

## INDIVIDUAL INCOME TAX - STATE

### TAXPAYER

Individuals, trusts and estates residing in Ohio or earning or receiving income in Ohio; and employers who pay wages and salaries to an Ohio resident.

### TAX BASE

For individuals, the base is federal adjusted gross income plus or minus adjustments, according to Ohio income tax law. For estates and trusts, the base is federal taxable income plus or minus adjustments, according to Ohio income tax law. There are no personal exemptions allowed to estates, and no exemption credits are allowed to estates and trusts.

### RATES (TAXABLE YEAR 2003)

Ohio Taxable Income	Tax Calculation		
0 – \$5,000	0.743 percent of Ohio taxable income		
\$5,001 – \$10,000	\$37.15	+	1.486 percent of excess over \$5,000
\$10,001 – \$15,000	\$111.45	+	2.972 percent of excess over \$10,000
\$15,001 – \$20,000	\$260.05	+	3.715 percent of excess over \$15,000
\$20,001 – \$40,000	\$445.80	+	4.457 percent of excess over \$20,000
\$40,001 – \$80,000	1,337.20	+	5.201 percent of excess over \$40,000
\$80,001 – \$100,000	\$3,417.60	+	5.943 percent of excess over \$80,000
\$100,001 – \$200,000	\$4,606.20	+	6.900 percent of excess over \$100,000
Over – \$200,000	\$11,506.20	+	7.500 percent of excess over \$200,000

Each year, the income tax rates can be temporarily reduced from statutory rates due to surplus state funds at the close of the fiscal year. Any surplus funds are transferred to the Income Tax Reduction Fund (ITRF). The funds in the ITRF are used to determine the percentage rate cut for the current year. In FY 2003, there were no surplus funds; so, the 2003 rates are the statutory rates. The tax rates for 2004 will not be set until July 2004, after the close of FY 2004 (on June 30, 2004).

### MAJOR EXEMPTIONS

See *Special Provisions/Credits*.

### REVENUE (IN MILLIONS)

Fiscal Year	General Rev. Fund	Local and Library Funds	Other <sup>(1)</sup>	Total
2000	7,232.0	848.8	3.8	8,084.6
2001	7,263.4	852.5	3.4	8,119.3
2002	7,304.2	848.7	4.2	8,157.1
2003	7,420.7	829.8	6.0	8,256.5

**Note:** (1) Includes Political Party Fund and Attorney General Claims Fund.

### DISPOSITION OF REVENUE

After making any required deposits in the Attorney General Claims Fund, 89.5 percent of remaining revenue is deposited in the General Revenue Fund, 5.7 percent is deposited in the Library and Local Government Support Fund, 4.2 percent is deposited in the Local Government Fund, and 0.6 percent is deposited in the Local Government Revenue Assistance Fund.

For fiscal years 2002 and 2003, the three local government funds were “frozen” and each received the same amount of individual income tax revenue as they received in FY 2001. The remaining revenue was deposited in the General Revenue Fund. However, if the total amount deposited in the local funds from all selected tax revenue sources during a designated semi-annual period exceeds the amount that would have been deposited had the statutory percentages been in effect, such excess is transferred from the local funds to the General Revenue Fund.

This “freeze” on local government funds is continued in FY 2004. During the fiscal year, each of the three local government funds will receive the same amount of revenue received during fiscal years 2002 and 2003.

The Political Party Fund received a transfer from the General Revenue Fund equal to the amount calculated from the check-off on the income tax return.

The Ohio Constitution requires that at least 50 percent of income tax collections be returned to the county of origin. This obligation is met primarily through General Revenue Fund allocations to education and local property tax relief.

### PAYMENT DATES

#### *For Individuals, Trusts and Estates*

Generally, the annual return is due on or before April 15. The return reconciles tax liability with amount remitted through withholding by employers and quarterly estimated payments by taxpayers.

Taxpayers file quarterly declarations if they expect to owe more than \$500. After withholding, such taxpayers must file an estimated return and make quarterly payments on or before April 15, June 15, September 15 of the current year and January 15 of the next year.

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### *For Employers*

Employers remit tax from several times a week to quarterly, depending on the amount of state income tax withheld.

### **SPECIAL PROVISIONS/CREDITS**

#### Standard Personal Exemption and Credit

Personal exemptions are \$1,250 per person for tax year 2003. This amount is indexed for inflation each year. A credit against tax due of \$20 per personal exemption is allowed.

