

For taxable year beginning in

**2018**

**Ohio IT 1140**  
**Pass-Through Entity**  
**and Trust Withholding**  
**Tax Return Instructions**

Rev. 1/19

**Ohio** | Department of  
Taxation

tax.Ohio.gov

## Highlights for 2018

**New: Electronic Filing for Ohio IT 1140.** Starting with the 2018 tax year, the Ohio IT 1140 may be filed electronically through the federal/state e-file (<https://www.irs.gov/filing>) program overseen by the IRS. To help taxpayers make sure their software is compatible with the e-file program, the Ohio Department of Taxation maintains a list of approved software vendors at <https://www.tax.ohio.gov/business/softwaredevelopers.aspx>.

If a taxpayer opts to not file electronically, a paper Ohio IT 1140 return is available at [tax.ohio.gov](http://tax.ohio.gov).

**New: 168k Bonus Depreciation and 179 Expense Add-back Schedule.** Beginning for tax year 2018, use Schedule V to indicate prior year 168(k) bonus depreciation and 179 expensing add-backs. This schedule provides important detail for the subsequent deduction for future tax years.

**Filing an IT 1140 vs. IT 4708.** Once you've chosen to file the IT 1140, you won't be able to amend that return to zero and then file an IT 4708. See our FAQs under PTE for more information. See R.C. 5747.42(A)

**Ohio IT K-1.** The Ohio IT K-1 has been updated to reflect expanded income distribution information. Each entity with Ohio income should prepare a separate Ohio K-1 for each investor or qualifying beneficiary to enclose with the investor's or beneficiary's return. The form may be obtained at <https://www.tax.ohio.gov/Forms.aspx>.

**Ohio Universal Payment Coupon.** Payments may be remitted by:

- Sending a personal check or money order with the Ohio UPC **OR**
- Electronic check through an approved software program when filing electronically **OR**
- Electronic Funds Transfer (EFT) through the [Ohio Treasurer of State](http://OhioTreasurerofState.com).

For questions regarding the EFT payment program, please contact the Ohio Treasurer of State's office at 30 E. Broad St., 9th Floor, Columbus, OH 43215 or call toll-free at 1-877-338-6446.

**PTE Filing Requirement.** The Ohio IT 1140 is filed to withhold tax on the income of nonresident investors. Ohio law does not allow individual nonresident investors to opt out of being included on a PTE return nor does it waive the requirement that a PTE must file and withhold for nonresident investors. See our FAQs under Pass-through Entities.

Individuals included on an Ohio IT 1140 return are required to file the Ohio personal income tax return, IT 1040.

**Estimated Tax Payments for Next Year.** The PTE must make estimated tax payments on the 2019 Ohio UPC for the entity's taxable year beginning in 2019 if the 2019 Ohio annual income tax is more than \$500. An interest penalty may apply to estimated payments not made timely.

**Which Form Should I Use. Ohio IT 1140 or IT 4708?** Qualifying PTEs whose equity investors are limited to nonresident individuals, nonresident estates, nonresident trusts and qualifying PTE investors can file either the Ohio IT 1140 or IT 4708.

A pass-through entity that changes forms from year to year must make sure that:

- All periods of income are reported; **AND**
- All related tax is timely and fully paid.

For more information regarding which form to file, see the following chart:

	The <b>IT 1140</b> Withholding Return	The <b>IT 4708</b> Composite Return
Filing date	15th day of fourth month after close of fiscal year	April 15th after year in which fiscal year ends
Can the return include resident investors?	No	Yes
Tax rate	5% (individuals) or 8.5% (entities)	4.997% (all)
Can the return claim credits?	No	Yes
Can the return claim payments from other PTEs?	No	Yes
Investor filings	Must file IT 1040	May file IT 1040

**Due Dates for Estimated Tax Payments.** If any filing due date set forth below falls on a weekend or on a holiday, then the due date becomes the first business day thereafter.

Due Date	Cumulative Amount Due
Fifteenth day of the fourth month of the taxable year	22.5% of the current year tax due
Fifteenth day of the sixth month of the taxable year	45% of the current year tax due
Fifteenth day of the ninth month of the taxable year	67.5% of the current year tax due
Fifteenth day after the close of the taxable year	90% of the current year tax due

## 2018 Ohio IT 1140 General Instructions

**Note:** Put tax return in proper numerical order and place all attachments after the return.

All Ohio tax forms and schedules referred to in this instruction booklet may be obtained from our Web site at [tax.ohio.gov](http://tax.ohio.gov).

**Purpose of Form.** The Ohio IT 1140 is used to report withholding tax due on:

- Pass-through entity (PTE) distributive shares of income;
- Trust distributions of income relating to real property and tangible personal property in Ohio.

Please note trusts may also be required to file the Ohio fiduciary Income Tax return, Ohio IT 1041.

