

INSTRUCTIONS FOR FORM I-1065
CITY OF IONIA PARTNERSHIP RETURN
For partnerships doing business in the City of Ionia

Filing Date and Remittance:

An annual return is due on or before the last day of the fourth month following the end of the partnership's taxable year. Calendar year returns are due by April 30.

Partnerships electing to pay the tax for partners must remit the tax for all partners when filing the return. Tax due, if one dollar (\$1.00) or more must be paid when the return is filed.

Make remittance payable to: City of Ionia

Mail to: City of Ionia, Income Tax Division, PO Box 512, Ionia, MI 48846

Partnerships Required to File a Return (I-1065)

Every partnership that has conducted business activities in the City of Ionia after January 1, 1994, whether or not an office or place of business was maintained in the City, is required to make and to file an annual return. Syndicates, joint ventures, pools and like organizations will also use form I-1065 (Partnership Return). So-called "tax option" corporations or S corporations (under Sections 1371-1377, Internal Revenue Code) must file as corporations on form I-1120.

Option to pay tax and applicable tax rates:

The partnership may elect to file an information return or to compute and pay the tax due with respect to each partner's share of the net profits of the business. The partnership may pay the tax for partners only if it pays for ALL partners subject to tax. The income tax rate is 1% for residents and corporations and .5% for nonresidents.

This election is available to all partnerships regardless of the residency status of the partners. The partnership may pay the tax for the partners only if it pays the tax for all partners subject to the tax. The "Tax Payment by Partnership" Schedule, Page 1, Columns 1 through 7, is to be used to compute the tax to be paid. Do not use this schedule if an informational return is filed. [If the partnership elects to pay the tax on half of the partners, then such an election and payment of the tax is deemed to meet the requirements for filing a return as provided in the Ordinance, for each partner who has no other income subject to City of Ionia Income Tax.] However, an individual return shall be required from any partner having taxable income other than their distributive share of the net profits of the partnership. In such cases, an individual partner should enter their total partnership income form Federal Form 1040 on the appropriate line of Form I-1040. Credits for exemptions and tax paid are to be shown on the Form I-1040.

Partnership as a Taxpayer

If the partnership elects to pay the tax for the partners, the individual partners are not required to file a return if such partners have no other income subject to tax. However, an individual return is required from any partner having taxable income other than his distributive share of the net profits of the partnership. (In such instances, a partner who is required to file an individual return should refer to the instructions for such return.)

If the partnership elects to pay the tax on behalf of the partners then the partnership assumes the status of a taxpayer to the following extent: 1. Timely Payment. Payment must be made within four (4) months from the end of the fiscal year or period. Payments made after the due date are subject to interest and penalty in the same manner as a delinquent payment from any other taxpayer. 2. Payment of estimated tax. The election of a partnership to pay the tax on behalf of the individual partners also carries with it the requirement to file a Declaration of Estimated Income Tax (Form I-1040ES). Form I-1045ES must be filed, and quarterly estimated payments of the tax must be made, if the estimated tax for the partnership is expected to exceed \$100.00. If the partnership files Form I-1040ES and makes the required quarterly estimated payments, the partners will not be required to file a Declaration, unless they have additional income (not subject to Ionia withholding) on which City of Ionia income tax is expected to exceed \$100.00. The fiscal year for the partnership will govern in establishing dates for filing the declaration and paying the estimated tax.

Instructions for Tax Payment by the Partnership:

Partnerships electing to become the taxpayer should start preparation of the return on page 2 with Schedules A and B. If the partnership is subject to allocation of business income, Schedule D should be completed next. Schedule C is then completed to determine each partner's share of business and non-business income. Partnerships with rental real estate must complete Schedule E. Page 1 is to be totally completed.

Partnership Filing an Information Return:

Partnerships filing information returns are required to complete: page 2: Schedules A, B, C and if appropriate Schedules D and E; and page 1: Identification and Information section and column 1.

General Information:

The Partnership Return, Form I-1065, is designed to distinguish between that income taxed to residents, nonresidents and corporations. The purpose of the return is to set forth the entire net profit for the period covered and to show the distributive share of each partner, indicating those who are residents of Ionia, nonresidents or corporations. (If residency changes during the taxable period for any partner, use two lines to indicate allocation of income by residency status in all schedules where applicable.)

Ordinary business income of the partnership is reported in Schedule A. This ordinary business income is transferred to Schedule C, column 1, by showing the amount of ordinary income distributable to each partner.

Non-business income that may be taxable is reported in Schedule B, by type of income. The taxable portion for resident, nonresident and corporate partners is determined in this schedule in columns 2 through 5. The taxable non-business income is then transferred to Schedule C by showing the amounts applicable to the individual partners.

