OHIO LEGISLATIVE SERVICE COMMISSION

www.lsc.ohio.gov

Office of Research and Drafting

Legislative Budget Office

H.B. 467
133rd General Assembly

Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Scherer

Sam Benham, Attorney

SUMMARY

- Reduces the rate of a tax paid by certain pass-through entities on a percentage of its nonresident investors' distributive income.

DETAILED ANALYSIS

Pass-through entity withholding tax

Under continuing law, the Ohio income tax applies to income received by an owner or investor in a pass-through entity (PTE) from the PTE's business activities in the state. (Pass-through entities include S corporations, partnerships, and limited liability companies treated for federal income tax purposes like partnerships.) Under current law, in order to ensure collection of the tax from nonresident individuals and entities – which, aside from their ownership of the PTE, would not be required to file an individual tax return – a PTE is required to withhold the income tax due from its nonresident investors. This "withholding tax" is imposed directly on the PTE, even though the underlying tax liability belongs to the investors.

The bill lowers the rates at which PTEs remit taxes on investor income from 5% to 4% for individual investors[1] and from 8.5% to 4% for nonindividual investors.[2] The bill does not change an existing alternative means for a PTE to report and pay income taxes owed by its noncorporate investors: a PTE may file a composite return (Form 4708) covering its investors and pay tax for them at the highest of the graduated tax rates for nonbusiness income (4.797% currently).[3]

[1] R.C. 5747.41.

[2] R.C. 5747.41.

[3] R.C. 5747.08(D), not in the bill.

The rate changes apply to a PTE's taxable years ending on or after the bill's effective date.[4]

HISTORY

Action	Date
Introduced	01-14-20

H0467-I-133/ar

[4] Section 3 of the bill.