

## IMPORTANT OHIO PASS THROUGH ENTITY TAX CHANGES SIGNED INTO LAW

Ohio Governor Mike DeWine recently signed House Bill 166 that enacted Ohio tax changes for the upcoming tax filing season.

The following pass-through entity (PTE) tax changes are effective for tax years beginning on or after January 1, 2019 (as reported on PTE returns filed in calendar year 2020):

### Tax Rates

- The bottom three income tax brackets are combined into one bracket. Thus, all trusts and estates with an Ohio taxable income between \$0 and \$21,750 will pay tax at a rate of 1.42744%.
- All Ohio income **tax rates applicable to trusts and estates have been reduced by 4%**. The top tax rate, which is used as the tax rate for pass-through entities filing the IT 4708, is now **4.797%**.
- The tax rates for pass-through entities that file **the IT 1140 are unchanged**.

### Tax Credits

- The Ohio **campaign contribution credit** and Ohio **financial institutions tax credit** are no longer available. This is true even if you already contributed to an eligible campaign or paid Ohio financial institution taxes in calendar year 2019. The credits will be removed from all future versions of Ohio Schedule E, the Ohio IT 1041, and IT 4708.
- There is a newly enacted nonrefundable credit for investing in Ohio Opportunity zones. The **Ohio Opportunity Zone credit** is administered by the Development Services Agency (DSA) and requires an approved application and credit certificate in order to claim it. This credit will be added to Ohio Schedule E.

### Federal Partnership Adjustments

- Partnerships engaged in a federal review of their filings can now elect to either:
  - Report the adjustments at the entity level, and pay all taxes due on behalf of their partners; **OR**
  - Report the adjustments at the entity level, but instead require their investors to file and pay all taxes due.
- The partnership is required to issue Ohio IT K-1s to its investors to report the federal adjustments made at the partnership level.
  - The partnership must provide information on both nonresident **and resident** investors as part of this process.

- This new process for partnerships is effective for reviews **finalized on or after October 1, 2019**.
  - The requirements apply to any audited partnership, regardless of if the results of the federal review result in a tax due or a refund.
  - The federal review might span multiple years and affect return filings that include both current and former investors.
- More information detailing the logistics/mechanics of reporting these federal partnership adjustments to Ohio will be communicated in a future Tax Alert.

**Please note-** All other income tax changes are effective for tax years later than 2019 and will be communicated at a later date.

If you have further questions, please contact us at 1-888-405-4039 or 1-800-750-0750 for the hearing impaired.