#### Joint Filer Credit

A husband and wife who file a joint return are allowed a tax credit if each had at least \$500 of income exclusive of interest, dividends and distributions, royalties, rents, and capital gains, that is included in Ohio adjusted gross income. The maximum credit is \$650. The credit is a percentage of the tax after all other credits (except the resident/nonresident and nonrefundable business credits) as shown below:

<b>Ohio Taxable Income</b>	<b>Amount of Credit</b>
\$25,000 or less	20 percent of tax
\$25,001 to \$50,000	15 percent of tax
\$50,001 to \$75,000	10 percent of tax
more than \$75,000	5.0 percent of tax

#### Senior Citizen Credit

A taxpayer 65 years of age or older during the taxable year receives a \$50 credit against the amount of Ohio income tax due. Only one credit is allowed for each return.

#### Retirement Income Credit

Taxpayers receiving retirement income which is included in Ohio adjusted gross income are allowed a credit based on the amount of retirement income received during the taxable year according to the following schedule:

<b>Amount of Retirement Income Received During the Taxable Year</b>	<b>Credit</b>
\$ 500 or less	\$0
Over \$500 but not more than \$1,500	\$25
Over \$1,500 but not more than \$3,000	\$50
Over \$3,000 but not more than \$5,000	\$80
Over \$5,000 but not more than \$8,000	\$130
Over \$8,000	\$200

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### Military Pay

Military pay is taxable (except combat zone pay) if the individual is domiciled in Ohio (is a resident of the state, according to the state of legal residence/home of record entered in their military personnel record). Service personnel are not required to pay the Ohio income tax on military pay, even though stationed in Ohio, if they are domiciled in a state other than Ohio. They must compute a nonresident tax credit on the military pay. Various exclusions and extensions are in effect for pay earned in a combat zone.

### Reciprocity

An individual who is a full-year resident of any of the five states bordering Ohio and whose income from inside Ohio consists solely of wages, salaries, tips, or commissions need only file with their state of residence. Exception: this rule does not apply if the individual owns, directly or indirectly, at least 20 percent of a pass-through entity having nexus inside Ohio.

### Nonresident/Part-year Resident Income Credits

Taxpayers who are nonresidents or part-year residents of Ohio and earn income while living in another state, or have income taxed by another state, receive a credit for that portion of income.

### Child and Dependent Care Credit

Taxpayers with Ohio adjusted gross income between \$20,000 and \$40,000 who are eligible for the federal child care credit may claim 25 percent of that credit as a state child care credit. For taxpayers with incomes below \$20,000, the credit is 100 percent of the federal credit.

### Job Training Credit

Taxpayers may claim a credit for training expenses incurred within 12 months of losing or leaving a job due to abolishment of position or shift. The credit is for the lesser of \$500 or 50 percent of the training costs.

### Political Contribution Credit

Taxpayers may claim an individual income tax credit for contributions made to the campaign committee of candidates for statewide elected offices or the General Assembly. The amount of the credit is equal to the lesser of the combined total contributions made during the taxable year or \$50 per individual return and \$100 per joint return.

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### Adoption Credit

Taxpayers with adoption expenses, except for the adoption of a stepchild, may claim a nonrefundable credit up to \$500.

### Nonresident Credit

Computation of this credit changed to a market-theory approach for taxable years ending on or after December 11, 2003 for sales, other than inventory sales, of tangible personal property and real estate. The receipts from such sales are generally situated to Ohio in proportion to the purchaser's benefit, with respect to the sale, in Ohio, to the purchaser's benefit, with respect to the sale, everywhere.

### Computation of Tax

Major adjustments to federal adjusted gross income and computation of Ohio income tax liability for individuals are shown in the following diagram (computation is for taxable year 2003).

### FEDERAL ADJUSTED GROSS INCOME (FAGI)

#### Add (1)

1. State and local bond interest (except Ohio and its political subdivisions).
2. Federal bond interest exempt from federal tax, but subject to state tax.
3. Losses from sale of Ohio public obligations.
4. Nonmedical withdrawals from medical savings accounts.
5. Distributive income from an Electing Small Business Trust (ESBT) which, absent ESBT treatment, would otherwise qualify as a grantor trust if the income is not included in FAGI.

#### Subtract (1)

1. Federal bond interest to the extent included in FAGI.
2. Disability and survivor's benefits to the extent included in FAGI.
3. Compensation earned in Ohio by residents of reciprocity states.
4. Social Security and Railroad Retirement benefits to the extent included in FAGI.
5. State and municipal refunds to the extent included in FAGI.
6. Qualified expenses for long-term care insurance, medical insurance, and medical expenses in excess of 7.5 percent of FAGI.
7. Gains from sale of Ohio public obligations to the extent included in FAGI.

**Note:** (1) *These lists include only commonly used items.*

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### OHIO ADJUSTED GROSS INCOME

#### Subtract

Personal Exemptions of \$1,250 each.

