



# TESTIMONY

**February 11, 2026**  
**Aditi Srivastava**

## **Testimony to the House Ways & Means Committee on Amended Senate Bill 9**

Chair Roemer, Ranking Member Troy and members of the House Ways & Means Committee: I am Aditi Srivastava, the tax policy researcher at Policy Matters Ohio, a nonprofit research institute with the mission of creating a more vibrant, equitable, inclusive and sustainable Ohio. Thank you for the opportunity to testify on Amended Senate Bill 9.

While the General Assembly should pass a conformity bill related to federal changes made in H.R. 1, Ohio should decouple from sections that reduce revenue without benefiting the state — and that primarily advantage the wealthiest Ohioans.

The seven sections we recommend decoupling from are:

- **70301:** Full expensing for certain business property.
- **70302:** Full expensing of domestic research and experimental expenditures.
- **70303:** Modification of limitation on business interest.
- **70307:** Special Depreciation of qualified production property
- **70431:** Expansion of qualified small business stock (QSBS) gain exemption.
- **70421:** Permanent renewal and enhancement of opportunity zones.
- **70413:** Additional expenses treated as qualified higher education expenses for the purpose of 529 accounts.

I will begin by addressing the first five of these provisions. Although each provision raises its own policy concerns, they share one critical flaw. Each would cause Ohio to lose tax revenue on investments made outside its borders.

Under these five sections, a tax filer that conducts research, owns facilities, operates businesses, or invests in stock **outside of Ohio**, but files taxes **in Ohio**, would still qualify for these tax cuts. Ohio cannot legally restrict these

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deductions or exclusions only to in-state investments.<sup>1</sup> This raises an important question: **Why should Ohio lose tax revenue to subsidize investments occurring outside state borders? Such investments do not benefit Ohio's economy or its people.**

Another issue is that because Ohio does not have a state corporate income tax,<sup>2</sup> four of the five sections (excepting the QSBS gains exemption) would primarily reduce the municipal income tax on net profits.<sup>3</sup> Revenue from municipal income tax on net profits supports operating budgets for local government services including police, fire, and infrastructure. Given Ohio's recent cuts to property taxes, localities cannot afford further reductions in funding for these critical services.

While two sections (one on research and experimental expenditures, which I'll refer to as R&E, and one on the QSBS gains exemption) purport to focus on small businesses, their impacts would miss the mark.

Here's why. The R&E section contains a retroactivity provision that allows full expensing of research and development expenditures, back to 2022, for businesses with less than \$31 million in gross receipts. That covers a large majority of firms in the state — including many that hardly could be described as “small.” In 2023, 71.1% of Ohio filers had taxable gross receipts under \$1 million.<sup>4</sup> A \$31 million threshold would apply this “small business” tax to all but the largest businesses in the state.

According to the Tax Department, coupling with the full expensing of domestic research and experimental expenditures is expected to cause Ohio a revenue loss of \$42.1 million in Fiscal Year (FY) 2026 and \$9.9 million in FY 2027. Coupling with this overall measure does not target benefits exclusively to small businesses. The retroactive provision in particular functions as a pure windfall, because you cannot incentivize investments that have already occurred.<sup>5</sup> We recommend that Ohio decouple from this section entirely, particularly from the retroactive provision.

A similar problem arises with the QSBS gain exemption, which aims to spark investment in small emerging businesses, but ultimately directs the largest tax advantages to wealthy investors. Previously, businesses issuing QSBS-

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<sup>1</sup> Institute on Taxation and Economic Policy. [Why states shouldn't go along with OBBBA's corporate tax breaks: A practical guide](#). October 27, 2025.

<sup>2</sup> Policy Matters Ohio. [Ohio needs a corporate income tax](#). January 12, 2021.

<sup>3</sup> Ohio Department of Tax. [Municipal next profit tax](#).

<sup>4</sup> Ohio Department of Tax. [Commercial Activity Tax](#). 2023 CAT data only includes businesses with taxable gross receipts over \$150,000; the 71.1% figure is an underestimate, since it does not include those truly small businesses with receipts less than \$150,000.

