Ohio | Department of Taxation

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IT NRC
Rev. 1/17

2016 Ohio IT NRC – Income Allocation and Apportionment Nonresident Credit and Part-Year Resident Credit

Include this three-page form with the Ohio IT 1040 (individuals).

Important: This form is for taxpayers claiming the nonresident credit on the Ohio IT 1040 for tax years 2016 and forward. Taxpayers completing the Ohio IT 1041 for trusts and taxpayers completing the Ohio IT 1040 for tax years 2015 and prior should not use this form and should refer to the instructions for those tax years.

Taxpayer name	SSN

Note: In Part I, Part IV and Part V, the amount shown in column C for all lines must equal column A plus column B.

Part I – Nonbusiness Income and Deductions (See definitions and discussion in the instructions.)

Allocate in Part I all items of income and/or deduction included in federal adjusted gross income that constitute nonbusiness income. See Ohio Revised Code (R.C.) section 5747.01(C). Only include the nonbusiness portion of the noted federal schedules. **Note:** Do not include on line 1 any guaranteed payments or compensation you received from a pass-through entity in which you have at least a 20% direct or indirect ownership interest. Show any such payments in Part II, A, line 5.

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
A. Nonbusiness Income			
1. Wages, salaries, tips, guaranteed payments (see note above) ... 1.	00	00	00
2. Interest (federal Schedule B) ... 2.	00	00	00
3. Dividends (federal Schedule B) ... 3.	00	00	00
4. State and local tax refunds ... 4.	00	00	00
5. Alimony received ... 5.	00	00	00
6. Capital gain (loss) and other gain (loss) (federal Schedule D) ... 6.	00	00	00
7. Pensions, annuities, IRA distributions ... 7.	00	00	00
8. Nonbusiness income (loss) from rental and royalty activity (federal Schedule E) ... 8.	00	00	00
9. Unemployment compensation ... 9.	00	00	00
10. Taxable Social Security benefits ... 10.	00	00	00
11. Other income ... 11.	00	00	00
12. Total nonbusiness income (add lines 1-11) ... 12.	00	00	00
B. Deductions From Income			
13. Educator expenses ... 13.	00	00	00
14. Certain business expenses ... 14.	00	00	00
15. Health savings account deduction ... 15.	00	00	00
16. Moving expenses ... 16.	00	00	00
17. Deductible self-employment tax ... 17.	00	00	00
18. Self-employed SEP, SIMPLE and qualified plans ... 18.	00	00	00
19. Self-employed health insurance deduction ... 19.	00	00	00
20. Penalty on early withdrawal of savings ... 20.	00	00	00
21. Alimony paid ... 21.	00	00	00
22. IRA deduction ... 22.	00	00	00
23. Student loan interest deduction ... 23.	00	00	00
24. Tuition and fees ... 24.	00	00	00
25. Domestic production activities deduction ... 25.	00	00	00
26. Other deductions ... 26.	00	00	00
27. Total deductions (add lines 13-26) ... 27.	00	00	00
28. Net nonbusiness income (line 12 minus line 27; enter here and in Part V, line 2, columns A, B and C, respectively) ... 28.	00	00	00

Taxpayer name		SSN	
Entity #	Business name / Trust	% ownership	FEIN / SSN

Complete a separate Part II and Part III for each entity/business in which you hold an ownership interest. List entities from largest to smallest income.

Part II – Business Income

Include in section A all amounts included in federal adjusted gross income that constitute business income from the entity entered above. See R.C. section 5747.01(B).

A. Business Income in Federal Adjusted Gross Income

1.	Schedule B – Interest and Ordinary Dividends	1.	00
2.	Schedule C – Profit or Loss From Business (Sole Proprietorship)	2.	00
3.	Schedule D – Capital Gains and Losses	3.	00
4.	Schedule E – Supplemental Income and Loss	4.	00
5.	Guaranteed payments, wages and/or compensation from each pass-through entity in which you have at least a 20% direct or indirect ownership interest	5.	00
6.	Schedule F – Profit or Loss From Farming	6.	00
7.	Other items of income and gain separately stated on federal Schedule K-1	7.	00
8.	Total of business income from this entity (add lines 1 through 7)	8.	00

B. Apportionable Adjustments From Ohio Schedule A

9.	Portion of line 7 and line 9 from Ohio Schedule A attributable to the entity entered above	9.	00
10.	Portion of line 19 and line 23 from Ohio Schedule A attributable to the entity entered above	10.	00
11.	Total apportionable adjustments (line 9 minus line 10)	11.	00

C. Net Business Income, Apportionment

12.	Net apportionable business income (line 8 plus line 11). Enter here and on Part IV, column C on the corresponding line for this entity	12.	00
13.	Less: Gain described in R.C. section 5747.212 (add losses described in that section) if such gain (loss) is included in any of the lines above	13.	00
14.	Line 12 minus line 13 (if line 13 is a gain); line 12 plus line 13 (if line 13 is a loss)	14.	00
15.	Ohio apportionment ratio (Part III, line 4)	15.	.
16.	Total adjusted business income from this entity apportioned to Ohio (multiply line 14 by line 15)	16.	00
17.	Amount of line 13 gain (loss) apportioned to Ohio (enclose detailed computations)	17.	00
18.	Line 16 plus line 17; enter here and on Part IV, column A on the corresponding line for this entity	18.	00
19.	Net business income not apportioned to Ohio (line 12 minus line 18); Enter here and on Part IV, column B on the corresponding line for this entity	19.	00

