

Personal and School District Income Tax Business Income Deduction & Tax Calculation

Deborah Smith, Administrator
Personal & School District Income Tax
Division



Topics for Discussion

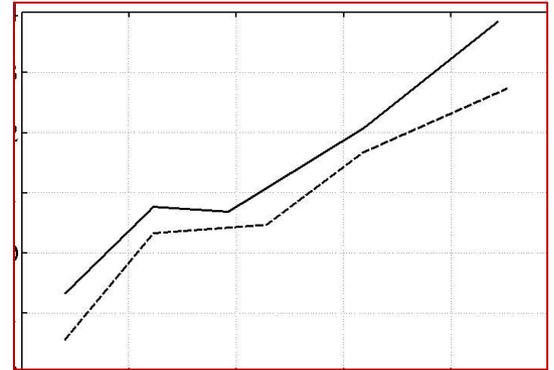
- Business vs Non-business Income
- 2013/2014 Small Business deduction
 - In's & Out's & Stats
- SB 208 and Business Income 2015 & forward
 - New form/New Calculation
- New form IT NRC
 - Allocating the Business income deduction for purpose of NRC calculation

Business/Non-Business Income

- Allocable vs. Apportionable Income
 - Business Income is Apportioned per R.C. 5747.21
 - Non-Business Income is Allocated per R.C. 5747.20
- How is income allocated or apportioned?
 - Performed on the Universal IT-1040 in calculating their resident or nonresident credit & their business income deduction



Business Income



“Business Income” means income, including gain/loss...

- Arising from transactions, activities, & sources in the regular course of a trade or business, (“Transactional Test”).
- From real, tangible, and intangible property if the acquisition, rental, management, and disposition of the property constitute integral parts of the regular course of a trade or business operation, (“Functional Test”).
- From a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill. (*Post-Kemppel*
4 Language)

Business Income

Kemppel v. Zaino, 91 Ohio St.3d 420 (2001)

- The Ohio Supreme Court recognized, without explicitly adopting, both tests:
 - **Transactional Test:** looks to the nature, frequency, and regularity of the transaction.
 - **Functional Test:** Was the property an integral part of the business? Did the property contribute to business income in the past?

Non-Business Income



“Nonbusiness Income” means all income that is not business income...

- And may include, but is not limited to:
 - Compensation
 - Rents, royalties from real or tangible property
 - Capital gains
 - Interest
 - Dividends and distributions
 - Patent, copyright royalties

Is This Business Income ?

- Rental income
 - Need to look to how owner holds out the property
 - Rented a few days per year, versus regularly
 - Existence of a property manager/ maintenance person
- Royalty income
 - Actively engaged in a trade the produces royalties or an isolated incident giving rise to the income
 - Passive use of lands or Lands accumulated for a business purpose

Is This Business Income ?

- Interest/ Dividends
 - Likely business income if earned from a PTE (i.e. reported on schedule K-1)
 - Nonbusiness income if from personal investments

- Capital Gains
 - Was the property generating the gain used in a trade or business (IRC §1231)?

Compensation & Guaranteed Payments

- Ohio Revised Code Section 5733.40(A)(7)
 - “Guaranteed payments or compensation paid to investors by a qualifying entity” are considered a distributive share of income.
 - Applies only to payments or such compensation paid to an “investor who holds at least a 20% direct or indirect interest in the profits or capital....”

Compensation & Guaranteed Payments

- This section controls for purposes of PIT, PTE, and EWT.
- Such wages, salaries, etc. are NOT considered to be “non-Ohio” compensation but are distributive shares of PTE profit apportioned within and without Ohio.
- Amounts are now “business income” subject to apportionment

Compensation & Guaranteed Payments

PLEASE NOTE:

- Compensation or guaranteed payments to a **LESS THAN 20%** owner are nonbusiness income
 - Amounts are not subject to apportionment
 - Amounts cannot be claimed on the SBD or the BID

Compensation & Guaranteed Payments

- For purposes of computing the Ohio nonresident credit on form IT-2023/ IT-NRC and for purposes of computing Ohio taxable income on form IT-4708, these wages must be added to income and then apportioned.
- Amounts are no longer “compensation” under Ohio law.

