



**H.B. 240**

124th General Assembly  
(As Introduced)

Reps. Cirelli, Barnes, Rhine, DePiero, Beatty, Krupinski

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**BILL SUMMARY**

- Permits individuals to deduct net federal income tax payments in computing Ohio taxable income.
- Permits individuals to deduct net federal and Ohio income tax payments in computing municipal taxable income.

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**CONTENT AND OPERATION**

**Ohio income tax deduction for federal taxes paid**

(sec. 5747.01(A)(20))

The Ohio personal income tax is levied on the taxable income of individuals and estates. Ohio taxable income is derived from federal adjusted gross income (i.e., federal gross income before standard or itemized deductions), less various deductions and plus various additions.

The bill permits individuals, in computing their Ohio taxable income, to claim a deduction for federal income taxes paid. For a given taxable year, a taxpayer may deduct any amounts paid during that year toward their federal income tax liability. Since some federal taxes paid by an individual eventually may be refunded to the taxpayer, the bill requires taxpayers to add back any such refund for which the deduction previously was claimed.

The deduction may be claimed for a taxpayer's taxable year beginning during 2001 (meaning that taxpayers may begin claiming the deduction for any federal income taxes paid during that year).

## **Municipal income tax deduction for federal and Ohio income taxes paid**

(sec. 718.01(E)(2))

Under their constitutional home rule powers, municipal corporations have the authority to impose income taxes, but the legislature has the power to limit municipal authority in the field of taxation. Over the years, the legislature occasionally has exercised its limiting power to prescribe certain forms of income that municipal corporations may not tax (e.g., investment and other intangible income, military pay) and certain forms of income that may not be exempted altogether from municipal income taxes (e.g., an adult's wages, net business profits). Within the constraints imposed by the legislature, municipal corporations may devise their own deductions.

The bill requires municipal corporations to permit taxpayers, in computing the income taxable by the municipal corporation, to deduct federal and Ohio income taxes paid during the municipal taxable year. Taxpayers would have to add back any refunds of federal or Ohio income taxes for which the deduction previously was claimed.

The deduction may be claimed for a taxpayer's municipal taxable year beginning during 2001 (meaning that taxpayers may begin claiming the deduction for any federal or Ohio income taxes paid during that year).

***Technical note.*** The bill amends two versions of section 718.01--the version currently in effect, and the version scheduled to go into effect January 1, 2002. By amending both versions of the section, the bill ensures that the municipal income tax deduction is preserved on and after that date and does not expire when the current version expires.

## **Federal income tax deduction**

Under existing federal income tax law, most individuals may deduct state and local income taxes (net of refunds) in computing their federal taxable incomes (as long as the taxpayer itemizes deductions instead of taking the standard deduction). The bill does not affect the federal deduction except to the extent that a taxpayer's state and local income tax liability will be lower, which means the federal deduction will be lower.

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## HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	05-02-01	p. 400

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