



INTRODUCTION

Chairman Faber, Ranking Member Patterson, and members of the House Finance Subcommittee on State Government and Agency Review, my name is Joe Testa, Tax Commissioner for Ohio. Thank you for the opportunity to testify today on the budget recommendations for the Ohio Department of Taxation (ODT) for the Fiscal Year (FY) 2018-19 biennium. Please note that ODT submitted the questionnaire responses last week. I trust that those responses helped Subcommittee members become familiar with ODT's operations and accomplishments and provided some context to ODT's budget request.

DEPARTMENT OVERVIEW

ODT's purpose is embodied in its mission statement: to provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law. ODT strives to administer Ohio's tax system in the most customer-focused, impartial, efficient and professional manner possible.

ODT administers and enforces 27 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 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 also provides support services for taxpayers who need assistance preparing Ohio returns or have tax-related issues. In FY2016, ODT processed 9.6 million electronic filings and payments, 1.5 million paper returns and 1.9 million checks. Over four million individual income tax refunds were issued and 221,000 suspected fraudulent refund requests were blocked, protecting \$175.8 million in taxpayer refunds. In total, 1.2 million taxpayers were assisted with their tax-related inquiries.

FY2018-19 BUDGET RECOMMENDATION

Budget Fund Groups

ODT's budget is composed of four fund groups: Fiduciary Funds, the Holding Account, the Dedicated Purpose Funds (DPF) and the General Revenue Fund (GRF).

Together, the Fiduciary Fund and the Holding Account groups are known as the Revenue Distribution funds. These are cash funds from which ODT makes distributions and payments as necessary. These funds are not budgeted for ODT's operations. The *Fiduciary Funds* group is the largest at over \$1.5 billion and is used to (1) issue refunds to taxpayers who have either overpaid or have a credit due; (2) provide reimbursements to counties and municipalities, and (3) distribute vendor's license payments to counties. The *Holding Account* group is the smallest and is a place to 'park' misdirected tax payments until missing information is available and monies can be forwarded. Appropriation requested for this group is \$25,500 per fiscal year.

Together, the DPF and GRF are known as the Tax Administration funds. Spending from these funds is monitored daily. These appropriations fund the divisions that administer taxes, process and distribute revenues, provide taxpayer assistance and conduct compliance activities, and the support divisions such as information technology, facilities management and human resources. The *DPF* appropriations are used to perform a specific function or to pay for the administration activities related to specific taxes. DPF's 20 Appropriation Line Items range from \$38,800 to administer revenues from the check boxes on personal income tax returns to \$23.8 million to administer local sales tax. The *GRF* is used to pay for the administration activities related to taxes that are deposited in the GRF and to pay for taxpayer services and the tax policy and analysis functions. GRF is also used to pay for personal service contracts, equipment and maintenance, and other expenses that are not covered by DPF.

Budget Request

ODT's all funds budget request for FY2018 is \$141.4 million, or \$67.9 million for GRF and \$73.5 million for DPF. The total request for FY2019 is \$145 million, or \$70.6 million for GRF and \$74.4 million for DPF.

	FY 2016 Actual	FY 2017 Est. Appropriation	FY 2018 Recommendation	FY 2019 Recommendation
GRF	\$ 69,529,343	\$ 70,607,949	\$ 67,940,382	\$ 70,607,949
DPF	\$ 62,315,896	\$ 66,116,253	\$ 73,466,578	\$ 74,399,011
Total	\$ 131,845,239	\$ 136,724,202	\$ 141,406,960	\$ 145,006,960

During this administration, ODT has focused on making better use of DPF, and thereby reducing reliance on GRF. In FY2010, DPF were 38.0% of the total operating budget; DPF will be 52% in FY2018 and 51.3% in FY2019. This is the first time ODT’s budget request utilizes more DPF than GRF resources. ODT has recently contracted with an accounting firm to review budgeting practices, including allocation of expenses to more accurately attribute to the DPF both the direct and indirect costs related to the tax collection activities for the various non-GRF taxes.

The difference in size of appropriations between FY2018 and FY2019 assumes the passage of the municipal net profit tax proposal included in H.B. 49. ODT’s budget request includes an appropriation of \$3 million in FY2018 and \$6 million in FY2019 to cover additional costs related to ramping up to administer this new tax. If the proposal does not pass, the appropriation should be deleted from the ODT budget.

