is entitled to a refundable credit equal to the investor's proportionate share of the tax paid by the pass-through entity on behalf of the investor. This credit is claimed for the investor's taxable year in which or with which ends the taxable year of the pass-through entity.

SPECIAL PROVISIONS (R.C. 5747.08):

Form IT-1140 —

1. Qualifying trusts are also subject to tax. A qualifying trust is generally any trust meeting all four of the following tests: (1) it is required to file IRS Form 1041 (U.S. Income Tax Return for Estates and Trusts),(2) it has at least one beneficiary who is neither a full-year Ohio resident individual nor an Ohio resident estate, (3) it makes a distribution to a nonresident beneficiary, and (4) the distribution relates either to real estate located in Ohio or to tangible personal property located in Ohio. If an entity is a trust whose beneficiaries are limited to full-year Ohio resident individuals and/or Ohio resident estates, then it is not a qualifying trust and not subject to the pass-through entity tax. Qualifying trusts are subject to the
5. 0 percent withholding tax on distribution of certain types of income to individuals who are nonresidents of Ohio. The filing, payment and credit provisions that apply to qualifying pass-through entities and investors also apply to qualifying trusts and beneficiaries.
2. The 8.5 percent tax does not apply to any pass-through entity to the extent the pass-through entity's distributive shares of income and gain pass through from that entity to another pass-through entity (referred to as the "investing entity"), as long as four conditions are met: (1) the investing entity is not an investment pass-through entity, as defined in item 3, below, (2) the investing entity acknowledges that it has nexus with this state during the taxable year, (3) the investing entity makes a good faith effort to comply with the 8.5 percent entity tax and 5.0 percent withholding tax, and (4) the investing entity includes in its apportionment factors its proportionate share of each lower-tiered pass-through entity's property, payroll and sales.
3. Neither the 8.5 percent entity tax nor the 5.0 percent withholding tax applies to an "investment pass-through entity." An investment pass-through entity is a pass-through entity having at least 90 percent of its assets represented by intangible assets, and having at least 90 percent of its gross income comprised of the types of income listed below:
   - dividend income, interest income, net capital gains from the sale or exchange of intangible property, certain fees, and all types and classifications of income attributable to distributive shares of income from other pass-through entities.
4. An investor (termed the "deemed investor") in an investment pass-through entity, as defined in item 3 above, shall be deemed to be an investor in any other qualifying pass-through entity in which the investment pass-through entity is a direct investor. Each deemed investor's portion of such qualifying pass-through entity's adjusted qualifying amount will be the product of: (1) the adjusted qualifying amount which would otherwise pass-through to the investment pass-through entity, and (2) the percentage of the deemed investor's direct ownership in the investment pass-through entity.

Form IT-4708 —

1. The pass-through entity cannot claim exemptions or credits. However, the pass-through can claim its distributive share of business credits (e.g., the credit for purchases of manufacturing machinery and equipment).

2. The election to file a composite return applies only to the taxable year for which the election is made. Unless the Tax Commissioner provides otherwise, this election is binding and irrevocable for the taxable year for which the election is made.

TAXPAYER (R.C. 5733.40, 5747.08):

A qualifying pass-through entity is generally an S corporation, a partnership, or an LLC treated as a partnership for federal income tax purposes. See **Exemptions and Exclusions** for a list of pass-through entities excluded from the definition of a qualifying pass-through entity.

FILING AND PAYMENT DATES (R.C. 5747.08, 5747.09, 5747.42, 5747.43, 5747.44, and Administrative Code 5703-7-01):

Form IT-1140 —

Qualifying pass-through entities whose total "adjusted qualifying amounts" exceed $10,000 must make estimated quarterly tax payments.

The annual Pass-Through Entity and Trust Withholding Tax Return (IT-1140) must be filed by the 15th day of the fourth month following the end of the entity's taxable year. For taxpayers with a January 1 – December 31 taxable year, the return is due on April 15. If the entity has an extension of time to file its federal tax return (IRS Form 1065 or 1120S), then the qualifying pass-through entity has the same extension of time to file the Ohio tax return. However, there is no extension of time granted for payment.

Form IT-4708 —

The return is due on or before the 15th day of the fourth month following the end of the taxable year. If the pass-through entity has an extension of time to file its federal tax return, then the pass-through entity has the same extension of time to file the IT-4708.

The pass-through entity must make estimated tax payments on Form IT-4708ES if the pass-through entity's tax due for the current year is more than $500.00.

DISPOSITION OF REVENUE:

The revenue collected from the 5.0 percent withholding tax and the IT-4708 tax is treated as individual income tax revenue, with 89.5 percent deposited in the General Revenue Fund, 5.7 percent deposited in the state Library and Local Government Support Fund, 4.2 percent deposited in the state Local Government Fund, and 0.6 percent deposited in the state Local Government Revenue Assistance Fund.

Revenue collected from the 8.5 percent entity tax is treated as corporation franchise tax revenue, with 95.2 percent deposited in the General Revenue Fund, 4.2 percent deposited in the state Local Government Fund, and 0.6 percent deposited in the state Local Government Revenue Assistance Fund.

OHIO REVISED CODE CITATIONS:

Chapters 5733 and 5747.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective June 26, 2003).
R.C. 5733.04(I)(17) and 5747.01(A)(20) –
A corporation that is a partner in a partnership or is a member of an LLC must add back 5/6 of the corporation's share of the "qualified section 179 depreciation." Qualified section 179 depreciation is the difference between (1) the depreciation allowable to the pass-through entity under Internal Revenue Code (I.R.C.) section 179 in effect for the taxable year and (2) the depreciation that would be allowable to the pass-through entity under the version of I.R.C. section 179 in effect on December 31, 2002.

Am. Sub. S.B. 261, 124th General Assembly (effective June 5, 2002).
R.C. 5733.04(I)(17) and 5747.01(A)(20)(a) –
A corporation that is a partner in a partnership or is a member of an LLC treated as a partnership for federal income tax purposes must add back 5/6 of the corporation's share of the bonus depreciation deduction passed through from the entity to the corporation.

R.C. 5747.01(B) –
The definition of "business income" was amended to include gains and/or losses from a partial or complete liquidation of a business, including, but not limited to, the gain or loss from the disposition of goodwill.

R.C. 5733.40(S) and 5733.41–
Distributive shares include the sum of the income, gain, expense, or loss of a disregarded entity. As a result, a disregarded entity single member LLC is subject to the pass-through entity tax on its Ohio apportioned income. If the corporation files the required franchise report, pays the franchise tax, and agrees to nexus in Ohio, then the pass-through entity tax does not apply to the single member LLC.

Am. Sub. H.B. 94, 124th General Assembly (effective September 5, 2001).
R.C. 5733.401 –
Disallowed the exclusion of net management fees from an investment pass-through entity's withholding tax base if the fees exceed 5 percent of the entity's net income.

RECENT INFORMATION RELEASES:

PI & CFT 2002-02 — "Ohio Bonus Depreciation Adjustments and the Internal Revenue Code's Passive Activity Loss, Basis Limitation and At-Risk Rules," Nov. 7, 2002.
PI & CFT 2002-01 — "Depreciation Deductions for Taxable Years Ending in 2001 and Thereafter," July 31, 2002.

Table 1
Pass-Through Entity Tax Liability
(Form IT-1140)
Tax Years 1998 - 2002
(figures in millions)

Tax Year	Withholding Tax (5%)	Entity Level Tax (8.5%)	Total Pass-Through Entity Tax Liability
2002	$35.6	$5.1	$40.7
2001	31.4	3.7	35.1
2000	39.7	4.2	43.9
1999	38.8	6.6	45.4
1998	35.8	3.9	39.7

Table 2
Collections from the Composite Income Tax Paid on Behalf of Nonresident Investors in Pass-Through Entities (Form IT-4708)
Fiscal Years 1999 - 2002
(figures in millions)

Fiscal Year	Revenue Collected *
2002	$49.4
2001	62.4
2000	53.1
1999	36.3

* Includes estimated tax payments (Form IT-4708 ES).

Public Utility Excise Tax

The public utility excise tax, a tax for the privilege of doing business in Ohio, is payable by most companies that are classified by statute as public utilities. Companies liable for this tax do not pay the corporation franchise tax. Utilities owned by municipal corporations are exempt from the public utility excise tax.

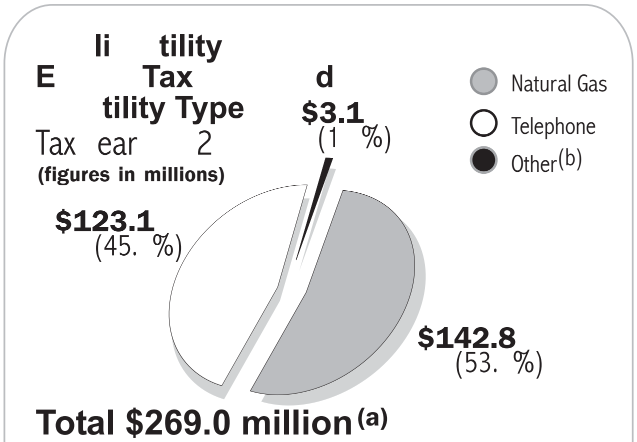
Gross receipts comprise the tax base for the utility classes, with rates of 6.75 percent for pipeline companies and 4.75 percent for all others.

Companies with a preceding year's tax liability of $1,000 or more (except natural gas companies) are liable during each calendar year for three advance payments – each in an amount equal to one-third of the previous year's certified tax liability. When the current year's total tax liability exceeds the sum of the three advance payments, a final payment is due in November for the difference. A refund is issued if the advance payments exceed the total liability.

Natural gas companies whose annual tax liability exceeds $325,000 file on a quarterly basis, while natural gas companies whose tax liability is less than $325,000 file annually.

A total of $269 million in public utility excise taxes was levied for tax year 2002. Telephone companies accounted for about 45.8 percent of total taxes levied, while natural gas companies accounted for about 53.1 percent. These two main public utility classes were responsible for nearly 99 percent of the total excise tax on public utilities.

Of the amounts collected, 1.8 percent was distributed to the Local Government Fund, 12.6 percent was distributed to the Local Government Revenue Assistance Fund and 85.6 percent was distributed to the General Revenue Fund.



(a) Figures may not add due to rounding.
(b) Other includes waterworks, pipeline, water transportation and heating.

H.B. 283, 123rd General Assembly, effective June 30, 1999, created many changes to the public utility excise tax as it applies to the natural gas industry. Since May 1, 2000, some natural gas companies have been paying the excise tax quarterly based upon the previous quarter's gross receipts. The first payment on this new tax schedule was November 15, 2000, and was based on receipts from May 1, 2000 to September 30, 2000. Since then, the payments have been based upon the previous quarter's receipts.

Companies that have an annual tax liability of at least $325,000 have been paying on this quarterly basis. Natural gas companies below this threshold have been paying annually, with the tax due 45 days from the last day of the fourth quarter of the previous year (with first payment due February 14, 2001). Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies. Natural gas companies are also subject to the Mcf (1,000 cubic feet) tax (see **Natural Gas Consumption Tax** chapter).

Am. Sub. S.B. 3, 123rd General Assembly, effective October 3, 1999, was the Electric Utility Deregulation Bill that made numerous tax changes to the industry. A utility company's gross receipts of electric services were no longer subject to the public utility excise tax, effective April 30, 2001. Their last payment under the excise tax schedule was November 2001. The excise tax was replaced by the kilowatt-hour tax (see **Kilowatt-Hour Tax** chapter). The kilowatt-hour tax is remitted monthly, with the first payment made in June 2001, based upon May 2001's liabilities. Electric utilities were subject to the corporation franchise tax, beginning January 2002. Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies.

TAX BASE (R.C. 5727.01):

Gross receipts for all utilities.

RATES:

Utility Class	Tax Base	Tax Rate
Heating, telegraph, telephone, water transportation, waterworks (R.C.5727.38)	Gross receipts	4.75%
Natural Gas (R.C. 5727.25)	Gross receipts	4.75%
Pipeline (R.C. 5727.38)	Gross receipts	6.75%

There is a minimum tax of $50 for each tax year (R.C. 5727.25, 5727.38).

EXEMPTIONS AND DEDUCTIONS (R.C. 5709.35, 5727.05, 5727.33):

1. Exempt utilities:
   a) Municipally-owned utilities;
   b) Nonprofit water companies;
   c) Inter-exchange telecommunications; and
   d) Electric companies, rural electric companies, and railroads.
2. For all companies, $25,000. Since May 1, 2000, natural gas companies that pay quarterly have had a $6,250 deduction on each quarterly return.
3. Amounts attributable to sales of merchandise.
4. Receipts derived wholly from interstate business.
5. Sales to other public utilities for resale.
6. Receipts from business done for the federal government.
7. Receipts from facilities used to convert coal to gaseous, liquid, or solid fuels, for a period of 30 years.
8. Amounts billed on behalf of other entities by telephone companies.
9. Receipts of telephone companies from sales to other telephone companies for resale.
10. Amounts billed on behalf of other entities by natural gas companies.

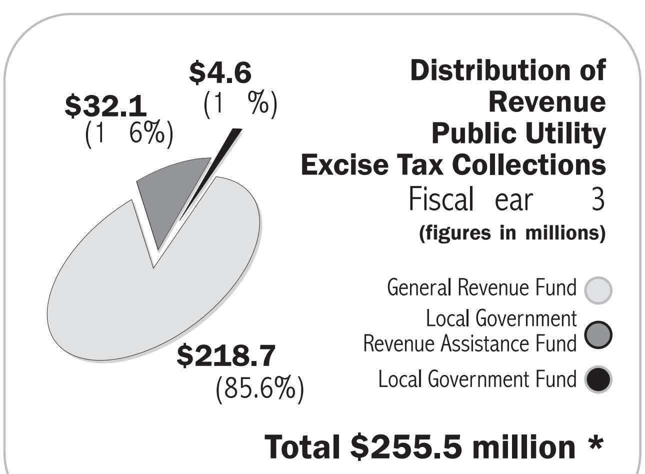
CREDITS (R.C. 5727.29, 5727.39, 5727.391, 5727.44):

Telephone companies are allowed a credit against the public utility excise tax equal to the non-recurring (start-up) costs of a 9-1-1 telephone system (emergency service telephone system). The credit must be claimed in the year that the system becomes available for use. Any excess credit may be carried over to following years until completely used. The total amount of the credit that may be taken (for all companies combined) is limited to 25 percent of the total excise tax levied on telephone companies in 1984. This credit ceiling is adjusted annually for increases in the consumer price index. Once the total credits allowed equal the credit ceiling, no additional credits will be allowed.

A telephone company that provides telephone service to aid the communicatively impaired in accessing the telephone network is allowed a credit against the tax for the cost of providing such service.

Beginning in tax year 1995, electric companies that installed qualified pollution control devices after tax year 1991 were allowed a credit of $1 per ton of Ohio coal used to generate electric power at that plant. Effective January 1, 2000, this credit was increased to $3 per ton.

Natural gas companies that pay quarterly are able to take a credit against their quarterly payments equal to 1/60 of their total estimated payments made in October 1999, March 2000, and June 2000. The credit is to expire when the entire amount of the estimated payments is taken as the credit or in 15 years, whichever is first.



* This total includes $89,2 7 of Attorney General collections

TAX REPORTING AND CERTIFICATION DEADLINES:

The following deadlines apply to all utility companies, except for natural gas companies:

Utility Class	Deadline	For
All public utilities[1] (R.C. 5727.31, 5727.32, 5727.33, 5727.38)	August 1[2]	Company's annual statement to the Tax Commissioner for year ending April 30 (June 30 for telephone and telegraph companies).
	First Monday in November	Tax Commissioner assesses tax and certifies amount to company and Treasurer of State.

[1] Except natural gas companies.
[2] Subject to extension up to 60 days (R.C.5727.48). A public utility that fails to file a report by the due date is subject to a penalty of $50 per month for each month or fraction thereafter late, up to $500 maximum (R.C. 5727.60).

ADVANCE AND FINAL PAYMENT DATES:

(Except Natural Gas):

Advance Payments — October 15, March 1, and June 1 (R.C. 5727.25 and R.C. 5727.31):
All advance reports and payments are due to the Treasurer of State on the dates specified. These payments will be applied to the tax liability certified to the Treasurer on the first Monday in November. Each advance payment is equal to one-third of the previous year's liability. These reports and payments are due from each utility with an excise tax liability for the previous year in excess of $1,000.

Final Payment — 20-30 days from date tax bill is mailed (R.C. 5727.42):
The final payment is equal to total tax certified to the Treasurer of State, less advance payments made (refund is made if advance payments exceed assessment).

FILING AND PAYMENT DATES, NATURAL GAS:

Beginning May 1, 2000, natural gas companies that exceeded $325,000 in annual liability began paying the excise tax quarterly. The first payment was based upon receipts from May 1, 2000 to September 30, 2000 and was paid on November 15, 2000. Thereafter, the payments are due 45 days after the end of each calendar quarter. Natural gas companies below the $325,000 threshold pay annually, with payment made 45 days after the last day of the fourth quarter. The annual filer's first payment was due February 14, 2001.

DISPOSITION OF REVENUE (R.C. 5727.45):

The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of public utility excise tax collections.

H.B. 94, 124th General Assembly, FY 2002-2003 Biennial Budget Bill, temporarily replaced the revenue distribution as described above. During each month of the July 2001-May 2002 period and the July 2002-May 2003 period, the Local Government Fund and Local Government Revenue Assistance Fund received the same amount they received during the corresponding month of the July 2000-May 2001 period. In June 2002 and June 2003, the funds received the same amount they received in June 2000.

OHIO REVISED CODE CITATIONS:

Chapters 5703 and 5727.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective September 26, 2003, FY 2004-2005 Biennial Budget Bill).
R.C. 5727.30, 5727.32, 5727.33 –
Telephone companies are removed from the public utility excise tax effective after the 2004 tax year.

Sub. S.B. 200, 124th General Assembly (effective September 6, 2002).
R.C. 3317.026, 5703.37, 5703.60, 5703.70, 5727.26, 5727.28, 5727.39, 5727.47, 5727.471 –
Made general changes to the assessment correction notice and refund language for the natural gas gross receipts; modified language to recapture overpayments of school aid reimbursements when a petition for reassessment is filed; and standardized all indexing done by the Tax Commissioner, including the 9-1-1 credit.

Am. Sub. H.B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill).
R.C. 5727.25-5727.26, et al., effective January 1, 2003 –
Transferred previous responsibilities regarding tax filing and payments of natural gas companies from the Treasurer of State to the Tax Commissioner.

Section 140 (Temporary Law) –
Temporarily froze the revenue distribution to the Local Government Fund and Local Government Revenue Assistance Fund.

H.B. 9, 124th General Assembly (effective June 6, 2001).
R.C. 5727.01-5727.02 –
Subjected natural gas suppliers and governmental aggregators to Public Utility Commission certification, and authorized certain competitive services.

S.B. 235, 123rd General Assembly (effective May 5, 2001).
R.C. 4927.01 –
Changed the definition of "basic local exchange service" under alternative telephone regulation law, and also under telephone company merger law, which relies on the same definition.

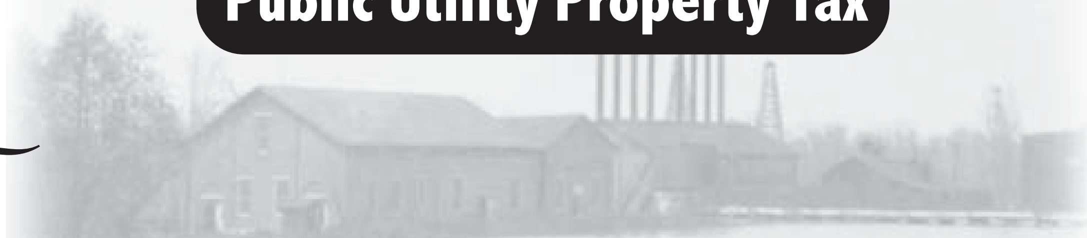
Sub. S.B. 152, 123rd General Assembly (effective September 21, 2000).
R.C. 4931 –
Provided additional funding methods for 9-1-1 services in certain areas that previously lacked funding.

Table
Public Utility Excise Taxes Levied By Class of Utility, Tax Years 1998-2002[(a)]

Class of Utility	Number of Utilities in 2002	Tax Rate 2002	Tax Year 1998	1999	2000[(d)]	2001[(d)]	2002[(e)]
Electric	0	4.75%	$432,592,127	$441,075,733	$448,574,349	$417,378,610	$0
Natural Gas(b)	31	4.75	115,770,927	97,098,365	119,050,766	146,357,385	142,793,886
Telephone	90	4.75	107,667,967	115,496,646	119,030,209	122,746,743	123,114,681
Rural Electric	0	4.75	17,409,371	18,220,554	18,778,490	20,347,758	0
Waterworks	18	4.75	2,724,205	2,918,562	2,926,060	3,007,909	2,895,320
Pipe Line	18	6.75	495,472	732,449	277,701	313,530	233,487
Other	8 (c)	4.75	1,363,388	1,383,869	1,618,159	1,676,351	1,707,891
Total	**165**		**$678,023,457**	**$676,926,173**	**$710,255,734**	**$711,828,286**	**$270,745,265**

(a) Amount of tax certified for collection (except for natural gas companies beginning in 2001).
(b) Beginning in 2001, natural gas companies now use a current payment schedule and measurement period; the 2001 and 2002 figures represent payments made during fiscal years 2001 and 2002, respectively.
(c) Includes water transportation and heating.
(d) There are two combined electric-natural gas companies for 2000 and one combined company for 2001. Taxes levied on these entities are separated by utility type in 2000 and 2001.
(e) Beginning in 2002 electric and rural electric companies are no longer subject to the public utility excise tax.

Public Utility Property Tax



This chapter describes the taxes levied on both the real and personal property of public utilities during calendar year 2002. The data in the tables in this section pertain to only the personal property of public utilities. Data for public utility real property are included in the tables in the **Real Property Tax** chapter.

The assessed valuation of public utility personal property was approximately $10.1 billion in tax year 2002, about $.3 billion more than the previous year. Electric utilities accounted for about 54.1 percent of the total public utility personal property valuation in 2002, and the telephone industry accounted for 27.6 percent of the total valuation.

Revenue from the public utility property tax amounted to about $746.1 million in calendar year 2002 (see **Table 3 in Revenue from Taxes Administered by the Tax Commissioner**), and was distributed to counties, municipalities, townships, school districts and special districts, according to the individual millage levied, less local administrative deductions.

TAX BASE (R.C. 5715.01, 5727.01, 5727.06, 5727.10, 5727.11, 5727.111, 5727.12, 5727.14, 5727.15):

The property tax base of all public utilities, except railroads and water transportation companies, consists of all tangible personal property owned and located in Ohio on December 31 of the preceding year. The water transportation company tax base consists of all tangible personal property, except watercraft, owned or operated in Ohio on December 31 of the preceding year and all watercraft owned or operated by the water transportation company in Ohio during the preceding calendar year.

