

# Ohio Income & Pass-Through Entity Taxation

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Department of  
Taxation

# Personal & School District Income Tax Overview

- School District
- Employer Withholding /Ohio Business Gateway
- Legislative updates
- Audit Programs
- Web Services
- Electronic Filing for Individuals

# Personal & School District Income

Suspicious Filers through 2/24/14	<u>2014</u> Calendar YTD	<u>2013</u> YE #'s
Refund Reductions	\$1,037,929	\$8,282,900

- Working with IRS, other States, **Dept. of Corrections**
- New business rules for fraud detection – refund impact
  - **Initial letter out to taxpayers requesting info.**
- Increased Identity theft – 200% increase over previous year
  - ID Theft affidavit & FAQ's on website
  - **Contact Employer's for employment verification**
- To report Ohio Tax Fraud, call **1-800-757-6091**

# School District Changes

## 2014 Calendar Year Withholding

<u>RATE/BASE CHANGES</u>				
<u>Tax Base</u>	<u>SD #</u>	<u>Name</u>	<u>New Rate</u>	<u>Change</u>
EI	7506	Jackson Center LSD	1.50%	Increase of 0.5%
EI	2308	Walnut Township LSD	1.75%	replaces 1.25% traditional tax expiring 12/31/13
TRAD	3301	Ada EVSD	1.50%	Increase of 0.75%
TRAD	5503	Covington EVSD	2.00%	Increase of 0.25%
TRAD	1105	West Liberty-Salem LSD	1.75%	Increase of 0.25%
TRAD	6805	Twin Valley Community LSD	1.50%	Increase of 0.75%

# School District Changes

## 2014 Calendar Year Withholding

<u>RENEWED</u>				
<u>Tax base</u>	<u>SD #</u>	<u>Name</u>	<u>Rate</u>	<u>Change</u>
EI	5401	Celina CSD	0.75%	expires 12/31/18
TRAD	203	Bluffton EVSD	0.50%	expires 12/31/16
TRAD	1105	West Liberty-Salem LSD	1.75%	1% expires 12/31/16 (0.50% CPT) .25% expires 12/31/36
TRAD	3203	Cory-Rawson LSD	1.75%	0.75% expires 12/31/18 (1% CPT)
TRAD	7401	Bettsville LSD	1.00%	expires 12/31/18
TRAD	8104	Van Wert CSD	1.00%	renewed for CPT
EI	4508	North Fork LSD	1.00%	Expires 12/31/16

# Employer Withholding

[http://www.tax.ohio.gov/employer\\_withholding.aspx](http://www.tax.ohio.gov/employer_withholding.aspx)

- **General guidelines** — An introduction to Ohio employer withholding responsibilities.
- **2014 withholding resources:**
  - **Income tax withholding instructions (2014)**
  - **School district tax rates (2014)**
  - **School district income tax withholding instructions (2014)**
  - **Due dates & payment schedule (2014)**
  - **Current tables (Effective Sept. 1, 2013)** *NEW*
- **Employer Withholding forms**
- **School District Withholding forms**
- **Other Tax forms** — A complete database of state tax forms and instruction booklets is available here.
- **Frequently asked questions**
- **Information releases** — Information releases are technical advisories that offer detailed explanations of the laws, rules and rulings that govern the taxes administered by the Ohio Department of Taxation.

# Employer Withholding

**Frequency:** R.C. 5747.07 (B)

- Based on combined EW & SDWH liability during look-back period (July – June)
- Liability during this period sets the filing frequency for the subsequent calendar year Statutory reference

# Employer Withholding

<u>EW &amp; SDWH</u>	<u>Filing Frequency</u>	<u>Filing Method(s)</u>	<u>Due Date</u>
<= \$2,000	Quarterly	OBG or Paper	Form & Pymt Last day of following month
>\$2,000 and <\$84,000	Monthly	OBG or Paper	Form & Pymt 15th day of following month
>= \$84,000	Partial-weekly, EW only	Electronic check via TOS; Credit card via OPC; OBG	No form, just Pymt if through TOS; 3 days from end of partial-wkly period
>= \$100,000	Regardless of Frequency, EW only	Electronic check via TOS; Credit card via OPC; OBG	No form, just Pymt if through TOS; Next banking day

# Reconciliation

<u>Filing Frequency</u>	<u>Form</u>	<u>Filing Method (s)</u>	<u>Due Date</u>	<u>Refund Requests</u>
Monthly or Quarterly	Annual IT 941/SD141	OBG or Paper	January 31	Annual IT 941/SD141
Partial-weekly	Qtrly IT 942	OBG	Last day of month following end of calendar Qtr	4th Qtr IT 942

# Reporting to Taxation

- Employers with 250 or more W-2 statements must provide data from employee W-2 statements on magnetic media (CD)
- Employers with <250 W-2 statements are not required to submit data electronically.
- All filers are required to submit the W-2 transmittal form (form IT-3), even if not submitting paper W-2s.

# Accessing Ohio Business Gateway

## Individuals

## Business

## Tax Professional



- ◆ **Filing Season Central**
- ◆ **File Online: Income Taxes**
- ◆ **Pay On-Line**
- ◆ **Get a Form**
- ◆ **Check Refund Status**
- ◆ **School District Finder**
- ◆ **Military**
- ◆ **How Do I...**
- ◆ **Online Services**

- ◆ **NEW: 50% Small Business Tax Deduction**
- ◆ **File Online: Ohio Business Gateway**
- ◆ **Pay On-Line**
- ◆ **Get a Form**
- ◆ **About Business Filing**
- ◆ **Tax Rate Lookup**
- ◆ **View Ohio Taxes**
- ◆ **Find Mailing Address**
- ◆ **How Do I...**

- ◆ **Electronic Filing For Tax Preparers**
- ◆ **Taxpayer Representative Form (TBOR1)**
- ◆ **Software Developers**
- ◆ **View Ohio Taxes**
- ◆ **Laws/Rules/Ruling**
- ◆ **Tax Professional Assistance**
- ◆ **News Releases**
- ◆ **How Do I...**



FAQs



Online Services



Self Help eLibrary



Information Releases



Interest Calculator



Tax Alerts



The Finder

# Ohio Business Gateway

## Electronic Filing Services Login

*On Tuesday, March 11th, 2014 between 4:00 AM and 6:00 AM OBG will be completing routine maintenance. During this time frame there will be momentary periods of service disruption. It is recommended to file during a different time frame if at all possible. We apologize for any inconvenience this may cause.*

