



Department of
Taxation

Pass-Through Entity Tax News and Filing Tips

Pass-Through Entity Tax: What's New and Filing Tips for Tax Year 2016

New this Year:

The Ohio Department of Taxation is introducing form Ohio IT K-1 to aid tax practitioners and taxpayers in the tracking of income, adjustments, credits, and apportionment through multi-tiered pass-through entity ownership chains. This form should be used as a supplemental form for all income taxes administered by the Department, in lieu of any privately created "Ohio K-1 equivalent" currently in use. A pass-through entity should complete the form for each of its investors, and provide the completed Ohio IT K-1. This form should then be included when filing the IT 1040 (individual investors), IT 4708 (pass-through entity investors), or IT 1041 (fiduciary investors). The form can be found on our website at tax.ohio.gov/Forms.aspx.

Pass-Through Entity Tax Filing Tips:

In reviewing prior years' returns, the Department's Employment Tax Division has identified several practices relating to pass-through entity tax return filings (the IT 4708 and IT 1140) that it wants to address prior to next year's filing season.

When filing the IT 1140, Ohio law does not allow for a pass-through entity to utilize any credits listed in R.C. 5747.98, including the credit under R.C. 5747.059 for IT 1140 payments made by another pass-through entity. The Department will disallow any attempt to utilize IT 1140 payments from another pass-through entity on the filing entity's IT 1140 return. Please note, the proper procedure for a pass-through entity to claim a credit for payments made by another pass-through entity in which the taxpayer is a direct or indirect investor is to file form IT 4708. See R.C. 5747.08(D)(1)(a) and (2).

When filing the IT 4708, the investors included on the return "are entitled to only their distributive share of the business credits." R.C. 5747.08(D)(1)(a). Business credits include, among others, all nonrefundable credits on Ohio Schedule E and all refundable credits. As such, it is improper for a taxpayer to attempt to utilize any portion of a credit that is attributable to an investor whose income is not included on the IT 4708. Instead, only the portion of the credit attributable to the investors included on the tax return shall be utilized in calculating the entity's tax due.

Generally, the IT 1140 is Ohio's "withholding" return for nonresident pass-through entity investors. It applies a tax rate of 5% on income attributable to individual investors and 8.5% on income attributable to entity investors. Conversely, the IT 4708 is Ohio's "composite" income tax return for pass-through entity investors. The tax rate applied when using this form is 4.997% for Tax Year 2016.

The Department encourages anyone interested in learning more about pass-through entity tax to attend the Ohio Virtual Tax Academy webinar on November 16, 2016. For additional information or to register for the event, please visit tax.ohio.gov/Researcher/VTA.aspx.