



**Municipal Income Tax Project
Forum 7 - Net Profit Return
August 24, 2005**

Municipal Tax Project Net Profit Return Forum



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August 24, 2005**

Agenda

- Welcome and Opening Remarks
- Project Background
- Phase I and OBG Update
- Net Profits Return Requirements Review
- Phase II Status & Next Steps
- Closing Remarks
- Final Q/A and Immediate Comments



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Opening Remarks

- Introductions
- Contact List
- Logistics
 - Restrooms
 - Cell Phones
- Today's Presentation Available on Project Web Site
<http://munitax.obg.ohio.gov>



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Municipal Income Tax Project Background



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Project Objectives

- Based on H.B. 95 passed in 2003
 - ORC 718.051
 - Businesses may choose to use OBG to file and pay municipal income taxes
- Includes:
 - Net profits tax
 - Employer withholding
- Incremental deliverables through 2008



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Project Phases

- I. Estimated Payments and Extension Requests – available now
- II. Net Profits Return – 2006
- III. Employer Withholding Returns – 2007
- IV. Employer Withholding Reconciliation Reports - 2008



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Project Scope

- 550+ municipal tax entities
- 100+ municipal banking partners
- All businesses who file municipal taxes in Ohio



Constraints based on 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.



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Benefits for Municipalities

- Online electronic filing is provided at no cost from OBG
- Improved consistency and quality of tax data
- Potential to integrate with tax administration software systems to reduce data entry efforts
- Opportunity to reduce the “collection float”



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Benefits for Businesses

- Facilitates compliance activities
- Simplifies reporting and payment processes
- Provides services across multiple government agencies



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General Process

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



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Phase I and OBG Update Estimated Payments & Extension Requests



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Important Attributes

- All project constraints are met
- Municipalities retain full ownership of and responsibility for their bank accounts and tax payments (bank relationship is critical)
- OBG is neither a system of record nor a replacement for tax administration systems at the municipalities (think of OBG as a delivery service with “mailbox”)
- Design is compatible with wide range of municipal tax administration processes and systems



Electronic Filing Overview

- Business registers with municipality to establish tax relationship
- Business logs on to OBG and file and “pay”
- OBG processes filings and distributes tax data (activity report) and ACH debit payment instructions (NACHA file) to municipality via secure electronic mailbox
- Municipality downloads files from mailbox, uses activity report to update tax administration systems/records
- NACHA file is sent to bank
- Municipality’s banking partner processes NACHA file to transfer funds directly to municipality’s account
- Banking partner reports status of payments directly to municipality



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Notables

- 384/573 (67%) Municipalities Activated
- More than 450 certifications have been received
- Automated NACHA file delivery is available with several banks
- OBG can produce NACHA files for all ODFI-capable banks
- Businesses are filing reports



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Notables

- Banking processes and relationships can be confusing
- Certification process sometimes requires multiple contacts to insure all information is obtained
- Human readable reports are designed for basic text viewing



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Realizing Benefits

- Initial soft marketing by OBG allows for ramp-up period
- Increased usage will drive realization of electronic filing benefits and cost efficiencies
- Municipalities are encouraged to start promoting electronic filing on forms and in brochures

Link to: **obg.ohio.gov**



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New OBG Services in 2005

- Redesigned OBG home page
 - News and Information
 - Help and Support
- Municipal Income Taxes – Phase I
- Registrations with Ohio Department of Taxation
 - Sales Tax
 - Commercial Activity Tax
 - Employer Withholding



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OBG Usage

- January 2005 – August 2005
 - \$1.75+ billion reported
 - 350,000+ reports
- Since Inception
 - \$4.6+ billion reported
 - 900,000+ reports
 - Nearly 100,000 registered users



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Net Profits Return Requirements Review

See Handouts



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Requirements Review Ground Rules

- Materials are still in draft form
- Comments and feedback should be made relative to the law (i.e. ORC 718)
 - Accurate?
 - Complete?



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Many Things Remain the Same

- Mailboxes
- Payment Instruction Handling (NACHA Files)

Phase II simply adds a new form on top of the existing infrastructure developed in Phase I.



