



# 1. Introduction

A municipal tax forum was held on August 24, 2005, and was attended by approximately 30 municipal tax administrators from around the state.

The key item on the agenda at this forum was the process flow outlining the business rules to be used in calculating Net Profits Returns filed via the Ohio Business Gateway (OBG).

While the general direction of the flow was validated by the forum, some comments were made. These are included in section 1.2 of this document.

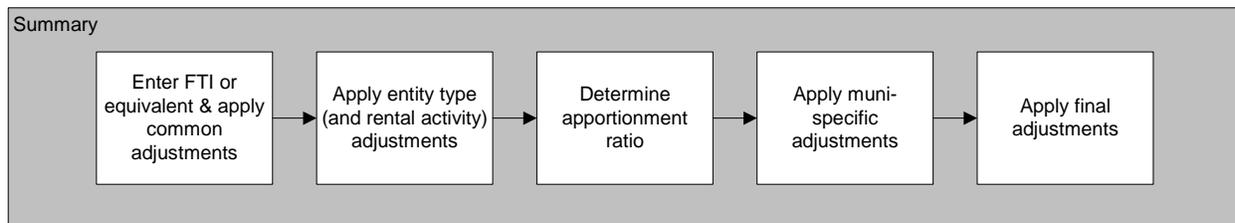
This document includes:

- The original flow as it was presented to the forum on 8/24 (Section 1.1)
- Feedback received from forum participants (Section 1.2)
- A revised flow based on this feedback (Section 1.3)

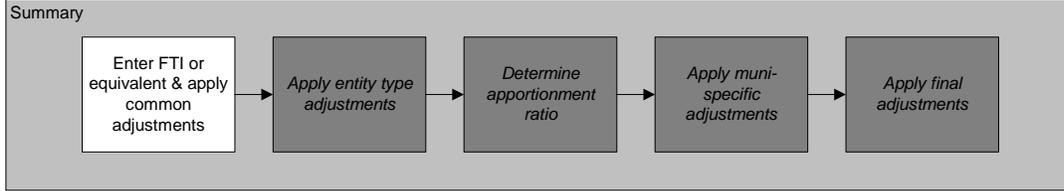
Interested parties are encouraged to review the updated flow in section 1.3 and return comments to [obg@oit.ohio.gov](mailto:obg@oit.ohio.gov) on or before October 24, 2005.

## 1.1 Process flow presented on 8/24

The following is a high level visual summary showing how the Net Profits Return is calculated.

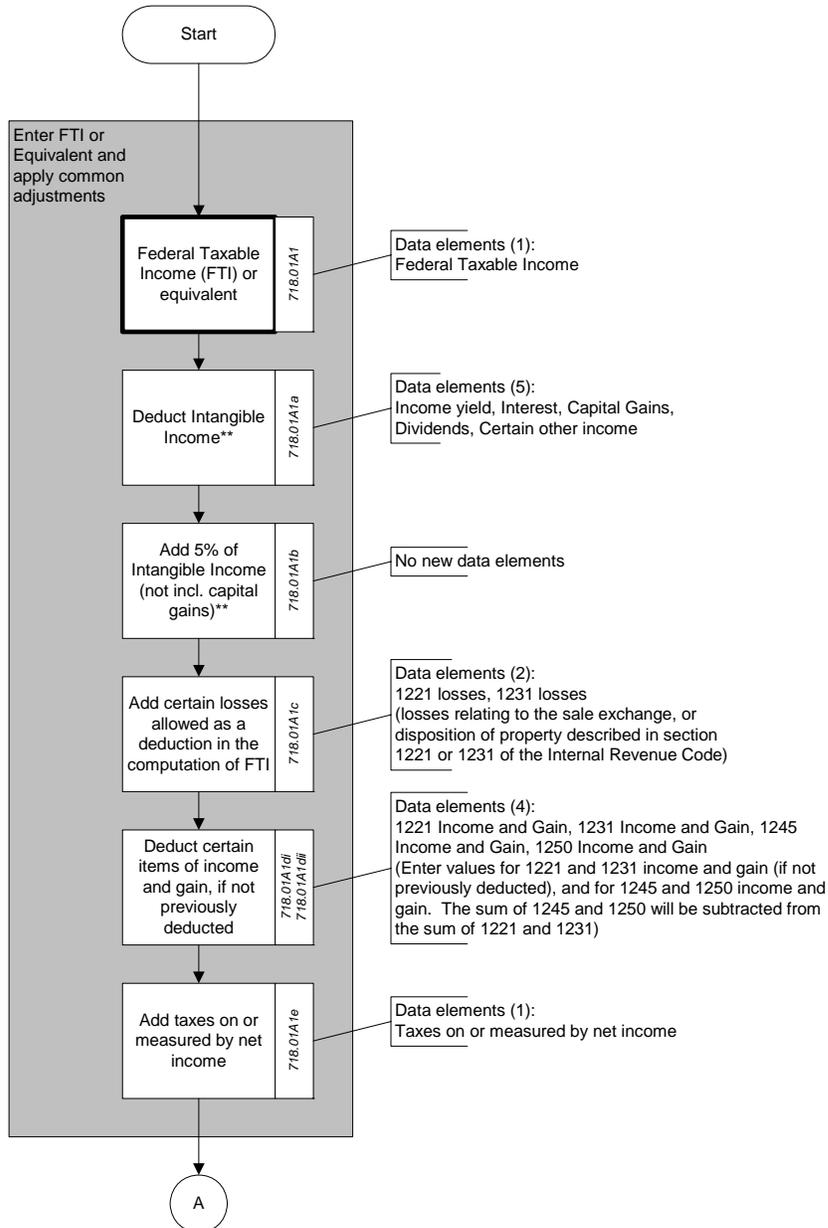
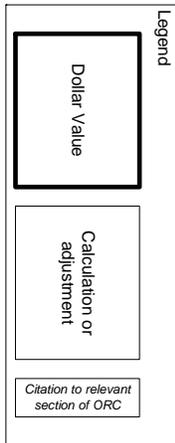


