

CITY OF PONTIAC INCOME TAX

20____ PARTNERSHIP RETURN

Instructions for Form P-1065 for PARTNERSHIPS doing business in Pontiac

FILING DATE: Calendar year taxpayers must file by April 30, of the next year. Fiscal year taxpayers must file within four (4) months after the end of their fiscal year.

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

Make Remittance payable to:
TREASURER – CITY OF PONTIAC

MAILING ADDRESS:

CITY TREASURER
INCOME TAX DIVISION
47450 WOODWARD AVENUE
PONTIAC, MI 48342-2245

Who Must File a Partnership Return (Form P-1065)

Every partnership that conducted business activities in the City of Pontiac after January 1, 1968, whether or not an office or place of business was maintained in the city, is required to file an annual return within (4) months following the end of their taxable year. If on a calendar year basis, the return must be filed by April 30 of the next year. Syndicates, joint ventures, pools and like organizations will also use Form P-1065. So called "tax option" corporations (under Secs 1371-1377, Internal Revenue Code) must file as corporations on Form P-1120.

Resident vs. Non-Resident Partners

Partners who are **residents** of Pontiac are taxed on their entire distributive shares of the net profits of the partnership, including that arising from business activities outside the city, and including interest, dividends, rents and royalties and gains from the sale or exchange of property, either tangible or intangible.

Partners who are **non-residents** of Pontiac are taxed on their distributive shares of the portion of the net profits, which is attributable to business activity in the city, plus net rentals of property in the city and gains from the sale or exchange of real or tangible personal property in the city. They are not taxed on their share of net rentals on property outside the city, gains from the sale or exchange of real or tangible property outside the city, gains from the sale or exchange of securities or other intangible property, or interest or dividends.

The Partnership Return, Form P-1065, is designed to distinguish between that income taxed to both residents and non-residents, and that taxed to residents only.

The return shall include the entire net profit for the period covered and show the distributive share of each partner indicating those who are residents of Pontiac and those who are non-residents. If residency changes during the taxable period for any partner, use two lines to indicate allocation of income by status in all schedules where applicable.

Option to Pay Tax

At its election, the partnership may file either an information return or it may compute and pay the tax, which is due with respect to each partner's share of the net profit of the business, after giving affect to exemptions and other items to which each partner is entitled. Such election is available to all partnerships regardless of the residency of the partners. If the partnership makes the election to pay the tax for partners it must pay for all partners subject to the tax.

If the partnership elects to pay the tax on behalf of the partners thereof, then such election and payments shall be deemed to meet

the requirements for the filing of a return, as provided by the Ordinance, for each partner who has no other income subject to the tax. However, an individual return shall be required from any partner having taxable income other than his distributive share of the net profits of the partnership. In such instances, the partner should enter as "Income from Partnerships" on his individual return, the amount shown on the partnership return on page 1, column 1 and column 2. The deductions shown in column 3 and the credit in column 6 paid on his behalf by the partnership should be taken as a credit on his individual return.

Partnership as Taxpayer

If the partnership elects to pay the tax on behalf of the partners then it assumes the status of a taxpayer to the following extent:

1. Time payment. Payment must be made within four (4) months from the end of the fiscal year or period, otherwise it will be subject to interest and penalties the same as a delinquent payment from any other taxpayer.
2. Payment of estimated tax. The election of the 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 P-1040ES, if the total estimated tax for the partnership is expected to exceed \$100, and to pay such tax. If the partnership so files and makes payments, the partners will not be required to file a Declaration as individuals unless they have additional income (from which Pontiac income tax was not withheld) on which the Pontiac tax is expected to exceed \$100. The fiscal year of the partnership will govern in establishing the dates for filing the Declaration and paying the estimated tax.

Income: Instructions for Page 1

Dividend Exclusion. 50% Capital Gains Deduction and Other Deductions. Column 3. Any items of income which are non-taxable and which are included in column 1 of this section may be deducted in column 2.

If the partnership elects to pay the tax for its partners, and an analysis of Column 7 of Schedule 1 on page 3 indicates that a partner has realized a long term capital gain, the capital gains deduction of 50% of the excess of net long term capital gains over net short term capital losses is to be deducted in Column 2, page 1. The 50% deduction of net long-term capital gains applies to the first \$50,000 only. Long-term capital gains in excess of \$50,000 must be fully included in income.

If the analysis of Column 7, Schedule 1 on page 3 indicates a net capital loss has been realized by any of the partners, the amount of the excess of the net capital loss included in Column 7, Schedule 1, page 3 over the partner's allowable capital loss deduction must be **added back** in Column 2, page 1. The allowable capital loss deduction is limited to ½ the net capital loss but not in excess of the amount in Column 1, Page 1, or \$1,000 whichever is lower.

Note, if the partnership is filing an information return only, the individual partners will report their distributive share of the partnership's Section 1231 transactions and other sales and exchanges of property on their individual P-1040 returns in the same manner as provided in the Federal Internal Revenue Code.

Any deduction other than the dividend exclusion allowed by the Federal Internal Revenue Code must be explained in an attached schedule.

