

OHIO 50% SMALL BUSINESS INVESTOR INCOME DEDUCTION

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50% Small Business Deduction

- Effective taxable year 2013 and forward
- Amounts to 50% of OH small business investor income of up to \$250,000
- Taken only by individuals on IT1040 Schedule A
- Cannot exceed \$62,500 for each spouse filing separately or \$125,000 for all other filers
- Deduction cannot exceed OAGI



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50% Small Business Deduction

Ohio Small Business Investor Income

- Is the portion of a taxpayer's AGI that is business income reduced by business deductions and apportioned to Ohio
- Includes a taxpayer's **net** business income from PTEs and sole proprietorships operating in Ohio
- Such income is included in Federal Form 1040 schedules C, E and F (lines 12, 17, and 18)



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Is Schedule IT SBD required to be electronically filed as part of the Ohio return?

- Attach the IT SBD as a PDF document to your electronic submission if your software allows for attachments
- If your software does not allow for PDF attachments, keep IT SBD with your records as it may be requested upon review of the return
- Attach IT SBD to your paper return filing
- Tax year 2014 - electronic filing changes



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SBD Resources/Updates

- IT SBD form at tax.ohio.gov
- Update FAQ's & Instructions as needed
- Formed Subject Matter Expert call-in line
- Held internal training classes
- SBD dedicated webpage
- Currently reviewing form/instructions for updates



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50% Small Business Deduction

Frequently Asked Questions are Available at
www.tax.ohio.gov/faq

The screenshot shows the top navigation bar of the Ohio Department of Taxation website. On the left is the Ohio Department of Taxation logo. On the right are links for Ohio.gov, State Agencies, and Online Services, along with a search bar and a Facebook icon. Below these is a dark red navigation menu with the following items: Home, File, Forms, Individual, Business, Professional, Government, Researcher, and Contact.

Frequently Asked Questions

The Ohio Department of Taxation has compiled a list of frequently asked questions covering many different categories.

To view the questions, click on the "Select Category" bar and then click on the category you are interested in. A list of questions will appear pertaining to that category. Then click on the question you are inquiring about and the answer will appear.

The screenshot shows the 'Category:' section of the website. It features a dropdown menu with 'Income - Small Business Investor Deduction' selected. To the right is a search bar with a magnifying glass icon.

50% Small Business Deduction Webpage

Cutting Small Business Taxes

Virtually all small businesses in Ohio are now eligible for a 50 percent tax deduction on the first \$250,000 of business income. This deduction is the centerpiece of a major tax reform package initiated by Ohio Governor John Kasich and approved by the Ohio General Assembly that produced the largest overall tax reduction in the country -- \$2.7 billion over three years.

The small business Deduction enables a business owner to deduct 50 percent of Ohio net business income from the adjusted gross income they report on their Ohio personal income tax return. If the business has multiple owners, each is eligible to claim the deduction. This 50 percent deduction is available on up to \$250,000 in business income, meaning the deduction is capped at \$125,000 for each investor or owner.

Owners of and investors in Ohio businesses structured as sole proprietorship pass-through entities (PTEs) qualify for this new tax cut. PTEs include: partnerships, Subchapter S corporations (S-corps) and Limited Liability Companies (LLCs). Income generated by the business and passed through to the owners/investors is subject to the personal income tax. The deduction is first effective for income earned in TAXABLE YEAR 2013 and claimed on income tax returns filed in 2014.

For more information on this tax cut, please contact the Ohio Department of Taxation at 1-800-282-1780.

Small Business Deduction Information

Click here for Form (PDF): [IT SBD – Small Business Investor Income Deduction Schedule](#)

Click here for Instructions (PDF): [Small Business Deduction Instructions](#)

Click here on [Income - Small Business Investor Deduction FAQs](#)

Click here for a [PowerPoint on Small Business Investor Income Deduction](#)



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IT SBD - Line 1

Self employment income (federal C, C-EZ, F), guaranteed payments and/or compensation received from each pass-through entity in which you have at least a 20% **direct or indirect** ownership interest.

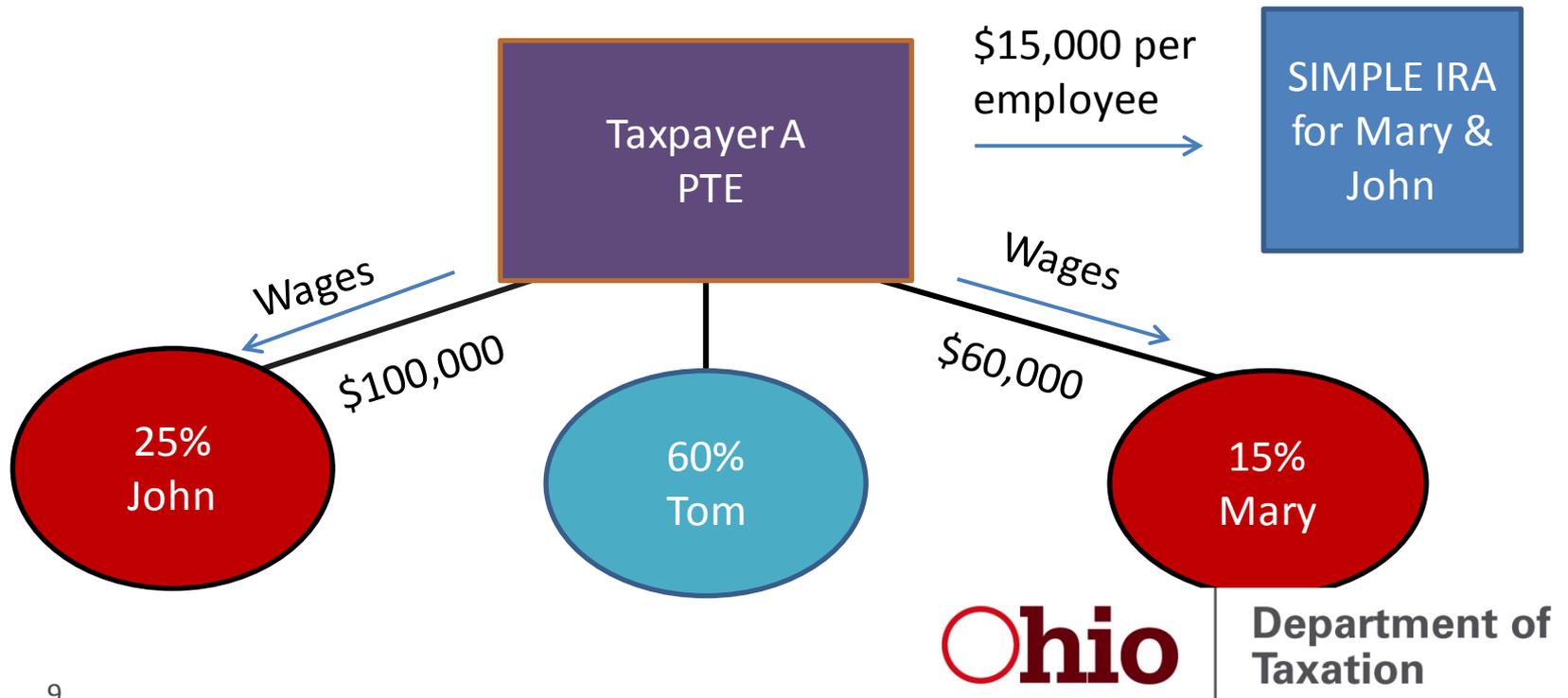
*Include on this line the **ENTIRE** amount of compensation you received as a 20% or more owner.*



