



**Testimony of Tax Commissioner Joseph Testa
Substitute House Bill 153
Senate Finance Committee
May 16, 2011**

Good morning Chairman Widener, Ranking Member Skindell and members of the Senate Finance Committee. My name is Joe Testa and I am the Tax Commissioner for the Ohio Department of Taxation. I appreciate you giving me the opportunity to appear before you today to discuss the Department of Taxation's (ODT) budget for the 2012-2013 biennium.

RESPONSIBILITIES OF ODT

ODT's mission statement and commitment is: *to provide quality service to Ohio taxpayers by helping them to comply with their responsibilities and by fairly applying the tax law.*

We stand committed to fulfilling this mission each day by administering and enforcing Ohio's 24 different taxes in the least burdensome way possible to taxpayers. Those taxes collected generate approximately \$25 billion annually to support nearly all functions of state government, including education, healthcare, transportation and law enforcement.

TRANSFORMING TAXPAYER SERVICE IN AN ELECTRONIC AGE

Ohioans continue to become more technologically advanced and ODT puts a high priority in evolving along with them. In FY 2010, ODT employees handled over 1.3 million phone inquiries and answered nearly 60,000 e-mails. Within ten months, the Department's website received 6.12 million visits and 19.33 million page views. It is because of this high volume of website traffic that we have added many online help features to make taxpayers' visits to the website more simple and accommodating.

ODT processes over 5 million state income tax returns annually, as well as almost 750,000 school district income tax returns. The Department's I-File program and various commercial e-filing software programs make filing electronic returns much faster as it is proven in the changes in our e-filing statistics. For tax year 2006 (returns filed in 2007), about 59% of state income tax returns were filed electronically. For tax year 2009 (returns filed in 2010), the number climbed to over 72%. We calculate that electronic filings will reach 78% for tax year 2010 (returns filed in 2011) and anticipate that 83% of all returns will be filed electronically by this time next year due to the IRS mandate on preparers. With so many returns being filed electronically, it is no surprise that the number of taxpayers in need of in-person assistance is less than half what it was in 2007.

ODT BUDGET SUMMARY

ODT is committed to providing the services that the state's taxpayers and its agencies deserve and require, but doing so in a leaner, significantly more efficient way.

In the As Introduced version of HB 153, ODT's funding was reduced by 17.8% in GRF spending. In total, ODT's GRF appropriations have decreased from \$90.2 million in FY 2011 to \$74.2 million in FY 2012 and FY 2013, an annual reduction of \$16.0 million or 17.8% when compared to FY 2011. The House made additional reductions by lowering our FY 12 amount by \$431,585 and our FY 13 amount by \$404,525.

CLOSURE OF THE REGIONAL TAXPAYER SERVICE CENTERS

Possibly the most significant approach that we have taken in saving the taxpayers' money is by proposing in the Executive budget to close the 7 regional taxpayer service centers outside of Columbus. With fewer taxpayers requiring face-to-face service and preferring to file their taxes from the convenience of their home, ODT believes that these centers are no longer needed to fulfill its mission, and we could save on both personnel and overhead costs associated with those offices through consolidation. Historically, these centers have been used to assist walk-in visitors and answer local telephone calls. Through technological innovations, incoming telephone inquiries from our toll-free taxpayer phone system are now automatically routed to available agents throughout the state. There is no longer a need to maintain a physical presence in the regional offices to answer locally-placed calls since we are in the process of making it available to more of the existing staff in Columbus so they can assist during high volume periods. These closures will result in the elimination of up to 99 jobs with an overall projected GRF budget savings of \$7.7 million annually. Additional staff associated with the taxpayer service centers could potentially increase the \$7.7 million saved annually to more than \$9 million.

We do recognize though that there may still be instances where taxpayers need in-person assistance or a physical location to submit paper documents. We are considering a number of options to provide such assistance, if it should prove to be necessary. Among those options are the use of drop boxes for documents at state or local government office buildings, and dispatching department taxpayer service agents throughout the state at peak income tax filing season. Perhaps this could be done in collaboration with federal IRS taxpayer assistance personnel in regional offices or establishing temporary locations in city hall buildings.

It is also important to note that the audit and enforcement agents that are stationed at the regional service centers will not be eliminated. Instead, we plan to follow the lead of 14 other states by allowing these employees to telecommute. Much of the training for audit staff is already online, and auditors in the field have access to the Ohio Revised Code, the Ohio Administrative Code, and relevant case law through electronic means. In addition, online management tools are now available for management to supervise the activities of telecommuting audit staff.

IMPLEMENTATION OF USE TAX EDUCATION PROGRAM (UTEPA)

Ohio's use tax was instituted by the General Assembly in 1936 and works in collaboration with the sales tax. Generally speaking, use tax is owed by a purchaser on a transaction when the vendor does not collect sales tax. ODT has come to find that many businesses and individuals are unaware of their use tax liability and therefore neglect to pay any use tax that is owed to the state. ODT is in the process of establishing a Use Tax Education Program (UTEPA) with the goal of contacting an estimated 300,000 Ohio businesses to help them better understand use tax laws and how to stay in compliance with the law. An amendment is in the process of being drafted to initiate the UTEPA process beginning August 15, 2011.

OFFERING TAX AMNESTY

The House included a provision in the budget requiring ODT to administer a tax amnesty program from January 1 to February 15, 2012. ODT is currently working on drafting an amendment to make minor modifications to the language because it seems that amendment inserted by the House is reused from a previous budget.

REFORMING THE BOARD OF TAX APPEALS

As you have heard from the BTA, funding reductions of 42% for the current budget, in combination with the significant increase in property tax valuations, have caused the wait time for hearings to be delayed. In trying to address this problem, the Administration recognized that the BTA must be reformed in more ways than just simply restoring funding. It was therefore proposed in HB 153 that the BTA's funding be increase by 39% while also including uncodified language, of which both recommendations were maintained by the House, to begin long-term reformation:

Section 757.30. The Tax Commissioner shall conduct a review of the operations of the Board of Tax Appeals, and, not later than November 15, 2011, shall submit a written report to the Governor, Speaker of the House of Representatives, and President of the Senate providing an assessment of the Board's operations and recommendations for improvement. The Tax Commissioner's review shall include consultation with persons who have participated in or have had matters before the Board and are familiar with the Board's operations and procedures. The report shall include recommendations for improving the appeals process, internal operations, and other operational matters the Commissioner deems advisable. The Commissioner may designate an employee of the Department of Taxation to conduct the review.

Chairman Widener, Ranking Member Skindell and members of the Senate Finance Committee, thank you again for giving me the opportunity to present the Department of Taxation's budget testimony to you today. We look forward to working with you on crafting both the use tax and amnesty amendments and, as always, are open to your thoughts and suggestions in improving tax policy. I would be happy to answer any questions you may have at this time.