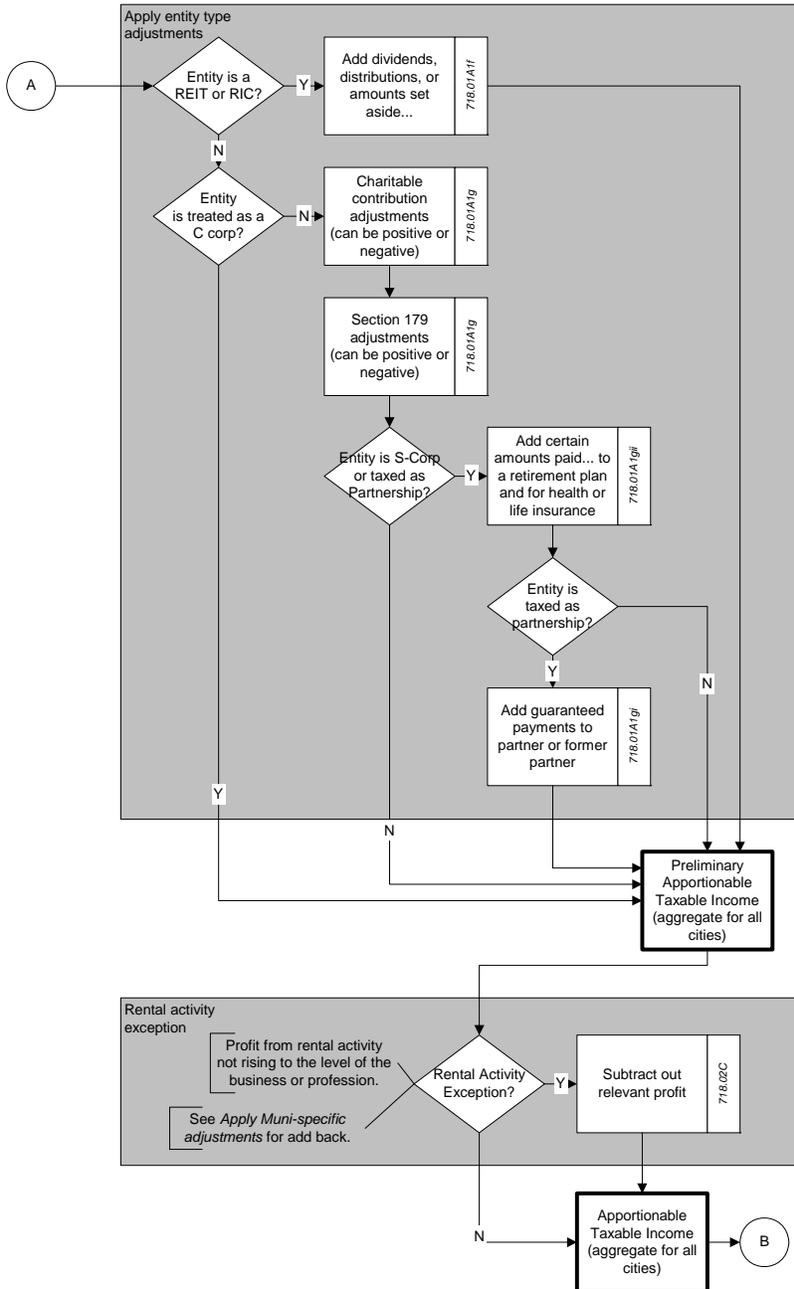
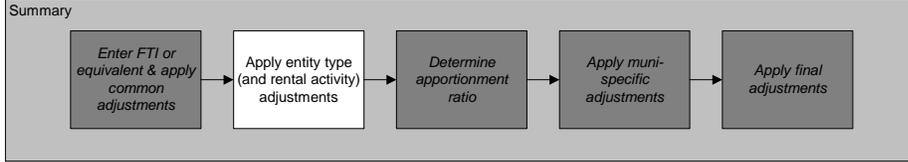
Each of the boxes shown here is explained in further detail on the following pages. These graphics do not necessarily illustrate process flow of the system under development, but rather the business logic as it is expressed in sections 718.01 and 718.02 of the Ohio Revised Code (ORC), which should be consulted should additional information be required.

