IT SBD – Small Business Investor Income Deduction Schedule

Complete a separate schedule for each entity/business group in which you hold an ownership interest. Include this schedule with Ohio form IT 1040 if filing by paper (see instructions if filing electronically).

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. Note: Reciprocity agreements do not apply (see line instructions) ............................................. 1.
2. Add-back for expenses paid to related members and to certain investors’ family members (see instructions). .................................................................................................................................................. 2.
3. Ordinary income (loss) from trade or business activities (to the extent not shown on line 1) ............................................. 3.
4. Net income (loss) from rental activities, net royalties, interest income and dividend income ............................................. 4.
5. Net capital gain (loss) and other gain (loss) (see the chart on page 7 of the instructions) ............................................. 5.
6. Add adjustments from I.R.C. section 168(k) and qualifying 179 expenses (see line instructions) ............................................. 6.
7. Other items of income and gain separately stated on federal Schedule K-1 and miscellaneous federal income tax adjustments, if any .................................................................................................................................................. 7.
8. Total of lines 1 through 7 .................................................................................................................................................. 8.

B. Deductions From Business Income
9b. Deduct adjustments for the depreciation expenses added back in prior years (see line instructions) ............................................. 9b.
9c. 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.
9d. Other business income deductibles (describe) and miscellaneous federal income tax adjustments, if any (i.e. DPAD, etc.) .................................................................................................................................................. 9d.
e. Total of lines 9a through 9d .................................................................................................................................................. 9e.

C. Net Business Income, Apportionment
10. Net business income (line 8 minus line 9e) .................................................................................................................................................. 10.
11. Ohio apportionment ratio (Part II, line 4) .................................................................................................................................................. 11.
12. Total business income apportioned to Ohio (multiply line 10 by line 11) .................................................................................................................................................. 12.

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.
14. Maximum Ohio small business investor income subject to deduction (see instructions) .................................................................................................................................................. 14.
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.

Part II – Apportionment Formula for Business Income

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within Ohio</td>
<td>Total Everywhere</td>
<td>Ratio</td>
<td>Weight</td>
<td>Weighted Ratio</td>
</tr>
</tbody>
</table>

1. Property
   (a) Owned (average cost) ..................................................................................................................................................
   (b) Rented (annual rental x 8) ...........................................................................................................................................
   (c) Total (lines 1a and 1b) ..................................................................................................................................................
2. Payroll (see Exclusions on page 4 of the instructions) ...........................................................................................................................................
3. Sales (see Exclusions on page 5 of the instructions) ...........................................................................................................................................
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part C, line 11) ...........................................................................................................................................
Ohio schedule IT SBD is solely for use in determining the small business investor income deduction. See Ohio Revised Code section (R.C.) 5747.01(A)(31).

Do not use this schedule to compute Ohio adjusted gross income. The schedule and instructions apply to resident, part-year resident and nonresident individuals who have business income from Ohio sources. If your only source of Ohio income is wages paid by an unrelated employer, you are not eligible to use this schedule.

If your software program allows for a PDF attachment, the IT SBD schedule should be attached to the electronic submission as a PDF attachment. If your software does not allow for PDF attachments, please keep the IT SBD schedule(s) with your record as it may be requested upon review of the return. If you are submitting a paper return, submit the IT SBD with the return.

Important: This schedule assumes that the taxpayer has business income that could include (i) a distributive share of income/gain from only one pass-through entity or (ii) distributive shares of income/gain from more than one pass-through entity that are unitary with each other.

Pass-through entities and trusts should not use this schedule.

Definitions

Business Income and Nonbusiness Income

“Business income” means income, including gain or loss, arising from transactions, activities and sources in the regular course of a trade or business and includes income 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. Also, “business income” consists of income, including gain or loss, from a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill (R.C. 5747.01(B)).

In general, income, deductions, gains and losses recognized by a sole proprietorship or a pass-through entity are items of business income that the individual must apportion using Part I, Part C of Ohio Schedule IT SBD.

“Nonbusiness income” means all income other than business income and may include, but is not limited to, compensation, rents and royalties from real or tangible personal property, capital gains, interest, dividends, distributions, patent or copyright royalties, and lottery winnings, prizes and awards (R.C. 5747.01(C)). Nonbusiness income should be excluded from the figures reported on this schedule.

