



Department of  
Taxation

## **Budget Testimony: Ohio Department of Taxation Fiscal Years 2024-2025**

### **Introduction**

Chairman Patton, Ranking Member Skindell, and members of the House Finance Sub-Committee on Transportation: my name is Patricia Harris, Tax Commissioner at the Ohio Department of Taxation (ODT).

Thank you for the opportunity to testify today on the tax related aspects of Governor Mike DeWine and Lieutenant Governor Jon Husted's Fiscal Year (FY) 2024-2025 budget, and the Department's biennium budget request.

By way of background, ODT's mission is to provide quality service to Ohio taxpayers by helping them comply with their tax responsibilities and by fairly applying the tax law. ODT's mission statement guides us in establishing priorities, utilizing resources, and maximizing work efforts to achieve our goals and meet our objectives.

ODT administers and enforces more than 30 state and local taxes and fees, including sales and use taxes, the state's individual income tax, school district income taxes, and an array of business and excise taxes. It also directs and supervises the assessment for taxation of all real property in Ohio's 88 counties and each year for local property taxes calculates current agricultural use values and effective tax rates. In fiscal year 2022, net collections of state-collected taxes & fees administered by ODT were approximately \$36.2 billion. ODT distributed approximately \$7 billion in revenues to Ohio's local governments and school districts.

### **DeWine/Husted FY 2024-2025 Budget: Tax Proposals**

Governor DeWine, in his State of the State Address, proposed some tax initiatives that would provide important support for families with children, and tax incentives to spur development of single-family housing and housing for-lower income families. As well, the Governor proposed the creation of the "Ohio Home Ownership Savings Account". This program, under the stewardship of Treasurer of State Robert Sprague, would allow first-time homebuyers to save money for a down payment and, in the process, gain some tax relief benefits.

If I could offer just a few details about those proposals:

- **Tax Deduction for Children** – the Governor’s highest priority is the welfare of Ohio’s children and families. That concern underlies the Governor’s proposal to enact a state tax exemption of an additional \$2,500 for each child under the age of eighteen. This increased exemption would be non-refundable and becomes available beginning with the 2023 tax year.
- **Sales Tax Exemption for Critical Infant Supplies** – if adopted, this package of sales tax exemptions would ease the financial burden on parents by eliminating sales tax on critical infant supplies. These tax-free purchases would include car safety seats, diapers, wipes, cribs, strollers, and other critical safety equipment. As you’re aware, infant formula remains exempt from the sales tax.
- **Low Income Housing Tax Credits** – to address the need for adequate, affordable housing for lower-income Ohio families, Governor DeWine is proposing new tax credits to encourage the construction or rehabilitation of rental housing. The credits would be capped at \$100 million each fiscal year.
- **Single Family Housing Tax Credits** – to bolster the construction of new, affordable single-family housing, the Governor is proposing a state tax credit against the insurance premiums, financial institution, or income taxes of the parties responsible for developing this type of housing. The credits, for construction or rehabilitation, would be capped at \$50 million each fiscal year.

Both of these Housing Tax Credits would be overseen and implemented by the Ohio Housing Finance Agency. ODT would administer the tax credits.

- **Ohio Home Ownership Savings Account** – in partnership with Treasurer of State Robert Sprague, the Governor is encouraging the creation of a program to support Ohioans trying to buy their first home. The Home Ownership Savings Account would offer tax benefits meant to encourage and support prospective buyers who are trying to set aside savings for a down payment on their primary home.

These five proposals create and allow for further investment in Ohio’s families and children and provide an opportunity for families and housing developers to focus and expend more of their resources on critical needs rather than meeting state tax obligations. There is a cost in foregone revenue, but that cost is also an investment in Ohio families and children.

I'd like to turn now to the Ohio Department of Taxation's budget request for the upcoming biennium. It's probably helpful to first look at some of the activity at ODT that laid the groundwork for the budget requests you'll be considering.

### **Department Accomplishments**

I would like to recognize and applaud the staff of the Department for the significant number of successful initiatives completed in this past year.

