

Personal Income, School District Income, Fiduciary Income & Pass-Through Entity Tax Updates

Presented By:

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Department of
Taxation

Important

- The information presented in this presentation is accurate as of the date of the presentation. Any legislative or legal changes that take place after the date of this presentation may change the accuracy of this content. Additionally, changes to facts and circumstances may impact any answer provided herein. Please contact the Department directly with any questions:
 - Individual Income Tax - (800) 282-1780
 - Business Tax - (888) 405-4039

Overview

- 2021 Legislative Changes
- Rule Updates
- Form Updates
- Unemployment Issues
- School District Guidance



2021 Legislative Changes

Individual Income Tax Rates

Income Tax Brackets - 2020

- Six Brackets (one at 0%)
- Top rate of 4.797%

2020 Ohio Income Tax Brackets for Ohio IT 1040						
Taxpayers with Ohio taxable nonbusiness income of \$107,000 or more must use these brackets. Round your tax to the nearest dollar.						
Taxable Nonbusiness Income (Ohio IT 1040, line 7)			Nonbusiness Income Tax (enter on Ohio IT 1040, line 8a)			
0	–	\$ 22,150			0.000%	of Ohio taxable nonbusiness income
\$ 22,151	–	\$ 44,250	\$ 316.18	plus	2.850%	of the amount in excess of \$ 22,150
\$ 44,250	–	\$ 88,450	\$ 946.03	plus	3.326%	of the amount in excess of \$ 44,250
\$ 88,450	–	\$110,650	\$ 2,416.12	plus	3.802%	of the amount in excess of \$ 88,450
\$110,650	–	\$221,300	\$ 3,260.16	plus	4.413%	of the amount in excess of \$110,650
more than		\$221,300	\$ 8,143.14	plus	4.797%	of the amount in excess of \$221,300

Individual Income Tax Rates

Income Tax Brackets - 2021 and forward

- Five brackets (still one at 0%)
 - Second bracket starts at \$25,000
- 3% tax cut on middle three brackets
- Removal of top bracket
 - Top rate is now 3.99%

2021 Ohio Income Tax Brackets for Ohio IT 1040			
Taxpayers with Ohio taxable nonbusiness income of \$110,650 or more must use these brackets. Round your tax to the nearest dollar.			
Taxable Nonbusiness Income (Ohio IT 1040, line 7)		Nonbusiness Income Tax (enter on Ohio IT 1040, line 8a)	
0	– \$ 25,000	0.000%	of Ohio taxable nonbusiness income
\$ 25,001	– \$ 44,250	\$ 346.16 plus 2.765%	of the amount in excess of \$ 25,000
\$ 44,250	– \$ 88,450	\$ 878.42 plus 3.226%	of the amount in excess of \$ 44,250
\$ 88,450	– \$110,650	\$ 2,304.31 plus 3.688%	of the amount in excess of \$ 88,450
more than	\$110,650	\$ 3,123.05 plus 3.990%	of the amount in excess of \$110,650

Fiduciary/PTE Income Tax Rates

Income Tax Brackets- For tax years beginning on or after 1/1/2021

- Five brackets (top bracket removed)
- 3% tax cut on middle three brackets
- Top rate is now 3.99%

TY 2021 Ohio Taxable Income Brackets		TY 2021 Ohio Tax
more than	not more than	
\$ 0	– \$ 25,000	1.38462% of Ohio taxable income
\$ 25,000	– \$ 44,250	\$ 346.16 plus 2.765% of excess over \$ 25,000
\$ 44,250	– \$ 88,450	\$ 878.42 plus 3.226% of excess over \$ 44,250
\$ 88,450	– \$ 110,650	\$2,304.31 plus 3.688% of excess over \$ 88,450
More than \$ 110,650		\$3,123.05 plus 3.990% of excess over \$ 110,650

PTE Income Tax Rates

- Pass-through entities and trusts filing the IT 1140 currently withhold and pay tax at the following rates:
 - 0% for exempt entities
 - 5% for individual investors and beneficiaries
 - 8.5% for non-individual investors
- These rates were changed effective for tax years **beginning on or after 1/1/2023**
 - The above rates still apply to the current tax year and tax year 2022
- The new rates on the IT 1140 for 2023 and forward will be:
 - 0% for exempt entities
 - 3% for all other investors and beneficiaries
- The new 3% rate aligns with Ohio's 3% individual income tax rate on business income