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

R.C. 5747.21 and 5747.22

Apportionment of Business Income or Deductions

(See Instructions for line 11 and Part II on Schedule)

The amount of business income and deductions apportioned to Ohio is determined by multiplying the net business income by an Ohio apportionment ratio, which is the sum of the property, payroll and sales factors (please refer to the Part II apportionment formula for business income on Ohio Schedule IT SBD). Please note that the net business income consists only of those items of income and deduction that would be included in Ohio adjusted gross income (Ohio form IT 1040, line 3) if not for this deduction.

Each factor is weighted: The property and payroll factors are weighted at 20% each and the sales factor at 60%, for a total of 100%. If any factor has a denominator (total everywhere figure) of zero, the weight given to the other factors must be proportionately increased so that the total weight given to the combined factors is 100%. For example: If the business entity has no payroll everywhere, then the property and sales factors are weighted at 25% and 75%, respectively, to total 100%. Alternatively, if the business has neither payroll nor property everywhere, the sales factor is weighted at 100%.

R.C. 5747.22(B) and (C) Apportionment and Allocation of Income and Deductions of Pass-Through Entities

Apportionment of Pass-Through Entity Business Income

An individual taxpayer’s distributive or proportionate share of the business income and deductions of a pass-through entity shall be apportioned to Ohio in the hands of the pass-through entity according to the instructions for apportioning business income. Such business income and deductions thus apportioned to Ohio are then allocated to the investors in proportion to their right to share in such business income. In the case of this schedule in calculating the small business investor income deduction, the individual’s net business income is therefore apportioned using the ratio calculated in Part II as if it were in the hands of the pass-through entity.

Business Income

(Part I, Part A)

Line 1 – Compensation Received from a Pass-Through Entity

Guaranteed payment or compensation paid by a pass-through entity (S corporation, partnership, limited liability company treated as a partnership for income tax purposes, etc.) having nexus with Ohio to an investor holding at least a 20% direct or indirect interest in the entity is considered a distributive share of income and treated as business income subject to apportionment for purposes of computing the individual’s small business investor income deduction (R.C. 5733.40(A)(7)). Therefore, include on this line the amount of the guaranteed payment or compensation amount you received if you are an investor holding at least a 20% direct or indirect interest in the entity. The “reciprocity agreements” between Ohio and neighboring states do not apply to full-year nonresidents directly or indirectly owning at least 20% of the stock or other equity of a pass-through entity.

Line 2 – Related Member Add-back

R.C. 5733.04(A)(6) and 5733.04(P) disallow expenses and losses incurred in connection with all direct and indirect transactions between each pass-through entity and its related members. As such, you must add back on Part I, line 2 your dis-

- 2 -
tributive/proportionate share of such expenses and losses. You must also enter this amount on Ohio form IT 1040 Schedule A line 34 as a section 5733.40(A) pass-through entity adjustment. However, do not add back on this line or include on Ohio form IT 1040 Schedule A line the following: (i) amounts shown on line 1 of this schedule or (ii) expenses or losses incurred in connection with sales of inventory to the extent that the cost of the inventory and the loss incurred were calculated in accordance with Internal Revenue Code sections (I.R.C.) 263A and 482.

**Line 3 – Ordinary Income or Loss**
Include ordinary income or loss from business activities to the extent not shown on line 1. Include only income that is business income as defined by R.C. 5747.01(B).

**Line 5 – Net Capital Gain or Loss**
Include on this line gains or losses, including capital gains or losses that are “business income.” See the “Definitions” section on page 2. Gains or losses reported on this line must be those which are generated from transactions, activities and sources in the regular course of a trade or business or from assets integral to the taxpayer’s business operation.

**Example:** A farmer sells a tractor used in his wheat farming operation that generates a capital gain. The wheat cannot be harvested without use of the tractor. Since the tractor was integral to the taxpayer’s business operations, the capital gain can be reported on this line.

**Line 6 – Depreciation Adjustments**
If your business is a sole proprietorship, for tax years 2012 and thereafter, add 2/3, 5/6 or 6/6 of I.R.C. 168(k) bonus depreciation you claimed. Also add 2/3, 5/6 or 6/6 of the excess of the I.R.C. 179 depreciation expense you claimed over the amount of the I.R.C. 179 depreciation expense that would have been allowed based upon I.R.C. 179 in effect on Dec. 31, 2002. If your business is a pass-through entity, add your distributive or proportionate shares of these respective fractional I.R.C 168(k) and 179 depreciation amounts. See R.C. 5747.01(A)(20) as amended by the 129th General Assembly in HB 365 and information releases 2002-02 and 2002-01 regarding Ohio bonus depreciation adjustments available on our Web site at tax.ohio.gov. These releases were originally posted on July 31, 2002 and Nov. 7, 2002.