*OBG Electronic Filing Services will be unavailable from 6:30-7:30 AM on Wednesday, February 26th for maintenance.*

### Existing Users

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Username :

Password :

By logging in, I agree to the [terms of service](#)

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### New Users

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#### [Create an OBG Username](#)

If you are starting a new business in Ohio, you may need more than just an OBG Username. [Please click here to learn more.](#)

[Forgot your username or password?](#)   [Having trouble logging in?](#)   [Review System Requirements](#)

[For additional topics, please visit our Help and Support Page.](#)



[For more information about the services available through the Ohio Business Gateway, please visit our home page.](#)

# Self-Help Library

## Self Help eLibrary

The **Self Help eLibrary** contains various tools to help you better understand the taxes we administer; the tax forms used to fulfill your filing obligations; and the computer systems and software applications that are available to assist you. This information may provide the answers to your questions while saving you time. The eLibrary contains the following:

- Tutorials (contains both audio and visual)
- Interactive notices (which include links to information for a better understanding of your tax notice)
- FAQ's

If additional assistance is needed after reviewing the self help content, you can [e-mail](#) us or [contact us](#) by phone.

Below you will see the categories that are available for your review. Under each category, you will find individually related topics. If you don't find what you were looking for today, stop back at a later date since we will continue to add content to the eLibrary as it becomes available.

<b>1</b> <i>Section One</i> Understanding Your Individual Income Tax Billing Notice	<b>3</b> <i>Section Three</i> Excise Tax Help
<b>2</b> <i>Section Two</i> Individual Income Tax Help	<b>4</b> <i>Section Four</i> Ohio Business Gateway

# Ohio Business Gateway (OBG)

Below you will see the categories that are available for your review. If you don't find what you were looking for today, stop back at a later date since we will continue to add content to the eLibrary as it becomes available.

<b>Tutorials</b>
<a href="#"><u>Register to use OBG</u></a>
<a href="#"><u>Maintain Company Information</u></a>
<a href="#"><u>Maintain an Account on OBG</u></a>
<a href="#"><u>Maintain User Roles</u></a>
<a href="#"><u>Maintain Group Roles</u></a>
<a href="#"><u>Reset your OBG Password</u></a>
<a href="#"><u>Sales Tax Registration</u></a>
<a href="#"><u>Prepare a Sales Tax Return (UST-1) for Filing</u></a>
<a href="#"><u>File and Pay a "Ready for Checkout" Report</u></a>
<a href="#"><u>Consumer's Use Tax Registration</u></a>
<a href="#"><u>Prepare a Use Tax Return (UUT-1) for Filing</u></a>
<a href="#"><u>Setting Up a Third Party Representative and Client Relationship</u></a>

# HB153 – Budget Bill

## *InvestOhio*

- Credit for eligible investor making a qualifying investment in small business
  - the investor may apply to the Development Services Agency (DSA) for a certificate to claim the credit
- Nonrefundable credit is outlined in section 5747.81 of the Ohio Revised Code.

# Invest Ohio Credit (cont'd)

- Credit is equal to 10% of the investment amount
- Maximum amount an individual may invest is \$10 million dollars
- Credit is capped at \$1 million dollars
- 2-year holding period before an eligible investor can take the credit; could begin making qualifying investment 7/1/11

# Invest Ohio Credit (cont'd)

- Any unused portion of the credit may be carried forward seven (7) succeeding taxable years
- Owners of pass-through entities that hold certificate issued by Development Services Agency (DSA) may claim credit based on ownership interest
- Credit can be claimed beginning with **2013** income tax return on Schedule E

# HB 510

## *Financial Institutions tax (FIT)*

- Governor signed 12/20/12
- Financial Institutions & Dealers in Intangibles (DIT) no longer subject to Corporate Franchise tax after 2013
- DIT now subject to CAT
- Creates a Refundable credit on 2013 IT1040 & an add-back to FAGI for FIT Refundable credit taken on PTE return; utilize existing PTE add-back line 34; new FIT credit line 72e

[http://www.tax.ohio.gov/FinancialInstitutionsTax/FIT\\_A.aspx](http://www.tax.ohio.gov/FinancialInstitutionsTax/FIT_A.aspx)

# HB 59 - Budget Bill (cont'd)

- Repeals Wagering loss deduction
- Prohibits "double dipping" for personal and dependency exemptions and exemption credits. ORC 5747.022 and 5747.025 (for 2014 tax return)
- Allows TC to deliver a tax notice to a person by ordinary mail if the person does not timely access the notice electronically after 2 emails. ORC 5703.37

# HB 59 - Budget Bill (cont'd)

- Medical Savings Account
  - – max. contribution \$4,506 (up from \$4,416)
- 2014 Interest rate – 3%
- **Uniformed Services** Retirement Income deduction
  - Includes U.S. Army, Navy, Air Force, Marine Corps, Coast Guard or National Guard **and commissioned corps of National Ocean and Atmospheric Administration (NOAA) and Public Health Service**

# HB 59 - Budget Bill (cont'd)

- Reduces income tax rates in all brackets. ORC 5747.02 by 10% over 3 yrs (8.5%, .5%, 1%)
  - Withholding tables adjusting 9%; another 1% Jan.2015
- Suspends indexing of income brackets & Personal exemption amount for taxable yrs 2013-2015 (Technical corrections in HB 72 - introduced)
- \$20 personal/dependency exemption credit is now “Income-based”
  - OAGI less Exemptions < \$30k

# HB 59 - Budget Bill (cont'd)

- Creates non-refundable Ohio EIC for 5% of Federal EIC
  - If OAGI >\$20k, limit credit to 50% of tax due after all other credits except Joint Filing credit
  - New OH EIC worksheet
  
- ORC 5747.11: If interest is allowed on a refund, calculate interest from the date of overpayment until date of refund. Bill does not modify calculation of interest on payments of illegal or erroneous assessments.

