INTRODUCTION

Chairman Greenspan, Ranking Member Skindell, and members of the House Finance Sub-Committee on Transportation: My name is Jeff McClain, Tax Commissioner for the Ohio Department of Taxation.

Thank you for the opportunity to testify today on the budget request for the Ohio Department of Taxation (ODT) in Governor Mike DeWine’s Fiscal Year (FY) 2020-2021 budget.

OVERVIEW OF ODT BUDGET AND OPERATIONS

The ODT budget request for FY 2020-2021 is structured to support innovative ways to make the best use of taxpayer dollars. ODT administers and enforces 30 different state and local taxes and fees, including state and school district individual income taxes, state and local sales taxes, and various business and excise taxes. ODT also oversees the ad valorem (property tax) appraisals in Ohio’s 88 counties. Collections of taxes and fees administered by ODT generate approximately $30 billion each year to support many functions of state and local government, including education, health care, transportation, and law enforcement.

ODT’s all funds budget request for FY 2020 is approximately $135.5 million, which is comprised of $61.4 million for GRF General Operating Expenses and $74.1 million for Dedicated Purpose Funds (DPF). The total request for FY 2021 is approximately $138.2 million, which is comprised of $62.5 million for GRF Operating and $75.6 million for DPF.

Our mission is to provide quality service to Ohio taxpayers by helping them comply with their responsibilities and by fairly applying the law. This mission statement guides ODT in establishing priorities, allocating resources, and maximizing work efforts.
Our primary objectives as a Department are as follows:

1. Process tax returns, payments, and refund requests filed by individuals and businesses. More than 97% of the revenue collected by ODT comes from voluntary compliance.

2. Conduct audit and compliance programs to educate and ensure the correct amounts have been paid by taxpayers. In FY 2018, these programs generated an additional $712.6 million in cash payments, supplementing the taxes that are paid voluntarily.

3. Provide customer service to help taxpayers fulfill their tax filing responsibilities. ODT handled 769,917 taxpayer telephone calls, responded to 68,936 email inquiries and assisted 11,234 walk-in customers during FY 2018.

4. Improve operations and modernize the legacy computer systems by moving forward with various initiatives.

5. Identify efficiency gains that will enable ODT to operate in the most economical way possible.

6. Improve customer service by leveraging technology.

**Operational Objectives: Cutting Costs and Increasing Efficiency**

ODT recently developed and implemented the following operational changes:

- **Providing superior customer service** – ODT strives to provide the best customer service to all taxpayers.

- **Fighting Tax Fraud** - ODT continues to improve methods of blocking attempted income tax fraud, while reducing the cost of fighting fraud and minimizing the inconvenience to taxpayers.

- **Audit Selection** – ODT is utilizing data analytics to objectively and efficiently identify taxpayers who may be noncompliant with their tax obligations.

- **Ohio Virtual Tax Academy** - Attendance at OVTA webinars continues to grow as we provide education outreach, which includes continuing education credits to attorneys and CPAs. Since 2014, more than 11,800 people have attended OVTA webinars for free.

**Setting Priorities for FY 2020-21**

**Personal Income Tax (PIT) Replacement** - ODT’s existing PIT system, which administers both personal and school district income taxes, is written in COBOL and runs on an IBM mainframe. All other business taxes have been migrated to STARS (Oracle-based integrated tax system). This administration is currently evaluating the best approach for a new platform.
**Data Capture Upgrade** - ODT processed 1.2 million paper returns and 1.68 million check payments in FY 2018. The software used to process this volume is 11 years old. While the number of taxpayers who file paper returns continues to decrease, we must maintain an effective and efficient system to deposit revenue and process returns. This project involves upgrading the software to a new version to take advantage of better processing, additional security, and better data handling/reporting. ODT expects to complete this project in 2020.

**Portal to Connect ODT with Local Governments** – ODT exchanges data with many local governments including counties, municipalities, and school districts. Historically, the exchange of data has been largely a manual process both to and from ODT. The first phase of the project allowed ODT to develop and implement a secure portal that facilitates the electronic transfer of data to and from municipalities for purposes of the municipal net profit tax. ODT continues to enhance the functions of the portal and will soon roll out a means to collect historical data from municipalities for that tax. ODT plans to include other local government data exchanges in the portal in the future to increase efficiency for both the State and local government.

**Municipal Income Tax for Electric Light Companies and Local Exchange Telephone Companies (MELT) System Upgrade** – The system used to administer MELT will be almost 20 years old by the end of this biennium. The technology underlying that system has become obsolete, making the system very costly to update and maintain. During this biennium, the goal is to put this system on a more modern and configurable platform.

Chairman Greenspan and members of the House Finance Sub-Committee on Transportation, I am greatly appreciative of your time and would be happy to answer any questions you may have.