

Individual Income Tax

**Taxpayer**

Individuals, estates, and (for taxable years ending June 4, 2002 through December 31, 2004) trusts 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 (Tax Year 2004)**Ohio Taxable**

<u>Income</u>	<u>Tax Calculation</u>
0 — \$5,000	0.743% of Ohio taxable income
\$5,001 — \$10,000	\$37.15 + 1.486% of excess over \$5,000
\$10,001 — \$15,000	\$111.45 + 2.972% of excess over \$10,000
\$15,001 — \$20,000	\$260.05 + 3.715% of excess over \$15,000
\$20,001 — \$40,000	\$445.80 + 4.457% of excess over \$20,000
\$40,001 — \$80,000	\$1,337.20 + 5.201% of excess over \$40,000
\$80,001 — \$100,000	\$3,417.60 + 5.943% of excess over \$80,000
\$100,001 — \$200,000	\$4,606.20 + 6.900% of excess over \$100,000
\$200,001 — over	\$11,506.20 + 7.500% 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 and to offset revenue reductions resulting from reduced taxes. In Fiscal Year 2004, there were no surplus funds; so, the 2004 rates are the statutory rates. The tax rates for 2005 will not be set until July 2005, after the close of FY 2005 (on June 30, 2005).

Major Exemptions

See **Special Provisions/Credits**.



Individual Income Tax

Revenue (In Millions)

<u>Fiscal Year</u>	<u>General Rev. Fund</u>	<u>Local and Library Funds</u>	<u>Other(1)</u>	<u>Total</u>
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
2004	7,696.9	829.7	4.6	8,531.2

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% 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 receives 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 FY 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. 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.

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.

Individual Income Tax

**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.

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 2004 were \$1,300 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

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.



Individual Income Tax

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:

Amount of Retirement Income Received During the Taxable Year				Credit
	\$ 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 compute a nonresident tax credit on the military pay. 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 or other duty for Operation Iraqi Freedom 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.

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.

Individual Income Tax

***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 for 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:

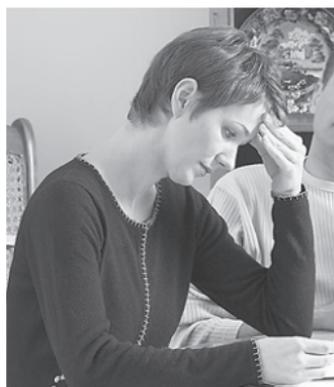
Taxpayers with adoption expenses, except for the adoption of a stepchild, may claim a nonrefundable credit up to \$500.

Nonresident Credit for Individuals and Estates:

Computation of credit changed; market-theory approach implemented for sales other than inventory sales of tangible personal property and real estate.

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 2004).





Individual Income Tax

► Federal Adjusted Gross Income (FAGI)

Add

1. State and local bond interest (except Ohio and its political subdivisions).
2. Reimbursement of college tuition expenses and fees deducted in a previous year.
3. Losses from sale of Ohio public obligations.
4. Nonmedical withdrawals from medical savings accounts.
5. Noneducation expenditures from a college savings account.

Subtract

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 income tax refunds to the extent included in FAGI.
6. Qualified expenses for long-term care insurance, medical insurance, and and medical expenses in excess of 7.5% of FAGI.
7. Gains from sale of Ohio public obligations to the extent included in FAGI.

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

**Ohio Adjusted Gross Income**

Individual Income Tax

▶ **Ohio Adjusted Gross Income****Subtract**

Personal Exemptions of \$1,300 each.

**Ohio Taxable Income****Apply**Graduated rates of 0.743% to 7.5% for 2004.
(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. Lump sum distribution and lump sum retirement income credits.
10. 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.



Individual Income Tax

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.
 - 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.

Individual Income Tax



- Title II social security and Tier I railroad retirement benefits exempt from taxation.
- 1985 • Rates reduced from 1984 level by 5.0% for 1985, 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;



Individual Income Tax

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% 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 that also meets the definition of a grantor trust required.

Individual Income Tax



- 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 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.





Individual Income Tax

Comparisons with Other States (As of 05/05)

Personal Exemptions(1)

<u>State/Rate(1)</u>	<u>Single</u>	<u>Married/ Joint</u>	<u>Dependent</u>
----------------------	---------------	---------------------------	------------------

California(2)

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

Florida

No income tax.

Illinois(3)

\$2,000

\$4,000

\$2,000

3.0% on taxable net income.

Indiana(3)

\$1,000

\$2,000

\$1,000

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 \$8,000.

Massachusetts(3)

\$3,300

\$6,600

\$1,000

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%.

Michigan(3)

\$3,100

\$6,200

\$3,100

3.9% on taxable income.

New Jersey

\$1,000

\$2,000

\$1,500

1.4% on first \$20,000 of taxable income, up to 8.970% on portion of income over \$500,000.

Notes: (1)The tax rate and exemptions are for tax year 2004 unless otherwise noted. For states with multiple schedules, the married filing joint rate is listed. (2)California credits for tax year 2004 are \$85 for single, married filing separately, and for head of household; \$170 for married filing jointly or surviving spouse; and \$265 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.

Individual Income Tax



Personal Exemptions(1)

State/Rate(1)	Single	Married/	
		Joint	Dependent
New York	0	0	\$1,000

4.0% on first \$8,000 of taxable income for unmarried individuals and married filing separately, up to 7.7% on portion of income over \$500,000.

Pennsylvania(3) No exemptions.
3.07% on taxable income.

Texas No income tax.

West Virginia	\$2,000	\$4,000	\$2,000
----------------------	---------	---------	---------

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

Notes: (1)The tax rate and exemptions are for tax year 2004 unless otherwise noted. For states with multiple schedules, the married filing joint rate is listed. (3)States with only one tax schedule.

