



Ohio Business Gateway Steering Committee

Municipal Tax Project

Funds Transfer and Data Transport Forum

March 23, 2004



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Agenda

- 10:00 – 10:15** **Welcome and Opening Remarks**
Joe Zapotosky, Program Director, OBG
- 10:15 – 10:45** **H.B. 95 Overview**
Co-drafters of Municipal Tax Reforms in H.B. 95
Stephen Hall, Esq., McDonald Hopkins Co., LPA
Jeff Sherman, Legal Counsel, Ohio Department of Taxation
- 10:45 – 11:15** **Ohio Business Gateway Overview**
Joe Zapotosky, Program Director, OBG
- 11:15 – 11:30** **Break**



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Agenda

11:30 – 12:15 Funds Transfer

ACH Process Overview
Tim Mills, Payments Central

Conceptual Design Ideas
Joe Zapotosky, Program Director, OBG

Clarification, Questions, & Responses



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Agenda

12:15 – 1:00 Data Transport

- Technology Review
- Conceptual Design Ideas

David Grieshop, Electronic Commerce Center
Ohio Department of Administrative Services

Clarification, Questions, & Responses



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Agenda

1:00 – 1:30

Next Steps and Closing Remarks

Joe Zapotosky, Program Director, OBG

Final Q/A and Immediate Comments



Opening Remarks

- **Introductions**
- **Logistics**
 - Restrooms
 - Cell Phones



Objectives

- Provide overview of project environment
- Provide background on project (HB 95)
- Share and validate viable conceptual design ideas
- Define process for feedback
- Outline upcoming steps



Project Components

- Funds Transfer
- Data Transport
- Forms & User Interface
- Support & Help Processes
- Training, Education, & Outreach



General Process

- Conceptual Design Analysis
- OBGSC Approval of Recommended Conceptual Designs
- Detailed Requirements Analysis
- Development
- Implementation