Under I.R.C. 179, as that section existed on Dec. 31, 2002, the maximum amount that could be expensed was $250,000, and the phase-out began once the cost of purchases of I.R.C. 179 property during the year exceeded $200,000. So, under the prior law the sole proprietorship or pass-through entity could not claim any I.R.C. 179 expense if the entity’s purchases during the year of I.R.C. 179 property, as defined on Dec. 31, 2002, were $225,000 or more.

The foregoing “add-back and subsequent deduction” law also covers (i) depreciable assets acquired by the pass-through entity’s or individual’s disregarded entities and (ii) depreciable assets that are owned by other entities in which the pass-through entity or individual directly or indirectly owns at least 5% (R.C. 5747.01(A)(20)(a)).

In addition, a pass-through entity can defer making all or some of the add-back under the following circumstances:

(i) the pass-through equity is an equity investor in another pass-through entity that has generated I.R.C. 168(k) bonus depreciation and/or I.R.C. 179 depreciation; AND

(ii) because of either the federal passive activity loss limitation rules or the federal at-risk limitation rules, this investor pass-through entity is unable to deduct fully a loss passing through from the other pass-through entity to this investor pass-through entity.

In such circumstances, to the extent that this investor pass-through entity does not deduct the loss passing through, this investor pass-through entity can defer making the “2/3 or 5/6 add-back” until the taxable year or years for which this investor pass-through entity does deduct the investee pass-through entity’s loss and receives a federal tax benefit from the bonus depreciation amount and/or the I.R.C. 179 amount generated by the investee pass-through entity. Of course, this investor pass-through entity cannot begin claiming the related two- or five-subsequent years deduction until the first taxable year immediately following the taxable year for which this investor pass-through entity makes the 2/3 or 5/6 add-back.

For detailed information and examples regarding this adjustment, see R.C. 5747.01(A)(20) as amended by the 129th General Assembly in HB 365 and the department’s information release entitled “Recently Enacted Ohio Legislation Affects Depreciation Deductions for Taxable Years Ending 2001 and Thereafter” by visiting tax.ohio.gov. The department posted this release on July 31, 2002, and revised the release in July 2005 and June 2009.

**Line 7 – Miscellaneous Federal Income Tax Adjustments**
Because of a recent amendment to R.C. section 5701.11, there are no miscellaneous federal tax adjustments on this schedule. See Sub. House Bill 58, 129th General Assembly. However, you must make all other required adjustments for this line.

**Deductions From Business Income (Part I, Part B)**

**Line 9a – Certain Business Deductions**
Include on this line amounts paid and reported as business deductions in arriving at adjusted gross income on your federal 1040 return for the following: Keogh, SIMPLE IRA, SEP, self-employment tax and self-employment health insurance.

**Line 9b – Depreciation Adjustments**
Deduct 1/2, 1/5 or 1/6th of the I.R.C. 168(k) and 179 depreciation adjustments you added back on each of your last two, five or six years’ Ohio income tax returns. You can take this deduction even if you no longer directly or indirectly own the asset. See R.C. 5747.01(A)(21) as amended by the 129th General Assembly in HB 365 and information releases 2002-02 and 2002-01 regarding Ohio bonus depreciation adjustments available on our Web site at tax.ohio.gov. These releases were originally posted on July 31, 2002 and Nov. 7, 2002.
subleases is business income. Ohio law specifi-
cally excludes - 4 - the income or loss from such rentals, subrentals, leases or 
subleases to others if the income or loss from 
such rentals, subrentals, leases or subleases is busi-
ness income. See R.C. 5733.05(B)(2)(a) as amended by 
Amended Substitute House Bill 95, 125th General 
Assembly, Property owned by the sole proprietor or pass-through 
entity and leased to others is excluded from the property 
factor only if the property generates nonbusiness income; 
• The original cost of property within Ohio with respect to 
the air pollution, noise pollution or industrial water pollu-
tion control certificates issued by the state of Ohio (R.C. 
5733.05(B)(2)(a)); AND 
• The original cost of real property and tangible property (or 
in the case of property that the sole proprietor or pass-
through entity is renting from others, eight times its net 
annual rental rate) within Ohio that is used exclusively 
during the taxable year for qualified research.