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PTE Compensation To a 20% or More Shareholder

Example: Taxpayer A is a PTE and has net income of \$600,000. Taxpayer A pays wages of \$100,000 to John and \$60,000 to Mary. John owns 25% and Mary owns 15% of Taxpayer A. Taxpayer A contributes \$15,000 to a SIMPLE IRA on behalf of each of its employees. John also contributes \$5,000 to an individual IRA. Both John and Mary file jointly with their spouses.



PTE Compensation To 20% or More Shareholder

JOHN

- John will report \$100k of compensation.
- He also receives a distributive share of \$150k (\$600k x 25%).
- John's contribution to his IRA is not a business deduction, so it will not be included in ITSBD Part I B.
- The SIMPLE IRA contribution does not impact his Small Business Investor Income deduction.
- All of John's business income is OH sourced.
- John's joint OAGI is \$225k. His SBD is therefore limited to 50% of OAGI = \$112,500.

Part I

A. Business Income Before Deductions

1. Self-employment income (federal Schedule C, C-EZ or F), guaranteed payments and/or compensation received from each pass-through entity in which you have at least a 20% direct or indirect ownership interest. Note: Reciprocity agreements do not apply (see line instructions).....	1.	100,000	00
2. Add-back for expenses paid to related members and to certain investors' family members (see instructions).....	2.		00
3. Ordinary income (loss) from trade or business activities (to the extent not shown on line 1).....	3.	150,000	00
4. Net income (loss) from rental activities, net royalties, interest income and dividend income.....	4.		00
5. Net capital gain (loss) and other gain (loss) (see the chart on page 7 of the instructions).....	5.		00
6. Add adjustments from I.R.C. section 168(k) and qualifying 179 expenses (see line instructions).....	6.		00
7. Other items of income and gain separately stated on federal Schedule K-1 and miscellaneous federal income tax adjustments, if any.....	7.		00
8. Total of lines 1 through 7.....	8.	250,000	00

B. Deductions From Business Income

9a. Keogh deduction, self-employment tax deduction and self-employed health insurance deduction.....	9a.		00
b. Deduct adjustments for the depreciation expenses added back in prior years (see line instructions).....	9b.		00
c. Other items of deduction and loss separately stated on federal Schedule K-1 if such deductions are allowable in computing federal adjusted gross income (individuals) or federal taxable income (estates).....	9c.		00
d. Other business income deductibles (describe) and miscellaneous federal income tax adjustments, if any.....	9d.		00
e. Total of lines 9a through 9d.....	9e.		00

C. Net Business Income, Apportionment

10. Net business income (line 8 minus line 9e).....	10.	250,000	00
11. Ohio apportionment ratio (Part II, line 4).....	11.	1 . 0	
12. Total business income apportioned to Ohio (multiply line 10 by line 11).....	12.	250,000	00

D. Ohio Small Business Investor Income Deduction

(Complete a separate schedule for each pass-through entity or sole proprietorship)

13. Ohio small business investor income (line 12 from each separate schedule; see instructions).....	13.	250,000	00
14. Maximum Ohio small business investor income subject to deduction (see instructions).....	14.	225,000	00
15. Ohio small business investor income deduction; 50% of line 13 or 50% of line 14, whichever is less (maximum deduction is \$125,000 for married filing jointly or single/head of household/qualifying widow(er) filers and \$62,500 for married filing separately filers. Enter here and on Ohio form IT 1040, line 41).....	15.	112,500	00

PTE Compensation To Less than 20% Shareholder

MARY

- Mary only owns 15% of Taxpayer. Therefore, her \$60k of wages is not business income.
- She has a distributive share of income of \$90k (\$600k X15%).
- The SIMPLE IRA contribution does not impact her Small Business Investor Income deduction.
- All of her business income is Ohio sourced.
- Mary's joint OAGI is \$90,000. Her SBD will be 50% of \$90,000 = \$45,000.

