

# WARREN COUNTY SCHOOLS NET PROFIT INSTRUCTIONS

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The following instructions are provided to aid the taxpayer in the completion of the Warren County Schools Net Profit 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 tax ordinance and regulations.

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**WHO IS SUBJECT TO NET PROFIT TAX AND THEREFORE MUST FILE:**

**Definition of “Resident” Business Entity:**

“Resident” is defined as an individual, partnership, association, corporation, limited liability company, sole proprietorship or other entity domiciled or having **business situs** in the Warren County School District.

“Business Situs” is acquired for by one who has carried on a business in the school district which is “more or less permanent in nature.” Thus, businesses which are occasional, temporary, or transient would not have a business situs and therefore not be subject to the Warren County Schools Occupational Tax.

The occupational license tax shall be measured by ½ of 1% of - 1.) the Net Profit from business conducted in the school district by a resident business entity; and 2.) Net Profits generated by rental units where the taxpayer owns two or more rental units.

**Definition of “Business” as an “Undertaking Engaged in for Pecuniary Profit or Gain”:**

“Business” is defined as an undertaking engaged in for pecuniary profit or gain. A legal entity that is not engaged in activity for pecuniary profit or gain is excluded by the Ordinance.

It has been determined by the Warren County Board of Education that, for efficient and uniform administration of the Warren County Schools Occupational Tax, a five year period of time would be used to determine whether a business entity is engaged in activity for pecuniary profit or gain. Therefore, if a resident legal entity has filed a Federal Tax Return reporting either business income or business deductions within the past five years then it would be determined that the legal entity is “engaged in business for profit or pecuniary gain” and therefore would be subject to the Warren County Schools Net Profit Tax.

If a resident entity is ultimately determined to be a business entity “engaged in for profit or pecuniary gain,” then all activity within that entity is taxable and/or deductible by this ordinance - *subject to some exceptions as further discussed within this Net Profit Instruction Guide.*

**For example:** If a resident legal entity is formed for the sole purpose of holding real estate with the expectation that the value of the real estate will appreciate and the entity would realize a gain upon sale of the land, then the entity is considered to be “engaged in business for profit or pecuniary gain” and all capital gains on the sale of the land within the business entity would be taxable by this Ordinance. Conversely, if a legal entity was formed to hold real estate solely for hobby purposes (for example: purchase of land for hunting) and no business income or deductions were taken on the Federal Tax Return, then it would be determined that the legal entity was not formed for “profit or pecuniary gain” and the capital gain realized upon the sale of the land would not be taxable under this Ordinance. However, regardless of the intended purpose of the entity upon formation, if business income or deductions have been taken for Federal Tax purposes, then it is determined to be a business entity and subject to the Warren County Schools Net Profit Tax.

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Complete the WARREN COUNTY SCHOOLS NET PROFIT TAX RETURN if you are a CORPORATION FILING FORM 1120,1120A,1120S OR 1120 REIT, PARTNERSHIP FILING FEDERAL FORM 1065 AND FORM 8825, if applicable a SOLE PROPRIETOR filing FEDERAL SCHEDULE C, SCHEDULE E, SCHEDULE F, and/or 1099 MISC and the business or job situs is located in the Warren County School District.

*(NOTE: A BUSINESS ENTITY THAT IS TAXABLE AS A CORPORATION UNDER THE INTERNAL REVENUE INCLUDES: BUSINESS ENTITIES ORGANIZED UNDER FEDERAL OR STATE STATUTES AS BEING INCORPORATED OR A CORPORATION, BUSINESS ENTITIES ORGANIZED UNDER STATE STATUTES AS BEING A JOINT-STOCK COMPANY OR JOINT-STOCK ASSOCIATION, AND BUSINESS ENTITIES THAT ELECT TO BE CLASSIFIED AS CORPORATIONS. AN ENTITY THAT IS NOT AUTOMATICALLY CONSIDERED A CORPORATION AND HAS TWO OR MORE MEMBERS OR A SINGLE MEMBER CAN ELECT TO BE CLASSIFIED AS A CORPORATION. AN ENTITY WITH TWO OR MORE MEMBERS ALSO HAS THE OPTION TO BE CLASSIFIED AS A PARTNERSHIP FOR FEDERAL PURPOSES. SPECIAL TYPES OF CORPORATIONS INCLUDE: S CORPORATIONS, REGULATED INVESTMENT COMPANIES, AND REAL ESTATE INVESTMENT TRUSTS.)*

All partnerships, S corporations, and all other entities where income is “passed through” to the owners are subject to this ordinance. **The occupational license tax imposed in this ordinance is assessed against income before it is “passed through” these entities to the owners.**

**\*\*No occupational license tax shall be collected from any individual who is not a resident of the school district imposing the school tax\*\***

**YOU MUST FILE THE NET PROFIT RETURN EVEN IF:**

Your business activity resulted in a loss for the tax year. Complete the Net Profit Return according to the instructions provided, sign the form and return to the Warren County Schools Occupational Tax Office.

You were not actively engaged in business during the year but intend to resume operations at a future date. Check the box marked “No activity in jurisdiction” on the Net Profit Return form, sign the form and return to Warren County Schools Occupational Tax Office.

