



Department of Taxation

Ohio House Ways & Means Committee
Testimony of Tax Commissioner Joe Testa
House Bill 326
September 16, 2015

Chairman McClain, Vice-Chairman Scherer, Ranking Member Cera, and members of the House Ways & Means Committee, on behalf of Governor John R. Kasich, I am Joe Testa, Tax Commissioner at the Ohio Department of Taxation. Thank you for this opportunity to testify in support of House Bill 326, which is a collaborative effort between the legislature and the administration.

This bill addresses changes to the taxation of business income which were recently enacted by House Bill 64 to reflect the legislature's and the Administration's original intent to further reduce the tax burden on small businesses. I would like to turn first to describing current law and then explain clarifications made to it by this bill.

This current tax year, owners and investors in small businesses are allowed to deduct from taxable business income the lesser of 75 percent of Ohio business income or \$187,500 (if filing separate returns, each spouse may deduct \$93,750). The remainder of the individual's business income is taxed at a flat rate of 3 percent. For non-business income, the progressive tax rate structure is levied on Ohio adjusted gross income less an exemption for the taxpayer, the taxpayer's spouse, and each dependent. Additionally, certain income tax credits are affected by the separation of business income from non-business income.

As you know, the Governor and the General Assembly have demonstrated a significant commitment to helping grow and strengthen small businesses in Ohio through the enactment of the Small Business Deduction. Most recently in House Bill 64, the expansion of that deduction represented a major portion of a total \$1.9 billion dollar tax cut over the biennium.

As you also know, tax law can be complex and this bill – House Bill 326 along with its companion bill Senate Bill 208 – will harmonize some issues that arose in transition from progressive tax to a flat tax on certain income. The language in H.B. 326 will realign business and non-business income to allow both to be combined in the taxpayer's adjusted gross income and ensure that taxpayers receive the full value of the personal and dependent exemptions. It makes clear that progressive income tax rates will apply to the 25 percent of business income that's not deductible for tax year 2015, and it allows for tax credits to be taken against an individual's aggregate tax liability for both business and non-business income.

Finally, a couple of housekeeping notes: this bill will delete from statute several expired tax credits and makes some minor modifications to certain existing tax credits, such as the joint filing credit, to ensure readability and clarity. Thank you again for the opportunity to testify in support of H.B. 326. I am happy to take your questions about this legislation.