Part I

A. Business Income Before Deductions

1. Self-employment income (federal Schedule C, C-EZ or F), guaranteed payments and/or compensation received from each pass-through entity in which you have at least a 20% direct or indirect ownership interest. Note: Reciprocity agreements do not apply (see line instructions).....	1.		00
2. Add-back for expenses paid to related members and to certain investors' family members (see instructions).....	2.		00
3. Ordinary income (loss) from trade or business activities (to the extent not shown on line 1).....	3.	90,000	00
4. Net income (loss) from rental activities, net royalties, interest income and dividend income.....	4.		00
5. Net capital gain (loss) and other gain (loss) (see the chart on page 7 of the instructions).....	5.		00
6. Add adjustments from I.R.C. section 168(k) and qualifying 179 expenses (see line instructions).....	6.		00
7. Other items of income and gain separately stated on federal Schedule K-1 and miscellaneous federal income tax adjustments, if any.....	7.		00
8. Total of lines 1 through 7.....	8.	90,000	00

B. Deductions From Business Income

9a. Keogh deduction, self-employment tax deduction and self-employed health insurance deduction.....	9a.		00
b. Deduct adjustments for the depreciation expenses added back in prior years (see line instructions)....	9b.		00
c. Other items of deduction and loss separately stated on federal Schedule K-1 if such deductions are allowable in computing federal adjusted gross income (individuals) or federal taxable income (estates)...	9c.		00
d. Other business income deductibles (describe) and miscellaneous federal income tax adjustments, if any.....	9d.		00
e. Total of lines 9a through 9d.....	9e.		00

C. Net Business Income, Apportionment

10. Net business income (line 8 minus line 9e).....	10.	90,000	00
11. Ohio apportionment ratio (Part II, line 4).....	11.	1 . 0	
12. Total business income apportioned to Ohio (multiply line 10 by line 11).....	12.	90,000	00

D. Ohio Small Business Investor Income Deduction

(Complete a separate schedule for each pass-through entity or sole proprietorship)

13. Ohio small business investor income (line 12 from each separate schedule; see instructions).....	13.	90,000	00
14. Maximum Ohio small business investor income subject to deduction (see instructions).....	14.	90,000	00
15. Ohio small business investor income deduction; 50% of line 13 or 50% of line 14, whichever is less (maximum deduction is \$125,000 for married filing jointly or single/head of household/qualifying widow(er) filers and \$62,500 for married filing separately filers. Enter here and on Ohio form IT 1040, line 41.....	15.	45,000	00

IT SBD - Line 1

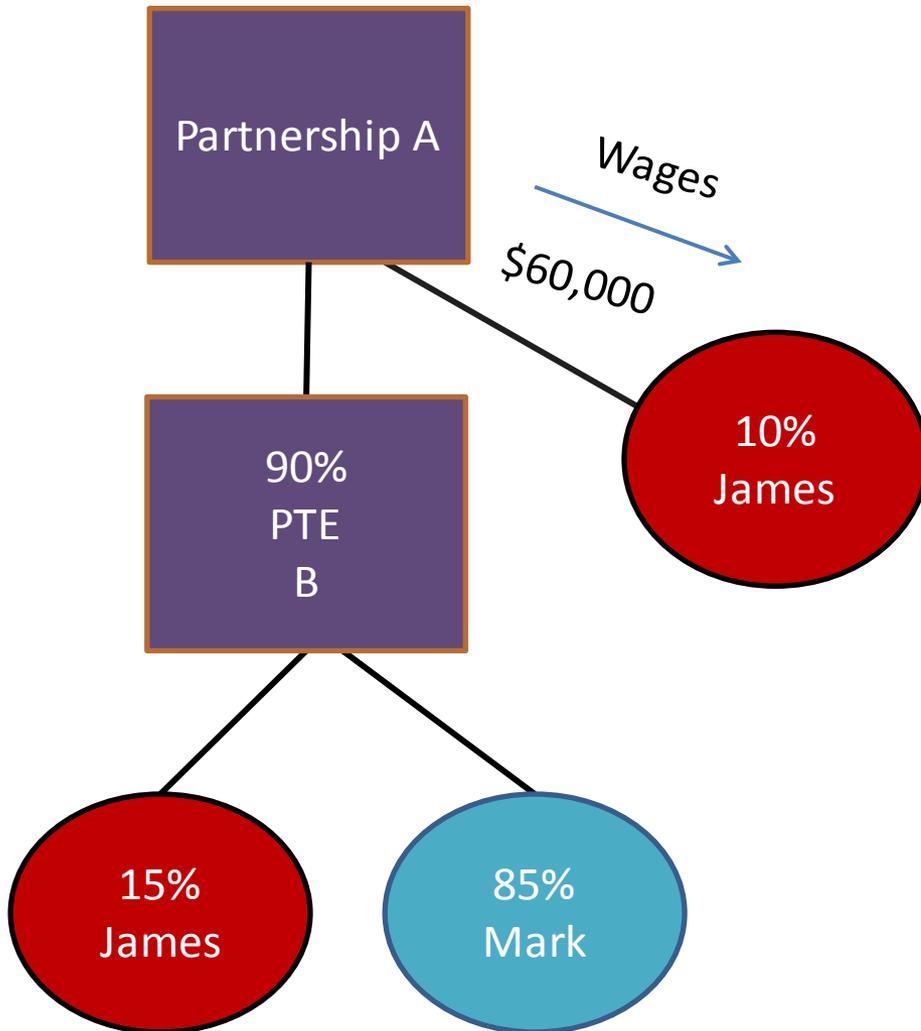
What is intended by the terms “direct and indirect” ownership for purposes of the 20% compensation rule?

- ORC 5733.40(A)(7) does not explicitly define “direct” or “indirect”.
- Most have historically viewed these terms as referring to, for example, a situation where the investor owns an interest in another PTE that owns the PTE paying the compensation.



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Indirect Ownership Example



- James owns 15% of PTE B, which owns 90% of the partnership paying him compensation of \$60,000.
- James directly owns 10% of Partnership A.
- James directly and indirectly owns a total of 23.5% ($10\% + [15\% \times 90\%]$) of Partnership A.
- He therefore meets the 20% ownership requirement.

IT SBD - Line 2 - Related Member

Line 2 of the IT SBD accommodates the addback for expenses paid to a PTE's related members under ORC 5733.40(A)(3) and (4).

- Related member addback does **NOT** apply to sole proprietorships.

“Related member” is defined in ORC 5733.40(P) and 5733.042(A)(6), which references 3 provisions. The next slides provide additional information and illustrate a few common examples of such adjustments.