Exemptions. Column 3. Exemptions are allowed for each partner and his or her dependents. An exemption of \$600 is allowed for the partner, the partner's spouse, and each dependent. In general, the same rules apply in determining dependents as

under the Federal Internal Revenue Code, except that each dependency exemption is \$600 rather than the amount allowed through the Federal Tax Reform Act of 1969. A spouse may be taken as an exemption on the partnership return only if such spouse has no income subject to the Pontiac income tax. Additional exemptions are allowed if the partner or his spouse is 65 or over, or is blind.

Total Tax. Column 5. The tax rate of ½% for non-residents of the City of Pontiac became effective January 1, 1968 and only applies to income earned on and after January 1, 1968.

Partnerships with a fiscal year ending prior to December 31, that elect to file and pay the tax for their individual partners shall compute the tax for non-resident partners at ½% and for resident partners at 1% on income earned by the partnership during the fiscal period covered by the return after January 1, 1968.

Credits. Column 6. Enter in column 6 payments made by the partnership for tax paid with a tentative return; for payments on Declaration of Estimated Income Tax, any payments and credits made by the partnership on behalf of Pontiac resident partners for income taxes to any other municipality, if the income on which such tax was levied is included in this return. Do **not** take credit for income taxes paid another municipality on behalf of partners who are not Pontiac residents. The credit shall be the lesser amount of either (1) the income tax paid the other municipality, or (2) the amount of tax that would be due to the City of Pontiac on earnings in the other municipality computed at the non-resident rate.

All credits of column 6 are to be distributed on lines 6a, b, and c and totaled on line 8. The total of line 8 must agree with the total of column 6.

Schedule C – Income from Partnership

Line 17. Use the same basis and method as used for Federal income tax reporting.

See also the additional instructions for Schedule C on page 4 of the return.

Schedule A – Ordinary Income from Business

Line 2. If the Pontiac and/or Federal income tax has been included as an expense in Schedule C, it should be added back here.

Schedule B- Income from Dividends and Interest

Line 2. Interest from obligations of the United States, the states, or subordinate units of government of the states is exempted from the tax. If it has been included in the total on line 1 it should be deducted here.

Line 5. Use line 5 to exclude dividends and interest applicable to non-resident partners since dividends and interest are not taxable to non-residents.

When the receipt of interest and other intangible income is directly related to the nature of the business, such interest, etc. shall be considered as business income taxable to non-residents, and is to be reported on Schedule C rather than as dividends and interest in Schedule B.

Schedule E – Sale or Exchange of Property

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 the gain or loss occurring from Jan 1, 1968 to date of disposition shall be recognized for purposes of the Pontiac income tax. The amount of gain or loss occurring after January 1, 1968 is to be determined by either (1) Computing the difference between the January 1, 1968 fair market value (January 2nd closing price for traded securities) or the cost if the date acquired was subsequent to January 1, 1968, and the proceeds from the sale or exchange, or (2) by using the gain or loss for the entire holding period, as computed for Federal income tax purposes, and computing the taxable portion of such gain or loss on the ration that the number of months held in the period

subsequent to January 1, 1968 is to the total time the property was held.

Schedule F – Income (or Loss) from Rents and Royalties

Line 1. Income or loss from rents from **tangible** property located in Pontiac is taxable to both residents and non-residents.

Lines 2, 3, and 4. Income or loss from royalties, and rents of property located outside Pontiac is taxable only to residents of the City of Pontiac.

Schedule G – Income from Other Partnerships, etc.

Line 1. Enter here the amount taxable to residents only. If all members of the partnership are residents it will not be necessary to complete lines 2 and 3 of this schedule. Enter the full amount received from other partnerships in column 1. If any interest on governmental obligations or dividends from national or state bank stock is included in the total, deduct such amounts in column 2 and show the net amount in column 3.

Lines 2 and 3. Whenever the members of a partnership include both residents and non-residents of Pontiac it will be necessary to analyze the type of income received from other partnerships. This is necessary since the income received from such other partnerships may include amounts for business activity in Pontiac and also amounts for business activity outside Pontiac. It may also include amounts for dividends and interest. Some elements of this income are taxable to both residents and non-residents, some to residents only, and specifically exempt income (Sec. 32, Ordinance 1573) is taxable to neither. Attach a schedule of your analysis or computations.

Schedule I – Summary of Schedules A, B, E, F, & G

Column 1. If additional first year depreciation is included in Schedule C, line 17, and if the partners have unequal credits for such additional first year depreciation (e.g. if one partner is single and one is married filing jointly for Federal income tax purposes) the apportionment of income to partners in this column will require special computation.

Tax Due or Refund

If the partnership has elected to pay the tax for the partners and payments and credits exceed the tax due, show the amount of such overpayment on page 1, line 10 and check the proper box on line 11 to indicate whether you wish the overpayment as a refund or as accredit on your estimated tax. Refunds will be made as quickly as possible, but please allow 90 days before making any inquiry. Refunds of less than one dollar (\$1.00) will not be made. Tax due of less than one dollar (\$1.00) need not be paid.

Assistance

If you have questions not answered in this instruction booklet, or if you need assistance in preparing your return, call (248) 758-3236, or visit the Income Tax Division at City Hall. Inquiries in writing should be sent to City Income Tax Division, 47450 Woodward Avenue, Pontiac, MI 48342-2245