Your business activity ceased operations prior to the beginning of the tax year but you have not provided written notification that operations ceased. Indicate “No Activity in jurisdiction” and “Final” on the Net Profit Return form, Section A Box 4, sign the form and return it to Warren County Schools Occupational Tax Office.

Your business was operational for a portion of the tax year but ceased operations prior to the completion of the fiscal year. Complete the Net Profit Return according to the instructions provided and indicate "Final" on the form, Section A Box 4, sign the form and return to Warren County Schools Occupational Tax Office.

You applied for an account with the intention of starting a business but never transacted business within Bowling Green, Warren County and do not intend to do so in the future. Indicate "No activity in jurisdiction" and "Final" on the form, Section A Box 4, sign the form and return to Warren County Schools Occupational Tax Office.

### **FILING OF JOINT AND/OR COMBINED RETURNS NOT ALLOWED:**

The Warren County Schools Occupational Tax Ordinance prohibits the filing of joint and/or combined returns. The Ordinance explicitly requires each separate individual and each separate business entity to file an occupational license tax return and pay an occupational license tax. It is implicit within this requirement that each business entity is taxed separately from all other business entities and that income or loss by one business entity cannot be used to offset income or loss by another business entity. For example, if an individual owns two or more separate businesses, the losses from one business owned by that individual cannot be used to offset the income from another business owned by that individual for purposes of the occupational license tax. This would be true even if the two businesses were the same type of entity (i.e., two separate sole proprietorships). Additionally as Section 3(2)(a) specifically requires that the income from pass-through entities be reported and taxed at the entity level, such income or loss could not be used to offset income or loss at an individual level.

### **DUE DATE:**

Year Ending December 31: The Warren County Schools Net Profit Return must be filed and all taxes paid on or before April 15 of current tax year.

Year Ending other than December 31: The Warren County Schools Net Profit Return must be filed and all taxes paid on or before the fifteenth day of the fourth month after the close of the fiscal year.

### **AUTOMATIC EXTENSIONS:**

An automatic extension of time for filing the Net Profit Return will be granted for a period not to exceed any extension granted by the Internal Revenue Service for the filing of the federal income tax return for the same year. The extension request must be a written request properly signed by the authorized agent and received on or before the due date for filing. **A copy of the Federal Form 4868, 8736, or 7004 for the same year may be used for the written request, provided that the Federal Identification Number used for tax reporting purposed is noted.** The extension request submitted must include the account number, extension of time for filing, the reason for filing the extension, along with payment estimated.

Interest at the rate of twelve (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 license tax at the time of filing the Net Profit License Tax Return. No penalty shall be assessed in those cases in which all filing and payment requirements have in good faith been fulfilled and the final license tax and interest is paid with the filing of the Net Profit License Tax Return within the period as extended. The required estimated license tax payment is presumed to have been made in good faith provided that the taxpayer remits with the timely filed extension request 50% or more of the license tax liability as indicated on the extended Net Profit License Tax Return.

Any automatic extension shall 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.

### **STATE EXEMPTIONS:**

The following persons are exempt under Kentucky law from the net profit license tax and are not required to file a return.

1. Public Service Corporations which pay an ad valorem tax on property valued and assessed by the Kentucky Department of Revenue pursuant to the provisions of KRS 136.120.

2. Persons whose **sole** business activity is the manufacture of and/or sale of alcoholic beverages. (However, persons having only a portion of their business activity being derived from the manufacturing and/or selling of alcoholic beverages are required to file a return, but may exclude that portion of their net profits derived from such manufacture and/or sale of alcoholic beverages.)

3. Insurance companies, banks, trust companies, combined bank and trust companies, combined trusts, banking and title business in this state, any savings and loan associations whether state or federally chartered, or upon income received by members of the Kentucky National Guard for active duty training, unit training assemblies, and annual field training, or upon income received by precinct workers for election training or work at election booths in state, county, and local primary, regular, or special election.

4. Funds received from the state as a share of the tobacco settlement funds to be paid to farmers are exempt from inclusion in net profit for the purpose of calculating the net profit which is subject to this occupational license tax as follows:

- (1) Any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;
- (2) Any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement; and
- (3) Any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction of the tobacco quota allotted from the 1998 to the 1999 calendar year as provided under Public Law 106-78, Title 8, Section 803.

## **SPECIAL PROVISIONS OF LOCAL LAWS:**

The following persons are exempt under applicable ordinances from the net profit license tax and are not required to file a Net Profit License Tax Return:

a) With regards to income exempt from federal taxation, boards of trade, chambers of commerce, trade associations or unions, Community Chest funds or foundations, corporations or associations organized and operated exclusively for religious, charitable, scientific, literary, educational or civic purposes, or for the prevention of cruelty to children or animals; clubs or fraternal organizations operated exclusively for social, literary, educational or fraternal purposes where no part of the earnings, income or receipts of any such units, groups or associations which are to the benefits of any private shareholder or individual. Proof of Internal Revenue Service approval of not-for-profit status must be furnished upon application for a business license or upon the request of the Warren County Schools Occupational Tax office, Bowling Green, KY.

b) Nonresidents who sell farm products, other than trees, shrubs, or ornamental plants, in Warren County, or nonresident owners who sell livestock in Warren County or who board livestock in Warren County for breeding purposes.

c) Persons authorized by the Warren County Schools Occupational Tax Office to demonstrate, sell or offer for sale any goods, wares or merchandise at an annual, semi-annual or other festival or arts and crafts show.