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IT SBD - Line 2 - Related Member

Add back expenses paid to related members and to certain investors' family members

- Include only your **DISTRIBUTIVE SHARE** of the expense.
- Amounts already shown or accounted for on line 1 should not be included on this line.
- Taxpayers should not add back expenses which are a result of certain sales of inventory.
- **IF YOU ENTER AN AMOUNT ON THIS LINE THAT IS NOT ALREADY INCLUDED IN YOUR OAGI, YOU MUST REPORT IT ON YOUR OH IT1040 SCHEDULE A, LINE 34 AS A PTE ADJUSTMENT.**



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IT SBD - Line 2 - Related Member

Three Related Member Provisions

Provision 1, ORC 5733.04(I)(12)(c): Attribution rules of IRC section 318 apply for purposes of determining whether the ownership requirements in this section have been met.



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IT SBD - Line 2 - Related Member

Three Related Member Provisions

IRC 318 Family Attribution Rules apply for purposes of
ORC 5733.04(I)(12)(c)(i):

An individual shall be considered as owning the stock owned, directly or indirectly, by or for:

- (i) **his spouse** (other than a spouse who is legally separated from the individual under a decree of divorce or separate maintenance), and
- (ii) **his children, grandchildren, and parents.**



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IT SBD - Line 2 - Related Member

Examples of Common Related Member Adjustments Can Include:

- ✓ Management fees
- ✓ Interest expenses
- ✓ Intangible expenses (rent, royalties)
- ✓ Wages paid to family members
- ✓ Expense sharing arrangements
- ✓ Other



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IT SBD - Line 2 - Related Member

Do family attribution rules apply when determining if a person or entity is a related member?

Under one definition in the statute 5733.04(I)(12)(c)(i), "related entity" means:

- (i) An individual stockholder, or a member of the stockholder's family under IRC 318, if the stockholder and the members of the stockholder's family own, directly, indirectly, beneficially, or constructively, in the aggregate, at least **50%** of the value of the taxpayer's outstanding stock;
- (iv) Attribution Rules of IRC 318 apply



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IT SBD - Line 2 - Related Member

Example: An PTE pays rents to a partnership. The S corporation is owned by a husband and wife. Does this rent get added back on line 2 of the IT SBD?

This depends on the ownership of the partnership. If the husband and wife both also are the sole shareholders of the partnership and all the requirements of ORC 5733.40(A)(3) are met, then the rent must be included on line 2 of the IT SBD.

IT SBD - Line 2 - Related Member

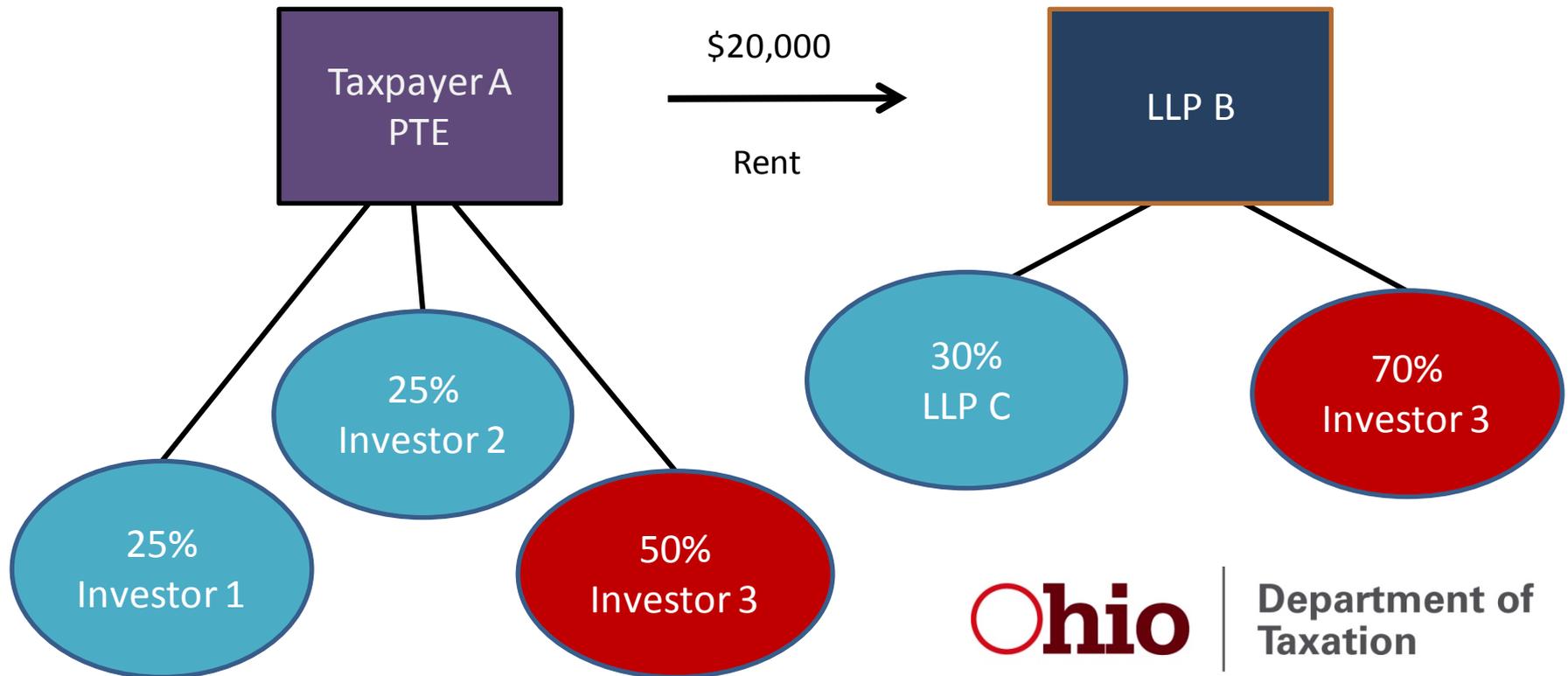
From Previous Example: Wouldn't husband and wife also have a separate worksheet for the partnership where the net rental income is included on line 4? If so, it seems the rent income is being included as business income twice. Is this correct?