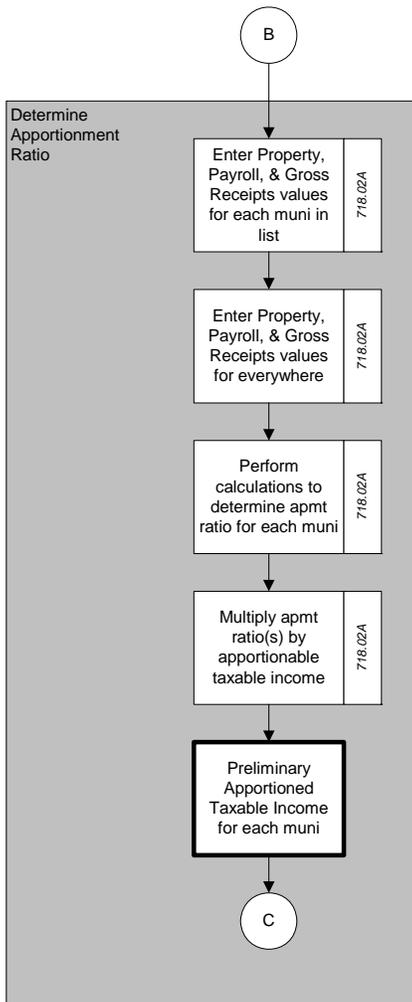
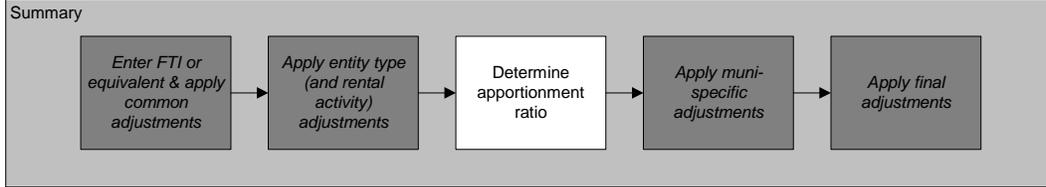


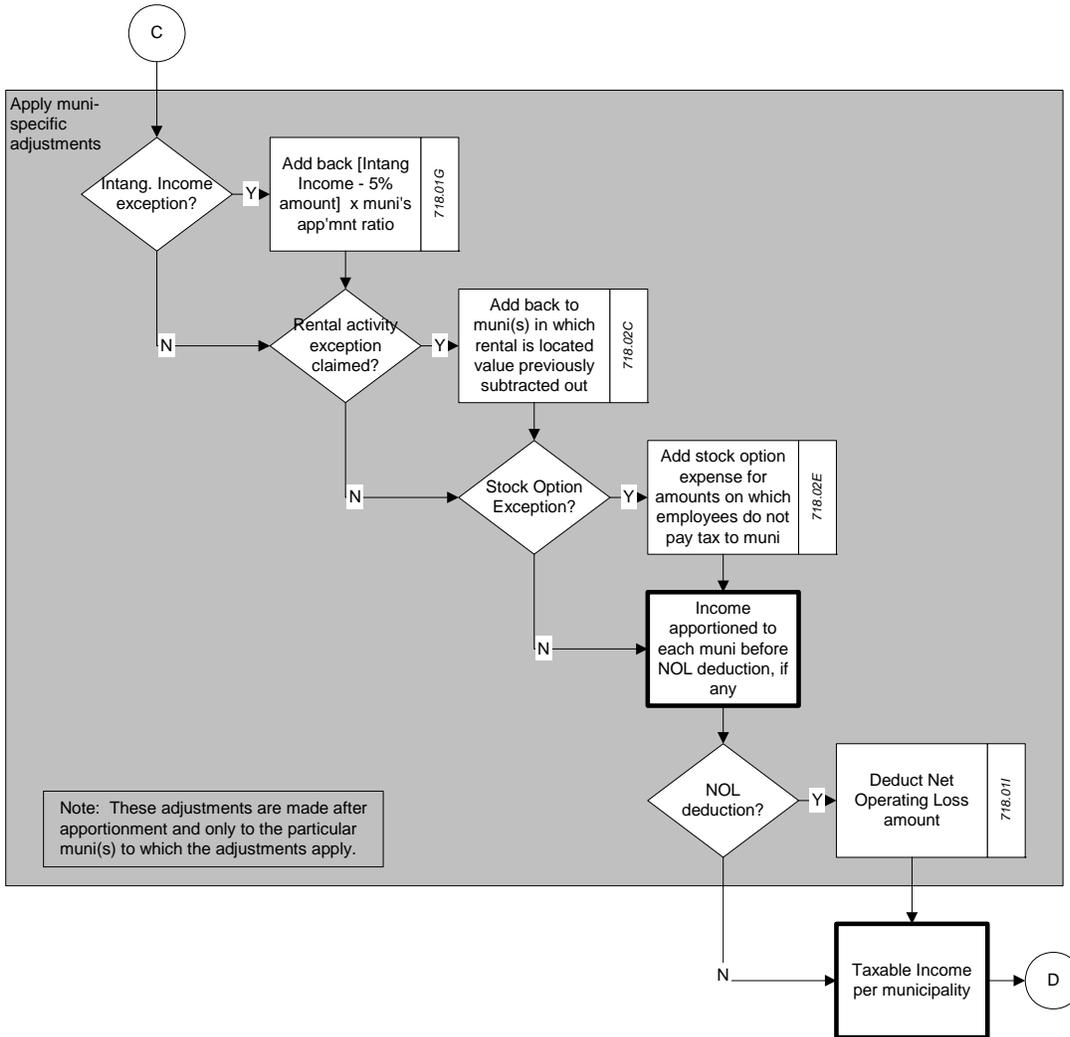
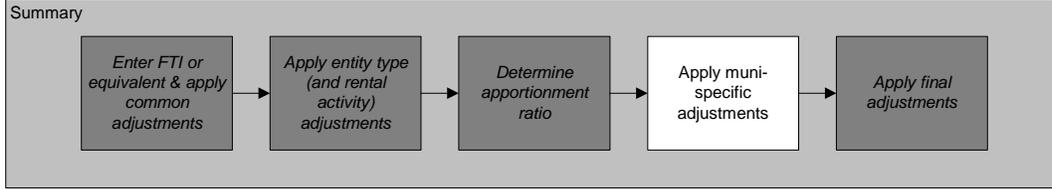
Note: Except as set forth in division (J) of ORC Section 718.01, single member disregarded entities are not separate taxpayers and should not file this return on a "stand-alone" basis.

