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## **Sponsor Testimony**

Senate Bill 18

Ohio House Ways and Means Committee

February 16, 2021

Chair Merrin, Vice-Chair Riedel, Ranking Member Sobecki, and Members of the House Ways and Means Committee, thank you for the opportunity to provide sponsor testimony for Senate Bill 18. Senate Bill 18 is a tax conformity bill as requested and supported by the Ohio Department of Taxation. As you are aware, states need to periodically incorporate changes made to the United States Internal Revenue Code into their own individual tax codes. Ohio is no exception. Passage SB18 helps avoid adding additional complexity to an already overly complex tax system. It also provides Ohio citizens the ability to receive all of the benefits allowed by the IRS.

Ohio uses the Federal Adjusted Gross Income (FAGI) as the starting number for determining a taxpayer's Ohio taxable income. Therefore, as the federal government makes changes to federal tax law (including the Consolidated Appropriations Act 2021 HR 133 of 116<sup>th</sup> Congress 12/2020), these periodic changes do NOT become a part of Ohio law unless we pass conformity legislation. If this tax conformity legislation is not passed and the federal tax law amendments are not incorporated, Ohio taxpayers would have to perform additional calculations to adjust their Federal Adjusted Gross Income by either adding or subtracting the relevant amounts, causing needless confusion. It should be noted that this also affects the tax base of several school districts levying an income tax on the basis of FAGI.

The bill itself is quite simple. Its purpose is to “expressly incorporate changes in the internal Revenue Code since March 27, 2020, into Ohio Law and to declare an

emergency.”<sup>1</sup> The LSC analysis contains a list of some of the most significant federal law changes that would be included in this conformity. Some of the most significant include:

- **Earned Income tax credit:** would allow either 2019 OR 2020 income levels to be used for 2020 filings for the purpose of determining qualification for earned income tax credit.
- **Entertainment & meals business expense:** for a limited time would allow deductions at 100% (was previously 50%).
- **Charitable contribution:** Allowing a \$300 / \$600 (single / married filing joint) deduction for charitable contributions (above standard deduction) without need for itemization.
- **PPP loan forgiveness:** In addition to not being taxable as income, the PPP forgiven loans would now also be deductible for federal tax purposes. Additionally, as addressed in an amendment adopted in the Senate, this bill also excludes from CAT loan amounts forgiven under the federal Consolidated Appropriations Act 2021 (2<sup>nd</sup> PPP draw). A similar exclusion already exists for loan amounts forgiven under the CARES Act. Under both Acts, businesses may apply for “paycheck protection program” (PPP) loans and have debt forgiven if the loan is used for certain eligible expenses during a specified period. PPP loans were presented as emergency assistance from the federal government and were never intended to be subject to the CAT.
- **Exempts BWC dividends from CAT :** Clarifies that dividends paid to employers by the Bureau of Workers’ Compensation from the Commercial Activity Tax (CAT) beginning with dividends paid out in 2020. Additionally, exempts forgiven loans from the second round of the Paycheck Protection Program (PPP) from CAT. Forgiven loans are generally considered taxable, but a similar provision was created for the first round of PPP.

It should be noted that this legislation does include an emergency clause as we are already in tax filing season and the April 15<sup>th</sup> deadline is rapidly approaching.

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<sup>1</sup> <https://www.legislature.ohio.gov/legislation/legislation-documents?id=GA134-SB-18>

Additionally, this bill was supported by the Department of Taxation, Ohio Society of CPAs, Ohio NFIB, and Ohio Chamber of Commerce while it went through the Senate, where it passed unanimously on February 10<sup>th</sup>.

This bill is about simplicity and foresight, and it is our hope that members of the House Ways and Means Committee will recognize how crucial it is that we expeditiously move SB 18. Once again, thank you Chair Merrin and members of the House Ways and Means Committee for allowing us to speak in support of Senate Bill 18. We would be happy to answer any questions the committee might have at this time.