

CITY OF FINDLAY INCOME TAX DEPARTMENT

PRACTITIONER NEWSLETTER

JANUARY 10, 2020

College Students' Wages

As of January 1, 2018, we ended the courtesy exemption/exclusion for a college student who works in other communities and has not officially changed his or her domicile from Findlay, Arlington, Mount Cory, Vanlue, Carey, or Mount Blanchard to the community where he or she attended school. Income and wages earned on campus, off campus, elsewhere, and through internships are considered taxable for resident individual students as of January 1, 2018. See Ohio Revised Code 718.01(J) and 718.012.

2106 Expenses Not Deductible

Our understanding is that the Federal deduction for unreimbursed employee business expenses is not an allowable itemized deduction on the Federal Schedule A. As a result, these expenses will not be deductible on the Findlay, Arlington, Mount Cory, Vanlue, Carey, or Mount Blanchard municipal income tax returns.

Ohio Revised Code 718.01(A)(2), in part: "In computing the municipal taxable income of a taxpayer who is an individual, the taxpayer may subtract, as provided in division (A)(1)(b)(i) or (c) of this section, the amount of the individual's employee business expenses reported on the individual's form 2106 that the individual deducted for federal income tax purposes for the taxable year."

Carey and Mount Blanchard

Effective January 1, 2019 the City of Findlay began administering the municipal income tax for the Villages of Carey and Mount Blanchard.

	Age Subject to the Tax	Age Required to File	Tax Rate	Credit	C/F Loss thru 2015
Findlay	16	16*	1.00%	0	5 years
Arlington	16	16*	1.00%	1.00%	5 years
Mount Cory	18	18	1.00%	0	na
Vanlue	18	18	1.00%	0	na
Carey	16	16*	1.50%	1.00%	0 years
Mount Blanchard	18	18	1.00%	0	na

*Age 16 and 17, if income subject to the tax. Age 18 even if no taxable income.
Carey's resident individual mandatory filing requirement began with tax year 2019.
Mount Blanchard's income tax was effective January 1, 2019.

Schedule E

Including page 2 of the Schedule E and exhaustive supplemental or substitute statements and Schedules K-1 is extremely helpful to your clients whenever they have income reported on Form 1040, Schedule 1, line 5, even if the tax was already paid entirely at the entity level.

Include the 1040

For resident individuals, pages 1, 2, and Schedule 1 of the Federal 1040 are essential to the local filing. Please encourage your clients to keep these pages attached to their Findlay, Arlington, Mount Cory, Vanlue, Carey, and Mount Blanchard municipal income tax returns.

Federal Forms and Schedules to Include

Resident Individual	C Corporation	S Corporation	Partnership-LLC
1040 page 1, page 2, and Schedule 1	1120 pages 1-6	1120S pages 1-5	1065 pages 1-5
W-2s	1125-A	Schedules K-1	Schedules K-1
Schedule C pages 1-2	4562	1125-A	1125-A
Schedule E pages 1-2; and supplements	4797	4562	4562
Schedule K-1 from 1120-S	7004	4797	4797
Schedule K-1 from 1065	Statements	8825	8825
4797		7004	7004
Schedule F		Statements	Statements
4835			
Statements			
4868 extension request or equivalent			
1099-MISC (as payer—not as recipient; copies of Forms 1099-MISC issued to the IRS should also be sent to Findlay)			
8582 (if Schedule E rental losses are limited or suspended for Federal tax purposes)			
Schedule D (if rental properties were sold)			

Due Date

Per Ohio Revised Code 718.05(G)(1), we believe all calendar-year 2019 Ohio municipal income tax returns and 2020 first-period estimate payments are due Wednesday, April 15, 2020.

S Corporations and Partnerships

Amounts paid or accrued to or for qualified self-employed retirement plans, health insurance plans, and life insurance plans for owners or owner-employees of non-C corporation entities are not deductible and must be added back to determine the “adjusted Federal taxable income” for Ohio municipal income tax purposes. See ORC 718.01(E)(10). Although these are no longer taxable to S corporation shareholders/employees as wages, we’ll consider them taxable to resident shareholders as untaxed distributive shares when not already reported at the entity level, unless otherwise prohibited by Chapter 718 of the Ohio Revised Code.

If material amounts exist as deductions, particularly on lines 18 or 19 of a 1065 or line 18 of an 1120-S, we’ll likely have to assume that the owners are participants and thus expect an addback on the Schedule X. If the owners are not participants, we recommend you make a notation in a conspicuous place on the return.

