



## Small business tax cut allows certain business owners to deduct up to half of their compensation in Ohio

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While many business owners rejoiced at the passage of the Ohio small business investor income tax deduction last year, many owners may not have realized that it presented an opportunity to take deductions on up to half of their compensation. This can result in significant tax savings to small business owners who otherwise believed they did not have business income sufficient to take much advantage of this tax break.

The small business investor deduction allows individuals to deduct 50 percent of business income included in the taxpayer's federal adjusted gross income and not otherwise deducted in calculating Ohio taxable income, to the extent such income is apportioned to Ohio. There is a \$125,000 cap on this deduction per taxpayer per year (\$62,500 for spouses who file separately and each report business income). The law gives a 50 percent tax cut for certain small businesses structured as pass-through entities, such as S-corporations and partnerships, on the first \$250,000 in net small business income. If the business is structured as a pass-through entity and has multiple owners, each owner may be eligible to claim the deduction. Note that sole proprietorships also qualify.

What may not be clear to owners of pass-through entities is that guaranteed payments or compensation paid to them may also qualify for the deduction. Generally, guaranteed payments or compensation paid by a pass-through entity, which has tax nexus with Ohio to an investor holding at least a 20 percent direct or indirect interest in the entity, is considered a distributive share of income of the entity and is treated as business income. Since such payments are treated as qualifying business income in qualifying instances, these payments may be taken into account for purposes of computing the individual's small business investor income deduction.

If you have questions as to whether compensation from your pass-through entity may qualify for this deduction, please contact us.



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