



Individual Income Tax

Taxpayer

The tax is paid by individuals, estates, and trusts residing in Ohio or earning or receiving Ohio income, including lottery winnings, prizes, or awards. The tax is also paid by individuals, trusts, and estates otherwise having nexus with Ohio.

Withholding responsibilities apply to employers who pay wages and salaries to employees who work in Ohio.

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.

Rates

The 2009 taxable year represents the final stage of a five-year 21 percent across-the-board income cut enacted in 2005. Tax rates for 2004 through 2008 are listed in Ohio Revised Code 5747.02(A). The rates for 2009 are as follows:

Ohio Taxable Income	Statutory Tax Rates
0 – \$5,000	0.587% of Ohio taxable income
\$5,001 – \$10,000	\$29.35 plus 1.174% of excess of \$5,000
\$10,001 – \$15,000	\$88.05 plus 2.348% of excess over \$10,000
\$15,001 – \$20,000	\$205.45 plus 2.935% of excess over \$15,000
\$20,001 – \$40,000	\$352.20 plus 3.521% of excess over \$20,000
\$40,001 – \$80,000	\$1,056.40 plus 4.109% of excess over \$40,000
\$80,001 – \$100,000	\$2,700.00 plus 4.695% of excess over \$80,000
\$100,001 – \$200,000	\$3,639.00 plus 5.451% of excess over \$100,000
\$200,001 –	\$9,090.00 plus 5.925% of excess over \$200,000

Beginning in 2010, the Tax Commissioner will annually adjust each bracket for inflation each July, per R.C. 5747.02 (A). Division (B) of this same code section allows for rates to be temporarily adjusted downward in any year that the director of the Office of Budget and Management certifies that a surplus exists in the Ohio Stabilization (or “Rainy Day”) Fund.

Major Exemptions

A personal exemption is available for each taxpayer as well as their dependents. For the 2008 taxable year, each exemption equaled \$1,500 per person. This amount is adjusted for inflation each year.

In addition to certain other federal and state adjustments, the following forms of income are exempt from state taxation:

- Military pay earned by Ohio servicemembers while stationed outside of Ohio and by non-Ohioans while stationed in Ohio.
- Military retirement pay.
- Qualified Social Security benefits and certain railroad retirement benefits.
- Certain disability and survivorship benefits.
- Certain Ohio National Guard benefits.

Additionally, Ohio taxpayers may deduct the following expenses when calculating Ohio taxable income:

- Qualified organ donation expenses.
- Subject to limitations, purchases of tuition units and contributions to the Ohio Tuition Trust Authority CollegeAdvantage 529 Savings Plan.
- Certain unreimbursed long-term care insurance premiums, unsubsidized health care insurance premiums, deposits into medical savings accounts and other medical expenses.

Revenue (In Millions)

Fiscal Year	General Rev. Fund	Local Govts and Libraries	Other ¹	Total
2004	\$7,696.9	\$829.7	\$4.6	\$8,531.2
2005	8,598.9	829.3	6.3	9,434.5
2006	8,786.4	829.3	7.5	9,623.2
2007	8,885.3	829.3	8.3	9,722.9
2008	9,114.8	724.7	8.7	9,848.2

Disposition of Revenue

Traditionally, libraries and local government funds received a share of income tax receipts according to a formula spelled out in statute. This changed for fiscal years 2002 and 2003, when a local government fund “freeze” capped this revenue sharing at either the same amount as in fiscal year 2001 or the amount provided by the old formula, whichever was less. Similar freezes were enacted for fiscal years 2004 through 2007.

The 2008-09 biennial budget continued the freeze through calendar year 2007 and established a new system of revenue sharing with local governments. Beginning in January 2008, the two local government funds were consolidated into a single Local Government Fund that receives 3.68 percent of all General Revenue Fund tax revenues. In addition, the Public Library Fund receives 2.22 percent of all General Revenue Fund tax revenues.

¹ “Other” revenue includes distributions to the Political Party Fund and the Attorney General Claims Fund.

All revenues from the individual income tax are initially deposited in the General Revenue Fund. However, each month an amount is deposited into the Local Government Fund, credited against the individual income tax's portion of General Revenue Fund revenues. The transition to this new financing mechanism is the reason for the fairly substantial observed change in local government and library fund deposits from the individual income tax during fiscal year 2008.

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 the 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 Sept. 15 of the taxable year and Jan. 15 of the following year.

For employers:

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

Special Provisions/Credits

Credits

All filers may take a \$20 credit for each personal exemption claimed on their return. A number of other credits are also available. They include, in alphabetical order:

Adoption credit:

Taxpayers who adopt a child (except a stepchild) may claim a nonrefundable credit of \$1,500 per child adopted during the taxable year.

Child and dependent care credit:

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

Displaced workers' training expenses credit:

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

50 percent of the training costs, whichever is less.

Joint filing credit:

A husband and wife who file a joint return are allowed a tax credit of up to \$650 if each had at least \$500 of qualifying income. The credit is a percentage of tax liability, after the application of several other 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% of tax

Low-income credit:

This credit is equal to the tax that would otherwise be due when Ohio taxable income is \$10,000 or less. This credit eliminates all tax liability for such taxpayers. For the 2009 taxable year, this credit is worth \$88.

Nonresident/part-year resident income credit:

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

Political contribution credit:

Taxpayers may claim an individual income tax credit of up to \$50 per year for contributions made to the campaign committee of candidates for statewide elected offices or for the Ohio General Assembly.

Retirement income credit:

Taxpayers are allowed a credit to the extent that qualified retirement income is included in Ohio adjusted gross income, according to the following schedule:

Retirement Income	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

Senior citizen credit:

A taxpayer 65 years of age or older during the taxable year may claim a \$50 credit against the amount of tax due. Only one credit is allowed per tax return.