Inflation Adjustments

- Generally, the income tax brackets and personal exemption amounts are “indexed” for inflation each year
- Tax brackets are not adjusted for 2021
 - Ohio legislature already made 2021 changes
 - Inflation indexing will resume in 2022
- Personal exemptions will **not** be indexed for inflation in either 2021 or 2022

Modified Adjusted Gross Income	Personal/Dependent Exemption
\$40,000 or less	\$2,400
\$40,001 – \$80,000	\$2,150
More than \$80,000	\$1,900

New Credits

Home Instruction Educational Expenses Credit

- Credit is **lesser of** the cost of educational expenses incurred for the taxpayer's home-schooled dependents or \$250
 - "Educational expenses" **include** any of the following used in home school instruction:
 - Books, supplementary materials, supplies, computer software, applications, or subscriptions
 - "Educational expenses" **do not include** expenses or fees for computers or similar electronic devices or accessories
- Credit does not apply to students who were temporarily home-schooled during the COVID-19 pandemic
- Credit is only available on the IT 1040

New Credits

Scholarship Donations Credit

- Credit is **lesser of** cash donations to “scholarship granting organizations” or \$750 per taxpayer
- “Scholarship granting organizations” (SGOs) must be certified by Ohio Attorney General after an application process
 - The Attorney General’s office has begun accepting applications for SGOs
 - Taxation will publish a list of SGOs on tax.ohio.gov
- Credit is available on the IT 1040, IT 1041, and IT 4708
 - A pass-through entity’s investors can claim their share of the PTE’s \$750 credit

New Credits

Nonchartered Nonpublic School Tuition Credit

- Credit for tuition paid to Non-Chartered, Non-Tax Supported Schools (NCNT) schools for a taxpayer's dependents
- Credit is capped at **lesser of** tuition paid or:
 - \$500 for taxpayers whose FAGI is less than \$50k
 - \$1,000 for taxpayers whose FAGI is \$50k or more, but less than \$100k
 - \$0 for taxpayers whose FAGI is \$100k or more
- List of NCNTs is available at education.ohio.gov



Other Changes

- NAICS reporting requirement for the Business Income Deduction is **removed**
- Time to file an amended return to report a change in the Ohio resident credit is increased from 60 to **90 days**
 - Effective for audits completed on or after September 30, 2021
- Opportunity zone investment credit cap is **increased** from \$1m to **\$2m** per applicant, per biennium
- Development Services Agency (DSA) is now the Ohio Department of Development (ODOD)
- Various technical corrections

Tax Year 2026 Changes

- **Two new deductions** relating to capital gains for investing in Ohio will be available on the 2026 IT 1040:
 - Venture Capital Operating Company Deduction
 - Deduction for taxpayers who invest in Ohio venture capital operating companies
 - Program will be administered by Department of Development
 - Sale of Business Deduction
 - Deduction for certain taxpayers who sell their interest in an Ohio business that creates jobs in Ohio
 - Only available to taxpayers who “materially participate” in the business for at least 5 years or who make a “venture capital investment”
- Neither deduction impacts current or prior Ohio tax returns
- Additional guidance will be provided at a later date

Rule Updates

Amended Rules

- Rule 5703-7-09: Taxpayers reporting of school district of residence
 - Simplified the process for taxpayers to determine which four-digit school district income tax number they should use when completing their return
- Rule 5703-7-16: Personal income tax: determination of resident status
 - Increased the rule’s brevity and readability
 - Expressly listed the items the Department looks for when reviewing residency
 - Modernize the evidence for “contact periods” to account for the increased use of technology
- Both rules are effective and will apply to tax year 2021

Rule Rescinded

- Based on the repeal of the NAICS reporting requirement, the Department has proposed rescinding Rule 5703-7-01
 - Rule provided guidance on how to determine NAICS Codes for IT BUS
 - Rule was required by former R.C. 5747.08(L)
- The Department does not believe rescinding this rule is contentious, since the requirement was repealed
 - Rule should be rescinded by the end of 2021



Form Updates

Form Names Updated

- Income Tax has completed its move away from lettered schedules in favor of more descriptively named schedules

2020 Ohio Schedule A
Income Adjustments
Use only black ink/UPPERCASE letters.



**2021 Ohio Schedule
of Adjustments**
Use only black ink/UPPERCASE letters.

Ohio Schedule J
Dependents
Use only black ink/UPPERCASE letters.



