

BOONE COUNTY FISCAL COURT

Boone County Net Profit Instructions 2011

Boone County Finance Department

These instructions are a working tool for interpreting and administering the Boone County Ordinance 07-27. We have made every attempt to address the most common concerns however the instructions do not address every issue.

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Net Profit License Tax Return

General Instructions:

The following instructions are provided to aid the taxpayer in the completion of the Net Profit Tax Return. They are not intended to be all-inclusive and therefore should be used only as a supplement to the existing ordinances and regulations. If you have any questions that are not addressed in these instructions please refer to the Occupational License Fee Ordinance 07-26 or the Boone County Regulations found on our website.

Who must file Form a Net Profit Tax Return:

Each separate corporation, limited liability company, partnership, limited partnership, registered limited liability partnership, sole proprietorship, association, joint stock company, receivership, trust, professional service organization, or other legal entity engaged in business with business activity in Boone County.

Individuals who receive wages, salaries, commissions, or other compensation for work done or services performed in Boone County, Kentucky from which the full amount of occupational taxes due have not been withheld by their employer and remitted to the Boone County Fiscal Court.

Individuals having rental income from real property, where property is a warehouse, apartment hotel, hotel building, office building, or other similar structure where payments typically are made for both the privilege of occupying the property and/or for services provided for the convenience of the occupant, are presumed to be in business.

Individuals whose receive income arising from the rental of real property within Boone County, Kentucky.

A Tax Form Must Be Filed Even If:

Your business activity resulted in a loss for the tax year.

You were not actively engaged in business during the tax year but do intend to resume operations at a future date.

Your business was operational for a portion of the tax year but ceased operation prior to completion of the fiscal period. Complete the tax form according to the instructions provided and attach a copy of the Change/Closure form to finalize you account with the Boone County Occupational License Office.

When to file:

The Net Profit Tax Return must be delivered or postmarked by the 15th day of the 4th month after the end of the fiscal year.

Form 1099 Misc must be delivered or postmarked by February 28th following the close of the calendar year in which non-employee compensation payments were made.

Where to file:

All returns with a payment due should be mailed to Boone County Fiscal Court, PO Box 457, Florence, KY 41022-0457.

All returns without a payment due should be mailed to Boone County Fiscal Court, Po Box 960, Burlington, KY 41005-0960.

Signature:

If the return is being filed by a corporation, it must be signed and dated by a corporate officer authorized to sign. If the return is being filed by a partnership, it must be signed by a general partner. If a return is being filed by a sole proprietor or individual, it must be signed by that individual. A return that is not signed may be returned and may incur late filing and interest charges.

Extensions:

If an extension is required, a separate extension request to the Boone County Fiscal Court is mandatory in all cases. You must file Form 0506 along with a copy of your federal extension application to request an automatic 6-month extension to file the Net Profit Tax Return. The extension request must be properly signed by the authorized agent and received on or before the due date of the filing. All extension requests should include your five digit Boone County account number. Any estimated tax due must be paid by the 15th day of the fourth month following the close of the fiscal year end.

Interest at the rate of 12 percent per annum shall apply to any unpaid license tax during the period of extension and shall be included with the amount remitted in payment of the occupational license tax at the time of filing the Net Profit Tax Return.

An extension request will be granted with the understanding that all prior filing and payment requirements have been fulfilled. However, if upon further examination it becomes evident that prior filing and payment requirements have not been fulfilled: interest and penalty shall be assessed in full and in the same manner as though no extension had been granted.

Estimated Tax:

If an extension of time for the filing of a return has been granted, any balance of the occupational license tax unpaid by the regular due date bears interest at the rate of twelve percent (12%) per annum.

Late Filing/Paying Penalty:

There is a five percent (5%) penalty per month or a fraction of a month to a maximum of twenty-five percent (25%) for failure to file and/or pay timely. The minimum late filing/paying penalty is \$25 per taxing jurisdiction.