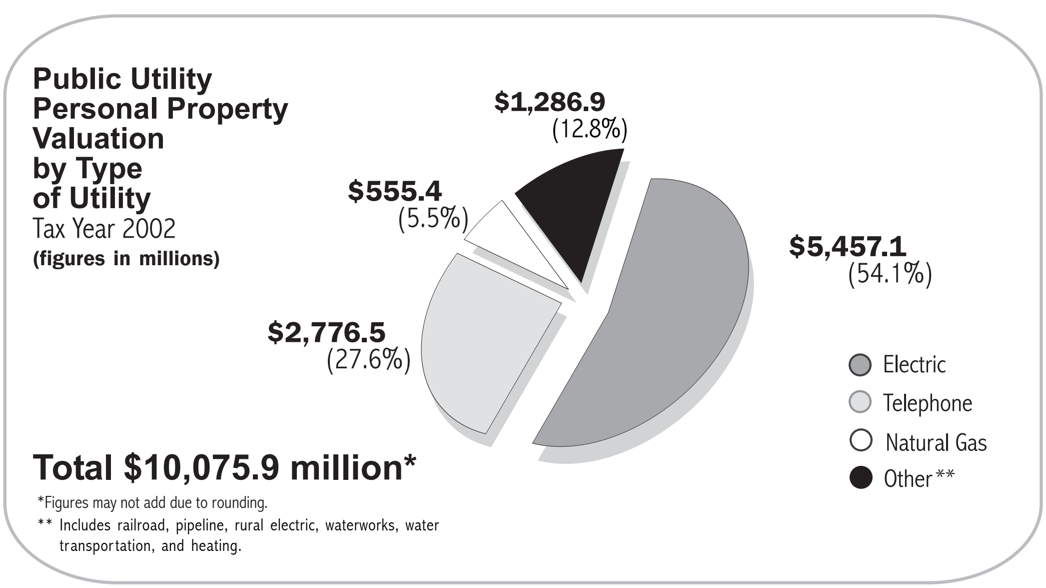
Real property includes land and improvements, while personal property includes all plant and equipment either owned or leased by the utility under a sale-leaseback agreement, and not classified as real property or intangible property.

For most public utility personal property, true value is the capitalized cost less the composite annual allowances, which vary according to the actual age and expected life of the property. It should be noted that most utilities are valued by this method.

The true value of electric company production equipment and all taxable property of a rural electric company is 50 percent of capitalized cost. The exception to this is electric company or rural electric company production equipment purchased, transferred or sold after the effective date of S.B. 3, the electric utility restructuring bill. The true value of electric production equipment in these instances is the capitalized cost on the books and records, less composite annual allowances.

The true value of current gas stored underground is the monthly average value of such gas, determined by dividing the cost of the ending monthly balances by the number of months in business, while the true value of non-current gas stored underground is 35 percent of cost on lien date.

To determine the true value of railroad real and personal property, the unitary method is used to value the company's entire railroad system. The value is apportioned to this state in the proportion that the length of track in this state bears to the whole length of track. Values for railroad real property used in operation are apportioned on the basis of their relative value, while values for railroad personal property used in



operation are apportioned on the basis of miles of track in each taxing district weighted according to traffic density. Values for railroad real and personal property not used in operation are sitused on the basis of their physical location.

Public utility real property is assessed at 35 percent of true (market) value while public utility personal property is assessed at varying ratios. Production equipment and non-transmission and distribution property of electric companies and rural electric companies is assessed at 25 percent of true value. Electric transmission and distribution property is assessed at 88 percent of true value, and rural electric transmission and distribution property is assessed at 50 percent of true value. Railroads are assessed at 25 percent of true value for personal property. All inter-exchange telecommunications, natural gas, and water transportation property is assessed at 25 percent of true value. Local exchange telephone companies' personal property, first subject to tax during 1995 and thereafter, is assessed at 25 percent. However, local exchange telephone personal property listed prior to tax year 1995 is assessed at 88 percent. All other public utility personal property is assessed at 88 percent. Each of the public utility personal property assessment rates is shown below.

Type of Utility	Assessment Rates
Electric companies and rural electric companies — production personal property	**25%**
Electric companies — transmission and distribution personal property	88%
Rural electric — transmission/distribution personal property	**50%**
Electric companies — all other tangible personal property	25%
Rural electric companies — all other tangible personal property	**25%**
Natural Gas companies	25%
Railroads — real property only	**35%**
Railroads — personal property only	25%
Inter-exchange telecommunications companies	**25%**
Telephone companies (only personal property added in tax year 1995 and thereafter)	25%
All other existing telephone personal property (prior to 1995); heating, pipeline and waterworks companies	**88%**
Water transportation companies	25%

Real property values of all utilities except railroads are placed into the various taxing districts according to the physical location of the property.

Personal property values of all utilities are apportioned (using a specific base) among the taxing districts in which the utilities operate. The bases for distributing personal property values among taxing districts for the various classes of utilities are shown in the table below.

Class of Utility	Distribution Base
Electric companies	Production equipment Taxable cost of all other property
Natural gas, heating, pipeline, waterworks, rural electric, water transportation	Taxable cost
Telephone and inter-exchange telecommunications companies	Miles of wire/taxable cost
Railroads	Miles of track and trackage rights weighted by use

A major change occurred in the electric utility industry during the 123rd General Assembly. Sub. S.B. 3 created numerous changes to the electric utility property tax structure. Effective beginning in tax year 2001, the assessment rates for all electric and rural electric property that is not distribution or transmission property was lowered to 25 percent.

Electric company transmission and distribution property remains at the 88 percent assessment rate while rural electric transmission and distribution property remains at the 50 percent assessment rate. Also effective in tax year 2001, the method in which the electric property is apportioned was changed. Production equipment is sitused 100 percent where located, and remaining property is apportioned based upon the taxable cost of remaining property in each district to all remaining property in the state. Various other electric property tax changes have occurred under this bill as well.

Also of the 123rd General Assembly, S.B. 287 made several changes to the tangible personal property taxes of the natural gas industry. Effective in tax year 2001, the assessment rate on all natural gas personal property was lowered from 88 percent to 25 percent. Also, the valuation method for current gas was changed to reflect a 12-month average.

RATES (R.C. 319.30, 319.301, 5705.02-5705.05, 5705.19):

Tax rates vary with the taxing jurisdiction. The total tax rate includes all levies enacted by legislative authority or approved by voters for all taxing jurisdictions within which the property is located or to which it is apportioned (e.g., county, township, municipal corporation, and school district). Although the nominal tax rates applied to public utility real and personal property are the same, the effective rates on the two types of property may differ substantially, because of the effects of the tax reduction factor applied to real property taxes. Public utility real property taxes (in addition to other real property taxes) are reduced by a computed reduction factor whenever real property values increase due to reappraisal. This reduction factor does not apply to taxes levied on public utility personal property. State law also requires that all real property tax bills (but not personal property tax bills) be reduced by 10 percent, with the cost of the reduction reimbursed from state funds.

REPORTING, CERTIFICATION, AND PAYMENT DATES:

Dates	R.C.	Description
March 1[a]	5727.08 5727.48	Company's annual report to Tax Commissioner
On or before the first Monday in October	5727.10 5727.23	Tax Commissioner notifies utilities and county auditors of values
December 31[b]	323.12 323.17	At least half of total tax liability due
June 20[b]	323.12 323.17	Balance of tax liability due

(a) Tax Commissioner may grant extension of up to 60 days.
(b) These deadlines may be extended by 45 days (longer in certain circumstances).

EXEMPTIONS AND CREDITS (R.C. 319.302, 5701.03, 5709.111, 5709.25, 5709.61, 5727.01, 5727.05, 6111.31):

1. Municipally-owned utilities.
2. Certified air, water, and noise pollution control facilities.
3. Licensed motor vehicles.
4. Tangible personal property under construction.
5. Real property tax bills are reduced by 10 percent as provided by state law.
6. Real and personal property of nonprofit corporations and political subdivisions used exclusively in the treatment, distribution and sale of water to consumers.
7. Qualified electric generating property may qualify for a property tax reduction if placed in an enterprise zone.
8. Allowance for funds used during construction and interest during construction. This does not apply to electric company and rural electric company property, except transmission and distribution property first placed into service after December 31, 2000. It also does not apply to the taxable property a person purchases, which includes transfers, if that property was used in business by the seller prior to the purchase.

DISPOSITION OF REVENUE (R.C. 319.54, 321.24, 321.26, 321.261, 321.31, 321.34):

After local administrative deductions, revenue is distributed to counties, municipalities, townships, school districts, and special districts according to the taxable values and total millage levied by each.

ADMINISTRATION (R.C. 5713.01, 5727.06):

The Tax Commissioner assesses the tangible personal property of all public utilities and inter-exchange telecommunications companies. The Tax Commissioner also assesses the real estate of railroads. County auditors assess all other public utility real estate.

OHIO REVISED CODE CITATIONS:

Chapters 319, 321, 323, 5701, 5705, 5709, 5715, 5719, 5727, and 6111.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective September 26, 2003, FY 2004-2005 Biennial Budget Bill).
R. C. 5727.111 –
The assessment percentage for telephone personal property acquired before 1994 is phased-down from 88 percent to 25 percent over a three-year period beginning in 2005.

Am. Sub. S.B. 287, 123rd General Assembly (effective December 21, 2000).
R.C. 5727.11 and 5727.111 –
Effective tax year 2001, lowered the assessment rate on natural gas utility property from 88 percent to 25 percent. Also, changed the valuation method for current gas storage from the cost of such gas to a 12-month average.

H.B. 589, 123rd General Assembly (effective October 27, 2000).
R.C. 5727.47 –
Required that a public utility pay the undisputed portion of property taxes, and gave the utility the option of paying any disputed valuations while the matter is being appealed. Allowed all electric generating equipment to qualify for an enterprise zone agreement.

Table 1
Public Utility Personal Property:
Certified Assessed Value by Class Of Utility and Total Taxes Levied, Tax Years 1998-2002

Class of Utility	Number of Taxpayers (2002)	Assessed Values 1998	1999	2000	2001	2002
Electric	20	$8,258,860,220	$8,000,621,430	$7,960,469,690	$5,268,840,110	$5,457,071,420
Telephone (1)	513	3,164,339,630	2,697,475,190	2,607,616,590	2,646,647,630	2,776,522,250
Natural Gas	31	1,725,046,810	1,690,044,870	1,733,474,700	522,365,280	555,361,960
Railroad	35	412,527,370	432,912,370	410,271,630	384,089,250	262,126,650
Pipeline	18	623,232,570	640,480,550	656,000,830	645,520,830	638,727,270
Rural Electric	27	260,847,430	276,794,540	299,881,530	261,197,740	279,920,260
Waterworks	18	87,702,970	89,342,190	99,049,080	109,361,370	102,110,620
Other (2)	8	6,780,840	5,977,590	5,676,240	4,667,040	4,017,170
Totals	670	$14,539,337,840	$13,833,648,730	$13,772,440,290	$9,842,689,250	$10,075,857,600
Taxes Levied		$1,002,191,092	$960,237,298	$967,674,709	$722,757,663	$746,058,859

(1) Includes inter-exchange telecommunications.
(2) Includes water transportation and heating.
Source: Department of Taxation.

Table 2
Assessed Value of Public Utility Personal Property and Taxes Levied, by County, Tax Year 2002

County	Assessed Value of Public Utility Personal Property	Taxes Charged on Public Utility Tangible Personal Property	County	Assessed Value of Public Utility Personal Property	Taxes Charged on Public Utility Tangible Personal Property
ADAMS	$142,614,000	$6,179,779	LOGAN	$40,390,700	$2,500,501
ALLEN	86,001,440	4,661,349	LORAIN	310,618,330	24,887,956
ASHLAND	63,869,170	4,108,601	LUCAS	328,587,690	29,723,893
ASHTABULA	116,677,930	8,800,512	MADISON	41,949,830	2,513,932
ATHENS	70,359,890	5,258,641	MAHONING	186,689,740	14,159,483
AUGLAIZE	28,877,000	1,565,462	MARION	61,023,500	4,063,707
BELMONT	70,772,740	4,170,634	MEDINA	110,728,270	9,537,409
BROWN	26,704,190	1,316,515	MEIGS	36,815,920	1,754,170
BUTLER	257,812,210	16,843,800	MERCER	26,462,430	1,392,265
CARROLL	38,650,640	1,972,050	MIAMI	65,847,370	4,330,458
CHAMPAIGN	31,240,150	1,959,085	MONROE	40,196,990	1,985,024
CLARK	83,281,380	5,804,128	MONTGOMERY	383,051,150	34,293,620
CLERMONT	276,540,050	17,757,114	MORGAN	51,047,290	2,671,423
CLINTON	37,453,610	1,985,569	MORROW	33,909,060	1,864,636
COLUMBIANA	78,297,500	4,574,124	MUSKINGUM	78,086,660	5,074,870
COSHOCTON	93,101,530	4,484,148	NOBLE	32,256,450	1,556,711
CRAWFORD	29,271,850	2,081,997	OTTAWA	152,731,480	8,455,115
CUYAHOGA	943,936,060	93,995,391	PAULDING	22,345,260	1,243,753
DARKE	54,165,010	2,664,503	PERRY	35,492,320	2,174,331
DEFIANCE	56,915,640	3,405,024	PICKAWAY	65,248,460	3,449,852
DELAWARE	133,679,190	9,098,517	PIKE	32,556,900	1,817,337
ERIE	75,107,920	5,970,417	PORTAGE	108,029,610	9,456,574
FAIRFIELD	86,085,880	6,022,720	PREBLE	39,905,190	2,118,926
FAYETTE	38,785,290	2,115,043	PUTNAM	28,368,490	1,424,801
FRANKLIN	801,985,450	73,282,934	RICHLAND	99,864,580	7,405,185
Fulton	43,488,990	3,073,182	ROSS	68,834,040	3,692,570
GALLIA	136,099,240	4,597,490	SANDUSKY	49,586,320	2,802,362
GEAUGA	72,689,820	6,710,525	SCIOTO	71,284,900	4,093,588
GREENE	111,500,186	8,086,340	SENECA	59,552,180	3,510,165
GUERNSEY	40,967,560	2,440,679	SHELBY	43,422,420	2,468,397
HAMILTON	752,759,600	66,050,950	STARK	265,769,350	19,223,412
HANCOCK	58,015,250	3,135,311	SUMMIT	288,765,100	24,299,814
HARDIN	24,225,380	1,285,188	TRUMBULL	150,858,210	10,548,607
HARRISON	19,659,660	1,171,761	TUSCARAWAS	69,774,910	4,254,479
HENRY	30,188,600	2,026,138	UNION	51,063,100	3,402,604
HIGHLAND	27,704,760	1,296,029	VAN WERT	18,904,910	1,242,313
HOCKING	49,376,830	3,038,300	VINTON	23,797,060	981,499
HOLMES	26,315,490	1,487,846	WARREN	149,176,402	11,106,159
HURON	42,562,540	2,500,842	WASHINGTON	84,427,830	4,492,173
JACKSON	38,421,400	1,705,680	WAYNE	72,732,570	5,039,307
JEFFERSON	207,383,520	10,763,939	WILLIAMS	28,493,860	1,906,194
KNOX	38,990,330	2,461,829	WOOD	98,554,730	7,444,873
LAKE	415,529,590	33,205,662	WYANDOT	14,752,410	738,460
LAWRENCE	56,209,860	2,039,386			
LICKING	132,955,970	7,800,817	**Total**	**$10,069,184,268**	**$746,058,859**

Source: Assessed valuation and taxes levied figures are from abstracts filed by county auditors with the Department of Taxation.

Real Property

In tax year 2002, the assessed valuation of real property was nearly $186.8 billion, an increase of approximately 7.4 percent over the 2001 amount. Taxes on these values are distributed by county auditors to the local taxing authorities during calendar year 2003. Net taxes charged after the application of the reductions required by R.C. 319.301 were more than $9.8 billion for tax year 2002, an increase of 6.5 percent over 2001. This figure is before deductions of the tax rollback of 10 percent on all real property, as well as the homestead exemption and the 2.5 percent rollback for owner-occupied dwellings.

The state reimburses local governments for the full amount of the 2.5 and 10 percent rollbacks, as well as for the homestead exemption. The estimated amount of relief for calendar year 2002 (reimbursed in 2003) was approximately $985.6 million for the 10 percent reduction, almost $63.7 million for the homestead exemption, and roughly $137.8 million for the 2.5 percent reduction. These figures do not include those taxpayers that filed late for the homestead and 2.5 percent reductions.

Under state law and Department of Taxation rules, real property in all counties is reappraised every six years, and property values are updated in the third year following each sexennial reappraisal. The department compares the assessed taxable value to the sales price of properties, then uses these sales ratios to check the reappraisal process.

TAX BASE (R.C. 5713.03, 5715.01):

The real property tax base is the taxable (assessed) value of land and improvements. The taxable value is 35 percent of true (market) value, except for certain land devoted exclusively to agricultural use.

RATES (R.C. 319.301, 5705.02 - 5705.05, 5705.19):

Real property tax rates vary with the taxing jurisdiction. The total tax rate includes all levies enacted by a legislative authority or approved by the voters for all taxing jurisdictions in which the property is located (e.g., county, township, municipality, and school district). In 2002, the statewide average "gross" millage rate was 81.09 mills on all real property; and the statewide average "effective" millage rate was 52.52 mills. The difference between the gross and effective rate is due to the tax reduction factors, which generally prevent increases in voted taxes when the valuation of existing real property is increased (see **Credits**).

The Ohio Constitution prohibits governmental units from levying property taxes that in the aggregate exceed 1 percent of true value, unless the voters approve them. This is known in state law as the 10-mill limitation on nonvoted or "inside" millage. The inside mills are levied on taxable value or 35 percent of true value, creating a statutory limit of 35 percent, or nearly three times as strict as the 1 percent constitutional limitation.

EXEMPTIONS (R.C. 5709.07 – 5709.18, 5709.25, 5713.23, 5713.31, 6111.34):

The Ohio Constitution requires real property (land and improvements) to be taxed by uniform rule according to value. Authorized exemptions implemented by statute include:

1. **General:** Real property of governmental or private institutional organizations on the grounds of ownership and/or usage (e.g., schools, charities, churches, municipal corporations, etc.). Many other specific exemptions are provided for by the Revised Code.

2. **Farm Land:** Land devoted exclusively to commercial agricultural use may be valued according to current use instead of "highest and best" use. Such land must meet one of the following requirements for three years prior to the year in which application for the current use treatment is made –

   a) 10 acres or more must be devoted to commercial agricultural use; or
   b) Under 10 acres must be devoted to commercial agricultural use and produce an average yearly gross income of at least $2,500.

In addition, when the land is converted from agricultural use, a charge is levied on such land in an amount equal to the amount of tax savings on the converted land during the three tax years immediately preceding the year in which the conversion occurs.

3. **Forest Land:** Forest land, devoted exclusively to forestry or timber under the rules of the Department of Natural Resources, Division of Forestry, may be taxed at 50 percent of the local rate.

CREDITS (R.C. 319.301, 319.302, 323.151 – 323.157):

1. **Percentage Rollbacks:** State law grants tax relief in the form of a 10 percent reduction in each taxpayer's real property tax bill. In addition, a 2.5 percent rollback of real property taxes is granted on a homestead that is occupied by the homeowner. The state reimburses local governments for the cost of these tax credits.

2. **Tax Reduction Factors:** For purposes of the tax reduction factors, real property is divided into two classes: Class I for residential and agricultural property, and Class II for all other real property. Separate percentage reductions are applied to taxes levied

against each of these two classes when the value of existing real property in the class increases. These reduction factors remain in effect until there is an increase in the value of existing property (new construction would not trigger a change in reduction factors). New reduction factors are calculated annually and applied. The computation of these percentage reduction factors involves the following:

a) Tax reduction factors are calculated to eliminate the effect of an increase in the valuation of existing real property in a taxing unit (school district, county, municipality, etc.) on certain voted taxes;
b) If the tax reduction factors result in an effective tax rate, for current expenses of a school district, of less than 20 mills on real property in either class, the reduction factors are adjusted to yield a minimum of 20 effective mills. The reduction factors of joint vocational school districts are adjusted to yield a minimum of two effective mills on each class of real property.

These factors are applied to the taxes levied on real estate and public utility real property. The result of these calculations yielded net taxes of approximately $8.6 billion in tax year 2002, as shown in the tax tables in this section.

3. Homestead Exemption: Property tax reductions are granted to qualified low-income homeowners who are at least 65 years of age or are permanently and totally disabled, or to surviving spouses at least 59 years of age if the deceased spouse had previously received the exemption. The reduction is equal to the gross millage rate multiplied by the reduction in taxable value shown in the following schedule (for tax year 2003):

Total Income of Owner and Spouse	Reduce Taxable Value by the Lesser of:
$12,800 or less	$5,200 or 75%
More than $12,800 but not more than $18,700	$3,200 or 60%
More than $18,700 but not more than $24,700	$1,000 or 25%
More than $24,700	-0-

Since tax year 2000, the income brackets have been indexed for inflation. Beginning with tax year 2002, the dollar amount reductions in taxable value have also been indexed annually for inflation.

Total income for homestead exemption purposes is defined as federal adjusted gross income, plus Social Security and railroad retirement benefits; retirement, pension, annuity, or other types of retirement payments or benefits not included in federal adjusted gross income; and interest on federal, state, and local government obligations. Disability benefits paid by the U.S. Department of Veterans Affairs or a branch of the armed forces are excluded from total income, as well as increases in Social Security benefits. All disability benefits included in federal adjusted gross income are excluded from total income up to $5,200. Disability benefits that are not included in federal adjusted gross income are excluded from total income. When the applicant who was receiving the homestead exemption because of disability reaches age 65, special rules apply that will exclude most of the retirement income.

Table 7 shows the number of homestead exemptions granted, the average reduction in real taxable value, and the total reduction in real property taxes for each county for tax year 2001. Totals for the state show that 225,893 exemptions were approved for tax year 2001. The average reduction in taxable value was $3,768 and the total reduction in property taxes was $65,053,432. Local governments are reimbursed in full for these reductions from the state's General Revenue Fund.

Homestead Exemption Example

The example below illustrates the computation of homestead exemption property tax relief for tax year 2003. For this example, assume that a senior citizen homeowner has the following characteristics:

a) Total income of $15,000, consisting of $5,000 in wages, $5,000 in Social Security old age and survivors benefits, and $5,000 in dividends.
b) A home with a market value of $50,000 and a taxable value of $17,500 (taxable value = 35 percent of market value).
c) A local property tax rate of 50 mills (gross rate before tax reduction factors).

Since the homeowner is in the $12,800 - $18,700 income bracket, the reduction in taxable value equals the lesser of $3,200 or 60 percent of taxable value. Since 60 percent of $17,500 is $10,500, the reduction in taxable value used to calculate this exemption is $3,200. The tax savings equals the $3,200 reduction in taxable value multiplied by the 50-mill tax rate, or $160.

Like all other real property taxpayers, the senior citizen homeowner in the example is entitled to a tax reduction factor which is applied against the property tax (assume a 15 percent reduction). Also, the homeowner is granted a 12.5 percent tax reduction (10 percent and 2.5 percent property tax rollbacks), which is reimbursed to the local governments from the state's General Revenue Fund. When these are considered, the computation of net property tax due is shown below:

Property tax before any reductions		
$17,500 taxable value x 50 mills	=	$875.00
Subtract tax reduction factor ($875 x 15%)		-131.25
Net taxes levied after tax reduction factor	=	$743.75
Subtract 12.5% rollback (.125 x $743.75)		- 92.97
Net taxes before homestead	=	$650.78
Subtract homestead exemption ($3,200 x 50 mills)		160.00
Net property tax due	=	**$490.78**

SPECIAL PROVISIONS (R.C. 4505.01, 4503.06, 4503.065):

Manufactured Home Tax:

1. The manufactured homeowner is subject to an annual property tax. The assessed value of a manufactured home, if sitused in Ohio prior to January 1, 2000, is 40 percent of the amount derived by multiplying the greater of either the home's cost or market value at the

time of purchase by a depreciation percentage (from one of two schedules). The tax is determined by applying the gross tax rate of the taxing district in which the home is sitused to the home's assessed value.