<sup>5</sup> Institute on Taxation and Economic Policy. [Why States Shouldn't go along with OBBBA's Corporate Tax Breaks: A Practical Guide](#). October 27, 2025.

eligible stock were required to have gross assets under **\$50 million**, but changes made in H.R. 1 increased that threshold to **\$75 million**,<sup>6</sup> a level that is not “small” by any reasonable standard.

Even more concerning is that **only C corporations** can issue QSBS-eligible stock. Nationally, fewer than **5%** of businesses choose a C corporation structure, with most small businesses instead organizing as LLCs or S corporations.<sup>7</sup> As a result, the vast majority of small business owners are effectively excluded from this tax break and receive no benefit from the QSBS exemption. This is exacerbated by the fact that the state cannot specify that the exclusion only be granted for investments made in Ohio-based companies. There is no reason why Ohio should lose revenue for investors to invest in these non-Ohio businesses.

After California eliminated its QSBS benefits in 2013 — despite imposing some of the highest capital gains tax rates in the country — the state has continued to dominate national venture-capital activity. This demonstrates that a QSBS exemption does not meaningfully influence investors’ willingness to fund innovative companies.<sup>8</sup>

Just as the QSBS exemption does not benefit small businesses, it also does not benefit everyday Ohioans. According to U.S. Treasury Department research, fully 94% of QSBS exclusions go to households whose combined income from all sources, including QSBS gains, exceeds \$1 million.<sup>9</sup> Fewer than 0.5% of U.S. households have incomes at that level.<sup>10</sup> Changes made to the exemption under H.R. 1 only further fortify wealthy tax filers while costing states like Ohio precious revenue. The federal changes to QSBS allow shareholders to pay zero taxes on up to \$15 million of their investment return. This is up from the previous \$10 million cap, and gains on stock held for shorter periods of time now qualify for partial exclusions. H.R. 1 changes the period of time a stock needs to be held in order to receive the full exclusion. This is part of the reason that there is an expected revenue increase for FY 2026 and 2027 if Ohio conforms to H.R. 1. Because Ohioans could gain this exclusion earlier, the capital gains tax would subsequently be paid earlier.

It’s important not to mistake this for a long-term revenue gain for Ohio. The Institute for Taxation and economic Policy found that while the QSBS expansion will create some short term revenue gain, by 2031, when this provision will be fully implemented, the expansion will cost Ohio an estimated

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<sup>6</sup> US Congress. [H.R. 1 – 119<sup>th</sup> Congress \(2025-2026\)](#). July 4, 2025.

<sup>7</sup> Internal Revenue Service. [SOI tax stats- individual statistical tables by size of adjusted gross income](#).

<sup>8</sup> Institute on Taxation and Economic Policy. [Quite Some BS: Expanded ‘QSBS’ giveaway in Trump tax law threatens state revenues and enriches the wealthy](#). October 2, 2025.

<sup>9</sup> US Dept. of the Treasury. [Quantifying the 100% exclusion of capital gains on Small Business Stock](#). January 2025.

<sup>10</sup> Internal Revenue Service. [SOI tax stats- individual statistical tables by size of adjusted gross income](#).

\$19.8 million in lost revenue.<sup>11</sup> While awaiting a 10-year estimate from the Ohio Department of Taxation on how the QSBS expansion will impact Ohio revenue, we can look to Indiana’s Department of Revenue for an example on how the expansion will produce short-term gains that turn into longer-term revenue losses. Indiana estimates gains similar to the 2-year estimates from the Ohio Department of Taxation covering FY 2026 and FY 2027, but in Indiana, these gains disappear by FY 2028. By FY 2034, Indiana estimated an annual revenue loss of \$10 million.<sup>12</sup> Over the full period from FY 2026 through FY 2034, Indiana projected a total revenue loss of about \$40 million.<sup>13</sup> Ohio could experience similar or larger losses — all without improving the economic success of small Ohio businesses or everyday Ohioans. For these reasons, the state should decouple not only from the new QSBS changes, but from the QSBS exemption entirely.

