

CITY OF MONTGOMERY 2021
BUSINESS INCOME TAX RETURN INSTRUCTIONS

LINE 1: Enter the Adjusted Federal Taxable Income (AFTI). As defined by Ohio Revised Code (ORC) 718.01, AFTI means a C corporation's federal taxable income before net operating losses and special deductions (Form 1120, line 28). Other business entities must compute the AFTI as if they were a C corporation. Generally, this is the line titled "Income/(Loss) Reconciliation" on the Schedule K of Form 1120S for subchapter S corporations or Line 1, Page 5 of Form 1065; Analysis of Net Income (Loss) for partnerships and limited liability companies.

LINE 2: Enter the total adjustments from Schedule X, Page 2, Line N.

LINE 3: Line 1 plus or minus Line 2.

LINE 4: You may deduct up to the lesser of 50% of pre-apportioned losses carried forward from your 2017 - 2020 tax returns, or 50% of your taxable income on Line 3. You may use pre-apportioned losses on this line as well as post-apportioned losses (Line 7).

LINE 5: Line 3 minus Line 4.

LINE 6: Enter the apportionment percentage from Step 5 of Schedule Y. (See ORC 718.02) and multiply Line 5 by Line 6.

LINE 7: Enter up to 100% of losses carried forward from tax year 2016. You may use post-apportioned losses on this line as well as pre-apportioned losses on Line 4. Losses used in any combination can bring your taxable income to zero.

LINE 8: Line 6 minus Line 7.

LINE 9: Multiply Line 8 by 1%.

LINE 10a: Enter the amount of estimated tax payments plus any amounts paid with an extension.

LINE 10b: Enter the amount of the overpayment from prior years credited to 2021.

LINE 10c: Total credits (Line 10a plus Line 10b).

LINE 11: If Line 9 is greater than Line 10c, enter the amount of tax due. If the amount is \$10.00 or less, no payment due.

LINE 12: If Line 10c is greater than Line 9, enter the amount of overpayment to be credited to next year's estimate or to be refunded. If the amount is \$10.00 or less, no credit or refund will be issued. **By law, all refunds and credits in excess of \$10.00 are reported to the Internal Revenue Service.

DECLARATION OF ESTIMATED TAX FOR 2022

LINE 14: Enter the amount of estimated income for 2022 based on the prior year's actual tax liability or 2022 expected income. Multiply this amount by 1%. Enter the total tax due for 2022. This estimate may be adjusted any time during the tax year if circumstances change. **Taxpayers must remit quarterly estimates if the estimated annual tax liability is \$200 or greater. To avoid underpayment penalties, estimated payments must equal 90% of the current year's tax liability and must be remitted prior to December 15, 2022, (or by the 15th day of the twelfth month for fiscal year ends). Quarterly estimate payments are due on the 15th day of the 4th, 6th, 9th, and 12th months following the beginning of the taxable year.

LINE 15: Enter any expected tax credits

LINE 16: Enter net estimated tax due (Line 14 minus Line 15)

LINE 17a: Multiply Line 16 by 22.5% to determine the minimum amount of estimated tax due for the first quarter and enter this amount on Line 17a. In order to avoid underpayment, 25% of Line 14 estimated tax liability is recommended.

LINE 17b: Enter any overpayment credit from prior year. (Line 12 above)

LINE 17c: Enter the amount of 1st quarter estimated tax due (Line 17a minus Line 17b).

LINE 18: Enter the total amount due with return (Line 11 plus Line 17c).

Schedule X – RECONCILIATION WITH THE FEDERAL RETURN

- A.** Enter the amount included in Line 1 of the Business tax return related to the sale, exchange, or other disposition of an asset described in Section 1221 or 1231 of the Internal Revenue Code. This includes the 1231 loss reported on Form 4797, Part 1.
- B.** Enter any taxes on or measured by net income included as a deduction in computing Line 1.
- C.** Enter any guaranteed payments or similar payments made to partners, members or other owners that were deducted in arriving at the income amount on Line 1. This includes amounts related to self-employed retirement plans and health or life insurance for an owner or owner-employee.
- D.** Enter 5% of the intangible income included in Line 1 of the Business tax return that is not directly related to the sale, exchange or other disposition of property described in Section 1221 or 1231 of the Internal Revenue Code.
- E.** Enter Federally deducted amounts paid or accrued to or for qualified Self-Employment Retirement Plans, Health Insurance Plans, & Life Insurance Plans for owners or owner-employee of Non-C Corporation entities.
- F.** Add Real Estate Investment Trust distributions allowed as a deduction in the computation of Federal Taxable Income.
- G.** Additional lines are for other adjustments (i.e. losses from flow-thru entities, 10% charitable contribution limitation).
- H.** Add Lines A through G.
- I.** Enter the amount of the income that is included on Line 1 of the Business tax return that is directly related to the sale, exchange, or other disposition of an assets described in Section 1221 or 1231 of the Internal Revenue Code less the income and gain included in this amount that is described in Section 1245 or 1250 of the Internal Revenue Code.
- J.** Enter the total amount of intangible income included in Line 1 of the Business Tax Return that is not directly related to the sale, exchange or other disposition of property described in Section 1221 or 1231 of the Internal Revenue Code. Intangible income generally includes but is not limited to interest, dividends, copyrights and patents.
- K.** Enter the amount of profit incurred by a pass-through entity owned directly or indirectly by a taxpayer and included in the taxpayer's federal income unless the loss is included in the net profit of an affiliated group in accordance with ORC 718.06 (E) (3) (b).
- L.** If Line 1 of the return includes other income exempt from municipal tax, enter on this line and provide an explanation.
- M.** Add Lines I - L.
- N.** Total Lines H and M. Enter on Page 1, Line 3.