**Note:** Those organizations that pay wages, salaries, commissions or other compensation for work performed or services rendered within Warren County must apply for a business license and submit withholdings on those wages, salaries, commissions or other compensation.

## **COMPLETING THE NET PROFIT RETURN (READ INSTRUCTIONS BEFORE COMPLETING):**

### **IN ORDER FOR YOUR RETURN TO BE PROCESSED PROPERLY YOU MUST:**

1. **USE THE WARREN COUNTY SCHOOLS NET PROFIT TAX RETURN FOR FILING**
2. COMPLETE AND ATTACH THE APPROPRIATE WORKSHEET USED TO DETERMINE THE ADJUSTED NET PROFIT PER LINE 1 OF THE NET PROFIT RETURN.
3. ATTACH COPIES OF THE APPROPRIATE FEDERAL TAX FORMS AND ALL SUPPORTING DOCUMENTATION. THE MOST COMMON FEDERAL TAX RETURNS REQUIRED FOR EACH FORM OF BUSINESS ENTERPRISE ARE AS FOLLOWS:
  - Sole Proprietorship U.S. Treasury Form 1040, Separate Schedules C,D,E,F, 1099 MISC etc.
  - Fiduciary U.S. Treasury Form 1041
  - Partnership U.S. Treasury Form 1065 including Schedule K
  - Corporation U.S. Treasury Form 1120
  - Sub Chapter S Corporation U.S. Treasury Form 1120 S including Schedule K
4. VERIFY THE FEDERAL IDENTIFICATION NUMBER OR SOCIAL SECURITY NUMBER UNDER WHICH YOUR FEDERAL TAX RETURN WAS FILED.
5. VERIFY NAME AND ADDRESS AND NOTE ANY CHANGES
6. SIGN AND DATE THE RETURN
7. ALL QUESTIONS MUST BE ANSWERED COMPLETELY. IF THE QUESTION DOES NOT APPLY TO YOUR BUSINESS INDICATE "NA".

**\*\*\* ANSWER ALL QUESTIONS SPECIFIC TO THE NET PROFIT RETURN \*\*\***

## **SECTION A BUSINESS INFORMATION**

### **BOX 1 YEAR END/ACCOUNT NUMBER**

ENTER THE TAX YEAR THAT IS BEING FILED

ENTER ACCOUNT NUMBER ASSIGNED BY THE WARREN COUNTY SCHOOLS TAX OFFICE

### **BOX 2 GENERAL BUSINESS INFORMATION**

A) ENTER BUSINESS PHONE NUMBER

B) ENTER DESCRIPTION OF BUSINESS ACTIVITY

C) ENTER OWNER OF BUSINESS OR ADMINISTRATIVE OFFICER RESPONSIBLE FOR RETURN AND PHONE NUMBER

D) ENTER THE DATE YOUR BUSINESS CEASED OPERATIONS IN THE TAXING DISTRICT

**E) ENTER IF BUSINESS ENTITY IS AN AFFILIATE OF A CONSOLIDATED CORPORATE FEDERAL RETURN, IF YES, SEE INSTRUCTION FOR FILING CONSOLIDATED RETURNS (not applicable to sole proprietors filing schedules C,E, F or 1099 Misc or partnerships filing a 1065)\***

**BOX 3 BUSINESS ENTITY TYPE**

**CHECK CORPORATION** if you are filing Federal Form 1120, OR 1120 A OR FORM 1120S and Form 8825, if applicable. COMPLETE THE QUESTIONS IN **SECTION A** THEN GO TO INSTRUCTIONS FOR WORKSHEET C

**CHECK INDIVIDUAL** if you are filing a SCHEDULE C, SCHEDULE E, SCHEDULE F or 1099 MISC COMPLETE THE QUESTIONS IN **SECTION A** THEN GO TO INSTRUCTIONS FOR WORKSHEET I

**CHECK PARTNERSHIP** if you are filing Federal Form 1065 and Form 8825, if applicable. COMPLETE THE QUESTIONS IN **SECTION A** THEN GO TO INSTRUCTIONS FOR WORKSHEET P

**CHECK SCORP** if you are filing Federal Form 1120 S and Form 8825, if applicable.

**CHECK OTHER** if you file any other Federal Form not listed above.

**BOX 4 FINAL RETURN/NO BUSINESS ACTIVITY**

IF THIS IS THE FINAL RETURN, CHECK THE FINAL RETURN BOX (This will inactivate the account) Complete Question D, Box 2 CHECK IF YOU DO NOT HAVE ANY BUSINESS ACTIVITY IN OUR JURISDICTION

**BOX 5 FEDERAL EMPLOYER IDENTIFICATION NUMBER OR SOCIAL SECURITY NUMBER**

ENTER THE FEDERAL EMPLOYER IDENTIFICATION NUMBER OR SOCIAL SECURITY NUMBER THAT APPEARS ON FEDERAL SCHEDULES. ENTER THE TAX YEAR ON WHICH YOU WILL BE FILING