2. If a home was sitused or had ownership transferred on or after January 1, 2000, and it is not taxed as personal property, it is assessed at 35 percent of true value. This also applies to homes sitused before January 1, 2000, if the owner made an election to have the home taxed like real property. The tax is determined by applying the effective tax rate to the assessed value and reducing the tax by 10 percent. Taxes may be reduced by an additional 2.5 percent if the home is owner-occupied. A homestead exemption is available for qualifying homeowners (see **Credits**). One-half of the amount of the annual tax is due by March 1 with the balance due by July 31. If the structure is taxable as personal property under R.C. 5709.01, it is not subject to the manufactured home tax. Travel trailers and park trailers that are unused or unoccupied and are stored at a qualified location are also not subject to the manufactured home tax.

TAXPAYER:

All real property owners, not specifically exempted, are subject to the real property tax.

PAYMENT DATES (R.C. 323.12, 323.17):

December 31: At least one-half is due.
June 20: Balance due.

When the delivery of the tax duplicate is delayed for certain statutory reasons, the payment dates may be automatically extended for 30 days. Further extensions, not to exceed 15 days, may be granted for emergencies by application of the county auditor or treasurer to the Tax Commissioner. When an unavoidable delay occurs, an additional extension may be granted by application of both the county auditor and treasurer to the Tax Commissioner, in order to avoid penalties to taxpayers.

DISPOSITION OF REVENUE (R.C. 319.54, 321.24, 321.26, 321.261, 321.31, 321.33, 321.34):

After local administrative fee deductions, revenue is distributed to the counties, municipalities, townships, school districts, and various special districts according to the taxable values and total millage levied by each.

OHIO REVISED CODE CITATIONS:

Chapters 319, 321, 323, 4501, 4503, 5705, 5709, 5713, 5715, 5719, 6111.

ADMINISTRATION (R.C. 319.28, 5705.03, 5713.01, 5715.01, 5715.02, 5719.05):

The Tax Commissioner supervises the taxation of real property in the state and is charged with the duty of achieving uniformity in the taxation of real property. The county auditor is responsible for assessing all real property within the county. The auditor prepares the general tax list and duplicate. Using the duplicate, the county treasurer prepares property tax bills and is responsible for the actual collection of the tax. The county board of revision hears complaints on the assessment or valuation of real property. It may increase or decrease an assessment or order a reassessment.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective June 26, 2003, FY 2004 - 2005 Biennial Budget Bill; note: certain provisions of this bill were not effective until September 26, 2003).
R.C. 325.31 –
This section expands the uses of the real estate assessment fund, which was formerly used only for the determination of real property valuations, to include, at the county auditor's discretion, the costs and expenses incurred by the auditor in administering the real property, personal property, and estate tax laws, in general, and for geographic information systems, mapping programs, and technological advances in those or similar systems or programs. This provision was effective September 26, 2003.

R.C. 3735.66, 3735.67, 3735.671, 5713.07, 5713.08, 5713.081, 5713.082, 5715.27, and Section 168 –
These sections accomplish four major things: (1) They exclude from the Tax Commissioner's jurisdiction the granting of exemptions for, or the hearing of complaints against, a Community Reinvestment Area; (2) The uncodified provision allows the Commissioner to forward to the local housing officer for hearing and determination any such complaint that was filed with the Commissioner before the effective date of this section; (3) These sections provide some local discretion to determine the classification of property in the area; and (4) They also make general technical changes to the exemption laws.

R.C. 5709.61, .62, .63, .632, and .64 –
These sections extend the application of enterprise zones to a city designated as an urban cluster in a rural statistical area. They also extend the time by which a city or county may enter into an enterprise zone agreement until October 15, 2009.

R.C. 5711.33 and 5715.39 –
These sections harmonize the procedures for the remission of late payment penalties on real property and manufactured home taxes with those for personal property taxes. Thus, the initial application for remission will be determined by the county auditor or county board of revision with the Tax Commissioner handling only appeals from the denials by the auditor or board. Moreover, a fifth reason to remit those penalties was created for payments that were late "due to reasonable cause and not willful neglect." The taxpayer has 60 days from the auditor's or board's denial to appeal to the Commissioner.

R.C. 5713.30 –
"Land devoted exclusively to agricultural use" includes land used for conservation practices to abate soil erosion, provided that such conservation practices comprise not more than 25 percent of the land that otherwise qualifies as land devoted exclusively to agricultural use under division (A)(1), (2), or (4) of this section. This provision was

effective September 26, 2003, and will first be effective for tax year 2004.

Section 155 –
This uncodified section allows owners of property that could qualify for tax exemption under R.C. 3314.44, 5709.07, 5709.08, 5709.10, 5709.12, 5709.121, or 5709.14 to file an application for exemption for all years prior to the statutory three-year remission period under permanent law, provided that the taxes for those years are unpaid. Those applications may be filed at any time within 12 months after the effective date of this section.

Sub. S.B. 47, 125th General Assembly (effective June 12, 2003).
R.C. 323.122 –
This section allows members of the National Guard and reserve components of the U.S. Armed Forces to defer payment of property taxes on real property and manufactured and mobile homes that they own until the seventh month after their tour of duty has terminated, when they are called to active duty for any reason.

Am. H.B. 65, 124th General Assembly (effective April 3, 2003).
R.C. 5709.17(B) –
Under this act, the real and tangible personal property of any veterans' organization that qualifies for a federal income tax exemption under section 501(c)(19) or 501(c)(23) of the Internal Revenue Code shall be exempt from taxation, except for real estate held for the production of rental or other income in excess of the designated amount, which is phased-in over an 11-year period from $7,500 to $10,000. The exemption begins with tax year 2003.

Am. Sub. H.B. 198, 124th General Assembly, (effective March 31, 2003).
R.C. 319.45, 319.50, 321.31, 323.31, 5719.05, 5721.19, 5721.25, 5721.32, 5721.33, 5722.03, and 5722.04 –
These sections provide that delinquent real and personal property taxes will be distributed among the various taxing districts in proportion to the current tax rates, meaning the tax rates that were levied by the taxing districts in the preceding tax year. However, special assessments and other charges are credited in the order in which they became due, guaranteeing satisfaction of the whole assessment amount when the full delinquency is paid.

R.C. 5705.03 –
This section adds two new requirements to the tax levy certification process: (1) The county auditor must issue the certification to the taxing authority within 10 days after receiving the taxing authority's resolution or ordinance requesting it; and (2) The taxing authority must submit the county auditor's certification along with the resolution or ordinance that the taxing authority certifies to the county board of elections. The board cannot place the levy on the ballot without having a copy of the auditor's certification.

Sub. H.B. 520, 124th General Assembly (effective April 3, 2003).
R.C. 1923.14 and 4503.061 –
These sections allow a sheriff, police officer, constable, bailiff, or manufactured home park operator, or any agent of these persons, to receive a relocation notice from the county auditor without paying the outstanding section 4503.06 taxes on a manufactured or mobile home, when removing an abandoned home from a manufactured home park for the purpose of sale or destruction.

R.C. 4513.01 –
This section is amended to exclude manufactured and mobile homes from the definition of motor vehicles for purposes of Chapter 4513. Consequently, an owner of private property that is not a manufactured home park can no longer ask the sheriff to remove an abandoned manufactured or mobile home from the owner's property under sections 4513.60 to 4513.65 and store it for future disposition.

R.C. 4503.062 –
This section is amended to require additional information on the manufactured home register.

H.B. 675, 124th General Assembly (effective March 14, 2003).
R.C. 5715.20 –
After the effective date of this act, the board of revision will not be required to automatically send decision notices to the Tax Commissioner. The decision must only be certified to the property owner and to the complainant, if the complainant was not the owner. Moreover, a person's appeal period will commence with the board's mailing of its decision to that person. The Commissioner's appeal period will commence with the last mailing to a person required to be mailed notice of the board's decision.

The Tax Commissioner may order the county auditor to send the board's decisions to the Commissioner "in the manner and for the time period that the commissioner prescribes." However, asking for these decisions will not extend the Commissioner's appeal period, as noted above.

Am. Sub. S.B. 180, 124th General Assembly (effective April 9, 2003).
Section 4 –
This uncodified section of the act allows a "qualifying taxpayer" to file a valuation complaint under certain circumstances for prior years beyond the one-year limitation in R.C. 5715.19. A "qualifying taxpayer" is a person who owns one or more parcels of commercial real property, who filed an original complaint that was dismissed for lack of jurisdiction because of an unauthorized practice of law ruling, and who has not paid in full the taxes, assessments, or other charges due on the valuation of such property for the tax years to which the complaint relates. The complaint authorized by this section must be filed not later than six months after the effective date of this section. A qualifying taxpayer's attorney must file such complaint directly with the Board of Tax Appeals for any tax years to which the original complaint relates and which occur within one sexennial period within the 10 years preceding the effective date of this section.

RECENT SIGNIFICANT COURT DECISIONS:

***Cleveland Electric Illuminating Co. v. Lake County Bd. of Revision* (2002), 96 Ohio St.3d165.**
The Ohio Supreme Court held that before the appeal period in R.C. 5717.01 can begin to run the board of revision must certify its actions to all persons listed in R.C. 5715.20: the property owner, the complainant if other than the property owner, and the Tax Commissioner. Moreover, the 30-day appeal time shall be calculated from the date of

the latest certified mailing required by R.C. 5715.20. Finally, the decision was given prospective effect only. It applies to future cases and to all cases pending at the time of the decision. However, any appeal that has been completed before the date of the decision shall remain final. See also **Recent Legislation** in this chapter for a description of H.B. 675, which amended R.C. 5715.20 after this decision was issued.

***Specialty Restaurants Corp. v. Cuyahoga County Bd. of Revision* (2002), 96 Ohio St.3d170.**

The Ohio Supreme Court expanded its earlier holding in *Elkem Metals Co. v. Washington County Bd. of Revision (*1998), 81 Ohio St.3d 683 (1998), and held that even if a real property valuation complaint is voluntarily withdrawn before the board of revision considers it, that complaint counts as a complaint filed in a triennium and will, in turn, prevent a second complaint from being filed within that same triennium, unless one of the four statutory exceptions is alleged.

RECENT INFORMATION RELEASES:

Bulletin 11 – "Property Taxation of Manufactured and Mobile Homes," was revised in December 2002 to reflect the change in the law made by Sub H. B. 390, effective March 4, 2002, that altered the filing deadline on a valuation complaint for a manufactured or mobile home taxed like real property.

Table 1
Assessed Value of Taxable Real Estate, Taxes Charged, Average Tax Rates, and Tax Relief, Tax Years 1998 - 2002

	1998	1999	2000	2001	2002
Value of Taxable Property	$142,864,247,090	$156,600,957,291	$167,857,657,350	$173,975,282,762	$186,756,854,520
Residential & Agricultural	107,558,617,730	118,606,369,900	127,327,060,770	132,036,957,842	142,544,497,300
Other[a]	35,305,629,360	37,994,587,391	40,530,596,580	41,938,324,920	44,212,357,220
Taxes Charged[b]	7,583,342,231	8,129,308,305	8,697,809,112	9,183,387,507	9,807,854,075
Residential & Agricultural	5,495,784,130	5,907,475,036	6,358,837,177	6,719,265,594	7,217,105,610
Other[a]	2,087,558,101	2,221,833,268	2,338,971,935	2,464,121,913	2,590,748,465
Average Effective Tax Rate[c]	53.08 mills	51.91 mills	51.82 mills	52.79 mills	52.52 mills
Residential & Agricultural	51.10 mills	49.81 mills	49.94 mills	50.89 mills	50.63 mills
Other[a]	59.13 mills	58.48 mills	57.71 mills	58.76 mills	58.60 mills
10% Reduction in all Real Property Taxes	$757,859,701	$809,738,048	$869,714,189	$906,944,834	$985,639,639*
2.5% Reduction in Homeowner's Real Property Taxes	106,746,259	112,647,503	121,318,800	128,186,729	137,847,440*
Homestead Exemption Reduction [d]	63,117,979	66,307,762	65,155,602	63,980,939	63,694,006*
Net Taxes Collectible (after 12.5% Reduction & Homestead Exemption)	$6,655,618,292	$7,140,614,992	$7,641,620,520	$8,084,275,006	$8,620,672,990*

(a) Includes commercial, industrial, mineral and public utility property.
(b) Net taxes charged after application of percentage reductions required by R.C. 319.301.
(c) Taxes charged divided by value of taxable property.
(d) These figures exclude those taxpayers that filed late for the tax reduction and the administrative fees associated with this program.
* Estimated figures.

Table 2
Gross and Net Tax Millage Rates on the Two Classes of Real Property, by County, Tax Year 2002

County	Residential & Agricultural		Public Utility, Commercial, Industrial & Mineral		County	Residential & Agricultural		Public Utility, Commercial, Industrial & Mineral	
	Gross Rate[(a)]	Net Rate[(b)]	Gross Rate[(a)]	Net Rate[(b)]		Gross Rate[(a)]	Net Rate[(b)]	Gross Rate[(a)]	Net Rate[(b)]
ADAMS	47.94	38.31	45.27	41.59	LOGAN	62.60	42.16	63.10	46.01
ALLEN	54.18	43.93	54.09	46.75	LORAIN	77.93	48.79	78.11	57.23
ASHLAND	66.90	37.89	66.47	43.19	LUCAS	95.25	57.80	92.63	69.03
ASHTABULA	75.42	48.82	76.29	55.24	MADISON	61.87	44.80	63.53	51.24
ATHENS	80.40	51.16	85.52	57.68	MAHONING	77.15	52.34	78.19	58.28
AUGLAIZE	55.71	38.76	55.62	45.18	MARION	66.03	44.54	67.53	50.46
BELMONT	61.06	42.37	60.19	44.15	MEDINA	87.86	47.01	88.70	48.41
BROWN	48.14	37.41	49.18	41.00	MEIGS	46.07	38.95	48.11	43.84
BUTLER	70.02	45.54	69.57	48.98	MERCER	52.32	43.45	51.34	45.49
CARROLL	53.48	38.55	54.52	29.01	MIAMI	65.49	40.65	65.62	44.96
CHAMPAIGN	61.35	41.06	67.94	47.22	MONROE	50.14	32.62	49.50	42.40
CLARK	69.11	47.73	69.74	54.03	MONTGOMERY	91.45	57.28	89.44	66.17
CLERMONT	79.76	46.72	77.80	49.39	MORGAN	50.00	35.12	51.46	40.54
CLINTON	54.21	43.55	53.35	46.22	MORROW	54.41	41.22	59.18	45.98
COLUMBIANA	58.39	42.42	59.57	46.19	MUSKINGUM	65.87	42.73	67.06	46.37
COSHOCTON	56.83	39.13	57.63	44.87	NOBLE	48.31	35.47	48.00	40.50
CRAWFORD	72.23	43.10	73.33	56.13	OTTAWA	65.80	35.90	62.89	39.76
CUYAHOGA	105.87	64.80	97.82	70.94	PAULDING	59.75	46.71	64.06	51.71
DARKE	49.91	36.97	52.07	40.71	PERRY	61.59	44.38	62.59	50.80
DEFIANCE	58.99	43.21	60.40	46.63	PICKAWAY	54.68	40.17	56.30	43.57
DELAWARE	70.63	46.04	71.45	46.63	PIKE	59.96	42.39	64.13	47.50
ERIE	80.21	45.21	81.13	57.43	PORTAGE	88.12	48.18	88.60	53.68
FAIRFIELD	76.36	41.66	78.84	41.15	PREBLE	53.13	40.60	54.92	42.60
FAYETTE	55.42	43.38	57.23	44.78	PUTNAM	50.20	40.08	48.36	43.64
FRANKLIN	93.81	55.31	88.17	61.61	RICHLAND	73.23	46.11	74.18	58.32
FULTON	72.05	47.44	70.07	50.10	ROSS	53.69	37.19	53.67	38.35
GALLIA	38.73	31.10	38.35	31.80	SANDUSKY	56.57	40.56	53.21	42.51
GEAUGA	94.95	50.44	94.80	56.89	SCIOTO	58.51	43.58	60.55	45.18
GREENE	74.61	49.09	74.70	50.53	SENECA	59.68	38.06	62.48	51.08
GUERNSEY	59.53	48.81	62.89	56.29	SHELBY	58.33	42.62	59.86	47.71
HAMILTON	90.67	55.16	87.31	62.60	STARK	74.67	46.89	73.00	51.91
HANCOCK	56.32	37.61	57.76	47.22	SUMMIT	83.37	51.72	82.19	57.47
HARDIN	53.64	38.28	52.78	39.68	TRUMBULL	69.22	47.02	67.16	52.52
HARRISON	59.08	39.48	60.22	46.00	TUSCARAWAS	62.18	39.68	62.94	45.02
HENRY	67.70	48.69	67.88	61.74	UNION	67.66	48.95	68.44	58.97
HIGHLAND	46.77	38.09	46.11	38.69	VAN WERT	65.89	45.44	68.55	60.76
HOCKING	61.38	46.38	60.82	49.09	VINTON	42.44	39.60	44.16	42.74
HOLMES	54.10	44.02	54.57	46.97	WARREN	76.39	47.10	77.47	50.56
HURON	59.25	38.68	61.50	43.22	WASHINGTON	54.52	39.42	54.71	43.41
JACKSON	46.32	41.45	48.13	44.92	WAYNE	70.24	44.62	75.06	53.90
JEFFERSON	57.32	38.81	56.48	49.42	WILLIAMS	69.20	41.93	70.35	48.51
KNOX	64.08	45.69	60.19	48.86	WOOD	78.92	49.05	79.28	53.63
LAKE	85.91	48.97	83.21	55.20	WYANDOT	51.01	32.12	49.74	35.10
LAWRENCE	36.31	32.33	35.68	32.02					
LICKING	61.96	42.85	58.89	45.70	**Statewide Average**	**81.09**	**50.63**	**82.07**	**58.60**

(a) Rate on property prior to application of "tax reduction factors." Gross rate equals taxes levied divided by taxable value.
(b) Rate on property in the county after application of "tax reduction factors." These rates were computed prior to the deduction of the property tax rollbacks and homestead exemption. Net rate equals taxes charged divided by taxable value.

Source: Abstracts filed by county auditors with the Department of Taxation.

Table 3 - Total Real Property Taxes, Values, and Effective Tax Rates, By County, Tax Year 2002

County	Taxable Value	Gross Taxes Levied	Taxes Charged[a]	Special Assessments	Effective Tax Rate[b]
ADAMS	$306,231,280	$14,393,890	$12,084,323	$17,398	39.46
ALLEN	1,237,059,570	66,992,928	55,204,205	3,069,153	44.63
ASHLAND	731,015,940	48,858,003	28,281,027	37,212	38.69
ASHTABULA	1,381,234,760	104,404,374	69,143,148	2,092,686	50.06
ATHENS	619,132,840	50,470,052	32,552,415	304,554	52.58
AUGLAIZE	657,181,820	36,598,999	26,207,012	732,932	39.88
BELMONT	716,797,650	43,600,704	30,712,088	23,792	42.85
BROWN	456,303,420	22,013,176	17,238,948	451,490	37.78
BUTLER	6,043,237,390	422,531,788	280,038,148	12,229,503	46.34
CARROLL	385,596,110	20,668,433	14,438,004	24,066	37.44
CHAMPAIGN	548,033,690	34,073,164	22,922,592	73,425	41.83
CLARK	1,820,258,150	126,024,023	89,100,228	321,635	48.95
CLERMONT	3,136,913,680	248,810,555	148,439,371	2,051,373	47.32
CLINTON	611,614,370	33,043,942	26,978,718	306,721	44.11
COLUMBIANA	1,201,380,270	70,376,119	51,682,984	226,047	43.02
COSHOCTON	416,690,610	23,751,479	16,808,240	43,752	40.34
CRAWFORD	507,831,100	36,771,162	22,959,085	125,152	45.21
CUYAHOGA	24,739,779,970	2,559,530,216	1,648,717,487	35,963,482	66.64
DARKE	758,594,220	38,088,624	28,444,732	319,804	37.50
DEFIANCE	521,068,310	30,873,950	22,845,706	805,004	43.84
DELAWARE	3,854,030,080	272,660,096	177,774,418	8,839,661	46.13
ERIE	1,415,153,080	113,786,072	67,595,008	1,656,641	47.77
FAIRFIELD	2,255,291,320	173,147,287	93,757,071	1,051,450	41.57
FAYETTE	401,513,230	22,397,508	17,531,309	825,765	43.66
FRANKLIN	21,248,902,150	1,954,294,434	1,218,927,150	26,672,332	57.36
FULTON	680,252,560	48,774,859	32,595,025	1,012,914	47.92
GALLIA	335,975,730	12,979,478	10,512,553	134,201	31.29
GEAUGA	2,379,966,380	225,934,000	121,583,136	1,629,275	51.09
GREENE	2,783,678,820	207,748,167	137,411,072	1,861,234	49.36
GUERNSEY	362,724,000	21,840,850	18,259,949	149,547	50.34
HAMILTON	16,088,697,780	1,442,987,113	922,379,227	35,479,304	57.33
HANCOCK	1,168,162,460	66,155,997	46,364,865	939,159	39.69
HARDIN	342,369,170	18,320,539	13,179,458	913,178	38.49
HARRISON	169,132,380	10,024,725	6,859,768	31,424	40.56
HENRY	406,229,380	27,509,735	20,390,032	631,187	50.19
HIGHLAND	461,777,170	21,555,022	17,626,280	543,157	38.17
HOCKING	347,564,260	21,309,384	16,230,612	32,351	46.70
HOLMES	527,158,140	28,560,465	23,470,183	8,178	44.52
HURON	770,423,050	45,951,915	30,413,778	275,977	39.48
JACKSON	307,010,790	14,348,088	12,970,608	5,402	42.25
JEFFERSON	716,134,750	40,921,031	29,436,956	217,412	41.11
KNOX	810,135,870	51,498,306	37,352,856	528,310	46.11
LAKE	4,588,282,920	391,175,941	231,645,590	6,103,117	50.49
LAWRENCE	532,182,250	19,275,903	17,181,396	60,046	32.28
LICKING	2,695,988,240	165,731,604	116,748,416	1,743,832	43.30

County	Taxable Value	Gross Taxes Levied	Taxes Charged[a]	Special Assessments	Effective Tax Rate[b]
LOGAN	$724,863,940	$45,436,794	$31,039,302	$708,265	42.82
LORAIN	4,615,396,130	359,810,644	232,312,845	2,691,323	50.33
LUCAS	6,581,218,150	622,357,878	399,650,306	24,846,159	60.73
MADISON	581,464,520	36,111,200	26,571,601	607,916	45.70
MAHONING	3,207,540,010	248,225,737	172,250,064	1,632,244	53.70
MARION	805,460,980	53,425,407	36,825,152	962,775	45.72
MEDINA	3,367,373,070	296,322,703	159,066,037	2,189,993	47.24
MEIGS	198,680,150	9,243,896	7,955,204	1,087	40.04
MERCER	608,922,120	31,780,321	26,621,134	397,972	43.72
MIAMI	1,635,372,060	107,136,564	67,753,909	940,624	41.43
MONROE	152,660,190	7,633,927	5,295,939	19,437	34.69
MONTGOMERY	8,550,482,230	777,655,114	508,741,460	19,853,100	59.50
MORGAN	151,151,810	7,597,505	5,458,233	2,733	36.11
MORROW	443,206,020	24,299,930	18,453,896	154,790	41.64
MUSKINGUM	1,048,960,670	69,360,346	45,647,810	581,581	43.52
NOBLE	136,199,010	6,574,027	4,918,546	5,308	36.11
OTTAWA	1,081,822,450	70,571,338	39,649,574	2,593,285	36.65
PAULDING	232,721,940	14,019,253	11,001,895	446,350	47.27
PERRY	319,592,480	19,717,702	14,407,048	61,647	45.08
PICKAWAY	715,420,480	39,302,010	29,123,844	159,507	40.71
PIKE[c]	220,701,040	13,365,373	9,516,725	0	43.12
PORTAGE	2,400,291,670	211,738,198	118,301,738	1,547,949	49.29
PREBLE	603,905,830	32,217,381	24,666,374	1,363,648	40.84
PUTNAM	462,140,860	23,120,674	18,679,890	387,049	40.42
RICHLAND	1,671,184,010	122,711,409	81,295,845	1,707,132	48.65
ROSS	800,125,230	42,958,357	29,934,483	233,494	37.41
SANDUSKY	817,771,170	45,740,714	33,469,489	358,046	40.93
SCIOTO	628,734,650	37,049,225	27,607,288	380,807	43.91
SENECA	723,458,220	43,516,499	29,128,091	401,543	40.26
SHELBY	730,020,340	42,821,121	31,905,043	853,734	43.70
STARK	5,407,218,740	401,771,966	259,459,430	1,783,311	47.98
SUMMIT	10,396,813,550	864,004,148	551,161,332	17,095,925	53.01
TRUMBULL	2,822,531,650	194,229,410	135,767,493	1,383,434	48.10
TUSCARAWAS	1,232,428,540	76,841,428	50,354,462	145,199	40.86
UNION	812,771,170	55,127,545	41,520,987	212,077	51.09
VAN WERT	367,799,220	24,365,424	17,473,024	904,095	47.51
VINTON[c]	103,345,500	4,406,309	4,129,358	0	39.96
WARREN	3,633,906,580	278,328,961	173,532,246	4,056,857	47.75
WASHINGTON	734,218,970	40,063,703	29,613,278	105,344	40.33
WAYNE	1,641,974,260	116,853,859	76,194,304	632,732	46.40
WILLIAMS	533,223,000	37,012,321	23,012,384	1,071,364	43.16
WOOD	2,102,498,400	166,106,377	105,409,106	4,298,396	50.14
WYANDOT	306,592,400	15,581,464	9,982,730	71,053	32.56
Total	**$186,756,854,520**	**$15,187,278,262**	**$9,807,854,075**	**$248,413,517**	**52.52**

(a) Represents taxes charged after tax reduction factors are applied. The 10% rollback for all real property, 2.5% rollback for residential real property, and homestead exemption reduction have not been subtracted from this figure because they are fully reimbursed to the local governments and school districts from the state General Revenue Fund.