Interest:

Interest is computed at one percent (1%) penalty per month or a fraction of a month (twelve percent 12% per annum) from the original due date until the date of payment.

Refund Request:

Claims for refund or credit must be submitted within two (2) years from the filing of the tax return or due date of the tax return, or two years from the date the overpayment was made, whichever is later.

Accounting Methods:

Consolidated Returns – Are not permitted in filing this return. If a corporation which is subject to the occupational license tax is included in a consolidated return, that corporation shall submit the following:

1. The Net Profit Tax Return is based upon the taxable income (or loss) of the corporation subject to the occupational license tax, not the consolidated taxable income.
2. A copy of the consolidated Form 1120 or its equivalent.
3. A computation sheet allocating all revenue and expense items on the consolidated Federal return to each corporation included in that consolidated return.

Separate Accounting Method –is not permitted in the filing of this return. Therefore, if any entity has operations both within and outside Boone County, Kentucky, the total profit or loss per the Federal return of the entity should be reported on this return. The total profit or loss is to be multiplied by the apportionment factor or receipts and wages earned.

ADJUSTED BUSINESS CALCULATION PAGE (Page 2 of the Net Profit Return)

Line 1 Enter the amount of non-employee compensation reported in federal form 1099 MISC. Note: Line 1 should only be completed by individuals who receive payments for contract services who are not claiming business expenses and did not own or operate a business during the year .(Attach a copy of Federal Form 1040 page 1 and Form 1099 Misc)

Line 2 Enter the net profit or (loss) per Line 31 of Federal Schedule C or Line 3 per Federal Schedule C-EZ (attach a copy Schedule C, Pages 1&2, Schedule C-EZ)

Line 3 Enter the net rental profit of (loss) per Line 41 of the Federal Schedule E (attach a copy of Schedule E)

Line 4 Enter the net farm profit or (loss) per Line 34 of the Federal Schedule F (attach Schedule F, Pages 1 & 2)

Line 5 Enter 100% of the short-term capital gains and long term capital gains from Federal Form 4797 or Form 6252 (installment sales) of Federal Schedule D representing gain from the sale of property used in a trade or business (attach Form 4797, Pages 1 & 2 or Form 6252)

Line 6 Enter the net gain or (loss) from the sale of property used in the trade of business per Federal Form 4797 (attach Form 4797, Pages 1 & 2)

Line 7 Enter the “ordinary income of (loss) per Federal Form 1065” from Line 22 of Federal Form 1065 (attach Form 1065, Pages 1-4, Schedule of other Deductions and Rental Schedule(s), if applicable)

Line 8 Enter “Taxable income or (loss) per Federal Form 1120.” Insert the amount from Line 30 of Form 1120.

Line 9 Enter “Taxable income or (loss) per Federal Form 1120S or Federal Form 1120-REIT”. Insert the amount from Line 21 of 1120S, or Line 22 of Form 1120-REIT. *(NOTE: THE AMOUNT IS THE INCOME AFTER NET OPERATING LOSS, SPECIAL DEDUCTIONS, AND WITH A FORM 1120-REIT AFTER “TOTAL DEDUCTION FOR DIVIDENDS PAID”.)*

Line 10 – Add to taxable income deductions taken for taxes which are calculated based on income.

Lines 11 – Additions from Federal Form 1065 and 1120S – This line does not apply to entities filing form 1120, 1120-REIT or Sch. C.

Income items that are reported on the Schedule K that are added to taxable Net Profit. Attach copy of Schedule K and rental schedule(s), if applicable.

