

# INSTRUCTIONS FOR PREPARING CANAL FULTON TAX FORM

## EXEMPTION FORM

If you have reviewed the taxable/non-taxable income, and your only source of income is non-taxable, or if any of the exemptions apply and you have no taxable or reportable income, complete the **Declaration of Exemption Form. (Yellow copy)**

### Line 1 – WAGES

- (A) List employer's name.
- (B) List the actual work location city or township where employed for each employer. If wages were earned in more than one work location for an employer, list each location separately.
- (C) Enter Taxable Wages. Use W-2 Box 5 or Box 18, whichever is higher.
- (D) Enter City of Canal Fulton tax withheld.
- (E) Enter other city tax withheld or paid.
- (F) Each line of Column F must be calculated individually to determine the Credit Limit for Taxes Paid to another City. The credit limit is 50% of 1.5% tax.

**EXAMPLE**  $\$20,000.00 \times 1.5\% = \$300.00$ .  $\$300.00 \times 50\% = \$150.00$ . The Credit is \$150.00.

**PLEASE NOTE:** If the City where you work has a tax rate less than 1.5%, please review the next example:

**EXAMPLE**  $\$20,000.00 \times 1\% = \$200.00$ .  $\$200.00 \times 50\% = \$100.00$ . The Credit is \$100.00.

**PLEASE NOTE: CREDITS ARE ONLY GIVEN IF YOU PAY TAX TO ANOTHER CITY.**

Enter Totals for Column C, D and F. If additional lines are needed, attach worksheet.

### Line 2 – OTHER TAXABLE INCOME

List all other taxable income not reported elsewhere on this return. Types of income to be reported include fees, prizes, awards, gas and oil royalties, supplemental unemployment benefits, depreciation recapture and ordinary income shown on federal form 4797. Also, include income reported to you on form 1099 not reported elsewhere on the return except interest, dividend, pension, and social security income.

### Line 3 – TOTAL INCOME

Add lines 1C and line 2. Business losses may be carried forward for up to five (5) years, but cannot be used to offset income from salaries and wages.

### Line 4 – ADJUSTMENTS

- (a) Enter business expenses, form 2106, if applicable
- (b) Income earned while non-resident

### Line 5 – TAXABLE INCOME

Subtract line 4 from line 3.

### Line 6 – CANAL FULTON TAX

Multiply taxable income on line 5 by 1.5%

### Line 7 – CREDITS

- (a) City of Canal Fulton tax withheld (line 1D)
- (b) Estimated tax payments made
- (c) Credit limit for other City tax paid (line 1F) THIS MUST NOT EXCEED 50% of the 1.5% tax rate. NOTE: IMPORTANT MESSAGE: Withholding in excess of the 1.5% from one W-2 form MAY NOT be used as credit toward another W-2 form for earnings withheld at less than 1.5%.
- (d) Total lines 7(a), 7(b), and 7(c)

### Line 8 – BALANCE TAX DUE

If line 6 is greater than 7(d), the difference should be entered here. If the tax has been overpaid, enter the overpayment on line 11 and check the refund and/or credit box. No taxes or refunds of less than \$3.00 shall be collected or refunded.

### Line 9 – PENALTY, INTEREST AND LATE FILING FEES

**Penalty:** A penalty of 1% per month will be assessed for the first six (6) months on taxes remaining unpaid after April 15th. After six (6) months the penalty will be assessed at the rate of 2% per month.

**Interest:** Interest at 1% per month will be assessed the first of each month on taxes remaining unpaid after April 15th.

**Late Filing Penalty:** All returns filed after April 15th will be assessed a \$25.00

penalty, even if no tax is due. **NOTE: MAKE CERTAIN THAT RETURNS MAILED ARE U.S. POSTAL SERVICE POSTMARKED ON OR BEFORE APRIL 15th.**

### LINE 10 – BALANCE DUE

Add lines 8 and 9. **(MUST BE PAID IN FULL FOR 2013 INCOME TAX)**

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## REQUIREMENT FOR DECLARATION OF ESTIMATED TAX FOR 2014

All taxpayer's who owe \$60.00 or more are required to file an Annual Declaration of Estimated Tax for the year. To avoid penalty and interest charges, the lower of ninety percent of the current year liability or one hundred percent of the prior year liability must be paid in quarterly installments. For calendar year-end taxpayers, a Declaration of Estimated Tax for the year, must be filed by April 15. (The first quarter estimated tax payment is due at this time.) The remaining estimates will be billed quarterly and are due as follows:

(A) Individuals – July 31, October 31 and January 31.

