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March 27, 2023

Ohio House Ways and Means Committee
Ohio House

Via E-mail

Re: COST Supports Municipal Income Tax Changes in H.B. 105 and Seeks Amendment to Provide One-Month Extension for Net Profit Tax Returns

Dear Chair Roemer, Vice-Chair Merrin, Ranking Member Troy, and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in support of H.B. 105, which would limit municipal income tax inquiries when a taxpayer has a filing extension and would reduce the penalties for failure to file an income tax or withholding return. COST, along with the Tax Executives Institute, for the past 5 years has encouraged states to extend the due date of returns subject to a federal extension to one month after the federal extended due date. COST encourages this Committee to amend this bill to provide the extension to businesses filing net profit tax returns.

About COST

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of over 500 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. Many COST members have operations in Ohio and are required to file their local net profit tax returns on the same due date as their federal extended returns.

COST's Position on Fair, Efficient, and Customer-Focused Tax Administration

The COST Board of Directors has adopted a formal policy statement on Fair, Efficient, and Customer-Focused Tax Administration.¹ COST's policy position regarding the due date of state (and local) income tax returns is:

The state's corporate income/franchise tax return due date should be at least one month after the federal tax return due date. Further, the state's corporate income/franchise tax return due date should be automatically extended with the granting of a federal extension. Extending state due dates assists taxpayers in their

¹ COST Policy Position is available at: <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/fair-efficient-and-customer-focused-tax-administration.pdf>.

efforts to file correct returns based on complete federal return information. Although corporate taxpayers often file a single consolidated federal return, the adjustments necessary to generate the multitude of state tax returns required are complex and time consuming. To ease administrative burdens, an automatic state extension should only require attaching a copy of the federal extension with the state return to qualify.

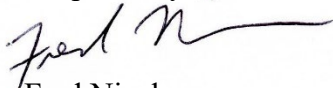
While the COST Policy Position references “state” returns, the same concerns apply to local business income tax return due dates.

One-Month Extension Needed to Accurately File Net Profit Tax Returns

Ohio has over 600 municipalities that impose an income tax, making it one of the most onerous states in the country for tax compliance by businesses. While COST supports the elimination of inquiries for returns subject to an extension and penalty relief for late filing in H.B. 105, amending the bill to also provide a one-month extension for net profit returns subject to a federal extension (but not local *individual* income tax returns) creates a “win-win” situation both for tax administrators and businesses filing those returns. Attached is a one-page document that stresses the importance of states providing a one-month extension.² A one-month extension would also ease administrative burdens imposed on tax administrators by reducing the number of amended returns filed when the net profit returns’ due date is the same date as the federal extended tax returns.

We strongly urge the Committee to amend this bill to provide a one-month extension for net profit tax returns. Please let us know how we can assist this Committee to make this important change.