Part III – Apportionment Formula for This Entity

	(1) Within Ohio		(2) Total Everywhere		(3) Ratio (carry to six decimal places)		(4) Weight		(5) Weighted Ratio (carry to six decimal places)
1. Property									
(a) Owned (average cost)									
(b) Rented (annual rental x 8)									
(c) Total (lines 1a plus line 1b)		÷		=	.	x	.20	=	1c. .
2. Payroll (see Exclusions in the instructions)		÷		=	.	x	.20	=	2. .
3. Sales (see Exclusions in the instructions)		÷		=	.	x	.60	=	3. .
4. Ohio apportionment ratio. Add lines 1c, 2 and 3 (enter ratio here and on Part II, C, line 15)									4. .

Taxpayer name	SSN

Part IV – Summary of Business Income from All Entities

From each Part II, section C that was completed, enter line 18 in column A, line 19 in column B and line 12 in column C. Enter each entity in the same order that you assigned them in Part II. If you have more than 16 entities, include additional Part IV(s) as needed. Total the additional entities on line 17.

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Apportionable income from Entity # _____ 1.	00	00	00
2. Apportionable income from Entity # _____ 2.	00	00	00
3. Apportionable income from Entity # _____ 3.	00	00	00
4. Apportionable income from Entity # _____ 4.	00	00	00
5. Apportionable income from Entity # _____ 5.	00	00	00
6. Apportionable income from Entity # _____ 6.	00	00	00
7. Apportionable income from Entity # _____ 7.	00	00	00
8. Apportionable income from Entity # _____ 8.	00	00	00
9. Apportionable income from Entity # _____ 9.	00	00	00
10. Apportionable income from Entity # _____ 10.	00	00	00
11. Apportionable income from Entity # _____ 11.	00	00	00
12. Apportionable income from Entity # _____ 12.	00	00	00
13. Apportionable income from Entity # _____ 13.	00	00	00
14. Apportionable income from Entity # _____ 14.	00	00	00
15. Apportionable income from Entity # _____ 15.	00	00	00
16. Apportionable income from Entity # _____ 16.	00	00	00
17. Enter the totals of all additional entities from included Part IV(s), if any ..... 17.	00	00	00
18. Total apportionable income from all entities (sum of lines 1 through 17 by column) ..... 18.	00	00	00

Part V – Summary of Business and Nonbusiness Income

	(A) Ohio Portion	(B) Non-Ohio Portion	(C) Total
1. Total business income from Part IV, line 18 (enter in A, B and C respectively) ..... 1.	00	00	00
2. Total nonbusiness income from Part I, line 28 (enter in A, B and C respectively) ..... 2.	00	00	00
3. Total business and nonbusiness income (add lines 1 and 2, by column) ..... 3.	00	00	00
4. Total Ohio Schedule A additions from Ohio IT 1040, line 2a (see Note #3 below) ..... 4.	00	00	00
5. Total Ohio Schedule A deductions from Ohio IT 1040, line 2b (see Note #3 below) ..... 5.	00	00	00
6. Line 3 plus line 4 minus line 5, by column (see Notes #1 and #2 below) ..... 6.	00	00	00

Note 1: Enter the amount shown on line 6, column B on the Ohio Schedule of Credits. The amount shown on line 6, column B is the portion of Ohio adjusted gross income (Ohio IT 1040, line 3) that was not earned in or received in Ohio.

Note 2: The amount shown on line 6, column C should be the same amount shown on line 3 of Ohio IT 1040.

Note 3: Exclude from lines 4 and 5 the depreciation adjustment(s) and miscellaneous federal income tax adjustments, if any, reported in Part II of this worksheet.

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Ohio IT NRC is solely for use in determining the numerator of the fraction used to calculate the nonresident tax credit available for individuals. See Ohio Revised Code (R.C.) sections 5747.05(A) and 5747.20 through 5747.231.

Do not use this form to compute Ohio adjusted gross income. The form and instructions apply to nonresidents who have business and/or nonbusiness income within and without Ohio. Use Ohio IT NRC solely for determining the numerator of the fraction used to calculate the nonresident tax credit. **If your only source of Ohio income is wages paid by an unrelated employer, you do not have to use this form.**

If your software program allows for a PDF attachment, the Ohio IT NRC should be included with the electronic submission as a PDF attachment. If your software does not allow for PDF attachments, keep the Ohio IT NRC with your records as it may be requested upon review of the return. If you are submitting a paper return, submit the Ohio IT NRC with the return.

Important: This form assumes that the taxpayer has a distributive share of income/gain from either a sole proprietorship or only one pass-through entity. Taxpayers who have income/gain from a sole proprietorship and/or more than one entity should **complete a separate Part II and Part III for each entity.**

Note: All net income shown on page 1 of the federal 1040 return must be shown on the Ohio IT NRC.

Pass-through entities and trusts should not use this form. Instead, pass-through entities should use Ohio IT 2023 and trusts should complete Ohio IT 1041, Schedules F, G, H and I.