**BOX 6 FILING STATUS**

CHECK THE APPLICABLE WORKSHEET THAT WILL BE FILED WITH THE NET PROFIT RETURN  
**WORKSHEET MUST BE COMPLETED BEFORE CONTINUING WITH "SECTION B-FEE COMPUTATION" OF THE NET PROFIT RETURN**

**INSTRUCTIONS FOR FILING A CONSOLIDATED CORPORATE FEDERAL RETURN (Not applicable to sole proprietors filing C,E, F, or 1099 Misc or Partnerships filing 1065)**

- 1) "Is Business an (a): CORPORATION". The business entity may also be registered as a LLC.
  - 2) Question E Box 2 of Net Profit Return : "Is the Business Entity an Affiliate of a Consolidated Corporate Federal Return?"
    - a) If "No", no additional action is necessary.
    - b) If "Yes", the corporation which is subject to the net profit license return is included in a consolidated return, then that corporation shall submit the following:
      - i) a NET PROFIT LICENSE FEE/TAX RETURN based upon the taxable income (or loss) of the corporation subject to the occupational license return, not the consolidated taxable income,
      - ii) a copy of the consolidated Form 1120 or its equivalent,
      - iii) a computation sheet allocating all revenue and expense items on the consolidated Federal return to each corporation included in that consolidated return.
  - A) **(NOTE: A PROFORMA FEDERAL INCOME TAX RETURN FOR THE CORPORATION SUBJECT TO THE OCCUPATIONAL LICENSE RETURN MUST BE INCLUDED)**
  - B) **NOTE: DISREGARDED LIMITED LIABILITY COMPANIES ARE CONSIDERED FOR FEDERAL INCOME TAX PURPOSES AS DIVISIONS OF THE PARENT CORPORATION, NOT A SEPARATE SUBSIDIARY. THE WARREN COUNTY SCHOOLS OCCUPATIONAL TAX FOLLOWS FEDERAL INCOME TAX GUIDELINES, THUS TREATS DISREGARDED LIMITED LIABILITY COMPANIES AS DIVISIONS AND NOT CONSIDERED PART OF A CONSOLIDATED RETURN.**
  - C) **NOTE: A DUAL MEMBER DISREGARDED LLC ENTITY CAN ALSO ELECT TO BE CLASSIFIED AS A PARTNERSHIP FOR FEDERAL PURPOSES, THUS FILES A FEDERAL FORM 1065. A SINGLE MEMBER LLC CAN ELECT TO BE TAXED AS A CORPORATION AND FILE A FEDERAL FORM 1120 OR HAS THE OPTION OF FILING ON THEIR PERSONAL INCOME TAX RETURN, FORM 1040.**
- 3) FILING STATUS (per Federal Return): Check "WORKSHEET C" and go to Worksheet C.

**COMPLETING WORKSHEETS – Worksheet(s) must be completed before continuing with Section B - FEE COMPUTATION of the Net Profit Return.**

**WORKSHEET C- CORPORATION – Complete Worksheet C if filing an (a) 1120,1120A, 1120 REIT or 1120 S**

**S-CORPORATION FILING FEDERAL FORM 1120S.** (NOTE: THIS SECTION IS ESSENTIALLY THE SAME AS FOR A CORPORATION FILING A FEDERAL FORM 1120, 1120A, OR 1120-REIT EXCEPT FOR LINES 3, 4 AND 6 OF THE WORKSHEET C. THE EXCEPTIONS ARE DUE TO THE FACT THAT THE INCOME FROM AN S-CORPORATION IS DISTRIBUTED TO THE OWNERS ON SCHEDULE K OF THE FORM 1120S, MUCH LIKE A PARTNERSHIP FEDERAL RETURN. )

**Line 1 of Worksheet C,** "Taxable income or (loss) per Federal Form 1120 or 1120A." Insert the amount from Line 30 of Form 1120, Line 26 of Form 1120A, 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 2 of Worksheet C,** "State Income Taxes and Occupational License Fees deducted on the Federal Form 1120, 1120A or 1120S." Add to taxable income deductions taken for taxes which are calculated based on income. (NOTE: THE AMOUNT SHOULD BE DETAILED ON THE LINE TITLED "TAXES AND LICENSES" OF THE FEDERAL FORM. TAXES BASED ON INCOME INCLUDE AMOUNTS CALCULATED ON NET AND GROSS INCOME. TAX REFUNDS ARE SUBTRACTED FROM TAXABLE INCOME.) Attach all appropriate schedules.

**Line 3 of Worksheet C**, "Net Operating Loss deducted on Form 1120 or 1120A." Add the amount from Line 29a of the Federal Form 1120, 25a of the Federal Form 1120A, or 21a of the Federal Form 1120-REIT. This line does not apply to entities filing Form 1120S.

\* **Line 4 of Worksheet C**, "Additions from Schedule K of Form 1120S." This line does not apply to entities filing Form 1120, 1120A, or 1120-REIT. See page 5 for a list of items that are reported on the Schedule K that are added to taxable Net Profit.