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Today's Focus

Conceptual Designs

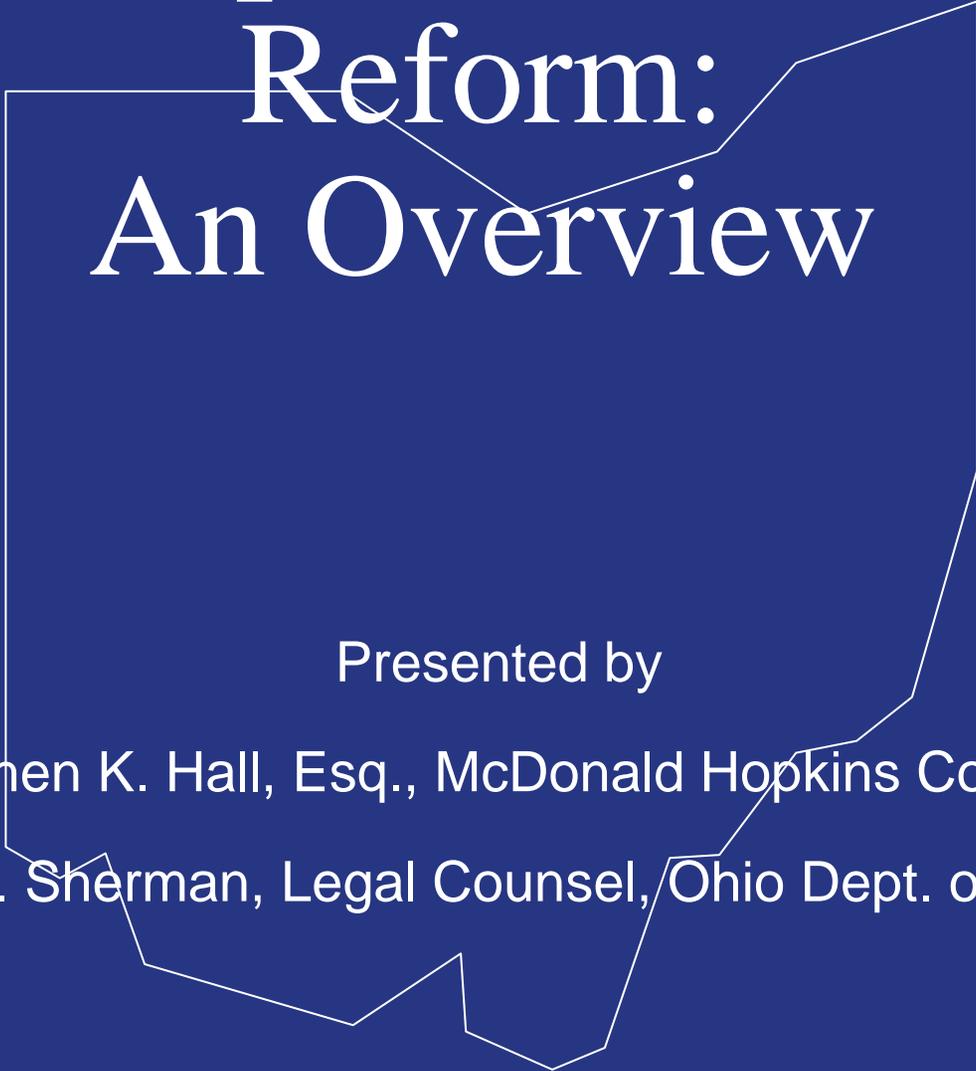
**Funds Transfer
Data Transport**



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Q/A Checkpoint

Municipal Income Tax Reform: An Overview

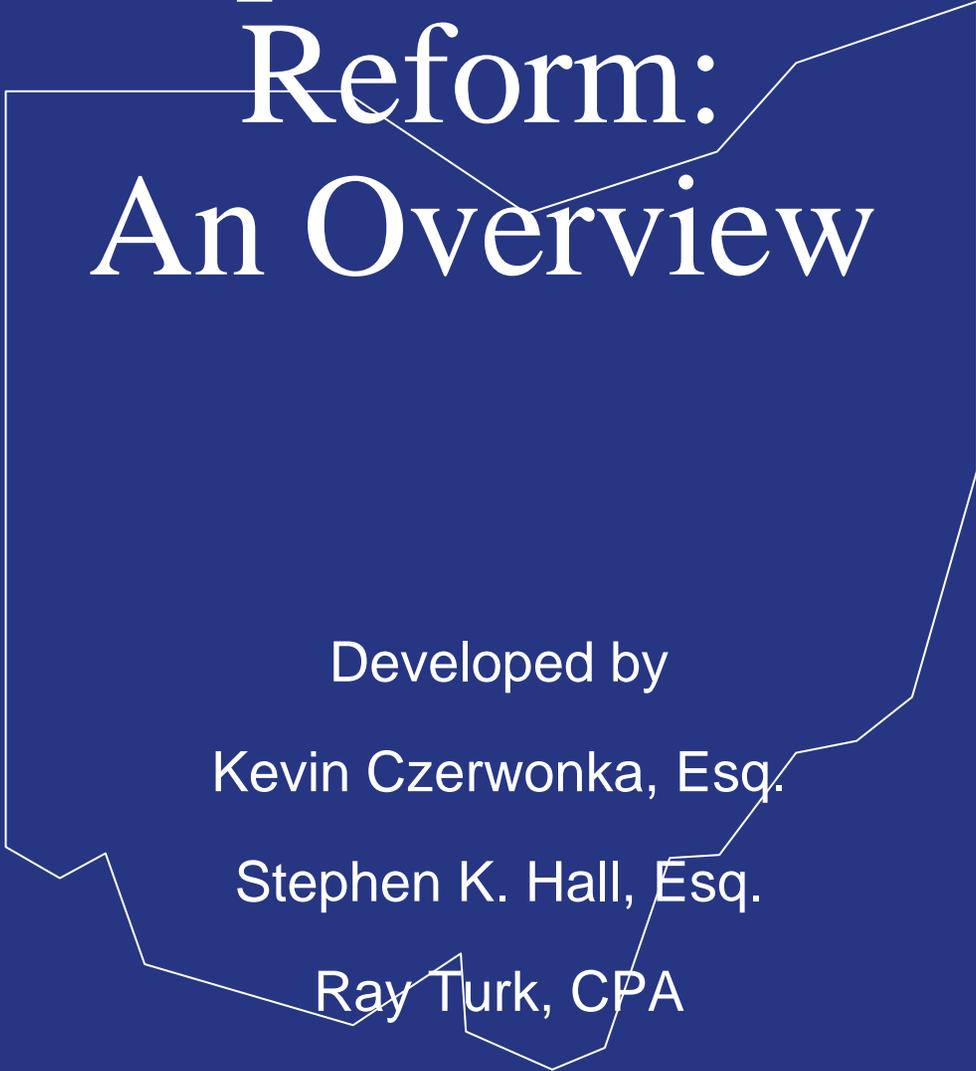
A white outline map of the state of Ohio is centered on the slide, serving as a background for the text.

Presented by

Stephen K. Hall, Esq., McDonald Hopkins Co. LPA

Jeffrey P. Sherman, Legal Counsel, Ohio Dept. of Taxation

Municipal Income Tax Reform: An Overview

A white outline of the state of Ohio is centered on the slide, framing the title and the names of the authors.

Developed by

Kevin Czerwonka, Esq.

Stephen K. Hall, Esq.

Ray Turk, CPA

Jeffrey P. Sherman, Esq., CPA (inactive)

Committee to Study State and Local Taxes – 7 of 9 recommendations adopted

Create uniform net profits base

Create uniform withholding base for employee compensation

Option for appeals to Ohio Board of Tax Appeals

Centralized web-based filing and payments on OBG

Centralized web-based tax extension site for business

Uniform due dates

Eliminate three-year “lock-in” for withholding purposes.

Uniform Withholding Tax Base for Employee Compensation

Begins with Medicare wage base (Form W-2, Box 5) and makes certain adjustments (R.C. 718.03).

Provides city-by-city “non-uniformity” on only two items:

- a. Stock options
- b. Non-qualified deferred compensation
 - There is a “transitional issue” for non-qualified deferred compensation
 - Federal “moving” statute, uniformity were rationale.

Wording of statute – “to the extent included . . .”

Two Credits

“Qualifying Loss” credit

- Refundable

“Second City” credit

- Non-refundable
- Encourages faster auditing

Elimination of “three-year lock-in” for purposes of employer withholding

Prior law: City could not require a nonresident employer to withhold tax from employee compensation unless total amount for all employees was \$150; employer was then “locked-in” for three years.

New Law: The safe harbor provision was eliminated.

Practical result – city-by-city autonomy on this issue now exists.

Ohio Business Gateway

Centralized electronic filing and payment system

- Extension requests – made after Dec. 31, 2004
- Net profits returns and payments (including estimates) – taxable years beginning after Dec. 31, 2004
- Employer withholding returns and payments – for wages paid after Dec. 31, 2006

Calculation of Net Profits Tax Base

All Taxpayers (other than
electric companies and telephone
companies)

“Line 28” Federal Taxable Income



Additions:

- 5% of intangible income
- IRC section 1221/1231 losses allowed
- Taxes measured by income
- REIT and RIC dividends paid, distributions and amounts set aside for investor's benefit

