

Chairman McGregor, Ranking Member Reece, and members of the subcommittee;

Thank you for the opportunity to testify in support of the Administration's budget recommendation for the Ohio Department of Taxation (The Department) for the 2014-2015 biennium.

The Department is responsible for the administration of most state-collected taxes, several locally-collected taxes and supervision of the real property tax. ODT collects, administers, and enforces 24 different taxes including state personal income tax, school district income tax, both the state portion and the local piggyback sales taxes, commercial activity tax (CAT), casino tax, and soon the financial institutions tax (FIT).

The Department collects and distributes nearly \$25 billion annually, which supports important functions such as education, healthcare, transportation, and law enforcement. In addition, the Department provides support services for taxpayers who need assistance preparing Ohio returns or have other, more complex issues to resolve.

We are guided by our Mission Statement in achieving our objectives: "To provide quality service to Ohio taxpayers by helping them to comply with their responsibilities and by fairly applying the tax law". The staff continually strives to provide excellent customer service and to utilize taxpayers' dollars efficiently and effectively.

During the last biennial budget, we applied these principles in many areas with great success. As a result, while cash collections increased 6% from FY 2011 to FY 2012, the Department was able to decrease spending by over \$13 million, a 16% reduction in GRF operating expenses.

Cash Collections from Ohio Department of Taxation
 Audit and Compliance Programs, Fiscal Years 2010 – 2012
 (in millions)

<u>Tax Type</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>
Sales & Use	\$226.7	\$209.3	\$210.5
Corporate Franchise	76.60	61.00	37.70
Personal Income	188.50	188.60	207.00
Employer Withholding	14.10	16.40	16.10
Commercial Activity	55.80	64.70	104.00
Excise & Energy	14.20	5.40	9.40
Pass-through Entity	12.40	21.20	14.50
School District Income	<u>22.60</u>	<u>24.00</u>	<u>25.70</u>
Total	\$610.9	\$590.6	\$624.9

The Department has been reorganizing to right-size in order to best accomplish our mission. Staff-to-management ratios have increased and vacancies have been scrutinized. The Department’s 2014-2015 budget request envisions a staffing level of 1,200 FTE’s compared to 1,247 at the start of the biennium. The use of Kaizen events, black belt projects and other lean sigma tools has proven to be successful in gaining operational efficiencies.

The Use Tax Amnesty program has accepted 1,884 applications through mid-February with an expected revenue impact of \$19.1 million. This program concludes May 1, 2013. The General Amnesty program that ran from May 1, 2012 to June 15, 2012 generated approximately \$27.3 million in revenue bringing total Amnesty revenues to \$46.4 million.

During fiscal year 2013, we learned that it had been standard practice at the Department not to contact taxpayers if there were credit balances on their business tax accounts. We changed that practice and divisions are now actively researching credit balances and contacting taxpayers when refunds are owed to them. Coined ‘The Buckeye

Refund' by The Wall Street Journal, this change in direction started with the Commercial Activity Tax. Thirty-five hundred companies have been identified as having overpayments that could lead to \$13.7 million returned to business to invest back into their operations. Other divisions are conducting similar research and contacting taxpayers.

Building on this record of accomplishments, our goal is to stay on this track and continue to find innovative ways to serve Ohio taxpayers and manage resources with even greater efficiency and effectiveness. The Department has a history of finding ways to reduce spending and with this budget we intend to continue that trend.

We look to make the tax system more user-friendly and prepare to administer new programs with this in mind. House Bill 59 includes several "tax simplification" provisions that aim to reduce the Department's administrative costs. One provision requires electronic filing and payment for all annual CAT filers. Currently, quarterly CAT filers are required to file and pay electronically. This extension of the electronic filing and paying requirement will provide efficiencies to the taxpayer and ensure the accuracy of calculations. It will also save taxpayer dollars otherwise spent handling and processing paper returns. In addition, there is a provision in the bill that allows the Tax Commissioner to deliver a tax notice or order by ordinary mail rather than by certified mail or delivery service if the recipient does not access the electronic notice or electronic order within 10 business days. The Department can only send notices or orders electronically with the taxpayer's consent. This will allow the Department to reduce its mailing costs substantially.