(b) Rates shown in mills equal taxes charged divided by taxable value.

(c) Counties which levied no special assessments.

Source: Abstracts filed by county auditors with the Department of Taxation.

Table 4 — Taxes Charged on Real Property, and Property Tax Relief, by County, Tax Year 2002[a]

County	Taxes Charged[b]	10% Reduction[c]	Homestead Exemption Reduction[c][d]	2.5% Reduction in Taxes of Homeowners[c]	Net Taxes Collectible[e]	County	Taxes Charged[b]	10% Reduction[c]	Homestead Exemption Reduction[c][d]	2.5% Reduction in Taxes of Homeowners[c]	Net Taxes Collectible[e]
ADAMS	$12,084,323	$1,207,636	$192,656	$46,326	$10,637,705	LICKING	$116,748,416	$11,717,445	$394,619	$1,834,577	$102,801,775
ALLEN	55,204,205	5,520,449	273,095	781,513	48,629,149	LOGAN	31,039,302	3,101,845	163,732	229,962	27,543,763
ASHLAND	28,281,027	2,816,403	209,925	426,323	24,828,376	LORAIN	232,312,845	23,176,879	1,383,344	3,578,262	204,174,360
ASHTABULA	69,143,148	6,889,220	826,140	861,688	60,566,100	LUCAS	399,650,306	39,687,926	3,026,058	5,980,259	350,956,062
ATHENS	32,552,415	3,249,180	458,395	348,316	28,496,524	MADISON	26,571,601	2,652,823	157,290	419,115	23,342,373
AUGLAIZE	26,207,012	2,618,543	116,453	387,063	23,084,953	MAHONING	172,250,064	17,164,015	2,259,469	2,642,837	150,183,743
BELMONT	30,712,088	3,073,511	641,544	399,338	26,597,695	MARION	36,825,152	3,684,380	406,675	508,655	32,225,442
BROWN	17,238,948	1,728,003	199,627	172,023	15,139,294	MEDINA	159,066,037	15,923,336	710,177	2,807,417	139,625,107
BUTLER	280,038,148	27,880,531	1,121,846	3,686,019	247,349,752	MEIGS	7,955,204	795,737	178,168	67,552	6,913,748
CARROLL	14,438,004	1,499,751	181,216	183,050	12,573,987	MERCER	26,621,134	2,664,096	134,468	351,486	23,471,084
CHAMPAIGN	22,922,592	2,302,531	186,074	197,176	20,236,810	MIAMI	67,753,909	6,755,288	456,623	942,075	59,599,923
CLARK	89,100,228	8,962,035	850,605	1,242,287	78,045,301	MONROE	5,295,939	531,657	108,699	47,633	4,607,950
CLERMONT	148,439,371	14,987,337	624,985	2,119,489	130,707,560	MONTGOMERY	508,741,460	50,785,356	3,635,641	7,422,571	446,897,892
CLINTON	26,978,718	2,705,172	113,709	285,995	23,873,842	MORGAN	5,458,233	545,576	104,769	45,055	4,762,833
COLUMBIANA	51,682,984	5,177,843	831,591	655,894	45,017,656	MORROW	18,453,896	1,840,517	137,947	237,889	16,237,543
COSHOCTON	16,808,240	1,678,746	180,149	179,475	14,769,870	MUSKINGUM	45,647,810	4,565,913	645,112	610,739	39,826,046
CRAWFORD	22,959,085	2,299,848	384,304	249,161	20,025,772	NOBLE	4,918,546	490,897	103,482	52,950	4,271,218
CUYAHOGA	1,648,717,487	165,379,088	12,179,558	24,515,697	1,446,643,144	OTTAWA	39,649,574	3,956,315	212,869	210,675	35,269,715
DARKE	28,444,732	2,845,656	231,551	323,735	25,043,790	PAULDING	11,001,895	1,102,340	96,772	139,702	9,663,082
DEFIANCE	22,845,706	2,289,637	149,641	358,151	20,048,277	PERRY	14,407,048	1,449,271	297,513	222,215	12,438,049
DELAWARE	177,774,418	18,479,725	198,526	3,048,608	156,047,559	PICKAWAY	29,123,844	2,913,742	153,754	397,320	25,659,028
ERIE	67,595,008	6,758,918	483,582	991,151	59,361,357	PIKE	9,516,725	943,683	220,435	117,537	8,235,071
FAIRFIELD	93,757,071	9,427,078	539,107	1,267,781	82,523,105	PORTAGE	118,301,738	11,813,179	644,931	1,368,348	104,475,280
FAYETTE	17,531,309	1,785,474	146,839	215,377	15,383,618	PREBLE	24,666,374	2,465,684	215,339	384,240	21,601,111
FRANKLIN	1,218,927,150	123,571,735	3,736,132	15,779,240	1,075,840,043	PUTNAM	18,679,890	1,853,945	102,811	318,422	16,404,713
FULTON	32,595,025	3,263,367	188,001	509,950	28,633,707	RICHLAND	81,295,845	8,142,162	891,604	1,164,583	71,097,495
GALLIA	10,512,553	1,050,949	188,950	95,005	9,177,649	ROSS	29,934,483	3,005,002	404,148	356,213	26,169,119
GEAUGA	121,583,136	12,148,425	402,788	2,001,111	107,030,812	SANDUSKY	33,469,489	3,329,031	267,443	510,419	29,362,596
GREENE	137,411,072	13,728,448	402,505	1,982,722	121,297,396	SCIOTO	27,607,288	2,748,564	843,689	385,638	23,629,398
GUERNSEY	18,259,949	1,829,267	288,425	203,850	15,938,407	SENECA	29,128,091	2,903,056	256,048	367,683	25,601,305
HAMILTON	922,379,227	94,861,845	3,177,075	13,141,099	811,199,208	SHELBY	31,905,043	3,186,858	175,061	338,064	28,205,059
HANCOCK	46,364,865	4,792,618	199,610	665,554	40,707,083	STARK	259,459,430	25,907,040	1,862,276	3,908,350	227,781,765
HARDIN	13,179,458	1,320,065	124,898	166,242	11,568,253	SUMMIT	551,161,332	54,610,563	4,221,126	7,398,784	484,930,859
HARRISON	6,859,768	684,333	166,474	68,951	5,940,010	TRUMBULL	135,767,493	13,571,335	1,799,650	1,830,489	118,566,019
HENRY	20,390,032	2,038,242	138,839	267,978	17,944,972	TUSCARAWAS	50,354,462	5,033,119	630,643	589,191	44,101,508
HIGHLAND	17,626,280	1,752,955	231,243	138,421	15,503,661	UNION	41,520,987	4,147,395	150,532	473,985	36,749,075
HOCKING	16,230,612	1,638,194	178,557	222,079	14,191,782	VAN WERT	17,473,024	1,751,968	174,691	239,568	15,306,796
HOLMES	23,470,183	2,342,611	83,045	201,035	20,843,492	VINTON	4,129,358	412,527	115,669	42,268	3,558,894
HURON	30,413,778	3,037,961	260,727	454,736	26,660,354	WARREN	173,532,246	17,430,013	436,672	2,870,375	152,795,185
JACKSON	12,970,608	1,294,326	300,758	74,886	11,300,638	WASHINGTON	29,613,278	2,948,319	324,520	360,276	25,980,163
JEFFERSON	29,436,956	2,938,741	665,762	389,146	25,443,307	WAYNE	76,194,304	7,549,336	423,331	1,008,714	67,212,923
KNOX	37,352,856	3,783,901	274,506	434,882	32,859,566	WILLIAMS	23,012,384	2,299,882	191,128	329,592	20,191,782
LAKE	231,645,590	23,132,165	1,183,886	3,247,153	204,082,386	WOOD	105,409,106	10,591,750	388,534	1,419,379	93,009,443
LAWRENCE	17,181,396	1,717,379	585,430	226,548	14,652,039	WYANDOT	9,982,730	1,000,027	87,818	104,151	8,790,733
						Total	**$9,807,854,075**	**$985,639,639**	**$63,694,006**	**$137,847,440**	**$8,620,672,990**

(a) Taxes charged in tax year 2002 and collected or reimbursed in tax year 2003.
(b) Net taxes charged after application of percentage reductions required by R.C. 319.301.
(c) Estimated figures.
(d) Reduction is applied to residential and agricultural property not exceeding one acre.
(e) County figures may not add to total due to rounding.

Source: Abstracts filed by county auditors and records of the Department of Taxation.

Table 5
Assessed Valuation of Exempt Real Property, by Ownership Classifications, Tax Years 1997-2002 (figures in millions)

Property Under Public Ownership	1997	1998	1999	2000	2001	2002
Boards of Education	$3,618.1	$3,740.5	$3,943.1	$4,229.0	$4,361.8	$4,701.3
Municipalities	3,301.2	3,311.1	3,443.3	3,838.1	3,981.9	4,218.9
State	2,564.9	2,256.3	2,634.1	2,736.3	2,760.3	2,781.8
Counties	1,441.5	1,519.7	1,604.0	1,672.2	1,860.8	1,977.2
United States	1,288.8	1,298.3	1,376.4	1,409.9	1,425.8	1,259.7
Park Districts	346.8	358.5	373.1	384.8	406.8	470.3
Townships	166.9	161.6	183.2	192.2	204.3	251.7
Total	**$12,728.2**	**$12,646.0**	**$13,557.2**	**$14,462.5**	**$15,001.8**	**$15,661.0**

Property Under Private Ownership	1997	1998	1999	2000	2001	2002
Tax Abatements	$2,660.4	$2,864.4	$3,333.0	$3,905.4	$4,364.8	$5,169.9
Charities	2,650.7	2,588.2	2,765.9	2,974.5	3,102.5	3,435.3
Churches	2,482.8	2,538.1	2,744.6	2,925.2	3,008.3	3,215.7
Schools and Colleges	1,563.2	1,992.4	1,921.5	2,052.4	2,136.4	2,549.0
Cemeteries	189.6	194.1	204.0	219.3	213.6	208.6
Total	**$9,546.7**	**$10,177.2**	**$10,969**	**$12,076.8**	**$12,825.7**	**$14,578.5**
Grand Total*	**$22,700.8**	**$23,296.7**	**$24,972.8**	**$27,145.2**	**$28,431.7**	**$30,884.3**

* Includes other tax-exempt organizations (e.g., Metropolitan Housing, Volunteer Fire Departments, etc.) not included in any of the listed categories.

Source: Exempt real property abstracts filed by county auditors with the Department of Taxation.

Table 6
Assessed Valuation of Exempt Real Property Compared to Total Assessed Real Valuation, By County, Tax Year 2002

County	Assessed Value of Taxable Real Property	Assessed Value of Exempt Real Property	Percent of Tax Base Exempt from Taxation
ADAMS	$306,231,280	$37,834,650	11.00%
ALLEN	1,237,059,570	203,024,890	14.10
ASHLAND	731,015,940	116,797,750	13.78
ASHTABULA	1,381,234,760	164,841,240	10.66
ATHENS	619,132,840	265,864,050	30.04
AUGLAIZE	657,181,820	86,104,040	11.58
BELMONT	716,797,650	132,691,090	15.62
BROWN	456,303,420	46,138,570	9.18
BUTLER	6,043,237,390	978,772,510	13.94
CARROLL	385,596,110	27,210,410	6.59
CHAMPAIGN	548,033,690	53,291,620	8.86
CLARK	1,820,258,150	229,650,210	11.20
CLERMONT	3,136,913,680	330,700,900	9.54
CLINTON	611,614,370	95,341,830	13.49
COLUMBIANA	1,201,380,270	164,658,790	12.05
COSHOCTON	416,690,610	43,435,180	9.44
CRAWFORD	507,831,100	39,540,830	7.22
CUYAHOGA	24,739,779,970	4,822,683,250	16.31
DARKE	758,594,220	75,160,910	9.01
DEFIANCE	521,068,310	66,488,020	11.32
DELAWARE	3,854,030,080	627,917,840	14.01
ERIE	1,415,153,080	156,784,320	9.97
FAIRFIELD	2,255,291,320	186,616,650	7.64
FAYETTE	401,513,230	50,325,080	11.14
FRANKLIN	21,248,902,150	4,596,771,500	17.79
FULTON	680,252,560	181,424,250	21.05
GALLIA	335,975,730	83,784,120	19.96
GEAUGA	2,379,966,380	160,636,430	6.32
GREENE	2,783,678,820	734,104,600	20.87
GUERNSEY	362,724,000	88,883,820	19.68
HAMILTON	16,088,697,780	3,129,439,590	16.28
HANCOCK	1,168,162,460	167,491,150	12.54
HARDIN	342,369,170	48,124,560	12.32
HARRISON	169,132,380	21,911,880	11.47
HENRY	406,229,380	50,250,510	11.01
HIGHLAND	461,777,170	55,851,390	10.79
HOCKING	347,564,260	53,658,690	13.37
HOLMES	527,158,140	34,415,610	6.13
HURON	770,423,050	106,437,970	12.14
JACKSON	307,010,790	47,391,450	13.37
JEFFERSON	716,134,750	115,742,300	13.91
KNOX	810,135,870	140,263,990	14.76
LAKE	4,588,282,920	403,062,480	8.08
LAWRENCE	532,182,250	85,673,920	13.87
LICKING	2,695,988,240	295,645,530	9.88
LOGAN	$724,863,940	$101,293,280	12.26%
LORAIN	4,615,396,130	638,559,170	12.15
LUCAS	6,581,218,150	1,092,551,110	14.24
MADISON	581,464,520	109,593,760	15.86
MAHONING	3,207,540,010	394,848,820	10.96
MARION	805,460,980	113,557,200	12.36
MEDINA	3,367,373,070	303,675,710	8.27
MEIGS	198,680,150	18,656,950	8.58
MERCER	608,922,120	82,902,000	11.98
MIAMI	1,635,372,060	242,949,500	12.93
MONROE	152,660,190	18,661,650	10.89
MONTGOMERY	8,550,482,230	1,522,280,540	15.11
MORGAN	151,151,810	16,148,730	9.65
MORROW	443,206,020	33,224,860	6.97
MUSKINGUM	1,048,960,670	200,554,990	16.05
NOBLE	136,199,010	33,717,330	19.84
OTTAWA	1,081,822,450	89,534,010	7.64
PAULDING	232,721,940	26,086,000	10.08
PERRY	319,592,480	48,312,980	13.13
PICKAWAY	715,420,480	131,205,740	15.50
PIKE	220,701,040	55,259,310	20.02
PORTAGE	2,400,291,670	571,371,980	19.23
PREBLE	603,905,830	51,959,840	7.92
PUTNAM	462,140,860	76,539,500	14.21
RICHLAND	1,671,184,010	246,777,950	12.87
ROSS	800,125,230	159,014,310	16.58
SANDUSKY	817,771,170	145,818,330	15.13
SCIOTO	628,734,650	197,905,080	23.94
SENECA	723,458,220	98,273,630	11.96
SHELBY	730,020,340	84,042,930	10.32
STARK	5,407,218,740	859,528,420	13.72
SUMMIT	10,396,813,550	1,413,359,160	11.97
TRUMBULL	2,822,531,650	344,155,640	10.87
TUSCARAWAS	1,232,428,540	134,565,700	9.84
UNION	812,771,170	61,006,740	6.98
VAN WERT	367,799,220	46,438,880	11.21
VINTON	103,345,500	18,953,740	15.50
WARREN	3,633,906,580	530,453,460	12.74
WASHINGTON	734,218,970	102,801,510	12.28
WAYNE	1,641,974,260	284,222,420	14.76
WILLIAMS	533,223,000	82,966,260	13.46
WOOD	2,102,498,400	471,491,170	18.32
WYANDOT	306,592,400	26,273,200	7.89
Statewide Total	**$186,756,854,520**	**$30,884,333,860**	**14.19%**

Source: Abstracts filed by county auditors with the Department of Taxation.

Table 7
Number of Homestead Exemptions Granted, Average Reduction in Taxable Value, and Total Reduction in Taxes, by County, Tax Year 2001

County	Number of Homestead Exemptions Granted[a]	Average Reduction in Taxable Value[a]	Total Reduction in Real Property Taxes[b]
ADAMS	997	$3,863	$199,780
ALLEN	1,490	3,644	301,510
ASHLAND	852	3,584	215,905
ASHTABULA	2,731	3,872	807,793
ATHENS	1,637	3,754	468,570
AUGLAIZE	709	3,220	126,231
BELMONT	2,881	3,738	661,462
BROWN	1,146	3,771	209,861
BUTLER	4,855	3,909	1,165,798
CARROLL	885	3,816	181,516
CHAMPAIGN	776	3,733	195,423
CLARK	3,011	3,885	846,424
CLERMONT[c]	2,303	3,788	638,459
CLINTON[c]	584	3,658	119,989
COLUMBIANA	3,550	3,891	843,387
COSHOCTON[d]	842	3,562	180,924
CRAWFORD	1,368	3,872	400,227
CUYAHOGA	33,026	3,740	12,649,516
DARKE	1,224	3,512	236,718
DEFIANCE	697	3,631	142,217
DELAWARE	708	3,604	180,186
ERIE	1,615	3,792	497,050
FAIRFIELD	2,025	3,871	554,103
FAYETTE	625	3,993	149,805
FRANKLIN	11,869	3,803	3,888,297
FULTON	697	3,748	195,571
GALLIA	1,276	3,863	188,177
GEAUGA	1,260	3,581	414,932
GREENE	1,602	3,698	409,727
GUERNSEY	1,366	3,495	290,719
HAMILTON	9,588	3,665	3,429,006
HANCOCK	949	3,664	203,295
HARDIN	616	3,973	141,900
HARRISON	730	3,782	163,938
HENRY	582	3,493	131,300
HIGHLAND	1,316	3,784	240,793
HOCKING	771	3,715	177,241
HOLMES	413	3,646	91,655
HURON	1,434	3,054	275,340
JACKSON	1,509	4,183	318,850
JEFFERSON	3,110	3,803	668,992
KNOX	1,120	3,859	267,090
LAKE	3,928	3,557	1,226,372
LAWRENCE	3,826	4,168	585,494
LICKING	1,900	3,836	406,609
LOGAN	721	$3,653	$169,851
LORAIN	4,461	3,738	1,428,091
LUCAS	9,213	3,408	3,028,001
MADISON	644	3,964	162,408
MAHONING	7,964	3,729	2,320,196
MARION	1,555	3,883	413,547
MEDINA	2,195	3,728	728,298
MEIGS	1,071	3,493	173,694
MERCER	742	3,703	137,562
MIAMI	2,011	3,668	468,094
MONROE	626	3,749	115,634
MONTGOMERY	10,806	4,083	3,479,308
MORGAN	543	3,828	103,686
MORROW	683	3,660	149,203
MUSKINGUM	2,527	4,070	645,850
NOBLE	572	3,639	99,762
OTTAWA[C]	917	3,784	222,186
PAULDING	405	3,853	98,773
PERRY[C]	1,460	3,698	317,477
PICKAWAY	829	3,320	170,483
PIKE	1,006	3,695	219,707
PORTAGE	2,116	3,599	664,987
PREBLE	1,065	3,818	224,389
PUTNAM	581	3,676	108,632
RICHLAND	3,092	3,949	929,039
ROSS	2,027	3,737	411,582
SANDUSKY	1,263	3,666	269,496
SCIOTO	3,517	4,021	866,532
SENECA	1,135	3,735	263,905
SHELBY	876	3,573	175,428
STARK	7,415	3,711	1,923,787
SUMMIT	12,908	3,870	4,156,829
TRUMBULL	6,449	3,936	1,765,873
TUSCARAWAS	2,707	3,612	652,459
UNION	632	3,548	148,351
VAN WERT	671	3,854	166,216
VINTON	679	3,881	114,040
WARREN	1,615	3,547	444,794
WASHINGTON	1,713	3,516	341,606
WAYNE	1,553	3,863	423,159
WILLIAMS	731	3,713	186,744
WOOD	1,334	3,556	385,926
WYANDOT	464	4,031	89,694
Total	**225,893**	**$3,768**	**$65,053,432**

(a) Compiled from surveys of county auditors conducted by the Department of Taxation.
(b) From distribution records of the Revenue Accounting Division of the Department of Taxation. These figures include those taxpayers that filed late for the tax reduction and exclude the administrative fees associated with this program.
(c) The figures in the first two columns are tax year 2000 data; these counties did not submit data for tax year 2001.
(d) The figures in the first two columns are tax year 1999 data; this county did not submit data for tax years 2000 and 2001.

Source: Surveys filed with the Department of Taxation by county auditors.

Replacement Tire Fee

The replacement tire fee provides revenue to defray the cost of regulating the various scrap tire facilities, to abate accumulations of scrap tires, to provide funding for grants to promote research regarding alternative methods of recycling scrap tires, and to provide funding for loans to promote the recycling or recovery of energy from scrap tires. This fee was enacted by the Ohio General Assembly and became effective December 1, 1993. In FY 2003, approximately $7.0 million was collected.

