

## Individual Income Tax

### Taxpayer

Individuals, estates, and trusts residing in Ohio or earning or receiving income in Ohio, including lottery winnings, prizes, or awards; and on every individual, trust, and estate otherwise having nexus with or in this state under the U.S. Constitution; 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 (Tax Year 2005)

Ohio Taxable Income	Tax Calculation
0 — \$5,000	0.712% of Ohio taxable income
\$5,001 — \$10,000	\$35.60 + 1.424% of excess over \$5,000
\$10,001 — \$15,000	\$106.80 + 2.847% of excess over \$10,000
\$15,001 — \$20,000	\$249.15 + 3.559% of excess over \$15,000
\$20,001 — \$40,000	\$427.10 + 4.270% of excess over \$20,000
\$40,001 — \$80,000	\$1,281.10 + 4.983% of excess over \$40,000
\$80,001 — \$100,000	\$3,274.30 + 5.693% of excess over \$80,000
\$100,001 — \$200,000	\$4,412.90 + 6.610% of excess over \$100,000
\$200,001 — over	\$11,022.90 + 7.185% of excess over \$200,000

The tax rates for 2006 through 2009 are outlined in Ohio Revised Code section 5747.01(A).

In July of each year, beginning in 2010, the Tax Commissioner shall adjust the income amounts prescribed in this division by multiplying the percentage increase in the gross domestic product deflator computed that year under R.C. 5747.025 by each of the income amounts resulting from the adjustment under this division in the preceding year, adding the resulting product to the corresponding income amount resulting from the adjustment in the preceding year, and rounding the resulting sum to the nearest multiple of \$50. The Tax Commissioner also shall recompute each of the tax dollar amounts to the extent necessary to reflect the adjustment of the income amounts. The rates of taxation shall not be adjusted.

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**Major Exemptions**See **Special Provisions/Credits**.**Revenue (In Millions)**

Fiscal Year	General Rev. Fund	Local and Library Funds	Other*	Total
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
2004	7,696.9	829.7	4.6	8,531.2
2005	8,598.9	829.3	6.3	9,434.5

**Note:** \* 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% of remaining revenue is deposited in the General Revenue Fund, 5.7% is deposited in the Library and Local Government Support Fund, 4.2% is deposited in the Local Government Fund, and 0.6% is deposited in the Local Government Revenue Assistance Fund. 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.

Local government fund distributions have been frozen since Fiscal Year 2002. In 2002 and 2003, the three local government funds 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 exceeded the amount that would have been deposited had the statutory percentages been in effect, such excess was transferred from the local funds to the General Revenue Fund.

This freeze on local government funds was continued in Ohio's biennium budget for fiscal years 2004 and 2005 and again in the biennium budget for fiscal years 2006 and 2007. During these fiscal years, each of the three local government funds will receive the same amount of revenue received during fiscal years 2002 and 2003.

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The Ohio Constitution requires that at least 50% 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, and September 15 of the current year and January 15 of the next year.

*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 for tax year 2005 were \$1,350 per person. This amount is indexed for inflation each year. A credit against tax due of \$20 per each 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, capital gains, and state or municipal income tax refunds that are 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:

Ohio Taxable Income	Amount of Credit
\$25,000 or less	20% of tax
\$25,001 to \$50,000	15% of tax
\$50,001 to \$75,000	10% of tax
\$75,001 and over	5.0% of tax

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#### *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 that 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

#### *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 deduct the military pay on line 37 and line 48 of Ohio schedule A and enter it on line 2 on the front of the IT-1040 return. Various exclusions and extensions are in effect for pay earned in a combat zone. Ohio residents serving in the National Guard or Reserves and called to active duty are eligible for filing and payment extensions.

#### *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% of a pass-through entity having nexus inside Ohio.

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**Individual Income Tax*****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% of that credit as a state child care credit. For taxpayers with incomes below \$20,000, the credit is 100% 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 the lesser of \$500 or 50% 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.

***Adoption Credit:***

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

***Nonresident /Part-Year Resident Credit for Individuals and Estates:***

The computation of this credit has changed; a market-theory approach is implemented for sales other than inventory sales of tangible personal property and real estate. The credit applies to income not earned or received in Ohio.

***Credit for Ohio Taxable Income Totaling \$10,000 or less:***

For taxable years beginning in 2005 or thereafter, a credit is allowed for an individual taxpayer whose Ohio adjusted gross income less exemptions is \$10,000 or less. The credit is equal to the amount of tax owed for each year as shown on the following page:

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2005	\$107.00
2006	102.00
2007	98.00
2008	93.00
2009	88.00

**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 2005).

**Federal Adjusted Gross Income (FAGI)**

<b>Add*</b>	<b>Subtract*</b>
1. State and local bond interest (except Ohio and its political subdivisions).	1. Federal bond interest to the extent included in FAGI.
2. Reimbursement of college tuition expenses and fees deducted in a previous year.	2. Disability and survivor's benefits to the extent included in FAGI.
3. Losses from sale of Ohio public obligations.	3. Compensation earned in Ohio by residents of reciprocity states.
4. Nonmedical withdrawals from medical savings accounts.	4. Social security and railroad retirement benefits to the extent included in FAGI.
5. Noneducation expenditures from a college savings account.	5. State and municipal income tax 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% of FAGI.
	7. Gains from sale of Ohio public obligations to the extent included in FAGI.
	8. Nonresident military income for those taxpayers with a domicile other than Ohio.