Respectfully,



Fred Nicely

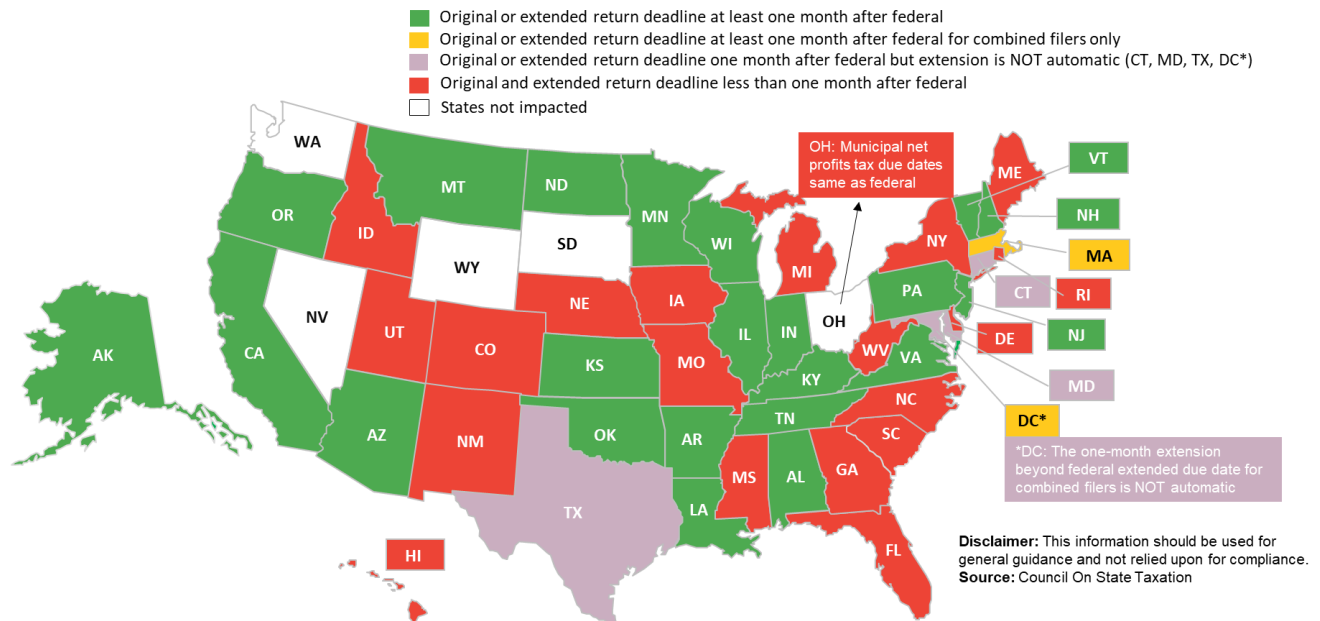
cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director

Attachment

² A draft amendment, AM_134_3592, to Sub. H.B. 519 (introduced in the prior legislative session), is suggested to amend this bill to provide the one-month extension for net profit returns.

Why it is Important for States to Provide at Least a One Month Extension After the Federal Extended Deadline for Business Taxpayers to File State and Local Income Tax Returns

Sufficient time to accurately file an income tax return is imperative to fair, efficient, and customer-focused tax administration. A 2015 federal law change, effective in 2017, extended the federal corporate filing deadline from September 15 to October 15 for calendar-year filers. Before that change, most states offered extended due dates for their corporate returns that were the month following the federal extended due date. As a result of this inadvertent federal law change, over 30 states had extended state corporate income returns due on the same date as the federal returns. While several states have rectified this problem by extending their corporate income tax return date to fall at least one month after the federal extended due date, there are still 18 states (and Ohio with its local municipal income taxes) with this issue. The states with this issue for corporate income taxes are shown below.¹



Because state and local income tax returns are derived from information computed from federal returns, state and local returns cannot be accurately completed until after the federal return is filed. This change is needed for Ohio municipal net profit tax returns because businesses must make significant adjustments to their federal income (*e.g.*, apportionment of that income, application of credits, net operating losses, adjustments for depreciation and certain federal provisions such as GILTI, etc.) before filing local net profit tax returns in Ohio. If Ohio provides net profit return filers at least one additional month after the new federal extended deadline, it will greatly enhance the accuracy of those returns. It should also ease administrative burdens imposed on tax administrators by reducing the number of amended returns filed when the due date for the net profit return is concurrent with the federal filing deadline. This additional time also allows taxpayers to make necessary adjustments from the federal Tax Cuts and Jobs Act of 2017; the Coronavirus Aid, Relief, and Economic Security Act; Inflation Reduction Act, and any upcoming federal tax changes.

Importantly, any tax liability is still owed by the original due date, including estimated payments. Interest and penalties associated with a late payment would still be owed under existing state law. In other words, resolution of this issue is easily accomplished by automatically extending the due date of the return to avoid late-filing penalties, without significantly impacting local government revenue streams.

Last year Alabama and Louisiana legislatively fixed this issue, while Illinois now provides this extension via a regulation change. COST is presently working with the remaining impacted states to address this issue this year.

¹Except for Ohio, this map only addresses state corporate income taxes. States are encouraged to consider extending the due date for individuals and partnerships. Extension should be automatic; states that only provide an extension upon request, *i.e.*, not automatically, are also listed.