

Fiscal Year Businesses Qualify For Ohio Deduction in 2013

by Gary M. Harden



The Small Business Investor Deduction is an incentive provided to owners of Ohio businesses on their state income tax returns, effective January 1, 2013. The deduction can be a big deal: 50% of adjusted state small business income, capped at \$250,000 of income. The term “owners” includes sole proprietors filing a Schedule C, and farmers filing a Schedule F. It also includes owners of flow through entities like S corporations, LLCs and other partnerships who receive a K-1. So it is worth about \$7,000 to Ohio individuals in the top brackets who own a small business. It means more to owners of multiple Ohio businesses because the income cap applies to each qualifying business.

Many have assumed that Ohio fiscal year businesses, for example, flow through entities, would have to wait to file their 2014 state income tax returns in order to first take advantage of the deduction. Typically, new legislation regarding a business would first apply to the business year beginning on or after the act’s effective date, which would defer the deduction for owners until 2014 for all but calendar year businesses.

Attempting to confirm this assumption, I contacted the Ohio Department of Taxation requesting any uncodified effective date or transitional rule that might apply. As a result, on February 4, 2014, I received a copy of a new FAQ, reproduced below. The statute applies based on the individual owner’s 2013 income, including flow through income for a full fiscal year ending on or after the act’s 1/1/2013 effective date.

Taxpayers should check with their return preparers to make sure they are aware of this interpretation. When preparing a return yourself, check any software program default provisions, especially early in the filing season, as this interpretation may not have been reflected in the default provisions.

There are additional issues to work through. For example, this deduction does not apply to School District Income Tax, and multi state income will have to be apportioned.

If you have any questions on this or any other tax savings/value added opportunities please feel free to contact Gary M. Harden.

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FAQ 18. I received income from an entity that has a fiscal year end of 3/31/13. Since this is a new deduction for 2013, can I claim all of the income even though most of it was earned in 2012, or do I need to pro-rate and only claim the entity income earned during the 3 months of 2013?

- *ORC 5747.01 (A)(31) states: "Ohio small business investor income" means the portion of a taxpayer's adjusted gross income that is business income reduced by deductions from business income and apportioned or allocated to this state under sections 5747.21 and 5747.22 of the Revised Code, to the extent not otherwise deducted or excluded in computing federal or Ohio adjusted gross income for the taxable year.*
- *Under 5747.01 (M), "Taxable year" means the calendar year or the taxpayer's fiscal year ending during the calendar year, or fractional part thereof, upon which the adjusted gross income is calculated. In this case, because the entity's fiscal year ends in 2013, the taxpayer's taxable year is also 2013. Therefore, the taxpayer can take the deduction using all the income reported from 4/1/12 – 3/31/13 for the entire fiscal year.*

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