GOVERNOR MIKE DEWINE SIGNS OHIO'S FISCAL YEAR 2024-2025 BUDGET BILL INTO LAW

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On July 4, 2023, Ohio Governor Mike DeWine signed legislation enacting the state operating budget for the biennium ending June 30, 2025. The legislation enacts multiple tax law changes concerning income, commercial activity, financial institutions, sales and use, sports gaming, cigarettes, motor fuel, lodging, and property tax, as well as revisions to tax administration provisions and those dealing with tax credits and incentives.

Following are some of the changes which are impactful at the individual level:

Income tax. ***Personal income tax rate reduction—two-year phase in:*** For tax years beginning in 2023, the number of tax brackets that impose tax on individuals' nonbusiness income is reduced from four to three. Under the new law, the first $26,050 of nonbusiness income is not subject to tax. The new tax rate on income greater than $26,050 up to $100,000 is 2.75%; the rate on income greater than $100,000 up to $115,300 is 3.688%; and the rate on income greater than $115,300 is 3.75%. The number of tax brackets is reduced by consolidating the two existing lowest tax brackets. For tax year 2024, the number of tax brackets is reduced from three to two by consolidating the top two brackets and reducing the rate for the combined new top bracket to 3.5%.

Pass-through entity (PTE) taxes—resident credit and addback: In 2022, Ohio passed legislation creating a workaround to the $10,000 state and local tax (SALT) deduction cap imposed by the Tax Cuts and Jobs Act of 2017 by enacting an elective entity-level tax on qualifying PTEs and authorizing a refundable income tax credit for owners of such entities equal to the owner's proportionate share of the entity-level tax paid. However, it did not authorize Ohio residents to take a credit for such PTE taxes paid to another state by an electing PTE in which the resident has an ownership interest. Under the legislation, state and local PTE taxes paid on behalf of an owner are included in the calculation of the owner's Ohio income tax resident credit. The owner is required to add back to the owner's Ohio adjusted gross income such PTE taxes levied by another state or the District of Columbia that the owner deducts from federal adjusted gross income as a business expense. The amendments apply to taxable years ending on or after January 1, 2023. Taxpayers have the option to apply the amendments to taxable years ending on or after January 1, 2022, but before January 1, 2023, by filing an amended or original return.

Municipal income tax exemption for minors: Beginning in 2024, municipal corporations must exempt the income of individuals under 18 years of age from municipal income taxation.

Tax-advantaged homeownership savings account: For tax years beginning in 2024, an income tax deduction is authorized for contributions to a homeownership savings account, which is a linked deposit savings account opened exclusively for the purpose of paying eligible home costs. Only the account owner or the owner's parent, spouse, sibling, stepparent, or grandparent can take the deduction, which is limited to $10,000 annually per account for couples filing jointly and $5,000 annually per account for individuals, with a lifetime maximum of $25,000. Account owners may deduct the interest earned on the savings in their homeownership savings linked deposit accounts, including on any employer contributions to the account. Any withdrawn amounts that are not used to purchase a primary residence will be added to the account owner's taxable income.

Credit for donations to scholarship organizations: A taxpayer who makes a cash donation to a qualifying scholarship-granting organization before the filing deadline for the taxpayer's Ohio tax return may elect to claim the credit based on that donation for the taxable year covered by the state return, but a credit may not be claimed also in the tax year that the donation is made, i.e., the credit cannot be claimed for two taxable years based on the same contribution.

Non-chartered, nonpublic school tuition credit: The legislation modifies the nonrefundable credit that is allowed against the personal income tax for taxpayers with one or more dependents who attend a non-chartered, nonpublic school by removing the eligibility requirement that the total federal adjusted gross income of the taxpayer and the taxpayer's spouse (if filing jointly) must be under $100,000. Taxpayers with income of $100,000 or more may qualify. Additionally, the value of the credit was increased from $500 to $1,000 for taxpayers with an annual federal adjusted gross income of less than $50,000 and from $1,000 to $1,500 for taxpayers with an annual federal adjusted gross income equal to or greater than $50,000.

Other changes include the following topics:

- *Modified corporate municipal income tax apportionment for remote employees*
- Commercial activity tax, c*orporation franchise tax, financial institution tax*
- *Municipal extensions, notices, penalties*
- Sales & use tax, sports gaming tax, cigarette taxes, motor fuels tax, lodging tax
- Credits - R&D, job retention, film, WHO, low-income & single-family housing credit
- TIF, homestead exemption indexing, energy projects, administrative provisions

Please contact Tony Micheli or your Clearstead professional with any questions or concerns.

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