Compensation & Guaranteed Payments

- Department will look to:
 - W-2s, 1099s, and K-1s for 20% or more owners
 - Investor's IRS form 1040 to compare

2013 – 2014 Business Income Deduction

Deduct 50%-75% of the taxpayer's *Ohio small business investor income*

- portion of a taxpayer's AGI that is business income reduced by business deductions and apportioned to Ohio to the extent not otherwise deducted or excluded in computing federal or Ohio AGI for the taxable year

2014 Calendar Year Stats

Small Business Deduction Amount	Summary	Summary
Over 100k	24,887	\$3,032,808,152
90k to 100k	3,102	\$294,152,900
80k to 90k	3,910	\$331,943,793
70k to 80k	4,861	\$363,763,393
60k to 70k	8,135	\$522,924,288
50k to 60k	8,642	\$473,121,160
40k to 50k	12,211	\$546,109,926
30k to 40k	18,397	\$637,066,119
20k to 30k	29,707	\$728,435,246
10k to 20k	58,135	\$832,358,789
5k to 10k	58,013	\$420,909,981
1k to 5k	99,548	\$264,164,453
0k to 1k	75,807	\$30,674,861
	405,355	\$8,478,433,061

2015 Calendar Year Stats

Small Business Deduction Amount	Summary	Summary
Over 100k	38,506	\$6,182,192,468
90k to 100k	5,714	\$540,491,917
80k to 90k	5,443	\$461,858,754
70k to 80k	6,899	\$516,598,092
60k to 70k	8,829	\$572,068,083
50k to 60k	11,506	\$630,282,971
40k to 50k	15,860	\$709,021,191
30k to 40k	23,218	\$804,718,508
20k to 30k	36,975	\$908,004,666
10k to 20k	70,448	\$1,011,345,164
5k to 10k	65,100	\$475,514,183
1k to 5k	107,723	\$286,512,076
0k to 1k	71,475	\$30,524,028
	467,696	\$13,129,132,101

2015 Business Income Deduction

SB 208

- Deduct from the portion of an individual's adjusted gross income that is business income, to the extent not otherwise deducted or excluded in computing federal or Ohio AGI for the taxable year
- No Related-Member add-back

Business Income Deduction

For 2015

- Deduction is the lesser of:
 - 75% of business income with Max:
 - \$93,750 for “MFS” taxpayers
 - \$187,500 for “Single” or “MFJ” taxpayers

For 2016 & thereafter

- Deduction is 100% of first \$250,000 business income
- Taxpayers who file “MFS” are limited to \$125,000 per taxpayer

Reporting 2015 Business Income



- Form IT BUS
 - Based off of business income from Federal schedules:
 - B – Interest & Ordinary Dividends
 - C – Profit or Loss from Business (Sole Proprietorships)
 - D – Capital Gains & Losses
 - E – Supplemental Income & Loss
 - F – Profit or Loss from Farming

What's New (cont'd)



- IT BUS Included in software packages
 - Should not pull total directly from Federal schedules
 - May not be 100% Business income
 - Should populate Entity info.
- Tax liability calculated using new “business income” tax table
 - Rates mirror graduated PIT brackets
 - capped at 3%

Business Income tax table

2015 Income Tax Table 3

The business income tax table reflects the maximum 3% marginal rate.

You must round your tax to the nearest dollar.

Ohio Taxable Business Income Base (from line 12 of Ohio IT BUS)	2015 Ohio Business Income Tax (from line 13 of Ohio IT BUS and IT 1040 line 8b)
0 – \$ 5,200	0.495% of Ohio taxable income
\$ 5,200 – \$10,400	\$ 25.74 plus 0.990% of the amount in excess of \$5,200
\$ 10,400 – \$15,650	\$ 77.22 plus 1.980% of the amount in excess of \$10,400
\$ 15,650 – \$20,900	\$181.17 plus 2.476% of the amount in excess of \$15,650
\$ 20,900 – \$41,700	\$311.16 plus 2.969% of the amount in excess of \$20,900
\$ 41,700 – or more	\$928.71 plus 3.000% of the amount in excess of \$41,700

- 2016 – No marginal tax table – all business income remaining after deduction taxed at 3% flat rate

IT BUS (Part 1) – Business Income from Federal Schedules

Part 1 – Business Income From IRS Schedules

Note: Do not include amounts listed on these IRS schedules that are nonbusiness income. See R.C. 5747.01(C). If the amount on a line is negative, place a negative sign (“-”) in the box provided.

1. Schedule B – Interest and Ordinary Dividends
2. Schedule C – Profit or Loss From Business (Sole Proprietorship)
3. Schedule D – Capital Gains and Losses.....
4. Schedule E – Supplemental Income and Loss to include guaranteed payments and/or compensation from each pass-through entity in which you have at least a 20% direct or indirect ownership interest. **Note:** Reciprocity agreements do not apply.....
5. Schedule F – Profit or Loss From Farming
6. Other items of income and gain separately stated on federal Schedule K-1 and miscellaneous federal income tax adjustments, if any
7. Total of business income (add lines 1 through 6).....