### How Does Ohio Law Define Business and Nonbusiness Income?

“Business income” is income, including gain/loss arising from any of the following:

- Transactions, activities, and sources in the regular course of a trade or business operation;
- 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;
- A partial or complete liquidation of a business, including gain or loss from the sale or other disposition of goodwill;
- Compensation and guaranteed payments paid by a passthrough entity, or a professional employer organization on its behalf, to an investor who directly or indirectly owns 20% or more of the entity.

Nonbusiness income” is any income other than business income. See R.C. 5747.01(B), 5747.01(C) and 5733.40(A)(7).

### How Do I Determine What Income is Business Income?

Business income can be determined by using either two tests:

**Transactional Test:** Looks to the nature, frequency and regularity of the transaction.

**Functional Test:** Looks to if the property was integral to the trade or business, or if it generated business income in the past.

See *Kemppel v. Zaino, 2001-Ohio-92*.

Generally, income recognized by a pass-through entity is considered business income.

**Definition of Pass-Through Entity.** A “pass-through entity” or “PTE” is an S Corporation, a partnership, or a limited liability company treated as either a partnership or an S corporation for federal income tax purposes. C corporations are not PTEs.

**Who must file an Ohio IT 1140.** Each “qualifying PTE” doing business in Ohio or otherwise having nexus with Ohio under the Constitution of the United States is subject to a withholding tax and to an entity tax based upon each qualifying investor’s share of the qualifying pass-through entity’s profits apportioned to Ohio.

In addition, each “qualifying trust” is subject to a withholding tax based upon distributions of certain types of income to individuals who are nonresidents of Ohio for any portion of the trust’s taxable year.

**Who is not required to file an Ohio IT 1140?** There is no requirement to file if any of the following is applicable for the entire taxable year:

- The entity is a trust whose beneficiaries are limited to full-year Ohio resident taxpayers;
- The entity is a trust that does not directly or indirectly own real estate or tangible personal property located in Ohio and owns **NO** direct or indirect equity investments in a PTE that has nexus with Ohio;
- The PTE’s equity investors are limited to full-year Ohio resident individuals, estates, trusts and C corporations;
- The PTE is filing the Ohio IT 4708 composite return on behalf of all of its nonresident equity investors who are not full-year Ohio resident taxpayers;
- The PTE is either a disregarded entity or a qualifying subchapter S subsidiary, and the pass-through entity’s owner is excluded or is exempt from filing with the Department.

**What Is a Qualifying Pass-Through Entity?** A qualifying PTE is any:

- S Corporation; **OR**
- Partnership; **OR**
- Limited liability company treated as either a partnership or an S Corporation for federal income tax purposes.

**What Is a Qualifying Trust?** A qualifying trust is any trust that meets the following three requirements during the trust’s taxable year:

- The trust is subject to filing the federal 1041, U.S. Income Tax Return for Estates and Trusts;
- The trust has at least one beneficiary who is a nonresident during any part of the taxable year; **AND**
- The trust makes a distribution to a nonresident beneficiary which directly or indirectly relates either to real estate located in Ohio or to tangible personal property located in Ohio.

**Who Is a Qualifying Investor?** A qualifying investor is any investor except those listed below:

- Pension plans or charities;
- Publicly traded partnerships;
- Colleges or universities;
- Public utilities in Ohio that are required to pay the Ohio gross receipts excise tax;
- Any insurance companies required to file an annual report with the Ohio superintendent of insurance;
- Dealers in intangibles as defined in R.C. 5725.01(B).
- REITs, RICs and REMICs;
- Nonresident individuals and estates included on the IT 4708 for the taxable year;
- Qualifying PTEs if the investors are limited to the nonqualifying investors listed above;
- PTEs who are listed in the “Who is not required to file an IT 1140” section.

Other non qualifying investors include trusts or funds whose beneficiaries are limited to the following during the taxable year of the qualifying pass-through entity:

- Beneficiaries of a pension plan trust, profit-sharing trust; a stock bonus plan trust or similar retirement trust;
- Beneficiaries or new recipients of payments from a trust/fund that is a nuclear decommissioning reserve fund, a designated settlement fund or any other similar trust/fund established to resolve similar injury claims;
- Beneficiaries of a complex trust, but only if the trust irrevocably agrees in writing that:  
For the taxable year during or for which the trust distributes any of its income to any of its beneficiaries who are individuals residing outside of Ohio, the trust will be withholding tax as required under R.C. 5747.41 through 5747.453.

### Investment Pass-Through Entities

**Investment PTE Definition.** An investment PTE is a PTE with at least 90% of its assets represented by intangible assets and at least 90% of its gross income from one or more of the following sources:

- Transaction fees earned in connection with the acquisition, ownership or disposition of intangible property
- Loan fees
- Financing fees
- Consent fees
- Waiver fees
- Application fees
- Net management fees (management fees received, reduced by management fees incurred or paid) as long as the net does not exceed 5% of the pass-through entity's profit.
- Dividend income
- Interest income
- Net capital gains from the sale or exchange of intangible property
- Distributive shares of income and gain from other PTEs

The percentages are based upon quarterly averages calculated during the pass-through entity's taxable year. For purposes of determining if a PTE is an investment PTE, intangible assets include investments in other PTEs. See R.C. 5733.401.