Definitions

Business Income and Nonbusiness Income
"Business income" means income, including gain or loss, arising from transactions, activities and sources in the regular course of a trade or business and includes income from real, tangible and intangible property if the acquisition, rental, management and disposition of the property constitute integral parts of the regular course of a trade or business operation. Also, "business income" consists of income, including gain or loss, from a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill. R.C. section 5747.01(B)

In general, income, deductions, gains and losses recognized by a sole proprietorship or a pass-through entity are items of business income that the nonresident and part-year resident taxpayer must apportion (rather than allocate) using Part II on page 2 of Ohio IT NRC.

"Nonbusiness income" means all income other than business income and may include, but is not limited to, compensation, rents and royalties from real or tangible personal property, capital gains, interest, dividends, distributions, patent or copyright royalties, and lottery winnings, prizes and awards, R.C. section 5747.01(C). Show non-business income, if any, in Part I on page 1 of Ohio IT NRC.

R.C. Sections 5747.20, .21 and .221 Allocation of Nonbusiness Income or Deduction; Apportionment of Business Income or Deductions; and Items and Deductions Not to Be Allocated or Apportioned for Purposes of the Nonresident Tax Credit

The amount of **business income and deductions** apportioned to Ohio is determined by multiplying the net business income by an Ohio apportionment ratio, which is the sum of the property, payroll and sales factors (refer to the Part III apportionment formula on page 2 of Ohio IT NRC). Note that the net business income consists only of those items of income and deduction included in Ohio adjusted gross income (Ohio IT 1040, line 3).

Nonbusiness income and deductions, if any, are allocable only as provided by R.C. sections 5747.20 and 5747.221. However, in general, all pass-through entity income and gain is business income, which, in accordance with R.C. section 5747.21, is apportioned rather than allocated.

R.C. Sections 5747.22(B) and (C) Apportionment and Allocation of Income and Deductions of Pass-Through Entities

Apportionment of Pass-Through Entity Business Income and Deductions for Purposes of the Nonresident Credit and the Part-Year Resident Credit
With respect to a pass-through entity where one or more of the nonresident or part-year resident investors are subject to the Ohio income tax, the business income and deductions of the pass-through entity shall be apportioned to Ohio in the hands of the pass-through entity according to the instructions for apportioning business income. Such business income and deductions thus apportioned to Ohio are then allocated to the investors in proportion to their right to share in such business income.

Allocation of Pass-Through Entity Nonbusiness Income and Deductions for Purposes of the Nonresident Credit and the Part-Year Resident Credit
With respect to a pass-through entity where one or more of the nonresident or part-year resident investors are subject to the Ohio income tax, the nonbusiness income and deductions of the pass-through entity shall be allocated to the investors in proportion to their right to share in such nonbusiness income. Then such pass-through entity shares of nonbusiness income shall be allocated within and without this state in the hands of the investors according to the instructions, below, for allocating nonbusiness income by individuals.

R.C. Sections 5747.23(A) and (B) Taxation of Trust Income Received by Beneficiaries for Purposes of the Nonresident Credit

Apportionment of Trust Business Income and Deductions
With respect to each estate and each trust where one or more of the beneficiaries are subject to the Ohio income tax, the trust's business income (net of deductions) received by such beneficiaries shall be apportioned to Ohio in the hands of the trust according to the above instructions for apportioning business income by individuals. Such trust business income and deductions shall then be allocated to such beneficiaries in proportion to their right to share in the business income of such trust to the extent of the distribution made to such beneficiary.

Allocation of Trust Nonbusiness Income and Deductions for Purposes of the Nonresident Credit
With respect to each estate and each trust where one or more of the nonresident or part-year resident beneficiaries are subject to the Ohio income tax, the trust's nonbusiness income (net of de-

ductions) received by such beneficiaries shall be allocated to such beneficiaries in proportion to their right to share in such income (net of deductions) of the trust. Then the share of nonbusiness income shall be allocated to Ohio in the hands of such beneficiary pursuant to R.C. section 5747.20. The beneficiary is subject to Ohio income tax for the taxable year in which such beneficiary recognizes income with respect to trust distributions.

Part-year Residents
For the portion of the taxable year that the taxpayer was not a resident of Ohio, the taxpayer should allocate entirely outside Ohio the taxpayer's non-Ohio wages paid either (i) by any unrelated party or (ii) by a related party C corporation. For purposes of this form, "non-Ohio wages" are those wages which the taxpayer earned and received for services performed outside Ohio while a nonresident.

For the portion of the taxable year that the taxpayer was not a resident of Ohio, the taxpayer should also allocate entirely outside Ohio (i) items of nonbusiness income (defined below) not allocated to Ohio and (ii) all items of income, gain, expenses and losses if such items do not represent items of business income (defined at right) which are apportioned in and out of Ohio.

Examples of nonbusiness income amounts entirely allocated outside Ohio for the portion of the year during which the taxpayer was a nonresident include the following: interest income, dividend income, and gains (losses) from the sale, exchange or other disposition of assets not having an Ohio situs. Examples of nonbusiness income that the individual must entirely allocate to Ohio – even for the portion of the year during which the individual was not a resident of Ohio – include the following: (i) gain (loss) from the sale, exchange or other disposition of Ohio real estate and prizes and (ii) awards that the individual receives from the Ohio Lottery Commission.