**2021 Ohio Schedule
of Dependents**
Use only black ink/UPPERCASE letters.

New Credit Lines

- Added lines for new education credits

Ohio | Department of Taxation **2021 Ohio Schedule of Credits**
Use only black ink/UPPERCASE letters.
Primary taxpayer's SSN

Nonrefundable Credits

13. Earned income credit.....	13.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00
14. Home school expenses credit.....	14.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00
15. Scholarship donation credit.....	15.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00
16. Nonchartered, nonpublic school tuition credit.....	16.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00
17. Ohio adoption credit.....	17.	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00

Change Reporting of Dates

- Schedule of Credits and SD 100 now ask for dates of **residency** rather than nonresidency
 - Since it is an Ohio return, many taxpayers reported their Ohio dates instead of their non-Ohio dates

2021 Ohio Schedule of Credits

Use only black ink/UPPERCASE letters.

Nonresident Credit

Dates of Ohio residency to

2021 Ohio SD 100

School District Income Tax Return

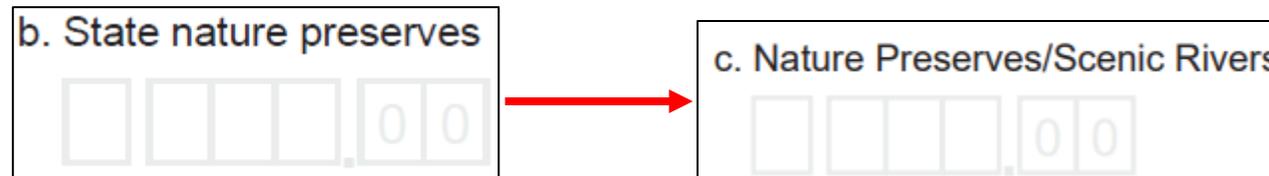
Residency Status – Check only one for primary

Resident Part-year resident Nonresident

Dates of residency -- to --

Donation Update

- Donation category name changed at the request of Ohio Department of Natural Resources
 - Donations are used to protect Ohio's state nature preserves, scenic rivers, rare species and unique habitats



- As a reminder, there are six funds where taxpayers can donate all or a portion of their refund on the IT 1040

Unemployment Issues

Unemployment Exclusion – Overview

- Generally, unemployment compensation is taxed federally and included in federal adjusted gross income (AGI)
 - Ohio’s income tax begins with federal AGI, so unemployment is also taxable to Ohio
- Unemployment compensation can also be taxable to Ohio school districts depending on the tax base
 - Traditional: Tax base is the taxpayer’s Ohio income tax base (Ohio IT 1040, line 5), plus any business income
 - Unemployment compensation is taxable if received while the taxpayer is a resident of the school district

Unemployment Exclusion – Overview

- Unemployment compensation can also be taxable to Ohio school districts depending on the tax base
 - Earned income tax base is:
 - Wages, salaries, tips, and other employee compensation AND
 - Net earnings from self employment
 - Unemployment compensation is **not** taxable in an earned income school district
 - Income is not a wage, salary, tip, or net earnings from self employment
 - Instead, it is paid to those who recently lost their job (not an employee)

Unemployment Exclusion – ARPA

- The ARPA authorized a temporary 2020 unemployment compensation exclusion from federal AGI for the first \$10,200 received in unemployment benefits by each taxpayer if federal AGI is less than \$150,000
 - Ohio has conformed to this unemployment compensation exclusion for tax year 2020

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 01
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
Tommy Taxpayer			000-00-0000	
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes	1		
2a	Alimony received	2a		
b	Date of original divorce or separation agreement (see instructions) ▶			
3	Business income or (loss). Attach Schedule C	3		
4	Other gains or (losses). Attach Form 4797	4		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		
6	Farm income or (loss). Attach Schedule F	6		
7	Unemployment compensation	7		25,000
8	Other income. List type and amount ▶ UCE	8		-10,200
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9		14,800

Unemployment Exclusion – How to Request a Refund from Ohio

Taxpayers required to amend their federal return to claim the unemployment benefits exclusion

- Should wait to file their amended Ohio IT 1040 (and SD 100, if applicable) until after the IRS has approved the requested changes
- Taxpayers **must** include the following with their amended Ohio return(s):
 1. A copy of their federal amended return
 2. A copy of their federal refund check(s) or proof of direct deposit(s)
 3. A “Reasons and Explanation of Corrections” (Ohio form IT RE or SD RE)
 4. Any other supporting documentation needed to substantiate the changes reported