**Investors in an investment PTE** are "deemed investors" in any other PTE in which the investment PTE is a direct investor. The operating PTE may withhold on the deemed investors at the applicable tax rate (5% or 8.5%) if a timely notice by the investment PTE is provided to the operating PTE and includes the name, address and SSN for each deemed investor. If timely notice is provided, the investment PTE is ignored for the purposes of PTE withholding, and the operating PTE can withhold on behalf of the deemed investors. Otherwise, the operating PTE must withhold the 8.5% entity tax on the distributive share of income and gain of the investment PTE. See 5747.401.

**Using the Filing on Behalf of Deemed Investors.** There are special benefits for an investment PTE; they may use the deemed investor rule to eliminate filing a return. While the operating PTE is required to file and withhold on behalf of an investment PTE, the investment PTE is NOT required to file in order to distribute the income and credits. The question of how to flow the income and credit information to investors is addressed in APPENDIX A at the end of the instructions.

### Tax Credits, Rates and Due Dates

**Tax Credits Unavailable on the IT 1140 Return.** A PTE or trust is not entitled to claim credit on the tax return for their proportionate share of tax paid by another PTE. A PTE or trust cannot claim a credit as an estimated payment for this pass-through entity's or trust's taxable year. A PTE can "pass through" using the Ohio IT K-1 to each qualifying investor their proportionate share of tax paid on behalf of the PTE using the Ohio IT-K1s.

**Using Tax Credits on an Ohio Income Tax Return:** An Ohio income tax return is an IT 1041, IT 4708 or IT 1040. Qualifying investors, which includes PTEs and trusts, can claim an income tax credit based on their proportionate share of the IT 1140 withholding or entity tax that was paid if filing an Ohio income tax return. See R.C. 5747.059.

To claim these credits, the qualifying investor or trust must include the Ohio IT K-1 and file an Ohio income tax return, either the Ohio IT 1040, IT 1041 or IT 4708.

The Ohio IT K-1 from the PTE will indicate the amount of the entity tax and/or withholding tax to be used as a credit on the Ohio income tax return. For more information on how to fill out the Ohio IT K-1, see [tax.ohio.gov](http://tax.ohio.gov).

**Tax Rates.** The tax is due only if the combined adjusted qualifying amount exceeds \$1,000. The tax is calculated as follows:

- The 5% withholding tax applies to the adjusted qualifying amounts for all qualifying investors who are nonresident individuals for any portion of the qualifying pass-through entity's taxable year.
- The 5% withholding tax also applies to adjusted qualifying amounts that the qualifying trust pays to the beneficiaries included in this return.
- The 8.5% entity tax applies to the adjusted qualifying amounts for all qualifying investors other than nonresident individuals and exempt investors.

**Return Due Dates.** The Ohio IT 1140 and payment of the tax are due on the 15th day of the fourth month following the end of the qualifying PTE's or qualifying trust's taxable year. If the due date falls on a Saturday, Sunday or legal holiday, the due date becomes the next business day.

**Extension to File.** To request an extension to file the Ohio IT 1140, check the federal extension box on Ohio IT 1140 and include a copy of the federal extension with the Ohio return or provide the federal confirmation number for the extension if electronically filed.

**Caution:** An extension of time to file does not give the PTE or trust an extension of time to pay. See Ohio Adm. Code 5703-7-05.

### TY 2018 Due Dates and Extended Due Dates

Fiscal Year Ends	IRS Due Date	Ohio Due Date	IRS Ext. Due Date	Ohio Ext. Due Date
12/31/18	3/15/19	4/15/19	9/16/19	9/16/19
1/31/19	4/15/19	5/15/19	10/15/19	10/15/19
2/28/19	5/15/19	6/17/19	11/15/19	11/15/19
3/31/19	6/17/19	7/15/19	12/16/19	12/16/19
4/30/19	7/15/19	8/15/19	1/15/20	1/15/20
5/31/19	8/15/19	9/16/19	2/18/20	2/18/20
6/30/19	9/16/19	10/15/19	3/16/20	3/16/20
7/31/19	10/15/19	11/15/19	4/15/20	4/15/20
8/31/19	11/15/19	12/16/19	5/15/20	5/15/20
9/30/19	12/16/19	1/15/20	6/15/20	6/15/20
10/31/19	1/15/20	2/18/20	7/15/20	7/15/20
11/30/19	2/18/20	3/16/20	8/17/20	8/17/20

**Responsible Party Liability.** Certain beneficiaries, investors, employees, trustees, officers, members, or managers of the qualifying entity can be held personally liable for the entity's failure to file the IT 1140 and pay the appropriate tax due. See R.C. 5747.453.

**Preparer's Signature.** The Ohio Department of Taxation follows federal Notice 2004-54, which provides for alternative preparer signature procedures for federal income tax paper returns that paid practitioners prepare on behalf of their clients. See R.C. 5703.262(B) and 5747.08(F).