(B) Non-individuals – June 15, September 15 and December 15.

For fiscal year end taxpayers, comparable due dates relate directly to the fiscal period.

**For taxpayers filing an extension** – The Declaration of Estimated Tax for the current year is due and the first quarter estimate must be paid by the due date of the declaration.

**BUSINESS OR RENTAL LOSSES:** The net losses from self-employed business, profession or rental property MAY NOT be used to offset earned income such as salaries, wages, etc. A loss in one city may NEVER offset the gain in another city. However, the net loss of one may be used to offset net profit of another only if they are all located in Canal Fulton and are for same spouse. A net operating loss may be carried forward for five (5) years per the income tax ordinance. The portion of a net operating loss sustained shall be allocated to Canal Fulton in the same manner as provided herein for allocating net profits to Canal Fulton.

**RECAPTURE OF DEPRECIATION:** Gains on the disposition of certain depreciable property results in ordinary income subject to the municipal income tax. Federal Form 4797 sets out these items and depreciation recapture is treated as ordinary income. Individuals must indicate in Schedule H the amount as shown on Line 14, of Federal Form 1040. A COPY OF FEDERAL FORM 4797 MUST BE ATTACHED.

**SCHEDULE G – Income From Rents:** When the gross monthly rental of any and all real properties aggregates in excess of \$250.00 per month, the owner is considered engaged in a Business Activity and the net income shall be subject to the tax. Canal Fulton residents owning rental property located outside of Canal Fulton are required to file the Net Profit or Loss with the City of Canal Fulton and pay any tax due. Appropriate Federal Schedules must be attached.

**SCHEDULE H – All Other Taxable Income:** This schedule is used to list all other taxable income not reported elsewhere on this return. Types of income to be reported here are; Individual distributive share of income from partnerships, estates, trusts, fees, prizes, awards, supplemental unemployment benefits, property in lieu of cash, excess business expense reimbursement. PARTNERSHIPS, ESTATES AND TRUSTS MUST FILE AS AN ENTITY ON A NET PROFIT RETURN.

## HOW ARE BUSINESS NET PROFITS DETERMINED?

Net profits shall be determined on the basis of the information used for Federal Income Tax purposes, adjusted to the requirements of the Ordinance.

Expenses attributable to non-taxable income are not deductible. The following taxes are not deductible in determining net profits for Income Tax purposes:

(a) Canal Fulton, Federal or State Income Taxes.

(b) Gift, estate or inheritance taxes.

(c) Taxes for local benefits or improvements to property which tend to increase its value.

(d) Taxes on property producing income and not taxable by the Canal Fulton Income Tax Ordinance.

## HOW ARE NET PROFITS ALLOCATED?

The business allocation percentage formula is to be used by unincorporated businesses, partnerships, professions, corporations, and other entities doing business within and outside of the City of Canal Fulton if actual records of their business are not maintained.

The business allocation percentage shall be determined by the ratio of the Canal Fulton portion of:

(1) Average value of real and tangible property owned, rented or leased by the taxpayer for use in the trade or business.

To determine the value of rented or leased property used in business, multiply the gross annual rental by 8.

(2) Gross receipts from sales made and services performed, regardless of where made or performed.

(3) Total payroll.

Add the ratios obtained and divide the total by the number of ratios used to obtain the business allocation percentage. A ratio shall not be excluded from the computation because it is allocable entirely within or entirely outside the City of Canal Fulton. The business allocation percentage is to be applied against the total net profits adjusted in accordance with the provisions of the Ordinance to determine the portion taxable under the Canal Fulton Income Tax Ordinance (Schedule Y Business Allocation Formula).