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February 15, 2022

Ohio House Ways and Means Committee
Ohio House

Via E-mail

Re: COST Supports Municipal Income Tax Changes in H.B. 519 and Seeks Amendment to Provide One-Month Extension for Net Profit Tax Returns

Dear Chair Merrin, Vice-Chair Riedel, Ranking Member Sobceki, and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in support of H.B. 519, 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 and the American Institute of CPAs, is encouraging 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 efforts to file correct returns based on complete federal return information.

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>.

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 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. 519, 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 along with proposed changes to H.B. 519 to provide the one-month extension. 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 the bill’s sponsors, Representatives Roemer and Lanese, and this Committee to make this important change.

Respectfully,



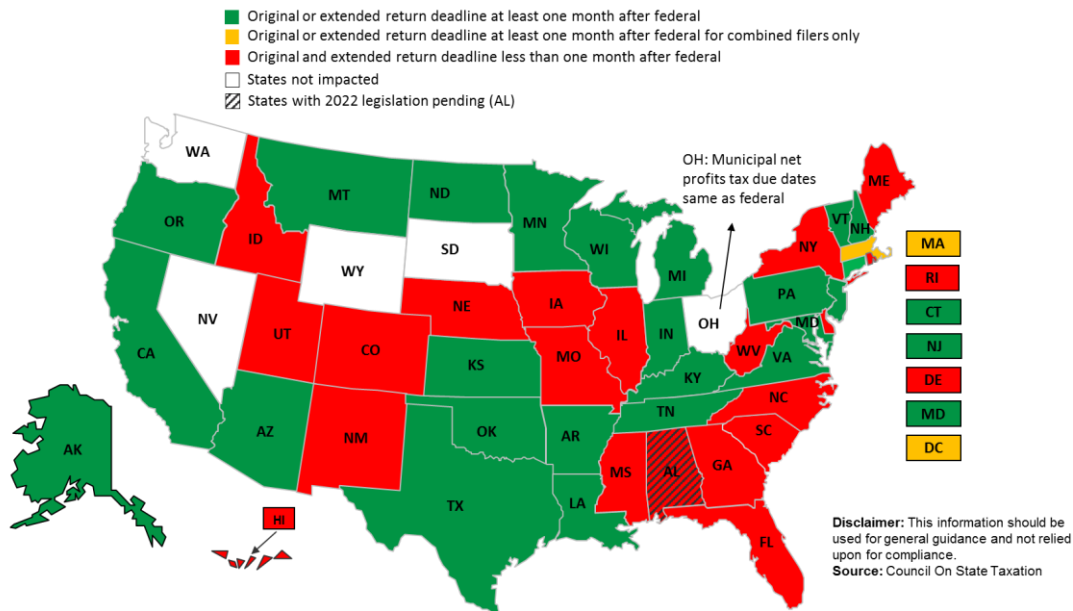
Fred Nicely

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

Attachment

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 20 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; and any upcoming federal tax changes.

Importantly, any tax liability owed would still be required 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 Arkansas, Arizona, Kansas, and Tennessee legislatively fixed this issue. COST is presently working with Alabama (legislation already introduced), Georgia, Illinois, New Mexico, New York, and West Virginia 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.

dollars or less. 109

(2) (a) Any taxpayer that has duly requested an automatic 110
six-month extension for filing the taxpayer's federal income tax 111
return shall automatically receive an extension for the filing 112
of a municipal income tax return. The extended due date of the 113
municipal income tax return shall be the fifteenth day of the 114
tenth month after the last day of the taxable year to which the 115
return relates for individuals. The extended due date of the 116
municipal income tax return for a taxpayer that is not an 117
individual that files an annual net profit return shall be one 118
month after the federal extended due date. 119

(b) A taxpayer that has not requested or received a six 120
month extension for filing the taxpayer's federal income tax 121
return may request that the tax administrator grant the taxpayer a 122
six-month extension of the date for filing the taxpayer's 123
municipal income tax return. If the request is received by the tax 124
administrator on or before the date the municipal income tax 125
return is due, the tax administrator shall grant the taxpayer's 126
requested extension. 127

(c) An extension of time to file under division (G) (2) of 128
this section is not an extension of the time to pay any tax due 129
unless the tax administrator grants an extension of that date. 130
131

(3) If the tax commissioner extends for all taxpayers the 132
date for filing state income tax returns under division (G) of 133
section 5747.08 of the Revised Code, a taxpayer shall 134
automatically receive an extension for the filing of a municipal 135
income tax return. The extended due date of the municipal income 136
tax return shall be the same as the extended due date of the 137
state income tax return.

(4) If the tax administrator considers it necessary in
order to ensure the payment of the tax imposed by the municipal
corporation in accordance with this chapter, the tax

for refund filed with the commissioner under sections 718.80 to 400
718.95 of the Revised Code, copies of any relevant documents or 401
other information. 402

(b) A taxpayer that files an annual tax return 403
electronically through the Ohio business gateway or in another 404
manner as prescribed by the tax commissioner shall either submit 405
the documents required under this division electronically as 406
prescribed at the time of filing or, if electronic submission is 407
not available, mail the documents to the tax commissioner. The 408
department of taxation shall publish a method of electronically 409
submitting the documents required under this division on or 410
before January 1, 2019. 411

(3) After a taxpayer files a tax return, the tax 412
commissioner may request, and the taxpayer shall provide, any 413
information, statements, or documents required to determine and 414
verify the taxpayer's municipal income tax. 415

(D) (1) (a) Any taxpayer that has duly requested an 416
automatic extension for filing the taxpayer's federal income tax 417
return shall automatically receive an extension for the filing 418
of a tax return with the commissioner under this section. The 419
extended due date of the return shall be one month after the 420
federal extended due date the fifteenth day of the tenth month 421
after the last day of the taxable year to which the return 422
relates. 423
424

(b) A taxpayer that has not requested or received a six 425
month extension for filing the taxpayer's federal income tax 426
return may request that the commissioner grant the taxpayer a six- 427
month extension of the date for filing the taxpayer's ~~municipal~~
~~income~~-tax return. If the commissioner receives the request on or 428
before the date the ~~municipal income~~-tax return is due, the 429
commissioner shall grant the taxpayer's extension