# HB 112

## *Ohio Breast & Cervical Cancer Contribution*

- Allow taxpayers to contribute a portion of their income tax refunds to the Ohio Breast and Cervical Cancer Project (for 2014 tax return)
- Require each income tax refund contribution category to generate \$150,000 annually for two consecutive years or be cancelled

# Impact of Ruling on Defense of Marriage Act (DOMA)

## Background:

- June 26, 2013 - U.S. Supreme Court issued decision on constitutionality of section 3 of the federal Defense of Marriage Act (DOMA), which had established a federal definition of marriage.
- IRS issued Revenue Ruling 2013-17 - provides that marriage between same-gender individuals performed in a jurisdiction that recognizes such a marriage will now be recognized for federal income tax purposes.
  - As a result, same-gender married couples may file joint federal income tax returns on or after Sept.16, 2013 even if they are domiciled in jurisdiction whose laws do not recognize same-gender marriage.

# Impact of Ruling on Defense of Marriage Act (DOMA)

- Under Article XV §11 of the Ohio Constitution, Ohio does not recognize marriage between persons of the same gender.
- Individuals who entered into such a marriage in another jurisdiction shall not use the filing status of “married filing jointly” or “married filing separately” when filing Form IT 1040
- Information Release: IT 2013-01 - Filing Guidelines for Taxpayers Filing a Joint or “Married Filing Separately” Federal Income Tax Return With Someone of the Same Gender - Issued Oct. 11, 2013 - Revised Dec. 19, 2013
- Checkbox on IT 1040 indicating IT S
  - May not file 1040EZ or Telefile if MFJ/MFS Federal return

# Ohio Employer Impact of DOMA

## EW 2013-01 - Guidelines for Employers Providing Benefits to Employees Married in a Jurisdiction That Recognizes Same-Gender Marriage - Issued Nov. 14, 2013

- WH taxes based on taxable gross earnings of each EE as if calculated in a manner that does not recognize same-gendered marriages
- Employers shall determine employees' Ohio taxable gross earnings amounts in a manner consistent with this guidance and report these amounts on box 16 of federal Form W-2
  - With Pre-tax items, box 1 of W-2 may be different than box 16
- These amounts must be used in determining the employer's liability for withheld income & school district income tax

# Personal Income Tax Nexus – Safe Harbor

## IT 2014-01 - Modification to Non-Resident Personal Income Tax Nexus “Safe Harbor” - Issued January 10, 2014

Modification to items O and P of the release:

O. The nonresident has a presence in this state for no more than seven days (now twenty days),... and the nonresident’s activities in Ohio generate no more than \$2,500 in gross income (now \$10,000 in gross income) in that same calendar year;

P. The nonresident participates in one or more trade shows in this state ... the nonresident does not have employees present in this state for more than seven days (now twenty days) in a calendar year and the nonresident’s activities in Ohio generate no more than \$2,500 in gross income (now \$10,000 in gross income) in that same calendar year;

# Discovery/Audit Programs

- Stock Options
- Displaced Worker Credit
- PTE Non-filers and Under-reporters
- Schedule D filers
- Health Care Expenses
- Development Services Agency (DSA) – Certificates for Schedule E credits

# PIT/SD Updates – Web Services

## On-line Tax Experience

New: Logon & password no longer expire after 1 yr; unless not used for more than 2 yrs.

- Logon can now be a **unique ID** or SS#
- Security Question selections/answers added to enhance security

## View

- 1099G/INT – Activate to go paperless
- Outstanding liabilities, Returns filed & Pending returns

## Updates by Taxpayer

- Phone, email and mailing address
- Email address for future “preferred” contact via secured electronic means

# Online Services - Updates

Ohio Department of Taxation » Individual Income Tax » Online Services

XXX-XX-0507 | Log Out

## Online Services

### Dashboard

File Ohio IT 1040

File Ohio SD 100

File Ohio IT 10

View / Make Payments

View Ohio 1099s

## Account Settings

My Profile

My Notification Settings

rel 2013.26.90 - December 3rd, 2013  
on QA.2

Welcome to the Ohio Department of Taxation's Individual Income Tax Online Services for taxpayers.

Select a service from the Online Services menu on the left, or take action on a dashboard entry below.

### Dashboard - Your data at a glance

#### Outstanding Balance

Tax Year	Notice ID	Notice Type	Due Date	Amount	Pending Payments	Actions	Help
2011		IT 1040 Return Balance Due	04/17/2012	\$2350.00	--	<a href="#">Pay</a>	<a href="#">?</a>
2012		IT 1040 Return Balance Due	04/15/2013	\$1304.00	--	<a href="#">Pay</a>	<a href="#">?</a>

#### Tax Returns Awaiting Action

Tax Year	School Dist	Form	Status	Actions
2011	2307	SD-100WEB	Reminder*	<a href="#">File Now!</a>

\* **Reminder:** The school district number listed on your Ohio income tax return requires a school district return to be filed. File the return using the "File Now!" button or select "File Ohio SD 100" from the left menu to create a return for the correct school district. If you did not reside in a taxing school district, [Contact Us](#).

#### Tax Returns On File

Tax Year	School Dist	Form	Post Date	Actions
2011		IT-1040WEB	Pending	<a href="#">View Transcript</a>
2012		IT-1040WEB	Pending	<a href="#">View Transcript</a>
2013		IT-1040WEB	Pending	<a href="#">View Transcript</a>

The returns available to view reflect line items as filed or adjusted through the current date.

#### Keep in mind:

- If you wish to change your user ID or password, click on the **My Profile** link under Account Settings to the left on this page. You will also be able to view and update your contact and security information.
- If you wish to sign up for additional services, click on **My Notification Settings**.
- Don't forget to log out when you are done, especially if you are viewing this page from a public location such as a library, school, or work. If you are logged in, you may log out at any time by clicking on **Log Out**.