**Exception:** The paid preparer should print (rather than sign) his/her name and include their Preparer Tax Identification Number (PTIN) on the form if the taxpayer checks the box left of, "Check here to authorize your preparer to discuss this return with Taxation." Preparers must provide their PTIN on the paper and/or electronically filed returns if available.

**Method of Accounting.** A pass-through entity's method of accounting for this return must be the same as its method of accounting for federal income tax purposes. See R.C.5747.45(B).

### Amended Returns

**When to Amend.** You can file an amended Ohio IT 1140 to report changes to your originally filed return(s). An amended return can result in either a tax due or a refund based on the changes. Under certain circumstances, an amended return may be required. To amend the Ohio IT 1140, you should file a new return, reflecting all proposed changes, and indicate that it is amended by checking the box at the top of page 1.

Please include a copy of the following:

- Your original return;
- Any documentation substantiating changes reported on the amended Ohio IT 1140 and/or payments claimed.

**Note:** It may take at least 180 days from the date of receipt to process your amended return.

**When Not to Amend your Return.** Some common mistakes may not require an amended return. Some examples include:

- Math errors;
- Missing pages or schedules;
- Demographic errors;
- Any supporting documentation.

For these situations, the department will either make the corrections to your return or contact you to request the needed documentation.

**Requesting a Refund.** You may want to amend your return to request an additional credit, deduction or payment. Such changes may result in a refund. Generally, you have four years from the date of the payment to request a refund. You must include supporting documentation to substantiate the changes reported on your amended return. Some common required documentation includes:

- Federal return including applicable schedules and attachments;
- Ohio IT K-1;
- Copies of canceled checks.

**Reporting Additional Tax Due.** You should amend your return to report additional income, a reduced credit or deduction previously claimed in error. Such changes may result in additional tax due. Payment should be included with your amended return using an IT 1140 UPC payment voucher.

**Changes to Your Federal Return.** If the IRS makes changes to your federal return, either based on an audit or an amended return, and those changes affect your Ohio return(s), you are required to file an amended IT 1140. Do not file your amended Ohio return(s) until the IRS has finalized the changes to your federal return. Once the changes are finalized, please include a copy of all of the following:

- Your federal amended return;
- The IRS acceptance letter; **AND/OR**
- A copy of refund check issued to you by the IRS, if applicable.

**Note:** Instead of including a copy of these documents, you may be

able to submit a copy of the IRS Tax Account Transcript reflecting your updated federal return information. Your amended Ohio IT 1140 should be filed no later than 1 year after the IRS completes its review of your federal return. Failure to file the return within this time period may result in an assessment or a denial of your refund claim. See R.C. 5747.45(C)

### Line Instructions

#### Schedule I – Reconciliation Tax and Payments

**Line 2 – Interest Penalty on Underpayment of Tax.** Enter any interest penalty on underpayment of estimated tax as calculated on the Ohio IT/SD 2210. See [tax.ohio.gov](http://tax.ohio.gov).

The PTE or trust will owe an interest penalty if the sum of Schedule II, line 9, columns A and B and Schedule IV, line 8 is greater than \$10,000 and timely estimated payments are less than either of the following:

- 90% of your 2018 Ohio tax liability; **OR**
- 100% of your 2017 Ohio tax liability.

**Note:** If no full year (12 month) return was filed for tax year 2017, you may be subject to interest penalty on underpayment of estimated tax. There is no safe harbor if the prior year return was an Ohio IT 4708. For additional information, see R.C. 5747.43.

**Line 5 – Refund.** Sum of line 4, column A and B if the sum is an overpayment. This is the amount to be refunded. Interest on Overpayments. Interest is allowed and paid upon any overpayment in excess of one dollar from the latest of the following dates:

- The payment date;
- 90th day after the due date of the return; **OR**
- 90th day after the return was filed, to the date of the refund of the overpayment.

During calendar year 2019, interest accrues on overpayments at an annual rate of 5%. See R.C. 5747.11(C)(2).

**Line 7 - Interest and penalty due on late-paid tax and/or late-filed return.**

**Interest on Underpayments.** Interest is due from the unextended due date until the date the tax is paid. Generally, you will not be charged interest if you are due a refund. Please remember, an extension of time to file does not extend the time for payment of the tax due. The interest rate for calendar year 2019 is 5%.

**Penalties.** If the PTE fails to file the Ohio withholding tax return by the due date (or extended federal due date), a failure to file penalty, which is the greater of \$50 per month up to a maximum of \$500, or 5% per month up to a maximum of 50% of the tax may be charged.

**Line 8 - Payment Options.** Payments may be remitted by:

- Electronic check through an approved software program when filing electronically;
- Sending a personal check/money order with the Ohio UPC;
- Electronic funds transfer (EFT) through the Ohio Treasurer of State

For questions regarding the EFT payment program, please contact the Ohio Treasurer of State's office at 30 E. Broad St., 9th Floor, Columbus, OH 43215 or call toll-free 1-877-338-6446. See [tos.ohio.gov](http://tos.ohio.gov).