The last two sections I want to discuss — changes to Opportunity Zones (OZs) and 529 accounts — share a similar issue with the QSBS gains exemption: They overwhelmingly benefit the wealthiest Ohioans. H.R. 1 makes the OZ program permanent, extending it in successive 10-year rounds of benefits.<sup>14</sup> Nationally, the average annual income of taxpayers who received the OZ benefit in 2019 exceeded \$1 million.<sup>15</sup> Because Ohio has its own state-level OZ credit, it was the only state to require reporting on basic, transaction-level data for OZ investments. The Urban Institute’s analysis of Ohio’s data found that the majority of Opportunity Zone dollars flowed into real estate projects rather than business development, with multifamily buildings often priced far above what local renters could afford. Seventy percent of opportunity zone funded units in multifamily developments charged rents at more than 120% of the census tract’s median rent.<sup>16</sup> The OZ program primarily benefits wealthy investors, while failing to build significant affordable housing or create a significant volume of jobs for everyday Ohioans. Ohio should decouple from this change and strongly consider ending the state OZ credit in the next budget cycle to prevent further diversion of public dollars away from community needs.

Finally, regarding changes to 529 accounts, H.R. 1 expands what qualifies as a K–12 educational expense and increases the annual withdrawal limit from \$10,000 to \$20,000 per student per year.<sup>17</sup> The primary beneficiaries of these changes will be the same families who benefited from a previous

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<sup>11</sup> Institute on Taxation and Economic Policy. [Quite some BS: Expanded 'QSBS' giveaway in Trump tax law threatens state revenues and enriches the wealthy](#). October 2, 2025.

<sup>12</sup> Indiana Capital Chronicle. [Tax Conformity, State Impacts](#).

<sup>13</sup> Ibid.

<sup>14</sup> US Congress. [H.R. 1 – 119<sup>th</sup> Congress \(2025-2026\)](#). July 4, 2025.

<sup>15</sup> [Neighborhood-level investment from the US Opportunity Zone Program: Early evidence](#). Page 4. April 15, 2021.

<sup>16</sup> Urban Institute. [Insights into opportunity zone project types](#). October 2025.

<sup>17</sup> US Congress. [H.R. 1 – 119<sup>th</sup> Congress \(2025-2026\)](#). July 4, 2025.



expansion in 2017.<sup>18</sup> Subsidies will overwhelmingly flow to higher-income households.<sup>19</sup> In Tax Year 2023, 128,101 returns claimed Ohio's 529 deduction of up to \$4,000, totaling \$631,736,308. Eighty-four percent of those returns came from tax filers with federal adjusted gross income over \$100,000.<sup>20</sup> Given these patterns, expanding 529 benefits would further concentrate tax advantages among Ohio's wealthiest families while providing little support to the vast majority of households.

The Ohio Taxation Department provided estimates on revenue lost from coupling to all the tax conformity items, and the estimated combined revenue loss to the state from all provisions was \$65.7 million in Fiscal Year 2026 and \$34 million in Fiscal Year 2027. Revenue loss from the seven provisions covered here would be \$61.7 million in Fiscal Year 2026 and \$28.8 million in Fiscal Year 2027. Revenue losses will likely grow over time unless the state decouples. Almost none of the provisions that we are recommending decoupling from affect large numbers of Ohio taxpayers. The state should lose no revenue to policy changes that do not benefit the state or its everyday residents. We encourage the committee to amend the bill and decouple from the listed seven sections.

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<sup>18</sup> New York Times. [How the Republican tax plan uses school savings to hurt states](#). December 19, 2017.

<sup>19</sup> Institute on Taxation and Economic Policy. [Re-examine 529 plans: Stopping state subsidies to private schools after new Trump tax law](#). November 20, 2025.

<sup>20</sup> Ohio Department of Taxation. [See "Income: Individual," then go to "Y-1: Ohio Individual Income Tax Returns, by Income Class and Taxable Year," and click "23."](#)