Do not include in column 1 but do include in column 2 the 
original cost of qualifying improvements to land or tangible 
personal property in an enterprise zone for which the taxpayer 
holds a Tax Incentive Qualification Certificate issued by the 
Ohio Development Services Agency.

Line 1(a), Column 1 – Property Owned Within Ohio 
Enter the average value of the sole proprietor’s or pass-
through entity’s real property and tangible personal property, 
including leasehold improvements, owned and used in the 
trade or business in Ohio during the taxable year.

Line 1(a), Column 2 – Property Owned – Total Everywhere 
Enter the average value of all the sole proprietor’s or pass-
through entity’s real property and tangible personal property, 
including leasehold improvements, owned and used in the 
trade or business everywhere during the taxable year.

Line 1(b) – Property Rented 
Enter the value of the sole proprietor’s or pass-through 
entity’s real property and tangible personal property rented 
and used in the trade or business in Ohio (column 1) and 
everywhere (column 2) during the taxable year. Property 
rented by the sole proprietor or pass-through entity is valued 
at eight times the annual rental rate (annual rental expense 
less subrental receipts).

Line 1(c) – Property Total Within Ohio and Everywhere 
Add lines 1(a) and 1(b) for column 1 (within Ohio) and column 
2 (total everywhere).

Line 1(c), Column 3 – Property Ratio 
Enter the ratio of property within Ohio to total everywhere by 
dividing column 1 by column 2.

Line 1(c), Column 5 – Weighted Property Ratio 
Multiply the property ratio on line 1(c), column 3 by the prop-
erty factor weighting of 20%.
Payroll Factor
The payroll factor is a fraction, the numerator of which is the total compensation paid in this state during the taxable year by the sole proprietor or pass-through entity, and the denominator of which is the total compensation paid both within and without this state during the taxable year by the sole proprietor or pass-through entity. As used below, the term “compensation” means any form of remuneration paid to an employee for personal services.

Exclusions
Exclude from column 1 (within Ohio) and column 2 (total everywhere) the following:
• Guaranteed payments made to partners;
• Compensation that the S corporation paid to any shareholder if the shareholder directly or indirectly owned at least 20% of the S corporation at any time during the year (R.C. 5733.40(A)(7));
• Compensation paid in Ohio to employees who are primarily engaged in qualified research; AND
• Compensation paid to employees to the extent that the compensation relates to the production of nonbusiness income allocable under R.C 5733.051 (R.C. 5733.05(B)(2)).

Do not include in column 1 but do include in column 2 compensation paid in Ohio to certain specified new employees at an urban job and enterprise zone facility for which the pass-through entity has received a Tax Incentive Qualification Certificate issued by the Ohio Development Services Agency.

Line 2, Column 1 – Payroll Within Ohio
Enter the total amount of the sole proprietor’s or pass-through entity’s compensation paid in Ohio during the taxable year. Compensation is paid in Ohio if any of the following apply:
• The recipient’s service is performed entirely within Ohio; OR
• The recipient’s service is performed both within and outside Ohio, but the service performed outside Ohio is incidental to the recipient’s service within Ohio; OR
• Some of the recipient’s service is performed within Ohio and either the recipient’s base of operations, or if there is no base of operations, the place from which the recipient’s service is directed or controlled is within Ohio, or the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the recipient’s residence is in Ohio.

Compensation is paid in Ohio to any employee of a common or contract motor carrier corporation who performs his regularly assigned duties on a motor vehicle in more than one state in the same ratio by which the mileage traveled by such employee within Ohio bears to the total mileage traveled by such employee everywhere during the taxable year. The statute requires mileage ratio applies only to contract or common carriers. Thus, without approval by the tax commissioner a manufacturer or merchant who operates its own fleet of delivery trucks cannot use the ratio of miles traveled in Ohio to miles traveled everywhere to situs driver payroll. See Cooper Tire and Rubber Co. v. Limbach (1994), 70 Ohio St. 3d 347.

Line 2, Column 2 – Payroll Total Everywhere
Enter the total amount of the sole proprietor’s or pass-through entity’s compensation paid everywhere during the taxable year.

Line 2, Column 3 – Payroll Ratio
Enter the ratio of payroll within Ohio to total everywhere by dividing column 1 by column 2.