Let me mention just a few of those accomplishments:

- Stopped more than \$19.7 million in fraudulent refund requests from being paid to criminals. I should mention that we've seen attempted fraud cases trending up since the pandemic began.
- Developed an electronic system to track all legal cases, and drove down the average cycle time for appeals from 4.5 years to 18 months from the date of filing to the rendering of a decision;
- Implemented a modernized call center system, which offers callers the option to request a callback rather than waiting on hold and allows the Department to expand call capacity on demand;
- Initiated a web-based filing option by which county auditors can submit tentative property abstracts and view filing histories through our County Portal; and
- Developed processes to e-mail real property and tax rate reports, abstracts and other documents to county auditors, which eliminated the expense, resources and delivery lag associated with traditional mailing.

### **ODT is on track to meet its FY 2022-2023 goals:**

#### **1. Technological enhancements:**

- a. *Sunset mainframe* – ODT's Information Services Division ("ISD") began in FY 2022 a project to sunset ODT's use of the state's mainframe computer. That effort is meant to reduce IT costs and migrate our computer environment to the cloud. This project is expected to continue beyond the upcoming biennium.
- b. *Government-to-government portal enhancements* – to facilitate a more efficient partnership with local governments, ODT operates a government-to-government portal. That portal was enhanced to allow an improved exchange of information related to property valuation and revenue distributions to local governments.
- c. *Final determinations on the web* – ODT is upgrading its publication of final determinations, or legal decisions, of the Tax Commissioner on the

Department's website to make those documents searchable so taxpayers do not have to travel to Columbus to review or retrieve them.

- d. Finally, ODT is working to launch an overhaul of Ohio's personal income tax system, Project NextGen. This modernization effort is on track and is scheduled to go-live this fall.

**Primary Objectives for ODT during the FY 24-25 Biennium:**

As always, ODT will maintain its focus on our core responsibilities that include:

1. **Processing tax returns, payments, and refund requests** filed by individuals and businesses to support virtually all functions of state and local government and school districts.
2. **Providing customer service to help taxpayers** fulfill their Ohio tax filing responsibilities. In FY 2022, our agency responded to 508,853 taxpayer telephone calls and 69,987 email inquiries and completed 34,037 Gateway cases.
3. **Improving operations and customer service by modernizing the legacy computer systems** to move the agency forward with various initiatives.
4. **Continuing to identify efficiency gains** that will enable ODT to operate in the most economical way possible.
5. **Conducting audit and compliance programs** to ensure the correct amounts of tax due have been paid by taxpayers. In FY 2022, these programs generated \$749.6 million in payments in addition to taxes collected with returns. Collections from Compliance, Audit, and Voluntary Disclosure Agreement Programs are displayed in the following table.

**Table 5 - Collections from Audit and Compliance Programs FY2022**

Tax Type	Billing Collections	Assessment Collections	Audit Collections	Voluntary Disclosure Agreement Collections	Total FY 22	% of Total
Sales and Use	\$ 93,002,350	\$ 150,924,078	\$ 24,294,486	\$ 49,177,995	\$ 317,398,909	39%
Commercial Activity	\$ 80,580,284	\$ 68,753,067	\$ 19,345,794	\$ 17,923,927	\$ 186,603,072	23%
Individual Income	\$ 52,711,074	\$ 114,482,269	\$ 1,334,991	\$ -	\$ 168,528,334	20%
School District Income	\$ 11,340,218	\$ 57,465,352	\$ -	\$ -	\$ 68,805,570	8%
Employer and School District Withholding	\$ 6,282,641	\$ 22,895,347	\$ 812,152	\$ 9,861	\$ 30,000,001	4%
Pass-Through Entity	\$ 10,237,880	\$ 5,759,428	\$ 3,625,552	\$ 4,949,891	\$ 24,572,751	3%
Financial Institutions	\$ 1,216,562	\$ 722,432	\$ 4,513,755	\$ 750,260	\$ 7,203,009	1%
Municipal Net Profit	\$ 1,488,055	\$ 5,542,488	\$ -	\$ -	\$ 7,030,543	1%
Motor Fuel	\$ 1,263,538	\$ 3,295,329	\$ -	\$ -	\$ 4,558,867	1%
Other Tobacco Products	\$ 1,263,304	\$ 468,789	\$ -	\$ -	\$ 1,732,093	0%
Kilowatt Hour	\$ 467,744	\$ 943,820	\$ -	\$ -	\$ 1,411,564	0%
Public Utility Excise	\$ 1,044,430	\$ 318,603	\$ -	\$ -	\$ 1,363,032	0%
IFTA	\$ 283,422	\$ 417,062	\$ 76,950	\$ -	\$ 777,433	0%
Severance	\$ 229,400	\$ 403,813	\$ -	\$ -	\$ 633,214	0%
Alcoholic Beverage	\$ 282,504	\$ 184,050	\$ -	\$ -	\$ 466,554	0%
Resort Area	\$ 34,817	\$ 401,891	\$ -	\$ -	\$ 436,708	0%
Petroleum Activity	\$ 256,246	\$ 147,805	\$ -	\$ -	\$ 404,051	0%
Natural Gas Distribution(MCF)	\$ 293,260	\$ -	\$ -	\$ -	\$ 293,260	0%
Wireless 911 Charge	\$ 12,653	\$ 79,937	\$ -	\$ -	\$ 92,590	0%
Replacement Tire Fee	\$ 45,733	\$ 33,871	\$ -	\$ -	\$ 79,604	0%
Cigarette	\$ 11,009	\$ 25,230	\$ -	\$ -	\$ 36,239	0%
Master Settlement Agreement	\$ -	\$ 34,888	\$ -	\$ -	\$ 34,888	0%
<b>TOTAL</b>	<b>\$ 262,347,124</b>	<b>\$ 433,299,551</b>	<b>\$ 54,003,680</b>	<b>\$ 72,811,934</b>	<b>\$ 822,462,289</b>	<b>100%</b>