**Note:** \*This represents only a partial list of additions/deductions.

**Apply above to determine:**  (see following page)

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**Ohio Adjusted Gross Income**

**Subtract**

Personal Exemptions of \$1,350 each.



**Ohio Taxable Income**



**Apply**

Graduated rates of .00712% to .07185% for 2005 (see **Rates** section).



**Tax Before Credits**

**Subtract**

1. Personal exemption credit of \$20 per person.
2. Senior citizen credit of \$50.
3. Credit for taxable income of \$10,000 and less.
4. Retirement income credit.
5. Child and dependent care credit.
6. Job training credit.
7. Political contribution credit.
8. Adoption credit.
9. Joint filer credit for two working spouses (graduated based on income with a maximum credit of \$650).
10. Lump sum distribution and lump sum retirement income credits.
11. Various business credits.



**Ohio Individual Income Tax Liability**

**Subtract**

Credit for income earned in or taxed by another state.



**Ohio Net Individual 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.

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- 1972 • Up to \$4,000 of retirement benefits exempted from adjusted gross income.
  - 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% for tax year 1982 and 12.5% 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% in 1983 and to 90% 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% 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% for 1985,

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an additional 5.0% for 1986, and an additional 5.0% (total of 15%) for 1987 and thereafter.

- 1986 • Maximum rate reduced to 6.9%; other rates reduced by 7.0% in 1987 and 8.0% 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% 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.

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- 1996** • Statutory tax rates for 1996 temporarily reduced by 6.609% 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.
- 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% because of budget surplus.
- 1997** • Child care credit for taxpayers with under \$20,000 income increased to 100% 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% because of budget surplus.
- 1999** • Statutory tax rates for 1999 temporarily reduced by 3.627% because of budget surplus.
- Deduction for medical expenses in excess of 7.5% 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% because of budget surplus.
- Deduction for contributions to the prepaid tuition and variable market tuition program enacted.
  - Addition for income from an Electing Small Business Trust (ESBT) that also meets the definition of a grantor trust required.

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- 2002 • Trusts subjected to income tax for the period June 4, 2002-December 31, 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.
  - Credit granted for losses on loans made to Ohio Venture Capital Program.
  - Computation changed of nonresident/part-year resident 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 carry backs and carry forwards 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.
  
- 2005 • Statutory tax rate reduction of 4.2% from 2004 rates.
  - Credit granted for low-income taxpayers equal to total liability for those whose adjusted gross income is \$10,000 or less.



## Individual Income Tax

## Comparisons with Other States (As of 04/06)

## Personal Exemptions(1)

State/Rate(1)	Married/		
	Single	Joint	Dependent

**California(2)**

1.0% tax on the first \$6,319 of taxable income, up to 9.3% on portion of income over \$41,477; an additional 1.0% tax is imposed on net incomes in excess of \$1.0 million. The state also has tax tables, standard deductions, and personal exemption credits(2), all indexed for inflation.

**Florida**

No income tax.

<b>Illinois(3)</b>	\$2,000	\$4,000	\$2,000
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3.0% on taxable net income.

<b>Indiana(3)</b>	\$1,000	\$2,000	\$1,000
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3.4% on adjusted gross income.

**Kentucky(3)(4)**

2.0% on first \$3,000 of taxable income, up to 6.0% on portion of income over \$75,000.

<b>Massachusetts(3)</b>	\$3,575	\$7,150	\$1,000
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5.3% on all business income, earned income, annuities, long term capital gains, interest, and dividends. Capital gains on collectibles and assets held less than one year are taxed at 12.0%.

<b>Michigan(3)</b>	\$3,100	\$6,200	\$3,100
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3.9% on taxable income.

**Notes:** (1)The tax rate and exemptions are for tax year 2006 unless otherwise noted. For states with multiple schedules, the rate for single filers is listed. (2)California credits for tax year 2006 are \$87 for single, married filing separately, and for head of household; \$174 for married filing jointly or surviving spouse; and \$272 per dependent. (3)States with only one tax schedule. (4)Kentucky allows income tax credits to be subtracted directly from tax liability. The credits are \$20 for single, \$40 for joint, and \$20 per dependent.

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## Comparisons with Other States (As of 04/06)

State/Rate(1)	Personal Exemptions(1)		
	Single	Married/ Joint	Dependent
<b>New Jersey</b> 1.4% on first \$20,000 of taxable income, up to 8.970% on portion of income over \$500,000.	\$1,000	\$2,000	\$1,500
<b>New York</b> 4.0% on first \$8,000 of taxable income for unmarried individuals and married filing separately, up to 6.85% on portion of income over \$500,000.	0	0	\$1,000
<b>Pennsylvania(3)</b> 3.07% on taxable income.	No exemptions.		
<b>Texas</b>	No income tax.		
<b>West Virginia</b> 3.0% on first \$10,000 of taxable income, up to 6.5% on portion of income over \$60,000.	\$2,000	\$4,000	\$2,000

**Notes:** (1)The tax rate and exemptions are for tax year 2006 unless otherwise noted. For states with multiple schedules, the rate for single filers is listed. (2)California credits for tax year 2006 are \$87 for single, married filing separately, and for head of household; \$174 for married filing jointly or surviving spouse; and \$272 per dependent. (3)States with only one tax schedule. (4)Kentucky allows income tax credits to be subtracted directly from tax liability. The credits are \$20 for single, \$40 for joint, and \$20 per dependent.