Examples of business income amounts that a part-year resident must apportion in and out of the state – even for the portion of the year during which the individual was not a resident of Ohio – include the following: (i) wages and guaranteed payments that the taxpayer receives from a related member pass-through entity having nexus with Ohio (see Ohio IT NRC, page 2, Part II, section A, line 4); (ii) distributive shares of income from each pass-through entity having nexus with Ohio; and (iii) the profit from a sole proprietorship having nexus with Ohio.

Pro-rating Amounts Recognized by a Part-Year Resident
Part-year nonresidents and full-year nonresidents use the same methods to apportion and allocate within and without Ohio the following: (i) those items of nonbusiness income, gain, expenses and losses situsted to Ohio; and (ii) those items of business income, gain, expenses and losses from pass-through entities having nexus with Ohio (with respect to items not described above, the taxpayer should apportion/allocate entirely outside Ohio those amounts recognized or incurred during the year or during the portion of the year that the taxpayer was a nonresident).

For ease of administration, part-year resident taxpayers investing in pass-through entities having no nexus with Ohio can, for the portion of the taxable year during which the individual was not an Ohio resident, apportion/allocate outside Ohio such items by using a daily or monthly pro-rata factor. If the tax commissioner examines the tax return and determines that an "actual, year-to-date" method more accurately reflects the tax due and, if as a result of that determination, the taxpayer owes more tax (and interest on the tax) the tax commissioner will not impose any failure to pay penalty or interest penalty with respect to that increased tax.

The following example illustrates the application of this requirement: A taxpayer is a resident of Ohio for only the last five months of the taxable year. During the entire taxable year the taxpayer was an equity investor in a pass-through entity having no nexus with Ohio. The pass-through entity's business operations result in a significant portion of the profit being earned during November and December of each year. The individual's distributive share of profit from the pass-through entity was $12,000 for the taxable year.

For ease of tax compliance, the taxpayer can compute the part-year credit by assuming that $7,000 of the taxpayer's distributive share of income was earned during the seven-month period prior to the taxpayer becoming a resident of Ohio: 7/12 X $12,000. Upon examination of the taxpayer's tax return, the tax commissioner ascertains that $9,600 of the taxpayer's $12,000 distributive share was earned on and after Aug. 1, the date on which the taxpayer became a resident of Ohio. As such, the tax commissioner may recompute and reduce the nonresident credit by allocating outside Ohio only $2,400 (recall that the pass-through entity has no nexus with Ohio). As a result, the taxpayer will owe additional Ohio income tax and related interest, but the tax commissioner will not impose any failure-to-pay penalty on that tax due or related interest penalty.

Nonbusiness Income (Part I, A)

Generally, nonresidents must allocate to Ohio all items of nonbusiness income earned in Ohio. Part-year residents must allocate to Ohio all items of nonbusiness income earned in Ohio and all items of nonbusiness income received while a resident of Ohio. Gambling income received in Ohio and any lottery prizes and or awards paid by the Ohio State Lottery Commission must be allocated to Ohio.

Line 1
All items of compensation paid for services performed in Ohio must be allocated to Ohio. All items of compensation received while a resident of Ohio must be allocated to Ohio.

Compensation earned while a resident of Ohio but not received until the individual is a nonresident must still be allocated to Ohio.

Compensation includes wages, salaries, tips, incentive pay, severance pay, bonus pay, and may include all or a portion of income related to the exercise of stock options received on account of employment in Ohio. See the note on page 1 of the form regarding compensation paid by pass-through entities to certain shareholders who have at least a 20% direct or indirect ownership interest.

Line 5
Income from alimony payments is allocated based on the residency of the recipient, not the residency of the payor. Allocate to Ohio any alimony payments received while a resident of Ohio.

Deductions from Nonbusiness Income (Part I, B)

Generally, deductions are allocated based on residency at the time the expense was paid. Allocate to Ohio any expenses that were paid while a resident of Ohio.

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Line 16
Part-year residents who moved from Ohio to another state must allocate all moving expenses to non-Ohio. Part-year residents who moved to Ohio from another state must allocate all moving expenses to Ohio.

Line 21
Deductions of alimony payments are allocated based on the residency of the payor, not the recipient. Allocate to Ohio any alimony payments made while a resident of Ohio.

Business Income (Part II)

You must complete a separate Part II and Part III for each entity/business from which you receive business income. Assign a number to each entity and use that same number when reporting the income from that entity in Part IV. List the entities from largest to smallest income.

Business Income in Federal Adjusted Gross Income (Part II, A)

Important: Include on all lines only those items of business income from the entity entered at the top of the page that are included in the calculation of federal adjusted gross income. For example, losses that must be carried forward to future years due to federal rules should not be included on this worksheet for the current year. A taxpayer **cannot** simply list amounts on these federal schedules.

Line 1 – Schedule B, Interest and Ordinary Dividends
Enter on this line only taxable interest and ordinary dividends reported on federal Schedule B that qualify as business income. Generally, interest and dividend income can only qualify as business income if it is generated from the regular course of trade or business (i.e., the primary business purpose is investing) or if it is generated from working capital and reinvested into the business.