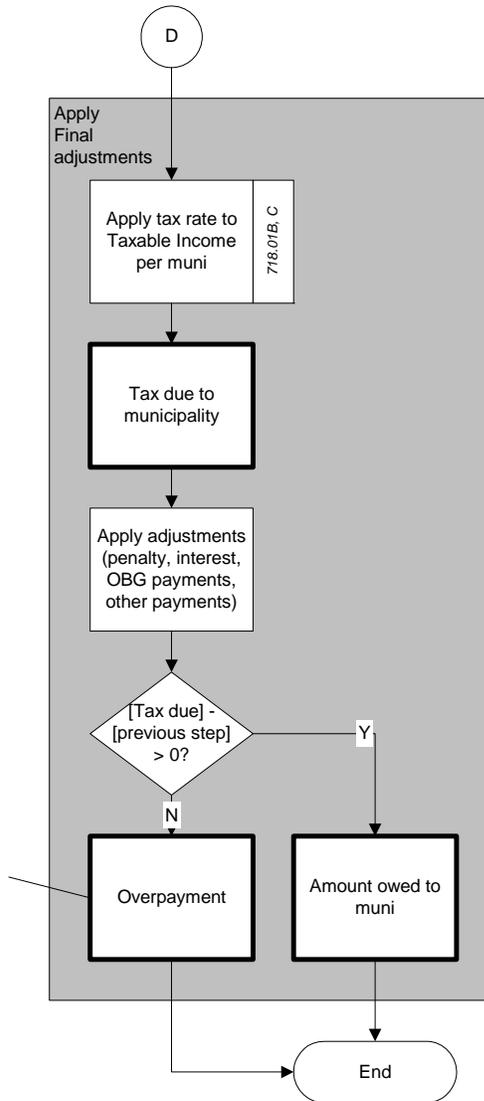
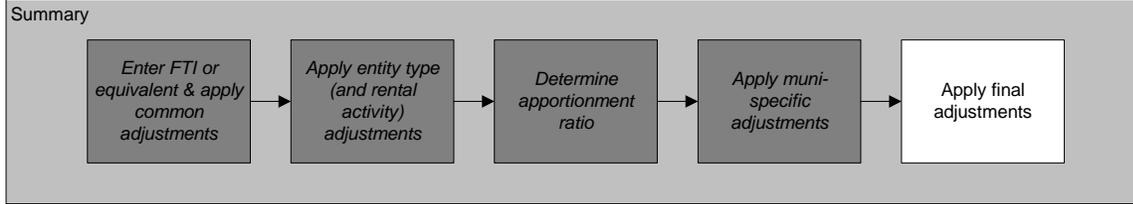
\*\*Note: For those municipalities that do not allow the Intangible Income deduction, these deductions will be reversed in the Apply muni-specific adjustments section of the process.











\*\*Note: The filer has the option to:

- credit this value to the following year
- request a refund
- split the value between the credit and refund categories in any proportion



## 1.2 Comments from forum participants

Black text below shows comments received by the OBG in response to the 8/24 forum; blue text shows OBG's response.

1. IRS Section 1245 and 1250 gains (Cannot be a loss) are separately stated from IRS Section 1221 and 1231 gains and losses on each business type return from the calculation on Federal Form 4797. The additional addition and subtraction of IRS Sections 1245 and 1250 gains is confusing.

Response: This has been clarified in the flow. 1245 and 1250 amounts should be entered only if those amounts are included in the 1221 and 1231 amounts.

2. Depending where you start Federal taxable income on Federal Form 1120-REIT's (line 20 or 22) the add back for dividends or distributions paid to investors under O.R.C. 718.01(A)(1)(f) will already be within taxable income for municipalities.

Response: This has not been addressed directly in the flow, but by clarifying that REITs should enter their CFTI based on IRS form 1120, line 28.

