

Dear Taxpayer:

Enclosed, you will find your 2005 City of Canton Income Tax Return and 2006 quarterly estimate statements.

WE ADVISE YOU TO FILE AS EARLY AS POSSIBLE. THE FILING DEADLINE IS APRIL 15th.

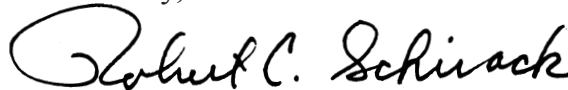
The following are points to which you should pay particular attention:

- ✓ **1. By state law, the filing deadline has been changed to April 15th.**
2. Any part-year resident who lived in the city 30 days or more in 2005 must file a city income tax return.
3. Any return not signed will be returned to the taxpayer. If it is not resubmitted with proper signatures by the filing deadline, it will be subject to a late filing penalty.
4. Be sure that all necessary documentation, including W-2s, Federal Schedules and statements, proof of age (if you are under 18 or over 65), etc., is attached.
5. All requests for extensions must be submitted, in writing, to our office by April 15, 2006, to avoid paying the \$25.00 late filing penalty.
6. EXEMPTION FORM - If your income is derived solely from the following nontaxable sources, you can simply fill out an Exemption Form to fulfill your filing requirement: social security benefits, interest and dividend income, military pay, total permanent disability benefits, pensions, unemployment compensation, general or dependent's relief, alimony and child support.
7. The Declaration of Estimate Tax is not due until April 30. A question and answer sheet is on the back of this letter.
8. Please note carefully: each of the quarterly statements for your 2006 Declaration of Estimated Tax are in this package. The Canton city income tax department does not send a statement of estimated tax due every quarter. Instead, the quarterly statements have been included with this mailing. The remittances will be due April 30, 2006, July 31, 2006, October 31, 2006, and January 31, 2007. Please mark your calendar and be sure to file your estimates timely.
9. All residents' "other income" derived from gambling, wagering, lotteries (including the Ohio State Lottery) and games or schemes of chance are subject to Canton tax. Church Bingo, Raffles, and the like are exempt.
10. Effective 2004, net operating losses from business activities reported on Schedules 1040 C,E,F, 1065 K-1, 1120S K-1, etc., may only be carried forward for THREE years to offset future net profits. Net operating losses may not be carried back to prior years.
- ✓ **11. File your 2005 tax return electronically at www.cantonincometax.com. Specific conditions are required to e-file. Please view those requirements at www.cantonincometax.com or call the tax department for assistance.**

The tax department will make every effort to efficiently serve all Canton residents who are required to file a city tax return. Our Auditors are available to assist you in filling out your tax return, at no charge. No appointments are necessary, simply walk in to our office during regularly scheduled hours. If you have any questions, please call us at (330) 430-7900, or visit us online: www.cantonincometax.com.

Thank you for your cooperation and compliance.

Sincerely,



Robert C. Schirack, Treasurer

GENERAL INFORMATION

DO I HAVE TO FILE A CITY INCOME TAX RETURN?

Every Canton, Ohio resident between the ages of 18 and 65 must file a city income tax return; even if there is no tax due. (Any resident who only has non-taxable income may simply fill out the Exemption Form to fulfill the filing requirement).

Taxpayers who were 65 years old or older on or before December 31, 2005, and whose sole income was derived from non-taxable sources such as social security, pension, etc., do not have to file a tax return. Please fill out and return the Exemption Form, informing us of your exempt status so that you no longer receive a tax form. **FAILURE TO DO THIS WILL RESULT IN OUR CONSIDERING YOUR ACCOUNT DELINQUENT.**

Taxpayers who were 65 years old or older on or before December 31, 2005, and whose salary or wage income was \$10,000 or less do not have to file a return; however, you must fill out the Exemption Form. **To receive a refund of Canton taxes withheld by an employer, you must file a tax return.**

Taxpayers who are 65 years old or older and have no earned income (W-2 wages) but who engage in rental and/or business activity must continue to file an Exemption Form if \$10,000, or less was earned. **If more than \$10,000 is earned from rental and/or business activity a return must be filed.**

Any non-resident who has Canton business or rental activities must file a City return and estimate. Non-residents who are employed in Canton, but have not paid the correct amount of income tax by payroll deduction, also must file a return and remit the tax due.

Any part-year resident who has lived in the city 30 days or more must file a city return.

WHEN AND WHERE DO I FILE?

File as early as possible but no later than April 15, 2006 for the calendar year 2005.

You may have your city tax return prepared free of charge by city Income Tax Department staff auditors at the office at **424 Market Ave., North, on the fourth floor.**

Regular Office Hours Monday through Friday 8:00 a.m. to 4:00 p.m.

Extended April Hours

Saturday April 8, 2006: 8:00 a.m. - 1:00 p.m.

Thursday April 13, 2006: 8:00 a.m. to 6:00 p.m.

FAILURE TO FILE PENALTY

RETURNS POSTMARKED AFTER APRIL 15TH are subject to a \$25.00 late filing penalty.

WHAT IF I NEED MORE TIME TO FILE?

Submit a written request for an extension or copy of the federal extension form to the Canton Income Tax Department on or before the April 15th 2006. Send extension requests to P.O. Box 8876, Canton, OH 44711-8876.

If you need even more time, submit a written request before the extended deadline. An additional extension may be granted, not to exceed one (1) month beyond additional extensions granted by the Internal Revenue Service.