Line 2, Column 5 – Weighted Payroll Ratio
Multiply the property ratio on line 2, column 3 by the payroll factor weighting of 20%.

Sales Factor
The sales factor is a fraction whose numerator is the sole proprietor’s or pass-through entity’s includable business income receipts in Ohio during the taxable year and whose denominator is the sum of the sole proprietor’s or pass-through entity’s within Ohio and without Ohio includable business income receipts during the taxable year. The sales factor specifically excludes receipts attributable to nonbusiness income allocable under R.C. 5733.051 (see R.C. 5733.05(B)(2)) and the tax commissioner’s April 2004 information release entitled “Sales Factor Situsing Revisions”.

Exclusions
The following receipts are not includable in either the numerator or the denominator of the sales factor even if the receipts arise from transactions, activities and sources in the regular course of a trade or business (see R.C. 5733.05(B)(2)(c) as amended by Substitute House Bill 127, 125th General Assembly):
• Interest or similar amounts received for the use of, or for the forbearance of the use of, money;
• Dividends;
• Receipts and any related gains or losses from the sale or other disposal of intangible property other than trademarks, trade names, patents, copyrights and similar intellectual property;
• Receipts and any related gains and losses from the sale or other disposal of tangible personal property or real property where that property is a capital asset or an asset described in I.R.C. 1231. For purposes of this provision the determination of whether or not an asset is a capital asset or a 1231 asset is made without regard to the holding period specified in the I.R.C.; AND
• Receipts from sales to (a) an at-least-80%-owned public utility other than an electric company, combined electric company, or telephone company, (b) an at-least-80%-owned insurance company, or (c) an at-least-25%-owned financial institution.

Note: Income and gain from receipts excluded from the sales factor is not presumed to be nonbusiness income. All income, gain, loss and expense is presumed to be apportionable business income – even if the related receipts are excluded from the sales factor.

The law specifically includes in the sales factor the following amounts when arising from transactions, activities and sources...
in the regular course of a trade or business: (i) receipts from sales of tangible personal property, (ii) receipts from the sale of real property inventory (such as lots developed and sold by a real estate developer), (iii) rents and royalties from tangible personal property, (iv) rents and royalties from real property, (v) receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property, (vi) receipt from the sale of services and other receipts not expressly excluded from the factor. These amounts are situsatable to Ohio as set forth below.

**Line 3, Column 1 – Sales Within Ohio**

Enter the total of gross receipts from sales not excludable from the numerator and the denominator of the sales factor, to the extent the includable gross receipts reflect business done in Ohio. Sales within Ohio include the following:

- Receipts from sales of tangible personal property, less returns and allowances, received by the purchaser in Ohio. In the case of delivery of tangible personal property by common carrier or by other means of transportation, the place at which such property is ultimately received after all transportation has been completed is considered as the place at which such property is received by the purchaser. Direct delivery in Ohio, other than for purposes of transportation, to a person or firm designated by a purchaser constitutes delivery to the purchaser in Ohio, and direct delivery outside Ohio to a person or firm designated by a purchaser does not constitute delivery to the purchaser in Ohio, regardless of where title passes or other conditions of sale. Customer pick-up sales are situsatable to the final destination after all transportation (including customer transportation) has been completed. See Dupps Co. v. Lindley (1980), 62 Ohio St. 2d 305.

Revenue from servicing, processing or modifying tangible personal property is situsatable to the destination state as a sale of tangible personal property. See Custom Deco, Inc. v. Limbach, BTA Case No. 86-C-1024, June 2, 1989.

- Receipts from sales of real property inventory in Ohio.
- Rents and royalties from tangible personal property to the extent the property was used in Ohio.
- Rents and royalties from real property located in Ohio.
- Receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property are situsatable to Ohio to the extent that the receipts are based on the amount of use of that property in Ohio. If the receipts are not based on the amount of use of that property, but rather on the right to use the property and the payor has the right to use the property in Ohio, then the receipts from the sale, exchange, disposition or other grant of the right to use such property are situsatable to Ohio to the extent the receipts are based on the right to use the property in Ohio.
- Receipts from the performance of services and services from any other sales not excluded from the sales factor and not otherwise situsatable within or without Ohio under the above situsing provisions are situsatable to Ohio in proportion to the purchaser’s benefit, with respect to the sale, in Ohio to the purchaser’s benefit, with respect to the sale, everywhere. The physical location where the purchaser ultimately uses or receives the benefit of what was purchased is paramount in determining the proportion of the benefit in Ohio to the benefit everywhere. Note: For taxable years ending on or after Dec. 11, 2003, the “cost of performance” provision is no longer the law.

