Ohio Legislative Service Commission

Bill Analysis

Sam Benham

H.B. 326

131st General Assembly
(As Introduced)

Reps. Amstutz and McClain

BILL SUMMARY

- Provides that, for taxable years beginning in 2015, any taxable business income under $250,000 (or $125,000 for spouses filing separate returns) is subject to the graduated tax rates applicable to nonbusiness income, while any business income in excess of those amounts remains subject to the recently enacted 3% flat tax rate.

- Removes the requirement that spouses claiming the joint filing credit must each have at least $500 of earned income, and instead requires that each spouse have at least $500 in adjusted gross income from any source.

- Specifies that a taxpayer may apply personal exemptions and tax credits to reduce the taxpayer's tax on business income, tax on nonbusiness income, or both.

- Repeals obsolete sections of the Income Tax Law relating to expired tax credits.

CONTENT AND OPERATION

Business income tax rates for 2015

The bill modifies the tax rates applicable to certain business income for taxable years beginning in 2015. This modification relates to recent changes made in Am. Sub. H.B. 64 of the 131st General Assembly, which substituted a 3% flat tax rate on business income for the tiered tax rate brackets and increased the business income tax deduction, while maintaining the tiered rate brackets for nonbusiness income.

Under current law, as modified by H.B. 64, all business income in excess of the business income deduction is subject to a 3% flat rate. For taxable years beginning in 2015, the business income deduction equals 75% of the taxpayer's first $250,000 of business income ($125,000 for spouses filing separate returns). For taxable years beginning in 2016 or thereafter, the deduction increases to 100% of the taxpayer's first $250,000 (or $125,000) of business income.

H.B. 64's imposition of a 3% flat tax for the 2015 taxable year could result in a subsection of taxpayers paying more tax for that taxable year than they otherwise would have absent H.B. 64. Without the H.B. 64 changes, taxpayers would have received a business income deduction equal to 50% of the taxpayer's first $250,000 of business income ($125,000 for spouses filing separately), and the amount remaining would have been subject to the tiered tax rate brackets. A taxpayer's combined income (both nonbusiness income and business income remaining after the 50% deduction) of around $20,900 or less would have fallen into a tax bracket with a rate lower than 3%. After H.B. 64, however, any of that taxpayer's business income remaining after the 75% business deduction is subject to a flat 3% rate.

In order to avoid this result, the bill provides that, for taxable years beginning in 2015, the portion of a taxpayer's business income that is under $250,000 ($125,000 for spouses filing separately) and that is not reduced by the business income deduction will be subject to the tiered brackets applicable to nonbusiness income (the same brackets that would have applied without the H.B. 64 amendments). Any business income in excess of that amount remains subject to the 3% flat rate. This modification ensures that no taxpayer will pay more tax on business income for the 2015 taxable year than the taxpayer otherwise would have if H.B. 64 had not be enacted.[1]

Joint filing credit

The bill modifies the income tax credit for spouses who file a joint return. Under current law, a married couple that files a joint return qualifies for the credit if each spouse has earned income of at least $500. For purposes of the credit, earned income is adjusted gross income less any income from interest, dividends and distributions, royalties, rents, and capital gains. The bill instead requires that each spouse have an adjusted gross income, rather than earned income, of at least $500. Consequently, a spouse may meet the credit threshold if he or she has at least $500 of income from any source that is not otherwise deductible in computing adjusted gross income.

Under continuing law, the joint filing credit equals a percentage of the spouses' modified taxable income (adjusted gross income less exemptions) – ranging from 20% for couples with a combined taxable income of $20,000 or less to 5% for couples with a combined taxable income of $75,000 or more – up to a maximum credit of $650.[2]

---

[1] R.C. 5747.01(A)(31) and (HH) and 5747.02.

[2] R.C. 5747.05(E).

Use of personal exemptions and tax credits

Personal exemptions

The bill clarifies that a taxpayer may use the taxpayer's personal exemptions to reduce either taxable nonbusiness income or taxable business income (or both). Current law, as amended by H.B. 64, only explicitly allows personal exemptions to be applied against nonbusiness income.[3]

Under continuing law, taxpayers are allowed a personal exemption for the taxpayer, the taxpayer's spouse, and any dependents. The exemption amounts for 2014 equal $2,200 for taxpayers with an Ohio adjusted gross income (OAGI) of less than $40,000, $1,950 for taxpayers with an OAGI between $40,000 and $80,000, and $1,700 for taxpayers with an OAGI of more than $80,000.

Credits

The bill also allows taxpayers to claim income tax credits against tax liability arising from either business income or nonbusiness income. Current law, as amended by H.B. 64, limits the application of certain credits to either a taxpayer's business income tax liability or nonbusiness income tax liability, as applicable. (For example, the joint filing credit currently may be applied only against a nonbusiness income tax liability.)[4]

Removal of expired tax credits

The act also removes several obsolete sections of the Income Tax Law that relate to income tax credits that have expired. The expired tax credits are:

(1) The credit for retailers of alternative fuel;

(2) The credit for payment of tangible personal property taxes for property used in manufacturing or refining;

(3) The credit for businesses that increase their export sales;

(4) The credits for purchasers of new manufacturing machinery or equipment in 1995 or 1996;

(5) The credit for economic development of a distressed area;

---

[3] R.C. 5747.02(A)(4)(b).

[4] R.C. 5709.65, 5709.66, 5747.05, 5747.054, 5747.055, 5747.056, 5747.059, 5747.22, 5747.27, 5747.28, 5747.29, 5747.331, 5747.37, 5747.65, 5747.66, 5747.71, 5747.75, 5747.76, 5747.80, 5747.81, and 5747.98.

(6) The credits for employers that provide day-care for children of employees, establish a day-care center for employees' children, or reimburse employees for day-care expenses;

(7) The credit for purchases of lights and reflectors for installation on agricultural tractors to comply with statutory lighting and reflector requirements;

(8) The credit for the payment of certain employee training costs.[5]

HISTORY

ACTION	DATE
Introduced	09-08-15

H0326-I-131.docx/emr

[5] R.C. 5733.48, 5747.051, 5747.057, 5747.26, 5747.261, 5747.31, 5747.32, 5747.34, 5747.35, 5747.36, 5747.38, 5747.39, and 5747.77 (repealed); R.C. 9.66, 122.16, 122.172, 122.173, 5733.33, 5733.42, 5733.98, 5747.21, 5747.212, and 5747.22 (amended to remove cross-references).