- Yes, if the income is also considered to be business income to the partnership.
- However, the PTE adjustment must be added back by the individuals to OAGI on IT1040 line 34.
- Note: ITSBD instructions mention the term “unitary”. If your businesses are so integrated that they should be viewed as a unitary business, you might consider whether or not you want to file one ITSBD to reflect the two entities on a combined basis. Though, the statute does not expressly allow / disallow for individuals.

Related Member Adjustments

Example: Rent Expense Paid to Affiliate

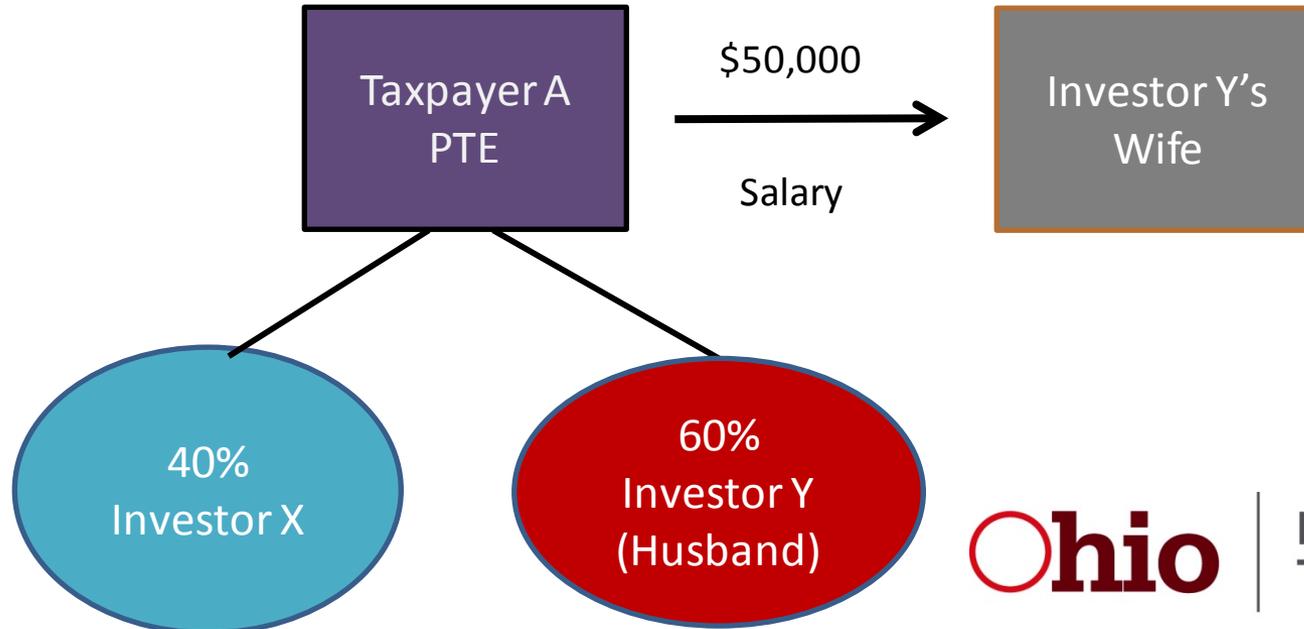
Investor 3 owns 50% of Taxpayer A PTE and 70% of LLP B, which is receiving \$20k of rent from Taxpayer. Investors 1, 2 and 3 would be entitled to add back their distributive shares of the rent on IT SBD line 2. (ie: Investor 3 will have a \$10k related member adjustment [50% x \$20k]. This investor will also have a IT1040 line 34 adjustment.)



Related Member Adjustments

Example: Salary Expense Paid to Family Member of Shareholder

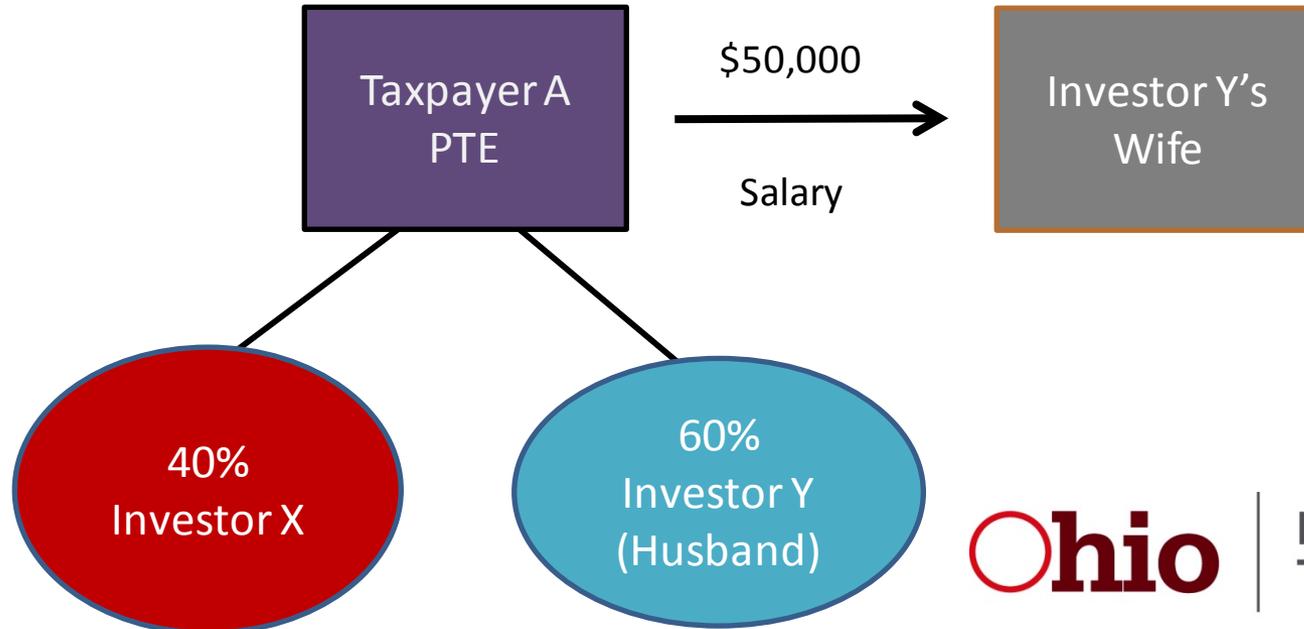
Investor Y owns 60% of Taxpayer A who is a PTE. Investor Y's spouse receives a \$50k wage from Taxpayer A. Investors X and Y would be entitled to add back their distributive shares of the salary on IT SBD line 2. (ie: Investor Y = 60% x \$50k)



Related Member Adjustments

Example: Salary Expense Paid to Family Member of Shareholder – Impact to IT1040 Line 34

Investor X is required to make an IT1040 Line 34 PTE adjustment ($40\% \times \$50k = \$20k$). Investor Y and his wife are filing jointly. Since the wages are already included in the couple's joint federal AGI, no Line 34 PTE adjustment is required for Investor Y.