3. Conversion of entity filing as a partnership to the C-Corporation filing requirements under O.R.C. 718.01(A)(1)(g) for IRS Section 1250 gains now taxable under IRS Section 291 cross referenced through IRS Code Section 1250(a)(5).

Response: The following language will be provided to the user in the appropriate section of the application:

Enter the portion of IRC section 1221/1231 gain, if any, which under IRC section 291 would be treated as IRC section 1245/1250 "recapture" income if the taxpayer were treated as a C corporation for FTI purposes. Note to C corporations: Enter this amount here only if the C corporation has not already added this amount in the 1245/1250 fields, above.

4. There needs to be a deduction in Adjusted Federal Taxable Income (AFTI) for municipalities that disallow pass-through losses through a tiered structured partnership for upper tier partners under O.R.C. 718.01(H) in the calculation of net profits.

Response: This has been added to the flow. See ④

5. There needs to be an area where an upper tiered partner of a tiered structured partnership can claim a credit for taxes already paid on behalf of the partner at the lower tiered partnership in accordance with O.R.C. 718.14. This will prevent the multiple taxation of the exact income stream through a tiered structured partnership.

Response: This has been added to the flow. See ⑤

6. Depending on where you start Federal taxable income for a partnership on Federal Form 1065 (Ex. Line 1 of the Analysis of Net Income), guaranteed payments would have



already been added back to municipal taxable income in accordance with O.R.C. 718.01(A)(1)(g)(i).

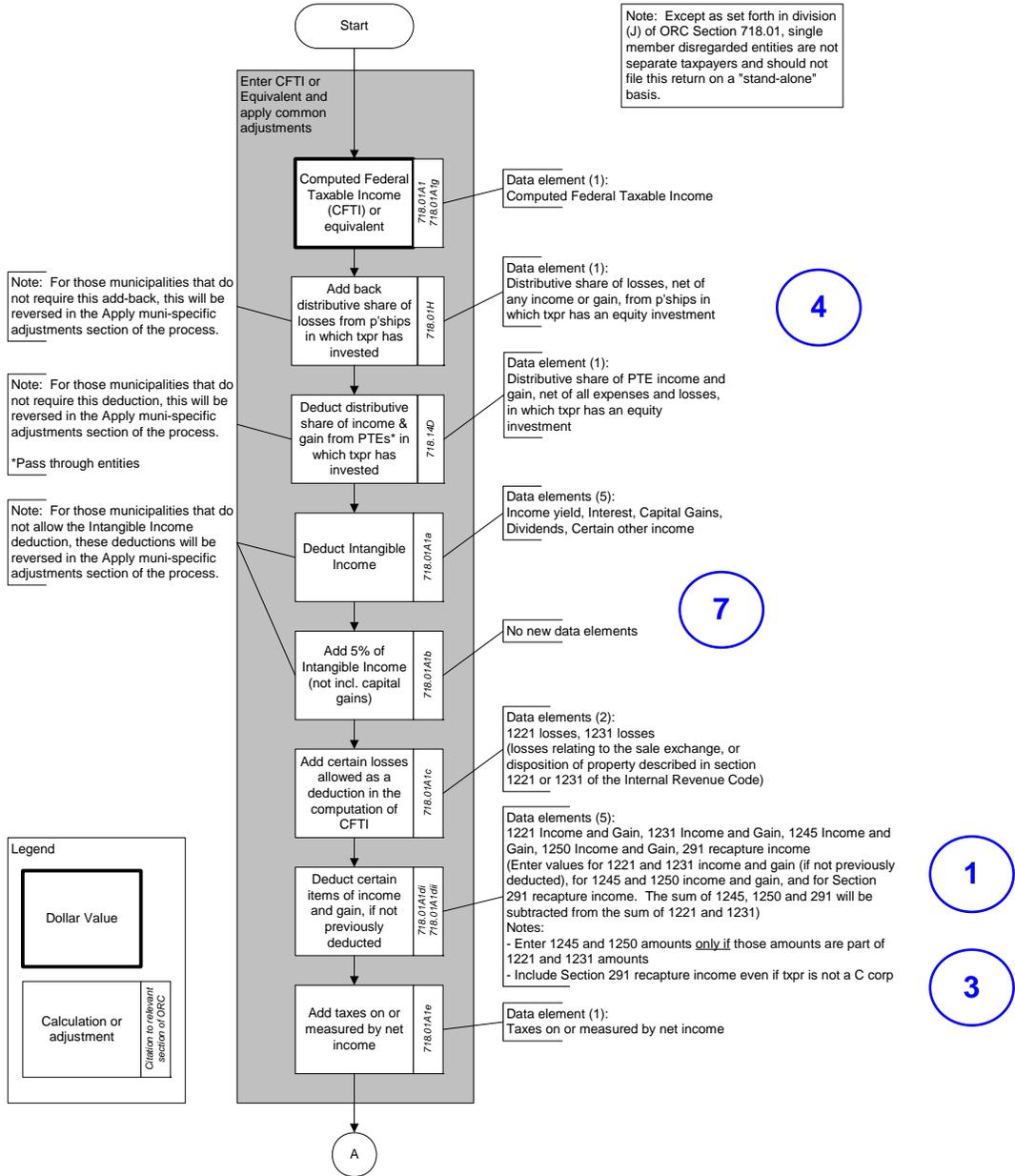
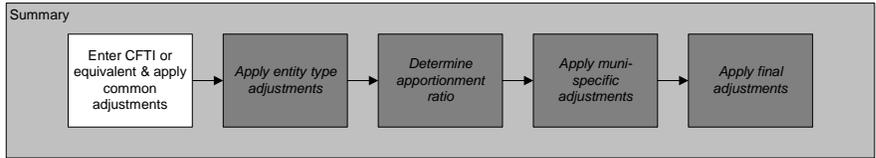
Response: This has not been addressed directly in the flow, but by clarifying that partnerships should enter their CFTI based on IRS form 1065, Analysis of Net Income (Loss), line 1.