1. Net income from rental real estate – Line 2 Sch. K
2. Net income from other rental activities – line 3a of Sch. K
3. Guaranteed payments to partners – Line 4 of Sch. K (1065 ONLY)
4. Interest income – Line 5 of Sch. K on 1065, Line 4 of Sch. K on 1120S
5. Dividend income – Line 6 of Sch. K on 1065, Line 5 of Sch. K on 1120S
6. Royalty income – Line 7 of Sch. K on 1065, Line 6 of Sch. K on 1120S
7. Net short-term capital gain – Line 8 of Sch. K on 1065, Line 7 of Sch. K on 1120S
8. Net long-term capital gain – Line 9a of Sch. K on 1065, Line 8 of Sch. K on 1120S
9. Net gain under Section 1231 (other than due to casualty or theft) – Line 10 of Sch. K on 1065, Line 9 of Sch. K on 1120S
10. Other income – Line 11 of Sch. K on 1065, Line 10 of Sch. K on 1120S

Line 12 – “Net operating loss deducted on Form 1120 or 1120-REIT”. Add the amount from Line 29a of the Federal Form 1120 or 21a of the Federal Form 1120-REIT. This line does not apply to entities filing Form 1120S.

Line 13 - Ordinary loss from other partnerships or S Corporations which is included in income on Line 7 or Line 9 of Page 2 Calculation of adjusted business income. Please note the name of the entity and the Boone County account number for the pass through entity.

Line 14 – Add lines 1 through 13

Line 15 – – **Deductions from Federal Form 1065 and 1120S – This line does not apply to entities filing form 1120, 1120-REIT or Sch. C.**

Deduction items that are reported on the Schedule K that are subtracted from taxable Net Profit. Attach copy of Schedule K and rental schedule(s), if applicable.

1. Net loss from rental real estate
2. Net loss from other rental activities
3. Portfolio loss
4. Net short-term capital loss
5. Net long-term capital loss
7. Other portfolio loss
8. Expense deductions for recovery property (Section 179)-Line 12 of Sch. K on 1065, Line 11 of Sch. K on 1120S
9. Net loss under Section 1231 (other than due to casualty or theft)
10. Charitable contributions – Line 13a of Sch. K on 1065, Line 12a of Sch. K on 1120S
11. Deductions related to portfolio loss

Subtractions from Schedule K of Form 1065 are the same as deductions for an S-Corp.(Note – The following items shall NOT BE DEDUCTIBLE for purposes of determining the taxable net profit when they are reported on Schedule K as being paid on behalf of a partner by the partnership)

- a) Health and life insurance premiums
- b) Amounts contributed to a Keogh, SEP, or any other self employment retirement plan
- c) Amounts paid for self-employment taxes

Line 16 – Enter the Alcohol Beverage Sales Deduction (see instructions below for calculation of this deduction).

ALCOHOL BEVERAGE SALES DEDUCTION

There is no occupational tax assessed on the net profit earned from the sale of alcoholic beverages in Kentucky and to the extent that a licensee's net profit is derived from the sale of alcoholic beverages within Kentucky, thus a deduction may be taken from the Licensee's total net profit derived from all sources. A deduction may be taken only if the business engaged in selling alcoholic beverages had a profit.

Divide the total Kentucky alcoholic beverage sales by the total gross receipts of the business, including non-alcoholic beverage sales.

Sole Proprietors - Multiply the alcoholic beverage percentage by the net profit of the business engaged in the sale of alcoholic beverages reported on Line 2.

Partnerships – Multiply the alcoholic beverage percentage by Line 14, minus the sums of Line 15, 18, 19 and 20.

Corporations – Multiply the alcoholic beverage percentage by Line 14, minus the sums of Line 15, 18, 19 and 20.

Line 17 – Ordinary income from other partnerships or S Corporations which is included in income on Line 7 or Line 9 of Page 2 Calculation of adjusted business income. Please note the name of the entity and the Boone County account number for the pass through entity.

