INTRODUCTION

Chairman Patton, 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 Fiscal Year 2022-2023 biennium budget request for the Ohio Department of Taxation (ODT).

OVERVIEW OF ODT BUDGET AND OPERATIONS

The ODT budget request for FY 2022-2023 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. In Fiscal Year 2020, collections of taxes and fees administered by ODT generated approximately $29.2 billion which went to support many functions of state and local government, including education, health care, transportation, and law enforcement.

Breaking it down, the fiscal year 2022 request includes approximately $56.4 million for GRF General Operating Expenses and $71.3 million for Dedicated Purpose Funds (DPF). The remainder – a bit less than $2.2 billion -- represents Fiduciary Funds, nearly all of which are used to make tax refunds. Our request for fiscal year 2023 is for $56.7 million in GRF Operating monies, and again $71.3 million in DPF Funds. Together that totals approximately $128 million. Fiduciary Funds in fiscal year 2023 are approximately $2.2 billion, the same amount as the previous year.

ODT's all funds budget request is an increase of 0.3 percent from fiscal year 2021. Over the biennium, the ODT budget would remain essentially flat.

ODT's 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.

The department currently has 812 full-time permanent employees, down from a high of 1,368 employees in 2010, and down as well from 2019 level of 925 and 2020 when there were 849 permanent employees on the payroll.

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 2020, these programs generated an additional $655.3 million in collections, supplementing the taxes that are paid voluntarily.
3. Provide customer service to help taxpayers fulfill their tax filing responsibilities. In FY 20, ODT handled 570, 195 taxpayer telephone calls, responded to 70,084 email inquiries, assisted 11,234walk-in customers and helped with 25,820 cases that came in through the Ohio Business Gateway.
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.

DEPARTMENT ACCOMPLISHMENTS

I'd like to take a moment to mention some of the Department's accomplishments in 2020. Apart from collecting taxes and overseeing the state tax system, we've been busy.

Some of our more notable initiatives:

- Developed a system that enables employers to submit W-2s electronically through the Ohio Business Gateway.
- Another upgrade, we rolled out a system that allows taxpayers and tax practitioners to respond to notices from the tax department electronically. This provides real-time confirmation of receipt.

- We modernized our web site and integrated it into the state's growing network of connected and coordinated agency web sites.

- We streamlined our legal processes and significantly cut down on the time it takes to move legal cases through the system. Additionally, the Department now accepts appeals electronically through its Online Notice Response System and publishes all Final Determinations on its website.

- And internally, we implemented a 'single sign-on' system for our employees to access the various technology platforms we use. This reduces our infrastructure costs and increases our efficiency.

ODT GOALS AND OBJECTIVES

In Fiscal Year 2022, ODT will begin a long-awaited and much needed project to modernize the personal income tax and school district income tax computer system. This project will take an estimated two years to complete. It will:

- Reduce technical and financial risk by implementing modern information technology architecture and will enable an easily adaptable environment.

- Increase taxpayer satisfaction by simplifying, modernizing, and enhancing the user experience for electronic tax filing, payment, and refund processes.

- Enhance safeguards of taxpayer information through the application of appropriate security controls, which fosters a high degree of taxpayer confidence that personal and financial information.

We will be addressing the needs for permanent position staffing in a couple of critical areas:

- The first is staffing in the Audit Division. The Audit Division is responsible for conducting audits on most of Ohio's major business taxes. The impact of not maintaining sufficient staffing levels in the Audit Division would be a reduction in tax revenue identified during audits.

- We'll also be looking at increased staffing for the Taxpayer Services (TPS) Division. The goal here is to support existing service quality standards, including meeting wait time targets for callers. The TPS Division runs a contact center that responds to questions from taxpayers and tax practitioners regarding Ohio tax laws, how to file tax returns, how to resolve

overdue tax liability, and how to ascertain the refund status for individual income and most business taxes.

Our 'to-do' list also includes implementing new information technology projects:

- One of those projects will involve migrating additional tax systems from the IBM Mainframe to more modern and supportable applications. This will increase functionality and associated efficiencies.

- We will also be undertaking an upgrade of the IBM WebSphere application to ensure the continued processing of tax returns, collection of revenue, and issuance of billings and assessments.

- Finally, while we encourage people to use our Online Notice Response Service, not all taxpayers have internet access and instead rely on facsimile communications. To maintain optimal accessibility, we will complete the replacement of our Faxaway system so aw to continue the support of fax-based communications between taxpayers and the Department.

Chairman Patton 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.