**Schedule II**  
**Qualifying Pass-Through Entities – Tax Due**

**Line 9 - Sum of all qualifying investors'; distributive shares of income, gain, expenses and losses.**

Generally allowed deductions:

- Section 59(e)(2);
- Royalty Income - Federal Schedule E, line 19;
- Section 754 election - Form 1065;
- Section 743(b) - Form 1065.

Generally disallowed deductions:

- Charitable Contributions;
- Investment Interest Expense;
- Portfolio Expense / Deduction;
- Research and Development Tax Credit;
- Research and Experimental Expenditures;
- Wages related to Work Opportunity Credit.

**Note:** For more information, see FAQs at <https://www.tax.ohio.gov/faq.aspx>.

**Line 10 – Bonus Depreciation Add-Back and Schedule IV, Line 26.** Add 5/6 of Internal Revenue Code section 168(k) bonus depreciation allowed under the Internal Revenue Code. Also add 5/6 of the excess of the Internal Revenue Code section 179 depreciation expense allowed under the Internal Revenue Code over the amount of section 179 depreciation expense that would have been allowed based upon Internal Revenue Code section 179 in effect on Dec. 31, 2002.

Replace “5/6” with “2/3” for employers who increased their Ohio income taxes withheld by an amount equal to or greater than 10% over the previous year. Replace “5/6” with “6/6” for taxpayers who incur a net operating loss for federal income tax purposes if the loss was a result of the 168(k) and/or 179 depreciation expenses.

No add-back is required for employers who increased their Ohio income taxes withheld over the previous year by an amount greater than or equal to the sum of the 168(k) or 179 depreciation expenses. No add-back is required for 168(k) and/or 179 depreciation amounts related to a PTE in which the taxpayer has less than 5% ownership. See R.C. 5733.40(A)(5) and 5747.01(A)(20).

**NOTE:** For additional information please see the Department's FAQs at <https://www.tax.ohio.gov/faq.aspx>.

**Line 11 and Schedule IV Line 27 – Other Adjustments**  
Adjustments available to taxpayers are:

- subsequent years depreciation deduction;
- miscellaneous federal income tax adjustments.

Bonus Depreciation Deduction. Deduct:

- 1/5 of prior year 5/6 add-backs;
- 1/2 of prior year 2/3 add-backs; **AND**
- 1/6 of prior year 6/6 add-backs

of Internal Revenue Code sections 168(k) and 179 depreciation adjustments. The deduction must be taken in equal increments in consecutive tax years and any unused portion from any given tax year is not eligible to be carried forward. You can only deduct amounts that you added back in a prior year on the Ohio IT 1140. You may take this deduction even if you no longer directly or indirectly own the asset.

**Miscellaneous Federal Income Tax Adjustments.** This line is also for federal conformity adjustments. See the Legislative Updates page at [tax.ohio.gov/other/Update.aspx](http://tax.ohio.gov/other/Update.aspx).

**Amounts Not Subject to a Tax on or Measured by Net Income**  
Distributive shares of income from qualifying PTEs and distributions from qualifying trusts shall be reduced by any amount that is not subject to a tax on or measured by net income. See R.C. 5733.40(A)(2). This income includes but is not limited to the following:

- Federal interest income that under federal law is exempt from state tax measured on or by net income;
- All income that the qualifying PTE earns if the qualifying PTE claims an exemption under U.S. Public Law 86-272;
- An investment pass-through entity's items of income listed previously;
- Interest income from Ohio public obligations and Ohio purchase obligations and gains from the sale or other disposition of Ohio public obligations. See R.C. 5709.76.

**Line 13 - Related Member Add-Back.** A “related member” is any person directly or indirectly related to the taxpayer or qualifying entity by an ownership interest of at least 40%. See R.C. 5733.40(P) or I.R.C. 1563(e).

A “related member” is also a family member or their partnership, trust, estate, or S-Corp (a “related entity”) if the related entity owns directly or indirectly via attribution, at least 50% of the PTE. See R.C. 5733.04(I)(12)(i) or I.R.C. 318. Expenses typically subject to add back include but are not limited to the following:

- Management fees;
- Rents;
- Compensation to a family member.  
See R.C. 5733.40(A)(3).

**Line 14 and 15 – Guaranteed Payments and Compensation Add-Back**

**Note:** Reciprocity agreements do not apply to residents of neighboring states directly or indirectly owning at least 20% of the stock or other equity of the PTE. See R.C. 5733.40(A)(7).

