

INSTRUCTIONS FOR PREPARING FORM N-7

GENERAL INSTRUCTIONS

FILING REQUIREMENT: Every corporation, partnership, trust or estate, whether a resident or non-resident that conducts business in Cleveland Heights must file a return and pay tax on the net profit.

WHAT CONSTITUTES NET PROFITS: Net profits shall be determined on the basis of the information used for federal income tax purposes, adjusted to the requirements of the Ordinance of Cleveland Heights. Expenses attributable to non-taxable income are not deductible. Gains and losses from the sale or exchange of capital assets to the extent recognized as capital gains or losses for federal income tax purpose, are not to be considered in arriving at net profits.

HOW TO TREAT A NET LOSS: The portion of a net operating loss sustained in any taxable year, allocable to Cleveland Heights, may be applied against the portion of the profit of succeeding year(s) allocable to Cleveland Heights, until exhausted but in no event for more than five (5) taxable years. No portion of a net operating loss shall be carried back against net profits of any prior year. The portion of a net operating loss sustained shall be allocated to Cleveland Heights in the same manner as provided herein for allocation net profits to Cleveland Heights.

The Net Operating Loss of a business which loses its identity through merger, consolidation, etc., shall be allowed as a loss carry-forward deduction to the surviving business entity to the extent permitted by the Internal Revenue Code.

WHEN TO FILE: Forms must be filed at Cleveland Heights City Hall Income Tax Office. For information call 216-291-3978.

EXTENSIONS OF TIME TO FILE for good cause may be granted by the Administrator. Make written request on or before the due date, stating reason.

ROUNDING OFF TO WHOLE DOLLARS is permitted. Eliminate any amount less than fifty cents and increase any amount from fifty cents through ninety-nine cents to the next higher dollar.

PENALTIES AND INTEREST are imposed for failure to file a return or pay the tax due.

SPECIFIC INSTRUCTIONS

HEADING—Print your company name, address, federal identification number plainly, or make needed corrections if already imprinted.

LINE 1—Place here your total taxable income as shown on your federal form attached. 1065 filers use amount shown as ordinary income. Enter federal form number on line "Form" _____.

LINE 2—are used to make adjustments when Line 1 includes income not taxable and/or items not deductible for municipal tax purposes. Schedule X is used to reconcile income as used for federal purposes by subtracting such income items that are not taxable for municipal purposes and adding back deductions used for federal purposes which are not allowable for city purposes. Enter the amounts of any such items in Schedule X, and carry the totals of Schedule X, combine Lines (G) and (L) and enter a net result to Line (M), which to be entered on Line 2. Also see instructions for Schedule X.

LINE 3—is the result of Line 1 plus or minus Line 2.

LINE 4—The income tax ordinance recites a formula (Schedule Y) to determine the percentage of income attributable to Cleveland Heights by business activity both within and outside Cleveland Heights. If Schedule Y is used, bring the average percentage from Line 5 of Schedule Y to the % line of Line 4. Multiply Line 3 by this percentage and enter the result on Line 5.

LINE 6—Business entities may carry operating losses forward for a maximum period of five(5) years or until exhausted whichever is earlier. No portion of a net operating loss shall be carried back against net profits of any prior year. Taxpayers doing business both in and outside of Cleveland Heights who allocate profits via Schedule Y must also allocate losses accordingly. A worksheet or schedule is required to support an operating loss claimed on the return.

LINE 7—is the result of Line 5 less Line 6.

LINE 8—Multiply Line 7 by .02.

LINE 9a—Enter credit from prior year(s) (overpayment you indicated on the prior return to be credited against this year's tax).

LINE 9b—Enter here estimate payments made to Cleveland Heights for this taxable year. Estimated tax payments can be verified by calling (216) 291-3978.

LINE 9c—is the total of Lines 9a and 9b.

LINE 10a—If Line 8 is greater than Line 9c the difference should be entered here. Remittance in this amount must accompany the return when filed. If this amount is less than \$1, you do not have to pay.

LINE 10b—If Line 9c is greater than Line 8 the difference should be entered here. This amount will be transferred as a credit towards next year's tax unless you request a refund. Refunds of less than \$1 are not made, per the income tax ordinance, but can be credited towards next year's tax. Do not split overpayment between credit and refund.

SCHEDULE INSTRUCTIONS Reconciliation with Federal Income Tax Return

SCHEDULE X is used for the purpose of making adjustments when total income (Line 1) includes income not taxable and/or items not deductible for municipal purposes. Enter the amounts of any such items in Schedule X and carry total (Line M) to Line 2. Line A—Capital losses from the sale, exchange or other disposition of property shall not be taken into consideration in arriving at net profits earned. Line B—would include federal, state, local and other taxes based on income. Line E—If you have deducted non-taxable income (Line L), expenses attributable to this non-taxable income shall not be allowed as a deduction from the remaining taxable income.

SPECIAL NOTE: Corporations are only entitled to a Franchise Deduction Tax Deduction based on equity. The difference between the equity method and income methods should be recorded on Line B.

Line H—Capital gains from the sale, exchange or other disposition of property shall not be taken into consideration in arriving at net profits earned. However, refer to Schedule D instruction. Line 1—would include items listed in the general instructions as: Federal Income Not Taxable, as well as compensation or like reimbursement for damages (except for loss of profits), involuntary conversion, cancellation of indebtedness, income of a decedent's income already taxable by the State of Ohio from which Cleveland Heights are specifically prohibited from taxing, income which is prohibited from taxation by the Constitution of the United States and the State of Ohio or any Act of Congress or the Ohio General Assembly.

Business Allocation Formula

SCHEDULE Y A Business allocation formula consisting of the average of property, gross receipts and wages paid, may be used by business entities not required to pay tax on entire net profits, by reason of doing business both within and without Cleveland Heights. However, if the books and records of the taxpayers shall disclose with reasonable accuracy the net profit attributable to Cleveland Heights, then only this portion shall be considered as having a taxable status in Cleveland Heights.

SPECIAL NOTE: Sales and gross receipts in Cleveland Heights (step 3) mean:

1. All sales or tangible personal property which is shipped from Cleveland Heights to purchase outside of Cleveland Heights, regardless of where title passes if the taxpayer is not, through its own employees, regularly engaged through in the solicitation or promotion of sales at the place where delivery is made.
2. All sales of tangible personal property which is delivered within Cleveland Heights, regardless of where title passes, even though transported from a point outside Cleveland Heights, if the taxpayer is regularly engaged through its own employees in the solicitation and the sales results from such solicitation or promotion.
3. All sales of tangible personal property which is delivered within Cleveland Heights regardless of where title passes, if shipped or delivered from a stock of goods with Cleveland Heights.

Partnership Distributive Share of Net Income

SCHEDULE Z Must be completed by all partnerships and associations filing returns. Amounts shown in this schedule must correspond with amounts reported on your Federal Partnership Form. Attach a schedule if you need more space.