

Proponent Testimony  
Prepared for House Bill 200  
The Ohio House Ways & Means Committee  
June 27, 2023

Chair Roemer, Vice Chair Lorenz, Ranking Member Troy, 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 22,000 members. I'm Adam Garn and testifying as Chair of the OSCP State and Local Tax Committee. OSCP supports House Bill 200.

This legislation would authorize Ohio residents to claim a credit for income taxes paid to other states if the resident owns an interest in a pass-through entity that opts into the pass-through entity tax in the other state.

In 2017, the federal government enacted the Tax Cuts and Jobs Act which limited an individual's federal state and local income tax deduction to \$10,000 on their individual income tax return. States have responded to this limitation. According to the AICPA, 36 states and 1 locality have enacted a pass-through entity tax which is commonly referred to as the "salt cap workaround" which authorizes pass-through entities to elect to be taxed at the entity level and receive a federal income tax deduction. ([AICPA State Map](#)). Since 9 states do not impose a personal income tax on an owner of a pass-through entity, only 5 states plus the District of Columbia have not addressed the "salt cap workaround." Under this method of taxation, the owners of the pass-through entity are eligible to receive a federal income tax deduction for state and local income taxes greater than \$10,000 using this method.

Under current law, Ohio residents are not eligible to receive a credit for taxes paid if the income tax is deducted from the individual's federal adjusted gross income. As a result, many Ohio residents are choosing not to opt into the "salt cap workaround" in other states and forgoing a federal income tax deduction. If an Ohio resident is an owner in a pass-through entity that opts into the "salt cap workaround" in another state, the Ohio resident will pay income tax twice on the same income. Once to the other state at the pass-through entity level and secondly to Ohio because the resident does not receive a credit for the income tax paid by the entity on the owner's behalf.

In order to mitigate the federal income tax deduction impact to Ohio, House Bill 200 also proposes an add-back of the income taxes deducted from the individual's federal adjusted gross income. Correspondingly, the fiscal effect of the House Bill 200 provisions was determined to have likely minimal loss of personal income tax revenue in the Senate passed version of House Bill 33 (TAXCD92).

The add-back treatment is similar to current law if an Ohio resident is part of a composite tax return in another state. Under the composite tax return filing, an entity pays income tax at the entity level but receives no federal income tax deduction. The amount paid is treated as a distribution to the owner of the pass-through entity as part of the composite filing.

Ohio is one of the only states that authorize a "salt cap workaround" but does not authorize a credit for taxes paid for these taxes. ([AICPA State Analysis](#) – see column entitled - Credit for Other State PTETs).

Thank you again for this opportunity to offer proponent testimony on House Bill 200. I am available to answer any of your questions.