

City of Saginaw Income Tax

2004 Instructions for Form S-1065 for PARTNERSHIPS doing business in Saginaw

Who Must File a Partnership Return

Every partnership that conducted business activities in the City of Saginaw, whether or not an office or place of business was maintained in the City, is required to file an annual return. Syndicates, joint ventures, pools and like organizations will also use **Form S-1065**.

Filing Date:

Calendar year taxpayers must file by April 30, 2005.
Fiscal year taxpayers must file within four (4) months after the end of their fiscal year.

Option to Pay Tax and Applicable Tax Rates

At its election, the partnership may file either an information return or it may compute and pay the tax due with respect to each partner's share of the net profit of the business. The partnership may pay the tax for partners only if it pays for ALL partners subject to the tax. Effective July 1, 1989, the income tax rate is 1.50% for corporations, 1.50% for residents and .75% for nonresidents.

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. Round all amounts to the nearest dollar.
Make check or money order payable to: **Treasurer, City of Saginaw**.

Mail Payments to:
Income Tax Office
P.O. Box 5081
Saginaw, MI 48605

Mail Refunds/Zero to:
Income Tax Office
1315 S Washington
Saginaw, MI 48601

Renaissance Zone Deduction

A partnership located and doing business in a Saginaw Renaissance Zone may be eligible to claim an income tax reduction. This deduction allows the partnership or the partners, if qualified, to deduct the portion of the partnership income earned in a Saginaw Renaissance Zone from income subject to Saginaw income tax. A taxpayer is not qualified to claim the deduction if the partnership or partners are delinquent for any Michigan or local taxes. Attach Renaissance Zone Certificate to S-1065 Form.

Resident vs. Non-Resident Partners

Partners who are residents of Saginaw 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 Saginaw 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 securities or other intangible property, or interest or dividends.

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

The return shall set forth the entire net profit for the period covered and show the distributive share of each partner, indicating those who are residents of Saginaw 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, based on the proration of time in each status. 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 his total partnership income from his Federal Form 1040 which will be reflected on Form S-1040, Lines 2,6 and 10, Column I, and show applicable exclusions in Column II. Credits for exemptions and tax paid by partnerships are to be shown on S-1040, Lines 27 and 32, respectively.

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. Timely 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 S-1040-ES, if the total estimated tax for the partnership is expected to exceed One Hundred Dollars (\$100.00), 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 Saginaw income tax was not withheld) on which the Saginaw tax is expected to exceed One Hundred Dollars (\$100.00). The fiscal year of the partnership will govern in establishing the dates for filing the declaration and paying the estimated tax.

TAX PAYMENT BY PARTNERSHIP

Instructions for Page 1

Column 1. Fill out schedules on Page 2 first and transfer amounts in Column 7, Schedule C to this column. List amounts in same order as partners are listed in top section.

Column 2, Allowable Individual Deductions. Any non-taxable items, included in Column 1, are to be deducted thru Column 2 and 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 partners' allowable capital loss deduction, must be added back in this column. The allowable capital loss deduction for each partner is the lesser of (1) 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 Saginaw at the percentage of business conducted in Saginaw in the year in which the loss was sustained. Any net operating or capital loss 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. Exemptions are allowed for each partner and his or her dependents. An exemption of One Thousand Dollars (\$1,000.00) 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. A spouse may be taken as an exemption on the partnership return only if such spouse has no income subject to the Saginaw income tax. Exemptions are allowed for age and blindness. **Exemptions are not allowed to other persons who are partners** (i.e. corporations who are partners, partnerships who are partners, etc.).

Column 5, Total Tax. Partners who changed residency status during the year are to follow instructions in the fourth paragraph under the caption "Resident vs. Non-Resident Partners".

Column 6, Credits. Enter in this column payments made by the partnership for tax paid with a tentative return; or any payments and credits made by the partnership on behalf of Saginaw 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 Saginaw residents. The credit shall be the lesser amount of tax that would be due to the City of Saginaw on earnings in the other municipality after deduction of exemptions and cannot exceed .75% of the amount that would be taxable by the City of Saginaw.