NOTE: We will contact you only if your extension request is denied. Even though an extension has been granted, interest will be charged on any unpaid tax. The interest will be charged from the date the tax should have been paid.

DO I HAVE TO PAY ESTIMATED TAX?

Any individual who will owe \$100 or more of Canton income tax which is not being withheld by an employer is required to file a Declaration of Estimated Tax and make quarterly payments. PAYMENTS on estimated taxes PLUS any other CREDITS must EQUAL at least SEVENTY-FIVE (75%) of the FINAL LIABILITY to avoid interest penalty. Estimated payments on a Declaration greater than or equal to the prior year's final liability are sufficient and will not be subject to interest penalty.

Each Declaration shall be accompanied by a payment of at least one fourth (1/4) of the estimated tax. The first payment is due April 30 2006. At least a similar amount shall be paid on or before July 31, 2006, October 31, 2006, and January 31, 2007. 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 income tax return. Each remittance will be due on the last day of the month following Quarter end. Please mark your calendar and be sure to file the estimates timely.*

A DECLARATION OF ESTIMATED TAX WHICH IS LESS THAN 75% OF THE TAX DUE ON THE FINAL RETURN WILL BE SUBJECT TO INTEREST PENALTY OF 9% PER QUARTER, MULTIPLIED BY THE NUMBER OF QUARTERS UNPAID, AND A FINE OF \$25.00.

A Declaration can be amended at any time during the year by written request to the tax department.

WHAT IS TAXABLE INCOME?

In general, taxable income is earned income. It includes, but is not limited to: business profits, net profits from rental property, natural resource royalties, salaries, wages, qualified and nonqualified deferred compensation, plans, stock options, commissions, other compensation, bonuses, incentive payments, directors fees executor's fees, property in lieu of cash, tips, severance pay, tax shelter plans, vacation pay, sick pay, third party sick pay, supplemental unemployment benefits (SUB pay), and pre-tax programs that reflect a reduction from salaries, wages, commissions, and other compensation as reported on W-2 and/or similar wage reporting forms under Federal and State tax regulations unless specifically exempted in the Canton City ordinance and/or under state statutes.

All income derived from gambling, wagering, lotteries, (including Ohio state lottery), and all games of chance are taxable.

WHAT IS NON-TAXABLE INCOME?

In general, non-taxable income is unearned income and income specifically exempted by the Canton city ordinance. It includes: dividends, interest, military pay and allowances, compensation paid to precinct election officials (poll workers) up to one thousand dollars (1,000.00), ministers housing allowances, lump-sum insurance proceeds, annuities, alimony, medicare, gifts, inheritances, scholarships, involuntary conversions, income from intangible property, qualified relocation costs of any employee that are reimbursed by the employer; and, poor relief, pensions, unemployment compensation, social security benefits, disability payments, and/or similar payments.

Effective 2004, pre-tax contributions to a qualified "cafeteria plan," pursuant to Section 125 of the Internal Revenue Code are not taxable by Canton.

HOW ARE BUSINESS NET PROFITS DETERMINED? (SCHEDULE X)

Net profits shall be determined on the basis of the information used for Federal Income Tax purposes, adjusted to the requirements of Canton's 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 tax purposes. Enter the amounts of any such items on the appropriate lines of Schedule X, and calculate the net adjustment amount. **SCHEDULE X MUST BE ATTACHED TO CITY RETURN.**

HOW ARE NET PROFITS ALLOCATED? (SCHEDULE Y)

The business allocation percentage formula is to be used by all business enterprises doing business within and outside of the City of Canton.

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

(1) Average original cost 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 Canton. 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 taxable portion.

SCHEDULE Y MUST BE ATTACHED.

Individuals who are residents of Canton are subject to the tax, regardless of where their income is earned. Credit will be given for tax imposed by another municipality on income earned within its city limits, up to the 2% which is also assessed by Canton.

HOW ARE NET OPERATING LOSSES TREATED?

Passive or non-passive net losses may not be utilized to off set income from salaries, wages, commissions and/or other compensation for the purposes of this tax.

Net aggregate non-passive net losses may be offset against net aggregate passive net profits. Net aggregate passive net losses may not be offset against net aggregate non-passive net profits.

Effective 2004, net operating losses not used in the current year may be carried forward for three years. Net operating losses may not be carried back to prior years.

WHAT DEDUCTIONS FROM COMMISSIONS AND OTHER COMPENSATION ARE ALLOWED?

2106 - Employee Business Expenses. Any taxpayer claiming employee business expenses must attach a copy of Form 2106 and a copy of the 1040 Schedule A. The City of Canton will allow only those expenses that are required to **have been reported to the IRS** on Form 2106.

TAXPAYER MUST ATTACH FORM 2106, SCHEDULE A, AND DETAIL OF LINE 4, 2106. Expenses will not be allowed if schedule A has not been filed with IRS.

WHAT ATTACHMENTS ARE REQUIRED TO THE CITY RETURN?

All W-2's, (no exceptions) 1099's and copies of all Federal Schedules. The return is not complete unless this source data is provided. For taxpayers under 18 or over 65, proof of age required.

PENALTIES

A fine of \$25.00 for:

- (1) Failure to file returns when due.
- (2) Failure to file and pay a bona fide declaration of estimated tax.

Interest Penalty of 3% per month will be charged on:

- (1) All unpaid taxes after the due date, assessed on the 16th of each month.
- (2) The difference paid and due each month between any estimated tax which is less than 75% of the tax Shown on the final 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 online: 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.