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he Ohio Department of Taxation (ODT), along with nearly all of state government, felt the financial crunch accompanying a troubled national economy and the anemic growth of tax revenues during Fiscal Year 2002.

The Governor and the Ohio General Assembly, in responding to projected budget deficits, cut the ODT general fund budget three separate times during the year for a total budget reduction of 6.5 percent.

The cuts prompted the Department to restructure its operations; a process that included job abolishments and layoffs, office closures and consolidations, and reductions in expenses and services. Hiring was largely curtailed and that, combined with a significant number of employee retirements, accelerated a trend to an increasingly smaller department. In FY 2002, ODT had a net loss of 101* employees to finish the year with 1,151 permanent staff. Ten years earlier, in FY 1992, ODT had a full-time staff of nearly 1,500.

Shifting responsibilities did bring some new faces to the Department. The ODT took on payment processing duties for Sales, Corporation Franchise and Excise taxes from the Treasurer of State. Twelve former Treasurer's office employees transferred to ODT to help the Department perform its new processing job.

Both staff and services were affected by the budget restrictions. There were 42 jobs abolished and 21 staff members laid-off. The highest management positions at nine Taxpayer Service Centers were eliminated, as was "extra step" pay for management. A Service Center in Lima and an office facility in Columbus, and all but one of the ODT satellite offices where rent was paid were closed or free space was obtained. Taxpayer service assistance on weekends and evenings ended. Technology vendors took voluntary cuts in fees of up to 10 percent. Spending in many areas including printing, postage, publications, travel and technology was cut.

Despite the budget pinch, ODT continued pursuing efficiencies that provided more convenience for taxpayers while saving tax dollars at the same time. Chief among those efficiencies was the development and debut of a new option for electronic, or "paperless," filing of business taxes. At Governor Bob Taft's direction, the *Ohio Business Gateway_{SM}*, an Internet-based filing system, rolled-out providing business taxpayers the option of filing sales, employer withholding, unemployment insurance and workers' compensation premiums all in one place. The *Ohio Business Gateway_{SM}* is designed to save considerable time and ease the burden for taxpayers filing state tax returns. The system also saves the state considerable time and money over processing paper returns.

ODT also continued promoting "paperless" filing of Individual Income tax returns by expanding the TeleFile system, making it available to more taxpayers. In FY 2002, approximately 37 percent of all returns were "paperless," an increase in electronic filing of nearly 25 percent from the previous year. The cost of processing an electronic return is approximately half that of a paper return.

Beyond the changes to the filing system, ODT instituted a number of new initiatives meant to provide assistance to taxpayers and save money. The legislative process provided the basis for some of the more major initiatives:

- **Taxpayer Services** – Governor Taft signed the second Taxpayer Services Bill, Senate Bill 200, implementing additional measures to make Ohio's tax system more taxpayer friendly and efficient. Among the many improvements, the law allows consumers to obtain Sales and Use tax refunds directly from the Department of Taxation and expands the use of direct pay permits to non-manufacturers.
- **Offer in Compromise** – House Bill 396 established the Offers in Compromise program and clarified situations in which taxpayers can settle outstanding tax liabilities. The program establishes guidelines spelling out circumstances when the Department of Taxation and Ohio Attorney General can accept payment offers that are less than the amount of tax owed. The program mirrors a similar program available through the Internal Revenue Service and should result in increased collections of delinquent taxes.
- **Streamlined Sales Tax** – The Governor and the General Assembly approved of Ohio's participation in a national effort that would provide important protections for Ohio retailers. Ohio is now among the more than 30 states working to develop a streamlined sales tax system that would bring fairness to the retail playing field. Currently, many Internet retailers do not collect sales tax while Ohio retailers do. That competitive disadvantage for Ohio retailers would be eliminated in a streamlined sales tax environment in which all retailers would charge and collect state sales taxes.
- **Amnesty Program for Delinquent Taxes** – ODT conducted a three-month amnesty campaign during which taxpayers could apply to pay their delinquent tax obligations in full without incurring the normal penalties. The amnesty program ended successfully in January 2002 with collections of delinquent tax exceeding \$48 million. Of that total, the state share topped \$33 million while local governments gained more than \$15 million.