You are logged in as  
 TEST DOE  
 XXX-XX-0507  
[log out](#)

[Print and/or Save PDF File](#)

[Return to Dashboard](#)

Filing Information	
Primary Social Security Number:	XXX-XX-0507
Primary First Name:	JOHN
Primary Last Name:	DOE
Address:	4485 Northland Ridge Blvd, Columbus, OH, 43229
Primary Residency Status:	Resident
Filing Status:	Married Filing Separately
Date Filed:	02/11/2014
Confirmation Number:	1404209231

IT 1040 Filing Information		
001	Federal Adjusted Gross Income	\$28,000.00 <a href="#">?</a>
002	Ohio Schedule A Adjustments	\$0.00
003	Ohio Adjusted Gross Income	\$28,000.00
004	Exemption Deduction	\$1,700.00
005	Ohio Taxable Income	\$26,300.00
006	Ohio Income Tax Before Credits	\$512.00 <a href="#">?</a>
007	Credits from Schedule B	\$0.00
008	Ohio Tax Less Schedule B Credits	\$512.00
009	Exemption Credit	\$20.00 <a href="#">?</a>
010	Ohio Tax Less Exemption Credit	\$492.00
011	Joint Filing Credit	\$0.00
012	Ohio Tax Less Joint Filing Credit	\$492.00
013	Summary of Schedule C, D and E Credits	\$0.00
014	Earned Income Credit	\$0.00 <a href="#">?</a>
015	Ohio Adoption Credit Amount	\$0.00 <a href="#">?</a>
016	Manufacturing Equipment Grant	\$0.00 <a href="#">?</a>
017	Ohio Income Tax	\$492.00 <a href="#">?</a>
018	Interest Penalty on Underpayment of Estimated Tax	\$0.00
019	Ohio Use Tax Amount	\$0.00
020	Total Ohio Tax	\$492.00
021	Ohio Tax Withheld	\$1,500.00
022A	Ohio IT 1040ES Estimated Payments	\$0.00 <a href="#">?</a>
022B	Ohio IT 40P Extension Payments	\$0.00 <a href="#">?</a>
022C	Amount of Last Year's Credit Carryover	\$0.00 <a href="#">?</a>
022D	Total Ohio Installment Payments	\$0.00
023	Total Refundable Credits	\$0.00
024	Total Payments	\$1,500.00
025	Amount Overpaid	\$1,008.00



# 1099G/INT



Ohio

Online Services: Income Taxes » View My 1099s

You are logged in as  
JOHN A. DOE  
XXX-XX-5956

log out

## 1099s Available for Viewing

1099 forms from the State of Ohio generated in the last 5 years have been made available on-line for your viewing and printing needs. These represent any refunds, offsets, or credit carry forwards applied to you.

2010 1099-G original issued on 01/13/2011 for refund for tax year 2009  
2010 1099-INT original issued on 01/13/2011 for refund for tax year 2008  
2008 1099-G corrected issued on 05/11/2009 for refund for tax year 2007  
2008 1099-G original issued on 10/02/2008 for refund for tax year 2007  
2007 1099-G original issued on 10/02/2008 for refund for tax year 2007

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# ePayment – Electronic Check (ACH)

Online Services: Income Taxes » ePayments: Payment Options

You are logged in as  
TEST IFILE  
XXX-XX-4269  
[log out](#)

**Payment Steps**  
1. Payment Selection  
2. Payment Options  
3. Payment Method  
4. Payment Authorization  
5. Payment Confirmation

## Individual Income - Estimated Payment Options

Tax Year

**Note: An asterisk (\*) indicates required fields**

\*Payment Method (select one)

Electronic Check (ACH) 

- You may make all four estimated payments at one time.
- You may enter a different date for each withdrawal.
- You may enter a different amount for each withdrawal.
- There is no charge or convenience fee for using this service.

Credit Card

- You may make one estimated payment at one time.
- You cannot enter a payment date. Your payment will be charged to your account the next business day.
- Official Payments Corporation, the credit card service provider, charges a 2.5% (or \$1.00 whichever is greater) on the amount of the transaction. This fee is paid directly to Official Payments Corporation.

Whether you choose to pay by electronic check (ACH) or credit card, all payments are due on, or before, the quarterly due date. Unpaid, partial paid, and late paid taxes (including estimated payments) are subject to interest and penalty.

Quarter 	Amount	Date to Withdraw 	Due Date
1st	\$ <input type="text" value="400"/>	<input type="text" value="04"/> / <input type="text" value="15"/> / <input type="text" value="2014"/>	04/15/2014
2nd	\$ <input type="text" value="400"/>	<input type="text" value="06"/> / <input type="text" value="16"/> / <input type="text" value="2014"/>	06/16/2014
3rd	\$ <input type="text" value="400"/>	<input type="text" value="09"/> / <input type="text" value="15"/> / <input type="text" value="2014"/>	09/15/2014
4th	\$ <input type="text" value="400"/> 	<input type="text" value="01"/> / <input type="text" value="15"/> / <input type="text" value="2015"/>	01/15/2015

**NOTE:** The payment may be processed by your financial institution on the date requested; however, please allow 2-3 business days for the payment to post to your account.

[Back](#) [Continue](#) [Cancel](#)

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# ePayment – Credit Card

Online Services: Income Taxes » ePayments: Payment Options

You are logged in as  
TEST IFILE  
XXX-XX-4269  
[log out](#)

- Payment Steps**
1. Payment Selection
  2. Payment Options
  3. Payment Method
  4. Payment Authorization
  5. Payment Confirmation

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\*Quarter (select one)

\*Enter an amount to pay.

1st  2nd  3rd  4th

\$

**NOTE:** The payment may be processed by your financial institution on the date requested; however, please allow 2-3 business days for the payment to post to your account.

[Back](#) [Continue](#) [Cancel](#)

# Epayments

Epayments – includes **all** payments made (paper or electronic)

Date	Amount	Form Type	Tax Year	School District	
01/01/2013	\$1.00	IT-40P RETURN	2011		<i>pending</i> <input type="button" value="cancel"/>
01/01/2013	\$2.00	IT-1040 EST	2012		<i>pending</i> <input type="button" value="cancel"/>
01/01/2013	\$1.00	SD-40P RETURN	2011	Pickerington LSD (Frfld, Franklin)	<i>pending</i> <input type="button" value="cancel"/>
01/01/2013	\$2.00	SD-100 EST	2012	Ada EVSD (Hardin,Hancock Co.)	<i>pending</i> <input type="button" value="cancel"/>

\* Cancelled payments

Date	Amount	Form Type	Tax Year	School District	
01/01/2013	\$1.00	IT-40P RETURN	2011		<i>cancelled</i> <input type="button" value="undo"/>
01/01/2013	\$2.00	IT-1040 EST	2012		<i>cancelled</i> <input type="button" value="undo"/>
01/01/2013	\$1.00	SD-40P RETURN	2011	Pickerington LSD (Frfld, Franklin)	<i>cancelled</i> <input type="button" value="undo"/>
01/01/2013	\$2.00	SD-100 EST	2012	Ada EVSD (Hardin,Hancock Co.)	<i>cancelled</i> <input type="button" value="undo"/>