**Line 5 of Worksheet C**, "Total Income." Add lines 1 through 4. Insert the total on line 5.

\*\* **Line 6 of Worksheet C**, "Subtractions from Schedule K of Form 1120S." This line does not apply to entities filing Form 1120, 1120A, or 1120-REIT. See below for list of items that are reported on the Schedule K that are deducted from taxable Net Profit.

**Line 7 of Worksheet C**, "Alcoholic Beverage Sales Deduction." Go to Worksheet X instructions (Line 5 of Worksheet X).

**Line 8 of Worksheet C**, "Local/Other Adjustments." Items that would be included on this line include the following:

a) An adjustment for business expenses which are elected by the taxpayer as a credit against its federal income tax liability in lieu of a deduction for business expenses otherwise available to the taxpayer. Some of them include: *(NOTE: KRS 67.750(8)(e) SUPPORTS AN ADJUSTMENT TO THE LOCAL RETURN FOR BUSINESS EXPENSES DUE TO THE TAXPAYER'S ELECTION TO TAKE A TAX CREDIT BECAUSE IT STATES THAT AN EXCLUSION FROM INCOME SHOULD BE MADE FOR ANY AMOUNT THAT IS EXEMPT FROM TAXATION BY THE CONSTITUTION AND STATUTORY LAWS OF THE U.S.)*

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 income from foreign sources. Taxpayers may deduct the following amounts without proof of non-unitary source:

e) 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.)*

f) Income from controlled foreign corporations under subpart F, not actually received. *(NOTE: THE AMOUNT IS REPORTED ON THE FEDERAL FORM 1120, PAGE 2, LINE 14 OF SCHEDULE C.)*

g) 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.)*

h) An adjustment for ordinary income from other partnerships or S corporations which are included in taxable income. *(NOTE: THE AMOUNT IS FROM OTHER ENTITIES IN WHICH THE CORPORATION HAS OWNERSHIP. THE OCCUPATIONAL LICENSE FEE IS ASSESSED ON THE BUSINESS ENTITY WHICH IS CONDUCTING BUSINESS WITHIN THE LOCALITY, NOT THE OWNERS. THE TOTAL VALUE IN WHICH THE CORPORATION OWNS WOULD BE REPORTED ON THE BALANCE SHEET AS AN INVESTMENT ASSET. THE INCOME AMOUNT IS TYPICALLY REPORTED ON THE FEDERAL FORM 1120 AS "OTHER INCOME." LINE 10 AND CAN ALSO BE REPORTED ON THE FORM 4797 IF THE INVESTMENT COMPANY SELLS BUSINESS PROPERTY.)*

i) An adjustment for the total deduction for dividends paid and the Section 857(b)(2)(E) deduction. *(NOTE: THE AMOUNT IS REPORTED ON LINE 21d 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 9 of Worksheet C**, "Total Adjustments." Add lines 6 through 8 and enter the total on line 9.

**Line 10 of Worksheet C**, "Adjusted Net Profit." Subtract line 9 from line 5. Enter the total on line 10 of Worksheet C and on line 1, Page 1, of the FEE COMPUTATION section of the Net Profit Tax Return. Go to line 2, BUSINESS APPORTIONMENT of the FEE COMPUTATION section. If paying on less than 100% of Adjusted Net Profit - complete Worksheet Y and enter the percentage on Line 4 of Worksheet Y.

### \*\*\* ITEMS THAT APPLY TO ENTITIES FILING AN 1120S - S CORPORATION:

## **WORKSHEET C - S CORPORATION - ADDITIONS AND SUBTRACTIONS FORM - SCHEDULE K**

**Income items that are reported on the Schedule K that are added to taxable Net Profit**

**\*Line 4 of Worksheet C**

- 1) Net income from rental real estate activities - Line 2 of Sch K
- 2) Net income from other rental activities - Line 3a of Sch K
- 3) Interest income - Line 4 of Sch K
- 4) Dividend income - Line 5 of Sch K
- 5) Royalty income - Line 6 of Sch K
- 6) Net short-term capital gain - Line 7 of Sch K
- 7) Net long-term capital gain - Line 8a of Sch K
- 8) Net gain under Section 1231 (other than due to casualty or theft) - Line 9 of Sch K
- 9) Other portfolio income - Line 10 of Sch K

**Deduction items that are reported on the Schedule K that are subtracted from taxable Net Profit**

**\*\*Line 6 of Worksheet C**

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

**WORKSHEET I – Complete Worksheet I if filing Federal Schedule C, Schedule E, Schedule F and/or 1099 MISC**

**Line 1 of Worksheet I.** Enter the amount of non-employee compensation reported on federal form 1099 MISC.

**NOTE:** Line 1 should only be completed by individuals who received 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 and Form 1099 MISC)

**Line 2 of Worksheet I.** Enter the net profit or (loss) per Line 31 of Federal Schedule C, or Line 3 per Federal Schedule C-EZ (attach copy of Federal Form 1040 and applicable schedule(s)).