**Schedule III – Qualifying Pass-Through Entities – Tax Apportionment Ratio**

*Instructions and a worksheet for a financial institution passthrough entity are available at the end of this booklet.*

**Note:** When calculating the withholding and entity tax, PTEs investing in other pass-through entities must apply the aggregate or conduit theory of taxation. The character of income and deductions is retained for purposes of the withholding and entity tax and is not reclassified. PTEs investing in other pass through entities must also include in their apportionment ratio the proportionate share of each lower tier's property, payroll and sales. See R.C. 5733.057 and 4747.231

**Property Factor.** The property factor is the ratio of:

Average value of property in Ohio

-----  
Average value of property everywhere

“Property” includes any real and tangible personal property that is owned, rented, subrented, leased and/or subleased in the course of a trade for business. Property does not include any of the following:

- Construction in progress;
- Property not used in a trade or business;
- Property for which Ohio has issued an air, noise, or industrial water pollution control certificate; **AND**
- Property used exclusively during the tax year for qualified research.

**Note:** The original cost of qualifying improvements to property in an enterprise zone, for which Ohio has issued a Tax Incentive Qualification Certificate, only be included in Total Everywhere Property.

The “average value” of business property is calculated by averaging the total value of all applicable property owned or rented at the beginning and end of the tax year. See R.C. 5747.21(B) and 5733.05(b)(2)(a).

**Line 21a - Property Owned Within Ohio.** Enter the average value of all Ohio property owned by the business during the tax year.

**Line 21a - Property Owned Total Everywhere.** Enter the average value of all property owned by the business during the tax year. Property owned by the business is valued at its original cost.

**Line 21b - Property Rented Within Ohio.** Enter the average value of all Ohio property rented by the business during the tax year.

**Line 21b - Property Rented Total Everywhere.** Enter the average value of all property rented by the business during the tax year. Property rented by the business is valued at eight times the net annual rental rate (annual rental expense less subrental receipts).

**Schedule III – Qualifying Pass-Through Entities – Apportionment Worksheet**

**Payroll Factor.** The payroll factor is the ratio of:

$$\frac{\text{Total compensation in Ohio}}{\text{Total compensation everywhere}}$$

“Compensation” means any form of remuneration paid to an employee for personal services. Compensation does not include any of the following:

- Amounts paid to employees for services unrelated to a trade or business;
- Amounts reclassified as a distributive share of income from a PTE under R.C. 5733.40(A)(7); **AND**
- Amounts paid to employees who are primarily engaged in qualified research.

**Note:** Compensation paid to certain employees at an urban job and enterprise zone facility, for which Ohio has issued a Tax Incentive Qualification Certificate, should be included only in total compensation everywhere. See R.C. 5747.21(B) and 5733.05(B)(2)(b).

**Line 22 - Payroll Within Ohio.** Enter the total compensation paid in Ohio during the tax year. Compensation is paid in Ohio if any of the following apply:

- The employee’s job is entirely in Ohio;
- The employee’s job is primarily in Ohio with only incidental work outside Ohio;
- The employee performs services in Ohio and either the headquarters, or, if no headquarters exists, the place from which the service is directed or controlled, is in Ohio; **OR**
- The employee is a resident of and performs some services in Ohio, and the headquarters 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.

**Line 22 - Payroll Total Everywhere.** Enter the total compensation paid everywhere during the tax year.

**Sales Factor.** The sales factor is the ratio of:

$$\frac{\text{Sales in Ohio}}{\text{Sales Everywhere}}$$

“Sales” includes gross business receipts such as:

- Receipts from the sale of real property, tangible personal property, or services;
- Receipts from rents and royalties from real and tangible personal property; **OR**
- Receipts from the transfer of or the right to use intellectual property such as trademarks, trade names, patents, and copyrights.

“Sales” **does not** include any of the following:

- Interest and dividends;
- Receipts from the transfer of intangible property other than trademarks, trade names, patents, copyrights or other similar intellectual property;
- Receipts from the transfer of real or tangible personal property that is either a capital asset or an Internal Revenue Code section 1231 asset; **AND**
- Receipts from sales to certain public utilities, insurance companies, and financial institutions described in R.C. 5733.05(B)(2)(c)

**Note:** Income amounts excluded from the sales factor may still be considered business income under Ohio law. R.C. 5747.21 and 5733.05

**Line 23 - Sales Within Ohio.** Enter gross receipts from sales within Ohio during the tax year. Sales within Ohio include all of the following:

- Receipts from sales of tangible personal property, less returns and allowances, to the extent the property was received by the purchaser in Ohio;
- Receipts from services to the extent the purchaser ultimately used or received the benefit of the services in Ohio;
- Rents and royalties from tangible personal property to the extent the property was used in Ohio;
- Receipts from the transfer of certain intellectual property to the extent the property was used in Ohio;
- Receipts from the right to use certain intellectual property to the extent the receipts are based on the right to use the property in Ohio;
- Receipts from the sale of real property located in Ohio; **AND**
- Rents and royalties from real property located in Ohio.

**Note:** For tangible personal property, where the property is “received by the purchaser” is not the same as where the purchaser takes physical or legal possession. Instead, it is considered “received” where it is ultimately used by the purchaser. See R.C. 5733.05(B)(2)c(i) and (ii).