+

Calculation of Net Profits Tax Base

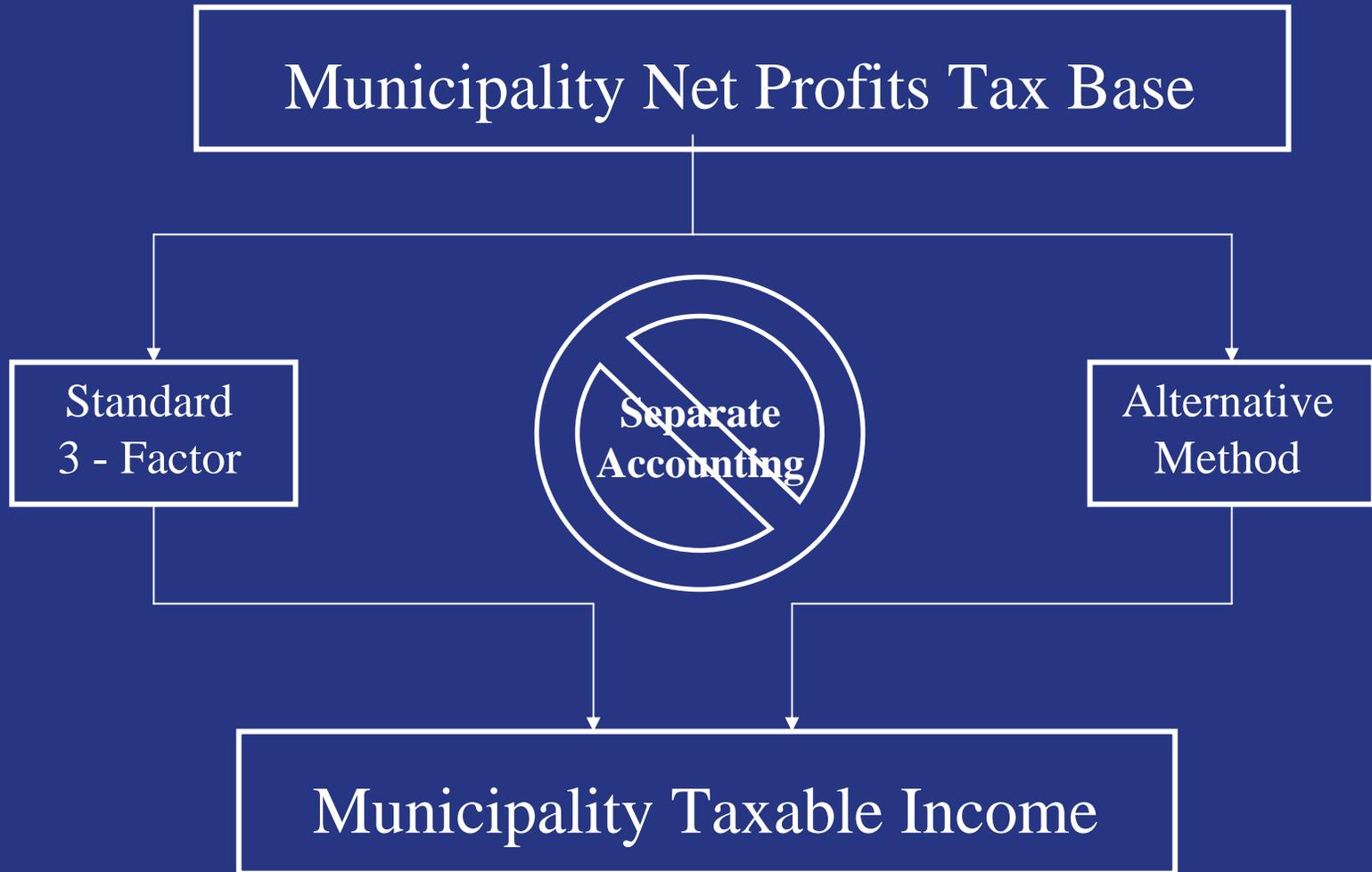
Subtractions:

- Intangible income
- IRC section 1221/1231 income and gains

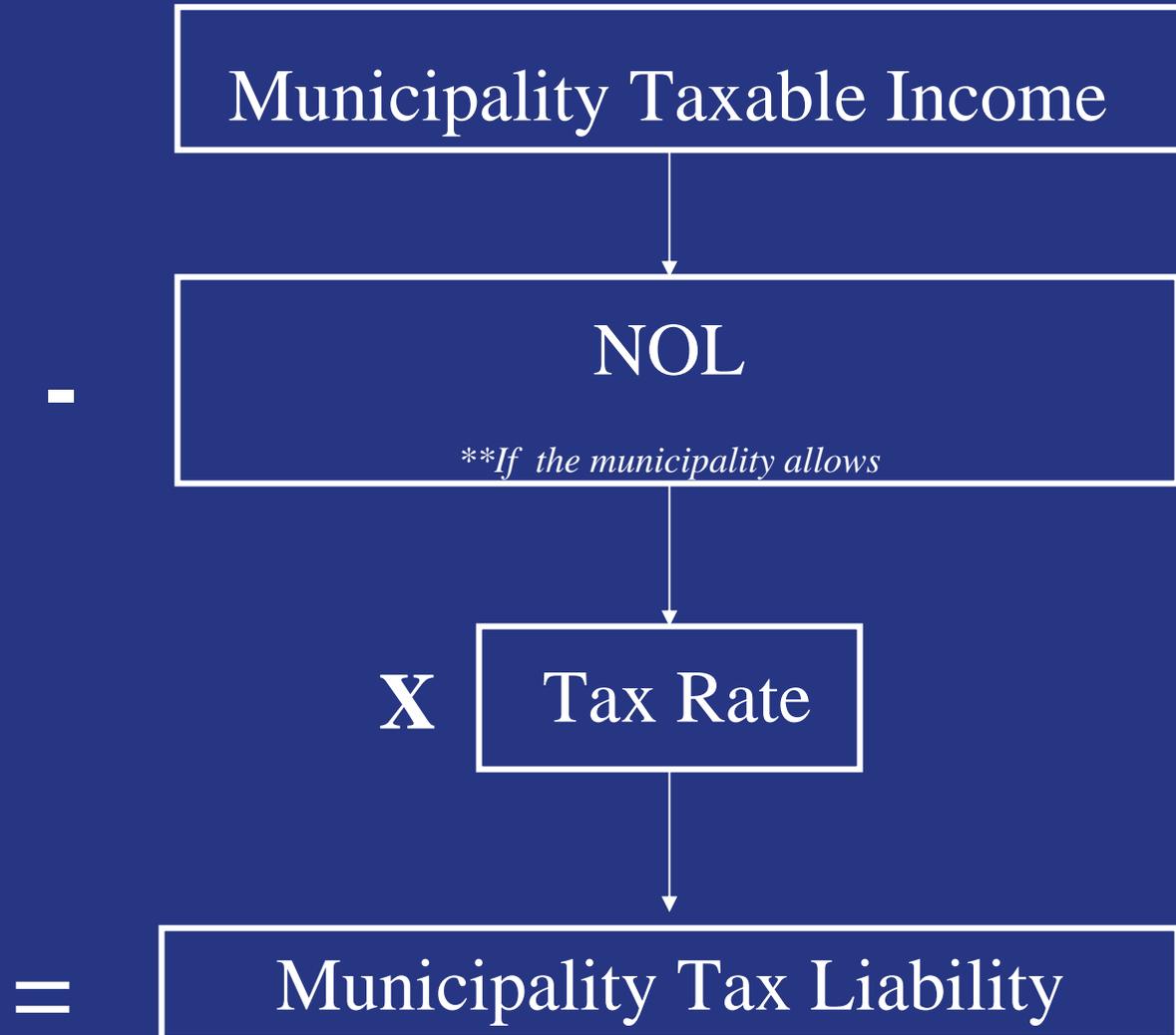
=

Municipality Net Profits Tax Base

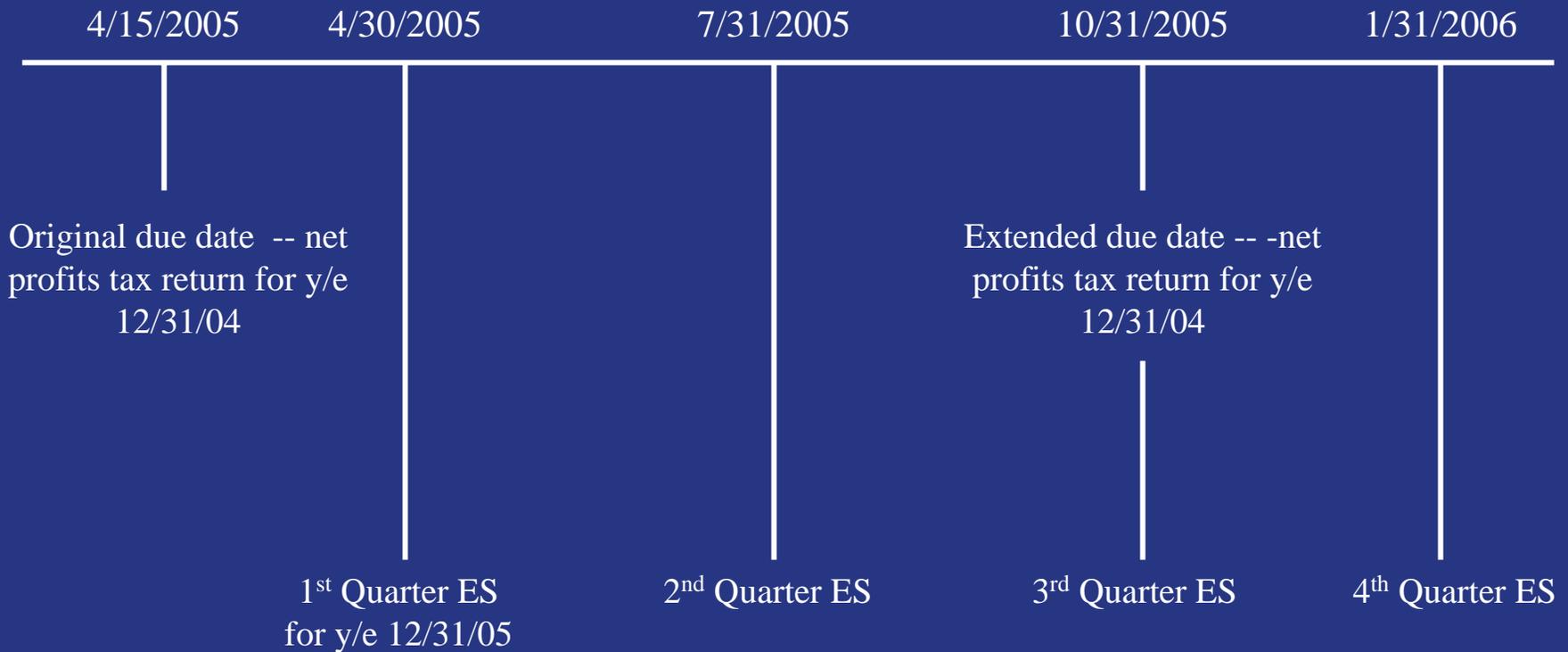
Apportionment of Net Profits Tax Base



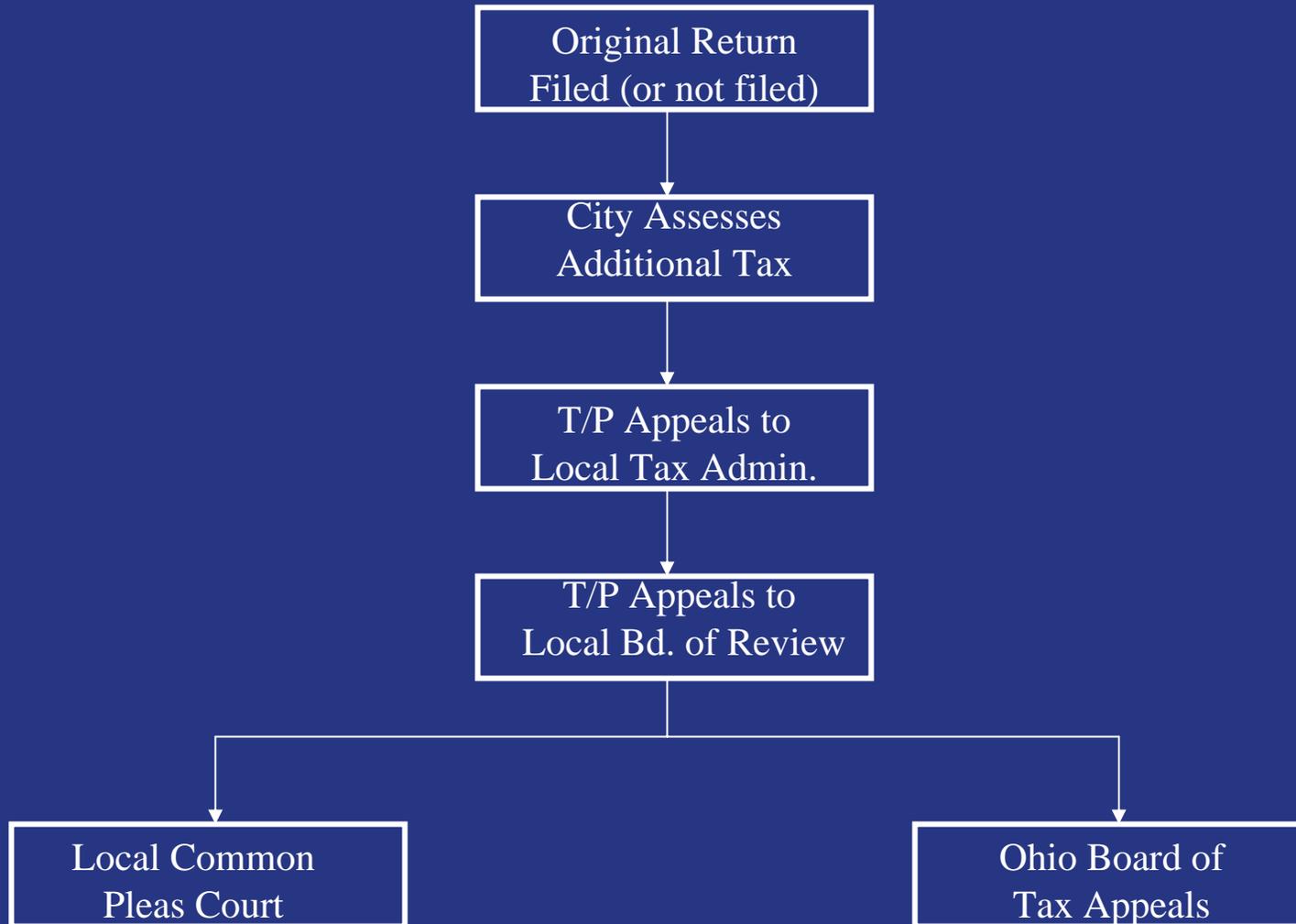
Calculation of Net Profits Tax Liability