Column 1, on page 1 is the final summary transferred from Schedule C, column 7.

Resident Partners are taxed on their entire distributive share of the net profits of the partnership, including that arising from business activities outside of Ionia, interest, dividends, rents, royalties, other income, and gains from the sale or exchange of property, either tangible or intangible, regardless of where such property was located.

Nonresident Partners are taxed on their distributive share of the net profits of the partnerships ordinary business income which is attributable to business activity in Ionia, plus net rentals of tangible property in the City and gains from the sale or exchange of tangible property in the City. Nonresidents are not taxed on their share of net rentals on property located outside the City, gains from the sale or exchange of securities or other intangible property, or on interest and dividends.

When the receipt of interest and other intangible income is directly related to the nature of the business, such interest, etc., shall be considered business income taxable to nonresidents, and is to be included in the ordinary business income reported in Schedule A, line 1.

Corporate Partners are taxed on their distributive share of the partnership's ordinary business income attributable to business activity in Ionia, plus net rentals of tangible property in the City and gains from the sale or exchange of tangible property in the City. Corporations are not taxed on: their share of net rentals of property located outside the City.

Page 1 instructions

Column 1, Adjusted Partnership Income - Fill out all appropriate schedules on page 2 of Form I-1065. Transfer amounts from Schedule C (Distribution to Partners), Column 7, to this column. List the amounts in the same order as partners are listed on the upper half of page 1.

Column 2, Allowable Individual Deductions - Any non-taxable items included in Column 1 are to be deducted in Column 2. Deductible items will include the dividend exclusion, net operating loss carryover, etc., handled in accordance with the Federal Internal Revenue Code. A net capital loss realized by any of the partners, in excess of the partner's allowable capital loss deduction, must be added back in this column. The allowable capital loss deduction for each partner is the lesser of (1) the net capital loss; (2) the amount in Column 1, Page 1, computed without regard to capital gains and losses; or (3) Three Thousand Dollars (\$3,000.00). Non-resident partners must allocate net operating losses to Ionia at the percentage of business conducted in the City of Ionia in the year in which the loss was sustained. Any net operating or capital losses shall not be carried back to offset prior gains. Such losses may only be carried forward in accordance with the Federal Internal Revenue Code. Attach a schedule for all entries in Column 2.

Column 3, Exemptions - An exemption of Seven Hundred Dollars (\$700.00) is allowed for each partner (that is an individual), the partner's spouse, and each dependent. If the partner is a corporation, another partnership or any entity other than an individual there is no exemption. In general the same rules apply in determining dependents as under the Federal Internal Revenue Code. A spouse may be taken as an exemption only if the spouse has no income subject to the Ionia income tax. Exemptions are allowed for age and blindness. Exemptions claimed on Form I-1065 cannot be claimed on Form I-1040.

Column 5, Total Tax - Resident partners are taxed at 1% of taxable income (Column 4). Non-resident partners are taxed at 1/2 of 1% of taxable income unless they are a corporation. Corporate income is taxed at 1% whether a resident or not. Report both dollar and cents in the tax computation. Partners who changed residency status during the year are to follow the instructions in the fourth paragraph under "Resident vs. Non-resident Partners".

Column 6, Credits - Enter in this column, tax payments made by the partnership; or the applicable credit for payments made by the partnership on behalf of Ionia resident partners for income taxes paid to another municipality, if the income on which such a tax was levied is included in this return. Do not take credit for income taxes paid to another municipality on behalf of partners who are not City of Ionia residents. The credit shall be the lesser amount of either (1) the income tax paid to the other municipality, or (2) 1/2 of 1% of the income subject to tax in the other municipality after deduction of exemptions at Ionia's rate.

Column 7, Balance of Tax Payable - Enter in this column the amount in Column 5 less the amount in Column 6.

Instructions for Schedules on Page 2

Schedule A - Allocable Partnership Income

The ordinary income or loss reported on the Federal Form 1065 must be adjusted to arrive at the partnership income to be apportioned to the non-resident partners on the basis of the Business Allocation Formula, Schedule D. To Line 1, add those deductions on the federal return, such as partner's salaries, and City of Ionia income tax (if deducted). Subtract the non-business income as developed in Schedule B, Line 9. The resulting answer on Line 6 is to be distributed on the basis of the partnership agreement and shown Schedule C, Column 1, in the same order as the partners are listed in the upper half of Page 1.

