

\_\_\_\_\_ moved to amend as follows:

1 In line 141 of the title, after "5165.261," insert  
2 "5747.79,"

3 In line 293, after "5165.261," insert "5747.79,"

4 After line 58690, insert:

5 "(34) Deduct amounts as provided under section 5747.79 of  
6 the Revised Code related to the taxpayer's qualifying capital  
7 gains and deductible payroll.

8 To the extent a qualifying capital gain described under  
9 division (A)(34) of this section is business income, the  
10 taxpayer shall deduct those gains under this division before  
11 deducting any such gains under division (A)(28) of this  
12 section."

13 In line 59249, after "(A)(28)" insert "and (34)"

14 After line 59999, insert:

15 "Sec. 5747.79. (A) As used in this section and division  
16 (A)(34) of section 5747.01 of the Revised Code:

17 (1) "Qualifying capital gain" means a capital gain from the  
18 sale of an interest in an entity reported for the taxable year

19 to the internal revenue service pursuant to the Internal Revenue  
20 Code, to the extent that such capital gain is not otherwise  
21 deducted or excluded in computing federal or Ohio adjusted gross  
22 income for the taxable year, provided that all of the following  
23 apply:

24 (a) The taxpayer that sold the interest either:

25 (i) Materially participated in the activities of the entity  
26 for the five years immediately preceding the time of sale. For  
27 the purposes of this division, a taxpayer materially  
28 participates in the activities of the entity if the taxpayer  
29 meets the requirements of divisions (a)(1), (2), (3), (4), or  
30 (7) of 26 C.F.R. 1.469-5T.

31 (ii) Directly or indirectly made a venture capital  
32 investment of at least one million dollars in the entity. As  
33 used in this division, "venture capital investment" has the same  
34 meaning as in division (d)(3) of 29 C.F.R. 2510.3-101.

35 (b) The entity is incorporated, registered, or organized in  
36 this state during the five years immediately preceding the time  
37 of sale.

38 (c) The entity is headquartered in this state during the  
39 five years immediately preceding the time of sale.

40       (2) A "sale of an interest in an entity" includes the sale,  
41 exchange, or other disposition of stock, a membership interest,  
42 or any other equity or ownership interest, owned directly or  
43 indirectly by the taxpayer, in an entity that conducts a trade  
44 or business in this state.

45       (3) "Qualifying payroll" means the amount of compensation  
46 used to determine the withholding obligations in division (A) of  
47 section 5747.06 of the Revised Code and paid over one of the  
48 following periods by the entity whose sale generated the  
49 qualifying capital gain:

50       (a) The five calendar years immediately preceding the time  
51 of sale for a taxpayer described in division (A)(1)(a)(i) of  
52 this section;

53       (b) The investment period, not to exceed the five calendar  
54 years, immediately preceding the time of sale for a taxpayer  
55 described in division (A)(1)(a)(ii) of this section.

56       "Qualifying payroll" does not include any amounts paid to  
57 the taxpayer, or the taxpayer's spouse, parents, grandparents,  
58 children, or grandchildren.

59       (4) "Deductible payroll" means the qualifying payroll of  
60 the entity in which a taxpayer sold an ownership interest

61 multiplied by the percentage of the interest in the entity the  
62 taxpayer sold.

63 (B) In computing Ohio adjusted gross income for taxable  
64 years beginning in or after 2026, a deduction from federal  
65 adjusted gross income is allowed to a taxpayer that realizes a  
66 qualifying capital gain during the taxable year. The deduction  
67 shall equal the lesser of the taxpayer's qualifying capital gain  
68 or the deductible payroll.

69 (C) If a taxpayer has multiple capital gains from the sale  
70 of interests in different entities during the taxable year, the  
71 following apply:

72 (1) Each capital gain must meet the requirements of  
73 divisions (A)(1)(a) to (c) of this section to be classified as a  
74 qualifying capital gain.

75 (2) The deduction shall equal the lesser of the taxpayer's  
76 qualifying capital gain from the sale of each entity or the  
77 deductible payroll attributable to that entity. The deduction  
78 amounts related to each entity shall then be aggregated to  
79 determine the total deduction allowed.

80 (D) On request of the tax commissioner, the taxpayer shall  
81 provide any information that, in the commissioner's opinion, is

82 necessary to establish the amount deducted under division  
83 (A) (34) of section 5747.01 of the Revised Code."

84 The motion was \_\_\_\_\_ agreed to.

85 SYNOPSIS

86 **Income tax deduction for capital gain from sale of business**

87 **R.C. 5747.01 and 5747.79**

88 Allows, beginning with the 2026 taxable year, an income tax  
89 deduction for taxpayers with capital gains from the sale of an  
90 ownership interest in a business. The deduction equals the  
91 lesser of (a) the capital gain or (b) a percentage of the  
92 business' payroll over a specified period, based on the  
93 taxpayer's proportionate interest in the business. To qualify,  
94 the taxpayer must have materially participated or made a  
95 significant investment in the business and the business must  
96 have been headquartered in Ohio for the past five years.

97 Requires taxpayers to add back any amount deducted to their  
98 income for purposes of qualifying for means-tested income tax  
99 exemptions and credits and the property tax homestead exemption.