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Special Cases Not Currently in Scope

- Sole Proprietors
- Consolidated Filers
- Alternative Methods for computing fair and equitable apportionment



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Supporting Data

- Some data items can be collected electronically
- OBG can facilitate compliance with other local administration/audit requirements
e.g. direct taxpayers how to provide copies of Federal Tax Forms



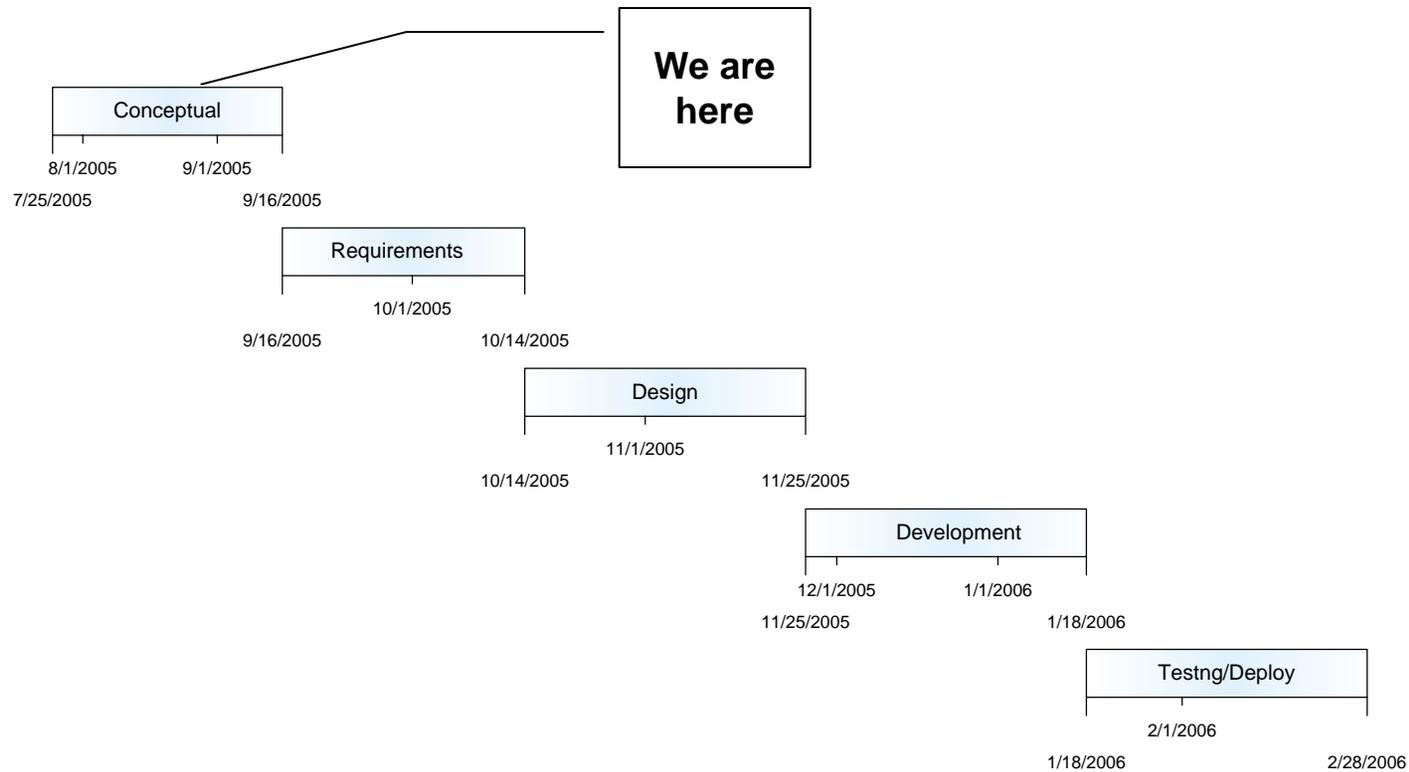
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Phase II Status & Next Steps



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Project Schedule





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Next Steps

- Continue to develop requirements for the Net Profit Returns
 - Business Rules
 - Screens
 - Supporting taxpayer data elements
- Collect additional municipality profile data elements
- Continue to activate municipalities



Possible Supporting Taxpayer Data Elements

- Observed on current net profits returns or related schedules:
 - Address
 - Preparer information
 - Partnership distribution information
 - NOL schedule
 - Others?



Municipality Profile Data

- Intangible Income Exception?
- Stock Option Exception?
- NOL Exception?
 - Number of Years Allowed to Carryforward?
- Refund Splits Allowed?
- Where do taxpayers send federal forms?



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Closing Remarks

- Please provide written comments regarding today's event by August 31, 2005
- Forum materials can be viewed on the Project Website at:

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Final Q/A

Immediate Comments



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Contact Information

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Thanks for Attending!