Line 18 – Items that would be included on this line are as follows:

- a) An adjustment for business expenses which is elected by the taxpayer as a credit against federal income tax liability in lieu of a deduction for business expenses otherwise available to the taxpayer. Some of them include:
- b) If wages and salary expense is being reduced as a result of the new jobs or win credit
- c) If the depreciable basis of an asset was reduced by the amount of investment credit claimed, then ACRS depreciation may be taken on that basis reduced over the life of the asset.
- d) An adjustment for the total deduction for dividends paid and the Section 857 (b) (2) (E) deduction. (Note: The amount is reported on Line 21c of the Federal Form 1120-REIT. This amount is the distribution of income to the owners. Since the occupational license fee is not assessed on the owners, the amount must be added back to taxable income.

Line 19 – Corporate taxpayer may deduct, if substantiation is provided by including a completed copy of Schedule C of the Federal Form 1120, the following amounts (net of the deductions properly allocated thereto) without proof of non-unitary source.

- a) An adjustment for income from foreign sources. Taxpayers may deduct the following amounts without proof of non-unitary source:

- b) Foreign dividend gross-up under Section 78 of the Internal Revenue Code. (Note: The amount is reported on the Federal Form 1120, Page 2, Line 15 of Schedule C.)
- c) Income from controlled foreign corporations under subpart F, not actually received, (Note: The amount is reported in the Federal Form 1120, Page 2, Line 14 of Schedule C.)
- d) Other dividends from foreign corporations. (Note: The amount is reported on the Federal Form 1120, Page 2, Line 13 of Schedule C. The total dividend amount is also reported as “Dividends” in the income section of the Federal return.)
- e) Interest earned on US Obligations

Line 20 – If a partner incurs out-of-pocket expenses in connect in with providing services to a partnership, those expenses are deductible on the partner’s individual tax return if the partnership agreement states in writing that the partner pay the expenses. If the partner has the right to be reimbursed, but fails to obtain reimbursement, the partner is not entitled to the deduction. The out-of-pocket expenses are deducted on the partner’s individual return, Schedule E, Part II, column (i). If the partner is allowed to deduct the expenses on their individual return, then a deduction is permitted on their local occupational license return. Attach a schedule detailing these expenses.

Line 21 – Total Deductible items – add lines 15 through 20

Line 22 – Adjusted Net Business Income – Subtract Line 21 from Line 14 – if the amount is a loss enter zero as the adjusted net business income.

Computation of Apportionment Percentages

- 1) If 100% of the business is conducted in Boone County, enter 100% on Line 26.
- 2) All licensees whose business operations were not conducted entirely in Boone County must complete Lines 23 through 26, regardless of profit or loss.

Sales Factor

Line 23, column a: Enter the total gross receipts from sales, rents, services in the ordinary course or usual trade of business earned within Boone County during the period covered by the return.

Line 23, column b: Enter the total gross receipts from sales, rents, and services in the ordinary course of usual trade of business earned everywhere during the period covered by the tax return. Note: This amount equals the “gross receipts less returns and allowances” as reported on the federal income tax return. If the taxpayer’s principal business within the locality is rental income, then the amount would include the total gross rents as reported on Federal Income tax return. This amount does not include interest, dividends, or sale of business property. If the taxpayer’s principal business is the sale of property, then the sales are reported in the “gross receipts” amount for Federal Income tax purposes. Income as reported on the Federal Form 4797 is from casual sales, not from the ordinary trade or business and should not be considered in determining the Gross Receipts factor.

Line 23, column c: Divide column a by column b. Enter the result on Line 23, column c.

Payroll Factor

Line 24, column a: Enter the total compensation paid to employees for services rendered in Boone County during the period covered by the return. This amount should equal the amount of Total Gross Earnings reported on the quarterly payroll withholding returns. Sometimes a difference is noted due to the accrual accounting process. In this situation, the auditor would request the taxpayer to submit a reconciliation of the difference.

Line 24, column b: Enter the total compensation paid to employees for services rendered everywhere during the period covered by the tax return. It would not include guaranteed payments to partners deducted on Federal Form 1065 because partners are not considered employees.

Line 24, column c: Divide column a by column b. Enter the result on Line 24, column c.