Related Member & 20% Compensation

Example: A family owns 100% of an Ohio-based PTE with a net income of \$1 mil. Assume all income is apportioned to Ohio for the SBD. Ownership/Distributive Share and Compensation is as follows:

- Father – 26%; \$260,000; \$40,000
- Mother – 26%; \$260,000; \$40,000
- Son – 34%; \$340,000; \$70,000
- Daughter – 14%; \$140,000; \$15,000



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Related Member & 20% Compensation

The Daughter is a “related member” under ORC 5733.04(I)(12)(c)(i) since family attribution (under IRC 318) applies. She is a stockholder, and her and her father and mother own at least 50% of the value of the S Corp. Together they aggregately own 66% (26%+26%+14%).

- Father – 26%; \$260,000; \$40,000
- Mother – 26%; \$260,000; \$40,000
- Daughter – 14%; \$140,000; \$15,000



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Related Member & 20% Compensation

<u>IT SBD</u>	<u>Father</u> 26%	<u>Mother</u> 26%	<u>Son</u> 34%	<u>Daughter</u> 14%
Line 1	40,000	40,000	70,000	0
Line 2	3,900	3,900	5,100	2,100
Line 3	260,000	260,000	340,000	140,000

Line 1: S/Hs w/>20% ownership must each include the **entire amount** of their own compensation amounts. Since the daughter owns < 20%, she does not include her compensation.

Line 2: Since the Daughter is a related member, each S/H must report a related member add-back for his or her **distributive share** of the daughter's compensation. (Daughter's compensation = \$15,000).

Line 3: Each S/H must include the entire amount of their distributive share of the S Corp's income. (S Corp Ordinary Income = \$1M)

NOTE: Father, Mother and Son must each make a PTE adjustment on IT 1040 Line 34 for the addbacks they made on ITSBD Line 2. Daughter does not make this adjustment because her federal AGI already includes this income.



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IT SBD – Line 3

- Includes ordinary income (loss) from trade or business activities (to the extent not shown on ITSBD line 1)
- Report distributive or proportionate shares of income that are included in your federal AGI regardless of ownership %
- See line 1 amount on federal schedule K-1. Note: if the taxpayer has a 179 deduction, use line 1 minus line 12 of the K-1 for SBD line 3.
- See also Federal 1040 Schedule E (line 17)



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IT SBD – Line 3

Taxpayer is a “statutory employee” for federal purposes receiving a Form W-2 from an LLC that he does not own. He reports this W-2 income on Federal Schedule C., but does not pay self employment tax. Can this income be included on IT SBD Line 3?

Regardless of whether a taxpayer is considered to be a “statutory employee” for federal employment tax purposes, if a taxpayer is a “common law employee” not required to pay federal self-employment tax, his income is considered to be compensation. Compensation is not business income and therefore does not qualify for the SBD.

IT SBD – Line 3



Taxpayer is receiving a W-2 from his Church for performing services as a priest. He does not report this income on Federal Schedule C, but does pay self employment tax. Can this income be included on IT SBD Line 3?



If this priest is considered to be a “common law employee” of his local Church, his W-2 income is considered to be compensation. Compensation is not business income and therefore does not qualify for the SBD.

IT SBD – Line 4

- Includes net income (loss) from rental activities, net royalties, interest income, and dividend income from Fed 1040 Schedule E (line 17) that is business income
- Rental income should be that which is received on a regular and consistent basis (ie: monthly).
- Most Fed Schedule E income included in federal AGI (Passive and Non-Passive) qualifies for the IT SBD.
- Generally include interest and dividend income in the following instances:
 - **If generated in the ordinary course of your business** (ie: primary business purpose is investing)
 - If generated from working capital and reinvested into the business



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IT SBD -Line 4



Taxpayer owns 5 rental properties; 4 in OH and 1 in FL. This is not reported on Federal 1040 Schedule C, but as passive income on Schedule E. The 4 OH rentals have a net profit while the property in FL has a loss. Does this loss offset the net profit from the other properties?

If all rental income is business income, the taxpayer should file a separate ITSBD for each rental property & include each property's income on line 4 as rental activity income. The taxpayer's ITSBD for the Florida property should reflect the amount of property he or she owns outside of OH in FL within the Part II apportionment formula. (The apportioned OH business income amounts will be netted on line 13).



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IT SBD -Line 4

Taxpayer is a 50% beneficiary of a trust that has a portfolio of equity investments. Would the income from these investments (including dividends, interest and capital gains) qualify for line 4 or line 5 of IT SBD?

The income from these investments would qualify if the following is true:

- It is business income
- It was realized and recognized by the beneficiary



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IT SBD – Line 5

- Only includes net capital gains or losses and other gains or losses that are *business income*. See 5747.01(B) and (C) and *Kemppel v. Zaino*, 91 Ohio St.3d 420 (2001)
- Gains or losses reported on this line must be those which are generated:
 - in the ordinary course of business
 - from assets integral to the taxpayer's business operation, or
 - from working capital and reinvested into the business



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IT SBD – Line 5



A PTE that primarily operates to make and sell bicycles invests cash in stocks. The PTE later sells these stocks, resulting in a capital gain. The business does not re-invest the gains into its bicycle business, but distributes them to shareholders. The capital gain is reported on the shareholder's K-1. Can this gain be included by Tom on Line 5?