Line 2 – Schedule C, Profit or Loss from Business
Enter on this line the portion of line 12 on your federal 1040 that is attributable to the entity entered at the top of the page. If the net amount of Schedule C income from this entity is negative, show it as negative here.

Line 3 – Schedule D, Capital Gains and Losses
Enter on this line only capital gains or losses reported on federal Schedule D that qualify as business income. Gains or losses reported on this line must be those that are generated in the ordinary course of business, from assets integral to the taxpayer's business operation, or from working capital and reinvested into the business. Gains or losses, from a partial or complete liquidation of a business, including, but not limited to, gain or loss from the sale or other disposition of goodwill should also be included on this line. If the net amount attributable to this entity is negative, show it as negative here.

Example: A farmer sells a tractor used in his wheat farming operation that generates a capital gain. The wheat cannot be harvested without use of the tractor. Since the tractor was integral to the taxpayer's business operations, the capital gain can be reported on this line.

Line 4 – Schedule E, Supplemental Income and Loss
Enter on this line your net business income or loss from the entity entered at the top of the page reported on federal Schedule E. However, if the net amount from federal Schedule E includes guaranteed payments from a pass-through entity, those payments must be deducted from the amount entered on this line (see instructions for line 5).

Line 5 – Guaranteed Payments, Wages and/or Compensation
Guaranteed payments, wages and/or compensation paid to you by a pass-through entity (S corporation, partnership, limited liability company treated as a partnership for income tax purposes, etc.) in which you have at least a 20% direct or indirect ownership interest. I.R.C. section 318 attribution rules do not apply in making this ownership determination. Reciprocity agreements do not apply.

Line 6 – Schedule F, Profit or Loss From Farming
Enter on this line the net farming income from the entity entered at the top of the page that is included in the amount reported on your federal 1040, line 18. If the net amount attributable to this entity is negative, show it as negative here.

Line 7 – Other Business Income
Enter on this line any items of business income or loss from the entity entered at the top of the page that are included in your federal adjusted gross income but were not entered on lines 1 through 5.

Apportionable Adjustments from Ohio Schedule A (Part II, B)

Line 9 – Apportionable Ohio Schedule A Additions
Enter on this line the portion of the Ohio Schedule A, line 7 depreciation adjustments that are attributable to the entity entered at the top of the page. Also include any miscellaneous federal income tax additions attributable to the entity that are included on Ohio Schedule A, line 9.

Line 10 – Apportionable Ohio Schedule A Deductions
Enter on this line the portion of the Ohio Schedule A, line 19 depreciation adjustments that are attributable to the entity entered at the top of the page. Also include any miscellaneous federal income tax deductions attributable to the entity that are included on Ohio Schedule A, line 23. Amounts on this line should be entered as a positive number.

Net Business Income, Apportionment (Part II, C)

Line 12 – Net Apportionable Income
The amount entered on this line is the net apportionable portion of Ohio adjusted gross income that is attributable to the entity entered at the top of the page. This amount should also be entered on Part IV, column C on the corresponding line for this entity.

Line 13 – Gain or Loss Described in R.C. 5747.212
Each nonresident taxpayer who sells, exchanges or otherwise disposes of his/her direct or indirect interest in a closely held business having nexus with Ohio must situs to Ohio a portion of the gain (loss) recognized from that sale, exchange or other disposition. These amounts are apportioned differently than other business income so any such amounts included in Part II, Section A must be entered here and removed from the entity's apportionable business income. For additional information, see R.C. section 5747.212.

Line 18 – Net Income Apportioned to Ohio
The amount entered on this line is the net portion of Ohio adjusted gross income earned in Ohio that is attributable to the entity en-

tered at the top of the page. This amount should also be entered on Part IV, column A on the corresponding line for this entity.

Line 19 – Net Income Not Apportioned to Ohio
The amount entered on this line is the net portion of Ohio adjusted gross income not earned in Ohio that is attributable to the entity entered at the top of the page. This amount should also be entered on Part IV, column B on the corresponding line for this entity.

Ohio Apportionment Formula for this Entity (Part III)

Note: When calculating the fraction used to compute the nonresident credit, a taxpayer who has invested in a partnership, an S corporation or a limited liability company treated as a partnership for federal income tax purposes must apply the "aggregate" (conduit) theory of taxation. That is, the character of all income and deductions (and adjustments to income and deductions) realized by a pass-through entity in which the taxpayer has invested retains that character when recognized by the taxpayer. Furthermore, the taxpayer's factors must include the proportionate share of each lower-tiered pass-through entity's property, payroll and sales. See R.C. sections 5733.057 and 5747.231.

Each factor is weighted: The property and payroll factors are weighted at 20% each and the sales factor at 60%, for a total of 100%. If any factor has a denominator (total everywhere figure) of zero, the weight given to the other factors must be proportionately increased so that the total weight given to the combined factors is 100%. For example: If the business entity has no payroll everywhere, then the property and sales factors are weighted at 25% and 75%, respectively, to total 100%.

Property Factor
The property factor is a fraction the numerator of which is the average value of the sole proprietor's or pass-through entity's includable real and tangible personal property owned or rented, and used in the trade or business in this state during the taxable year, and the denominator of which is the average value of all the sole proprietor's or pass-through entity's includable real and tangible personal property owned or rented, and used in the trade or business everywhere during such year.