**Line 3 of Worksheet I.** Enter 100% of the short term capital gains and long term capital gains carried over from federal Form 4797 or Form 6252 (installment sales) of federal Schedule D representing gain from the sale of property used in the trade or business. In addition, enter the net gain or (loss) from the sale of property used in the trade or business per federal Form 4797 (attach a copy of federal Form 4797, Form 6252 and/or Schedule D).

**Line 4 of Worksheet I.** Enter the net rental profit or (loss) per Line 41 of the Federal Schedule E (attach a copy of Federal Form 1040 and applicable schedules(s)).

**Line 5 of Worksheet I.** Enter the net farm profit or (loss) per Line 36 of the Federal Schedule F (attach a copy of Federal Form 1040 and applicable schedule(s)).

**Line 6 of Worksheet I.** Enter, if a deduction is taken for state or local taxes (based on income) or license fees (based on income), regardless of jurisdiction, on federal Schedule C, C-EZ or F then the amount of those taxes or license fees should be entered.

**Line 7 of Worksheet I.** Enter the total of Lines 1-6.

**Line 8 of Worksheet I.** Enter the Alcohol Beverage Sales Deduction from Line 5 of Worksheet X.

**Line 9 of Worksheet I.** If a deduction was taken for any other amount that is deemed not to be deductible then enter the amount on Line 9 (attach a full explanation, including amounts of all items).

**Line 10 of Worksheet I.** Add Line 8 and 9 and enter the total.

**Line 11 of Worksheet I.** Subtract Line 10 from Line 7 to determine the Adjusted Net Profit. Enter the total on Line 11 of Worksheet I and on Line 1, Section B, FEE COMPUTATION of the Net Profit Tax Return. Go to Line 2 BUSINESS APPORTIONMENT of the FEE COMPUTATION section. If paying on less than 100% of Adjusted Net Profit - complete Worksheet Y and enter the percentage on Line 4 of Worksheet Y and Line 2 Section B, FEE COMPUTATION of the Net Profit Tax Return.

**IMPORTANT NOTE:**

**EACH SEPARATE AND DISTINCT BUSINESS ACTIVITY CONDUCTING BUSINESS IN THE JURISDICTION IMPOSING THE TAX AS A SEPARATE SOLE PROPRIETORSHIP REQUIRES A SEPARATE NET PROFIT TAX RETURN. (ONE SCHEDULE PER NET PROFIT TAX RETURN.) See further discussion on page 3, under the heading “FILING OF JOINT AND/OR COMBINED RETURNS NOT ALLOWED.”**

**WORKSHEET P – PARTNERSHIPS – Complete Worksheet P if filing Federal Form 1065 and Form 8825, if applicable**

**(NOTE: THIS SECTION IS ESSENTIALLY THE SAME AS FOR TAXPAYERS FILING A FEDERAL FORM 1120S EXCEPT FOR LINES 3 AND 8 OF WORKSHEET P. LIKE THE FEDERAL FORM 1120S, THE INCOME OF A PARTNERSHIP IS DISTRIBUTED TO THE OWNERS. HOWEVER, THE OWNERS OF AN S-CORPORATION ARE CONSIDERED EMPLOYEES, BUT THE OWNERS OF A PARTNERSHIP ARE CONSIDERED SELF-EMPLOYED.)**

**Line 1 of Worksheet P.** “Ordinary income or (loss) per Federal Form 1065.” Insert the amount from Line 22 of Form 1065,

**Line 2 of Worksheet P**, "State Income Taxes and Occupational License Fees deducted on the Federal Form 1065." Add to taxable income deductions taken for taxes which are calculated based on income. *(NOTE: THE AMOUNT SHOULD BE DETAILED ON THE LINE TITLED "TAXES AND LICENSES" OF THE FEDERAL FORM. TAXES BASED ON INCOME INCLUDE AMOUNTS CALCULATED ON NET AND GROSS INCOME. TAX REFUNDS ARE SUBTRACTED FROM TAXABLE INCOME.)*

**Line 3 of Worksheet P**, "Additions from Schedule K of Form 1065." The following income items which are allocated to the partners are not included as income on Federal Form 1065 and must be added to income, these items are reported on the Schedule K.

#### **ADDITIONS FROM FEDERAL FORM 1065**

**Income items that are reported on the Schedule K that are added to taxable Net Profit Line 3 of Worksheet P**  
**Attach copy of Schedule K, and rental schedule(s), if applicable.**

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

**Line 4 of Worksheet P**, "Total Income." Add lines 1 through 3.

**Line 5 of Worksheet P**, "Subtractions from Schedule K of Form 1065." The list of items below are reported on Schedule K and are deducted from taxable Net Profit.