TAX BASE (R.C. 3734.90, 3734.901):

The fee applies to the sale of new tires with rims of 13 inches or more designed for use on a motor vehicle and sold as replacements. Tires that are used, retreaded, or tires on a new motor vehicle are not subject to the fee.

RATE (R.C. 3734.901):

$1.00 per tire.

TAXPAYER (R.C. 3734.903):

Any wholesale distributor of replacement tires or any retail dealer acquiring tires on which the fee has not been paid.

FILING AND PAYMENT DATES (R.C. 3734.904):

The 20th day of each month.

SPECIAL PROVISIONS (R.C. 3734.904):

If the return and total fees due are filed and paid on or before the day they are due, then the taxpayer is entitled to a discount of 4 percent on the total amount owed.

DISPOSITION OF REVENUE (R.C. 3734.9010):

Of the total revenue collected, 4 percent is distributed directly to the Tire Fee Administration Fund, for appropriation to the Department of Taxation to cover the costs of administering the fee. The remainder of the revenue is distributed to the Scrap Tire Management Fund.

OHIO REVISED CODE CITATIONS:

Sections 3734.90 – 3734.9014.

RECENT LEGISLATION:

Am. Sub. H.B. 94, 124th General Assembly (effective July 1, 2001, FY 2002-2003 Biennial Budget Bill).
R.C. 3734.904, effective January 1, 2003 – Transferred tax payment functions previously assigned to the Treasurer of State to the Tax Commissioner.

R.C. 3734.901 –
Increased the fee by an additional $0.50 cents per tire.

Table
Replacement Tire Fee Revenue
Fiscal Years 1999 – 2003

Fiscal Year	Scrap Tire Management Fund	Administration Fund	Total
2003	$6,777,997	$282,417	$7,060,414
2002*	6,184,306	257,679	6,441,985
2001	3,709,221	154,551	3,863,772
2000	3,568,201	148,675	3,716,876
1999	3,381,432	140,893	3,522,325

*Fee increased from $.50 to $1.00 per tire July 1, 2001.
Source: Department of Taxation, as reported on tax returns.

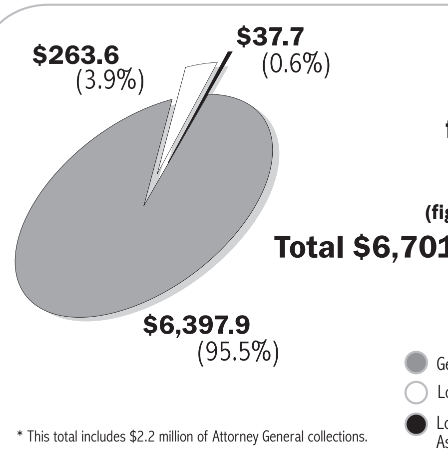
Sales and Use Tax

The Ohio sales and use tax underwent major changes at the end of FY 2003 with the enactment of the state's two-year budget (see **Recent Legislation** at the end of this chapter). The 125th General Assembly passed H.B. 95, the FY 2004-2005 Biennium Budget Bill, on June 26, 2003. This bill temporarily increased the statewide sales and use tax rate to 6.0 percent from 5.0 percent as of July 1, 2003, to remain in effect until June 30, 2005. Another key provision expanded the tax base, effective August 1, 2003, to include a number of additional services. The bill also adopted many of the provisions necessary to bring Ohio into compliance with the multi-state Streamlined Sales and Use Tax Agreement.

The Ohio sales and use tax initially took effect in January 1935. The sales tax rate was 3.0 percent until 1967, when a 4.0 percent rate was adopted. After imposing a temporary 5.0 percent sales tax during the period of January through June 1981, a permanent 5.0 percent rate was adopted in November 1981. The sales and use tax was originally restricted to the sale or rental of tangible personal property, but was later extended to a number of services (see **Exemptions and Exceptions, Number 2**).

In 1967, the General Assembly authorized counties to levy a permissive sales and use tax of 0.5 percent, in addition to the state sales and use tax, for the purpose of providing additional county general revenue. The tax is levied pursuant to a resolution of the county commissioners and is subject to repeal by a majority vote of the county electorate. In January 1982, counties were given the option of levying a full 1.0 percent permissive tax.

In 1986, the General Assembly further authorized counties to levy an additional 0.5 percent sales tax subject to voter approval for one or more of the following purposes: (1) payment of bonds issued for a convention facility; (2) revenue for a transit authority; (3) additional county general revenue; (4) revenue for permanent improvements; and (5) implementation and operation of a 9-1-1 system. If the additional levy is solely for general revenue, the county commissioners may levy it pursuant to a resolution, but it is subject to repeal by a majority vote of the county electorate.



Distribution of Revenue from Sales & Use Tax
Fiscal Year 2003
(figures in millions)

Total $6,701.4 million*

* This total includes $2.2 million of Attorney General collections.

In July 1987, counties were granted authority to levy the permissive sales and use tax in quarter-percent increments. Then, in 1993, the General Assembly authorized counties to levy the sales tax to provide revenue for the operation and maintenance of a detention facility. Legislation in 1995 authorized the use of the additional county sales tax for construction or renovation of a sports facility, and acquisition of agricultural easements was added in 2001.

As of June 30, 2003, 87 counties in Ohio levied a county permissive sales and use tax. In calendar year 2002, the state collected $1,101.5 million for county governments.

In 1974, the General Assembly authorized transit authorities to levy a permissive sales and use tax to be collected in addition to the state sales and use tax and county permissive sales and use tax for the purposes of providing revenues for public mass transit systems. The tax is levied pursuant to a resolution of the transit authority and subsequent approval by a majority of the voters at a special or general election. The tax can be levied at a rate of up to 1.5 percent in quarter-percent increments. As of June 30, 2003, the Greater Cleveland, Central Ohio, LakeTran, Miami Valley, Stark Area, Summit County Metro, and Portage Area regional transit authorities levied a permissive sales and use tax. In calendar year 2002, the state collected approximately $266.4 million for the transit authorities.

The state collects the combined state and local tax and returns the local share directly to the counties and transit authorities. The same exemptions and exceptions, credits, and payment dates apply to the permissive taxes as to the state tax.

In 2002, the 124th General Assembly passed S.B. 143 (see **Recent Legislation**), which adopted the Simplified Sales and Use Tax Act. This bill allows Ohio to participate with other states in the Streamlined Sales Tax System. The streamlined system is a multi-state effort to make the states' sales and use tax laws more uniform and to provide simplified registration, reporting and remittance requirements.

The 125th General Assembly passed H.B. 40 in 2003. This bill created advance payment requirements for taxpayers required to remit taxes by Electronic Funds Transfer (EFT).

The sales and use tax is the second largest revenue producer for the state, exceeding $6.7 billion in FY 2003. Of this amount, 3.9 percent or $263.6 million is distributed to the Local Government Fund, 0.6 percent or $37.7 million to the Local Government Revenue Assistance Fund, and 95.5 percent or $6.4 billion is distributed to the General Revenue Fund.

TAX BASE (R.C. 5739.01, 5747.01):

The state, county and transit authority sales and use taxes apply to all retail sales of tangible personal property that are not specifically exempt. Retail sales also include the rental of tangible personal property, the rental of hotel rooms by transient guests, and the sales of specified services. Effective August 1, 2003, retail sales also include all transactions by which tangible personal property is or is to be stored, pursuant to H.B. 95, discussed in **Recent Legislation.**

The county and transit authority use taxes apply to purchases made outside of the state and to purchases made from vendors located in an area which does not have the permissive sales and use tax, or levies it at a lower rate, when the property or service is used in an area that levies a permissive sales and use tax.

RATES (R.C. 5739.02, 5739.021, 5739.023, 5739.025, 5739.026, 5739.033, 5741.02, 5741.021, 5741.022, 5741.023):

The state sales and use tax rate was 5.0 percent during FY 2003. But under the provisions of H.B. 95, the tax rate is increased to 6.0 percent for the period July 1, 2003 through June 30, 2005. Counties and transit authorities are authorized to levy additional permissive sales and use taxes at rates of 0.25 percent to 1.5 percent in quarter-percent increments.

The following are the number of jurisdictions (counties) at each tax rate as of October 1, 2003 (FY 2004).

Total Rate	Number of Jurisdictions
8.0%	1
7.5	31
7.25	10
7.0	35
6.75	7
6.5	4*

A bracket system is specified in R.C. 5739.025 for each of the above rates.
* Stark County enacted a permissive tax effective July 1, 2003.

The applicable sales tax rate for most taxable sales is the location of the vendor. Generally, the applicable use tax rate for all taxable sales is based on the location of the purchaser.

The applicable sales or use tax rate for automatic data processing, computer services, electronic information services, telecommunications service, private investigation and security services, lawn care and landscaping services, building maintenance and janitorial services, employment services, employment placement services, exterminating services, and, pursuant to H.B. 95, satellite broadcasting services and snow removal services, is the location of the purchaser.

However, some of the provisions in the above paragraph are scheduled to change effective January 1, 2004 when, under H.B. 95, the sourcing rules of the Streamlined Sales and Use Tax Agreement will be adopted for all sales. These rules adopt a destination-based structure for determining which jurisdiction's tax a vendor or seller is to collect. Over-the-counter sales will be sourced to the location where the consumer takes possession of the item sold. If the product is delivered to the consumer, the sale is sourced to the delivery location. If neither of the above situations apply, the sale is sourced to the location of an address the vendor or seller has for the consumer that is available from the vendor or seller's records or that is obtained during the transaction. Special sourcing rules are also put in place for certain sales of digital goods or software delivered electronically that are concurrently available for use by the consumer in multiple locations, for certain types of direct mail, for telecommunications services, and for leases.

EXEMPTIONS AND EXCEPTIONS (R.C. 5709.25, 5709.50, 5739.01, 5739.011, 5739.02, 5741.02, 6111.31, 6121.16, 6123.041):

1. Copyrighted motion picture films unless solely used for advertising;
2. Service transactions in which tangible personal property is an inconsequential element for which no separate charge is made except for the following taxable services:
   a) Repair costs, installation costs;
   b) Washing, cleaning, waxing, polishing, and painting of a motor vehicle;
   c) Cleaning of towels, linens, and clothing used in business (**note:** pursuant to H.B. 95, this provision is changed to apply tax to all laundry and dry cleaning services, effective August 1, 2003);
   d) Automatic data processing, computer services and electronic information services used in business;
   e) Telecommunications service;
   f) Lawn care and landscaping;
   g) Private investigation and security;
   h) Building maintenance and janitorial services;
   i) Employment services, employment placement services;
   j) Exterminating services;
   k) Physical fitness facility services;
   l) Recreation and sports club services; and
   m) Mobile telecommunications service;
   (**Note:** pursuant to H.B. 95, the tax applies to the following services effective August 1, 2003):
   n) Satellite broadcasting service;
   o) Personal care services;
   p) Transportation of persons by motor vehicle or aircraft entirely within this state;
   q) Motor vehicle towing service; and
   r) Snow removal service.
3. The value of motor vehicles traded-in on new motor vehicles sold by licensed new motor vehicle dealers;
4. Tangible personal property or the benefit of a taxable service to be re-sold in the form received;
5. The refundable deposit paid on returnable beverage containers, cartons, and cases; and
6. Tangible personal property used or consumed in commercial fishing.
7. Direct use exceptions (**note**: pursuant to H.B. 95, these *exceptions*

become *exemptions* effective July 1, 2003):

a) Material incorporated as a component part of tangible personal property produced for sale by manufacturing, assembling, processing, or refining;
b) Material used or consumed directly in the production of tangible personal property by mining, farming, agriculture, horticulture, floriculture, or used in the production of and exploration for crude oil and natural gas;
c) Tangible personal property used directly in rendering a public utility service;
d) Tangible personal property used or consumed in the preparation for sale of printed and other reproduced material and magazines distributed as controlled circulation publications; and
e) Certain property used in making retail sales including: advertising material or catalogues used or consumed in making retail sales that price and describe property; preliminary materials sold to direct marketing vendors that will be used in printing advertising material; printed matter that offers free merchandise or chances to win sweepstakes prizes and includes advertising material; equipment primarily used to accept orders for direct marketing retail sales; and certain automatic food vending machines.

8. Tangible personal property used primarily in a manufacturing operation to produce a product for sale. The primary use exception includes, but is not necessarily limited to, the following items:
   a) Production machinery and equipment that act upon the product;
   b) Handling and transportation equipment (except licensed motor vehicles) used in moving property in or between plants during the production process;
   c) Property used in producing property that is used or consumed in the production of a final product (use on use);
   d) Coke, gas, water, steam, and similar substances used in the manufacturing operation;
   e) Catalysts, solvents, water, acids, oil, and similar consumables that interact with the product and are an integral part of the manufacturing operation; and
   f) Property that is used to control, physically support, or is otherwise necessary for functioning of machinery and equipment and continuation of the manufacturing operation.
9. Tangible personal property used or consumed in the surface reclamation of mined land (**note:** pursuant to H.B. 95, this exemption is repealed effective July 1, 2003);
10. Sales to U.S. government agencies;
11. Sales to the state or any of its political subdivisions;
12. Food for human consumption off the premises where sold;
13. Food sold to students in a dormitory, cafeteria, fraternity, or sorority;
14. Newspapers;
15. Magazine subscriptions or magazines distributed as controlled circulation publications;
16. Motor vehicle fuel subject to the state motor fuel excise tax;
17. Gas, water, and steam delivered through pipes or conduits by a utility company (**note:** pursuant to H.B. 95 this exemption includes electricity delivered through wires effective July 1, 2003);
18. Communications services by local telephone and telegraph companies, but not including cable television (**note:** pursuant to H.B. 95, the exemption for sales of local telephone service is repealed effective January 1, 2004);
19. WATS, 800 numbers, and other selected telecommunications services provided by long distance or local service companies (**note:** pursuant to H.B. 95, the exemptions for WATS, 800 and private communications services are repealed effective July 1, 2003) ;
20. Casual sales except for motor vehicles, titled watercraft and outboard motors, snowmobiles, and all-purpose-vehicles;
21. Sales by churches and nonprofit organizations (excluding motor vehicles) provided that the number of sales does not exceed six days each year;
22. Transportation of persons or property (**note:** pursuant to H.B. 95, this exemption is amended to exclude transportation of persons specifically taxed as a service effective July 1, 2003);
23. Sales to churches, nonprofit organizations included under Internal Revenue Code (I.R.C.) 501(c)(3), nonprofit scientific research organizations, and to other nonprofit charitable organizations;
24. Sales to nonprofit hospitals and to those privately-held homes for the aged and hospital facilities that are financed with public hospital bonds;
25. Building and construction material sold to contractors for incorporation into real property constructed for federal, state or local governments; for religious and certain other nonprofit charitable institutions; for horticulture and livestock structures; and for other specified organizations and industries;
26. Ships and rail rolling stock used in interstate or foreign commerce and material used for repair, alteration, or propelling such vessels;
27. Material, machinery, equipment, and other items used in packaging property to be sold at retail;
28. Drugs prescribed by a licensed practitioner and dispensed by a registered pharmacist; insulin and injection material used by diabetics; urine and blood testing materials used by diabetics or persons with hypoglycemia; oxygen and oxygen equipment for personal use; hospital beds for personal use; prosthetic devices; ostomy and orthopedic devices; hearing aids; crutches; wheelchairs and wheelchair lifts; and epoetin alfa used in end-stage renal disease (**note:** pursuant to H.B. 95, these provisions are modified to exempt all drugs for a human being dispensed pursuant to a prescription, urine and blood testing materials used by diabetics or persons with hypoglycemia; medical oxygen and medical oxygen equipment for personal use; hospital beds for personal use, epoetin alfa for persons with a medical disease, and prosthetic devices, durable medical equipment or mobility enhancing equipment sold pursuant to a prescription for use by a human being);
29. Emergency and fire protection vehicles used exclusively by nonprofit organizations in providing emergency and fire protection services for political subdivisions;
30. Sales to nonprofit community centers and to producers offering presentations in music, dramatics, the arts, and related fields to foster public interest and education;
31. Motor vehicles sold in Ohio to nonresidents for titling and use outside the state;
32. Property used in the preparation of eggs for sale;
33. Sales of property for use in agricultural production;
34. Property manufactured in Ohio and immediately shipped outside the state for use in retail business, if sold by the manufacturer to the retailer and shipped in vehicles owned by the retailer;
35. Sales to non-commercial, educational broadcasting stations;
36. Sales of animals by nonprofit animal shelters and county humane societies;
37. Items used in preserving, preparing, or serving food, or material

used in maintaining or cleaning these items in a commercial food service operation;

38. Tangible personal property used in air, noise or water pollution control facilities by holders of pollution control certificates issued by the Tax Commissioner or the Director of the Ohio Environmental Protection Agency;
39. Bulk water for residential use;
40. Tangible personal property incorporated into an energy conversion facility, solid waste energy conversion facility, or thermal efficiency improvement facility certified by the Tax Commissioner (**note:** pursuant to H.B. 95, these exemptions were consolidated into one certificate for exempt facilities, effective September 26, 2003);
41. Sales of equipment used in qualified research and development;
42. Sales and installation of agricultural land tile and the sale and installation of portable grain bins to farmers;
43. Fees paid for the inspection of emission control equipment on motor vehicles;
44. Sales, leases, repairs, and maintenance of motor vehicles used primarily in providing highway transportation for hire;
45. Sales to state headquarters of veterans' organizations chartered by Congress or recognized by the U.S. Department of Veterans Affairs;
46. Normally taxable food items sold to persons using food stamps;
47. Sales of tangible personal property and services used directly in providing a telecommunications service (**note:** pursuant to H.B. 95, this exemption is amended to specifically include sales of tangible personal property and services used directly in providing telecommunications service, mobile telecommunications service, and satellite broadcasting service, effective July 1, 2003);
48. Investment metal bullion and investment coins;
49. Trade-ins on purchases of new or used watercraft or outboard motors sold by licensed boat dealers;
50. Property and labor used to fulfill a warranty or service contract;
51. Property used to store and handle purchased sales inventory in a warehouse or similar facility, when the inventory is primarily distributed outside Ohio to retail stores of the person who owns or controls the warehouse, to retail stores of an affiliated group of which the owner of the warehouse is a member, or by means of direct marketing;
52. Certain motor vehicles used in ride-sharing arrangements when the vendor is selling the vehicle pursuant to a contract with the Department of Transportation (**note:** pursuant to H.B. 95, this exemption is repealed effective July 1, 2003);
53. Sales of computer equipment used for educational purposes made to qualifying certified teachers;
54. Sales of certain tangible personal property made to qualified motor racing teams;
55. Twenty-five percent sales tax refund for qualified computer purchases for providers of electronic information services;
56. Sales of used manufactured and mobile homes; and
57. Sales of coin-operated car washes;
(**Note:** pursuant to H.B. 95, the following exemptions are added effective July 1, 2003):
58. The provision of self-service laundry or dry cleaning facilities;
59. Intrastate transportation of persons by transit bus or ambulance or by a person that holds a Certificate of Public Convenience and Necessity under 49 United States Code (U.S.C.) 41102;
60. Sales of telecommunications services used directly and primarily to perform the functions of a call center;
61. Sales of personal property and services used directly and primarily in providing taxable intrastate transportation of persons;
62. Repair and replacement parts and repair and maintenance services for aircraft used primarily in a fractional aircraft ownership program; and
63. Tax in excess of $800 on any aircraft sold as a fractional share aircraft.

DISCOUNT (R.C. 5739.12, 5741.12):

Payment on or before the date a return is required to be filed entitles the vendor to a discount of 0.75 percent of the amount due. (Example: $5,000 tax due - $37.50 discount = $4,962.50 net tax due). (**Note**: pursuant to H.B. 95, the discount rate is increased to 0.9 percent of the amount due for returns required to be filed after July 1, 2003 and before June 30, 2005).

SPECIAL PROVISIONS:

1. Cumulative filing (R.C. 5739.12, Rule 5703-9-09). The Commissioner may require a vendor that operates from multiple locations or has multiple vendors' licenses to report all liabilities on one consolidated return. Vendors who have two or more places of business in Ohio may, upon approval by the Tax Commissioner, file a single monthly consolidated return reporting on one form the information that normally is required to be reported from each location.
2. Pre-arranged agreements (R.C. 5739.05). Vendors, such as fast food outlets, whose business is of a nature that keeping records of which sales are taxable and which are exempt would impose an unreasonable burden, may be authorized by the Tax Commissioner to pay an amount based on a test check conducted to determine the proportion of taxable sales to total sales. Businesses electing this method of payment still collect the tax from customers at the time of purchase.
3. Pre-determined agreements (R.C. 5739.05 and Rule 5703-9-08). Vendors, such as coin-operated vending machine operators, whose business is of a nature that the collection of the tax from consumers would impose an unreasonable burden, may be authorized by the Tax Commissioner to pay the tax at a pre-determined rate based on an analysis of sales and prices.
4. Construction contractors (R.C. 5739.01). Construction contractors are considered to be the consumers of property incorporated into the construction of or improvement to real property and, thus, are responsible for paying the tax on such property.
5. Resort area tax (R.C. 5739.101 – 5739.105). Qualified municipal corporations or townships are authorized to levy a tax at the rate of 0.5 percent, 1.0 percent, or 1.5 percent on gross receipts from general sales or intrastate transportation primarily provided to and from the resort area. Receipts from this tax are for the general revenue of the township or municipality. The tax is administered by the Department of Taxation.
6. Lodging tax (R.C. 5739.09). In addition to the state sales tax, municipal corporations, townships, and counties may levy an excise tax on hotel and motel room rentals at a rate not exceeding 3.0 percent. Total combined local levies cannot exceed 6.0 percent. In certain cases, a portion of the receipts are earmarked for convention centers and visitors bureaus. County convention facility authorities were permitted between June 29, 1988 and December 31, 1988 to

enact an additional 4.0 percent lodging tax for convention facility or sports center construction. This tax is in addition to the combined maximum 6.0 percent rate for county, township or municipal lodging taxes, thereby allowing a combined local rate of 10.0 percent.

7. Payment by EFT (R.C. 5739.032, 5739.122, 5741.121). Payment of tax returns is required to be made by EFT in cases where a taxpayer's annual liability exceeds $60,000 per calendar year (**note:** pursuant to H.B. 95, the threshold amount for requiring remittance of tax by EFT is raised to $75,000 per calendar year). Taxpayers required to use this payment method will be so notified by the Tax Commissioner. Taxpayers with lesser liabilities may request the authorization to remit tax payments via EFT from the Treasurer of State.
8. Accelerated tax payment (R.C. 5739.032, 5739.122, 5741.121). Effective with the April, 2003 filing period, vendors required to remit tax by EFT are required to make advance payments of each month's tax on the 11th, 18th and 25th that month. (**Note:** pursuant to H.B. 95, the frequency of making accelerated payments was reduced from three per month to two per month on the 15th and 25th of the month effective July 1, 2003).

TAXPAYER (R.C. 5739.01, 5739.03, 5739.031, 5739.17, 5741.01):

Any person, retailer, business, organization, etc. making retail sales or making taxable purchases on which the tax has not been paid is required to file a return and remit the tax due.