**Line 3, Column 2 – Sales – Total Everywhere**

Enter the total of such includable gross receipts, less returns and allowances, from sales everywhere.

**Line 3, Column 3 – Sales Ratio**

Enter the ratio of sales within Ohio to total everywhere by dividing column 1 by column 2.

**Line 3, Column 5 – Weighted Sales Ratio**

Multiply the sales ratio on line 3, column 3 by the sales factor weighting of 60%.

**Line 4, Column 5 – Total Weighted Apportionment Ratio**

Add column (5), lines 1 (c), 2 and 3.

**Ohio Small Business Investor Income Deduction (Part I, Part D)**

**Line 13 – Ohio Small Business Investor Income**

Individuals shall complete one schedule IT SBD (lines 1-12) for each pass-through entity in which the taxpayer has an ownership interest or sole proprietorship. Enter the sum of line 12 from each separate schedule.

**Line 14 – Maximum Ohio Small Business Investor Income**

If filing status is married filing jointly or single, head of household, enter $250,000 on this line. If filing status is married filing separately, enter $125,000 on this line. In either case, the amount on this line also can not exceed the amount of your Ohio adjusted gross income as if it were calculated prior to taking the Ohio small business investor income deduction.

**Line 15 – Ohio Small Business Investor Income Deduction**

Enter on this line the lesser of 50% of line 13 or 50% of line 14. R.C. 5747.01(A)(31) states, “deduct one-half of the taxpayers Ohio small business investor income, the deduction not to exceed $62,500 for each spouse if spouses file separate returns under R.C. 5747.08 or $125,000 for all other taxpayers. No pass-through entity may claim a deduction under this division.

For purposes of this division, “Ohio small business investor income” means the portion of the taxpayer’s Ohio adjusted gross income that is business income reduced by deductions from business income and apportioned or allocated to this state under R.C. 5747.21 and 5747.22, to the extent not otherwise deducted or excluded in computing federal or Ohio adjusted gross income for the taxable year.”

Note: Generally, all sole proprietorship and pass-through entity income and gain is business income.
Summary of Ohio Tax Treatment of Income and Deductions for Purposes of the Small Business Investor Income Deduction

**Note:** Except for lottery prizes and awards, all income and gain is presumed to be business income/gain.

<table>
<thead>
<tr>
<th>Type of Income and Deductions</th>
<th>Ohio Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Guaranteed payments and compensation paid to an individual for services performed</td>
<td>If the individual directly or indirectly owns at least 20% of the business, the individual must show the guaranteed payments and compensation on Part I, A, line 1.</td>
</tr>
<tr>
<td>2. Gains or losses from the sale or transfer of real property</td>
<td>Apportion if gain constitutes business income.</td>
</tr>
<tr>
<td>3. Gains or losses from the sale or transfer of tangible personal property</td>
<td>Apportion if gain constitutes business income.</td>
</tr>
<tr>
<td>4. Gains or losses from the sale or transfer of intangible personal property</td>
<td>Apportion if gain or loss constitutes business income.</td>
</tr>
<tr>
<td>5. Rents or royalties from real property</td>
<td>Apportion if gain constitutes business income.</td>
</tr>
<tr>
<td>6. Rents or royalties from tangible personal property</td>
<td>Apportion if the rents or royalties constitute business income.</td>
</tr>
<tr>
<td>7. Patent and copyright royalties</td>
<td>Apportion if the rents or royalties constitute business income.</td>
</tr>
<tr>
<td>8. Depreciation expense add-back/deduction</td>
<td>If the depreciation relates to nonbusiness property, the 1/2, 5/6 or 6/6 add-back and corresponding 1/2, 1/5 or 1/6 deductions are not considered business income and deductions. However, if the depreciation relates to business property, these depreciation adjustments are apportioned as items of business income and deduction using Part I of the small business deduction schedule.</td>
</tr>
</tbody>
</table>

**Federal Privacy Act Notice**

Because we require you to provide us with a Social Security number, the Federal Privacy Act of 1974 requires us to inform you that providing us with your Social Security number is mandatory. Ohio Revised Code sections 5703.05, 5703.057 and 5747.08 authorize us to request this information. We need your Social Security number in order to administer this tax.