



Proponent Testimony
Tim Lynch, Legislative Director
House Bill 48
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Chairman Merrin, Vice Chair Riedel, Ranking Member Sobecki, and members of the House Ways & Means Committee, I am Tim Lynch, Legislative Director of the Ohio Department of Taxation. Thank you for the opportunity to provide testimony in support of House Bill 48, legislation that incorporates certain federal tax changes into the Ohio Revised Code.

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, tax preparers, state tax officials, and school districts that impose income taxes.

As you may recall from last year, House Bill 197 had language to incorporate into Ohio law changes to the Internal Revenue Code made from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and before. Since the enactment of HB 197, federal income tax law has been further amended by the Consolidated Appropriations Act, which Congress passed in December, and HB 48 is necessary to conform Ohio law with those changes.

The following six federal changes are the largest that apply to Ohio income taxes for Tax Year 2020 (the returns currently being filed with the Department):

- Language that clarified the tax treatment of Paycheck Protection Program (PPP) loans, including that deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan.
- An extension of charitable contributions for 2021 that also increases the amount to \$600.
- Language allowing taxpayers to use tax year 2019 for the purpose of qualification for the Earned Income Tax Credit
- A modification to depreciation of certain residential rental property over a 30-year period. This allows for more favorable deprecation for residential rental properties at the taxpayer's election.
- Temporary special rules for health and dependent care flexible spending arrangements. If we don't conform to these FSA changes, taxpayers would need to include any amounts above the normal amounts allowed under the IRC as income for the tax year.
- An increase to 100% for tax years 2020 and 2021 for the deduction of business meals.

In the absence of enactment of HB 48, taxpayers would be required to make adjustments when filing their Ohio income tax returns to resolve the discrepancy between current and prior federal law. The taxpayer's FAGI would be too low, necessitating the add back of the disallowed federal deductions and exclusions on the "federal conformity adjustments" line on the Ohio return, and a complete recalculation of the earned income tax credit for Ohio income tax purposes. Such adjustments and recalculations would introduce complexity and, thus, potentially taxpayer errors. They also would result in revenue gains from increased Ohio income tax.

Thank you for your time and consideration. I'm happy to answer any questions you have.