### OHIO TAXABLE INCOME

#### Apply

Graduated rates of 0.743 to 7.5 percent for 2003.  
(see **Rates** section)

### TAX BEFORE CREDITS

#### Subtract

1. Personal exemption credit of \$20 per person.
2. Senior citizen credit of \$50.
3. Retirement income credit.
4. Child and dependent care credit.
5. Job training credit.
6. Political contribution credit.
7. Adoption credit.
8. Joint filer credit for two working spouses (graduated based on income with a maximum credit of \$650).
9. Various business credits.

### OHIO PERSONAL INCOME TAX LIABILITY

#### Subtract

Credit for income earned in or taxed by another state.

### OHIO NET PERSONAL INCOME TAX LIABILITY

## SECTIONS OF OHIO REVISED CODE

Chapter 5747.

## RESPONSIBILITY FOR ADMINISTRATION

Tax Commissioner.

## HISTORY OF MAJOR CHANGES

- 1912 • Constitutional amendment permitted income taxes.
- 1971 • Individual income tax enacted, effective for 1972.
- 1972 • Up to \$4,000 of retirement benefits exempted from adjusted gross income.

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- Tax credit of \$25 per return for taxpayers over 65 years of age enacted.
- 1973
- Joint filer credit allowed on joint returns where both spouses earn at least \$500 of wage income.
- 1974
- \$3,000 personal exemption limitation removed.
- 1975
- Value of each exemption increased from \$500 to \$650.
- 1978
- Income tax credit created for home improvements.
- 1979
- Income tax credit enacted for installation of a solar, wind, or hydrothermal energy system (expired after tax year 1985).
- 1982
- Two new income tax brackets added above \$80,000 of taxable income for 1982 and 1983.
  - Temporary tax rate surcharge from 1981 tax rates of 25 percent for tax year 1982 and 12.5 percent for tax year 1983 enacted.
- 1983
- Two new brackets, enacted 1982, made permanent.
  - Provisions enacted allowing a taxpayer to claim for each \$650 personal exemption an additional \$350 exemption or \$20 credit.
  - Temporary tax rate surcharge increased to 83.3 percent in 1983 and to 90 percent in 1984 and made permanent.
  - Tax credit for taxpayers over 65 years of age increased to \$50.
  - Joint filer credit increased over two years.
  - \$4,000 retirement income deduction replaced by a sliding scale retirement income credit.
- 1984
- One-time special tax refund of 2.03 percent of tax year 1983 liability (minimum of \$7) enacted.
  - Title II Social Security and Tier I Railroad Retirement benefits exempt from taxation.
- 1985
- Rates reduced from 1984 level by 5.0 percent for 1985, an additional 5.0 percent for 1986, and an additional 5.0 percent (total of 15 percent) for 1987 and thereafter.

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- 1986
  - Maximum rate reduced to 6.9 percent; other rates reduced by 7.0 percent in 1987 and 8.0 percent in 1988 from rates enacted in 1985.
- 1987
  - Home improvement credit repealed.
- 1988
  - Income tax check-off for qualified political parties established.
  - Child care credit implemented.
- 1989
  - Accelerated employer withholding schedule implemented.
  - Tier II Railroad Retirement benefits exempted.
  - \$20 personal exemption allowed for all taxpayers.
  - Additional \$350 exemption eliminated.
  - Joint filer credit capped at \$650.
- 1990
  - Basis of the joint filer credit changed to Ohio adjusted gross income.
- 1991
  - Child care credit expanded beginning in 1993.
- 1992
  - Ninth income bracket above \$200,000 added to be taxed at 7.5 percent and to begin in 1993.
  - Job creation credit enacted.
  - Export credit enacted.
- 1993
  - Self-employed health care premiums made deductible.
- 1994
  - Displaced worker training credit enacted.
  - Investment tax credit enacted.
- 1995
  - Second investment tax credit enacted.
  - Personal exemption increased to \$750 per taxpayer and spouse and \$850 per dependent for 1996; these amounts increased to \$850 and \$1,050 in 1997.
  - Political contribution credit enacted.
- 1996
  - Statutory tax rates for 1996 temporarily reduced by 6.609 percent because of budget surplus. The surplus funds were deposited into the Income Tax Reduction Fund (ITRF) and used to offset revenue reductions resulting from reduced taxes.