Timeline for Net Profits Return Filings - Beginning next year



Appeal Process





**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Q/A Checkpoint

Ohio Business Gateway

Overview

Joe Zapotosky
Program Director



[http:// obg.ohio.gov](http://obg.ohio.gov)

What is it?

A web-based system that allows businesses to report and pay selected obligations within the state of Ohio.



[http:// obg.ohio.gov](http://obg.ohio.gov)

Intentions

- Designed to simplify Ohio business tax reporting and payment relationships
- Driven by Governor Taft's goal to move customers from in-line to on-line



[http:// obg.ohio.gov](http://obg.ohio.gov)

Positioning

- Groups common processes in one place
- Emphasizes recurring events
- Complements agency web sites



[http:// obg.ohio.gov](http://obg.ohio.gov)

Target Audience

- Ohio businesses
- Practitioners representing businesses
- Not for personal (individual) filings



[http:// obg.ohio.gov](http://obg.ohio.gov)

Multiple Ohio Agencies

- Department of Taxation
- Bureau of Workers' Compensation
- Department of Job and Family Services
- Department of Commerce



[http:// obg.ohio.gov](http://obg.ohio.gov)

Oversight

Achieved through steering committee comprising:

- Directors of several state agencies
- Representatives appointed by Gov. Taft:
 - Businesses
 - Practitioners
 - Municipal income tax administrators



[http:// obg.ohio.gov](http://obg.ohio.gov)

Features

- One place to securely access multiple agencies
- Memory of data from prior filings (selected apps)
- Accurate rate information
- Automatic computation of amounts due



[http:// obg.ohio.gov](http://obg.ohio.gov)

Features

- Accepts multiple payment methods
- Ability to file early but schedule payment on due date (few exceptions)
- Immediate confirmations
- Email reminders



[http:// obg.ohio.gov](http://obg.ohio.gov)

Advantages

- Saves time & money
- Reduces data entry & paperwork
- Increases accuracy
- Makes it easier to transact with government



[http:// obg.ohio.gov](http://obg.ohio.gov)

Bottom Line Advantage

Helps business (and government)
do more business and less busy-work



[http:// obg.ohio.gov](http://obg.ohio.gov)

Future Enhancements

2005 – Municipal Income Tax

- Extension Requests
- Estimated Payments



[http:// obg.ohio.gov](http://obg.ohio.gov)

Future Enhancements

2006 – Municipal Income Tax

Net Profits Returns and Payments



[http:// obg.ohio.gov](http://obg.ohio.gov)

Future Enhancements

2007 – Municipal Income Tax

Employer Withholding Returns and Payments



[http:// obg.ohio.gov](http://obg.ohio.gov)

Ongoing Efforts

- Identifying and developing new applications to increase value
- Improving usability and on-line experience



[http:// obg.ohio.gov](http://obg.ohio.gov)

Outstanding Growth

- Business registrations continue to increase
- Over \$1 Billion filed in past 12 months



[http:// obg.ohio.gov](http://obg.ohio.gov)

National Recognition

- Recipient of Council of State Governments 2003 Innovations Award
- Recognized as “Best in Class” among projects led by honorees in ComputerWorld’s 2004 Premiere 100 (Greg Jackson, Director, State of Ohio Office of Information Technology)



[http:// obg.ohio.gov](http://obg.ohio.gov)

Registration

- Businesses must first have an account with participating agencies.
- Easy web-based process.



[http:// obg.ohio.gov](http://obg.ohio.gov)



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Q/A Checkpoint

Introduction To The ACH Network



Materials Prepared by

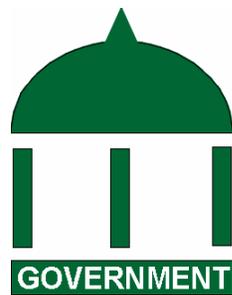
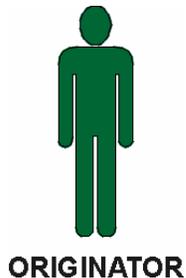
Tim Mills, AAP

Payments Central, Inc.

NETWORK PARTICIPANTS

- Originators
- Originating Depository Institution (ODFI)
- ACH Operator
- Receiving Depository Financial Institution
- Receiver

ORIGINATORS



- An Originator can be a natural person, company or government agency that gives a financial institution ACH payment instructions.

ORIGINATING DEPOSITORY FINANCIAL INSTITUTION

- The financial institution that places the Originator's payments instructions into the ACH Network.



ACH OPERATOR



- The processor responsible for accepting ACH payment transactions into the network and routing these transactions to the appropriate financial institution.

RECEIVING DEPOSITORY FINANCIAL INSTITUTION

- The financial institution that accepts the ACH transaction from the ACH Operator and executes the payment instruction, posting the transaction to the account of the Receiver.

