Tax Update

July 2023

Tax Changes in Ohio's Biennial Budget Benefit Individuals and Businesses Alike

On July 4 Governor Mike DeWine signed Ohio's $191 billion 2024–2025 biennial budget, which includes several significant tax provisions impacting individuals and businesses. Most taxpayers will benefit from the changes, but some of the reforms may stir debate on future funding of government services. Following is a summary of several of the budget's more significant provisions.

Ohio CAT Retraction

Ohio's Commercial Activity Tax (CAT) is a gross receipts tax charged at a rate of .26% of Ohio taxable sales. Currently, taxpayers with less than $150,000 in annual Ohio taxable gross receipts are excluded from the tax, while taxpayers with Ohio taxable gross receipts between $150,000 and $1 million pay a flat fee of $150. For tax periods beginning in 2024, businesses with Ohio taxable gross receipts of $3 million or less are excluded, and for tax periods beginning in 2025 and thereafter, businesses with taxable gross receipts of $6 million or less are excluded. The thresholds are exclusion amounts and any tax liability is calculated based on amounts above the exclusion amounts. These changes make the CAT inapplicable to almost 90% of businesses and could stir a debate regarding the effectiveness of the tax and the long-term future of the CAT (or a replacement tax).

Income Tax Bracket Changes and Rate Reductions

Beginning in tax year 2023, the budget reduces the number of individual income tax brackets by consolidating the lowest bracket (2.765% for income between $26,050 and $46,100) with the second-lowest bracket (3.226% for income between $46,100 and $92,150), creating one bracket between $26,050 and $100,000 with a rate of 2.75%. It also reduces the rate on the fourth bracket (for incomes over $115,300) from 3.99% to 3.75%, and for tax year 2024, reduces the number of brackets to two by consolidating the top two brackets and reducing the rate for the combined top bracket to 3.5%. The following charts illustrate the changes.

For taxable years beginning in 2022

Ohio Taxable Income	Tax Calculation
$0–$26,050	0.00%
$26,051–$46,100	$360.69 + 2.765% of excess over $26,050
$46,100–$92,150	$915.07 + 3.226% of excess over $46,100
$92,150–$115,300	$2,400.64 + 3.688% of excess over $92,150
> $115,300	$3,254.41 + 3.990% of excess over $115,300

For taxable years beginning in 2023

Ohio Taxable Income	Tax Calculation
$0–$26,050	0.00%
$26,051–$100,000	$360.69 + 2.75% of excess over $26,050
$100,000–$115,300	$2,394.32 + 3.688% of excess over $100,000
> $115,300	$2,958.58 + 3.75%

For taxable years beginning in 2024

Ohio Taxable Income	Tax Calculation
$0–$26,050	0.00%
$26,051–$100,000	$360.69 + 2.75% of excess over $26,050
> $100,000	$2,394.32 + 3.50% of excess over $100,000

Conclusion

This summary focuses on several specific and significant changes in the budget; there are other tax provisions impacting taxpayers or targeted at specific groups. The provisions, while benefitting taxpayers, will significantly reduce tax revenues. Therefore, from a long-term perspective, additional structural or tax changes may be necessary once the state government sees the actual impact on finances and services.

FOR MORE INFORMATION

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