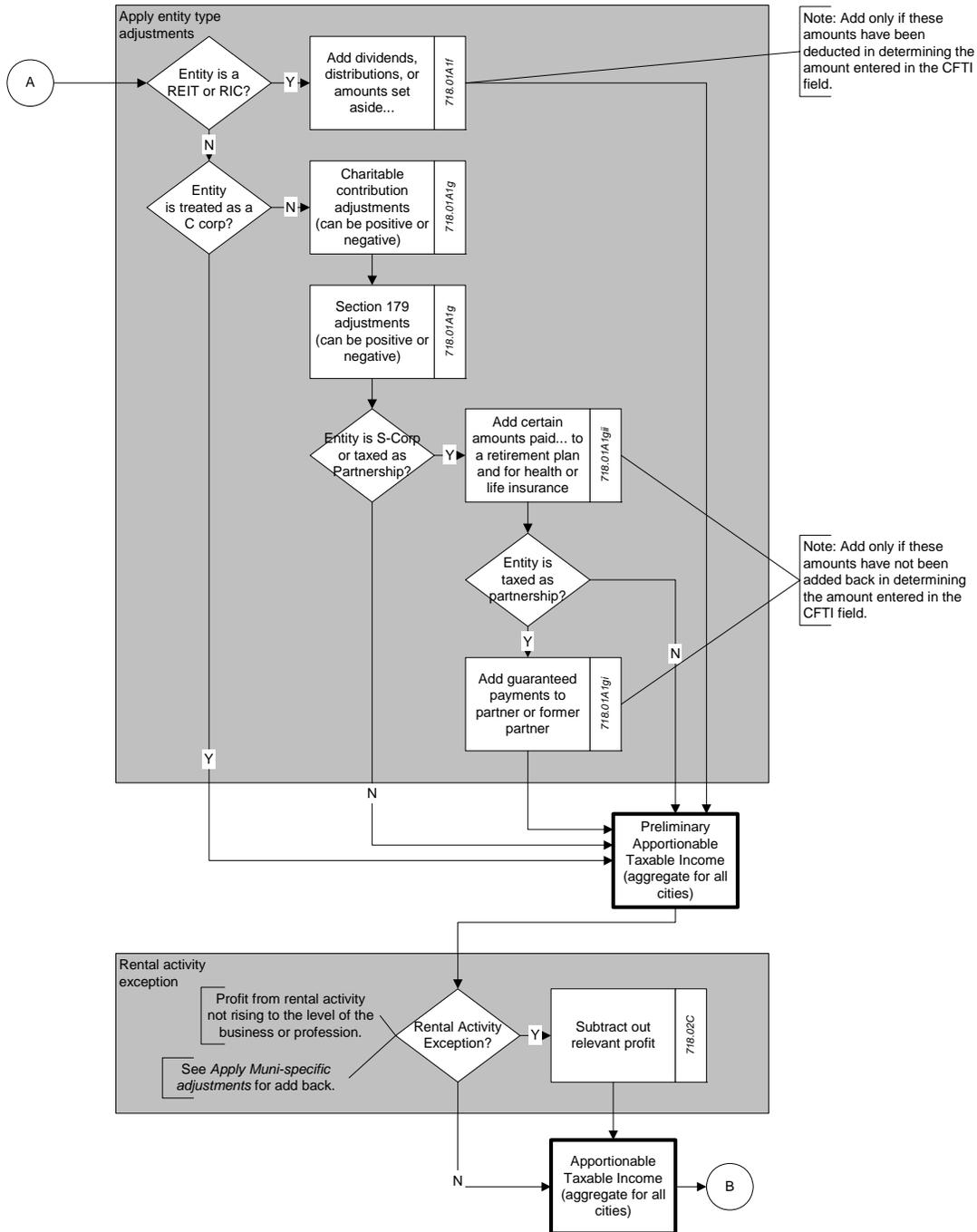
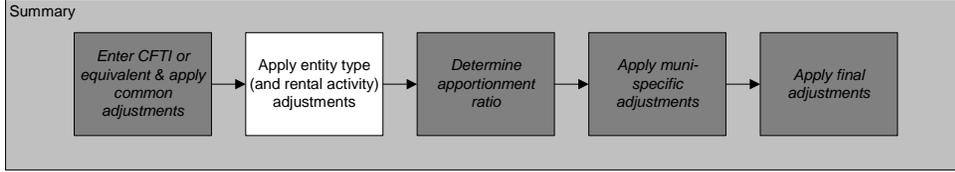
7. In accordance with O.R.C. 718.01(A)(1)(b) there shall be an add back to municipal taxable income for 5% of those assets that are not directly related to the sale, exchange, or other disposition of property described in section 1221 of the Internal Revenue Code (Ex. Interest, Dividends, Royalties from intangibles, etc.)

