

## **REGULATION 2 - 8**

### **NET BUSINESS PROFITS**

In amplification of the definition contained in Regulation 1 - 1(E) of these Regulations, but not in limitation thereof, the following additional information and requirements respecting net business profits are furnished:

(A) Where necessary to properly reflect income, inventories must be used. The basis of pricing used for the purpose of the Federal Income Tax must in each instance be used.

(B) Where the books and records are kept on an "Accrual basis", "long-term contract basis" or "installment basis" or such basis is used in the filing of Federal Income Tax Returns, such basis must be used for the purpose of this tax.

(C) If the return is made on a "cash basis", Gross Profit shall include receipts from commissions, fees and interest as well as the gross profit or loss from sales of merchandise, chattels, goods, wares, securities, notes, and services, except as hereinafter provided.

(D) If the return is made on an "accrual basis", Gross Profit shall include (1) commissions, fees and interest earned, plus (2) the gross profit or loss from sales of merchandise, chattels, goods, wares, securities, notes, and services earned except as hereinafter provided.

(E) From Gross Profit there shall be subtracted allowable expenses to arrive at the net profits subject to tax.

(F) All ordinary and necessary expenses of doing business, including reasonable compensation paid employees, shall be allowed, but no deduction may be claimed for "salary" or

withdrawals of a sole proprietor or of the owners of an unincorporated business entity.

(G) If not claimed as part of the cost of goods sold or elsewhere in the return filed, there may be claimed and allowed a reasonable deduction, the depreciation, depletion, obsolescence, or losses resulting from theft or casualty not compensated for by insurance or otherwise, of property used in the trade or business, but the amount may not exceed that recognized for the purpose of the Federal Income Tax. Provided, however, that loss on the sale, exchange or other disposition of depreciable property and real estate used in business, shall not be allowed as a deductible expense.

(H) Bad debts in a reasonable amount may be allowed in the year ascertained worthless and charged off, or (if the reserve method is used), a reasonable addition to the reserve may be claimed, but in no event shall the amount allowed exceed the amount recognized as a deduction for the purpose of the Federal Income Tax.

(I) Taxes. Only taxes directly connected with the taxpayer's business and actually paid may be claimed as deduction. The following taxes are not deductible from income:

(1) The tax under the Ordinance; (2) Any Federal or other taxes based upon income; (3) Gift, estate or inheritance taxes; (4) Taxes or assessments for local benefits or improvements to property which tend to appreciate the value thereof.

(J) Capital gains and losses (including gains and losses from the sale, exchange, or other disposition of depreciable business property and real property used in the taxpayer's business) shall not be taken into consideration in arriving at net business profits.

(K) If the taxpayer is a non-resident, only the amount of net profits

applicable to the activities of the business in the City of Tiffin shall be subjected to tax. If the non-resident taxpayer's records do not disclose the actual net profits for the Tiffin branch, office, store, or activity separately, then the basis of allocation shall be disclosed in the return. If such basis of allocation is not deemed correct, in view of all the known circumstances, the Commissioner of Taxation may make a re- allocation based upon gross receipts or any other basis or bases which shall, under the circumstances of the case, more accurately reflect the net profits.

(L) In general, all business expenses recognized and allowed as such for the purpose of determining Federal Income Tax will be recognized and allowed for determining Tiffin Income Tax under the provisions of the Ordinance. However, no expenses connected with the acquisition or carrying of securities, the income from which is not recognized as taxable under the Ordinance, may be deducted in determining taxable net profits hereunder.

(M) In general, unearned income is not to be included in computing the tax levied hereunder. Gain or loss from the sale, exchange, or other disposition of capital assets, including depreciable property and real estate used in business, shall not be included in determining net profits. Income from intangibles such as dividends, interest and the like, should not be included if the property from which such income is derived is subject to taxation under the Intangible Personal Property Tax Laws of the State of Ohio, or is specifically exempted from taxation under said laws.

(N) Rentals including real property will be treated like any other business activity and the net profit shall be taxable.

(1) Real property, as the term is used in this Regulation, shall include commercial property, residential property, farm property, and any and all other types of real estate.

(2) In determining the taxable net profits from rentals, the deductible expenses shall be of the same nature, extent, and amount as are allowed by the Internal Revenue Service for Federal Income Tax purposes.

(3) Residents of Tiffin are subject to taxation upon the net income from rentals to the extent above specified regardless of the location of the real property owned. Non-residents of Tiffin are subject to such taxation only on net profits from real property situated within the City of Tiffin.

(O) Income from royalties or copyrights is not taxable under the ordinance.