This income is likely not “business income”. The PTE is not in the business of investing & the income was not received in the regular course of the business. Further, the business distributed the gains to its shareholders & did not reinvest into the business. Therefore, the gains likely do not qualify for this deduction.

IT SBD – Line 5

- Farmer sells a tractor used in his wheat farming operation that generates a capital gain. Can this be included on Line 5 ?
- Yes. The tractor was integral to the farmer's ability to harvest wheat so the capital gain is business income.



IT SBD Line 6 & 9b

IRC 168(k) and 179 depreciation

- Enter on this line amounts only if your business took advantage of federal accelerated depreciation amounts under IRC 168(k) and 179 depreciation.
- Report your distributive or proportionate shares of add back amounts on Line 6
- Report your distributive or proportionate shares of deduction amounts on Line 9b



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IT SBD Line 6 & 9b

IRC 168(k) and 179 depreciation

On IT 1040 lines 35g and 37b, adjustments are reported for IRC168K & 179 depreciation expenses. Do I enter these same amounts on the ITSBD worksheet?

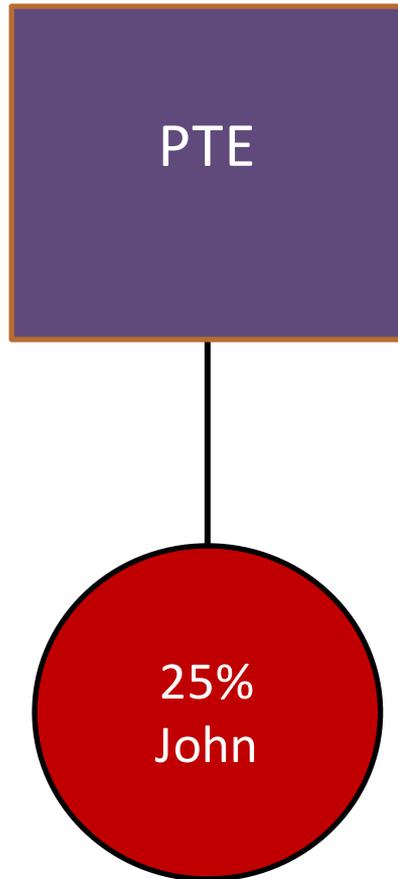
- On IT SBD lines 6 and 9b, only enter amounts concerning the business for which the IT SBD is being filed.
- These lines should only reflect the individual's proportionate or distributive shares of the depreciation for assets used by that business.
- If the taxpayer only has one business by which the assets are owned & used, then yes, the numbers should be the same as that reported on IT 1040 Schedule A.
- See ORC 5733.40(A)(5)



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IT SBD Line 6 & 9b

Adjustment for IRC 168(k) & 179 Depreciation Expense



- John owns 25% of PTE
- In 2013, the PTE has \$50,000 of excess 179 depreciation & \$50,000 of section 168(k) bonus depreciation.
- PTE required to add back 5/6 of depreciation amounts, or \$83,333. John must include his proportionate share ($25\% \times \$83,333 = \$20,833$) on line 35g of his 2013 IT 1040 and line 6 of IT SBD.
- For the following 5 years, John will be entitled to a deduction of 1/5 of the amount he added back in 2013 ($1/5 \times \$20,833 = \$4,167$). This deduction should be entered on line 37b of the Ohio IT 1040 and line 9b of IT SBD.

IT SBD – Line 7

Includes:

- Other items of income and gain separately stated on Federal Schedule K-1 (e.g. other portfolio income, cancellation of business debt) and miscellaneous Federal income tax adjustments, if any.
- See Federal K-1 instructions for additional possible examples



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IT SBD – Line 9a

Report the taxpayer's Federal 1040 above-the-line business deductions. These include deductions for the following:

- Keogh/H.R. 10 plans
- SIMPLE IRA
- SEP
- Self-employment tax
- Self-employment health insurance

IT SBD – Line 9d

Report the taxpayer's:

- Other business income deductions. This could include the Domestic Production Activities deduction.
- Miscellaneous federal income tax adjustments (no adjustments for 2013).

IT SBD - Line 10

Report on this line net business income (total business income less total business deductions).

Should a loss from a business be reported on line 10?

No. If a taxpayer owns just one business entity and line 10 amounts to zero or a negative number, the individual would not have any small business deduction.



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Line 11 – Part II Apportionment

Under ORC 5747.21(B), all items of business income and deduction are apportioned to Ohio by using a 3-factor weighted apportionment ratio:

(1) Within Ohio	(2) Total Everywhere	(3) Ratio	(4) Weight	(5) Weighted Ratio
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			(carry to six decimal places)		(carry to six decimal places)
1. Property					
(a) Owned (average cost).....	_____	_____			
(b) Rented (annual rental x 8).....	_____	_____			
(c) Total (lines 1a and 1b).....	_____ ÷ _____	=	. _____	x .20 =	1c. . _____
2. Payroll (see Exclusions on page 4 of the instructions).....	_____ ÷ _____	=	. _____	x .20 =	2. . _____
3. Sales (see Exclusions on page 5 of the instructions).....	_____ ÷ _____	=	. _____	x .60 =	3. . _____
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part C, line 11).....					4. . _____

Line 11– Part II Apportionment

If any factor has a denominator (total everywhere figure) of zero, the weight given to the other factors must be proportionately increased so that the total weight given to the combined factors is 100%.

- For example: If a business entity has no payroll everywhere, then the property and sales factors are weighted at 25% and 75% respectively to total 100%.
- Alternatively, if the business has neither payroll nor property everywhere, the sales factor is weighted at 100%.

Line 11– Part II Apportionment

No Payroll Everywhere Example: A multistate LLC does not have any payroll in 2013, but owns \$500,000 of property. \$100,000 of this property is located in Ohio. The LLC also generated \$200,000 of sales, \$50,000 of which are Ohio-sourced.