# Approved 40+ Software Products

H&R Block - Blockworks		Intuit - Lacerte
H&R Block - HRBS		Intuit - TurboTax
H&R Block - TPS		Intuit - Intuit Tax Online
2nd Story Software - TaxAct Online		Liberty Tax Service - LibTax
CCH Small Firm Services - Taxwise		Liberty Tax Online
CCH Small Firm Services - ATX		Drake - 1040.com

# eFile - Practitioner's Web Page

## Other Resources for Tax Preparers

2013

- [2013 Ohio Practitioner Electronic Filing Booklet](#)
- [Approved Software Developers Tax Year 2013](#) 
- [2013 MeF Error Codes](#) 
- [2013 Income Tax and School District Income Tax Publication \(Instructions\) \(Draft\)](#)
- [2013 IT1040 Tax Return](#)
- [2013 IT1040EZ Tax Return](#)
- [2013 SD100 Tax Return](#)

## 2013 Approved Software Products

Software products that have been approved for Fed/State electronic filing.

**Official Company Name:** H&R Block Inc [Limitations](#)

**Product Name:** H&R Block Online (HRBO)

**Mailing Address:** 545 Metro Place S, Ste 350, Dublin, OH 43017

**Helpline:** 1-800-hrblock (1-800-472-5625)

**Website Address:** [www.hrblock.com](http://www.hrblock.com)

**Official Company Name:** Intuit, Inc. [Limitations](#)

**Product Name:** TurboTax

**Mailing Address:** 7535 Torrey Santa Fe Rd, San Diego, CA 92129

**Website Address:** [www.turbotax.com](http://www.turbotax.com)

# Limitations of a Software Product

## TurboTax Product Limitations

- No paid or non-paid preparers
- No partial direct debits
- No multiple direct deposits
- No direct deposits into an IRS account or a 529 account
- The following items are not supported on the IT1040
  - Line 16: Manufacturing Equipment Grant certificate information
- No stand-alone SD100

# New/Modified Error Codes

Rule Number	Error Category	Error Message	Severity R-Reject S-Stop A-Alert
OHC0M-038	Incorrect Data	You requested an electronic payment but did not provide a payment date. We will process your payment within two business days from the state's acknowledgement date.	A
OHC0M-054	Data Missing	The foreign postal code was not provided. Please correct and retransmit.	R
OHC0M-055	Incorrect Data	You have indicated that you are required to file Schedule IT S and you have selected a filing status of Married Filing Jointly or Married Filing Separately. Each taxpayer required to complete Schedule IT S must select a filing status of "Single" or, if qualified, "Head of Household". Please correct and retransmit.	R
OHIND-032	Incorrect Data	You have claimed the exemption credit. To claim the exemption credit your Ohio taxable income must be less than \$30,000. Please correct and retransmit.	R
OHIND-033	Incorrect Data	You have claimed an earned income credit amount greater than the maximum allowed. Please refer back to the earned income worksheet in the instruction booklet. Please correct and retransmit.	R
OHIND-034	Incorrect Data	You have claimed an amount greater than the maximum allowed on the Ohio small business investor income deduction line on Schedule A. The maximum deduction is \$125,000 for married filing jointly or single/head of household/qualifying widow(er) filers. Please correct and retransmit.	R
OHIND-035	Incorrect Data	You have claimed an amount greater than the maximum allowed on the Ohio small business investor income deduction line on Schedule A. The maximum deduction is \$62,500 for married filing separately filers. Please correct and retransmit.	R

# Contact Us

Individual

Business

Tax Practitioners

Divisions

Business	Phone
General Business, including Corporate Franchise, Employer & School District Withholding, Financial Institutions, Muni for Electric Light and Local Exchange Telephone Companies, and Sales & Use Taxes	(888) 405-4039
General CAT	(888) 722-8829
Excise & Energy Tax, including Public Utility, kWh, Mcf, Severance, Motor Fuel, IFTA, Casino, and various excise taxes	(855) 466-3921
General Public Utilities	(855) 466-3921
Business Registration, including Corporate Franchise, Employer & School District Withholding, and Sales & Use Taxes	(888) 405-4089
Business Tax Assistance	(888) 405-4039
Business Tax Billings	(888) 297-3540
Business Tax Assessments	(888) 297-7150
Sales Tax Telefile	(800) 697-0440
Forms Request	(800) 282-1782 or <a href="#">Click Here</a>
Tax Fraud Hot Line	(800) 757-6091 or <a href="#">Click Here</a>
Ohio Relay for the Hearing Impaired	(800) 750-0750

# Ohio Pass-Through Entity Taxation



Department of  
Taxation

# Ohio PTE Tax Overview

- Pass-Through Entity Basics
- Legislative Updates – HB 59
  - 50% Small Business Deduction
  - Nonresident Filing of IT1040
  - Requests for Alternative Apportionment
  - Tax Credit Changes
- Business & Nonbusiness Income
- 20% Owner Compensation
- Related Member Adjustments

# Pass-Through Entity Basics



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# Pass-Through Entity Basics

## What is a Pass-Through Entity?

- A legal entity where the entity's income is treated as the income of the investors or owners
- Generates distributive and proportionate shares of income that “flow through” to its investors
- Income is mostly reported on each investor's Federal 1040 Schedule E (line 17)
- Common Types of PTEs include...
  - Partnerships (LLPs, LPs, etc.)
  - Limited Liability Companies (LLCs)
  - Subchapter S Corporations

# Pass-Through Entity Basics

## What is a Sole Proprietorship?

- Is a type of business entity that is owned and run by one individual
- No legal distinction between the owner and the business
- Generates self employment income for which self-employment taxes are paid
- Income is reported on each investor's Federal 1040 Schedule C (line 12) or as other income (line 21)

# Pass-Through Entity Basics

The vast majority of American businesses are small businesses organized as pass-through entities and sole proprietorships.



