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H.B. 116
135th General Assembly

Bill Analysis

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Version: As Reported by House Ways and Means

Primary Sponsors: Reps. Peterson and Claggett

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SUMMARY

- Allows a taxpayer to deduct the full amount of bonus depreciation and enhanced expensing allowances that the taxpayer deducts for federal income tax purposes in the same year the taxpayer deducts those expenses on its federal return.

DETAILED ANALYSIS

Income taxation of depreciation allowances

The bill “re-couples” Ohio’s income tax with federal tax law that allows businesses to claim enhanced depreciation deductions with respect to certain assets. Currently, Ohio has elected to blunt the revenue effects of the federal deductions by requiring businesses to add back a portion of their federal deduction in the year it is claimed and deduct the amount added-back over several years.

Federal enhanced depreciation allowances

Federal tax law gives enhanced depreciation allowances for businesses that invest in certain depreciable business assets. There are two forms of the enhanced allowances: “bonus depreciation” and “enhanced expensing.” Both are intended to induce increased business investment by permitting businesses to accelerate the tax benefit of asset depreciation deductions, moving it into earlier years than customarily allowed.

Congress originally enacted the allowances in 2002, and has extended and increased them several times since. The bonus depreciation allowance is currently being phased-down, and is scheduled to end in 2026. For assets acquired in 2023, businesses may immediately deduct 80% of the cost of the asset, instead of using the usual depreciation schedules. Enhanced expensing increases the value of an asset that can be immediately deducted when it

is acquired or placed in service. For 2023, that amount is \$1.16 million, though the deduction begins to phase-out at \$2.89 million. The enhanced expensing allowance is adjusted for inflation each year, and is not currently being phased-out.¹

Ohio's treatment of enhanced depreciation allowances

The enhanced federal deductions reduce a taxpayer's federal adjusted gross income (FAGI) in the early years after the asset is acquired, as compared to the usual depreciation schedule, and therefore reduce Ohio taxable income and income tax revenue. When these federal enhancements were enacted, Ohio and several other states whose income tax bases were tied to the federal tax base decided to blunt the state revenue reductions that would have resulted from the enhancements by not allowing taxpayers to claim the enhanced depreciation deductions all in a single year.

Instead, Ohio generally requires taxpayers to spread the deduction across several years by "adding back" part of the allowance claimed on the taxpayer's federal return. In general, the deduction must be spread over six years, although businesses with certain net operating losses (NOLs) or businesses that increase their income tax withholdings by a certain amount may either spread the deduction over three years or not have to add-back amounts at all.

As a general example, a taxpayer claiming a federal bonus depreciation deduction of \$120,000 in 2023 is only permitted to deduct one-sixth of that amount, or \$20,000, for Ohio tax purposes in that year. The taxpayer must add-back \$100,000 and deduct that amount in equal \$20,000 increments over the next five years.²

Elimination of add-backs

The bill eliminates the requirement that businesses add-back any enhanced depreciation allowances. Instead, a taxpayer can deduct the full amount of allowances that the taxpayer deducts for federal income tax purposes in the same year the taxpayer deducts those expenses on its federal return. Using the example above, the taxpayer may use the full \$120,000 federal deduction when computing its Ohio tax liability.

For taxpayers that were required to add-back an allowance before 2023, the bill provides for an election. The taxpayer may either (a) continue to deduct any add-backs that the taxpayer would have otherwise been able to deduct, according to the same schedule the taxpayer would have followed, were the bill not enacted or (b) deduct the entire unused portion of the taxpayer's deductions in 2023.³

¹ 26 United States Code 168 and 179.

² R.C. 5747.01(A)(17) and (18).

³ R.C. 5733.40(A)(5) and 5747.01(A)(18).

HISTORY

Action	Date
Introduced	03-16-23
Reported, H. Ways & Means	05-02-23
