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To: All Tax Preparers

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

Non-Resident Refund Claims for Work from Home Due to COVID-19 and Beyond

For tax year 2021, employees with work city withholding who had worked remotely are able to file for work city refunds for days they are not present in the work city. Employers are required to attest to the days worked in the work city and state that no employer refunds were issued for those days. As was true with travel NRRs, Village residents must subtract refunds from the tax withheld or paid before applying the credit factor. Assigning the refunds to Ottawa Hills allows for making that adjustment and, of course, overpayments above the adjustments can be refunded or carried forward as the resident wishes. To ensure the assignment can be applied to the return, our office requires the original, completed, and signed forms to forward to the various work city tax offices with the required attachments (list of days not in the work city, copy of W-2(s), and Fed 1040). Our office will assist taxpayers and preparers with the preparation of these forms. When a taxpayer insists on remitting the NRR to the work city, a copy of the return must be attached to the Village return for verification of the necessary credit adjustment. Taxpayers who fail to disclose refunds will be subject to late payment fees when the work city notifies the resident city. Such local tax office sharing is permitted in Ohio Revised Code Section 718.

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 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-NEC, Fiduciary fees, Gambling/Lottery winnings, taxable HSA amounts, etc.). Please provide verification with supporting schedules. 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; S-Corps 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 (Section 1245, 1250 property) on the 4797 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.

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 paid. Income reduced by losses or deductions require reducing the work city credit accordingly.

Partnership Resident City Filing on Behalf of All Partners

Partnerships are required to file and pay local tax where the partnership is located and where the partnership is doing business at the entity level and allocate the amounts to partners for credit on the partner's individual return. Documentation in the K-1 required to be attached to the Village return for credit on the income.