	(1) Within Ohio	(2) Total Everywhere	(3) Ratio	(4) Weight	(5) Weighted Ratio
1. Property			(carry to six decimal places)		(carry to six decimal places)
(a) Owned (average cost).....	100,000	500,000			
(b) Rented (annual rental x 8).....					
(c) Total (lines 1a and 1b).....	100,000	500,000	= . 20	x .20 =	1c. . 05
2. Payroll (see Exclusions on page 4 of the instructions).....			= .	x .20 =	2. . 0
3. Sales (see Exclusions on page 5 of the instructions).....	50,000	200,000	= . 25	x .60 =	3. . 1875
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part C, line 11).....					4. . 2375

Line 11– Part II Apportionment

No Payroll or Property Everywhere Example: A multistate LLC does not have any payroll or property. However, it generates sales of \$200,000 and \$50,000 of this is Ohio-sourced.

(1) Within Ohio	(2) Total Everywhere	(3) Ratio	(4) Weight	(5) Weighted Ratio
--------------------	----------------------------	--------------	---------------	--------------------------

			(carry to six decimal places)		(carry to six decimal places)
1. Property					
(a) Owned (average cost).....	_____	_____			
(b) Rented (annual rental x 8).....	_____	_____			
(c) Total (lines 1a and 1b).....	_____	÷ _____	= . _____	x .20 =	1c. . 0
2. Payroll (see Exclusions on page 4 of the instructions).....	_____	÷ _____	= . _____	x .20 =	2. . 0
3. Sales (see Exclusions on page 5 of the instructions).....	50,000	÷ 200,000	= . 25	x 1.00 ↓ .60 =	3. . 25
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part C, line 11).....					4. . 25

Line 11– Part II Apportionment

Example: A consulting firm located in OH provides services to clients who live in OH and in other states. Would the sales from services provided to clients outside of Ohio be included as “Within Ohio” sales for apportionment purposes?

The location where the benefit is received by the purchaser is paramount here. If the firm provides services to clients that are physically located outside of Ohio, these are non-Ohio sales and should NOT be included as “Within Ohio” sales. They should be included as “Total Everywhere” sales. See page 5 and 6 of the IT SBD instructions.



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IT SBD – Line 13

- If taxpayers have completed multiple schedules (Due to having business income from multiple entities), they should net line 12 from each IT SBD and enter the total for all of the schedules on this line.
- If the amount on this line after netting is zero or a negative figure, the individual would not have any small business deduction.
- If filing a joint return, all business income for a husband & wife from one entity must be combined on one ITSBD form.
- If joint filers have income from separate entities, a separate ITSBD form must be filed for each entity. Line 12 must then be netted from each entity to determine the amount on line 13.



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IT SBD – Line 14

Maximum Ohio Small Business Investor Income Subject to Deduction

- MFJ, Single or HH filers = \$250,000
- All others = \$125,000

***NOTE:** The amount on this line cannot exceed the amount of your OAGI as if it were calculated prior to taking the OH Small Business Investor Income Deduction. See ORC 5747.01(A)(31).*

You must complete Schedule A to calculate OAGI as if you did not take the SBD. Do not simply default to the \$250,000 maximum income allowed.



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Does the small business deduction flow through to school district income taxes?

- No. The deduction will not impact the calculation of a taxpayer's school district income tax liability. Instead, it will be added back to OH taxable income for school district income tax purposes.
- If you took the small business investor deduction on Schedule A, line 41 of your 2013 Ohio form IT 1040 and you reside in a traditional tax base school district, you must add back the amount deducted on line 18 of your 2013 Ohio SD 100.



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SBD Stats – As of 8/25/2014

Range	Count	Amount	Average Amount
Over 125K	0	\$0	\$0
100K TO 125K	16,596	\$2,019,463,719	\$121,683
90K TO 100K	2,222	\$210,754,759	\$94,849
80K TO 90K	2,797	\$237,302,817	\$84,841
70K TO 80K	3,489	\$261,095,190	\$74,833
60K TO 70K	5,824	\$374,420,351	\$64,289
50K TO 60K	6,336	\$346,814,950	\$54,737
40K TO 50K	9,049	\$404,609,067	\$44,713
30K TO 40K	13,883	\$480,651,650	\$34,621
20K TO 30K	23,188	\$567,204,735	\$24,461
10K TO 20K	48,547	\$692,455,446	\$14,263
5K TO 10K	50,504	\$365,728,756	\$7,241
1K TO 5K	90,306	\$238,012,114	\$2,635
0K TO 1K	71,268	\$28,744,392	\$403
	344,009	\$6,227,257,946	\$18,102

MBR Bill HB 483 Impact

Increased Deduction to 75%

- Governor signed bill on June 16, 2014
- Deduction increases to 75% of OH small business investor income of up to \$250,000
- Increase effective for taxable year 2014 only
- Cannot exceed \$93,750 for each spouse filing separately or \$187,500 for all other filers



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Taxation

2014 IT SBD Draft



Department of
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10211411

Year 20_____

IT SBD
Rev. 7/14

IT SBD – Small Business Investor Income Deduction Schedule

Every taxpayer requesting a small business investor income deduction must complete a separate schedule for each pass-through entity in which the taxpayer has an ownership interest.

Taxpayer name		SSN
Business name	% Ownership	FEIN

Part I

A. Business Income Before Deductions

1. Self-employment income (federal Schedule C, C-EZ or F), guaranteed payments and/or compensation received from each pass-through entity in which you have at least a 20% direct or indirect ownership interest. Note: Reciprocity agreements do not apply (see line instructions).....	1.	_____	00
2. Add-back for expenses paid to related members and to certain investors' family members (see instructions).....	2.	_____	00
3. Ordinary income (loss) from trade or business activities (to the extent not shown on line 1).....	3.	_____	00
4. Net income (loss) from rental activities, net royalties, interest income and dividend income.....	4.	_____	00



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SBD Audit/Education Programs

Audit

- Focus would have been after the 2014 tax return filing, with look-back to 2013 return as well
- Recently developed letter going to taxpayers
 - Taxpayer filed Amended return due to SBD – request supporting documentation

Education

- Reaching out via phone calls & letters to taxpayers that we think might be eligible for the SBD



Department of
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Questions?

1-800-282-1780

or via email

Go to *tax.oh.gov*

and click on

“Contact Us”