

## INSTRUCTIONS FOR CITY OF MIDDLETOWN – BUSINESS RETURN (Form BR)

**Remember to attach complete copies of federal forms, schedules, and supporting statements as filed with the IRS.**

### *General Instructions*

#### **Who files this form?**

Corporations, partnerships, and S-Corps file a Business Return as an entity doing business or located in Middletown. Individuals, such as sole proprietors, rental property owners, and resident partners report their income on Form IR – Individual Return.

#### **What's new for 2005?**

- The filing deadline for 2005 is extended to Monday, April 17, 2006. Our office will be closed on Friday, April 14, 2006.
- Filing deadlines for estimated payments now conform to IRS deadlines: the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, 9<sup>th</sup>, and 12<sup>th</sup> month after the beginning of the taxable year.
- For our permanent records, we are requesting ownership information of entities as follows: S-Corps and partnerships please provide K-1s. For all Personal Service Corporations, closely held corporations, or limited liability companies provide a list of corporate officers and owners, including the ownership percentage.

### *Special Instructions*

**Line 1** – Enter the Adjusted Federal Taxable Income (AFTI) as defined by the Ohio Revised Code(ORC) 718.01. All business entities compute AFTI as if they were C corporations.

- For corporations use 1120, line 28, Taxable income before net operating loss deduction and special deductions.
- S-Corps usually use 1120S, Schedule K, line 17e, Income/Loss Reconciliation.
- Partnerships and limited liability companies use 1065, page 4, line 1, Net Income.
- Nonresident sole proprietors filing on a business return will disregard these instructions and use 1040, Schedule C, line 31, Net Profit or Loss
- Nonresident landlords filing on a business return will disregard these instructions and use 1040, Schedule E, line 26, Total rental real estate and royalty income or (loss.)

**Line 2** – Refer to Schedule X instructions on the reverse side.

**Line 4** – Refer to Schedule Y instructions on the reverse side.

If you are a resident entity, all of your income is subject to Middletown tax, with credit given for taxes paid to other municipalities. If you are claiming payments to other municipalities, you must provide copies of returns filed in those cities. If you are a non-resident entity doing business both within and without Middletown, use Schedule Y to determine the percentage of your income subject to Middletown tax.

#### **Did you remember to include**

- **complete copies of federal forms, schedules, and supporting statements as filed with the IRS?**
- **list of corporate officers and owners/partners including name, social security number and ownership percentage (if not included with federal forms?) Publicly held corporations are exempt from this request.**

#### **Common error on 2004 returns**

The basis of the apportionment formula, step 1, changed in 2004 from average book value to average original cost of real and tangible personal property. Please make this correction if you have not done so already.

#### **Extensions**

Extension requests must be postmarked on or before April 17. You may use a copy of the Federal Extension Request or any written format. An extension to file is not an extension to pay; if you expect to owe us tax, you have to pay that by April 17 as well. Late payments are subject to penalty and interest.

#### **Forms**

Forms and instructions may be downloaded from our website at [www.ci.middletown.oh.us](http://www.ci.middletown.oh.us) under Middletown City Services, City Income Tax.

#### **Questions?**

Call us at (513) 425-7862 between the hours of 8:00AM to 5:00PM, Monday through Friday.

## Schedule X - Reconciliation with 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 would include the 1231 loss reported on Form 4797.
- 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.
- 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 (usually 5% of Line O).
- E. Add Real Estate Investment Trust distributions allowed as a deduction in the computation of Federal Taxable Income.
- F. Enter amounts related to self-employed retirement plans and health or life insurance for an owner or owner-employee.
- G. Enter charitable contributions in excess of the 10% federal limit.
- H. Other (explain)
- M. Total items not deductible (A-H).
- N. 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 asset 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.
- O. 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.
- P. If Line 1 of the return includes other income exempt from municipal tax, enter on this line and provide an explanation.
- Y. Total items not taxable (N-P).
- Z. Combine Lines M and Y, enter on Page 1, Line 2.

## Schedule Y - Apportionment Formula

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 Middletown during the taxable period to the original average cost of all of the 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 total personal compensation paid during the period for services performed in the City of Middletown to total personal compensation paid during the same period for all business locations. Do not include amounts paid contractors.

Step 3. 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 Middletown to gross receipts of the business or profession during the same period from sales and services, wherever made or performed.

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

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

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- complete copies of federal forms, schedules, and supporting statements as filed with the IRS?
- list of corporate officers and owners/partners including name, social security number and ownership percentage (if not included with federal forms?) Publicly held corporations are exempt from this request.