

LEGISLATIVE UPDATE

Impact of Recently Adopted Federal and State Legislation on Ohio Municipal Income Tax

Federal Budget Bill – H.R. 1, aka the “One Big Beautiful Bill Act (OBBBA)” Signed July 4th, 2025

Individual Income Tax Provisions and Ohio Municipal Income Tax Impact –

Federal Tax Change—No Tax on Tips

- Effective for tax years 2025 through 2028, H.R. 1 allows a deduction* from an individual's federal Adjusted Gross Income (“AGI”) for qualified tip income. The deduction is limited to \$25,000 annually per individual for qualified tips from an occupation which customarily and regularly receives tips. The deduction phases out for individuals with Modified AGI (“MAGI”) over \$150,000. *In September the Federation of Tax Administrators received confirmation from the IRS that this would be a “below the line” deduction.

Federal Tax Change—No Tax on Overtime

- Also effective for tax years 2025 through 2028, H.R. 1 creates a deduction* from AGI for up to \$12,500 for qualified overtime (\$25,000 for joint return filers). Qualified overtime is defined as overtime compensation paid to an individual under Section 7 of the Fair Labor Standards Act. The deduction phases out for individuals with MAGI over \$150,000 (\$300,000 for joint returns). *In September the Federation of Tax Administrators received confirmation from the IRS that this would be a “below the line” deduction.

For both of the above provisions, married taxpayers must file jointly in order to take the deductions.

Municipal Income Tax Impact: The taxability of tips and overtime pay for municipal income tax is NOT impacted by these new deductions from federal AGI. All tipped income and overtime pay continue to be taxable at the municipal level, without deduction.

Federal Tax Change—Gambling Losses Limited to 90% of Gambling Winnings

- Beginning with tax year 2026, deductible gambling losses and related expenses are limited to 90% of gambling winnings for professional gamblers filing on Federal Schedule C and non-professional gamblers that itemize their gambling losses.

Municipal Income Tax Impact: Only taxpayers who are professional gamblers for federal income tax purposes may deduct gambling losses from municipal taxable income, with that deduction being limited to what is authorized under the Internal Revenue Code. The 90% limitation of gambling losses at the federal level may result in additional Ohio municipal income tax due on gambling winnings for professional gamblers.

Federal Tax Change—Permanently Eliminates Form 2106 Expense Deductions for Most Taxpayers

- H.R. 1 makes permanent the elimination of Form 2106 expense deductions for most taxpayers that were previously suspended for tax years 2018 through 2025.

Municipal Income Tax Impact: Municipal taxable income may not be reduced by Form 2106 expense deductions unless those deductions are taken/allowed at the federal level. As a result of H.R. 1, this reduction is permanently eliminated at the municipal level for most taxpayers.

State Budget Bill – H.B. 96

Signed June 30th, 2025

Governor DeWine signed Ohio House Bill 96, the state’s biennial budget bill for fiscal years 2026-2027 (the “Bill”), into law on June 30, 2025. The municipal income tax provisions of the Bill are listed below.

Adds Space Force and Coast Guard to the existing municipal income tax exemption for military pay or allowances of members of the armed forces, reserve components, and any state’s national guard.

See R.C. 718.01(C)(1) definition of "Exempt income"

Makes language updates related to taxation of video lottery winnings by striking reference to “lottery sports gaming” and replacing it with “video lottery terminal” and “video lottery sales agent”. No impact to taxability of this income.

See R.C. 718.031(A), 718.031(D), 718.031(E)(4), 718.031(H)

Ties the due date of annual business net profit returns to the related federal income tax due date when the due date for a taxpayer’s annual federal income tax return originally falls after the 15th day of the 4th month following the end of the taxpayer’s taxable year.

See R.C. 718.05(G)(1)(b), 718.85(A)(1)

Clarifies that for tax returns filed on a valid extension, the time to file civil actions is the later of 3 years after the related tax return’s extended due date, or the filing date of the return.

See R.C. 718.12. (A)(1)(a)

Authorizes a municipality to provide income tax revenue information from a transformational major sports facility mixed used project to the Ohio Department of Taxation and fiscal officer of a governmental agency owning some or all of the facility located within the facility project district.

See R.C. 718.13(C)

Clarifies that refund requests must be filed within 3 years after the related tax return, including any valid extension, was due or paid, whichever is later.

See R.C. 718.19(B)(1), R.C. 718.91(A)

Clarifies that interest imposed on underpaid estimated net profit taxes is permissive for business net profit filers that have opted-in to file with the Ohio Department of Taxation.

See R.C. 718.88(D)(1)

Provides that business net profit filers that have opted-in to file with the Ohio Department of Taxation are no longer required to send petitions for reassessment personally or by certified mail.

See R.C. 718.90(B)