Ohio Legislative Service Commission

Bill Analysis

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H.B. 111

129th General Assembly

(As Introduced)

Reps. Williams, Goyal, Antonio, Driehaus, Pillich, Reece, Fende, Gentile

BILL SUMMARY

- Authorizes owners of a business having gross income of $1 million or less to claim an income tax deduction for their share of any undistributed net profit, not to exceed the owner's share of 5% of the business' gross income.
- Requires taxpayers that claimed the deduction in a prior year to add the deduction back to their income to the extent the business did not increase its spending on business property, employee training, or research and development.

CONTENT AND OPERATION

Income tax deduction for undistributed profit and reinvestment

The bill authorizes an income tax deduction for individuals, estates, and trusts that own all or a share of a "small business" (defined as a business having federal gross income of $1 million or less) that does not distribute all its profit to owners on a current basis. For a taxpayer to be eligible for the deduction, the business must have reported a profit equal to more than 3% of its federal gross income and must have retained profit in an amount equal to at least 3% of its federal gross income. The deduction is allowed for sole proprietors or owners of partnerships, limited liability companies, S corporations, or other pass-through entities.[1]

The deduction equals the taxpayer's share of the business' undistributed profit, but the deduction may not exceed an amount equal to the taxpayer's share of 5% of the business' gross income. The deduction may be claimed for the taxpayer's taxable year

[1] R.C. 5747.01(A)(30) and (S)(15) and 5747.014.

that includes the last day of the business' taxable year for which the undistributed profit is reported (the business' "qualifying taxable year").

If a taxpayer claims the deduction, the taxpayer is required to add all or part of the deduction back to the taxpayer's Ohio taxable income in a later year if the business did not increase its spending on business property, employee training, or research and development by an amount at least equal to the business' undistributed profit for the year the deduction was claimed. The increase in such spending is measured from the business' taxable year for which the profit was reported to the business' following taxable year. The amount a taxpayer must add back equals the taxpayer's share of the business' shortfall in such spending. The amount added back cannot exceed the amount of the deduction, and the addback may be required only once for each year the deduction was claimed.

The bill defines the required spending on property, employee training, and research and development as "qualifying reinvestment expenditures." The property must be real or tangible personal property used in the business and chargeable to the business' capital account. Employee training costs are defined as direct instructional costs to improve employees' job skills, and excludes costs of executive, management, or personal enrichment training programs or training intended only for personal career development. Research and development is defined as "designing, creating, or formulating new or enhanced products, equipment, or processes, and conducting scientific or technological inquiry and experimentation in the physical sciences with the goal of increasing scientific knowledge that may reveal the bases for new or enhanced products, equipment, or processes." (The definition of "research and development" is the same as that used for the technology investment tax credit.)[2]

The deduction is available for a taxpayer's taxable years beginning on or after the bill's effective date.

HISTORY

ACTION	DATE
Introduced	02-22-11

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[2] R.C. 122.15 to 122.154.