MUST ATTACH FEDERAL 1065 RETURN

INSTRUCTIONS FOR SCHEDULES ON PAGE 2

Schedule A, Allocable Partnership Income

Schedule A is used to report ordinary income of the partnership. Ordinary business income of Schedule A is transferred to Schedule C, column 1. Schedule C is used to determine the amount of ordinary business income subject to Saginaw income tax.

Non-business income is reported in schedule B. The taxable portion of non-business income is transferred to Schedule C. Instructions for Schedule B and C indicate how amounts transferred from Schedule A and B are allocated to the individual partners.

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 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 from both residents and non-residents (see NOTE). In Column I, insert figures from the Federal Form 1065 as indicated from various pages, schedules and lines. In Columns II and IV, prorate Column I 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 of each individual is to be determined for Lines 7 thru 9, Columns III and V and transferred to the individual Form S-1040, per instructions. If the partnership income is not divided evenly or if three or more persons are partners, attach schedule-showing 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 the gain or loss occurring from July 1, 1965, to date of disposition shall be recognized for purposes of the Saginaw income tax.

The amount of gain or loss occurring after July 1, 1965, is to be determined by either (1) computing the difference between the July 1, 1965, fair market value (June 30th closing price for traded securities) or the cost if the date acquired was subsequent to July 1, 1965, and the proceeds from the sale or exchange; or (2) by using the gain or loss for the computing

the taxable portion of such gain or loss on the ratio that the entire holding period, as computed for Federal income tax purposes, and number of months held in the period subsequent to July 1, 1965, is to the total time the property was held. The fair market value shall be determined by an appraisal or similar reliable evidence.

Schedule C, Distribution to Partners

Complete schedule according to captions and transfer figures in Column 7 to Page 1, Column 1, only if the partnership is paying the tax for all its partners. Column 4 is a memorandum column only and is to be used to compute the amount of exclusion to be transferred to the individual Form S-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 Saginaw who, because they do not maintain sufficient records to accurately reflect the net profits from operations conducted within the City of Saginaw, or for other reasons, are not using the separate accounting method.

Line 15. Enter in Column 1 the average net book value of all real and tangible personal property including inventories owned by the business, regardless of location; and in Column 2 show the net book value of the real and tangible personal property including inventories located in the City of Saginaw. The average net book value of real and tangible personal property including inventories may be determined by adding the net book values at the beginning of the year and the net book values at the end of the year and dividing the sum thus obtained by two. Any other method, which will accurately reflect the average net book value for the year, will also be permitted.

Line 15a. Enter in Column 1 the gross annual rentals multiplied by 8 for all rented property regardless of location. In Column 2 show the gross annual rentals multiplied by 8 for all rented property located in the City of Saginaw. Gross annual rentals refer 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.

Line 16. Enter in Column 1 the total compensation paid to all employees during the year and in Column 2 show the amount of compensation paid to employees for work done or for services performed within the City of Saginaw during the year.

Line 17. Enter in Column 1 the total gross receipts from all sales or services rendered during the year and in Column 2 show the amount of gross receipts from sales made or services rendered in the City of Saginaw during the year.

Line 19. In determining the average percentage (Line 19), a factor shall be excluded from the computation only when such factor does not exist anywhere insofar as the taxpayer's business operation is concerned and, in such cases, the sum of the percentages on Line 18 shall be divided by the number of factors actually used.

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 11. If your payments and credits exceed the tax, the over-payment will be refunded by check. Do not take credit for over-payment on your Estimated Tax Form S-1040ES.

Refunds will be made as quickly as possible. 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 any questions not answered in these instructions, call (989) 759-1650, or visit our web site WWW.Saginaw-MI.com, or in person at City Hall, Room 105, 1315 South Washington Avenue.

