

Ohio Income Tax Changes Effective for Tax Year 2019

By Erika Haupt

Governor Mike DeWine recently signed into law two bills that include significant Ohio income tax changes for tax year 2019, as reported on returns due April 15, 2020. The major changes are summarized below.

Tax Rates:

- The bottom three income tax brackets are combined into one 0% tax rate. Ohio taxpayers with Ohio taxable nonbusiness income of \$21,750 or less will pay \$0 in Ohio income tax beginning in tax year 2019.
- All other Ohio income tax rates are reduced by 4%. The top tax rate is now 4.797%.
- Ohio's personal and dependent exemption amounts are not adjusted for tax year 2019 and will remain the same as tax year 2018.

Tax Credits:

- Ohio's earned income credit now equals 30% of Federal earned income credit, if applicable.
- The Ohio campaign contribution credit and Ohio financial institutions tax credit are no longer available even if you already contributed to an eligible campaign or paid Ohio financial institution taxes in 2019.
- There is a newly enacted nonrefundable credit for investing in Ohio Opportunity Zones. The Ohio Opportunity Zone credit is administered by the Development Services Agency. To claim it, you must complete an approved application and obtain credit certificate. This credit will be added to the "Nonrefundable Business Credits" section of the Ohio Schedule of Credits.

Ohio's Business Income Deduction:

- Ohio now uses the concept of "modified adjusted gross income" ("Ohio modified AGI"), which is your Ohio adjusted gross income plus the business income deduction claimed on your Ohio income tax return.
 - If you do not claim the business income deduction, the Ohio modified AGI change will not impact your Ohio income tax.
 - Ohio modified AGI is not the same as the Federal modified adjusted gross income.
 - Ohio modified AGI is used to determine personal and dependent exemption amounts and eligibility for certain tax credits, including the child and dependent care credit and the joint filing credit.

- Ohio modified AGI, less personal and dependent exemptions, is used to determine your eligibility for the Retirement Income and Lump Sum Retirement Income Credits, the Senior Citizen and Lump Sum Distribution Credits and the Ohio Exemption Credit.
- If you live in a taxing school district, Ohio modified AGI will be used in the calculation of your school district income tax as follows:
 - Your traditional tax base remains unchanged.
 - Your earned income tax base will still include wages, salaries, tips, and other employee compensation, as well as any net self-employment earnings. However, your earned income tax base is now limited by your Ohio modified AGI rather than your Ohio adjusted gross income. Consequently, your earned income tax base will now include any amounts you deducted via the business income deduction on your Ohio IT 1040.

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