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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

S.B. 216
135th General Assembly

Bill Analysis

Version: As Introduced

Primary Sponsors: Sens. Lang and S. Huffman

Mackenzie Damon, Attorney

SUMMARY

- Phases-out the state income tax on nonbusiness income over six years.
- Repeals the commercial activity tax in 2030.

DETAILED ANALYSIS

Nonbusiness income tax phase-out

The bill phases-out the state income tax on nonbusiness income over six years, resulting in the full repeal of the tax in 2030. Under current law, Ohio levies a tax on both business income and nonbusiness income. The bill does not affect the state's tax on business income, which is levied at the rate of 3% of a taxpayer's business income, after a \$250,000 deduction (\$125,000 for married taxpayers filing separately).

Currently, the tax on nonbusiness income consists of two tax brackets: 2.75% on income between \$26,050 - \$100,000 and 3.5% on income greater than \$100,000. As part of the phase-out, the bill retains these two brackets for the 2025 taxable year, but lowers the rates to 2.73% and 3.1%. In the next four years of the phase-out, the bill reduces the two brackets to a single flat rate – 2.7% for 2026, 2.03% for 2027, 1.35% for 2028 and 0.68% for 2029 – on all income greater than \$26,050. No tax is levied on nonbusiness income beginning in 2030.

Under current law, the Tax Commissioner is required to adjust the income tax brackets each year for inflation. The bill eliminates these adjustments, so that the \$26,050 and \$100,000 income thresholds will remain frozen until the brackets are consolidated or the tax is repealed.¹

The bill makes several conforming changes as part of this phase-out, including all of the following:

¹ R.C. 5747.02.

- Changes the income calculation used to qualify for property tax homestead exemptions in tax year 2030 and after to federal adjusted gross income (FAGI) rather than modified adjusted gross income, which is based on Ohio taxable income;
- Changes the data used to calculate school district resident data for school funding purposes from median Ohio taxable income to median FAGI;
- Continues to require traditional-base school district income taxes to be based on Ohio taxable income, even after the repeal of the state tax.²

Commercial activity tax repeal

The bill repeals the commercial activity tax (CAT) beginning January 1, 2030. The CAT is a privilege tax on the gross receipts of business from the sale of property or services in Ohio.

Currently, for 2024, the CAT equals 0.26% of a business' gross receipts in excess of \$3 million. Businesses with gross receipts under that threshold pay no tax. For 2025 and after, that threshold will increase to \$6 million. Under the bill, this threshold increase will apply through 2029, after which the CAT is repealed entirely.³

HISTORY

Action	Date
Introduced	01-23-24

ANSB0216IN-135/ar

² R.C. 122.17, 122.66, 323.151, 3317.021, 3318.011, 5747.10, and 5748.01.

³ R.C. 5751.02.