Billing Collections includes all audit types

Assessment Collections includes all types (uncertified, corrected assessment, final determination, and certified)

**Priorities for FY 2024-2025:** The following is a summary of ODT’s top priorities for the upcoming biennium.

1. **Finalizing Project NextGen** – Project NextGen is the name of an ongoing project to implement the Ohio Tax System. This system will be used to administer the individual and school district income taxes. Project NextGen now is in the development phase. The planned completion date for the individual income tax rollout is September 5, 2023.
2. **Permanent position staffing** – ODT, like many other organizations, has struggled with and continues to face a staffing challenge. The Department needs to add positions to expedite collection efforts, minimize customer service backlogs, and implement technological enhancements to increase efficiencies and reduce costs and taxpayer burdens. Our top needs are for tax examiners, attorneys, information technology specialists, and other support classifications.

3. ***Increased collaboration with other State agencies by sharing information with our agency partners –***

One of the Department's key proposals, if adopted, would allow the Department to share relevant tax information with other state agencies to ease the burden on Ohio citizens of providing the same information multiple times to different agencies of the State.

4. ***Implementing technology enhancements to increase efficiencies, reduce costs and simplify the taxpayer experience –***

I mentioned the upcoming Ohio Tax System. This system will provide secure taxpayer and tax practitioner self-service functions. Taxpayers will be able to view account statuses, review filing and payment histories, and file and pay online. This new system will provide a “banking experience” to taxpayers, which is something that has been long desired from the practitioner community.

**FY 2024 and FY 2025 ODT Budget Request**

1. ***Personal services*** – ODT respectfully requests in its budget a staffing expense of approximately \$95.9 million in FY 2024 and \$98.5 million in FY 2025. This budget request allows for 842 full-time permanent positions, 28 positions fewer than the previous biennial budget request.
2. ***Contract services*** – The Department requests for this expense category \$6.1 million in FY 2024 and \$4.2 million in FY 2025. IT staff augmentation and IT projects and services, together comprise the largest portion – nearly 89% -- of the request for contract services.

Major IT projects in the FY 2024-2025 biennium are summarized as follows:

- Sunset mainframe – this project calls for appropriations in both FY 2024 and FY 2025.
- Modernize our property tax administration system.
- Upgrade and modernize our web development software.
- Further develop and expand our government-to-government portal for information exchange between ODT and various local governments.

3. ***Supplies and Maintenance*** – The request for this category is \$30.7 million in FY 2024 and \$34.3 million in FY 2025. IT maintenance costs and postage comprise nearly all of this expense category. Included in the Governor’s budget is language to allow ODT to send notices electronically or by ordinary mail instead of certified mail. This change, if adopted, would cut postage costs in half, saving about \$6 million over the biennium.

### **Conclusion**

That concludes my testimony. I have invited staff from the Department to be with us today. We are happy to answer any questions you may have. Thank you for your time and attention.