**Line 23 - Sales Total Everywhere.** Enter the gross receipts from sales everywhere during the tax year.

**Schedule IV – Trusts – Tax Due**

**Line 25 – Beneficiary’s Distributive Shares.** The sum of all qualifying beneficiary’s share of qualifying net income and net gain distributed by a trust for the taxable year.

**Line 26 and 26a - Bonus Depreciation and Other Adjustments.** See Schedule II - Qualifying Pass-Through Entities -Tax Due - Lines 10 and 11 for more information.

**Schedule V - 168K Bonus Depreciation  
and 179 Expense Add-back Schedule**

Prior year add-back amount and ratio.

**Line 31** - Total current year add-back from line 10;  
**Line 32** - Prior year add-back amount and add-back ratio.

In a given tax year, the PTE may need to report a mixture of addback ratios on Schedule V, due to investment in multiple passthrough entities. In this scenario, check the 5/6 box and provide an explanation of the ratio. You may wish to attach this explanation to future years' returns.

Follow the same procedure for the investors of the PTE on the Ohio IT K-1 under Depreciation Information and fill out the Supplemental Information portion.

**Schedule VI – Investor Information**

Provide investor information for all investors in the PTE and indicate investors who are included on the return by checking the applicable box on Schedule VI. Investor information must be provided by the following:

- Completion of Schedule VI and additional sheet(s) if necessary; **AND**
- A copy of Ohio IT K-1, which the PTE or trust will issue to each qualifying investor and beneficiary. The Ohio IT K-1s must indicate the amount of tax credits that will pass to each qualifying investor or qualifying beneficiary. (See "Tax Credits Available to Certain Investors and Beneficiaries" in the General Instructions).

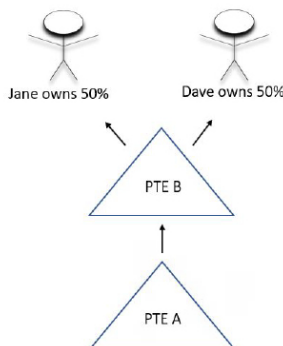
**Appendix A**

This appendix provides several examples of how a PTE can file on behalf of a "deemed investor". For additional information about filing for an investment PTE, see page 3 of these instructions or the Department's FAQs under Investment Pass- Through Entity at [tax.ohio.gov](http://tax.ohio.gov) and also R.C. 5747.401.

An investment PTE has special benefits; investors in the investment PTE are "deemed investors" in any other PTE in which the investment PTE is a direct investor. The deemed investor rule can be chained through multiple investment PTEs and the filing chain can be collapsed.

**NOTE:** These special benefits pertain **ONLY** to an investment PTE, not any PTE which may have intangible income.

**In example 1**, PTE B is an "investment pass-through entity" with its sole source of income from PTE A. Jane and Dave each own 50% of B. Income flows from PTE A to PTE B and then from PTE B to Jane and Dave.



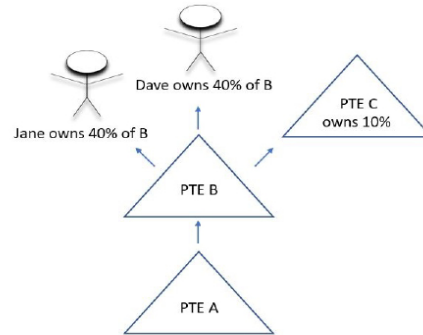
Normally, PTE A would withhold for PTE B on all income at a rate of 8.5%. However, since PTE B is an investment pass-through entity, it can elect to have PTE A withhold on behalf of Jane and Dave at a rate of 5%, instead of withholding on behalf of PTE B at a rate of 8.5%.

To do this, PTE B must timely notify PTE A of this election and provide the name, address, and SSN for both Dave and Jane. PTE A would then withhold on all of its income (Dave and Jane's shares) at a rate of 5%.

PTE A would issue a Ohio IT K-1 to PTE B, showing PTE as the investor and listing the total income and Ohio withholding. PTE B would then issue an Ohio IT K-1 to both Dave and Jane. Each IT K-1 would list the investor's proportionate share of income and credits, which flowed to PTE B from PTE A. The credit should be listed on line 4 of the IT K-1, along with PTE A's EIN.

PTE B is not required to file in this scenario since its adjusted qualifying amount would be \$0.

**Example 2.** PTE A is an operating PTE that is owned 100% by PTE B. PTE B is an "investment pass-through entity" with its sole source of income from PTE A.



PTE B is owned by 3 investors, Jane (40%), Dave (40%), and PTE C (20%).

Normally, PTE A would withhold for PTE B on all income at a rate of 8.5%. However, since PTE B is an investment passthrough entity, it can elect to have PTE A withhold on behalf of Dave and Jane's shares of income at a rate of 5%. The PTE would still have to withhold on PTE C's share of income at a rate of 8.5%.