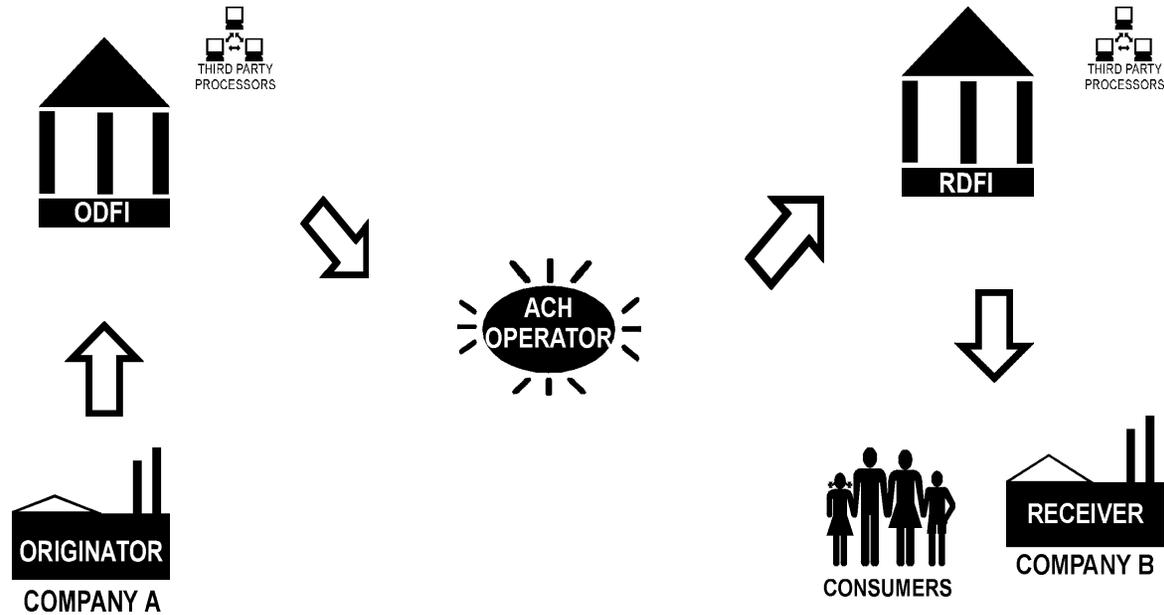


RECEIVER



- The natural person, government agency or company that authorizes an Originator to initiate a transaction to their account.

NETWORK FLOW





EXCEPTIONS

“ACH items that are unable to be posted to a Receiver’s account are called exceptions.”

COMMON EXCEPTION REASONS

Insufficient Funds

Account Closed

No Account

Payment Stopped

Uncollected Funds

Account Frozen

Non-Transaction Account

State Law

Account Holder Deceased

Revoked Authorization

Unauthorized Entry

Invalid Data

Refused by Receiver

Duplicate Entry

Branch Sold



SETTLEMENT

“Settlement is the transfer of funds between two depository institutions either in cash or on the books of a mutual depository institution in order to complete prior transactions.”

SETTLEMENT

- **The date when settlement will occur is known as the Settlement Date**
- **Settlement only occurs on banking days.**
- **Settlement Date and Effective Date differ. The Effective Date is the day on which the Originator wishes the payment to be active.**
- **Effective Date is used by the ACH Operator to determine Settlement Date.**

CONSUMER ACH APPLICATIONS

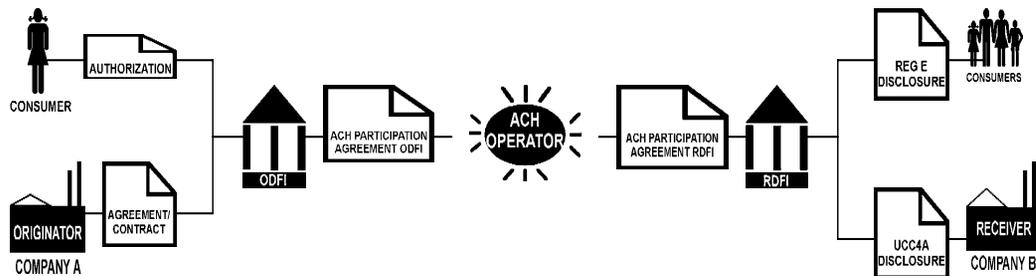
- Payroll
- Annuity
- Dividend/Interest Payments
- Collection of Insurance Premiums
- Utility Payments
- Many others...

CORPORATE ACH APPLICATIONS

- Cash Concentration and Disbursement
- Corporate Trade Payments
- State and Federal Tax Payments
- Financial EDI

LEGAL FRAMEWORK

- “The ACH network operates through a series of agreements between network participants.”



THE ACH RULES



- Each participating DFI agrees to comply with these rules.
- Each Participating DFI shall have conducted audits of its ACH compliance.
- The settlement of claims between participants may be governed by the ACH Rules.
- Each Participating DFI is subject to the rules enforcement procedures.

UNIFORM COMMERCIAL 4A



- Applies to commercial wholesale credit transfers
- Covers ACH credits as well as “on-us” transactions.
- Provides incentives for the party in the best position to avoid loss to do so.
- Promotes speed in handling transfers.



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Q/A Checkpoint

Conceptual Ideas for Funds Transfer Processes

Joe Zapotosky

Program Director, OBG

General Challenge

Design a funds transfer solution that allows tax payments to move from taxpayers to municipalities while supporting the intentions and testimony that accompanied the passage of H.B. 95.

Possible Funds Transfer Methods

- ACH Credit
- ACH Debit
- Wire Transfer
- Paper Checks

Filters for Funds Transfer Methods

- Easy to use and familiar to taxpayers
- Consistent with existing OBG
- Electronic
- Minimal Costs

Results

Easy &
Familiar

Consistent
w/ OBG

Electronic

Low Cost

ACH
Credit

Y

Y

ACH
Debit

Y

Y

Y

Y

Wire
Transfer

Y

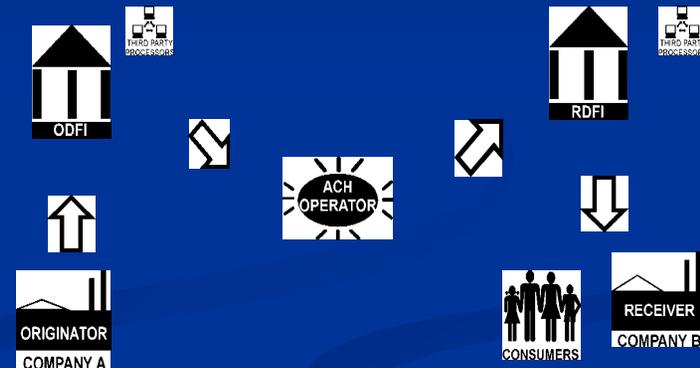
Paper
Checks

Y

Y

Recall ACH Debit Overview

- Originator (municipality receiving the payment) gives payment instructions to financial institution.
- Originator's financial institution (ODFI) forwards instructions to ACH operator.
- ACH operator passes instructions to receiving financial institution (RDFI).
- RDFI executes transaction and debits receiver's account (taxpayer).
- ODFI credits originator's account (municipality).