Unemployment Exclusion – How to Request a Refund from Ohio

- May provide the IRS Tax Account Transcript reflecting their federal AGI after the unemployment benefits exclusion instead of providing the federal amended return and proof of refund

Taxpayers whose federal returns were recalculated by the IRS to include the unemployment benefits exclusion

- Should wait to file their amended Ohio IT 1040 (and SD 100, if applicable) until after the IRS has issued the refund
- Taxpayers **must** include the following with their amended Ohio return(s):
 1. A copy of the IRS Tax Account Transcript showing the new federal AGI
 2. A “Reasons and Explanation of Corrections” (Ohio form IT RE or SD RE)

Unemployment Exclusion – How to Request a Refund from Ohio

- When completing the “Reasons and Explanation of Corrections” form, check the “Federal adjusted gross income decreased” box and list “Federal unemployment deduction refund” in the “Detailed explanation” section

Ohio IT RE - Reason and Explanation of Corrections
Note: For amended individual return only
Primary taxpayer's SSN

Complete the Ohio IT 1040 (checking the amended return box) and include this form with documentation to support any adjustments to the line items on the return.

Reason(s):

Federal adjusted gross income decreased* Filing status changed*

Exemptions increased (include Schedule J)*

Detailed explanation of adjusted items (include additional sheet[s] if necessary):

Federal unemployment deduction refund

Unemployment Benefits – Special Waiver of Interest and Penalties

- The Department may waive interest, penalty and/or interest penalty (IT/SD 2210) related to unemployment income reported on the IT 1040 and/or the SD 100 if **all** of the following five items apply:
 1. The taxpayer received unemployment benefits in 2020
 2. The benefit is included in the taxpayer's Ohio adjusted gross income and/or the taxpayer's traditional school district income tax base
 3. The taxpayer timely filed the 2020 IT 1040 / SD 100 (May 17, 2021 for most taxpayers)



Unemployment Benefits – Special Waiver of Interest and Penalties

- The Department may waive interest, penalty and/or interest penalty (IT/SD 2210) related to unemployment income reported on the IT 1040 and/or the SD 100 if **all** of the following five items apply:
 4. The taxpayer accrued interest, penalty and/or interest penalty as a result of nonpayment or underpayment of the 2020 tax liability related to the taxpayer’s unemployment income
 5. The taxpayer has paid the tax due for 2020 in full when requesting the waiver
- Tax due must be paid by June 30, 2023



Unemployment Benefits – Special Waiver of Interest and Penalties

- After paying any tax due for 2020, eligible taxpayers should request the waiver by responding to the billing/ assessment/ collection notice with the following information:
 - A request for a waiver, including an explanation of why the liability exists and referencing the “unemployment billing waiver program”
 - A copy of their federal return (including schedule 1) or IRS Tax Account Transcript
 - A copy of the notice
 - Proof of payment, such as a copy of a cancelled check or electronic confirmation

Unemployment Benefits – Special Waiver of Interest and Penalties

- Taxpayers who qualify for the waiver and paid interest or penalty relating to unemployment income may request a refund of these amounts using form IT-AR
 - This waiver does not delay the billing, certification, or collection processes
 - The Department cannot waive or refund interest, collection costs or other fees imposed by the Ohio Attorney General’s office

	 10211411	<p>Tax Year</p> <table border="1"><tr><td> </td><td> </td><td> </td></tr></table>				IT AR Rev. 5/18/20
Individual and School District Income Tax Refund Application						

Unemployment Benefits – Unemployment Fraud

- In 2020 & 2021, many individuals were victimized by fraudulent unemployment claims
 - Most fraud related to identity theft
- Fraud victims do not need to have a determination from ODJFS on their ID theft claim or a corrected 1099-G to file their federal and state income tax returns
 - Generally, fraud victims shouldn't report the fraudulent unemployment benefits on their tax return
 - Fraud victims must obtain a corrected 1099-G from ODJFS after returns are filed to avoid a future tax bill from the IRS and/or the Department

Unemployment Benefits – Ohio Withholding

- Individuals can elect to have state income tax withheld from their unemployment benefits paid on or after January 1, 2023
 - Taxpayers who receive unemployment benefits in 2021 and/or 2022 may need to make estimated income tax payments to avoid interest penalty (Ohio IT/SD 2210)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Unemployment compensation \$	OMB No. 1545-0120 2023	Certain Government Payments
		2 State or local income tax refunds, credits, or offsets \$	Form 1099-G	
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year	4 Federal income tax withheld \$	Copy 1 For State Tax Department
RECIPIENT'S name		5 RTAA payments \$	6 Taxable grants \$	
Street address (including apt. no.)		7 Agriculture payments \$	8 Check if box 2 is trade or business income <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		9 Market gain \$		
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld \$
				\$