Ohio law includes in the property factor real property and tangible personal property that the sole proprietor or pass-through entity rents, subrents, leases or subleases to others if the income or loss from such rentals, subrentals, leases or subleases is business income. Ohio law specifically excludes from the factor all property relating to, or used in connection with, the production of nonbusiness income allocated under R.C. section 5733.051. Generally, all sole proprietorship and pass-through entity income and gain is business income.

Property owned by the sole proprietor or pass-through entity is valued at its original cost average value. Average value is determined by adding the cost values at the beginning and at the end of the taxable year and dividing the total by two. The tax commissioner may require the use of monthly values during the taxable year if such values more reasonably reflect the average value of the sole proprietor's or pass-through entity's property.

Exclusions
Exclude from column 1 (within Ohio) and column 2 (total everywhere) the following:

- Construction in progress.
- Property relating to, or used in connection with, the production of nonbusiness income. See R.C. section 5733.05(B) (2) as amended by Amended Substitute House Bill 95, 125th General Assembly.
- The numerator and the denominator of the property factor includes real property and tangible personal property that the sole proprietor or pass-through entity rents, subrents, leases or subleases to others if the income or loss from such rentals, subrentals, leases or subleases is business income. See R.C. section 5733.05(B)(2)(a) as amended by Amended Substitute House Bill 95, 125th General Assembly. Property owned by the sole proprietor or pass-through entity and leased to others is excluded from the property factor only if the property generates nonbusiness income.
- The original cost of property within Ohio with respect to the air pollution, noise pollution or industrial water pollution control certificates issued by the state of Ohio. See R.C. section 5733.05(B)(2)(a).
- The original cost of real property and tangible property (or in the case of property that the sole proprietor or pass-through entity is renting from others, eight times its net annual rental rate) within Ohio that is used exclusively during the taxable year for qualified research.

Do not include in column 1 but do include in column 2 the original cost of qualifying improvements to land or tangible personal property in an enterprise zone for which the taxpayer holds a Tax Incentive Qualification Certificate issued by the Ohio Development Services Agency.

Line 1(a), Column 1 – Property Owned Within Ohio
Enter the average value of the sole proprietor's or pass-through entity's real property and tangible personal property, including leasehold improvements, owned and used in the trade or business in Ohio during the taxable year.

Line 1(a), Column 2 – Property Owned – Total Everywhere
Enter the average value of all the sole proprietor's or pass-through entity's real property and tangible personal property, including leasehold improvements, owned and used in the trade or business everywhere during the taxable year.

Line 1(b) – Property Rented
Enter the value of the sole proprietor's or pass-through entity's real property and tangible personal property rented and used in the trade or business in Ohio (column 1) and everywhere (column 2) during the taxable year. Property rented by the sole proprietor or pass-through entity is valued at eight times the annual rental rate (annual rental expense less subrental receipts).

Line 1(c) – Property Total Within Ohio and Everywhere
Add lines 1(a) and 1(b) for column 1 (within Ohio) and column 2 (total everywhere).

Line 1(c), Column 3 – Property Ratio
Enter the ratio of property within Ohio to total everywhere by dividing column 1 by column 2.

Line 1(c), Column 5 – Weighted Property Ratio
Multiply the property ratio on line 1(c), column 3 by the property factor weighting of 20%.

Payroll Factor
The payroll factor is a fraction, the numerator of which is the total compensation paid in this state during the taxable year by the sole proprietor or pass-through entity, and the denominator of which is the total compensation paid both within and without this state during the taxable year by the sole proprietor or pass-through entity. As used below, the term "compensation" means any form of remuneration paid to an employee for personal services.

Exclusions
Exclude from column 1 (within Ohio) and column 2 (total everywhere) the following:

- Guaranteed payments made to partners;
- Compensation that the S corporation paid to any shareholder if the shareholder directly or indirectly owned at least 20% of the S corporation at any time during the year. R.C. section 5733.40(A) (7);
- Compensation paid in Ohio to employees who are primarily engaged in qualified research; AND
- Compensation paid to employees to the extent that the compensation relates to the production of nonbusiness income allocable under R.C section 5733.051 (see R.C. section 5733.05(B)(2)).

Do not include in column 1 but do include in column 2 compensation paid in Ohio to certain specified new employees at an urban job and enterprise zone facility for which the pass-through entity has received a Tax Incentive Qualification Certificate issued by the Ohio Development Services Agency.

Line 2, Column 1 – Payroll Within Ohio
Enter the total amount of the sole proprietor's or pass-through entity's compensation paid in Ohio during the taxable year. Compensation is paid in Ohio if any of the following apply:

- The recipient's service is performed entirely within Ohio; OR
- The recipient's service is performed both within and outside Ohio, but the service performed outside Ohio is incidental to the recipient's service within Ohio; OR
- Some of the recipient's service is performed within Ohio and either the recipient's base of operations, or if there is no base of operations, the place from which the recipient's service is directed or controlled is within Ohio, or the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the recipient's residence is in Ohio.

