CITY OF MASON BUSINESS INCOME TAX RETURN INSTRUCTIONS FORM BR

☐ **Complete Schedules X through Y-3 on page 2.**

SCHEDULE X – RECONCILIATION WITH THE FEDERAL RETURN

☐ **X-1. ADJUSTED FEDERAL TAXABLE INCOME:** 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. 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 the Form 1120S for subchapter S corporations or Line 1 page 5 of the Form 1065 Analysis of Net Income (Loss) for partnerships and limited liability companies.

a. Enter the amount included in Line X-1 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 X-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 X-1.

d. Enter 5% of the intangible income included in Line X-1 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. (5% of Line j.)

e. Add Real Estate Investment Trust distributions allowed as a deduction in the computation of Federal Taxable Income.

f. 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.

g. Enter the amount of loss incurred by a pass-through entity owned directly or indirectly by a taxpayer and included in the taxpayer's federal taxable income unless the loss is included in the net profit of an affiliated group in accordance with ORC 718.06 (E)(3)(b).

h. Other. Please provide a complete explanation. Examples: losses from flow-thru entities, 10% charitable contribution limitation.

☐ **X-2. TOTAL ADDITIONS:** Add lines a through h.

i. Enter the amount of the income that is included on Line X-1 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.

j. Enter the total amount of intangible income included in Line X-1 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 taxable 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 X-1 includes other income exempt from municipal tax, enter on this line and provide an explanation.

☐ **X-3. TOTAL DEDUCTIONS:** Add lines i through l.

☐ **X-4. NET ADJUSTED FEDERAL TAXABLE INCOME:** To Line X-1 *add* Line X-2 and *subtract* X-3. Enter the result on page 1, line 1.

☐ **SCHEDULE Y – APPORTIONMENT TO MASON**

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 Mason 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 the gross receipts of the business or profession from sales made and services performed during the taxable period in the City of Mason 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 Mason 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. Insert this percentage on Page 1, Line 4 of the return.

☐ **SCHEDULE Y-1 – WITHHOLDING RECONCILIATION:** Fill in requested information.

☐ **SCHEDULE Y-2 – USING 2015-2016 NOL:**

2015-2016 losses are taken *post-allocation*. Enter Mason-apportioned loss amounts from your 2015-2016 returns. (Do not include amounts already used to offset income in prior years.) Enter up to 100% of this Schedule Y-2 total on page 1, line 5.

☐ **SCHEDULE Y-3 – USING 2017-2019 NOL:**

2017-2019 losses are taken *pre-allocation*. Use this Schedule to determine the maximum 2017-2019 loss that may be used this year.

Line 1: Enter gross losses from tax years 2017-2019. (Do not include amounts already used to offset income in prior years.) Multiply the total of these losses by 50%. This is **LIMIT (1).**

Line 2a: Copy AFTI amount from Schedule X, line X-4.

Line 2b: Enter total 2015-2016 loss amount from Schedule Y-2. Divide this amount by the Mason-allocation percentage from Schedule Y, Step 5.

Line 2c: Subtract line 2b from line 2a, then multiply by 50% and enter as **LIMIT (2).**

Line 3: Compare **LIMITS (1)** and **(2)** and enter the ***smaller*** figure. This is the highest amount you may deduct on page 1, line 2.

☐ **Return to PAGE 1:**

Line 1: Enter Net Adjusted Federal Taxable Income from Page 2, Schedule X, Line X-4.

Line 2: Enter the portion of gross 2017-2019 losses being used (not to exceed loss limit calculated on page 2, Schedule Y-3).

Line 3: Add lines 1 and 2. (In effect, the value of the line 2 loss is being subtracted from line 1 gross income.)

Line 4: Enter the apportionment percentage from Step 5 of Schedule Y and multiply line 3 by this percentage.

Line 5: Enter up to 100% of losses carried forward from tax years 2015-2016.

Line 6: Add lines 4 and 5. (In effect, the value of line 5 loss is being subtracted from line 4 Mason-allocated income.)

Line 7: Multiply line 6 by 1.12%.

LINE 8a: Enter the amount of estimated tax payments including any amounts paid with an extension. Estimated payments may be subject to the underpayment of estimated tax penalty. Businesses must remit quarterly estimates equal to 100% of the prior year's tax or 90% of the current year's tax by Dec. 15th of the tax year (or by the 15th day of the 12th month of the fiscal year).

LINE 8b: Enter the amount of the overpayment from prior years credited to current year.

LINE 8c: Line 8a plus Line 8b.

LINE 9a: If Line 7 is greater than Line 8c, enter the tax due.

LINE 9b: If Line 8c is greater than Line 7, enter the overpayment.

LINE 9c & 9d: Enter penalty and interest for late filing and/or late payment. (see "General Information" sheet for rates.)

LINE 10: Enter balance due. If this amount is $10 or less, payment is not required.

LINE 11a: Enter the amount of the overpayment to be carried over to tax year 2021 estimated tax liability. If the amount is $10 or less, please enter $0.