Department of Taxation

Guidance for Part-year Residents of Taxing School Districts

School District Income Tax Guidance

- Ohio's school district income tax is levied on the portion of taxable income **received** by an individual while a resident of the taxing district
- Common question from taxpayers who live in multiple taxing districts is how to allocate their income/deductions to the respective districts
- Ohio law does not specify how to calculate the portion of income received while a resident of the district

School District Income Tax Guidance

- If the taxpayer knows the exact amounts of income/adjustments received or made in each district, they should specifically match up those amounts to the proper school district
 - Uncommon for taxpayers to know this for all amounts
 - Even more difficult for taxpayers to know how to allocate exemptions/deductions that are not tied to specific events

School District Income Tax Guidance

- For **earned income tax base districts**, “taxable income” is defined as compensation (wages, salaries, tips, etc.) and net earnings from self-employment to the extent included in modified AGI
- Taxpayers only report the portion of these amounts **received** while a resident of the district, so the same allocation principles apply
 - If the taxpayer knows the exact amounts of income received, they should specifically match those amounts to the proper school district
 - Otherwise, the taxpayer should follow the general guidance and prorate income based on the time lived in each district

<u>Earned Income Tax Base School District Amounts (lines 24 to 27)</u>	
24. Wages and other compensation received while a resident of the school district and included in modified adjusted gross income (see instructions)	24. <input type="text"/>
25. Net earnings from self-employment received while a resident of the school district and included in modified adjusted gross income (see instructions)	<input type="checkbox"/> ... 25. <input type="text"/>
26. Federal conformity adjustments (see instructions)	<input type="checkbox"/> ... 26. <input type="text"/>
27. School district taxable income (add lines 24, 25 and 26; if less than zero, enter zero). Enter here and on line 1 of this return	27. <input type="text"/>

School District Income Tax Guidance - Example

- In 2020, Mary lived in School District A for 8 months and School District B for 4 months
 - Both are traditional tax base districts
- Mary's SD 100, line 21 amount on each return is \$114,300, calculated as follows:

Wages:	\$120,000
Exemption deduction:	\$5,700

- Mary changed jobs when she moved so she knows she received \$80,000 in School District A and \$40,000 in School District B

School District Income Tax Guidance - Example

- She allocates her exemption deduction as follows:

$$\text{SD A: } 5,700 \div 12 \times 8 = 3,800$$

$$\text{SD B: } 5,700 \div 12 \times 4 = 1,900$$

- Thus, the portion of income “received” in each district is:

$$\text{SD A: } 80,000 - 3,800 = \$76,200$$

$$\text{SD B: } 40,000 - 1,900 = \$38,100$$

School District Income Tax Guidance - Example

- Mary would complete lines 21 through 23 of each SD 100 as follows:

School District A

21. Line 19 plus line 20. Place a "-" in the box at the right if the amount is less than zero <input type="checkbox"/> ... 21.	114300	<input type="text" value="0"/>	<input type="text" value="0"/>
22. The portion of line 21 received while a nonresident of the school district entered above 22	38100	<input type="text" value="0"/>	<input type="text" value="0"/>
23. School district taxable income (line 21 minus line 22; if less than zero, enter zero). Enter here and on line 1 of this return..... 23.	76200	<input type="text" value="0"/>	<input type="text" value="0"/>

School District B

21. Line 19 plus line 20. Place a "-" in the box at the right if the amount is less than zero <input type="checkbox"/> ... 21.	114300	<input type="text" value="0"/>	<input type="text" value="0"/>
22. The portion of line 21 received while a nonresident of the school district entered above 22	76200	<input type="text" value="0"/>	<input type="text" value="0"/>
23. School district taxable income (line 21 minus line 22; if less than zero, enter zero). Enter here and on line 1 of this return..... 23.	38100	<input type="text" value="0"/>	<input type="text" value="0"/>

Questions?

- Personal & School District Income Tax

1-800-282-1780

- Taxpayer Services
- General Information

1-855-728-1055

- Tax Practitioners

- Fiduciary Income & Pass-Through Entity Tax

1-888-405-4039

- Taxpayer Services
- General Information