Additional Challenges

- OBG today facilitates payments for multiple agencies all having banking relationships at a few state banks (ODFIs).
- 100+ unique banks maintain the primary banking relationship for the 500+ municipalities levying taxes.
- It's a challenge to initiate and support new processes to transport payment instructions to any new ODFI (and some banks may not be ODFI-capable).

Is there another way?

- Alternatives generally involve the use of a holding account and institution.
- Holding account owners could be:
 - OBG
 - State of Ohio
 - Third party
 - Custodian
- Holding accounts would require new accounting, reconciliation, and disbursement processes.

Remembering H.B. 95 Testimony

- State/Ohio Department of Taxation (ODT) does not centrally collect the tax.
- State/ODT does not administer the tax.
- State/ODT does not audit the tax.
- State/ODT does not charge any fees to cities.
- State/ODT does not hold the funds.

What's the result?

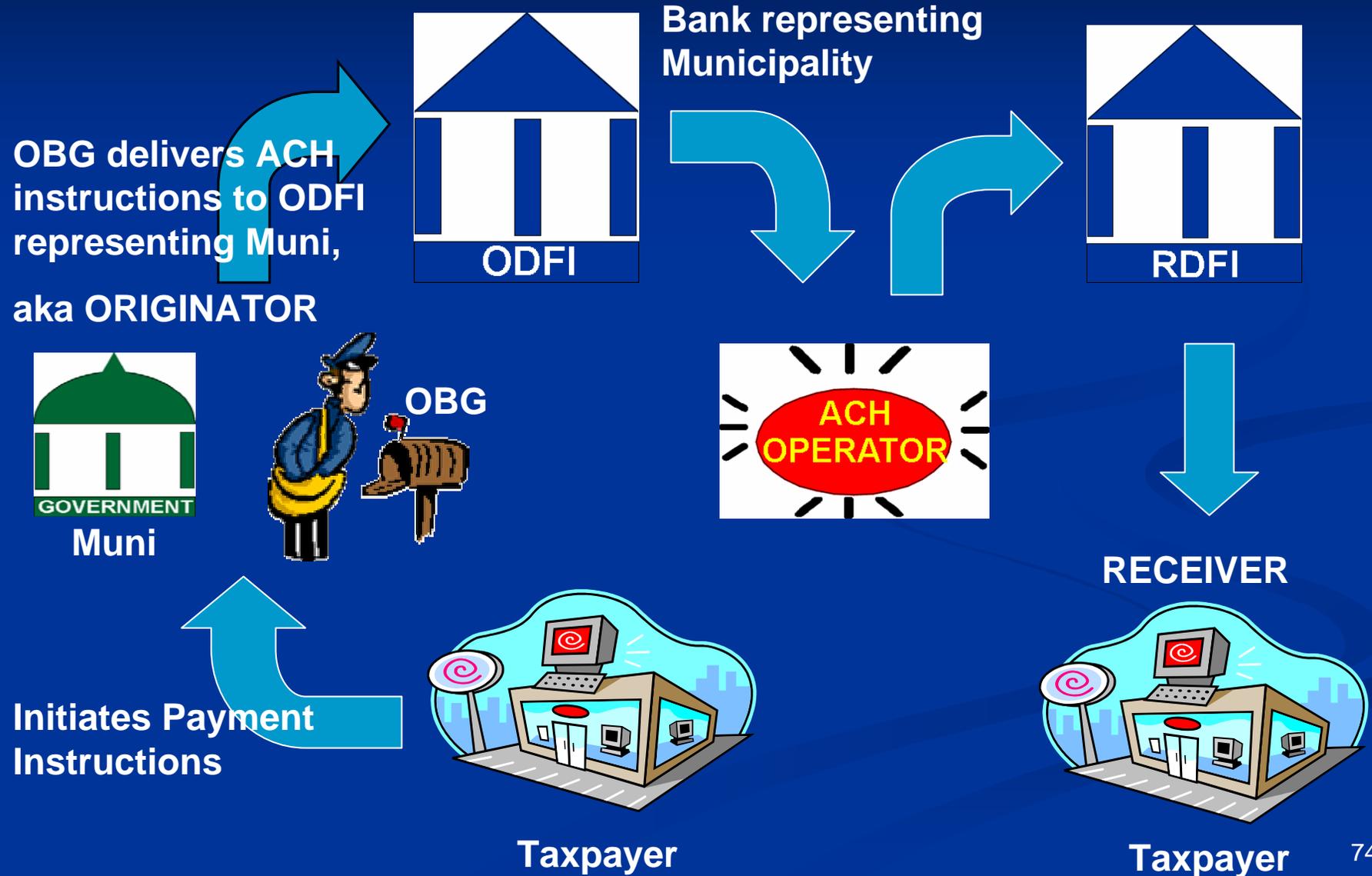
A holding account solution is inherently inconsistent with the H.B. 95 testimony.

Final Idea for Funds Transfer Processes

- OBG acts as facilitator of payment information, forwarding instructions to an ODFI representing each municipality.
- Municipalities retain full control over the management of their bank accounts and administration of their tax systems.
- Municipal tax administration systems continue to track payments, returns, etc.

Final Idea in a Picture

Back to the ACH Network



Costs

- State/OBG will not charge any fees for its services in the entire process.
- Fees for handling ACH transactions are levied by ODFIs to the municipality owning the account, under the terms of each individual account agreement.
- Overall costs to handle ACH could be offset by corresponding reductions in paper check volume and other handling expenses.