# Pass-Through Entity Basics

OH Residents & Nonresidents Can Report PTE and Sole Proprietorship Income on Form IT 1040

- Form IT 1040 begins with FAGI, which includes all distributive and proportionate shares of income.
- For multi-state PTE owners, the PTE's activities are reflected in either the schedule C resident or schedule D nonresident credit.
- Non-residents & part-year residents must attach Form IT2023 allocation & apportionment schedule

# Pass-Through Entity Basics

Most PTEs That Have at Least One Non-Resident Investor Must Also File a PTE Return

This is the front page of Ohio Form IT 4708 for the year 2013. The form is titled "Ohio Form IT 4708 Composite Income Tax Return for Certain Investors in a Pass-Through Entity". It includes a barcode, the year "2013", and the form number "IT 4708". The form is designed for investors in pass-through entities and contains various sections for reporting income, deductions, and credits. The bottom of the form features the text "2013 IT 4708" and "2013 IT 4708".

Form IT4708

or

Form IT1140

This is the front page of Ohio Form IT 1140 for the year 2013. The form is titled "Ohio Form IT 1140 Pass-Through Entity and Trust Withholding Tax Return". It includes a barcode, the year "2013", and the form number "IT 1140". The form is used for reporting withholding taxes for pass-through entities and trusts. It contains sections for reporting withholding amounts and other relevant information. The bottom of the form features the text "2013 IT 1140" and "2013 IT 1140".

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# Pass-Through Entity Basics

## Ohio Form IT4708 – PTE Composite

- Filed by the PTE on behalf of the entity's investors other than C corps
- Satisfies each investor's OH tax filing requirement concerning the investor's share of PTE's income
- Tax base is the net sum of the allocated and apportioned distributive shares of income for included investors
- Individuals subject to top PIT bracket tax rate
- All individual investors can also file the IT 1040

# Pass-Through Entity Basics

## Ohio Form IT1140 – PTE Withholding

- Filed by the PTE on behalf of the entity's investors that could include C corps
- Nonresident individual investors are required to also file Form IT1040
- Individuals subject to 5% tax rate
- Tax base is the net sum of qualifying investors' distributive shares of the PTE's income allocated & apportioned to Ohio

# Legislative Updates

## HB 59



**Ohio**

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# 50% Small Business Deduction

## New 50% Small Business Investor Income 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
- Can't exceed \$62,500 for each spouse filing separately or \$125,000 for all other taxpayers
- Favorable to business owners who did not benefit from OH's elimination of the Corporation Franchise Tax

# 50% Small Business Deduction

## Does Not Impact School District Income Tax

SCHEDULE A – <u>TRADITIONAL</u> TAX BASE SCHOOL DISTRICT AMOUNTS (See page SD 5 of the instructions.)	
<b>Complete this schedule <u>only</u> if filing a traditional tax base school district return.</b>	
17. Enter on this line your Ohio taxable income reported on <u>line 5 of Ohio form IT 1040EZ</u> or <u>IT 1040</u> . Shade the negative sign (“-”) at right if the amount is less than -0-.....	17. <input type="text"/> 0 0
<b>18.</b> Small business investor income deduction add-back (see instructions on page SD 5).....	18. <input type="text"/> 0 0
19. Total traditional tax base school district income (add lines 17 and 18).....	19. <input type="text"/> 0 0
20. The amount of traditional tax base school district income, if any, you earned while <b>not</b> a resident of the school district whose number you entered above.....	20. <input type="text"/> 0 0
21. School district taxable income (line 19 minus line 20; enter -0- if less than zero). Enter here and on line 1 of this return.....	21. <input type="text"/> 0 0
SCHEDULE B – <u>EARNED</u> INCOME TAX BASE SCHOOL DISTRICT AMOUNTS (See page SD 6 of the instructions.)	
<b>Complete this schedule <u>only</u> if filing an earned income only tax base school district return.</b>	
22. Wages and other compensation described on page SD 6 of the instructions.....	22. <input type="text"/> 0 0
23. Net earnings from self-employment described on page SD 6 of the instructions. Shade the negative sign (“-”) at right if the amount is less than -0-.....	23. <input type="text"/> 0 0
24. Depreciation expense adjustment, if any, described on page SD 6 of the instructions.....	24. <input type="text"/> 0 0
25. School district taxable income (add lines 22, 23 and 24; enter -0- if less than zero). Enter here and on line 1 of this return.....	25. <input type="text"/> 0 0



Department of Taxation

# 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 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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# 50% Small Business Deduction

Year 20 \_\_\_\_

## 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.

### 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. <b>Note:</b> 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
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.	_____	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.	_____	00
11. Ohio apportionment ratio (Part II, line 4).....	11.	_____	00
12. Total business income apportioned to Ohio (multiply line 10 by line 11).....	12.	_____	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.	_____	00
14. Maximum Ohio small business investor income subject to deduction (see instructions).....	14.	_____	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.	_____	00

### Part II – Apportionment Formula for Business Income

	(1) Within Ohio	(2) Total Everywhere	(3) Ratio <small>(carry to six decimal places)</small>	(4) Weight	(5) Weighted Ratio <small>(carry to six decimal places)</small>
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. _____

Reported on  
Schedule IT SBD and  
Form IT1040  
Schedule A.  
Find them at  
[www.tax.ohio.gov](http://www.tax.ohio.gov/Forms)  
/Forms



Department of Taxation

# 50% Small Business Deduction

Frequently Asked Questions Are Available at  
[www.tax.ohio.gov/faq](http://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, there 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 "Frequently Asked Questions" interface. It features a "Category:" label and a dropdown menu currently set to "Income - Small Business Investor Deduction". To the right is a "Search" label and a search input field with a magnifying glass icon. Below the search field, the text "Found All" is partially visible.

# Other HB 59 Legislative Updates

## Ability of Non-Resident PTE Investors to File IT1040

- NR PTE investors may now file an IT1040 whether or not they have other Ohio-sourced income.
- August 10, 2011 tax alert no longer effective.

## Apportionment for Non-Residents Clarified

- Makes technical change in ORC 5747.05 statutory language. Prior to this change, the term “allocable” was used, but not “apportionable”.

# Other HB 59 Legislative Updates

## Taxpayer Requests for Alternative Apportionment Modified

- Effective for taxable years 2013 and forward
- Requests must be submitted with a timely filed return or amended return
- Makes a technical change to ORC 5747.21 to include the term “apportionment” with “allocation”

# Other HB 59 Legislative Updates

## Job Retention Tax Credit Modified

- Extended to businesses whose principal place of business is not located in same political subdivision as the capital investment if maintains 4,200 employees at project site.

