

## Income/Franchise:

### Ohio: New Law Clarifies Individual Income Tax Treatment of Sales of Business Interests

S.B. 515, signed by gov. 6/24/22. Recently signed legislation modifies state law involving gains and losses on some sales of business interests in pass-through entities (including the sale of an equity or ownership interest in a partnership or limited liability company) by specifying certain situations under which the sale of an equity or ownership interest in a business is considered “business income” for Ohio personal income tax (PIT) purposes and thus eligible for the PIT business income deduction (BID) and 3% flat tax rate. Specifically, the new legislation codifies two situations in which the “sale of an equity or ownership interest in a business” may be considered business income for Ohio PIT purposes:

**URL:** <https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA134-HB-515>

1. The sale is treated as a sale of assets for federal income tax purposes, or
2. The seller materially participates in the activities of the business during the taxable year in which the interest was sold, or during any of the five preceding taxable years.

Under state law, individual taxpayers generally may deduct their first \$250,000 of business income under the Ohio PIT, and any business income above that amount is subject to a 3% flat tax; any nonbusiness taxable income generally would be taxed at graduated Ohio PIT rates, up to 3.99%.

The legislation provides that these law changes are a “remedial measure intended to clarify existing law,” and therefore they apply “to any petition for reassessment or any appeal thereof and to any application for refund or any appeal thereof pending on or after the effective date of this section and to any transaction that is subject to an audit by the Department of Taxation on or after that effective date.”

See recently issued Multistate Tax Alert for more details on this new law, as well as some related taxpayer considerations, and please contact us with any questions.

**URL:** <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-ohio-clarifies-tax-treatment-of-the-sale-of-business-interest.pdf>

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