Schedule B - Non-Business Income and Exclusions

A direct determination can be made of certain partnership income as to whether or not it was earned in the City. A resident partner is taxed on all income regardless of where earned but a non-resident partner is taxed only on that portion earned in the City. In addition, the income tax ordinance exempts specific income of both residents and non-residents (see note on Page 2). In Column 1, insert amounts from the various pages, lines, and schedules of federal Form 1065 indicated. In Columns II and IV, prorate Column 1 on the ratio of residents' and non-residents' percentages according to the partnership agreement. Determine the amount of non-taxable income in each category in accordance with the exemptions allowed by the ordinance and show in Columns III and V. The proportionate share for each individual is to be determined for lines 10 through 17, Columns III and V and reported on the individual partner's Form I-1040. [If the partnership income is not divided evenly or if there is three or more persons or partners, attach a schedule showing the distribution of income and exclusions.]

Gains and losses from the sale or exchange of property are treated in the same manner, and the amount subject to tax determined on the same basis, as under the Federal Internal Revenue Code.

Only the amount of gain or loss occurring after January 1, 1994 is to be recognized for City of Ionia income tax purposes. The amount of gain or loss occurring after January 1, 1994 is to be determined either by (1) computing the difference between the January 1, 1994 fair market value (December 3, 1993 closing price for trade securities) or the cost if the date acquired was subsequent to January 1, 1994, and the proceeds from the sale or exchange, or by (2) using the gain or loss for the entire holding period, as computed for Federal income tax purposes, and computing the taxable portion by applying the ratio of the number of months held after January 1, 1994, divided by the total number of months the property was held. Fair market value is to be determined by an appraisal or similar reliable evidence.

Schedule C - Distribution to Partners

Complete this schedule according to the captions and transfer the figures in Column 7 to Page 1 only if the partnership is paying the tax for all partners. Column 4 is a memorandum column only and is to be used to compute the amount of the exclusion to be transferred to the individual partner's Form I-1040.

Schedule D - Business Allocation Formula

The Business Allocation Percentage Formula is to be used by NON-RESIDENT owners of businesses with business activity both inside and outside the City of Ionia. A separate accounting method may also be used.

Line 19a. Enter in column I the average net book value of all real and tangible personal property owned by the business regardless of location. In column II show the net book value of all real and tangible personal property owned by the business located in the City of Ionia. The average net book value of real and tangible personal property may be determined by adding the net book values at the beginning of the year to the net book values at the end of the year and dividing the sum by two. Any other method that accurately reflects the average net book value for the year will also be permitted.

Line 19b. Enter in column I the gross rentals for the year multiplied by eight for all rented property regardless of location. In column II enter the gross rentals for the year multiplied by eight for all rented property located in the City of Ionia. Gross rentals refer only to real property, rented or leased, and should include the actual sums of money or other consideration payable, directly or indirectly by the taxpayer for the use or possession of such real property for the year.

Line 20. Enter in column I the total compensation paid to all employees during the year. In column II enter the amount of compensation paid to employees for work done or services performed within the City of Ionia during the year.

Line 21. Enter in column I the total gross receipts from all sales or services rendered during the year. In column II enter the amount of receipts derived from sales made or services rendered in the City of Ionia during the year.

Line 23. In determining the average percentage, a factor shall be excluded only if it does not exist insofar as the taxpayers business operation is concerned. In such cases, the sum of the percentages shall be divided by the number of factors used.

Payment of Tax or Refund Due

If the partnership has elected to pay the tax for the partners and the tax due is one dollar (\$1.00) or more (please round up .50 to \$1.00 and .49 and less may be dropped) it must be paid when filing this return. Make check or money order payable to City of Ionia. Mail both the return and payment to: Income Tax Division, PO Box 512, Ionia, MI 48846.

If your payments and credits exceed the amount of the tax, show the amount of the overpayment on page 1, line 11. Indicate on line 12 whether you wish the overpayment to be credited to the next years estimated taxes or refunded by check. Amounts less than one dollar (1.00) will not be refunded or credited forward. Refunds will be made as quickly as possible but please allow 90 days before making an inquiry.

Electronic payment or refund: Complete the information for electronic payment or refund. Be sure to indicate refund or pay and sign the return as this is your authorization to deposit or withdrawal from your account. If this section is not completed correctly the electronic option will be void. This could mean additional penalty and interest for late payment if you are billed after the due date.

Assistance

If you have any questions not answered by these instructions, or if you need assistance in preparing the return, please call (616) 523-0142. Or, you can write or visit our office located in City Hall, 114 North Kidd Street, Ionia, MI 48846.

Website

Income tax forms and instructions are available on the City of Ionia website, www.cityofionia.org.

NOTICE: These instructions are interpretations of the City of Ionia Income Tax Ordinance. The Ordinance will prevail in any disagreement between the instructions and the Ordinance.