S corporation shareholder health insurance benefits included in the W-2 box 1 Federal wages, but excluded from the W-2 box 5 Medicare wages should not be considered taxable employee wages for Ohio municipal income tax purposes. See Ohio Revised Code 718.01(C)(14), 718.01(R), and 718.03.

Single-member LLCs

For single-member LLCs owned by an individual, please use the Social Security number as the account number and continue to include the Schedule Cs.

S Corporations and Shareholders

Arlington, Mount Cory, Vanlue, Carey, and Mount Blanchard are prohibited from imposing tax on resident shareholders' distributive shares from S corporations. As a result of the two bills mentioned below, the villages are limited to imposing tax on S corporations only at the entity level.

Bills originating in both the Ohio House and the Ohio Senate established voting requirements available only to communities that were imposing tax on this income by ordinance, rule, or regulation as of December 2002. Senate Bill 180 of the 124th Ohio General Assembly established a November 2003 voting requirement for distributions from interstate S corporations, followed by House Bill 127 of the 125th Ohio General Assembly that established a November 2004 voting requirement for distributions from intrastate S corporations.

No Netting Effective January 1, 2016

Effective January 1, 2016, business, farm, and rental losses (Schedules C, E, F, K-1, and Forms 4797 and 4835) are not permitted to be netted against wages or against other income to reduce taxable income.

All business, farm, and rental profits and all business, farm, and rental losses can be netted together, but if the net result is a loss, it must be carried forward to future years and only in accordance with the carry-forward loss provisions of Section 718.01 of the Ohio Revised Code. A net loss incurred in tax year 2016 cannot be carried forward to any tax year. See Ohio Revised Code 718.01(B)(1)(b)(i) and (D)(3)(b).

2016 Carry-forward Losses

Due to an involuntary gap between the old income tax ordinances and the new state-mandated carry-forward loss provisions, a net loss incurred for Findlay, Arlington, Mount Cory, or Vanlue in tax year 2016 cannot be carried forward to any tax year. Carey and Mount Blanchard had no existing carry-forward loss provisions.

Lottery and Gambling

ORC 718.01(B)(4): "'Income" means the following: Lottery, sweepstakes, gambling and sports winnings, winnings from games of chance, and prizes and awards. If the taxpayer is a professional gambler for Federal income tax purposes, the taxpayer may deduct related wagering losses and expenses to the extent authorized under the Internal Revenue Code and claimed against such winnings."

Extension Requests Honored When Attached

We do not require Federal extension requests to be submitted by the original due date. We will continue to honor timely and legitimate Federal extension requests when they are attached to Findlay and village income tax returns that are filed by the extended due date. The extension is for filing the return, not for paying the tax.

ORC 718.05(G)(2)(a): "Any taxpayer that has duly requested an automatic six-month extension for filing the taxpayer's Federal income tax return shall automatically receive an extension for the filing of a municipal income tax return. The extended due date of the municipal income tax return shall be the fifteenth day of the tenth month after the last day of the taxable year to which the return relates."

Third-party Sick Pay

We will continue to exempt short-term and long-term third-party sick pay.

Long-term (in excess of six months) third-party sick pay or disability is exempt because it is excluded from the W-2 box 5 Medicare wages. [ORC 718.01(R)(1)(b)]

Business Property Transactions

Tax is imposed on individuals' gains on sales of real estate and tangible personal property used in business to the extent of depreciation taken [ORC 718.01(E)]. Please include a copy of Form 4797 for all the municipal income tax returns submitted to Findlay if the 4797 exists or should exist as part of the Federal return.

Treatment of property transactions for all other entities is addressed in ORC 718.01. IRC section 1231 losses are not deductible by any non-individual business entities. Ordinary income under IRC 291 also applies to S corporations, partnerships, limited partnerships, and limited liability companies per ORC 718.01.

Precinct Election Official Compensation

ORC 718.01(C)(5): "Compensation paid under Sections 3501.28 or 3501.36 of the Ohio Revised Code to a person serving as a precinct election official to the extent that such compensation does not exceed one thousand dollars for the taxable year. Such compensation in excess of one thousand dollars for the taxable year may be subject to taxation by a municipal corporation."

Filing Requirements

Findlay, Arlington, Mount Cory, Vanlue, Carey, and Mount Blanchard resident individuals who are 18 years of age or older are required to file even if they had no taxable income.

Findlay, Arlington, and Carey resident individuals who are 16 or 17 years of age and who have income that is subject to the tax are required to file, even if no additional tax is due.

For all six municipalities, we still accept a "final" return for any individual who is retired or will otherwise have no taxable income.

We'll be expecting a tax return from any individual or business that received a postcard filing notice.

Mount Cory, Vanlue, and Mount Blanchard individuals are subject to the tax at age 18.