



# Department of Taxation

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**Ohio Department of Taxation  
Proponent Testimony  
Senate Bill 2  
February 10, 2015**

Chairman Oelslager, Vice Chairman Coley, Ranking Member Skindell, and members of the Finance Committee, on behalf of the Ohio Department of Taxation, thank you for giving me the opportunity to testify in support of Senate Bill 2, legislation that incorporates certain federal tax changes into the Ohio Revised Code. I am Nick Cipiti, Deputy Tax Commissioner for Tax Policy and Budget.

As you might recall in 130<sup>th</sup> General Assembly, Senate Bill 28 was enacted to expressly incorporate changes in the Internal Revenue Code since December 20, 2012, into Ohio law.

In 2014, federal income tax law was again amended late in December. This federal legislation, known as the Tax Increase Prevention Act of 2014, was signed into law on December 19, 2014, which was too late for conformity by the 130<sup>th</sup> General Assembly. Senate Bill 2 conforms Ohio income tax law to the Tax Increase Prevention Act of 2014.

Conforming to the federal law is beneficial to efficient tax administration. Ohio's income tax, like nearly all state income taxes, relies heavily on coordination with federal tax law. The first line of the Ohio income tax form asks taxpayers to enter their Federal Adjusted Gross Income (FAGI) from the federal form 1040. Having the same starting definition of income as the federal government greatly simplifies the preparation and administration of state income tax for taxpayers, state tax officials, and school districts that impose income taxes.

In the absence of enactment of Senate Bill 2, taxpayers would be required to make adjustments to resolve the discrepancy by adding back income that would then become subject to Ohio's income tax. The difference would be taken on a line of the return for "miscellaneous federal tax adjustments." Such adjustments would introduce complexity and potentially taxpayer errors. They also would result revenues gains from increased Ohio income tax.

As I said earlier, Senate Bill 2 conforms to federal tax law changes that were signed into law on December 19, 2014, and those changes are found in the federal Tax Increase Prevention Act of 2014. The relevant provisions renewed and extended are:

- Deduction for certain expenses of elementary and secondary school teachers
- Exclusion from gross income of discharge of qualified principal residence indebtedness
- Parity for employer-provided mass transit and parking benefits
- Above-the-line deduction for qualified tuition and related expenses
- Tax-free distributions from individual retirement plans for charitable purposes
- Classification of certain race horses as 3-year property

- 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements
- 7-year recovery period for motorsports entertainment complexes
- Accelerated depreciation for business property on an Indian reservation
- Election to expense mine safety equipment
- Special expensing rules for certain film and television productions
- Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico
- Modification of tax treatment of certain payments to controlling exempt organizations.
- Treatment of certain dividends of regulated investment companies
- Regulated Investment Company or RIC qualified investment entity treatment under the Foreign Investment in Real Property Tax Act or FIRPTA
- Temporary exclusion of 100 percent of gain on certain small business stock
- Basis adjustment to stock of S corporations making charitable contributions of property
- Empowerment zone tax incentives
- Energy efficient commercial buildings deduction

These changes merely extend federal tax benefits that are currently used in the computation of FAGI. By conforming to federal changes you will **NOT** be raising taxes. In the absence of this conformity, Ohio income tax liability would increase by an estimated \$22 million; you would actually be raising taxes by not conforming in this case.

Thank you for your time, and I would be happy to answer any questions.