The above list is not exhaustive. It does not include a number of business credits, some of which may also be claimed against corporation franchise tax or commercial activity tax.

Special Provision

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 not file with Ohio. This rule does not apply if the individual owns, directly or indirectly, at least 20 percent of a pass-through entity having nexus with Ohio.

Sections of Ohio Revised Code

Chapter 5747.

Responsibility for Administration

Tax Commissioner.

History of Major Changes

- 1912** Ohio voters approve a constitutional amendment that permits the taxation of income on a uniform or graduated basis.
- 1971** General Assembly enacts the individual income tax, effective for 1972.
- 1972** Ohio voters reject a constitutional amendment that would have repealed the new income tax and prohibited future graduated income taxes.
- 1973** Voters approve a constitutional amendment that eliminates a \$3,000 cap on personal exemptions. Also, the legislature enacts a joint filer credit.
- 1982** The General Assembly imposes a temporary 25 percent across-the-board tax hike for 1982 and a temporary, 12½ percent tax hike for 1983. Additional rate hikes are imposed on high-income individuals for 1982 and 1983 through the creation of new brackets for income in excess of \$80,000 and \$100,000.
- 1983** The new brackets are made permanent. The legislature also increases the temporary, across-the-board rate hikes to 83.3 percent for 1983 and to 90 percent for 1984, when the increases become permanent. The legislature also increases the value of the senior citizen credit, the joint filer credit and the personal exemption. In November, Ohio voters sustain these changes by rejecting a constitutional amendment that would have repealed all tax changes enacted since 1982.
- 1984** Legislature enacts a one-time special tax refund. For most taxpayers, the refund is 2.03 percent of 1983 tax liability or \$7, whichever is greater. Taxpayers who had less than \$7 tax due in 1983 receive a full refund. Lawmakers also exempt certain Social Security and railroad retirement benefits from taxation.
- 1985** General Assembly enacts a three-year, 15 percent across-the-board rate cut. Rates are scheduled to fall (from 1984 levels) by 5 percent in 1985, 5 percent in 1986 and 5 percent in 1987.
- 1986** The legislature lowers top marginal rate (on income in excess of \$100,000) from 8.55 percent to 6.9 percent, ef-

- fective 1987. Legislators also lower other rates by an additional 7 percent in 1987 and an additional 1 percent in 1988 and thereafter.
- 1992** New bracket created, effective starting in 1993, for income in excess of \$200,000. The new rate for this new bracket is 7.5 percent.
- 1996** General Assembly enacts a new mechanism to temporarily lower statutory rates in any year where a budget surplus exists. As a result, tax rates are temporarily reduced for 1996 by 6.609 percent. This provision later leads to temporary rate reductions in 1997, 1998, 1999 and 2000.
- 1997** The legislature enacts the pass-through entity withholding tax and indexes personal exemptions to inflation starting in 2000.
- 2002** Legislature broadens tax to include trusts between June 4, 2002 and Dec. 31, 2004. Also, Ohio decouples from federal accelerated depreciation law, requiring bonus depreciation adjustment.
- 2005** House Bill 66 launches a five-year, 21 percent across-the-board reduction in income tax rates. Rates are scheduled to fall (from 2004 levels) by 4.2 percent in 2005 through 2009. H.B. 66 also includes a credit that effectively shields all taxpayers whose taxable income is \$10,000 or less from all state income tax liability. The bill also makes the extension of the tax to trusts permanent.
- 2006** Legislature permits resident service members to deduct military pay and allowances received while stationed out of state, effective Jan. 1, 2007. The legislature also enacts a historical building rehabilitation credit.
- 2007** Legislature exempts military retirement pay from Ohio income and school district income taxes effective Jan. 1, 2008.

Comparisons with Other States (As of 12/08)

The tax rates listed in this section are for tax year 2008 unless otherwise noted. In some states, rate schedules vary according to filing status. In these cases, as noted below, rates for single filers are listed.

- California** For single individuals and couples¹ filing separately, graduated rates range from 1 percent on the first \$7,168 of taxable income to 9.3 percent on income in excess of \$47,055. An additional 1 percent tax is imposed on net incomes in excess of \$1 million.
- Florida** Florida does not levy a personal income tax.
- Illinois** A rate of 3 percent applies to all taxable income.

¹ Meaning, a married couple or a registered domestic partnership.

Indiana	A rate of 3.4 percent applies to adjusted gross income.
Kentucky	Graduated rates range from 2 percent on the first \$3,000 of taxable income up to 6 percent on income in excess of \$75,000.
Massachusetts	A 5.3 percent rate applies to 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 percent.
Michigan	A rate of 4.35 percent applies to taxable income.
New Jersey	For single individuals and couples ¹ filing separately, a graduated rate of 1.4 percent applies to the first \$20,000 of taxable income; rates range up to 8.97 percent on income in excess of \$500,000.
New York	For single individuals or married couples filing separately, rates range from 4 percent on the first \$8,000 of taxable income up to 6.85 percent on income in excess of \$20,000.
Ohio	During 2008, rates ranged from 0.618 percent on the first \$5,000 of income to 6.24 percent on the amount in excess of \$200,000. These rates were lowered for 2009; see Rates , above, for details.
Pennsylvania	A rate of 3.07 percent applies to taxable income.
Texas	Texas does not levy a personal income tax.
West Virginia	For all filers except married couples filing separately, graduated rates range from 3 percent on the first \$10,000 of taxable income up to 6.5 percent on income in excess of \$60,000.

¹ Meaning, a married couple or a civil union.