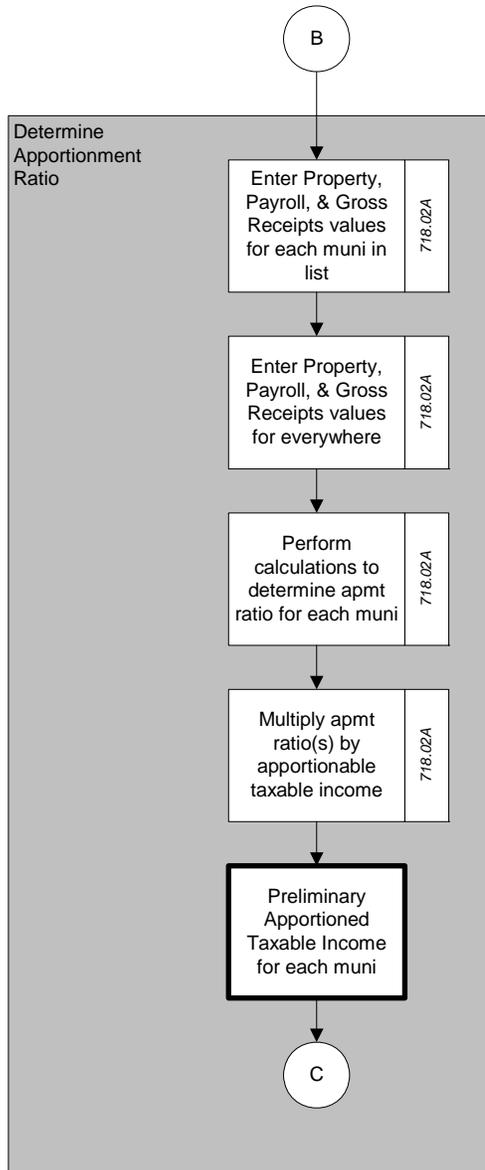
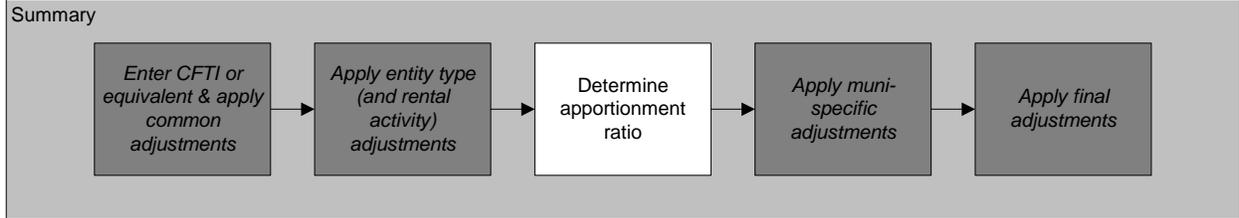
Response: This exists already in the flow. See ⑦