ODT’s GRF request for FY2018-19 is consistent with the actual expenditures forecast for FY2017. The attached graph shows actual Tax Administration expenditures since FY2010, FY2017 forecasted expenditures, and the FY2018-19 request. The blue area shows that the GRF FY2019 request is 14% lower than actual expenditures for FY2010. Total Tax Administration expenditures for the same period have increased by only 3.2%.

Since the start of this administration, ODT’s total number of appropriated FTE’s has gone from 1,450 to our request of 1,020 or a decrease of 30%. A comparison chart between FY2011 and FY2017 staffing levels can be found below.

	FY2011	FY2017
Administration & Technology	235	160
Operations & Tax Processing	500	360
Customer Service	200	140
Compliance	515	360
TOTAL FTE’s	1,450	1,020
Part-time	5	0
Intermittents	250	143

Operational Highlights

ODT anticipates continuing its investment in technology, creating additional efficiencies, reducing security risks, and improving service to taxpayers in FY 2018-2019. Current and future major projects are described below.

STARS Completion – ODT’s STARS project is approaching a successful completion. After significant issues at the start of this project, Hewlett Packard Enterprises and ODT agreed to a project reset in July of 2012, including the adoption of the Agile development methodology that facilitated an accelerated implementation schedule. ODT is now administering 22 taxes on the STARS platform with the 23rd and final tax to be added in June 2017.

Electronic Filing – Motor fuel taxpayers are no longer limited to paper returns, making it more convenient and easier to file and make payments. Detailed monthly schedules, sometimes containing 100 or more pages, were previously keyed into the motor fuel tax administration system. Now that motor fuel is in STARS, taxpayers can upload this same information via an electronic file. Pass-through entity tax is the final tax type being developed in STARS. Once it is implemented in June, those taxpayers also will be able to file and pay electronically instead of mailing in their returns and payments.

Fighting Tax Fraud – Since 2014, ODT has blocked the attempted theft of nearly \$565 million by cyber-criminals filing phony tax returns. Data analytics are now being used to identify suspected fraud perpetrated by an individual or a tax preparer. This new approach is expected to continue to reduce the number of legitimate taxpayers who need to verify their identity either through taking the quiz or mailing in supplemental information.

Identity Validation – ODT has agreed to participate as a pilot for the Enterprise Identity Management program. This program is being offered by the Ohio Department of Administrative Services Office of Information Technology. The service requires the implementation of access and authorization protocols designed to assure that an authorized identified user (e.g., a taxpayer requesting a personal income tax refund) is in fact who they proclaim themselves to be. This program is under development and will be implemented in June 2017.

Audit Selection – Data analytics are also being used to objectively identify taxpayers who may not be compliant with their tax obligations. Examiners are now able to spend more time conducting audits instead of researching audit leads.

OFAST Replacement – OFAST is a standalone program custom-written for the Audit Division in 2001. OFAST does not accommodate the newer taxes, such as the commercial activity tax. The replacement

software package will handle additional taxes, interface with STARS, and be accessible by ODT's Tax Appeals Division. This project kicked off in January 2017 and will conclude in June 2018.

Travel Expense – ODT has cut travel expenses in half compared to just a few years ago by performing more audits remotely and finding other ways to save on travel.

OBG 3.0 – ODT partners with the Ohio Business Gateway (OBG) to provide businesses a portal to file and pay their business taxes electronically. OBG is currently modernizing to be more user-friendly and to simplify navigation, while routing the business information to the appropriate state agency. ODT will play an important part in this modernization by providing technical and business expertise as needed during the design and testing phases of the project.

Security Enhancements – At ODT's request, Ohio Homeland Security (a division of the Ohio Department of Public Safety) performed a Threat and Vulnerability Risk Assessment of the Northland facility which is the hub of ODT's operations. Utilizing recommendations made in the report, ODT is enhancing the building's security by installing a new camera system, creating safe rooms, implementing a mass notification system, and making landscape/hardscape improvements. Additional measures are being considered, dependent on available funding.

CONCLUSION

With that, Mr. Chairman, I conclude my remarks and I thank you for the opportunity to testify on ODT's budget recommendations for the upcoming biennium. ODT remains committed to achieving its mission of administering Ohio's tax laws while providing quality customer service to Ohio taxpayers. I would be glad to entertain any questions that you or members of the committee may have for me, either on this testimony or on the questionnaire responses submitted last week.

**Ohio Department of Taxation
Tax Administration Expenditures
Actual and Projected
Fiscal Years 2011 to 2019
(in millions)**