#### **SUBTRACTIONS FROM FEDERAL FORM 1065**

**Deduction items that are reported on the Schedule K that are subtracted from taxable Net Profit Line 5 of Worksheet P**  
**Attach a copy of Schedule K, and rental schedule(s), if applicable**

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

**Subtractions from Schedule K of Form 1065 are the same as deductions for an S-Corporation. (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 retirement, SEP, or any other self-employment retirement plan
- c) amounts paid for self-employment taxes

**Line 6 of Worksheet P**, "Alcoholic Beverage Sales Deduction." Go to Worksheet X instructions (Line 5 of Worksheet X).

**Line 7 of Worksheet P**, "Local/Other Adjustments." 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 the federal income tax liability in lieu of a deduction for business expenses otherwise available to the taxpayer. Some of them include: *(NOTE: KRS 67.750(8)(e) SUPPORTS AN ADJUSTMENT TO THE LOCAL RETURN FOR BUSINESS EXPENSES DUE TO THE TAXPAYER'S ELECTION TO TAKE A TAX CREDIT BECAUSE IT STATES THAT AN EXCLUSION FROM INCOME SHOULD BE MADE FOR ANY AMOUNT THAT IS EXEMPT FROM TAXATION BY THE CONSTITUTION AND STATUTORY LAWS OF THE U.S.)*
- 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 income from foreign sources. Taxpayers may deduct the following amounts without proof of non-unitary source:
- e) 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.)*
- f) Income from controlled foreign corporations under subpart F, not actually received. *(NOTE: THE AMOUNT IS REPORTED ON THE FEDERAL FORM 1120, PAGE 2, LINE 14 OF SCHEDULE C.)*



g) 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.)

h) An adjustment for ordinary income from other partnerships or S corporations which is included in taxable income. (NOTE: THE AMOUNT IS FROM OTHER ENTITIES IN WHICH THE CORPORATION HAS OWNERSHIP. THE OCCUPATIONAL LICENSE FEE IS ASSESSED ON THE BUSINESS ENTITY WHICH IS CONDUCTING BUSINESS WITHIN THE LOCALITY, NOT THE OWNERS. THE TOTAL VALUE IN WHICH THE CORPORATION OWNS WOULD BE REPORTED ON THE BALANCE SHEET AS AN INVESTMENT ASSET. THE INCOME AMOUNT IS TYPICALLY REPORTED ON THE FEDERAL FORM 1120 AS "OTHER INCOME," LINE 10, AND CAN ALSO BE REPORTED ON THE FORM 4797 IF THE INVESTMENT COMPANY SELLS BUSINESS PROPERTY.)

i) An adjustment for the total deduction for dividends paid and the Section 857(b)(2)(E) deduction. (NOTE: THE AMOUNT IS REPORTED ON LINE 21d 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 8 of Worksheet P**, "Professional Expenses not reimbursed by the partnership." If a partner incurs out-of-pocket expenses in connection 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 a 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 9 of Worksheet P**, "Total Adjustments." Add lines 5 through 8 and enter the total on line 9.

**Line 10 of Worksheet C**, "Adjusted Net Profit." Subtract line 9 from line 4. Enter the total on line 10 of Worksheet P and Line 1, Section B, FEE COMPUTATION of the Net Profit Tax Return. Go to Line 2 BUSINESS APPORTIONMENT of the FEE COMPUTATION section. If paying on less than 100% of Adjusted Net Profit - complete Worksheet Y and enter the percentage on Line 4 of Worksheet Y and Line 2 Section B, FEE COMPUTATION of the Net Profit Tax Return.

## **WORKSHEET Y - BUSINESS APPORTIONMENT - If a percentage of your business is outside the taxing jurisdiction - Complete Worksheet Y**

1) If 100% of the business is conducted within the local jurisdiction, enter 100% on line 2 of the FEE COMPUTATION section of the Net Profit Tax Return. Do not complete WORKSHEET Y: BUSINESS APPORTIONMENT.

2) All licensees whose business operations were not conducted entirely in the local jurisdiction must complete WORKSHEET Y: BUSINESS APPORTIONMENT, regardless of profit or loss.

### **Payroll Factor**

**Line 1, column A:** Enter the total compensation paid to employees who are residents of the school district for services rendered within the local jurisdiction during the period covered by the tax return. (NOTE: FOR THOSE LOCAL JURISDICTIONS THAT HAVE A PAYROLL TAX, THIS AMOUNT SHOULD EQUAL THE AMOUNT OF PAYROLL REPORTED AS BEING SUBJECT TO THE LOCAL JURISDICTION WITHHOLDING TAX. 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. TYPICALLY, THE ACCRUAL WOULD HAVE AN IMMATERIAL AFFECT ON THE FEE DUE.)

**Line 1, column B:** Enter the total compensation paid to employees for services rendered everywhere during the period covered by the tax return. (NOTE: THIS AMOUNT SHOULD EQUAL THE DEDUCTIONS REPORTED ON THE FEDERAL INCOME TAX RETURNS AS COMPENSATION OF OFFICERS, WAGES AND SALARIES, AND COST OF LABOR. IT WOULD NOT INCLUDE THE COST OF LABOR AMOUNT IF THE SUBCONTRACTORS EXPENSE IS REPORTED UNDER COST OF LABOR. ALSO, IT WOULD NOT INCLUDE GUARANTEED PAYMENTS TO PARTNERS DEDUCTED ON A FEDERAL FORM 1065 BECAUSE PARTNERS ARE NOT CONSIDERED EMPLOYEES.)

**Line 1, column C:** Divide column A by column B. Enter the result on Line 1, Column C.

### **Sales Factor**

**Line 2, column A:** Enter the total gross receipts from sales, rents, and services in the ordinary course or usual trade of business earned within Warren County during the period covered by the tax return. The business entity must be a resident or have business situs in the school district.

