Tax Tips: The state of tax residency

Carl J. Grassi | Wednesday, December 11, 2019

One of the more controversial provisions in the 2017 federal tax overhaul capped the federal income tax deduction for state and local taxes at $10,000 for most taxpayers. Residents of high-taxing states such as New York, New Jersey and California faced the biggest impact from the new rule.

With high-profile figures including President Trump and financier Carl Icahn recently announcing plans to move to Florida from New York and New Jersey, respectively, many are wondering whether the new tax law may cause a migration from high-taxing jurisdictions.

It's too soon to tell if that will happen, and people move for many nontax reasons, but as the calendar draws to a close, now is a good time to revisit the rules for establishing out-of-state residency for Ohio income tax purposes.

Why does residency matter?

Ohio residents must pay state income tax on their income earned anywhere in the world, subject to credits for taxes paid elsewhere. Non-Ohio residents, by contrast, pay Ohio taxes only on their income earned or received in Ohio. Such nonresident income subject to Ohio tax includes wages earned in Ohio, business income generated through pass-through entities operating in Ohio, and income from Ohio real estate holdings. Establishing non-Ohio residency may therefore have a big impact for some individuals with investment income and wages and other income earned outside Ohio.

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Carl J. Grassi

Team member bio