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To: All Tax Preparers

From: Diane Haas, Tax Administrator, Village of Ottawa Hills

Business Income, Netting, Loss Treatment and Attachments for Resident Taxpayers

Individuals with business income and losses are permitted to net these sources within the current year, with spouse business sources on joint returns, and with prior year losses. Business incomes and losses will all tie to amounts reflected on the Federal 1040, and supported by schedules within the 1040; all of which must now be attached to the local return. These may include: Schedule 1, C, E (pages 1 and 2 if both apply), F, Farm Rental 4835, ordinary gains reflected on the 4797, as well as miscellaneous income reflected on Line 8 of the 1040 Schedule 1 (1099-MISC, Fiduciary fees, Gambling/Lottery winnings, taxable HSA amounts, etc.). Supporting schedules may also be necessary in various cases. For Ottawa Hills, a full listing of all the pass-through entities (whether on Schedule E page 2 or a supplementary schedule) is necessary to ensure all S-Corp effects are excluded; these entities are treated as corporations, therefore, their income or loss is not passed to the owners for the Village return.

Using prior year losses now require special calculations as specified on the Village return page 3. Wages are not considered business income and cannot be reduced by either current or prior year losses. Ensure all W-2s, Federal 1040, Federal schedules and sub-schedules, and other local returns are attached to verify income, losses, and local taxes paid or withheld.

Ordinary gains relating to recapture of depreciation as reflected on the 4797 (and flow to Schedule 1 Line 4) are taxable and must be included when they relate to business income taxed by the Village. In the event these ordinary gains originate from an S-Corp, documentation of the connection will allow for netting out those gains.

Non-Resident Businesses and Application of Prior Year Losses – Phase-in Limitations

Beginning with tax year 2017, non-resident businesses filing local net profit returns were to record their losses at the gross amount (before allocation) for carry forward. Non-resident businesses with losses prior to 2017 recorded allocated losses. These 2 different kinds of losses must be properly applied to income within the different sets of rules. In addition, Ohio Revised Code specifies that these losses are subject to a 50% limitation during the 5-year phase-in period (2018-2022). Due to the complexities in applying these losses correctly, the Village form has been redesigned and expanded to a third page. Worksheets on page 3 total the 2 kinds of losses and provide the steps to properly apply them. While this worksheet is not the only way to apply the losses, it will provide a guide in working through the calculations. Reasonable alternatives may also be accepted as long as proper worksheets and documentation are submitted with the return.

Adjusting Credits for Resident Taxpayers

Complexities with business netting and application of losses have increased corrections to credit amounts for our residents. While our credit rate and rules remain unchanged, it is still necessary to attach all W-2s with all federal and local amounts, work city returns and partnership K-1 statements verifying tax withheld or paid. Income reduced by losses or deductions require reducing the work city credit accordingly.

Partnership Resident City Filing on Behalf of All Partners

It is now mandated that partnerships file and pay local tax where the partnership is located and where the partnership is doing business. This is to be paid at the entity level and allocated to each owner for credit on the individual returns. Documentation of this tax paid on the partner’s behalf is required to be attached to the Village return for credit allowed against the taxable income.