DISPOSITION OF REVENUE:

1. **State Sales and Use Tax (R.C. 5739.21, 5741.03):** The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of sales and use tax collections. (**Note:** H.B. 94, 124th General Assembly, FY 2002- 2003 Biennial Budget Bill, temporarily replaced the revenue distribution described above. During each month of the July 2001 – May 2002 period, the Local Government Fund and the Local Government Revenue Assistance Fund received the same amount they each received during the corresponding month of the July 2000 – May 2001 period. In June 2002 and June 2003, the funds received the same amount they received in June 2000).
2. **County Permissive Sales and Use Tax (R.C. 5739.21, 5743.03):**
   a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying costs of administration;
   b) Remainder to the county general fund.
3. **County Additional Permissive Sales and Use Tax (R.C. 5739.21, 5741.03):**
   a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying costs of administration;
   b) Remainder to the special purpose fund for which the additional tax is levied.
4. **Transit Authority Sales and Use Tax (R.C. 306.31, 5739.21, 5741.03):**
   a) One percent credited to the Local Sales Tax Administrative Fund for the use of the Tax Commissioner in defraying the costs of administration;
   b) Remainder to the general revenue of the transit authority for the purpose of acquiring, constructing, operating, maintaining, replacing, improving, and extending transit facilities.
5. **Resort Area Tax (R.C. 5739.102):**
   a) One percent credited to the state General Revenue Fund for the cost of administering the tax;
   b) Remainder to the appropriate taxing entity.

OHIO REVISED CODE CITATIONS:

Chapters 306, 307, 351, 5709, 5739, 5741, and 6111.

RECENT LEGISLATION:

S.B. 37, 125th General Assembly (effective October 21, 2003).
R.C. 5739.01, 5739.02 – Clarifies the application of sales tax to purchases of packaging material by providers of highway transportation for hire.

H.B. 95, 125th General Assembly (FY 2004-2005 Biennial Budget Bill, all provisions effective July 1, 2003 unless otherwise noted).
R.C. 307.676 – Provides that a county with a population of one million or more may, by resolution adopted on or before August 30, 2004, levy a tax on sales of food and beverages for consumption on the premises where sold to provide money for constructing, improving, expanding, equipping, financing or operating a convention center.

R.C. 5739.02, 5739.025, and 5741.02 – Sales tax increases to 6.0 percent for the period July 1, 2003 through June 30, 2005.

R.C. 5739.12 – Increases the vendor discount to nine-tenths of 1 percent for returns filed between July 1, 2003 and June 30, 2005.

R.C. 5739.01 – On and after August 1, 2003, levies sales and use tax on storage, laundry and dry cleaning services, satellite broadcasting services, personal care services, the intrastate transportation of persons by motor vehicle or aircraft, motor vehicle towing service and snow removal service.

R.C. 5739.01 – On and after January 1, 2004, levies sales tax on telecommunications services provided by a local exchange carrier.

R.C. 5739.01, 5739.02 – Removes sales tax exception for WATS, 800 and private communications services.

R.C. 5739.01 – Revises the definitions of "price" and "lease and rental" to conform to definitions in the Streamlined Sales and Use Tax Agreement. Adopts other Streamlined Agreement definitions such as: tangible personal property, sales price, drug, durable medical equipment, mobility enhancing equipment, and prescription. Revises the definition of "food" to conform with the Streamlined Sales and Use Tax Agreement effective July 1, 2004.

R.C. 5739.02 – Creates new exemptions for telecommunications services used primarily to perform the functions of a call center, for

DESCRIPTION OF TAXPAYERS (R.C. 5739.17):

Taxpayer	Cost of License	Description
Vendor	$25	Each person or business establishment located in Ohio making retail sales.
Service vendor	$25	Person or business that provides automatic data processing, computer services, and electronic information services; telecommunications services; mobile telecommunications services; lawn care and landscaping services; private investigation and security services; building maintenance and janitorial services; employment and employment placement services, and exterminating services. (**Note:** pursuant to H.B. 95, also satellite broadcasting service and snow removal service effective August 1, 2003). The license is valid throughout the state.
Transient vendor	$25	Retailer who makes sales in any county in which they have no fixed place of business. The license is valid statewide.
Delivery vendor	$25	Retailer who maintains no store, showroom, or similar place of business where merchandise is offered for sale, or who has no location where merchandise displayed in catalogues may be selected or picked up by customers.
Seller	No fee	Retailer located outside of Ohio who makes retail sales of property or services for storage, use, or consumption in Ohio.
Direct pay permit holder	No fee	Consumers authorized by the Tax Commissioner to remit tax directly to the state instead of to the vendor. This authority can only be issued upon application if the Commissioner determines that granting the authority would improve compliance and increase the efficiency of the administration of the tax.
Clerks of Court	No fee	Dealers remit taxes collected on sales of motor vehicles, watercraft, and outboard motors to county Clerks of Court when a title is issued. Clerks of Court also collect the tax on casual sales of motor vehicles, and sales of watercraft and outboard motors required to be titled. Clerks of Court remit these receipts to the state.
Division of Liquor Control	No fee	Collects and remits sales tax paid on state-controlled spiritous liquor sold in state-contracted liquor agencies.
Consumers use tax account	No fee	Purchasers who have not paid the tax to a vendor or seller (in most cases for out-of-state transactions) make payments directly to the state.

equipment used in providing taxable intrastate transportation of persons, for electricity delivered through wires, and for parts and labor used for the repair, modification and maintenance of aircraft used primarily in a fractional ownership program. Revises the exemption for drugs and medical equipment to incorporate Streamlined Agreement definitions. Repeals exemptions for equipment used in reclamation of mined land and for motor vehicles used exclusively in vanpool ridesharing agreements.

R.C. 5739.021, 5739.023, and 5739.026 – Effective January 1, 2004, revises the time period between adoption of a county or transit authority tax rate change and the effective date of the tax.

R.C. 5739.025 – Provides that the maximum sales tax applicable to the sale of an aircraft used primarily in a fractional ownership program is $800.

R.C. 5739.032, 5739.122, and 541.121 – Increases threshold amount of annual tax liability to require a vendor to remit tax by EFT from $60,000 to $75,000. Reduces the number of advance payments such taxpayers must make to two: one on the 15th of the month and one on the 25th of the month.

R.C. 5739.033 – Postpones the effective date of adopting the Streamlined Sales Tax Agreement's sourcing provisions until January 1, 2004. Adopts language regarding the sourcing of direct mail materials and leases and rentals.

R.C. 5739.034 – Adopts the Streamlined Sales Tax Agreement's sourcing rules for telecommunications transactions.

R.C. 5739.09 – Allows county commissioners to increase lodging tax or to designate a portion of previously enacted lodging tax to pay the expenses of a port authority military-use facility. Allows counties with a population of one million or more to extend an existing lodging tax levy or, by resolution adopted on or before August 1, 2004, to increase the rate of a lodging tax to provide money for constructing, improving, expanding, equipping, financing, or operating a convention center.

R.C. 5739.121 – Revises the bad debt deduction to conform to the Streamlined Sales and Use Tax Agreement.

R.C. 5739.21 – Clarifies that the monthly amounts of permissive sales tax returned to counties and transit authorities are reduced by the amount of refunds of the same tax paid during the same month. Provides for the distribution of permissive tax money when the Tax Commissioner does not have sufficient information to associate the tax money with a particular jurisdiction.

R.C. 5739.33 – Clarifies that responsible officers and employees of direct payment permit holders are personally responsible for the failure of the direct payment permit holder to file returns or remit taxes due.

R.C. 5741.25 – Imposes personal responsibility on responsible officers or employees of out-of-state sellers for failure to file returns or remit taxes due.

H.B. 40, 125th General Assembly (effective March 7, 2003). R.C. 5739.032, 5739.122, and 5741.121 – Provides that taxpayers required to make payments of sales or use tax by EFT must make advance payments of tax on the 11th, 18th and 25th of each month. This was subsequently revised by H.B 95 to require twice-monthly payments (see bottom of page 146). This bill also provides a temporary increase in the discount allowed to vendors and out-of-state sellers for returns due and timely filed in May and June 2003 to one and one-tenth percent.

RECENT SIGNIFICANT COURT DECISIONS:

***SQS Foodstores, Inc. v. Tracy* (Sept 18, 2002) Mahoning Cty. Ct. Apps. Case No. 00 CA 124, 2002-Ohio-5015.**

The taxpayer held the liquor licenses and vendor's licenses for four convenience stores. The taxpayer was in bankruptcy and the stores were operated by lessees. An audit of the stores showed substantial underreporting of tax liability. The taxpayer asserted that, since the operators provide the tax figures that were reported to the state, any failure to report and remit the correct tax was beyond its control. The Court of Appeals affirmed the decision of the Board of Tax Appeals upholding the assessment. The taxpayer remained the vendor; the lessees operated the stores, under an agreement with the taxpayer. The state is not a party to those leases and they do not relieve the taxpayer of the responsibility for the tax or penalty. The court also affirmed the Board's rejection of the taxpayer's claim that the markups used in the audit were higher than those actually used by the taxpayer on the basis of insufficient evidence.

***Kelleys Island Caddy Shack, Inc. v. Zaino* (2002), 96 Ohio St.3d 375, 2002-Ohio-4930.**

The taxpayer was a vendor in the village of Kelleys Island that was subject to a resort area tax. The taxpayer sought a refund of the tax paid asserting the tax violated the Uniformity Clause of Section 26, Article II of the Ohio Constitution. The Court found the tax did not violate the Uniformity Clause. The resort-area tax was distinguished from the former "island" tax, which was found to violate the Uniformity Clause in *Put-In-Bay Island Taxing Dist. Auth. v. Colonial, Inc.* (1992), 65 Ohio St.3d 449. That tax could only be levied by "islands," so it was geographically limited to a few specific locations in the state. While only three jurisdictions currently qualify to levy the resort tax, other municipal corporations and townships could, in the future, become resort areas and levy the tax.

***Moulton Gas Service, Inc. v. Zaino* (2002), 97 Ohio St.3d 48, 2002-Ohio-5309.**

The taxpayer was a retailer of liquid propane. It stored the propane in bulk tanks and pumped the gas into "bobtail" tanks mounted on trucks to deliver it to customers. The taxpayer contended the bulk tanks, bobtail tanks and the equipment used to pump the propane into and out of the truck tanks were exempt from sales tax as packages or equipment used in packaging the propane for sale. The Court found the bobtail tanks and bulk tanks were not "packages" within the meaning of R.C. 5739.02(B)(15) as they are not similar to bags, boxes or the other types of packaging listed in that section. Similarly, the Court found the pumping equipment was not exempt packaging equipment within the meaning of that same provision.

***Shugarman Surgical Supply, Inc. v. Zaino* (2002), 97 Ohio St.3d 183, 2002-Ohio-5809.**

The taxpayer was assessed on its sales of health care equipment and supplies for which it had no exemption certificates. The taxpayer asserted the items it sold were only used for exempt purposes under R.C. 5739.02(B)(19) and were never subject to tax. Thus, it asserted that it was not required to obtain exemption certificates under R.C. 5739.03(B). The Court found the items in question were not ones specifically exempted from tax by their nature. The taxpayer was required to obtain timely exemption certificates to support its exempt sales. The taxpayer failed to do so, and also failed to obtain additional information establishing the exempt use of the items during the time periods provided in R.C. 5739.03. Therefore, the Court upheld the assessment.

***AM & JB Corp v. Zaino* (December 26, 2002) Cuyahoga Cty. Ct. Apps. Case No. 80734, 2002-Ohio-72265.**

The taxpayer purchased an airplane and entered into an agreement characterized as a lease with an operator, who chartered the airplane, with crew, to the taxpayer and other parties on an hourly basis. The operator was to manage the airplane and provide charter service. The taxpayer asserted the purchase of the aircraft was exempt as a purchase for resale. The court found that the lease agreement did not transfer sufficient possession or control over the aircraft to the operator. The taxpayer was responsible for all costs of operating the airplane and retained approval power over the selection of crew members. The taxpayer could veto any third-party charter. The management agreement between the taxpayer and the operator designated the operator as the "agent" of the manager. The court held the operator was acting as a charter agent for the taxpayer, and not as a true lessee. Therefore, the taxpayer's purchase of the airplane was not a purchase for resale to the operator.

***Nusseibeh v. Zaino* (2003), 98 Ohio St.3d 292, 2003-Ohio-885.**

The taxpayer was the sole officer and shareholder of a corporation that operated a grocery business with a liquor license. The corporation agreed to sell the business to a purchaser. The purchaser operated the business under a management agreement using the corporation's vendor's license and liquor license pending the transfer of the liquor license. The corporation was assessed for unpaid sales taxes during the period the purchaser was operating the business. That assessment was unpaid and the taxpayer was assessed as a responsible officer of the corporation under R.C. 5739.33. The taxpayer asserted he was not involved in the daily operation of the business. The Court said where there is only one officer of a corporation, "that officer has the responsibility for the execution of the corporation's fiscal responsibilities." The taxpayer could not delegate his responsibility to see that the corporation's tax liabilities were carried out or use his inattention to the business of the corporation as a basis to avoid personal responsibility under R.C. 5739.33.

***Moore Personnel Services, Inc. v. Zaino* (2003), 98 Ohio St.3d 337, 2003-Ohio-1089.**

The taxpayer took personnel designated by its client onto its payroll and became the employer of these persons. The employees worked at the client's location under the direction of the client. The Tax Commissioner assessed the taxpayer as a provider of taxable employment services. The taxpayer contended it was not providing employment services since it neither provided nor supplied the personnel to its client. Rather, the taxpayer claimed that the client selected the employees to hire. The Court found that the taxpayer was providing employment services by furnishing personnel that were employed by the taxpayer to the client on a temporary or long-term basis. The fact that the client initially chose the employees to be furnished was not a factor in determining whether the taxpayer's service was an employment service under R.C. 5739.01(JJ).

***Ellwood Engineered Castings Co. v. Zaino* (2003), 98 Ohio St.3d 424, 2003-Ohio-1812.**

The Court found the Board of Tax Appeals had erroneously based its decision exempting the taxpayer's purchase of a crane on an objection not raised by the taxpayer in its notice of appeal. The Court affirmed the finding of the Board that the taxpayer's dust collection equipment was not exempted under R.C. 5739.011(C)(5) as equipment that "totally regulates the environment in a special and limited area of the manufacturing facility where regulation is essential for production to occur." However, the Court found the Board did not rule on the taxpayer's alternate basis for claiming objection under R.C. 5739.011(B)(4), that the dust collection equipment was necessary for the continuation of the manufacturing process. The court remanded the case to the Board for further consideration.

***R.K.E. Trucking, Inc. v. Zaino* (2003), 98 Ohio St.3d 495, 2003-Ohio-2149.**

The taxpayer was assessed on its purchases of trucks and parts and services for those trucks, which it used to transport its own property as well as property belonging to others. It claimed the purchases were exempted under R.C. 5739.02(B)(32) as being, "primarily used for transporting tangible personal property by a person engaged in highway transportation for hire." The taxpayer contended that the statute only requires the trucks be used primarily to transport tangible personal property so long as the person using the truck is engaged to some degree in transporting goods belonging to others. The Court rejected this reading and found the statute exempts only vehicles that are used primarily to transport tangible personal property belonging to others. Since the taxpayer did not show its vehicles were used primarily for that purpose, the assessment was affirmed.

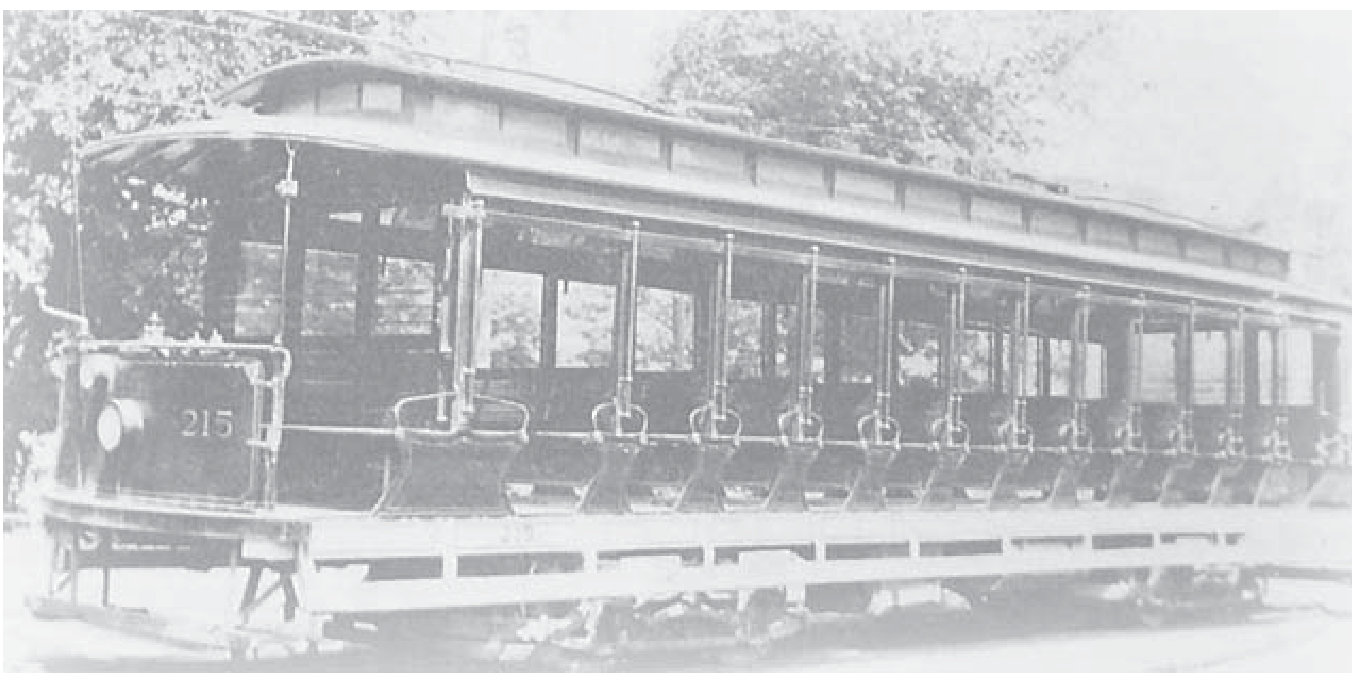


Table 1: Sales and Use Tax — Collections By Type of Payments (Includes State and Local Permissive Tax) For Fiscal Year 2003

Vendor's Sales	$5,649,615,190
Motor Vehicle and Water Craft (from Clerks of Court)	1,232,155,529
Seller's Use	773,599,885
Consumers' Use	228,520,765
Direct Payment	217,090,045
Liquor Sales by Division of Liquor Control	20,340,868
Attorney General Sales and Use Tax Collections	19,207,816
Total State and Local Collections	**$8,140,530,098**

Source: Department of Taxation records and Office of Budget and Management's Monthly Accounting Reports. State total may not agree with OBM accounting reports. Figures represent gross collections and therefore include collections from assessments and penalties. Refunds are not subtracted out. Figures are prior to any distribution to any state fund or to county and permissive transit authorities.

FILING AND PAYMENT DATES (R.C. 5739.031, 5739.12, 5739.17, 5741.12, Rule 5703-9-10):

Type of Return	Taxpayer	Payment Date
Weekly	Clerks of Court	Payment on Monday for taxes collected during the preceding week on motor vehicles, watercraft and outboard motors titled.
Semi-monthly	Division of Liquor Control	By the 15th day of the month for the tax collected during the last 15 days of the previous month, and by the last day of the month for the tax collected during the first 15 days of the month, on spiritous liquor sold in state-contracted liquor agency stores.
Monthly	Vendors, sellers, service vendors, transient vendors, delivery vendors, direct pay permit holders, consumers use tax accounts	By the 23rd day of the month following the close of the reporting period.
Quarterly	Direct pay permit holders, consumers use tax accounts	By the 23rd day of January, April, July and October for their tax liability during the preceding three months; this method of payment may be authorized for accounts with less than $5,000 in quarterly tax liability.
Semi-annual	Vendors, sellers, service vendors, transient vendors, delivery vendors	By the 23rd day of the month following the close of each semi-annual period (pre-determined by filing schedule) for the tax collected during the preceding six-month period; this method of payment may be authorized for vendors and sellers whose tax liability is less than $1,200 per six-month period.
Special payment requirements	All taxpayers	Payment must be received by the 23rd day of the month following the close of the reporting period. Taxpayers whose annual liability in FY 2003 exceeded $60,000 (**note**: pursuant to H.B. 95, this was increased effective FY 2004 to $75,000) are required to pay by EFT. (**Note:** pursuant to H.B. 40 and H.B. 95, these same taxpayers are required to make accelerated payments during each month).