LINE 11b: Enter the amount to be refunded. If this amount is $10 or less, please enter $0.

By law, all refunds and credits are reported to the I.R.S.

☐ **DECLARATION OF ESTIMATED TAX FOR 2021**

The taxpayer shall base the estimated tax on the preceding full year's tax liability, or on the preceding three-month period, annualized for the remainder of the year, and update this estimate by amendment as necessary each succeeding three-month period so that at least 90% of the annual tax liability to be ultimately determined shall have been paid by the due date of each installment payment.

LINE 12: Enter the amount of estimated income. Multiply by 1.12%. Enter the total estimated tax due on Line 12.

LINE 13: Enter the carryover credit from Line 11a.

LINE 14: Line 12 minus Line 13.

LINE 15: On or before the fifteenth day of the fourth month after the beginning of the taxable year, twenty-two and one-half per cent of the tax liability for the taxable year is due.

☐ **LINE 16:** Combine Line 10 and Line 15 to determine the total amount due.

CITY OF MASON INCOME TAX RETURN FORM BR
GENERAL INFORMATION

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 Mason, whether or not such corporation has a place of business in Mason.

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.

Resident shareholders are required to include the distributive income and losses on their individual returns. If a taxable income is reported, credit may be claimed for taxes paid by the S corporation.

S corporations do not need to file and pay Mason income tax if all shareholders of the S corporation were residents of Mason for the entire year. The distributive share must be reported on the individual tax return of the S corporation's resident shareholders.

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.

A partnership does not need to file and pay Mason income tax if all partners were residents of Mason for the entire year. Individual partners must report the taxable income on their individual Mason tax return.

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.

ESTIMATED TAX PAYMENTS

Any entity anticipating taxable income is required to file a declaration of estimated income tax for the current year and to make quarterly payments throughout the year. Taxpayers must:

1. Have at least 90% of their current year's liability or an amount equal to 100% of their previous year's tax liability paid by December 15th of the tax year (or the 15th day of the 12th month of the fiscal year), and
2. Pay any remaining tax balance by April 15th (or the 15th day of the fourth month following the fiscal year end) **even if a *filing* extension has been granted;**

Otherwise, penalties and interest will be imposed as provided by the City of Mason Income Tax Ordinance.

WHEN AND WHERE TO FILE

The 2020 City of Mason Income Tax Return BR must be filed on or before April 15, 2021 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 **City of Mason Tax Office, 6000 Mason-Montgomery Rd, Mason, OH 45040**, along with appropriate payment. Checks should be made payable to "City of Mason Tax Office".

EXTENSION OF TIME TO FILE

Taxpayers can request an extension of time in which to file their Mason Income Tax Return by submitting a copy of their Federal extension request to the Tax Office **on or before the original due date of the return (preferred)**, or with the return. The extended due date of the municipal income tax return shall be the same date to which the due date of the federal income tax return has been extended. Please keep in mind, an extension of time to file is not an extension of time to pay. Penalty and interest charges will apply to all tax remaining unpaid after becoming due (see "ESTIMATED TAX PAYMENTS" for these due dates). No verbal extensions will be honored.

NET OPERATING LOSS (NOL) CARRYFORWARD

The City of Mason allows a five (5) year NOL carryforward period.

- 2015-2016 losses: Up to 100% of the NOL incurred in tax years 2015-2016 (as *allocated* to the City of Mason) may be used to offset 2020 income, *post-apportionment*.
- 2017-2019 losses: The deduction of *gross* losses incurred in tax years 2017-2019 is taken *pre-apportionment* and is limited to **the lesser of (1)** 50% of the unused loss from these years **and (2)** 50% of the net adjusted federal taxable income, taking any 2015-2016 losses into account. **Schedule Y-3** on page 2 of the Mason Income Tax Return (Form BR) can be used to accurately calculate the limit.

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 carry-forward loss deduction to the surviving or new taxpayer.

PENALTIES AND INTEREST

Tax returns not filed or postmarked 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).

Penalties and interest are also assessed for not paying at least 90% of the current year's tax liability or an amount equal to 100% of the previous year's tax liability by December 15th (or the 15th day of the 12th month of the fiscal year) and any remaining balance by the following April 15th (or the 15th day of the fourth month following the fiscal year end). The late payment 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.

ADJUSTED FEDERAL TAXABLE INCOME (AFTI)

As defined by Ohio Revised Code 718.01, AFTI means a C corporation's federal taxable income before net operating losses and special deductions. 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 the Form 1120S for S corporations or Line 1 page 5 of the Form 1065 Analysis of Net Income (Loss) for partnerships and limited liability companies. **A copy of the Federal Tax Return (the entire form and schedules) is required to be submitted with the Mason Income Tax Return, including K-1s and form 1125A.**

DISCLAIMER

Definitions and instructions are illustrative only. The City of Mason Income Tax Ordinance and the Ohio Revised Code supersede any interpretation presented.