

INDIVIDUAL GENERAL INSTRUCTIONS

RETURN OR EXTENSION DUE APRIL 15, 2008 FOR TAX YEAR 2007

MUST ATTACH COPY OF FEDERAL 1040, PAGE 1, AND ALL SCHEDULES/STATEMENTS

TAXPAYER ASSISTANCE

Mail-in Assistance - Tax Forms must be mailed before March 15th in order for the Tax Department to complete your Tax Return. (See Instructions) Copies of your completed Tax Return will be mailed to you. Payment is due April 15th – the remittance copy is your bill for 2007 and 1st Quarter 2008 if needed. Any questions, phone the Tax Department at (440) 888-6440.

In Person Assistance - Tax office staff is available to assist you in completing your city tax return Monday through Friday, 9:00 A.M. to 4:30 P.M. The first two weeks of April, these hours will be extended: Mondays and Wednesdays until 6:30 P.M. and Saturday April 5th & 12th – 9:00 A.M. to Noon.

WHO MUST FILE

Every Resident, 18 years or older *Whether Or Not A Tax Is Due* is required to file a tax return. All earnings wherever earned are taxable. If you are retired/disabled, unemployed or had no taxable income according to the ordinance, you are still required to file a return indicating your status.

Every Business Entity, (individual, proprietorship, partnership, corporation, profession, etc.) whether a resident or non-resident who conducts a business in Parma Heights must file a return and pay any tax on the net profit. If you have a net loss, you are still required to file a return.

Individuals employed in Parma Heights per Ohio revised code 718.01 and receiving wages, salaries, commissions, etc., and whose employers have not withheld city income tax are required to file a tax return with the City of Parma Heights and pay any tax due.

Real Estate Agents who represent a broker whose office is located in Parma Heights are required to file and to include all commissions earned regardless of location of property sold or residence of salesperson.

PARTIAL YEAR RESIDENT: If you were a resident of Parma Heights for only a portion of the year, you must file and report the income earned during the period of your residency. If your W-2 indicates wages for 12 months, divide the wages by 12 and multiply that amount by the number of months you resided **OUTSIDE** of Parma Heights and enter the amount on Line 4B. If pay stub bears year-to-date totals and you moved **INTO** Parma Heights, enter the total of gross wages as shown on last pay stub prior to moving into Parma Heights on Line 4B. If you moved **OUT** of Parma Heights, deduct total wages as shown on last pay stub prior to moving **OUT** from total wages as shown on W-2, and enter the **DIFFERENCE** on Line 4B. **WAGES EARNED IN PARMA HEIGHTS CANNOT BE PRORATED. IN ALL CASES, SUBMIT COPIES OF W-2'S AND PAY STUBS.**

UNDER EIGHTEEN YEARS OF AGE: Persons under 18 years of age are not subject to Parma Heights tax. If you worked in Parma Heights and City tax was withheld, request a refund from the Parma Heights Tax Dept. If you worked in a city other than Parma Heights, request a refund from that city. A copy of your birth certificate or drivers license and W-2's are required with the refund form. Parma Heights residents 18 years old for a portion of the tax year are required to file a tax return. If your W-2 includes wages earned before and after you turned 18, a statement from your employer is required indicating wages earned prior to 18 and wages earned while 18.

WHERE AND WHEN TO FILE: File with the Tax Administrator, City of Parma Heights, 6281 Pearl Road, Parma Heights, Ohio 44130 on or before the due date following the close of the calendar year. All wage earners must file on a calendar year basis. Fiscal year taxpayers must file on or before the 15th day of the fourth month following the close of their fiscal year. In the case of a return for a fractional part of the year, the period for which such return is required to be made.

EXTENSION: The Administrator may extend the time for filing the annual return upon request of the taxpayer. The extended due date of the Parma Heights Income Tax Return shall be the last day of the month following the month of the granted Federal Extension. A copy of your extension and/or confirmation number must be sent/post-marked on or before the due date. **AN EXTENSION TO FILE IS NOT AN EXTENSION OF TIME FOR PAYMENT.** You will be assessed penalty and interest for late payments. Note: Even if you have a zero liability, a minimum penalty (\$25) will be charged if your extension is not received prior to the original filing due date. The extension does not apply to your Declaration or first quarter payment for 2008.