Table 2
Sales and Use Tax – Number of Accounts, By Type and Payment Schedule (As of June 30, 2003)

Accounts	Payment Schedule			
	Semi-Annual	Monthly	Quarterly	Total
Vendors	122,053	87,341		209,394
Masters	116	2,302		2,418
Transient	24,213	3,549		27,762
Service	9,556	9,698		19,254
Delivery	4,576	1,151		5,727
Consumers		1,193	12,450	13,643
Direct Pay		396	343	739
Sellers	7,080	7,749		14,829
TOTAL	**167,594**	**113,379**	**12,793**	**293,766**

Table 3
County and Transit Authority Permissive Sales Tax Collections
Calendar Years 1998 - 2002

County	Tax Rate 12/31/02	Amount of Tax Collections 1998	1999	2000	2001	2002	Initial Enactment	Effective Date of Current Rate
Adams	1.50	$2,163,846	$1,714,927	$1,709,172	$2,508,419	$2,735,086	June 1, 1991	Jan. 1, 2001
Allen	1.00	11,812,923	12,396,517	12,931,861	12,609,819	13,133,787	May 1, 1970	June 1, 1987
Ashland	1.25	4,543,182	4,827,163	4,978,702	5,177,525	5,220,317	Mar. 1, 1971	Jan. 1, 1998
Ashtabula	1.00	7,154,163	7,552,178	7,943,877	7,741,939	7,986,904	Apr. 1, 1977	July 1, 1985
Athens	1.25	4,487,932	4,739,315	4,924,924	5,015,813	5,233,606	Feb. 1, 1982	Jan. 1, 1994
Auglaize	1.50	5,263,802	5,567,391	5,814,614	5,577,880	5,503,873	Nov. 1, 1973	June 1, 1996
Belmont	1.50	9,766,623	10,293,024	10,919,635	11,005,566	11,324,956	May 1, 1985	Jan. 1, 1995
Brown	1.25	2,401,378	2,573,458	2,666,335	2,933,412	2,909,963	Aug. 1, 1979	Jan. 1, 1996
Butler	0.50	13,140,269	14,231,493	15,907,481	16,327,018	16,623,304	June 1, 1985	Feb. 1, 1995
Carroll	1.00	1,364,596	1,486,349	1,504,183	1,547,391	1,581,707	Sep. 1, 1985	June 1, 1996
Champaign	1.00	2,358,266	2,428,019	2,487,111	2,568,349	2,586,881	Jan. 1, 1986	Jan. 1, 1986
Clark	1.00	11,989,411	11,237,543	12,089,114	12,430,551	17,344,078	Nov. 1, 1972	Nov. 1, 2002
Clermont	1.00	15,627,874	17,028,404	18,149,686	18,959,109	19,513,566	Aug. 1, 1979	Oct. 1, 1983
Clinton	1.00	3,586,807	3,696,335	3,732,794	3,758,093	3,941,549	May 1, 1972	Nov. 1, 1988
Columbiana	1.50	6,719,847	4,092,246	3,213	6,487,295	8,365,728	Aug. 1, 1985	Sept. 1, 2002
Coshocton	1.00	2,469,656	2,716,038	2,326,158	2,485,860	2,558,793	June 1, 1971	Mar. 1, 1985
Crawford	1.50	4,091,500	4,544,496	5,013,096	4,492,005	4,647,342	May 1, 1978	July 1, 1994
Cuyahoga	1.00	146,122,594	151,304,357	161,909,936	157,747,011	156,713,498	Sep. 1, 1969	Oct. 1, 1987
Darke	1.00	3,757,174	4,015,919	4,284,155	4,485,850	4,281,463	July 1, 1975	Jan. 1, 1988
Defiance	1.00	3,947,756	4,156,527	4,224,370	4,331,193	4,658,543	Feb. 1, 1987	Feb. 1, 1987
Delaware	1.25	12,043,969	14,453,215	18,211,040	20,406,106	26,069,586	Jan. 1, 1972	Oct. 1, 1996
Erie	1.00	9,674,961	10,173,486	10,640,936	10,457,954	10,801,348	Mar. 1, 1977	May 1, 1993
Fairfield	0.75	7,941,612	9,043,396	9,341,568	9,328,600	9,988,803	Sep. 1, 1981	Aug. 1, 1995
Fayette	1.00	3,567,045	3,812,525	3,944,328	4,009,709	4,194,940	Mar. 1, 1983	July 1, 1988
Franklin	0.50	72,262,490	79,029,545	82,900,256	81,139,049	79,621,688	Sep. 1, 1985	Sep. 1, 1985
Fulton	1.00	3,416,180	3,741,901	3,932,599	3,713,217	3,900,824	May 1, 1972	Feb. 1, 1987
Gallia	1.25	3,086,185	3,323,068	3,206,415	3,300,565	3,480,707	Dec. 1, 1981	Feb. 1, 1995
Geauga	0.50	3,794,817	3,886,833	4,106,539	4,187,169	4,383,695	Aug. 1, 1987	Feb. 1, 1998
Greene	1.00	14,462,120	15,771,384	16,663,041	17,721,787	18,228,212	Mar. 1, 1971	Feb. 1, 1987
Guernsey	1.50	4,395,688	4,751,472	4,693,966	4,849,472	5,303,637	Feb. 1, 1971	Aug. 1, 1993
Hamilton	1.00	112,601,389	120,294,237	120,817,937	118,656,334	119,722,909	June 1, 1970	June 1, 1996
Hancock	0.50	4,334,591	4,519,494	4,996,051	4,923,237	4,865,680	Feb. 1, 1979	Apr. 1, 1983
Hardin	1.00	2,310,259	1,964,520	2,129,093	1,961,237	2,016,990	Oct. 1, 1985	Mar. 1, 1990
Harrison	1.50	933,654	1,056,460	1,045,888	1,059,708	1,109,957	Dec. 1, 1985	June 1, 1994
Henry	1.00	1,918,655	1,970,309	1,922,753	2,033,158	2,262,060	Mar. 1, 1972	June 1, 1986
Highland	1.00	2,472,251	2,658,210	2,764,093	2,813,126	2,908,287	May 1, 1979	Mar. 1, 1993
Hocking	1.25	1,725,376	1,959,342	2,026,495	2,079,129	2,519,146	Apr. 1, 1979	Jan. 1, 1998
Holmes	1.00	3,245,706	3,444,413	3,591,111	3,615,131	3,894,484	July 1, 1977	Jan. 1, 1998
Huron	1.50	6,194,310	6,704,027	6,936,405	6,781,287	6,977,054	Feb. 1, 1978	Jan. 1, 1996
Jackson	1.50	3,268,022	3,629,450	3,788,268	3,860,057	3,915,326	Apr. 1, 1982	Jan. 1, 1998
Jefferson	1.50	7,550,738	7,959,072	8,212,471	8,070,683	8,566,108	June 1, 1973	Nov. 1, 1994
Knox	1.00	3,585,887	3,913,759	4,129,387	4,084,907	4,261,652	May 1, 1971	Feb. 1, 1994
Lake	0.50	13,446,963	13,467,122	14,271,275	14,359,797	14,466,920	July 1, 1969	Aug. 1, 1988
Lawrence	1.50	4,567,930	5,888,298	5,907,330	5,977,278	6,372,556	June 1, 1986	June 1, 1998
Licking	1.00	11,925,092	13,270,782	14,255,769	14,686,190	14,873,722	Feb. 1, 1971	Feb. 1, 1984
Logan	1.50	5,866,233	5,945,219	$6,490,540	$6,737,920	6,832,540	Jan. 1, 1974	July 1, 1997
Lorain	0.75	16,384,424	17,691,695	18,596,540	19,346,425	20,506,375	July 1, 1985	July 1, 1995
Lucas	1.25	61,791,354	66,617,121	67,926,364	67,081,391	68,211,381	Feb. 1, 1971	Jan. 1, 1993
Madison	1.25	2,442,148	3,084,714	3,574,666	3,508,994	3,668,161	Mar. 1, 1983	July 1, 1999
Mahoning	1.00	13,166,020	12,506,251	23,935,036	25,388,374	25,819,561	Apr. 1, 1980	Jan. 1, 2000
Marion	1.00	5,575,083	5,802,959	6,094,993	6,018,733	6,187,872	Sep. 1, 1985	Apr. 1, 1992
Medina	0.50	6,537,994	7,173,100	7,564,323	7,701,566	8,137,853	Apr. 1, 1971	Apr. 1, 1971
Meigs	1.00	1,107,462	1,194,290	1,178,407	1,150,382	1,119,751	Feb. 1, 1987	Feb. 1, 1987
Mercer	1.00	2,921,555	3,051,125	3,117,588	3,078,404	3,151,037	Nov. 1, 1971	July 1, 1987
Miami	1.00	10,787,022	10,662,813	9,048,808	9,145,706	9,613,548	Dec. 1, 1969	Nov. 1, 1999
Monroe	1.50	1,132,113	1,207,193	1,280,453	1,295,895	1,150,584	Oct. 1, 1986	Nov. 1, 1994
Montgomery	1.00	$59,291,722	$62,860,529	64,101,822	63,935,967	62,952,069	Jan. 1, 1971	July 1, 1989
Morgan	1.50	946,914	1,000,399	966,051	974,991	988,948	Feb. 1, 1972	Apr. 1, 1990
Morrow	1.50	1,877,688	2,080,515	2,219,450	2,336,313	2,320,573	July 1, 1971	July 1, 1995
Muskingum	1.50	11,729,991	12,556,814	13,430,005	13,217,016	13,620,339	May 1, 1971	Apr. 1, 1993
Noble	1.50	727,276	835,295	847,078	875,360	881,894	Jan. 1, 1971	Feb. 1, 1995
Ottawa	1.00	4,141,994	4,279,923	4,260,423	4,299,825	4,522,532	Oct. 1, 1973	Jan. 1, 1998
Paulding	1.50	1,436,320	1,840,801	1,528,235	1,535,789	1,500,731	Apr. 1, 1984	Nov. 1, 1991
Perry	1.00	1,355,682	1,470,176	1,505,218	1,467,299	1,573,349	Mar. 1, 1971	May 1, 1982
Pickaway	1.50	4,240,365	3,289,231	3,359,463	3,455,616	5,229,953	Oct. 1, 1983	Dec. 1, 2001
Pike	1.00	1,952,003	2,129,841	2,014,065	1,891,196	2,041,571	May 1, 1988	May 1, 1988
Portage	1.00	$13,589,691	$14,601,152	$12,170,365	$12,364,275	$12,629,466	Apr. 1, 1971	Dec. 1, 1999

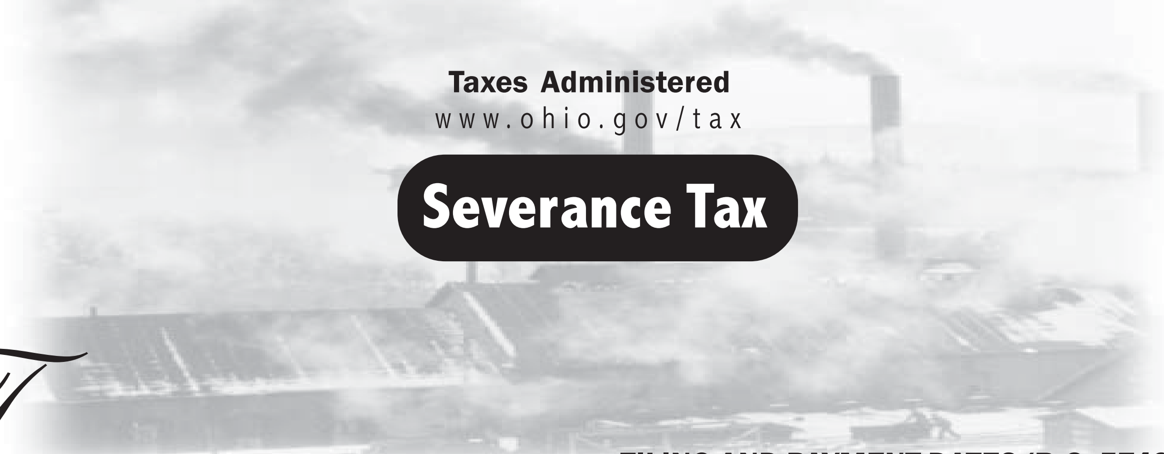
(Cont'd)

Table 3 (continued)
County and Transit Authority Permissive Sales Tax Collections
Calendar Years 1998- 2002

County	Tax Rate 12/31/02	Amount of Tax Collections 1998	1999	2000	2001	2002	Initial Enactment	Effective Date of Current Rate
Preble	1.50	$3,435,149	$3,722,785	$3,965,676	$3,932,793	$3,788,124	Nov. 1, 1979	May 1, 1994
Putnam	1.25	2,254,047	2,198,501	2,379,539	2,697,284	2,896,552	Jan. 1, 1974	June 1, 2001
Richland	1.25	9,770,903	14,132,541	18,222,205	17,825,117	18,196,319	June 1, 1979	May 1, 1999
Ross	1.50	9,034,923	9,413,899	10,010,337	10,023,413	10,250,454	Jan. 1, 1980	Oct. 1, 1993
Sandusky	1.00	4,987,986	5,207,216	5,638,000	5,784,111	5,757,414	Aug. 1, 1979	Aug. 1, 1995
Scioto	1.50	5,137,617	5,320,502	5,402,810	7,113,715	8,233,430	May 1, 1979	May 1, 2001
Seneca	1.00	3,905,937	4,126,466	4,266,521	4,221,049	4,405,538	Oct. 1, 1983	July 1, 1988
Shelby	1.50	5,828,457	6,172,722	6,310,388	6,452,038	6,875,897	Mar. 1, 1971	Jan. 1, 1998
Stark	0.00	18,358,904	11,845,685	954,655	69,556	278,927	Jan. 1, 1987	July 1, 1999
Summit	0.50	29,677,644	30,544,906	33,231,970	32,216,548	33,081,046	Mar. 1, 1973	Nov. 1, 1995
Trumbull	0.50	14,039,304	12,376,412	10,347,754	10,112,719	10,856,884	June 1, 1985	June 1, 1999
Tuscarawas	1.00	8,911,794	8,365,581	8,550,283	8,516,440	8,690,202	Apr. 1, 1971	July 1, 1998
Union	1.00	4,138,690	4,590,268	4,535,799	7,281,115	5,724,615	Apr. 1, 1989	Apr. 1, 1989
Van Wert	1.50	3,261,252	3,314,168	3,009,268	3,179,041	3,163,301	Mar. 1, 1972	Mar. 1, 1991
Vinton	1.50	640,150	675,798	704,755	711,818	742,621	May 1, 1985	Mar. 1, 1992
Warren	1.00	15,640,249	17,402,616	18,609,304	20,075,961	20,487,452	Jan. 1, 1972	Jan. 1, 1992
Washington	1.50	7,544,000	7,906,355	8,057,457	8,202,263	8,542,670	Oct. 1, 1983	Jan. 1, 1990
Wayne	0.75	6,874,245	7,052,063	7,515,034	7,424,116	7,633,464	Mar. 1, 1971	Jan. 1, 1992
Williams	1.00	2,987,960	3,128,191	3,166,060	2,924,291	3,023,943	Dec. 1, 1977	Apr. 1, 1986
Wood	1.00	10,906,264	11,770,403	11,981,660	12,465,150	13,063,171	June 1, 1971	Nov. 1, 1987
Wyandot	1.00	1,446,498	1,516,358	1,612,759	1,639,128	1,623,637	Feb. 1, 1985	Jan. 1, 1988
County Total		$975,278,513	$1,023,952,612	$1,061,637,557	$1,071,940,085	$1,101,546,982		
Cleveland RTA (Cuyahoga Co.)	1.00	$146,188,752	$151,405,646	$161,991,565	$157,823,888	$156,735,486	Oct. 1, 1975	Oct. 1, 1975
Central Ohio TA (Franklin Co.)	0.25	36,445,397	40,163,579	42,128,119	41,601,224	41,334,523	Sept. 1, 1980	Feb. 1, 1990
LakeTran RTA (Lake Co.)	0.25	6,718,866	6,731,568	7,130,985	7,175,596	7,202,698	Aug. 1, 1988	Aug. 1, 1988
Miami Valley TA (Montgomery Co.)	0.50	29,679,763	31,445,584	32,078,659	31,968,728	31,433,081	July 1, 1980	July 1, 1980
Portage Area RTA (Portage Co.)	0.25	—	—	—	—	2,564,174	Feb.1, 2002	Feb.1, 2002
Stark Area RTA (Stark Co.)	0.25	9,071,557	9,876,829	10,323,125	10,175,541	10,607,899	July 1, 1997	July 1, 1997
Metro TA (Summit Co.)	0.25	14,800,821	15,283,091	16,548,007	16,078,157	16,484,481	Feb.1, 1991	Feb. 1, 1991
Transit Authority Total		$242,905,157	$254,906,296	$270,200,460	$264,823,134	$266,362,341		
TOTAL		**$1,218,183,670**	**$1,278,858,908**	**$1,331,838,017**	**$1,336,763,219**	**$1,367,909,324**		

Note: Some counties and transit authorities have repealed and then re-enacted the tax, or have changed the tax rate since the first enactment.

Source: Department of Taxation, Revenue Accounting Division.



Severance Tax

The severance tax, first levied in 1972, is paid by persons or firms that extract, or sever, certain natural resources from the soil or waters of Ohio. The tax produced approximately $7.5 million in FY 2003. Severers are licensed by the Tax Commissioner and other designated state agencies.

TAX BASE (R.C. 5749.02):

The tax is levied on the weight or volume of certain natural resources extracted from the soil or water of Ohio.

TAXPAYER (R.C. 5749.02):

Each severer.

RATES (R.C. 5749.02):

Type of Resource	Rate
Salt	4.0 cents per ton
Coal	9.0 cents per ton(1)
Oil	10.0 cents per barrel
Natural Gas	2.5 cents per 1,000 cubic feet
Limestone, Dolomite, Sand, and Gravel	2.0 cents per ton
Clay, Conglomerate, Gypsum, Quartzite, Sandstone, and Shale	1.0 cent per ton

(1) Includes temporary tax of 1.0 cent per ton.

EXEMPTIONS AND CREDITS (R.C. 5749.03):

An annual exemption is granted for natural resources used on the land from which they are taken by the severer, as part of the improvement of or use in their homestead, which have a yearly cumulative market value of $1,000 or less.

SPECIAL PROVISIONS (R.C. 5749.02 (D):

A temporary one cent per ton tax on coal may be enacted if it is deemed that the balance of the Reclamation Supplemental Forfeiture Fund, plus transfers to the fund and the estimated revenue for the fund, are not sufficient to reclaim lands.

FILING AND PAYMENT DATES (R.C. 5749.06):

Quarterly — May 15, August 14, November 14, February 14, for quarterly periods ending the last day of March, June, September and December, respectively.

Annually — February 14 for annual returns.

DISPOSITION OF REVENUE (R.C. 5749.02):

1. To fund the Geological Mapping Fund, the following distributions are made:
   a) 6.3 percent of 7 of the 9 cents tax on coal;
   b) 15 percent of salt severance tax collections;
   c) 7.5 percent of limestone, dolomite, sand, and gravel severance tax collections; and
   d) 10 percent of oil and gas severance tax collections.

2. To fund the Unreclaimed Lands Fund, the following distributions are made:
   a) 21.6 percent of 7 of the 9 cents tax on coal;
   b) 42.5 percent of limestone, dolomite, sand, and gravel severance tax collections; and
   c) 85 percent of salt severance tax collections.

3. To fund the Oil and Gas Well Fund, 90 percent of the oil and gas severance tax collections is distributed to the fund.

4. To fund the Coal Mining Administration and Reclamation Reserve Fund, 57.9 percent of the remaining 7 cents tax on coal is distributed to this fund.

5. To fund the Reclamation Supplemental Forfeiture Fund, the following distributions are made:
   a) One cent per ton levy on coal;
   b) Revenue from the temporary one cent per ton levy on coal; and
   c) 14.2 percent of 7 of the 9 cents per ton levy on coal.

6. To fund the Surface Mining Administrative Fund, the following distributions are made:
   a) 50 percent of limestone, dolomite, sand, and gravel severance tax collections;
   b) 100 percent of the clay, sandstone or conglomerate, shale, gypsum, and quartzite severance tax collections.

OHIO REVISED CODE CITATIONS:

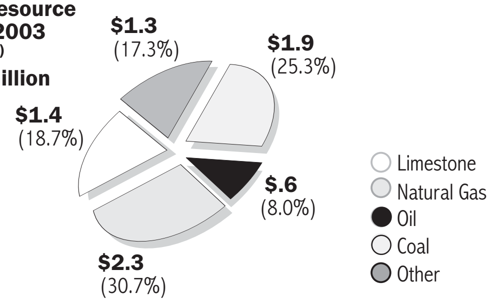
Chapter 5749.

RECENT LEGISLATION:

Am. Sub. H.B. 94, 124th General Assembly (effective September 6, 2001, FY 2002-2003 Biennial Budget Bill).
R.C. 5749.06, effective January 1, 2003 –
Transferred tax payment functions previously assigned to the Treasurer of State to the Tax Commissioner.

H.B. 612, 123rd General Assembly (effective September 29, 2000).
R.C. 5749.08 –
Interest was made payable on refunds based on an illegal or erroneous assessment.

Severance Tax Collections by Type of Resource Fiscal Year 2003
(figures in millions)
Total $7.5 million



* Other includes: gravel, sand, salt, dolomite, sandstone, shale, gypsum, clay and quartzite.

Table
Severance Tax Collections
Fiscal Years 1999 – 2003

Natural Resource	Tax Rate	1999	2000	2001	2002	2003
Coal	9.0 cents per ton*	$2,406,798	$1,979,668	$2,094,472	$2,202,444	$1,897,705
Natural Gas	2.5 cents per 1,000 c.f.	2,708,380	2,472,707	2,322,192	2,245,761	2,251,683
Limestone	2.0 cents per ton	1,468,751	1,546,768	1,488,175	1,386,122	1,402,610
Oil	10.0 cents per barrel	618,919	616,931	561,682	553,643	570,225
Gravel	2.0 cents per ton	711,825	710,093	612,519	701,979	569,608
Sand	2.0 cents per ton	594,886	602,498	516,578	594,761	521,454
Dolomite	2.0 cents per ton	124,138	79,098	99,187	115,256	83,534
Salt	4.0 cents per ton	177,288	177,370	175,460	175,098	127,967
Clay	1.0 cent per ton	16,580	22,495	19,951	13,628	11,866
Sandstone	1.0 cent per ton	14,359	26,385	17,614	12,102	11,277
Shale	1.0 cent per ton	40,627	43,300	23,751	16,401	11,480
Gypsum	1.0 cent per ton	2,786	2,836	2,379	422	0
Quartzite	1.0 cent per ton	3,963	3,669	3,798	3,245	3405
Total		**$8,889,300**	**$8,283,818**	**$7,937,758**	**$8,020,862**	**$7,462,814**

*Includes 1.0 cent in temporary levy (see **Special Provisions** section).
Source: Department of Taxation, as reported on tax returns.

Tangible Personal Property

Taxes levied on tangible personal property totaled approximately $1.77 billion in tax year 2002, on a taxable value of approximately $23.3 billion. The $10,000 exemption reduced the statewide taxable value by approximately $1.19 billion, and taxes levied by $95.6 million, in 2002. However, the state reimbursed local governments for this revenue loss.

TAX BASE (R.C. 5701.03, 5701.08, 5709.01, 5711.03, 5711.15-5711.18, 5711.22):

The tax base is tangible personal property located and used in business in Ohio - including machinery, equipment, and inventories. The assessment percentage for tax year 2003 is 25 percent on everything except inventories. The inventory assessment percentage for tax year 2003 is 23 percent.

The inventory assessment percentage will be phased out by reducing the assessment percentage by 2 percent each year for tax years 2005 and 2006, if collections from the second preceding year exceed collections from the third preceding year. Effective for tax year 2007 and thereafter, the assessment rate for inventory will be reduced by 2 percent until the assessment rate equals zero.

Taxable value is determined by applying various assessment percentages to the true value of different classes of tangible personal property. The true value of depreciable assets (machinery and equipment, furniture and fixtures, etc.) is statutorily defined as depreciated book value, unless the assessor determines otherwise. The true value of manufacturers' and merchants' inventories is determined by the average monthly value (basically cost of acquisition) of the inventories. Inventories of other taxpayers are listed at their value as of the tax listing date (generally December 31).

RATES (R.C. 319.31, 5705.02, 5705.03, 5705.05, 5705.19):

Tangible personal property tax rates vary by taxing jurisdiction. The total tax rate includes all levies enacted by legislative authority or approved by voters, for all taxing jurisdictions within which the property is located (e.g. county, township, municipal corporation, school district, etc.). The rates applied to tangible personal property are the same as the rates applied to the previous year's listing of real estate and public utility property. However, gross taxes levied on real property are reduced when real property values increase, while taxes levied against tangible property are not reduced. The statewide average effective tax rate on tangible property in 2002 was 75.91 mills.

EXEMPTIONS AND EXCEPTIONS:

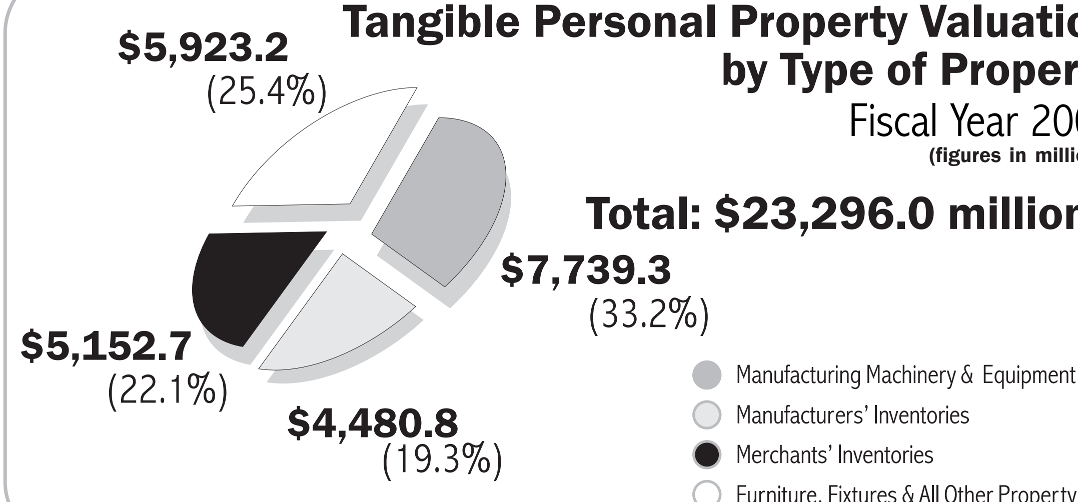
1. The first $10,000 of otherwise taxable value for each company (R.C. 5709.01).
2. Property not used in business; i.e., property owned and not used for gain by any level of government, schools, churches, colleges, etc. (R.C. 5701.08, 5709.07, 5709.08, and 5709.12).
3. Registered motor vehicles and licensed aircraft (R.C. 5701.03 and 5709.01).