Compensation is paid in Ohio to any employee of a common or contract motor carrier corporation who performs his regularly assigned duties on a motor vehicle in more than one state in the same ratio by which the mileage traveled by such employee within Ohio bears to the total mileage traveled by such employee everywhere during the taxable year. The statutorily required mileage ratio applies only to contract or common carriers. Thus, without approval by the tax commissioner a manufacturer or merchant who operates its own fleet of delivery trucks cannot use the ratio of miles traveled in Ohio to miles traveled everywhere to situs driver payroll. See *Cooper Tire and Rubber Co. v. Limbach* (1994), 70 Ohio St. 3d 347.

Line 2, Column 2 – Payroll Total Everywhere
Enter the total amount of the sole proprietor's or pass-through entity's compensation paid everywhere during the taxable year.

Line 2, Column 3 – Payroll Ratio
Enter the ratio of payroll within Ohio to total everywhere by dividing column 1 by column 2.

Line 2, Column 5 – Weighted Payroll Ratio
Multiply the property ratio on line 2, column 3 by the payroll factor weighting of 20%.

Sales Factor
The sales factor is a fraction whose numerator is the sole proprietor's or pass-through entity's includable business income receipts in Ohio during the taxable year and whose denominator is the sum of the sole proprietor's or pass-through entity's within Ohio and without Ohio includable business income receipts during the taxable year.

The sales factor specifically excludes receipts attributable to nonbusiness income allocable under R.C. section 5733.051 (see R.C. section 5733.05(B)(2) and the tax commissioner's April 2004 information release entitled "Sales Factor Situsing Revisions").

Exclusions
The following receipts are not includable in either the numerator or the denominator of the sales factor even if the receipts arise from transactions, activities and sources in the regular course of a trade or business (see R.C. section 5733.05(B)(2)(c) as amended by Substitute House Bill 127, 125th General Assembly):

- Interest or similar amounts received for the use of, or for the forbearance of the use of, money;
- Dividends;
- Receipts and any related gains or losses from the sale or other disposal of intangible property other than trademarks, trade names, patents, copyrights and similar intellectual property;
- Receipts and any related gains and losses from the sale or other disposal of tangible personal property or real property where that property is a capital asset or an asset described in I.R.C. 1231. For purposes of this provision the determination of whether or not an asset is a capital asset or a 1231 asset is made without regard to the holding period specified in the I.R.C.; AND
- Receipts from sales to (a) an at-least-80%-owned public utility other than an electric company, combined electric company, or telephone company, (b) an at-least-80%-owned insurance company, or (c) an at-least-25%-owned financial institution.

Note: Income and gain from receipts excluded from the sales factor is not presumed to be nonbusiness income. All income, gain, loss and expense is presumed to be apportionable business income – even if the related receipts are excluded from the sales factor.

The law specifically includes in the sales factor the following amounts when arising from transactions, activities and sources in the regular course of a trade or business: (i) receipts from sales of tangible personal property; (ii) receipts from the sale of real prop-

erty inventory (such as lots developed and sold by a real estate developer); (iii) rents and royalties from tangible personal property; (iv) rents and royalties from real property; (v) receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property; (vi) receipt from the sale of services and other receipts not expressly excluded from the factor. These amounts are situsable to Ohio as set forth below.

Line 3, Column 1 – Sales Within Ohio
Enter the total of gross receipts from sales not excludable from the numerator and the denominator of the sales factor, to the extent the includable gross receipts reflect business done in Ohio. Sales within Ohio include the following:

- Receipts from sales of tangible personal property, less returns and allowances, received by the purchaser in Ohio. In the case of delivery of tangible personal property by common carrier or by other means of transportation, the place at which such property is ultimately received after all transportation has been completed is considered as the place at which such property is received by the purchaser. Direct delivery in Ohio, other than for purposes of transportation, to a person or firm designated by a purchaser constitutes delivery to the purchaser in Ohio, and direct delivery outside Ohio to a person or firm designated by a purchaser does not constitute delivery to the purchaser in Ohio, regardless of where title passes or other conditions of sale.

Customer pick-up sales are situsable to the final destination after all transportation (including customer transportation) has been completed. See *Dupps Co. v. Lindley* (1980), 62 Ohio St. 2d 305.

Revenue from servicing, processing or modifying tangible personal property is situsued to the destination state as a sale of tangible personal property. See *Custom Deco, Inc. v. Limbach*, BTA Case No. 86-C-1024, June 2, 1989.

- Receipts from sales of real property inventory in Ohio.
- Rents and royalties from tangible personal property to the extent the property was used in Ohio.
- Rents and royalties from real property located in Ohio.
- Receipts from the sale, exchange, disposition or other grant of the right to use trademarks, trade names, patents, copyrights and similar intellectual property are situsued to Ohio to the extent that the receipts are based on the amount of use of that property in Ohio. If the receipts are not based on the amount of use of that property, but rather on the right to use the property and the payor has the right to use the property in Ohio, then the receipts from the sale, exchange, disposition or other grant of the right to use such property are situsued to Ohio to the extent the receipts are based on the right to use the property in Ohio.
- Receipts from the performance of services and receipts from any other sales not excluded from the sales factor and not otherwise situsued within or without Ohio under the above situsing provisions are situsable to Ohio in proportion to the purchaser's benefit, with respect to the sale, in Ohio to the purchaser's benefit, with respect to the sale, everywhere. The physical location where the purchaser ultimately uses or receives the benefit of what was purchased is paramount in determining the proportion of the benefit in Ohio to the benefit everywhere. **Note:** For taxable years ending on or after Dec. 11, 2003, the "cost of performance" provision is no longer the law.