Benefits

- Municipalities get free access to OBG's electronic filing services
- ACH Debit can reduce the “collection float”^{*}
 - Mail float – the time a check is mailed until it is received
 - Processing float – the time a payee takes from receiving the check to depositing it at the bank
 - Availability float – the time from deposit to funds credited to the payee's account

^{*} as defined by the Association of Financial Professionals



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

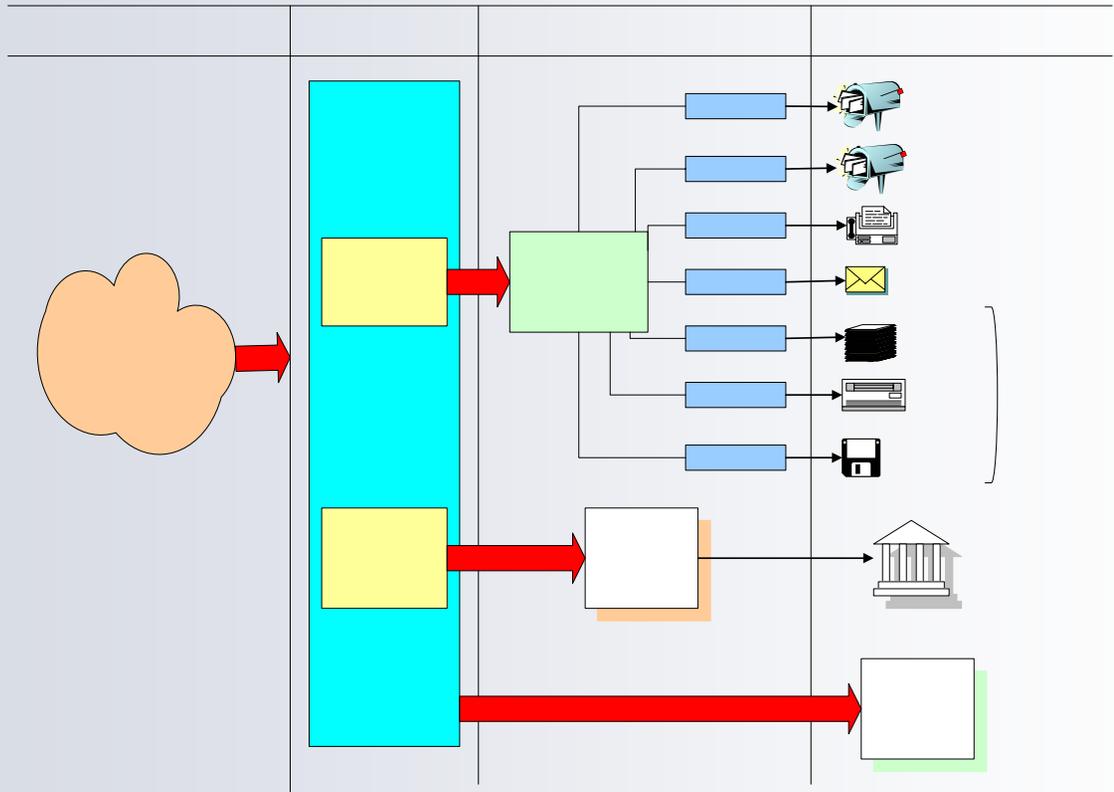
Q/A Checkpoint

Data Transport

David Grieshop, Electronic Commerce Center
Ohio Department of Administrative Services

March 23, 2004

Potential Municipal Tax Data & Payment Distribution Methods



Potential Municipal Tax Data & Payment Distribution Methods

7-Channels

- Floppy Disk 1.44 Mb
- CD-Rom
- Paper
- E-mail
- Fax
- Dial-in FTP Mailbox
- Web-accessible Mailbox

Potential Municipal Tax Data & Payment Distribution Methods

Analysis Filters

- Production Cost
- Distribution Cost
- Labor Intensity
- Potential Human Error
- Scalability
- Security
- Timeliness

Potential Municipal Tax Data & Payment Distribution Methods

Eliminating Factors

Channel Alternatives	Production Cost	Distribution Cost	Labor Intensive	Human Error - Potential	Scalability	Security	Timeliness
Floppy Disk 1.44 MB	Fails	Fails	Fails		Fails	Fails	Fails
CD-Rom	Fails	Fails	Fails			Fails	Fails
Paper	Fails	Fails	Fails	Fails	Fails	Fails	Fails
E-mail			Fails	Fails	Fails	Fails	
Fax	Fails		Fails	Fails	Fails	Fails	
Dial-in FTP Mailbox							
Web-accessible Mailbox							

Potential Municipal Tax Data & Payment Distribution Methods

Dial-in FTP Mailbox

Advantages:

- High potential level of security
- Ability to provide both human-readable and machine-readable formats
- Very high degree of potential automation by both the state and the recipient (client)
- Moderate degree of session tracking and non-repudiation of session activity
- Moderately scalable
- Immediate availability

Issue:

- Multiple username/password combinations potentially cumbersome to administer for password assignments and resets

Potential Municipal Tax Data & Payment Distribution Methods

Web-Accessible Mailbox

Advantages:

- Intuitive, easy to use, browser-based interface
- Highest potential level of security
- Ability to provide both human-readable and machine-readable formats
- Highest degree of potential automation and lowest maintenance
- Interface consistent with other online electronic filing options
- Flexible, automated password assignment and reset options
- High degree of session tracking and non-repudiation of session activity
- Highly scalable
- Immediate availability

Potential Municipal Tax Data & Payment Distribution Methods

Minimum Requirements

Dial-In FTP Mailbox

- PC Modem with support of PPP dial-up protocol
- FTP Client software
- Knowledgeable in use of FTP Client software, Remote Access Server (RAS) connection establishment, dialup session procedures, and mailbox login procedures
- Memory/retention of RAS username/password/dial-in phone number combination, and mailbox server username/password combination between sessions

Potential Municipal Tax Data & Payment Distribution Methods

Minimum Requirements

Web-accessible Mailbox

- Internet connection – Internet Service Provider (ISP)
- Browser supporting 128-bit SSL
- Knowledgeable in use of web browser
- Memory/retention of username/password combination between sessions



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Q/A Checkpoint



Closing Remarks

- Please provide written comments regarding today's event and the conceptual designs by March 30, 2004
- Conceptual designs will be discussed with and approved by the full OBGSC



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Contact Information

Joe Zapotosky, Program Director
Ohio Business Gateway
30 East Broad Street DAS Suite 4085
Columbus, Ohio 43215

Phone 614-466-7344

Fax 614-387-5558

joe.zapotosky@das.state.oh.us



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Final Q/A

Immediate Comments



**Municipal Tax Project – Phase I
Funds Transfer and Data Transport Forum
March 23, 2004**

Thanks for Attending!