

Dear Business Taxpayer:

Enclosed, you will find a 2005 Canton city income tax form for businesses, along with Line-by-line Instructions, a General Information sheet, and *quarterly remittance statements for the Declaration of Estimated Tax*.

The return must be filed by April 15, or on or before the fifteenth day of the fourth month following the end of the fiscal year. Estimate remittances are due on the 15th day of April, June, September, and December (or the fourth, sixth, ninth and twelfth month for Fiscal Year filers). If you mail your return or estimate remittance after 5:00pm on the filing deadline, your return may be postmarked on the next business day, and thus be considered delinquent. Be sure to mail early to avoid costly fines and interest penalties.

A copy of the business entity's ENTIRE Federal return, including signatures, and all Forms, Schedules, supporting Statements and Attachments from the Federal filing should be included with the Canton return. The City filing will not be complete unless this source documentation is provided.

Requests for extensions must be submitted, in writing, to our office by April 15, 2006, or the fiscal deadline, to avoid paying the Late Filing Fine. Extensions timely filed electronically via the Ohio Business Gateway also will be honored. Any unpaid taxes due are subject to 3% Interest Penalty per month from the filing deadline until the return is filed and the tax is paid. Send extension requests to P.O. Box 8876, Canton OH 44711-8876.

Pursuant to Section 718.14 of the Ohio Revised Code, Canton's imposition of tax on Partnerships, S corporations, and Limited Liability Companies is changed:

*1. If the entity is **owned by two or more persons**, the tax is imposed on the Partnership, S corp, or LLC rather than upon the individual members or owners. Resident owners remain liable for the tax on any portion of their distributive shares which was excluded from the entity filing as having been earned outside the city of Canton.*

*2. The tax on associations, unincorporated businesses, professions and other entities, including Partnerships, S corporations, and LLC's, **owned by one person** is imposed on the individual owner.*

Pursuant to Section 181.03 of the Codified Ordinances of Canton, net operating losses incurred after January 1, 2005, may only be carried forward for three years to offset future net profits. Net operating losses may not be carried back to prior tax years.

Our Income Tax Department staff is available to serve you weekdays from 8:00am through 4:00pm. Should you require assistance, *visit us online:* www.cantonincometax.com or call (330) 430-7900.

Thank you for your cooperation in fulfilling your Canton city income tax obligations.

Very truly yours,



Robert C. Schirack, Treasurer
City of Canton, Ohio

General Information

Filing Requirement:

Any sales made, work done, services rendered, or other business activity in Canton, and/or contracts with the City, will make a business entity liable for the City income tax. Even if it has no office, plant, or regular place of business within Canton city limits, each corporation, S corporation, professional association, partnership, limited liability company, or other business entity is required to file an annual Canton city income tax return reporting the net profit/loss from any Canton business activities conducted in the year.

Pursuant to Section 718.14 of the Ohio Revised Code, Canton's tax on Partnerships, S corporations, and Limited Liability Companies is imposed as follows:

1. If the entity is owned by two or more persons, the tax is imposed upon the Partnership, S Corp, or LLC rather than upon the individual members or owners. Resident owners remain liable for the tax on any portion of their distributive shares which was excluded from the entity filing as having been earned outside the city of Canton.

2. The tax on associations, unincorporated businesses, professions and other entities, including Partnerships, S Corps, and LLC's owned by one person is imposed on the individual owner.

Filing Deadline:

The annual Canton city income tax return must be filed on or before April 15, 2006 for the 2005 calendar year.

For a fiscal year, or any period of less than a year, file on or before the fifteenth day of the fourth month after the end of the fiscal year or other period.

✓ Returns postmarked after April 15th or the 15th day of the fourth month after the fiscal period are subject to a \$25.00 late filing fine.

Extensions:

Canton will not recognize the Federal "Automatic" extensions of Form 4868, 7004, 8736, etc., unless a copy has been provided to the City on or before the original filing deadline. If a Federal extension has not been requested by the taxpayer, the Income Tax Director may allow an extension of up to three months for reasonable cause, but the extension request must be made in writing prior to the original filing deadline.

Additional extensions will be allowed only if the taxpayer has requested and received an additional extension of time to file with the IRS. An additional extension will be granted, not to exceed one month beyond additional extensions granted by the IRS. A request for additional time also must be filed with Canton in writing on or before the first extended filing date.

We will contact you only if the extension request is denied.

✓ Even though an extension has been granted, interest penalty will be assessed on any unpaid tax. That interest penalty will accrue from the original due date, up through the date on which the return is filed and the balance of tax is paid.

Accounting Methods, Accounting Periods, and Inventory Valuation:

The same accounting method, accounting period, and method of inventory valuation used for the purpose of the Federal income tax must be used to prepare the Canton city income tax return.

Rounding; "Whole Dollars" Reporting:

In preparing the Canton city income tax return, a taxpayer may opt to use a rounded, "whole dollars" reporting method. If amounts of less than fifty cents are disregarded, then amounts of fifty to ninety-nine cents should be rounded up to the next whole dollar value.

Reconciliation of Net Profits:

Net profits shall be determined on the basis of the information used for Federal income tax purposes, adjusted to the requirements of Canton's income tax ordinance.