IT BUS (Part 2) – Business Income Deduction

8. All business income (enter the lesser of line 7 above or Ohio IT 1040, line 1; cannot exceed federal adjusted gross income). If -0- or negative, stop here and do not complete Part 3.....

9. Multiply line 8 by 75% (.75) and enter here.....

10. Enter \$187,500 if filing status is single or married filing jointly; OR

Enter \$93,750 if filing status is married filing separately.....

11. Enter lesser of line 9 or line 10. Enter here and on Ohio Schedule A, line 12

IT BUS (Part 3) – Taxable Business Income

Note: If Ohio IT 1040, line 5 = -0-, do not complete Part 3.

- 12. Line 8 minus line 11 (if less than -0-, enter -0-).....
- 13. Taxable business income (enter the lesser of line 12 above or Ohio IT 1040, line 5).
Enter here and on Ohio IT 1040, line 6
- 14. Business income tax liability (see instructions for business income tax tables). Enter here
and on Ohio IT 1040, line 8b.....



Form IT BUS

		1040 Return		IT BUS	
	FAGI	500,000		Line 8 - Totaling 1-6	500,000
	Sched. A deductions	<u>187,500</u>		Line 11 Bus. deduction	<u>187,500</u>
	OAGI	312,500		Line 12 - Taxable Bus Income	312,500
	Exemptions	<u>1,700</u>		Line 13 - Lesser of Line 12	312,500
1040 Line 5	Ohio Income tax base	310,800		OR	
				1040 line 5	310,800

Scenario 1 - 2015

John has \$100,000 Federal Schedule C income and files “Single”. What is his business income deduction for 2015?

– \$75,000

John has \$300,000 Federal Schedule C income and files “Single”. What is his business income deduction for 2015?

– \$187,500 (max. amt)

Scenario 2 - 2016

John has \$100,000 Federal Schedule C income and files “Single”. What is his business income deduction for 2016?

– \$100,000

John has \$300,000 Federal Schedule C income and files “Single”. What is his business income deduction for 2016?

– \$250,000 (max. amt)

Scenario 3 – Business/Non-business Income

John files “Single” and reports the following income:

Fed. Schedule	Total Inc.	Business Inc.
B	30,000	20,000
C	75,000	75,000
D	20,000	15,000
	\$125,000	\$110,000

- 2015 Business Income deduction: \$ 82,500
- 2016 Business Income deduction: \$110,000

Scenario 4 - Business/Non-business Income, Guaranteed Payment <20%

John files “MFJ” and reports the following income:

Fed. Schedule	Total Inc.	Business Inc./Guaranteed Pymts
B	50,000	30,000
D	20,000	15,000
E	175,000	*50,000
	\$245,000	\$45,000

* < 20% ownership of PTE

2015 Business Income Deduction: \$ 33,750

2016 Business Income Deduction: \$ 45,000

Scenario 5 – Business/Non-Business Income & Guaranteed Payment $\geq 20\%$

- John files “MFJ” and reports the following income:

Fed. Schedule	Total Inc.	Business Inc./Guaranteed Pymts
B	50,000	30,000
D	20,000	15,000
E	175,000	*50,000
	\$245,000	\$95,000

* > 20% ownership of PTE

2015 Business Income Deduction: \$ 71,250

2016 Business Income Deduction: \$ 95,000

Apportionment & Business Income Deduction

- For PTE – IT 2023
 - Still valid form for non-resident credit
- For PIT
 - No apportionment on the IT BUS form
 - New form IT NRC

New Apportionment/Allocation Form IT NRC

- Similar to Form IT 2023
- Pages 1 and 2 swapped
- Page 1 is nonbusiness income allocation
- Page 2 is business income apportionment
 - Still requires a separate page 2 for each entity

New Apportionment/Allocation Form IT NRC

- ‘Business Income’ on IT NRC closely reflects how it is defined on IT BUS
- “Business Income” means income, including gain/loss...
- Individual income tax deductions moved to the nonbusiness section