**Line 2, column B:** Enter the total gross receipts from sales, rents, and services in the ordinary course or 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 TAXPAYERS PRINCIPAL BUSINESS WITHIN THE LOCALITY IS RENTAL INCOME, THEN THE AMOUNT WOULD INCLUDE THE TOTAL GROSS RENTS AS REPORTED ON THE FEDERAL INCOME TAX RETURN. THIS AMOUNT DOES NOT INCLUDE INTEREST, DIVIDENDS, OR SALES OF BUSINESS PROPERTY. IF THE TAXPAYERS 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 SALES FACTOR.)

**Line 2, column C:** Divide column A by column B. Enter the result on Line 2, column C.

## **Business Apportionment**

**Line 3, column C:** Add column C, lines 1 and 2. Enter the result on line 3, column C.

**Line 4, column C:** Divide line 3, column C by the number of percents used on lines 1 and 2, column C. Enter the result on line 4, column C and page 1, line 2, of FEE COMPUTATION section. Then follow instructions for FEE COMPUTATION. *(NOTE: IF THE TAXPAYER HAS PAYROLL REPORTED ON THE FEDERAL INCOME TAX RETURN AND NO PAYROLL WITHIN THE LOCAL JURISDICTION, THEN DIVIDE LINE 3 BY 2. IF THE TAXPAYER HAS NO PAYROLL REPORTED ON THE FEDERAL INCOME TAX RETURN, THEN DIVIDE LINE 3 BY 1.)*

## **WORKSHEET X- ALCOHOLIC BEVERAGE SALES DEDUCTION**

There is no license fee 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.

**Line 1 of Worksheet X**, "Kentucky Alcoholic Beverage Sales." Divide gross receipts of Kentucky alcoholic beverage sales by gross receipts of total sales whether from alcoholic beverage products or otherwise. Enter the percentage on line 1 of worksheet X.

**Line 2 of Worksheet X** applies only to business entities that are classified as sole proprietors for Federal income tax purposes.

**Line 3 of Worksheet X** applies only to business entities that are classified as partnerships for Federal income tax purposes. Enter the net of lines 4, 5, and 8 of Worksheet P on line 3 of Worksheet X. If line 7 of Worksheet P contains adjustment amounts that apply to net profit, then enter the net of lines 4, 5, 8, and 7 of Worksheet P on line 3 of Worksheet X.

**Line 4 of Worksheet X** applies only to business entities that are classified as corporations for Federal income tax purposes.

**Line 5 of Worksheet X**, "Alcoholic Beverage Sales Deduction." Multiply the percentage on line 1 by the income on line 3. Enter the amount on line 5 of Worksheet X and on line 6 of Worksheet P. Complete Worksheet P.

## **SECTION B FEE COMPUTATION**

**Line 1 of FEE COMPUTATION** section "Adjusted Net Profit" (Line 10 of Worksheet C, Line 11 of Worksheet I, Line 10 of Worksheet P)

**Line 2 of FEE COMPUTATION** section "Business Apportionment" Line 4 of Worksheet Y

**Line 3 of FEE COMPUTATION** section, "Taxable Net Profit." Multiply line 1 by line 2. Enter the total on line 3.

**Line 4 of FEE COMPUTATION** section, "Occupational License Fee." Multiply line 3 by the local tax jurisdiction rate .005. Enter the total on line 4.

**Line 5 of FEE COMPUTATION** section, "TOTAL FEES DUE." Enter Total Due

**Line 6 of FEE COMPUTATION** section. Enter any estimated payments or carry over credits on line 6.

**Line 7 of FEE COMPUTATION** section, "Balance Due." Subtract line 6 from line 5 and enter the total on line 7.

**Line 8 of FEE COMPUTATION** section, "Penalty".

- 1) If the business entity fails to file the net profit license return on or before the due date prescribed for filing or as extended by the local jurisdiction, then multiply line 7 by 5% per month or fraction thereof. Enter the amount on line 8; or
- 2) If the business entity fails to pay the tax computed on the net profit license return on or before the due date prescribed for payment, then multiply line 7 by 5% per month or fraction thereof from the due date. Enter the amount on line 8.
- 3) The total penalty does not exceed 25% of the total tax due; however, it shall not be less than \$25.

**Line 9 of FEE COMPUTATION** section, "Interest."

- 1) In addition to the penalty, if any business entity fails to pay the tax computed on the net profit return on or before the due date prescribed for payment, then multiply line 7 by 1% per month or fraction thereof from the due date. Enter the amount on line 9.

**Line 10 of FEE COMPUTATION** section, "TOTAL AMOUNT DUE." Add lines 7 through 9. Enter the total on line 10.

**Line 11 of FEE COMPUTATION** section, "Overpayment claimed." If line 6 exceeds line 5, then indicate whether a refund is requested or to credit to next year's estimated payment.

**NOTE:** If an amount is entered on Line 11, you must indicate if overpayment is to be refunded or credited for future returns. The period of limitation for refund of license taxes is two (2) years.

## **SIGNATURE**

- 1) 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.
- 2) If the return is being filed by a partnership, it must be signed by a general partner.
- 3) The licensee who signs the return must print his/her name in the area provided.