Line 3, Column 2 – Sales Everywhere
Enter the total of such includable gross receipts, less returns and allowances, from sales everywhere.

Line 3, Column 3 – Sales Ratio
Enter the ratio of sales within Ohio to total everywhere by dividing column 1 by column 2.

Line 3, Column 5 – Weighted Sales Ratio
Multiply the sales ratio on line 3, column 3 by the sales factor weighting of 60%.

Line 4, Column 5 – Total Weighted Apportionment Ratio
Add column (5), lines 1(c), 2 and 3.

Summary of Business Income From All Entities (Part IV)

Separately list the business income from each entity for which you completed a page 2 of the Ohio IT NRC. Space for up to 16 entities is provided. List the entities in the same order that you assigned them in the header of Part II. If you have more than 16 entities, include additional Part IV(s) as needed. Total the amounts from all additional entities on line 17 of the first Part IV you complete.

Summary of Business and Nonbusiness Income (Part V)

Line 4 and 5 – Ohio Schedule A Additions and Deductions
Exclude from these lines any Ohio Schedule A depreciation adjustments or miscellaneous federal income tax adjustments that were reported in Part II, section B.

Allocation of the Business Income Deduction
Taxpayers who have a business income deduction from Ohio Schedule A included in the amount entered on line 5 should allocate that deduction first against the Ohio portion of business income on line 1, then any remaining portion of the deduction should be allocated against the non-Ohio portion. The business income deduction cannot be allocated against Ohio nonbusiness income.

Example: The taxpayer has $100,000 of total business income on Part V, line 1, column C that has been apportioned $50,000 to Ohio (column A) and $50,000 to non-Ohio (column B). The taxpayer has a $75,000 business income deduction from Ohio Schedule A that is reported on Part V, line 4, column C. The taxpayer should allocate $50,000 of the deduction to Ohio (column A) and allocate the remaining $25,000 to non-Ohio. This is regardless of any Ohio nonbusiness income the taxpayer may have reported on line 2, column A.

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Summary of Ohio Tax Treatment of Income and Deductions

Note: Except for lottery prizes and awards, all income and gain is presumed to be business income/gain.

Type of Income and Deductions	Ohio Tax Treatment
1. Guaranteed payments and compensation paid to an individual for services performed	Allocate to Ohio to the extent earned in Ohio. However, if the individual directly or indirectly owns at least 20% of the business, the individual must show the guaranteed payments and compensation on Part II, A, line 5.
2. Gains or losses from the sale or transfer of real property	Apportion if gain constitutes business income; otherwise, allocate to Ohio if the property is physically located in Ohio.
3. Gains or losses from the sale or transfer of tangible personal property	Apportion if gain constitutes business income. Nonbusiness gains and losses are allocated to Ohio if the property is physically located in Ohio.
4. Gains or losses from the sale or transfer of intangible personal property	Apportion if gain or loss constitutes business income. If the gain or loss is from the sale, exchange or other disposition of a closely held business, special apportionment provisions apply. See R.C. section 5747.212. All other nonbusiness gains and losses are allocated to Ohio if the nonresident was domiciled in Ohio at the time of sale or transfer.
5. Rents or royalties from real property	Apportion if gain constitutes business income; otherwise allocate to Ohio if the property is physically located in Ohio.
6. Rents or royalties from tangible personal property	Apportion if the rents or royalties constitute business income; otherwise, allocate to Ohio to the extent the property is used in Ohio. Extent the property is used in Ohio = Number of days of physical location of property in Ohio during rental or royalty periods in the taxable year / Number of days of physical location of property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the nonresident, and if the rents and royalties do not constitute business income, tangible personal property is used in the state in which the property was located at the time the rental or royalty payor obtained possession.
7. Patent and copyright royalties	Apportion if the rents or royalties constitute business income; otherwise, allocate to Ohio to the extent used by the payor in Ohio. • A **patent** is used in Ohio to the extent it is employed in production, fabrication, manufacturing or other processing in Ohio or to the extent that a patented product is produced in Ohio. If the basis of receipts or accounting procedures do not reflect this, then the patent is used in Ohio if the business has its commercial domicile in Ohio. • A **copyright** is used in Ohio to the extent that printing or other publication originates in Ohio. If the basis of receipts or accounting procedures do not reflect this, then the copyright is used in Ohio if the business had its commercial domicile in Ohio.
8. Lottery prize awards	Allocate to Ohio if the award was paid by the Ohio State Lottery Commission.
9. Depreciation expense add-back/deduction	If the depreciation relates to nonbusiness property, the 1/2, 5/6 or 6/6 add-back and corresponding 1/2, 1/5 or 1/6 deductions are allocated as items of nonbusiness income and deductions using the Part I nonbusiness income worksheet. Otherwise, these depreciation adjustments are apportioned as items of business income and deduction using the Part II business income worksheet.

Federal Privacy Act Notice

Because we require you to provide us with a Social Security number, the *Federal Privacy Act of 1974* requires us to inform you that providing us with your Social Security number is mandatory. Ohio Revised Code sections 5703.05, 5703.057 and 5747.08 authorize us to request this information. We need your Social Security number in order to administer this tax.