



OHIO HOUSE WAYS & MEANS COMMITTEE
April 25, 2023

Written Interested Party Testimony
House Bill 105

Chair Roemer, Vice Chair Merrin, Ranking Member Troy, and members of the Ohio House Ways and Means Committee:

Thank you for the opportunity to provide written interested party testimony regarding House Bill 105, legislation that makes changes to the administration and enforcement of municipal income taxes.

The Ohio Municipal League represents cities and villages of all sizes and interests, and they rely upon sustainable, predictable funding for the services they provide. Approximately 650 of Ohio's 926 municipalities levy a municipal income tax, and the tax provides communities with revenue for public safety, capital projects, infrastructure maintenance/road improvements, parks and recreation, debt service, and more.

House Bill 105 has two parts. The first prohibits municipal tax administrators from sending notices prior to an extension due date if the taxpayer receives an extension. The second part limits the penalty for a taxpayer failing to file a legally required tax return and waives the penalty for a taxpayer's first failure to file.

Notices and Inquiries

According to the legislation, if a municipal tax administrator sends a notice to a taxpayer who has received a federal extension, the municipality will be required to reimburse the taxpayer for "reasonable costs" incurred in responding to it. This "reasonable cost" language is nebulous and not defined within the bill, and could result in unknown increased cost to municipalities, as well as frivolous litigation that would cost further taxpayer dollars. Because tax administration is best handled at the local level, tax administrators should be free to communicate with those who potentially owe tax to the municipality. Although many communities already do not send such an inquiry before the extended filing deadline, the state should prioritize allowing them to communicate with residents and businesses in a manner that allows for flexibility and efficiency.

It is also important to note that municipalities do not always know when a taxpayer has received an extension unless the taxpayer acknowledges so, especially communities with populations of less than 250,000 that do not have access to IRS records and therefore cannot know if a federal extension has been filed.

We have been made aware that some municipalities send out letters stating that a taxpayer's return was not received but have verbiage discussing the possibility of an extension. House Bill 105 would prohibit this – even though it could help reduce the late filing fee for people who merely forgot to file.

Late-filing Penalty

As mentioned previously, the bill limits the penalty for failing to timely file a legally required tax return. It does this by changing the currently capped \$150 penalty -- \$25 for each month up to six months – to a one-time \$25 penalty. To provide context, the potential \$150 late filing penalty was included as a revenue concession for municipalities in House Bill 5 of the 130th General Assembly, municipal tax reform legislation that made a vast array of changes to provide for greater uniformity statewide.

Late filing penalties serve a purpose by saving taxpayer dollars from being used on compliance efforts. The fees can be a valuable tool to induce compliance from a taxpayer who fails to comply with the filing requirements, especially when the taxpayer is delinquent for multiple years.

As the Legislative Service Commission's Fiscal Note & Local Impact Statement mentions, "The bill would likely have larger indirect effects, reducing revenue because the provision would reduce the penalties that, in effect, encourage taxpayers to file returns (and on time)." Municipalities receive a minimal amount of money from such late penalties, and tax administrators will tell you that they would rather the taxpayer simply file their taxes on time.

It is critical to note that taxpayers have the right to request that the municipality's tax administrator waive these penalties. And, indeed, many municipalities will already waive the late fee when asked if the taxpayer is not a habitual late filer – especially for first timers who may not have realized they needed to file or how to do so.

Previous versions of this legislation had left out a monetary enforcement mechanism, and we appreciate that changes were made over the course of the last General Assembly session to correct this. Preserving an enforcement mechanism is a top concern of income tax administrators at our member communities. It is important that this be maintained in the legislation as it moves forward to protect the integrity of the municipal income tax system in local communities.

Thank you for the opportunity to share our views on behalf of the Ohio Municipal League's more than 730 member communities.



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