Schedule X is used to reconcile the Federal return with

the City return by making adjustments for items not taxable and/or items not deductible for City income tax purposes. For example, taxes based on income are not deductible on the Canton return and should be added back on the Schedule X. Likewise, 5% of any nontaxable income deducted on Schedule X should be added back, for expenses incurred in the production of that nontaxable income. Enter these and any other required items on the appropriate lines of Schedule X, and calculate the net adjustment amount.

Allocation of Net Profits:

Pursuant to Section 718.02 of the Ohio Revised Code, net profits attributable to business activities inside the city limits of Canton shall be determined by the "Business Allocation Formula," which is reported on Schedule Y. The Business Allocation Formula is used to compute the ratios of the Canton portion of the following:

1. The average original cost of real and tangible property owned, or used in the business or profession in Canton, to the average original cost of all the real and tangible personal property owned or used in the business or profession during the same period, wherever situated.

For valuation of rented or leased property used in the business, multiply the gross annual rental by eight (8).

2. Gross receipts from sales made and services performed or rendered in Canton, to gross receipts from all sales and services during the same period, wherever made or performed.

3. Wages, salaries, and other compensation paid during the taxable period to persons employed in the business or profession in Canton, to the total wages, salaries, and other compensation paid to persons employed in the business or profession during the same period.

Add the ratios obtained and divide the total by the number of ratios used to obtain the Business Allocation Percentage. A ratio should not be excluded from the computation because it is allocable entirely within or entirely outside the city of Canton. The Business Allocation Percentage is applied to the Schedule X reconciled net profits, to determine Canton taxable income.

For the purposes of Step 2, sales made within the City shall be deemed to include,

- (A) All sales of tangible personal property which is delivered within the City, regard less of where title passes if shipped or delivered from a stock of goods within the City.
- (B) All sales of tangible personal property which is delivered within the City, regardless of where title passes even though transported from a point outside the City, if the taxpayer is regularly engaged through its own employees in the solicitation or promotion of sales within the City, and the sales result from such solicitation or promotion.
- (C) All sales of tangible personal property which is shipped from a place within the City to purchasers outside the City regardless of where title passes if the taxpayer is not, through its own employees, regularly engaged in the solicitation or promotion of sales at the place where delivery is made.
- (D) All sales of tangible personal property made through retail stores located within Canton to purchasers within or without Canton except such sales to purchasers outside Canton that are directly attributable to regular solicitations made outside Canton personally by taxpayer's employees.

Net Operating Losses (NOLs):

Effective 2004, NOLs allocable to Canton may be carried forward only for THREE years. They may not be carried back to any prior year's filing.

Net losses reported on the Federal income tax return must

be reconciled on Schedule "X" and allocated to Canton on Schedule "Y," before being carried forward to subsequent City income tax returns.

Estimated Tax Payments:

A business must file a Declaration of Estimated Tax within four months after the start of the tax year, and make quarterly installment payments of estimated tax if it expects its estimated tax (income tax minus credits) to be \$100 or more. Exclusive of taxpayers filing on a fiscal basis, installments are due by April 15, June 15, September 15, and December 15 of each year.

Fiscal taxpayers' installments are due by the fifteenth day of the fourth, sixth, ninth, and twelfth month of the fiscal year.

Please note carefully: the Canton city income tax department will not send a statement of estimated tax due every quarter. Instead, the quarterly statements are sent with the annual net profits return. Each remittance will be due on the fifteenth day of the fourth, sixth, ninth, and twelfth month of the taxable year. Please mark your calendar and be sure to file the estimates timely.

The Declaration of Estimated Tax (the quarterly installment payments) plus any other credits must equal 75% of the final liability, to avoid a \$25 fine and substantial interest penalties. Estimate credits equal to at least 100% of the previous year's final liability will not be penalized.

Refunds:

Refunds are processed in order of receipt of the complete return (including all federal schedules). Normally refund checks are mailed within a maximum of ninety days. For a faster refund, file the completed return and all supporting documents as early as possible. A Federal Form 1099G will be issued to all recipients of refunds of \$10.00 or more.

Supporting Documentation:

All sources of taxable and nontaxable income, expenses, and deductions must be documented. A copy of the taxpayer's entire Federal filing, including signatures, and all Forms, Schedules and supporting Statements and Attachments from the Federal filing should be attached to the Canton city income tax return. The return will not be complete unless all source documentation is provided.

For partnerships and S corporations, the Schedule "Z" may be completed in lieu of filing copies of the K-1s, but a copy of the complete 1065 or 1120S, and the Schedules A, B, K, L, M-1, and M-2 must be filed with the city regardless.

Amended Returns:

An amended Canton city income tax return must be filed to report any adjustments or amendments to a taxpayer's Federal income tax return, whether those amendments or adjustments are determined and calculated by the taxpayer or the IRS. An amended city income tax return must be filed within ninety days of the IRS final determination of federal tax liability, or filing date of the amended Federal return.

Should you require filing assistance, or if you have any questions about the Canton city income tax, please contact our office. The Canton City Income Tax Department is located at 424 Market Ave., N, on the fourth floor of the old "Sears" Building, downtown. You may call 430-7900, Fax 430-7944, visit us on the web: www.cantonincometax.com, or write to PO Box 8876, Canton OH 44711-8876. Office hours are 8:00 to 4:00, Monday through Friday, with extended hours offered throughout the month of April.