TAXABLE INCOME: Taxable Income means wages, as defined in ORC 718.03 and Section 3121(a) of IRC, salaries and other compensation paid by an employer **BEFORE ANY DEDUCTION.** Other compensation includes, but is not limited to, bonuses; commissions; incentive payments; directors fees; property in lieu of cash; tips; dismissal or severance pay; supplemental income benefits for early retirement regardless of their label; contest prizes and awards; tax shelter plans; vacation and sick pay regardless of label such as sick leave, disability, vacation pay, etc.; wage continuation plans; supplemental unemployment benefits (Sub Pay); depreciation recapture; gifts and gratuities in connection with employment, fellowships, grants and stipends; group term life insurance protection over fifty thousand dollars (\$50,000) (Taxed on the entire cost); benefits resulting from an employer's assumption of a tax; stock options given as compensation; income from gaming, wagering and lotteries, including the Ohio State Lottery; net profits from the operation of a business, profession or other enterprise or activity; and all other compensation earned, received or accrued, including the distributed share of income (K-1) from the net profits of a resident partner or owner of an unincorporated business or pass-through entity.

INCOME NOT TAXABLE: Dividends, interest, pay or allowance of ACTIVE members of the Armed Forces of the United States, insurance proceeds, pensions, 125 cafeteria plans, annuities when received as retirement, alimony, social security, medicare, (poor relief, State unemployment insurance benefits, disability received from Local, State or Federal governments or charitable, religious or educational organizations), gifts, inheritances, scholarships, involuntary conversions, royalties and other revenue from intangible property. The income of religious, fraternal, charitable, scientific, literary, or educational institutions to the extent that such income is derived from tax-exempt real estate, tax-exempt tangible or intangible property, or tax-exempt activities. Compensation paid under Section 3501.28 or 3501.36 of the Revised Code to a person serving as a precinct election official, to the extent that such compensation does not exceed one thousand dollars annually.

EXEMPTIONS AND ITEMIZED DEDUCTIONS: Municipal income tax is based on GROSS EARNINGS before deductions. Exemptions and itemized deductions as available on the individual Federal income tax return are NOT ALLOWED.

RETIREMENT PLANS: Contributions to Retirement Plans, i.e. IRA, Keogh, Annuities, all Deferred Compensation (qualified & non-qualified), 401K, etc., are taxable (whether or not your W-2 form shows this income as taxable). City taxes are paid on gross income (wages, salaries, profits, and other compensation) when it is earned not when it is received in retirement.

REFUND OR OVERPAYMENT: An overpayment less than \$5.00 shall not be refunded but credited toward next year's tax liability. If you have no tax liability in subsequent years a refund of any overpayment of \$1.00 or more will be made. Persons under 18 years of age (See Instructions) A refund will not be issued if W-2's or required schedules, etc. are missing.

LESS THAN \$1.00: If the amount shown on LINE 8(a) is less than \$1.00, no credit or refund will be given. If the amount shown on LINE 12 is less than \$1.00 no payment is due. Proceed to LINE 13 and complete ESTIMATE.

UNREIMBURSED EMPLOYEE BUSINESS EXPENSE: You may deduct unreimbursed employee business expenses in excess of 2% of Federal Adjusted Gross Income. Business expenses are limited to the following items: Vehicle expense (standard mileage rate or actual expenses); parking fees, tolls and transportation, including train, bus or air; travel expenses while away from home overnight. Vehicle and travel expenses for educational purposes or for the purpose of commuting to the place of employment, are not permitted. (ALL OTHER BUSINESS EXPENSES ARE DISALLOWED.) If you were a resident of Parma Heights for a portion of the year and have prorated your income, your business expenses must also be prorated. (SEE TAX CREDIT COMPUTATION INSTRUCTIONS FOR 2106 BUSINESS EXPENSE CALCULATION FORMULA.)

TAX CREDIT: Parma Heights residents who are employed or conduct a business activity in a city OTHER than Parma Heights shall be allowed 100% credit of a 2% limit of the amount of city income tax withheld (on W-2) or paid to OTHER cities including the taxes paid by a pass-through entity on behalf of the partners and/or shareholders. A copy of the OTHER city return/payment must be submitted with your tax return to receive proper credit (BEFORE COMPUTING THE CREDIT, SEE TAX CREDIT INSTRUCTIONS.)

PENALTIES AND INTEREST: Penalties and Interest are imposed for failure to file any returns due or pay any tax due.

LATE FILING PENALTY - If you file your tax return LATER than the due date, a late filing penalty of 10% of the tax due (minimum \$25) will be charged. In addition you may be charged the "late paying penalty".

LATE PAYING PENALTY - If you file your tax return ON TIME, in person or postmarked on or before the due date, and fail to pay the total tax due, a late paying penalty will be assessed at the rate of 10% per year, calculated at .833% per month.

PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX: A penalty of 10% per year is imposed for failing to pay estimated tax or for the underpayment of estimated tax. The penalty is figured at .833% per month. The penalty is figured separately for each installment. (If the total amount of tax due for the year is less than \$40.00, it may be paid in full when filing your Tax Return.) To avoid the penalty, 80% of the actual taxes due or an amount equal to your tax liability for the previous year, MUST have been paid *quarterly*.

