

Proponent Testimony
Prepared for Senate Bill 246
The Ohio House Ways & Means Committee
May 17, 2022

Chair Merrin, Vice Chair Riedel, Ranking Member Sobecki, and Members of the Ohio House Ways & Means Committee, thank you for this opportunity to offer proponent testimony on behalf of The Ohio Society of CPAs (“OSCPA”) and our 27,000 members. My name is Greg Saul, Director of Tax Policy, and I want to express our support of Senate Bill 246.

S.B. 246 is a win-win for the state of Ohio and for Ohio business owners. This unique change to Ohio’s tax code will provide a tool for Ohio business owners to obtain potentially significant federal tax benefits with minimal loss to Ohio or municipal tax revenue. This change is not designed nor intended to produce Ohio tax savings, just federal tax savings. The Internal Revenue Service (IRS) has given states a framework to provide this federal tax benefit for those states willing to enact legislation like S.B. 246. Adopting this legislation will keep Ohio business owners more competitive with their [counterparts in the 27 states](#) that have already enacted similar legislation, and the four other states (including Ohio) currently considering it.

Background

For Ohio tax purposes, regular corporations and pass-through entities (such as S corporations, partnerships, and LLCs taxed as S corporations or partnerships) do not currently pay a tax on their income. However, unlike with regular C corporations, the income of pass-through entities “passes through” to owners and are reported on the owners’ individual Ohio personal income tax returns.

In 2017, Congress enacted the Tax Cuts and Jobs Act to dramatically lower federal income taxes on citizens and businesses. As part of that federal tax package, Congress also capped the deduction of state and local taxes at \$10,000 (often referred to as “SALT Cap”). The SALT Cap was seen as a way to limit federal subsidization of high personal income taxes imposed by some states, such as California, Massachusetts, and New York. As a result of this federal legislation, Ohio pass-through entity owners paid higher federal income taxes.

While the federal SALT Cap applied to state and local income taxes paid by business owners, it does not apply to state and local taxes directly paid by the businesses themselves. Therefore, income taxes imposed by state and local authorities directly upon pass-through entities (rather than their owners) are fully deductible for federal tax purposes. Many states have now rushed to provide their taxpayers the option of having income tax traditionally imposed at the individual level to instead be imposed directly on the business entity, thereby avoiding the SALT Cap limitation. The IRS has even provided a roadmap for states to enact such laws in [IRS Notice 2020-75](#) issued in November 2020. The benefit is lower federal income taxes for those business owners with minimal, if any, revenue loss to the state.

SALT Cap Parity

Senate Bill 246 permits business owners in Ohio to pay Ohio personal income tax at the business entity level, rather than the individual owner level. Because this is optional, rather than mandatory, the bill provides great flexibility for taxpayers to choose which option suits them best. The bill also allows owners of electing Ohio businesses to retain the benefits of the business income deduction (BID). As a result, while electing business owners will have lower federal income taxes, the income tax received by Ohio should not change nor be reduced. That's the huge win-win: business owners pay less federal income tax, but Ohio should not see a reduction in Ohio income tax.

It is important to note that the Ohio municipal income tax system is already imposed at the entity level. As a result, Ohio local income taxes paid by such businesses already get this federal tax benefit. S.B. 246 would merely provide an avenue for taxpayers to elect to get similar treatment for Ohio income taxes.

Urgency

The sooner this legislation is enacted, the sooner it can level the playing field and benefit Ohio's business owners and job creators. We urge the General Assembly to enact this legislation quickly, ensuring that Ohio taxpayers can immediately benefit from reduced federal income taxes and become more competitive with C corporations operating in Ohio and with businesses operating in the [27 other states](#) that have already enacted such legislation.

On behalf of the OSCPA, thank you for allowing us the opportunity to share our support for Senate Bill 246. I would be happy to answer any of your questions.