

Q. Why was a resident charged penalty and interest on a tax return with a Federal Extension timely filed on or before the extended due date?

A. As with federal and state returns, if taxes are not paid by the April 15th due date, penalty and interest are charged on the balance of tax paid after April 15th. This is so even if the taxpayer has timely filed an extension. Remember that the filing of an extension only extends the time to file the tax return, but **does not extend the time to pay the tax due. The Ottawa Hills Income Tax Ordinance requires filing of extensions; copies of the federal extension mailed by the due date fulfill this requirement. Taxpayers may also handwrite a request for an extension if they do not have a copy of the federal extension. The Tax Office will post the extension on the taxpayer's account, as long as the taxpayer filings are in good standing. If a taxpayer has failed to file past returns, has balances due on prior years, or has outstanding requests for additional information, the extension request can be denied. In this case, the return will be required to be filed immediately.**

Q. Why are college students away at school required to file an Ottawa Hills Income Tax Return?

A. The Ottawa Hills Income Tax Ordinance requires that residents of the Village who have earned income file an Ottawa Hills Income Tax Return on that earned income. There is no minimum age or minimum income requirement. Students away at school are considered residents of their parents' home due to the temporary nature of the college student environment. Therefore, students who earn income while away at school, on spring breaks, or during summer vacations, are required to file an income tax return with Ottawa Hills on those earnings. As with any taxpayer, the Tax Office cannot assume a student or taxpayer receiving an Ottawa Hills Return did not earn any income simply because a return was not filed. A student and taxpayer who did not receive any earned income, but did receive an Ottawa Hills Income Tax Return, can file the return by simply stating on the front of the form that no income was earned, and that will qualify as filing a return. When an Ottawa Hills Tax Return is received, a written response is required for proper and complete filing.



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**Answers to some
frequently asked
questions**

FREQUENTLY ASKED QUESTIONS

Q. Why do I need to send in copies of Partnership K-1s?

A. The Partnership K-1 reflects the correct amount of income or loss for the current year. The Ottawa Hills Income Tax Ordinance considers the K-1 income or loss (less any Section 179 deduction) in the current year to determine income, loss, or loss carry forward. Federal Passive Activity Loss rules are IRS code that can alter the partnership income or loss as shown on page 2 of the Federal Schedule E. Ottawa Hills does not automatically receive the Partnership Schedule K-1, as the IRS does, because the partnership most often is not required to file a Village tax return. To correctly confirm a partner's share of partnership income or loss, the Partnership Schedule K-1 must be attached to the resident's Ottawa Hills Income Tax Return. For losses to be carried forward, K-1s must be attached to the return so that those losses can be posted in the year to which they apply. Losses may be denied and not permitted to reduce future income if proper documentation is not submitted in a timely fashion.

Q. How are Primary source and Secondary source incomes and losses determined?

A. The Village Ordinance defines Primary source income as a single income amount from a taxpayer's Village tax return that is the greatest amount from all taxable incomes and losses listed. To determine the Primary source, the Ordinance requires that all W-2s for an individual taxpayer be added to a single amount; and all Federal Schedule E page 1 Rentals (per the net income/loss line before passive activity rule adjustments) also be added to a single amount. Otherwise, other incomes or losses from sole proprietor businesses, farming, farm rental, partnership interests, trust beneficiary interests, or any other earned sources are individually listed to evaluate which amount from this listing is the greatest income. This greatest income is taken from this list and designated as Primary source income to be taxed. The remaining items are then all called Secondary source and can be netted together. This process is followed each year, meaning that an income that was Primary last year may not necessarily be determined to be Primary in the current year.

A taxpayer who has a single amount that is a loss will incur a Primary loss carryforward that can be used to reduce future Primary income within the next 5 years. Primary losses can also occur when a taxpayer has a number of Village taxable items but all of them are losses. In this case, the smallest loss is designated to be Primary and will be carried forward to be used against future Primary income as stated above. Secondary losses (all Secondary amounts netted resulting in an overall loss) are also carried forward for use against future Secondary incomes occurring in the next 5 years.

Please note that the Village of Ottawa Hills has always considered taxpayers on an individual basis; not as joint taxpayers for husbands and wives, as the federal return does. While a husband and wife file on the same Village form, losses of one spouse cannot reduce any income of the other. It is also important to note that income and loss sources must be properly designated to the spouse having the ownership rights to it. If a rental is jointly owned, it should be designated as such and split 50/50 between the spouses.

Q. Why doesn't the Village use the Passive / Active rules for determining allowable losses as the IRS does?

A. Ottawa Hills established its Primary / Secondary policy in 1982, prior to the Federal Passive Activities Loss Rules created by the IRS in 1987. Although both sets of rules seek to limit excessive writing off of income against other losses, the federal rules allow losses to be suspended or carried forward indefinitely. By law, the Village can only allow losses to be carried forward for 5 years. The federal rules also allow the netting of losses against a much wider array of income types that are not taxable to the Village, such as interest, dividends, capital gains and the like. The federal rules were established to work within the federal and state taxing systems as they are very similar. The states of Ohio and Michigan, for instance begin their tax amounts with Federal Adjusted Gross Income from the Federal Form 1040. In the same way, the Primary / Secondary rules were designed to work within the local tax system. These two systems are very different by law, and cause many problems when forced to fit within the framework of the other system.