* Does not include 12 employees transferred in from the Treasurer's office.

It did not take a legislative change, but the Tax Commissioner did shorten the depreciation schedule for stand-alone computers from eight to five years beginning in 2003. The move will save Ohio business taxpayers an estimated \$12 million annually and make Ohio more competitive with neighboring states that allow similar, shortened depreciation schedules.

The Department's ability to respond quickly to taxpayer service requests got a big boost with the addition of an e-mail system allowing taxpayers to contact ODT for information and answers. The e-mail system funnels taxpayer inquiries directly to the most appropriate staff person for a response. Response time is typically less than 48 hours, and sometimes, same day.

The ODT did take on responsibility for implementing some new, and in other cases, administering some reshaped existing taxes. Those included:

- Administering the new Municipal Income tax on electric utilities;
- Administering the new Mct tax on natural gas distributors;
- Implementing the new, up-front payment of Sales tax on motor vehicle leases and business export leases;
- Implementing an increase in the Cigarette tax from \$.24 to \$.55 per pack; and
- Administering the new, Kilowatt-Hour tax on electric utilities.

Internally, ODT continued its ongoing focus on improving operations. This effort bore results on a number of fronts with technology, enforcement and other departmental programs receiving external recognition for their effectiveness:

• **Tax Technology Tops** – Ohio in 2002 was ranked first nationally in a survey of tax departments for the use of digital technology in delivering services to taxpayers. The survey is conducted annually by The Center for Digital Government. (Note: Ohio was one of 10 states receiving the #1 ranking.)

• **Enforcement Accredited** – ODT became the only tax department in the country with an internationally accredited Tax Enforcement Division. The Commission on Accreditation of Law Enforcement Agencies granted accreditation to the Tax Enforcement Division for adopting standards and practices meant to ensure the highest degree of professionalism in the conduct of law enforcement.

• **Innovation Awarded** – In 2002, ODT was recognized as an Agency of the Year for its commitment and contributions to the Innovation Ohio Program. Innovation Ohio is designed to encourage state employees to develop ideas for improving services and lowering costs in state government.

• **Ohio Award for Excellence (OAE) Recognition** – The Department achieved the first of four tiers on the road to organizational excellence as measured against the OAE's program criteria. Patterned after the Malcolm Baldrige National Quality Award, the OAE recognizes high performing public and private organizations in Ohio in the areas of leadership, strategic planning, customer focus, information and analysis, workforce development, process management and the organizational results achieved.

The directions and priorities of ODT in years to come were chosen at the Department's second strategic planning retreat. Those included:

1. Adopting systems and measures to improve and assure the quality of all ODT activities;
2. Continuing efforts to modernize the tax code;
3. Adopting systems that ensure that the customer's voice and interests are represented and considered during Department decision-making activities;
4. Identifying and implementing improvements to the Department's business operations;
5. Furthering electronic networks to simplify and streamline taxpayer registrations and tax compliance;
6. Making data more accessible; and
7. Advancing internal employee development capabilities.

Each of the strategic directions and priorities will be the focus of a Strategic ('S') Team that analyzes each issue. That analytic framework will then be turned over to one of many Implementation ('I') Teams that will work to design and implement a system meant to accomplish the objectives set forth by the S team.

Beyond strategic initiatives, ODT has committed itself to the Ohio Award for Excellence program and to achieving the goals of superior performance that accompany the program. The Department also remains focused on its four primary goals of enhancing taxpayer services and taxpayer compliance, of modernizing tax laws and the Department's operations, of addressing employee development issues, and of providing quality results in all areas by exceeding expectations.