Tangible Personal Property Valuation by Type of Property

Fiscal Year 2003

(figures in millions)

Total: $23,296.0 million*



* Figures may not add due to rounding.

4. Personal property used in agriculture (R.C. 5701.08).
5. Patterns, jigs, dies, and drawings used in business which are held for use and not for sale (R.C. 5701.03).
6. Certified air, water, and noise pollution control equipment (R.C. 5709.25 and 6111.35).
7. Tangible personal property of domestic and foreign insurance companies, financial institutions, and dealers in intangibles (except property held for the purpose of leasing to others) (R.C. 5725.25 and 5725.26).
8. Machinery and equipment while under installation or construction in a plant or facility and not capable of operation (R.C. 5701.08).
9. Certified energy conversion facilities – property used to convert a commercial or industrial facility from the use of natural gas or fuel oil to any other fuel except propane, butane, or naptha (R.C. 5709.50).
10. Certified thermal efficiency improvement facilities – property used for recovery and use of waste heat, or steam produced in generating electricity, heat generation, lighting, refrigeration, or space heating (R.C. 5709.50).
11. Certified solid waste energy conversion facilities – property used to convert solid waste from industrial operations into energy for some useful purpose (R.C. 5709.50).
12. Inventories held in a foreign trade zone (R.C. 5709.44).
13. Property in a public recreational facility used for athletic events, if certain criteria are met (R.C. 5709.081).
14. Inventories shipped from outside Ohio, held in storage only, and shipped back out of Ohio (R.C. 5701.08 and 5711.22).
15. Leased property used by the lessee exclusively for agricultural purposes (R.C. 5701.08).
16. New and used machinery, equipment, and accessories designed and built for agricultural use, while in the inventory of a merchant (R.C. 5701.08).
17. Property owned by a port authority and leased to a railroad is partially exempt for a period of 10 years (R.C. 5709.71).
18. Property used in the production of grape juice or wine, and grape juice and wine inventory not held in labeled containers in which it will be sold (R.C. 5709.55).
19. Public recreational facility used by a major league athletic team if certain conditions are met (R.C. 5709.081).

SPECIAL PROVISIONS (R.C. 321.24, 5709.61-5709.69):

1. Companies may receive up to a 75 percent exemption for up to 10 years for tangible personal property used in an enterprise zone located within a municipality. The exemption is limited to 60 percent for zones in unincorporated areas. Exemptions may exceed these levels if agreed upon by school districts. Companies seeking to receive an exemption must submit an investment proposal to the local authority that created the zone where the operation will be located. Special exemptions are available for property being used at a facility located initially within a contaminated site which is being remedied, and for property at a large manufacturing operation that has ceased or will cease operation.
2. The local revenue loss caused by the $10,000 exemption is reimbursed from state revenues (see **Exemptions and Exceptions** and **Recent Legislation)**.

FILING AND PAYMENT DATES (R.C. 319.29, 323.17, 5711.01, 5711.04, 5711.25, 5719.02, 5719.03):

February 15th to April 30th – Returns are filed by all businesses during this period unless the county auditor or Tax Commissioner allows an extension to June 15. Taxpayers first engaging in business after January 1 file a return within 90 days of the day they start business. Single-county taxpayers pay one-half of tax due when filing tax returns. Businesses whose only taxable property is exempt under the $10,000 exemption must still file a return and report the value of that property. For late filed tax returns, the exemption is reduced by 50 percent.

Second Monday in August – The date the Tax Commissioner certifies preliminary tangible personal property valuations of inter-county taxpayers to the county auditors.

Third Monday in August – County auditor certifies and delivers tangible personal property list to county treasurer.

September 20th – Inter-county corporations pay total tax liability by this date. Second half of tax due from all other taxpayers. Because of an emergency as defined in R.C. 323.17, this due date may be extended for up to 30 days by county treasurer.

DISPOSITION OF REVENUE (R.C. 319.50, 319.54, 5705.10, 5719.02, 5719.05):

After local administrative deductions, revenue is distributed to counties, municipalities, townships, school districts, and special districts according to the taxable values and total voted millage levied by each, or as apportioned by the county budget commission (millage inside the 10-mill limit). In 2002, school districts received 71.6 percent of the total tax revenue, while municipalities received 5.8 percent, townships 3.8 percent, and counties and special districts 18.8 percent.

ADMINISTRATION (R.C. 5711.11, 5711.13):

Each county auditor is a deputy of the Tax Commissioner for purposes of this tax. Taxpayers are required to file annual returns with either the Tax Commissioner or the county auditor. The following table indicates where the returns are filed and who is responsible for assessing the property.

Taxpayer	Filed with and assessed by
Inter-county taxpayers (businesses with taxable property in more than one county)	Tax Commissioner
Single-county taxpayers* (businesses with taxable property in only one county)	County Auditor

* Returns are filed in duplicate with one copy forwarded to the Tax Commissioner.

OHIO REVISED CODE CITATIONS:

Chapters 319, 323, 5701, 5705, 5709, 5711, and 5719.

RECENT LEGISLATION:

Am. Sub. H.B. 95, 125th General Assembly (effective September 26, 2003, FY 2004-2005 Biennial Budget Bill).
R.C.5709.20 through 5709.27 – The various sections dealing with exemption applications have been combined into these sections and new language related to the administration of these sections has been added.

R.C. 5709.62 – Enterprise zone agreement program is extended until 2009.

R.C. 5711.02 and R.C. 5711.13 – Beginning in tax year 2004, taxpayers with a taxable value of less than $10,000 will no longer be required to file a return. The reimbursement of the revenues lost due to the exemption will be phased-down over a 10-year period.

R.C. 5711.22 – Effective for tax years 2005 and 2006, the inventory assessment percentage will be reduced by 2 percent each year if collections increase.

R. C. 5711.22 – Effective for tax year 2007, the inventory assessment percentage will be reduced by 2 percent automatically.

R.C. 5711.27 – Beginning in tax year 2003, the loss of one-half of the $10,000 exemption for late filing has been repealed.

R.C. 5711.33 – Beginning in tax year 2003, reasonable cause can now be considered in the abatement of a late payment penalty.

Am. Sub. S.B. 180, 124th General Assembly (effective April 9, 2003).
R.C. 5709.211 – Effective in 2003, the Department of Taxation will provide certain information to the county auditor related to exemption facility applications received by the department. The department will forward to the county auditor a copy of the exemption application, a statement of the estimated value of the exempt facility if it were taxable, and a statement of the estimated taxes if the exempt facility were taxable.

Sub. H.B. 589, 123rd General Assembly (effective October 17, 2000).
R.C. 5709.61 – Removed the requirement that a facility can only generate electricity for a specified number of hours in a calendar year in order to be able to qualify for an enterprise zone agreement.

Table 1
Assessed Value of Tangible Personal Property and Taxes Levied, Tax Years 1998-2002

Calendar Year	Value of Tangible Property	Taxes Levied	Annual Change Value	Annual Change Taxes	Average Tax Rate (in mills)
1998	$21,692,067,360	$1,576,061,071	3.39%	3.73%	72.66
1999	22,466,755,621	1,644,773,487	3.57	4.36	73.21
2000	23,298,302,564	1,720,740,378	3.70	4.62	73.86
2001	24,046,239,068	1,802,487,778	3.21	4.75	74.96
2002	23,296,013,406	1,768,343,517	-3.10	-1.9	75.91

Table 2
Taxes Levied on Tangible Personal Property by Subdivision, Tax Years 1997-2002

Calendar Year	Taxes Levied Currently City and Village	Taxes Levied Currently School District(a)	Taxes Levied Currently Township	Taxes Levied Currently County(b)	Delinquent Taxes from Former Years	Total Taxes and Delinquencies
1997	$95,082,900	$1,087,429,496	$52,106,292	$284,729,832	$276,372,605	$1,795,721,125
1998	97,541,525	1,128,804,694	55,008,737	294,706,114	283,341,307	1,859,402,377
1999	99,900,678	1,176,507,997	58,928,318	309,436,494	264,098,149	1,908,871,636
2000	104,293,885	1,229,297,276	62,229,758	324,919,460	309,354,628	2,030,095,007
2001	106,582,761	1,291,626,108	68,679,274	335,599,634	355,417,154	2,157,904,932
2002	102,036,281	1,267,303,840	67,062,769	331,940,627	375,529,812	2,143,873,330

(a) Includes Joint Vocational Schools.
(b) Includes special districts.

Table 3
Taxes Levied on Tangible Personal Property in Ohio Cities, by Subdivision, Tax Years 1997-2002

Tax Year	Taxes Levied by Subdivision: City and Village	School District[(a)]	Township	County[(b)]	Delinquent Taxes from Prior Years	Total Taxes and Delinquencies
1997	$84,229,820	$740,574,447	$5,321,781	$195,630,520	$163,939,185	$1,189,695,753
1998	86,031,622	764,216,355	5,665,629	200,970,136	169,666,803	1,226,550,547
1999	88,523,555	794,459,009	6,047,422	210,258,954	149,332,224	1,248,621,163
2000	92,726,568	838,712,173	6,796,621	223,796,859	176,718,073	1,338,750,294
2001	94,906,650	878,897,218	8,637,352	230,648,683	237,729,275	1,450,819,178
2002	90,971,227	867,288,963	7,793,821	228,421,803	254,458,590	1,448,934,404

(a) Includes Joint Vocational Schools.
(b) Includes special districts.

Table 4
Assessed Value of Tangible Personal Property, by Class of Property, Tax Years 2001 - 2002 (figures in millions)

Class of Property	Assessment Levels (% of True Value) 2001	2002	Assessed Taxable Value: Inter-County Taxpayers 2001	Inter-County Taxpayers 2002	All Taxpayers 2001	All Taxpayers 2002
Manufacturing Machinery & Equipment	25%	25%	$5,693.8	$5,604.8	$7,823.4	$7,739.3
Manufacturers' Inventories	25%	24%	2,948.5	2,713.3	4,785.4	4,480.8
Merchants' Inventories	25%	24%	3,054.2	2,946.7	5,346.8	5,152.7
Furniture, Fixtures, & All Other Property	25%	25%	4,300.5	4,129.1	6,090.6	5,923.2
Total			**$15,997.0**	**$15,393.9**	**$24,046.2**	**$23,296.0**

Table 5
Listing Percentages Applied to True Value of Tangible Personal Property to Determine Taxable Value, Tax Years 1993-2003
(figures in millions)

Tax Year	Manufacturing Machinery and Equipment	Manufacturers' Inventories	Merchants' Inventories	Electrical Equipment*	All Other Property**
1993-2001	25	25	25	100	25
2002	25	24	24	100	25
2003	25	23	23	100	25

* Property used in generating or distributing electricity to others (except utilities).
** Includes furniture and fixtures.

Table 6
Assessed Value of Tangible Personal Property, Taxes Levied and Average County Rates on Tangible Property, by County, Tax Year 2002

County	Value of Taxable Property	Current Taxes Levied	Average County Rate (in mills)	County	Value of Taxable Property	Current Taxes Levied	Average County Rate (in mills)
ADAMS	$21,702,660	$1,080,585	49.79	LOGAN	$142,405,112	$8,689,700	61.02
ALLEN	383,554,089	20,214,405	52.70	LORAIN	569,515,990	45,019,803	79.05
ASHLAND	98,908,484	6,540,074	66.12	LUCAS	886,882,970	77,683,811	87.59
ASHTABULA	199,457,959	14,698,700	73.69	MADISON	66,422,650	4,097,670	61.69
ATHENS	33,711,993	2,733,282	81.08	MAHONING	321,607,930	24,932,839	77.53
AUGLAIZE	140,590,615	8,197,235	58.31	MARION	130,301,458	8,668,707	66.53
BELMONT	95,371,750	5,702,286	59.79	MEDINA	278,995,292	24,339,803	87.24
BROWN	22,562,116	1,081,929	47.95	MEIGS	32,388,480	1,528,833	47.20
BUTLER	694,221,309	45,149,034	65.04	MERCER	60,043,710	2,982,309	49.67
CARROLL	30,944,527	1,751,417	56.60	MIAMI	305,155,700	19,993,585	65.52
CHAMPAIGN	82,063,898	5,716,518	69.66	MONROE	61,890,219	3,032,326	49.00
CLARK	224,187,128	15,157,570	67.61	MONTGOMERY	1,089,557,996	92,244,324	84.66
CLERMONT	186,029,400	14,597,855	78.47	MORGAN	22,609,020	1,104,936	48.87
CLINTON	119,477,592	6,522,770	54.59	MORROW	23,434,790	1,516,345	64.70
COLUMBIANA	134,554,660	8,173,716	60.75	MUSKINGUM	139,502,013	8,844,759	63.40
COSHOCTON	75,004,483	4,063,596	54.18	NOBLE	17,210,145	817,026	47.47
CRAWFORD	103,174,334	7,420,329	71.92	OTTAWA	90,022,221	5,923,049	65.80
CUYAHOGA	2,657,787,807	244,092,172	91.84	PAULDING	26,500,984	1,530,119	57.74
DARKE	89,450,240	4,665,668	52.16	PERRY	22,584,549	1,376,784	60.96
DEFIANCE	94,958,250	5,534,139	58.28	PICKAWAY	108,509,288	6,128,760	56.48
DELAWARE	266,830,436	17,927,502	67.19	PIKE	145,831,973	7,588,848	52.04
ERIE	195,049,800	15,806,055	81.04	PORTAGE	251,422,472	21,695,695	86.29
FAIRFIELD	134,890,855	10,008,953	74.20	PREBLE	77,133,920	4,265,484	55.30
FAYETTE	58,404,170	3,161,924	54.14	PUTNAM	59,096,723	2,650,877	44.86
FRANKLIN	2,588,323,649	228,596,992	88.32	RICHLAND	285,964,097	21,178,525	74.06
FULTON	125,908,020	8,762,388	69.59	ROSS	158,358,533	8,481,604	53.56
GALLIA	37,565,670	1,523,329	40.55	SANDUSKY	155,478,490	8,524,154	54.83
GEAUGA	155,424,650	14,264,970	91.78	SCIOTO	82,950,070	4,698,660	56.64
GREENE	168,024,204	12,389,408	73.74	SENECA	96,924,822	6,037,536	62.29
GUERNSEY	85,571,890	5,026,321	58.74	SHELBY	264,599,391	14,396,558	54.41
HAMILTON	1,959,119,360	164,420,672	83.93	STARK	808,548,072	56,894,227	70.37
HANCOCK	262,681,269	14,591,222	55.55	SUMMIT	1,137,242,507	92,890,389	81.68
HARDIN	54,616,914	3,024,595	55.38	TRUMBULL	450,888,527	30,489,385	67.62
HARRISON	16,728,080	984,374	58.85	TUSCARAWAS	204,206,730	12,748,574	62.43
HENRY	80,956,777	5,313,489	65.63	UNION	197,681,709	13,237,325	66.96
HIGHLAND	53,631,689	2,531,903	47.21	VAN WERT	49,429,900	3,152,551	63.78
HOCKING	29,912,956	1,823,209	60.95	VINTON	12,644,303	523,629	41.41
HOLMES	87,190,550	4,674,860	53.62	WARREN	425,173,976	32,192,546	75.72
HURON	130,210,270	7,903,087	60.69	WASHINGTON	222,225,800	11,681,263	52.56
JACKSON	46,123,051	2,242,948	48.63	WAYNE	259,314,750	19,367,633	74.69
JEFFERSON	101,440,650	5,737,429	56.56	WILLIAMS	120,777,870	7,944,428	65.78
KNOX	105,179,145	6,316,119	60.05	WOOD	315,759,725	23,785,353	75.33
LAKE	533,593,230	44,282,255	82.99	WYANDOT	67,684,160	3,543,002	52.35
LAWRENCE	44,901,550	1,573,160	35.04				
LICKING	241,142,240	13,939,341	57.81	**Total**	**$23,296,013,406**	**$1,768,343,517**	**75.91**

Source: Abstracts filed by county auditors with the Department of Taxation.

Table 7
Tangible Personal Property Tax — Reduction in Value and Amount Reimbursed for $10,000 Exemption, by County, Tax Year 2002

County	Reduction in Taxable Value	Amount Reimbursed by State	County	Reduction in Taxable Value	Amount Reimbursed by State
ADAMS	$2,025,510	$104,933	LOGAN	$5,329,335	$347,867
ALLEN	12,215,605	694,855	LORAIN	26,759,930	2,118,436
ASHLAND	6,115,930	423,254	LUCAS	44,256,080	4,048,233
ASHTABULA	10,775,951	815,195	MADISON	3,322,410	214,866
ATHENS	4,757,821	407,176	MAHONING	26,539,580	2,085,561
AUGLAIZE	6,099,260	343,794	MARION	5,488,383	372,353
BELMONT	7,279,860	444,591	MEDINA	20,084,647	1,817,936
BROWN	2,895,691	144,727	MEIGS	1,880,040	88,082
BUTLER	30,547,267	2,247,862	MERCER	6,454,270	326,500
CARROLL	2,696,626	148,606	MIAMI	12,538,920	849,050
CHAMPAIGN	3,532,492	231,842	MONROE	1,567,420	80,861
CLARK	11,442,078	805,628	MONTGOMERY	53,095,511	5,434,371
CLERMONT	15,316,603	1,231,234	MORGAN	1,122,090	58,241
CLINTON	3,977,236	228,710	MORROW	2,423,960	150,812
COLUMBIANA	11,517,450	683,516	MUSKINGUM	9,636,872	643,814
COSHOCTON	3,823,713	229,777	NOBLE	1,203,005	58,401
CRAWFORD	5,359,960	405,384	OTTAWA	6,315,701	424,146
CUYAHOGA	145,045,167	14,463,411	PAULDING	2,064,216	104,675
DARKE	7,772,958	402,784	PERRY	2,495,493	157,392
DEFIANCE	4,275,270	248,065	PICKAWAY	3,664,899	212,085
DELAWARE	12,404,808	866,556	PIKE	1,933,633	120,129
ERIE	10,342,423	861,680	PORTAGE	15,204,445	1,389,770
FAIRFIELD	10,712,785	806,549	PREBLE	3,516,500	196,069
FAYETTE	2,715,780	151,871	PUTNAM	4,567,174	225,924
FRANKLIN	102,355,929	9,796,169	RICHLAND	13,479,025	1,032,999
FULTON	6,258,290	445,851	ROSS	6,012,407	332,342
GALLIA	2,869,169	126,427	SANDUSKY	7,558,780	433,480
GEAUGA	13,945,490	1,317,139	SCIOTO	6,280,510	394,986
GREENE	11,357,606	860,522	SENECA	6,361,040	390,312
GUERNSEY	5,016,610	319,474	SHELBY	6,597,245	375,808
HAMILTON	95,078,550	8,749,301	STARK	40,364,274	3,030,013
HANCOCK	9,337,894	550,755	SUMMIT	58,164,120	4,938,429
HARDIN	2,765,027	157,855	TRUMBULL	21,957,996	1,558,195
HARRISON	1,367,140	83,444	TUSCARAWAS	12,482,895	803,927
HENRY	3,712,399	247,289	UNION	4,204,694	291,430
HIGHLAND	4,047,940	187,680	VAN WERT	3,672,679	239,783
HOCKING	2,771,972	173,021	VINTON	1,043,342	46,038
HOLMES	10,334,530	561,185	WARREN	15,636,434	1,138,413
HURON	7,954,740	493,676	WASHINGTON	8,228,680	463,985
JACKSON	2,974,746	145,604	WAYNE	15,894,414	1,160,797
JEFFERSON	5,701,010	333,130	WILLIAMS	5,776,340	380,023
KNOX	5,986,344	370,399	WOOD	13,002,499	1,007,903
LAKE	30,435,608	2,621,399	WYANDOT	3,081,030	161,595
LAWRENCE	3,373,050	125,652			
LICKING	13,961,890	839,766	**Total**	**$1,186,517,096**	**$95,603,766**

Source: Abstracts filed with the Department of Taxation and records of the department.

Rule Review

Section 121.24(D) of the Revised Code requires the Department of Taxation to review one-fifth of its administrative rules each year. The following is the department's Rule Review Rotation Schedule:

Tax	Year	Year
Sales/use tax	2001	2006
Admin. & Div. of Tax Equalization	2002	2007
Personal property tax	2003	2008
Excise taxes	2004	2009
Franchise/income/muni. taxes	2005	2010

Section 121.24(E) of the Revised Code requires the Department of Taxation to designate an individual or office that is responsible for providing information on its administrative rules. The Office of Chief Counsel is the department's designated office.

Rules Reviewed in FY 2003

The following is the result of the department's review of its personal property tax rules in 2003.

As indicated after the description to the general administrative rules, the following rules are still necessary, or need amended or rescinded in Ohio Administrative Code Chapter 5703-3:

5703-3-01	Property excepting oil, gas and water production plants (needs rescinded and reenacted under 5703-1)
5703-3-02	Oil, gas and water production plants (needs rescinded and reenacted under 5703-1)
5703-3-03	Filing of balance sheets (necessary)
5703-3-04	Dates for listing taxable personal property (necessary)
5703-3-05	Consolidated returns by corporations and joint returns by husband and wife (needs amended)
5703-3-06	Consolidated returns by incorporated dealers in intangibles (necessary)
5703-3-07	Returns by fiduciaries on behalf of taxpayer (necessary)
5703-3-08	(Blank - For future use)
5703-3-09	Returns by fiduciaries on property of nonresidents (necessary)
5703-3-10	Tangible personal property tax; true value of depreciable assets; application of "true value" or "302" computation (necessary)
5703-3-11	Tangible personal property tax; "true value" or "302" computation (necessary)
5703-3-12	Tangible personal property tax; true value; exhaustion method; presumed disposals (necessary)
5703-3-13	Tangible personal property tax; replacement allowance; hotels (necessary)
5703-3-14	Designation of person to make return of leased property (necessary)
5703-3-15	Allowances of reserves against accounts receivables (necessary)
5703-3-16	Computation and assessment of average value of inventories (needs amended)
5703-3-17	"Average inventory value of merchandise" of taxpayer using "retail inventory method of accounting" (necessary)
5703-3-18	Tangible personal property tax; new taxpayers (necessary)
5703-3-19	Taxable situs of deposits pursuant to R.C. 5709.02 and 5709.03 (needs rescinded or rescinded and reenacted under 5703-5)
5703-3-20	Taxable situs of accounts receivable pursuant to R.C. 5709.02 and 5709.03 (needs rescinded or rescinded and reenacted under 5703-5)
5703-3-21	Personal property tax; taxable situs of merchandise or agricultural products held for storage only (needs rescinded)
5703-3-22	Tangible personal property tax; valuation of idle equipment (necessary)
5703-3-23	Intangible personal property tax; repeal; effect of unrepealed sections (necessary)
5703-3-24	Tangible personal property tax of nonprofit organizations (necessary)
5703-3-25	(Blank - For future use)
5703-3-26	(Blank - For future use)
5703-3-27	Determining true value of average inventory of a manufacturer for personal property tax purposes (necessary)
5703-3-28	Certain corporations to file county supplemental returns (necessary)
5703-3-29	Personal property leased and used exclusively for agricultural purposes not subject to personal property tax (necessary)
5703-3-30	Personal property in inventory of a merchant manufactured for agricultural use not subject to personal property tax (necessary)
5703-3-31	Personal property tax valuation of completed goods owned by the manufacturer-lessor and held for lease or on lease to others (necessary)