INTEREST: All taxes remaining unpaid after they become due shall bear interest at the rate of 18% per year or fraction thereof. Calculated at 1.5% per month.

DECLARATION OF ESTIMATED INCOME TAX - Who Must File

1. Every resident of Parma Heights, 18 years of age or older who anticipates a tax liability of \$40.00 or more for the year.

2. Every non-resident who expects to receive taxable income derived within the city of Parma Heights and where no tax has been withheld.

3. Every Incorporated and Unincorporated business, profession, partnership, enterprise or activity subject to the tax.

4. Every person owning rental property located within Parma Heights.

PAYMENT OF ESTIMATED TAX: If the total amount of tax due for the year is less than \$40.00, it may be paid in full when filing your Tax Return on or before the due date.

If the total amount of tax due for the year is \$40.00 or more, payments must be made in quarterly installments. An amount equal to your tax liability for the previous year or 80% of the actual taxes due, MUST be paid quarterly. A PENALTY by quarter will be assessed for late payment, non-payment or underpayment of estimated tax.

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, a loss in one city MAY offset a SCH C business or SCH E Page 1 rental gain in the SAME city. A net operating loss may be carried forward for five (5) years. The portion of the net operating loss sustained shall be allocated to the City in the same manner for allocating net profits to the City.

SCHEDULE C - Profit or Loss from Business or Profession: All business entities must attach copies or facsimiles of the Federal Schedule C. If you had more than one business, a separate Schedule C must be completed for each business. An individual taxpayer engaged in two or more taxable business activities in the same municipality may include them in the same return. If your business activities were conducted in more than one municipality, see Schedule Y. (Except Parma Heights residents whose total earnings wherever earned are taxable.) Accounting methods used must be identical to that used for Federal reporting. State and City Taxes based upon income & Charitable Contributions are not deductible and must be added back to income. See Schedule X. Business income must include Recapture of Depreciation. The self-employment tax and the self-employment health insurance are not allowable deductions.

RECAPTURE OF DEPRECIATION: Gains on the disposition of 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 E - Income From Rentals: Residents are required to file and report the status of all property located within and without Parma Heights. Non-residents are required to file and report the status of all property within Parma Heights whether or not income is received. When the gross monthly rental of any and all real properties aggregates in excess of \$125.00 per month, the net income shall be subject to tax. Parma Heights residents owning rental property located outside of Parma Heights are required to file the net profit or loss with the City of Parma Heights and pay any tax due. In the case of Commercial Property, there is no rent limitation on the amount subject to the tax. Owners of farm property are engaged in a business activity when they share in crops or when the rental is based on a percentage of the gross or net receipts derived from the farm. Appropriate Federal Schedules must be attached. RENTAL LOSSES MAY NOT be used to offset wages, salaries, etc. Loss from ONE City may never offset the gain in another city. (See Business or Rental Losses) Note: 4797 Ordinary Income from the depreciation recapture must be added back.

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 S corporations, partnerships, LLC's, estates, trusts, fees, prizes, awards, supplemental unemployment benefits, property in lieu of cash, excess business expense reimbursement. Pass-through entities, i.e. S corporations, Partnerships, LLC's, Estates and Trusts MUST FILE AS AN ENTITY ON A NET PROFIT TAX RETURN.

SCHEDULE X - Items not Deductible: This schedule is used for the purpose of making adjustments when total income included income not taxable and/or items not deductible for city income purposes.

Line A - Taxes paid or accrued, based upon income – add back.

Line B - Charitable Contributions are NOT deductible and must be added back if included on Schedule C.

SCHEDULE Y - Business Apportionment: Net profits from a business or profession conducted both within and without the boundaries of Parma Heights shall use the three-factor apportionment formula to apportion profits to Parma Heights. This formula is equally weighted between property, payroll, and sales (as of tax year 2004 the property factor uses original cost instead of net book value). If the apportionment formula does not produce an equitable result, another basis may be substituted, under uniform regulations. If books and records of the taxpayer are used as the basis for apportioning net profits rather than the business apportionment formula, a statement must accompany the return explaining the manner in which such apportionment is made.

SPECIAL NOTE: Sales and gross receipts in Parma Heights mean:

1. All sales of tangible personal property delivered within Parma Heights regardless of where title passes if shipped or delivered from a stock of goods within Parma Heights.
2. All sales of tangible personal property delivered within Parma Heights regardless of where title passes even though transported from a point outside of Parma Heights if the taxpayer is regularly engaged through its own employees in the solicitation or promotion of sales within Parma Heights and the sales result from such solicitation or promotion.
3. All sales of tangible personal property shipped from a place within Parma Heights to purchasers outside Parma Heights 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.