Schedule Y – APPORTIONMENT TO MONTGOMERY

Step 1. Compute the percentage of the original average cost of the real and tangible personal property owned or used by the taxpayer in the City of Montgomery during the taxable period to the original average cost of all real and tangible personal property owned or used by the taxpayer during the same period, wherever situated.

Real property shall include property rented or leased by the taxpayer. The value of such property shall be determined by multiplying the annual rental thereon by eight.

Step 2. Compute the percentage of the gross receipts of the business or profession from sales made and services performed during the taxable period in the City of Montgomery to gross receipts of the business or profession during the same period from sales and services, wherever made or performed.

Step 3. Compute the percentage of total personal compensation paid during the period for services performed in the City of Montgomery to total personal compensation paid during the same period for all business locations. Do not include amounts paid to contractors.

Step 4. Calculate the total of the percentages derived in Steps 1 through 3.

Step 5. Divide the total derived in Step 4 by the number of percentages used. Enter this percentage on Page 1, Line 6 of the return.

General Instructions:

1. WHO MUST FILE:

C Corporations – C Corporations are required to file as entities on the net profits earned that are derived from sales made, work done, services performed or rendered and business or other activities conducted in Montgomery, whether or not such corporation has a place of business in Montgomery.

S Corporations – S Corporations are required to file in the same manner as C Corporations and report any income or loss. If the S Corporation has net income, the corporation must pay the tax due.

Partnerships: Partnerships are required to file as an entity. If the partnership has net income, the partnership must pay the tax due. Partners who are residents are required to include all partnership income and losses on their individual returns. If a taxable income is reported, credit may be claimed for taxes paid by the partnership.

LLC(s): A limited liability company is required to file consistent with its federal filing. For example, if the LLC is recognized as a partnership at the federal level, it should file as a partnership at the local level.

Miscellaneous Entities: Any undertaking, not specifically defined above, conducting activities or producing income, including but not limited to, rental of real estate and personal property, and a business conducted by a trust or guardianship of an estate that produces a net profit, shall be subject to city income tax and is required to file a return as an entity.

A copy of the Federal Tax Return must be attached when submitting the Montgomery tax return.

2. FISCAL YEAR END OR PARTIAL YEAR: Fiscal year taxpayers should use the beginning year of the fiscal period as the year of the tax return. If the Montgomery business activity was for a portion of the year, please enter the start and end dates.

3. EXTENSION OF TIME TO FILE: Any taxpayer who has received an extension for filing a federal income tax return will receive an extension for filing the City's tax return until the 15th day of the tenth month following the end of the calendar or fiscal year end. Please attach a copy of the federal extension when filing to avoid a late filing penalty. If a federal extension has not been requested, the taxpayer must request a city extension with the tax office by the original due date of the return. **Filing an extension does not grant an extension of time to pay. 90% of tax liability is due by December 15 (or by the 15th day of the 12th month of the fiscal year.)**

4. INACTIVE ACCOUNTS: Complete the box that pertains to whether or not the account should be inactivated. If your account should be inactivated, provide an explanation. If this is a final return, give the reason why.

5. NET OPERATING LOSS: Montgomery allows a five (5) year net operating loss carryforward period. For losses incurred in tax year 2016, up to 100% of the portion of losses **allocated to the City of Montgomery** may be used in a given year. For losses incurred in tax years 2017-2020, up to 50% of **pre-apportioned** losses may be used in a given year up to a maximum of 50% of net adjusted federal taxable income, before Montgomery allocation.

No portion of any operating loss shall be carried back against net profits of a prior tax year. The net operating loss of a taxpayer that loses its identity through merger, consolidation, etc., shall not be allowed as a carryforward loss deduction to the surviving or new taxpayer.

6. PENALTIES AND INTEREST: Tax returns not filed by the due date or the approved extended due date are subject to a late filing penalty of \$25 per month, or fraction thereof, not to exceed \$150. The penalty rate is 15% of the amount not timely paid. The interest rate is adjusted annually based on the federal short-term rate plus 5%; and is .42% per month for calendar year 2021. Penalty and interest charges are also assessed if 90% of tax liability for the current year, or an amount equal to 100% of the previous year's tax liability is not paid by December 15 (or by the 15th day of the 12th month of the fiscal year.)

7. WHEN AND WHERE TO FILE: The 2021 Montgomery tax returns must be filed on or before May 17, 2022 for entities whose fiscal year ends on December 31. Taxpayers on another fiscal or partial year basis must file within 105 days following the end of such period.

Tax returns (including a copy of the Federal income tax return and all applicable schedules) should be mailed to:

The City of Montgomery Tax Office 10101 Montgomery Road Montgomery, OH 45242

Checks should be made payable to: **City of Montgomery**