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- Personal exemption for taxpayer and spouse increased to \$950 in 1998 and \$1,050 in 1999.
  - Statutory tax rates for 1997 temporarily reduced by 3.987 percent because of budget surplus.
- 1997
- Child care credit for taxpayers with under \$20,000 income increased to 100 percent of federal credit.
  - Employer credits for providing or subsidizing child care enacted.
  - Exemptions indexed for inflation beginning in 2000.
  - Tax on payments to certain nonresident shareholders of pass-through entities required to be withheld at source.
- 1998
- Statutory tax rates for 1998 temporarily reduced by 9.339 percent because of budget surplus.
- 1999
- Statutory tax rates for 1999 temporarily reduced by 3.627 percent because of budget surplus.
  - Deduction for medical expenses in excess of 7.5 percent of AGI enacted.
  - Deduction for taxpayers ineligible for employer-provided medical plans enacted.
  - Deduction for long-term care insurance premiums enacted.
  - Credit (nonrefundable) for adoption-related expenses enacted.
  - Beginning 2001, tuition expense deduction for first two years of post-secondary education enacted.
- 2000
- Statutory tax rates for 2000 temporarily reduced by 6.929 percent because of budget surplus.
  - Deduction for contributions to the prepaid tuition and variable market tuition program enacted.
  - Addition for income from an ESBT that also meets the definition of a grantor trust required.
- 2002
- Trusts subjected to income tax for 2002-2004.
  - Bonus depreciation adjustment enacted.
- 2003
- Internal Revenue Code (I.R.C.) section 179 depreciation adjustment became effective.
  - Research and development loan repayment credit enacted.

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- Credit granted for losses on loans made to the Ohio Venture Capital Program.
- Computation changed of nonresident credit for individuals and estates; market-theory approach implemented for sales other than inventory sales of tangible personal property and real estate.
- Pre-need funeral trusts that are not-qualified funeral trusts exempted.
- Net operating loss carrybacks and carryforwards subjected to bonus depreciation adjustment and I.R.C. section 179 depreciation.
- Apportionment of trust income changed to include cost of performance in sales factor and exclude business rental income from property factor.

### COMPARISONS WITH OTHER STATES (AS OF 12/03)

#### Personal Exemptions<sup>(1)</sup>

#### Married/

<u>State/Rate</u> <sup>(1)</sup>	<u>Single</u>	<u>Joint</u>	<u>Dependent</u>
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#### **California**<sup>(2)</sup>

1.0 percent tax on the first \$11,924 of taxable income, up to 9.3 percent on portion of income over \$78,266; the state also has tax tables, standard deductions, and personal exemption credits<sup>(2)</sup>, all indexed for inflation.

#### **Florida**

No income tax.

#### **Illinois**<sup>(3)</sup>

	\$2,000	\$4,000	\$2,000
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3.0 percent on taxable net income.

#### **Indiana**<sup>(3)</sup>

	\$1,000	\$2,000	\$1,000
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3.4 percent on adjusted gross income.

**Notes:** (1) The tax rate and exemptions are for tax year 2003 unless otherwise noted. For states with multiple schedules, the married filing joint rate is listed. (2) California credits for tax year 2003 are \$82 for single; \$82 married filing separately, and for head of household; \$164 for married filing jointly, and \$257 per dependent. (3) States with only one tax schedule.

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### **Kentucky**(3)(4)

2.0 percent on first \$3,000 of taxable income, up to 6.0 percent on portion of income over \$8,000. The state also allows income tax credits(4) to be subtracted directly from tax liability.

### **Massachusetts**(3)                      \$3,300    \$6,600    \$1,000

A rate of 5.3 percent on all business income, earned income, annuities, short term capital gains, interest, and dividends. Capital gains on assets held more than one year are taxed on a declining basis from 5.0 percent on capital gains on assets held two years or less, to zero percent tax on assets held more than six years.

### **Michigan**(3)                              \$3,100    \$6,200    \$3,100

4.1 percent on taxable income.

### **New Jersey**                              \$1,000    \$2,000    \$1,500

1.4 percent on first \$20,000 of taxable income, up to 6.37 percent on portion of income over \$150,000.

### **New York**                                 \$1,000    \$1,000    \$1,000

3.0 percent on first \$16,000 of taxable income, up to 6.85 percent on portion of income over \$40,000.

### **Ohio** (3)(4)                                \$1,250(4)    \$2,500(4)    \$1,250(4)

**0.743 percent on first \$5,000 of taxable income, up to 7.5 percent on portion of income over \$200,000. The state also allows income tax credits(4) to be subtracted directly from tax liability.**

### **Pennsylvania**(3)                        No exemptions.

2.8 percent on taxable income.

### **Texas**                                        No income tax.

### **West Virginia**                         \$2,000    \$4,000    \$2,000

3.0 percent on first \$10,000 of taxable income, up to 6.5 percent on portion of income over \$60,000.

**Notes:** (3) States with only one tax schedule. (4) Kentucky and Ohio allow income tax credits to be subtracted directly from tax liability. The credits are \$20 for single, \$40 for joint and \$20 per dependent.