Line 25, column c – Add column C, Lines 23 and 24. Enter the result on Line 25, column c.

Line 26 – Divide Line 25, column c by the number of percents used on lines 23 and 24, column c. Enter the result on Line 26, column c. If both Lines 23b and 24 b are greater than zero, divide the entry on Line 25 by 2. If either Line 23b or 24 b is zero, enter the amount from Line 25 on Line 26, column c.

Line 27 – Multiply Line 22 by Line 26c and enter it on Line 27, column c.

Line 28, column a – Enter the amount from Line 27 here and on Page 1 Line 1 of the Net Profit Return. There is no maximum on this amount.

Line 28, column b – Enter the amount from Line 27 if the amount is under \$53,647; if the amount is over \$53,647 enter \$53,647. Also enter these amounts on Page 1, Line 5 of the Net Profit Return.

Line 29, column c - Enter the amount from Line 27 if the amount is under \$16,666; if the amount is over \$16,666 enter \$16,666. Also enter these amounts on Page 1, Line 10 of the Net Profit Return.

Net Profit Tax Return (Page 1)

Line 1 - Enter the amount from Page 2 of the Net Profit tax Return, Line 28, column a

Line 2 – Multiply Line 1 by $\frac{1}{2}$ of 1% (.005) and enter result here

Line 3 – If the return is postmarked after the due date please multiply Line 2 by 5% per month. If the amount is under \$25 the late filing penalty will be \$25. The late filing fee cannot be greater than 25% of Line 2.

Line 4 – if the return is postmarked after the due date of the return please multiply Line 2 by 1% for every month the return is late

Line 5 – Add lines 2, 3 and 4 and enter result here

Line 6 – Enter the amount from Page 2 of the Net Profit tax Return, Line 28, column b

Line 7 - Multiply Line 6 by $\frac{8}{10}$ of 1% (.008) and enter result here

Line 8 – If the return is postmarked after the due date please multiply Line 7 by 5% per month. If the amount is under \$25 the late filing penalty will be \$25. The late filing fee cannot be greater than 25% of Line 7.

Line 9 - if the return is postmarked after the due date of the return please multiply Line 7 by 1% for every month the return is late.

Line 10 – Add Lines 7, 8 and 9 and enter result here

Line 11 – Enter the amount from Page 2 of the Net Profit tax Return, Line 28, column C

Line 12 - Multiply Line 11 by $\frac{15}{100}$ of 1% (.0015) and enter result here

Line 13 - If the return is postmarked after the due date please multiply Line 12 by 5% per month. If the amount is under \$25 the late filing penalty will be \$25. The late filing fee cannot be greater than 25% of Line 12.

Line 14 - if the return is postmarked after the due date of the return please multiply Line 12 by 1% for every month the return is late.

Line 15 – Add Lines 12, 13, and 14 and enter the result here

Line 16 – Add lines 5, 10, and 15 and enter result here

Line 17 – Add annual business license fee. There is a minimum of \$25 for each business conducting business in Boone County, regardless if they have a physical location in our taxing jurisdiction. There is an additional \$25 for each additional physical location in Boone County.

Line 18 – Add Line 16 and Line 17 and enter the result here. This is the total amount due.

Line 19 – Please enter overpayments from a prior year that you had requested a credit for.

Line 20 – Please enter any estimated tax payments you submitted with your extension request.

Line 21 – Add Line 19 and Line 20 and enter the result here

Total Remittance – Subtract Line 18 from Line 21. If the result is a negative amount this is the additional amount owed to Boone County. If the amount is a positive amount this is an overpayment. Please check if you want your overpayment applied as a credit to next year's Net Profit tax return or refunded.

Signature

If the return is being filed by a corporation, it must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer or any other corporate officer authorized to sign.

If the return is being filed by a partnership, it must be signed by a general partner.

The licensee who signs the return must print his/her name, title, telephone number and e-mail address (if they have one) in the area provided.