## Technology Investment Tax Credit Eliminated

- Effective 1/1/2013, credit no longer available. Taxpayers may continue to carry forward excess credit amounts (15 year carry forward period).

# Business & Nonbusiness Income



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# Business & Nonbusiness Income

Why Does Knowing Whether an Income Item is “Business” or “Nonbusiness” Income Matter?

- Nonresident Schedule D Credit: *for non-residents and part-year residents, will be determinative of apportionment or allocation under ORC 5747.21(B) and 5747.20*
- 50% Small Business Deduction: *For residents and non-residents, items of business income apportioned to OH are used to calculate the Small Business Investor Income Deduction.*

# What is Business Income?

ORC 5747.01(B): “Business Income” means income, including gain/loss...

- Arising from transactions, activities, & sources in the regular course of a trade or business operation (“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 gain or loss from the sale or other disposition of goodwill.

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



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# What is Business Income?

Business income could include the following...

- Distributive or proportionate shares of income from a pass-through entity
- Income from a sole proprietorship
- Income from farming
- Compensation or guaranteed payments made by a pass-through entity to a 20% or greater investor under ORC 5733.40(A)(7)

# What is Business Income?

Business income could also include items reported on Federal 1040 Schedules C, E, and F including:

- ✓ Royalties from real or tangible property
- ✓ Royalties from mineral rights
- ✓ Rents from real or tangible property
- ✓ Capital gains
- ✓ Interest
- ✓ Dividends and distributions
- ✓ Patent, copyright royalties

# What is Nonbusiness Income?

ORC 5747.01(C): “Nonbusiness Income” means income that is not business income and could include...

- Compensation and guaranteed payments made from PTEs to less than 20% owners or retired partners
- Compensation paid from sole proprietorships

# Business & Nonbusiness Income

Business income is apportioned  
under ORC 5747.21(B)

Nonbusiness Income is allocated  
under ORC 5747.20



# Business Income Is Apportioned

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
			(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. . _____



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# Nonbusiness Income is Allocated

Under ORC 5747.20, all items of nonbusiness income and deduction are allocated to OH as follows:

- Compensation: if services performed in OH
- Real Property Gains/Rents/Royalties: if the property was located in OH
- Tangible Personal Property Gains: if the property was in OH at time of sale
- Rents/Royalties: proportion based on # of days physically located in OH versus everywhere
- Other items: see statute

# Business & Nonbusiness Income

## Residual Income

*Any other item of income/deduction of a nonresident which is not specifically allocated or apportioned in ORC 5747.20 through ORC 5747.23 shall not be allocated to Ohio unless the taxpayer's domicile was in Ohio at the time the income was paid or accrued.*



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# Business & Nonbusiness Income

## Department's Position:

*All income is presumed to  
be business income*



# Evidence of Nonbusiness Income

Documentation to Show Why Income is Treated as “Nonbusiness Income”

- A schedule indicating the type and amount for each item of income
- A detailed statement explaining why the taxpayer asserts that the income is not business income
- A list of the states for which the taxpayer treats the income as business income
- A copy of the other states’ returns

# 20% Owner Compensation



# 20% Owner Compensation

## ORC 5733.40(A)(7)

“For purposes of Chapters 5733 and 5747... guaranteed payments or compensation paid to investors by a qualifying entity... shall be considered a distributive share of income of the qualifying entity. Division (A)(7) of this section applies only to such payments...to an investor who at any time during the qualifying entity's taxable year holds at least a twenty per cent direct or indirect interest in the profits or capital of the qualifying entity.”

# 20% Owner Compensation

## Guaranteed Payments

- Guaranteed payments = made by a partnership to a partner & determined without regard to the partnership's income
- Can be made to retired partners. Such amounts reported on 1065 page 1 may not agree with those reported on Schedule K
- Reported on Form IT4708 Schedule II Line 29.

## Owner Compensation

- Compensation payments from any PTE to an investor are reported on Form IT4708 Schedule II Line 30

# 20% Owner Compensation

## Department's Audit Approach

- Auditors may review W-2s, 1099s, K-1s and IRS form 1040s for 20% or more owners
- Auditors will match Federal 1065 Schedule K line 4 to partners' Schedule K-1 and Form 1099
- Reciprocity agreements with neighboring states (KY, MI, PA etc.) DO NOT apply to 20% investors
- Only include amounts paid to shareholders participating in OH Form IT 4708

# 20% Owner Compensation

*HBD Industries, Inc. v. Levin*

BTA No. 2008-M-1018 - decided June 14, 2011

- Compensation is not limited to W-2 wages.
- The 5733.40(A)(7) add-back for “compensation paid to investors” also applies to board of director fees paid by an S corporation to a director who is at least a 20% or more investor in the S corporation.



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# Related Member Adjustments



# Related Member Adjustments

## ORC 5733.40(A)(3) & (4)

ORC 5733.40(A)(3): “For the purposes of Chapters 5733 and 5747. . . the profit or net income of the qualifying entity shall be increased by disallowing all amounts representing expenses, other than amounts described in division (A)(7) of this section, that the qualifying entity paid to or incurred with respect to direct or indirect transactions with one or more related members...”

# Related Member Adjustments

## ORC 5733.40(A)(3) & (4)

- Disallow most deductions for related member expenses and losses other than certain compensation expenses paid to 20% or more shareholders.
- “Related member” definition for this purpose uses a “40%” test rather than the “20%” test used for compensation.
- ORC 5733.40(P) provides a reference leading to a complex definition of “related member.”