New Apportionment/Allocation Form IT NRC

Part I – Nonbusiness Income and Deductions

B. Deductions from Income

13. Educator expenses	13.	00	00	00
14. Certain business expenses	14.	00	00	00
15. Health savings account deduction	15.	00	00	00
16. Moving expenses	16.	00	00	00
17. Deductible self-employment tax	17.	00	00	00
18. Self-employed SEP, SIMPLE, and qualified plans	18.	00	00	00
19. Self-employed health insurance deduction	19.	00	00	00
20. Penalty on early withdrawal of savings	20.	00	00	00
21. Alimony paid	21.	00	00	00
22. IRA deduction	22.	00	00	00
23. Student loan interest deduction	23.	00	00	00
24. Tuition and fees	24.	00	00	00
25. Domestic production activities deduction	25.	00	00	00
26. Other deductions	26.	00	00	00
27. Total deductions (add lines 13-26)	27.	00	00	00
28. Net nonbusiness income (line 12 minus line 27; enter here and in Part V, line 2, columns A, B, and C, respectively)	28.	00	00	00

IT NRC – Non-Resident Credit (formerly IT 2023 for PIT only)

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line X (enter in A, B, and C respectively).....1.	00	00	00
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively)2.	00	00	00
3. Total business and nonbusiness income (add lines 1 and 2, by column)3.	00	00	00
4. Total Ohio Schedule A additions from form IT 1040, line 2a (see Note #1 below)4.	00	00	00
5. Total Ohio Schedule A deductions from form IT 1040, line 2b (see Note #1 below)5.	00	00	00
6. Line 3 plus line 4 minus line 5, by column (see Notes #2, #3 and #4 below).....6.	00	00	00

Scenario 6 – Ohio & Non-Ohio Business Income & Non-Resident Credit

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line X (enter in A, B, and C respectively).....1.	300,000	100,000	400,000
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively)2.	0	0	0
3. Total business and nonbusiness income (add lines 1 and 2, by column)3.	300,000	100,000	400,000
4. Total Ohio Schedule A additions from form IT 1040, line 2a (see Note #1 below)4.	0	0	0
5. Total Ohio Schedule A deductions from form IT 1040, line 2b (see Note #1 below)5.	187,500	0	187,500
6. Line 3 plus line 4 minus line 5, by column (see Notes #2, #3 and #4 below).....6.	112,500	100,000	212,500

Scenario 7 – Ohio & Non-Ohio Business Income All & Non-Resident Credit

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line X (enter in A, B, and C respectively).....1.	50,000	50,000	100,000
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively)2.	80,000	0	80,000
3. Total business and nonbusiness income (add lines 1 and 2, by column)3.	130,000	50,000	180,000
4. Total Ohio Schedule A additions from form IT 1040, line 2a (see Note #1 below)4.	0	0	0
5. Total Ohio Schedule A deductions from form IT 1040, line 2b (see Note #1 below)5.	50,000	25,000	75,000
6. Line 3 plus line 4 minus line 5, by column (see Notes #2, #3 and #4 below).....6.	80,000	25,000	105,000

Scenario 8 – Non-Ohio Business Income & Non-Resident Credit

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line X (enter in A, B, and C respectively).....1.	0 00	200,000 00	200,000 00
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively)2.	125,000 00	0 00	125,000 00
3. Total business and nonbusiness income (add lines 1 and 2, by column)3.	125,000 00	200,000 00	325,000 00
4. Total Ohio Schedule A additions from form IT 1040, line 2a (see Note #1 below)4.	0 00	0 00	0 00
5. Total Ohio Schedule A deductions from form IT 1040, line 2b (see Note #1 below)5.	0 00	150,000 00	150,000 00
6. Line 3 plus line 4 minus line 5, by column (see Notes #2, #3 and #4 below).....6.	125,000 00	50,000 00	175,000 00

Scenario 9 – Non-Ohio Business Income, Ohio Wages & Non-Resident Credit & Other Schedule A Deductions

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line X (enter in A, B, and C respectively).....1.	0 00	200,000 00	200,000 00
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively)2.	125,000 00	0 00	125,000 00
3. Total business and nonbusiness income (add lines 1 and 2, by column)3.	125,000 00	200,000 00	325,000 00
4. Total Ohio Schedule A additions from form IT 1040, line 2a (see Note #1 below)4.	0 00	0 00	0 00
5. Total Ohio Schedule A deductions from form IT 1040, line 2b (see Note #1 below)5.	10,000 00	150,000 00	160,000 00
6. Line 3 plus line 4 minus line 5, by column (see Notes #2, #3 and #4 below).....6.	115,000 00	50,000 00	165,000 00

Contact Us & Information

- Information for Personal & School District Income Tax
 - 800-282-1780 (General #)
 - 614-728-1055 (Tax Practitioner #)
 - Via e-mail at tax.ohio.gov “Contact Us”
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