



**Municipal Income Tax Project
Tax Administrators Update
March 17, 2006**

Municipal Income Tax Project



Agenda

- OBG Overview
- Municipal Income Tax Project
 - General Overview
 - Phase I Update
 - Phase II Net Profits Return
- Next Steps
- Q/A



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OBG Overview



What is OBG?

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



Attributes

- Simplifies Ohio business tax reporting and payment relationships
- Groups common processes in one place
- Emphasizes recurring events
- Complements agency web sites



Target Audience

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



Multiple Ohio Agencies

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



Recent New OBG Services

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



OBG Usage

- January 2005 – December 2005
 - \$2.5+ billion reported
 - More than 500,000 reports
- Since Inception
 - \$5.5+ billion reported
 - More than 1 million reports
 - More than 100,000 registered users



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Municipal Income Tax Project Overview



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



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



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.



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”



Benefits for Businesses

- Simplifies reporting and payment processes
 - Ability to satisfy recurring compliance activities
 - File with municipalities by name - don't have to know actual tax administrator
 - Immediate confirmation of filing



Benefits for Businesses

- Reduced paper forms
- OBG now provides services across multiple levels of government agencies
 - Multiple State Agencies
 - Hundreds of Municipalities



Benefits for Both

- Facilitates compliance activities
 - ORC and local tax provisions are built-in, including accurate tax rates
 - Automatic generation of amended returns
- OBG filing complements municipality services
 - Online directory of municipality taxpayer support



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Phase I Update

Estimated Payments & Extension Requests



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



Notables

- 470 (82%) Active Municipalities
- 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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Phase II

Net Profits Return



How does OBG design the Net Profits Return?

- Outline in ORC
- OBG follows ORC and accommodates local provisions as outlined by ORC
 - 2006 Municipal Profile Certification Section IV
- Forum Feedback
- Standard OBG Features



Net Profits Return as per ORC

- Federal Starting Point
- Common Adjustments
- Entity Type Adjustments
- Calculation of Apportionment Ratio
- Municipality Specific Adjustments
(Certification Section IV)
- Final Adjustments

See Tax Process Flow Handout



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.



Features

- Original and Amended returns
- Integrated with estimated payment application
- In-progress work can be saved and completed later
- Improved navigation



Features

- Customization using municipal profile
- Municipalities listed by name, not third party administrator
- Online ACH debit payments
- Payment scheduling
- Access to historical filing information
- Pre-population of selected fields



Special Cases Not Currently in Scope

- Sole Proprietors
- Consolidated Filers
- “Agency” returns filed by partnerships
- Alternative Methods for computing fair and equitable apportionment
- Certain special cases of short year returns



How does OBG manage returns with multiple municipalities?

- Users create one “set” of municipal Net Profits Returns per tax year, and the set can contain any number of municipalities. There can only be 1 set of municipal tax returns on OBG per tax year.
- All returns in the set are designed around the ORC tax computation process and especially the portion which is common to any municipality. Common data is entered only once for the entire set.
- The OBG application allows for municipality-specific data entry as defined by ORC.
- OBG sends separate tax returns to each municipality in the set. Municipalities see the same common information but only their own municipality-specific information.



Amending Returns

- All amendments start from an existing set of tax returns for a given tax year.
- If a user needs to file with another municipality for the same tax year, the user must add the new municipality to the existing set of returns for that tax year. There can only be 1 set of municipal tax returns per tax year on OBG.
- If a user makes changes that impact the common portion of the set of tax returns, OBG will automatically generate amended returns for each municipality that is part of the set.
- If a user makes changes that only impact municipality-specific information, OBG will only generate amended returns for the municipalities affected.



Additional Data

- Some ancillary data items can be collected electronically and sent as part of activity report
- OBG will facilitate compliance with other local administration/audit requirements
e.g. direct taxpayers how to provide copies of Federal Tax Forms



2006 Municipal Profile Certification

- **Validate existing data**
 - Municipal Contacts
 - Banking Information
- **Collect additional data necessary to implement the Net Profits Return (Section IV)**



Certifications Cont'd.

- Consolidated certification processes of OBG and ODT
 - Reduces number of certifications
 - Helps insure consistency
- Most of the certification is the same as last year (no new banking processes)
- NACHA file courtesy notification is new



Practical Examples and Discussion

- *Tax Process Flow handout*
- Draft screen shots (slides)
- *Draft Net Profits Return Human Readable Activity Report handout*
- Certification Section IV



Next Steps

- Testing and Implementation of Net Profits Return
- Resolve Certification Questions and Clarifications
- Outreach Events (GOATA, SWOTAA, TAWCO, TRICOTA)



Next Steps

- “Go Live” date is mid-March
- **All currently active municipalities will be automatically enabled for net profits return filing (certifications must be returned)**
- Remember...nothing changes with respect to existing applications, mailboxes, or funds transfer processes



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