Several provisions in House Bill 59 seek to "clean-up" the Ohio Revised Code. To illustrate this, the Tax Refund Fund language has been amended to include the estate tax among other Tax Commissioner-administered taxes. This will ensure that there is a mechanism to

continue to pay estate tax refunds now that this tax has been repealed and does not generate new revenues.

The Ohio Legislature recently passed two important bills. HB 510, The FIT, will help strengthen Ohio's banking system and the Wireless 9-1-1 legislation will finance the infrastructure for the next generation of telecommunication for emergency services, such as transmission of photos from a cell phone camera. The Department will play a role in administering these landmark acts and will utilize appropriations prudently.

The Department partnered with the Governor's Office and the Office of Budget and Management in the design of the historic tax reform package incorporated in House Bill 59. We believe the tax reform package benefits all Ohioans and provides fundamental change and increased stability to Ohio's system of taxation. The elements of tax reform are not being covered in this testimony, which focuses on the operations of the Department. However, tax reform has been described in detail in the full finance Committee hearing, and we will continue to discuss it with the legislature, in committee and subcommittee hearing settings and in separate meetings with individual legislators, as we strive to achieve this significant milestone in tax reform legislation.

The Department also faces challenges in the next biennium. We need to upgrade our Teradata hardware and software in order to continue our successful Tax Discovery program. Discovery generated \$39.8 million in fiscal year 2012 and has generated \$12.0 million through January of fiscal year 2013. The cost of this upgrade will be \$1.5 to \$1.9 million and will be presented to the controlling board for approval before the end of FY 2013, under the current funding strategy. The Department is also looking at new initiatives for Tax Discovery. This upgrade will allow for more robust programs and help more Ohio taxpayers achieve compliance.

The Department's State Taxation Accounting and Revenue System (STARS) project continues to progress through the development phase with Hewlett-Packard (HP) as the integrator. The objective of the STARS project is to consolidate 27 different systems into 1 integrated system that is developed in a modern architecture to meet industry standards and reduce risk. STARS is expected to provide the Department flexibility to respond to changes in tax administration and processing, as well as lower the cost of maintenance by consolidating platforms and programming languages. This is a highly complex project that will provide significant improvements in how the Department will conduct tax administration in the future.

While slower than expected, progress is being made with the software code development. The Department continues to work with HP through the complexities of this project and the refactoring of the implementation schedule to account for the newly introduced FIT and Wireless 9-1-1. HP has projected a second quarter fiscal year 2014 phase 1 delivery.

The General Operating Fund budget is the bulk of the budget that we control and reflects our effort to improve service while decreasing taxpayer costs. This part of our budget funds our statutory obligations and primary objectives such as:

- Processing individual and business tax returns and accounting for payments and refunds. Last year, the Department processed approximately 5.4 million Ohio personal income tax returns and 1.5 million sales and use tax returns.
- Ensuring that the correct amount of tax has been paid by conducting audits and administering compliance programs. In fiscal year 2012, the Tax Discovery program alone generated over \$39.8 million in revenue.

- Assisting taxpayers with their Ohio returns and helping bring them into compliance. During fiscal year 2012, our staff handled over 800,000 phone calls, responded to 36,000 email inquiries, and assisted 8,600 walk-in customers.
- Utilizing technology to create greater efficiencies for the future. When it is complete, the STARS project will consolidate the processing of several types of business returns.

For our fiscal year 2014 GRF budget, we requested \$65.5 million. This is a reduction of 10% from 2013. In December, after we submitted our budget request, both the FIT and the Wireless 9-1-1 bills were passed. Statutory appropriations for these new programs were added to our GRF budget. Funding for the Tax Discovery program was rolled into it as were some other miscellaneous items, bringing the total to \$71.2 million. Even with these additions, our GRF Budget will still be 4% less than the previous year. Looking ahead to 2015, our GRF Budget will be reduced by another 4.4%.

These reductions will represent significant budget savings. Comparing fiscal year 2010 actual to our 2015 budget, we will have reduced the GRF Operating Budget by 17%. This is an accomplishment we can all be proud of.

Chairman McGregor, thank you for your time. I would be happy to answer any questions regarding the operations and budget of the Department.