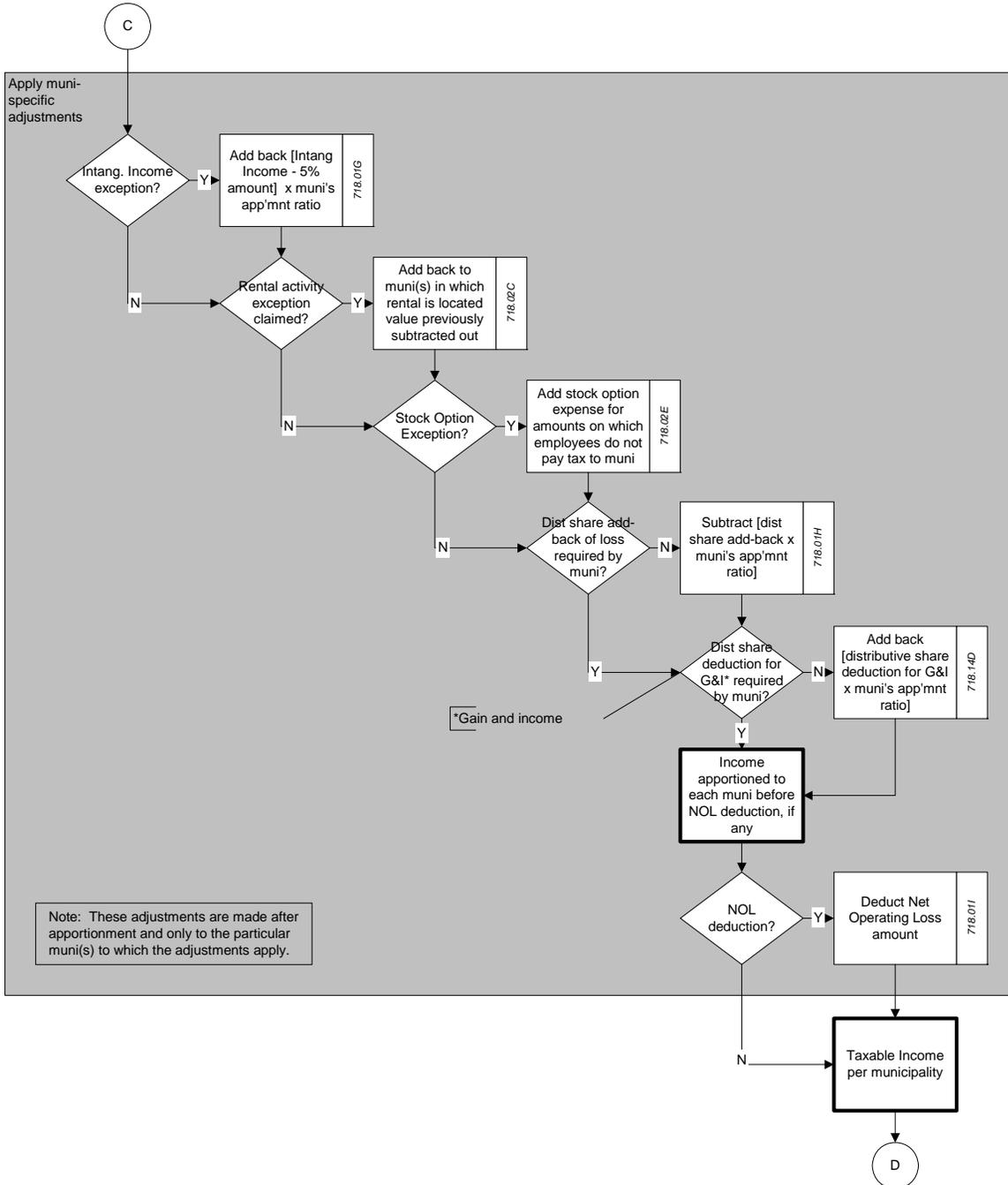
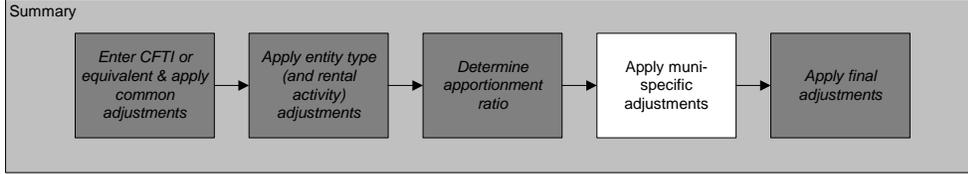
### 1.3 Revised process flow

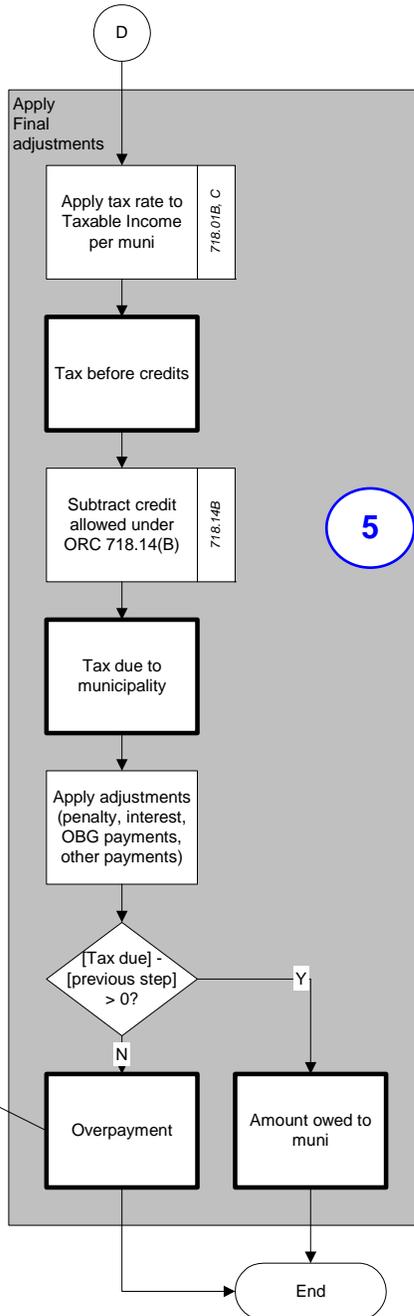
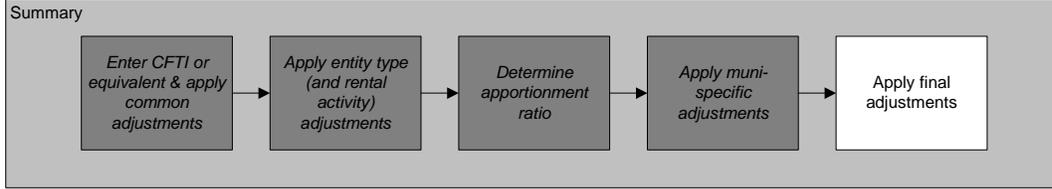
The numbers highlighted in the flow below correspond to the numbered comments in Section 1.2, above.











\*\*Note: The filer has the option to:

- credit this value to the following year
- request a refund
- split the value between the credit and refund categories (if allowed by muni)