# Related Member Adjustments

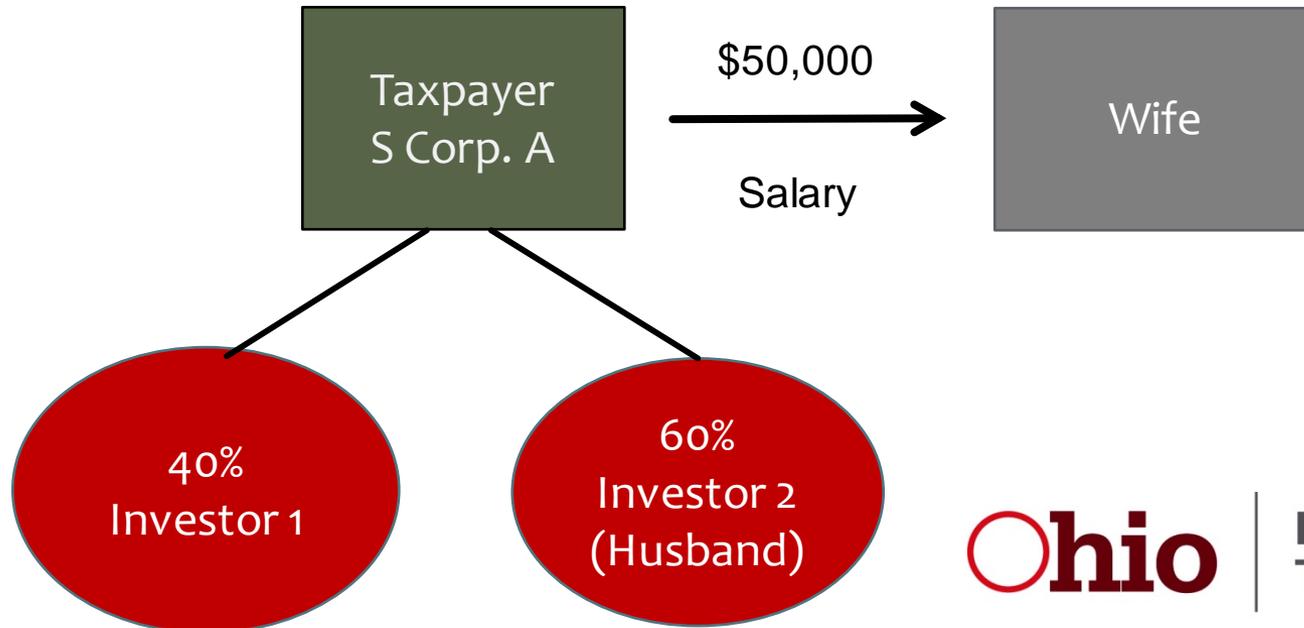
Examples of Common Related Member Adjustments Can Include:

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

# Related Member Adjustments

## Example: Salary Expense Paid to Family Member of Shareholder

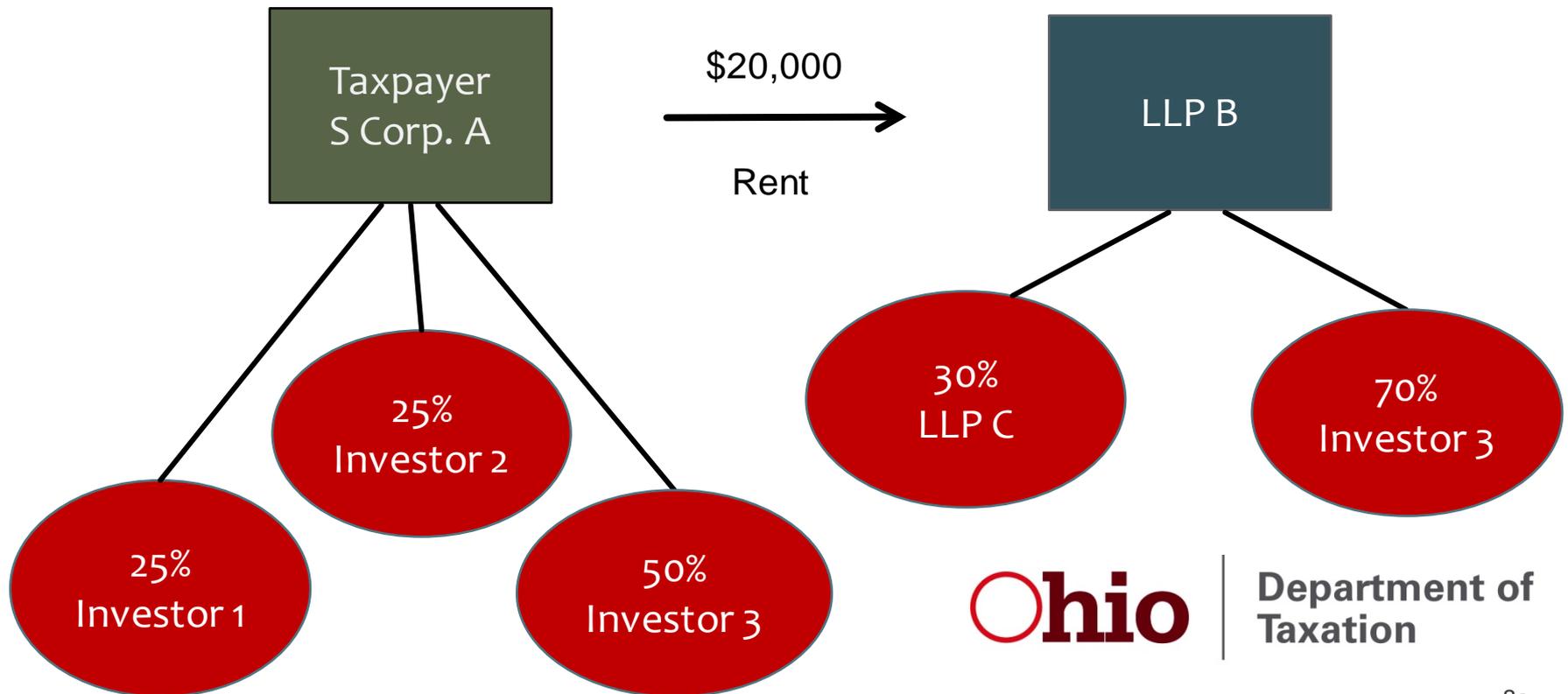
Investor 2 owns 60% of Taxpayer S Corp. A. Investor 2's spouse receives a \$50k wage salary from Taxpayer. This salary expense must be reported by Taxpayer on IT4708 line 28 as an add-back.



# Related Member Adjustments

## Example: Rent Expense Paid to Affiliate

Investor 3 owns 50% of Taxpayer S Corp. A and 70% of LLP B, which is receiving \$20k of rent from Taxpayer. This rent expense must be reported by Taxpayer on IT4708 line 28 as an addback.



# Questions?

## Personal & School District Income Tax

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## Pass-Through Entity Tax

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