To do this, PTE B must timely notify PTE A of this election and provide the name, address, and SSN for both Dave and Jane. PTE A would then withhold on 80% of its income (Jane and Dave's shares) at a rate of 5%, and withhold on the remaining income (PTE C's 20%) at a rate of 8.5%.

PTE A would issue a Ohio IT K-1 to PTE B, showing PTE B as the investor and listing the total income and Ohio withholding. PTE B would then issue an Ohio IT K-1 to its investors - Jane, Dave and PTE C. Each IT K-1 issued by PTE B would list the investor's proportionate share of income and credits, which flowed to PTE B from PTE A. The credit should be listed on line 4 of the IT K-1, along with PTE A's EIN.

PTE B is not required to file in this scenario since its adjusted qualifying amount would be \$0.

## Appendix A, continued

**Filing an Ohio IT 1140 for an Investment PTE.** The Department reviews and verifies PTE credits claimed by a taxpayer on a tax return. Credits are verified back to the initial source, the operating PTE. If payments and credits cannot be verified, they are disallowed on a tax return. This can result in a request for information, a reduced refund or a billing to the taxpayer.

Each entity should provide clear documentation with its tax return regarding credits and income being claimed and passed through to another entity or individual.

Documentation can include any and all of the following:

- Ohio IT K-1s issued to the PTE from income sources;
- An organization chart, including EINs of all PTEs in the tier; include the initial source of income and credits (the operating entity);
- A narrative outlining the flow of income and credits.

An investment PTE may elect to file an IT 1140, even though it is not required to do so, to provide a more clear picture to the Department of the flow of income and credits.

The investment PTE would include all income on line 9 of its IT 1140, and then deduct the income excluded from its adjusted qualifying amount on line 11 of the IT 1140 return. If the sole source of income to the investment PTE is distributive shares of income from other PTEs, then the net result is no adjusted qualifying amount and thus a zero balance return.

The investment PTE should include the IT K-1 it received from other PTEs in which it holds an ownership interest, showing the income and credits flowing to it. The PTE would then include these amounts on the IT K-1s it issues to its investors, effectively “passing through” these amounts. PTE should include the IT K-1 it received from other PTEs in which it holds an ownership interest, showing the income and credits flowing to it. The PTE would then include these amounts on the IT K-1s it issues to its investors, effectively “passing through” these amounts.

Clear representation of the chain of ownership leads to fewer Department notices and inquiries.

At any level, an investment PTE may elect to file an IT 1140 to provide more clear and precise information to the Department for verifying the flow of income and credits. See the Department’s FAQs at [tax.ohio.gov](http://tax.ohio.gov) for more information about filing for an investment PTE.

## Apportionment Formula for Financial Institution Pass-Through Entities

For a pass-through entity that is a financial institution, the apportionment formula should be calculated in accordance with Ohio Revised Code (R.C.) 5733.056. Use of this worksheet to calculate the apportionment formula for a pass-through entity that is a financial institution.  
**Note:** All ratios are to be carried to six decimal places.

<b>Apportionment Ratio</b>	(1) Ohio	(2) Everywhere	(3) Ratio
<b>Sales Factor – R.C. 5733.056(F)</b>			
1. Receipts from the lease, sublease or rental of real property.....	_____	_____	
2. Receipts from the lease or rental of tangible personal property.....	_____	_____	
3. Interest from loans secured by real property.....	_____	_____	
4. Interest from loans not secured by real property.....	_____	_____	
5. Net gains from the sale of loans secured by real property.....	_____	_____	
6. Net gains from the sale of loans not secured by real property.....	_____	_____	
7. Interest and fees charged to credit card holders.....	_____	_____	
8. Net gains from the sale of credit card receivables.....	_____	_____	
9. Credit card issuer's reimbursement fees.....	_____	_____	
10. Receipts from merchant discount.....	_____	_____	
11. Loan-servicing fees from loans secured by real property.....	_____	_____	
12. Loan-servicing fees from loans not secured by real property.....	_____	_____	
13. Loan-servicing fees for servicing the loans of others.....	_____	_____	
14. Receipts from services not otherwise apportioned.....	_____	_____	
15. Interest, dividends, net gains and other income from both investment assets and activities and trading assets and activities.....	_____	_____	
Check method: <input type="checkbox"/> Avg. value method <input type="checkbox"/> Gross income method			
16. Certain other receipts.....	_____	_____	
17. Total. Enter ratio here and on Summary, line 1, below.....	_____	÷ _____	= _____

<b>Property Factor – R.C. 5733.056(D)</b>	Ohio	Everywhere	Ratio
18. Real property and tangible personal property owned.....	_____	_____	
19. Real property and tangible personal property rented x 8.....	_____	_____	
20. Loans and credit card receivables.....	_____	_____	
21. Total. Enter ratio here and on Summary, line 2, below.....	_____	÷ _____	= _____

<b>Payroll Factor – R.C. 5733.056(E)</b>	Ohio	Everywhere	Ratio
22. Compensation paid to employees. Enter ratio here and on Summary, line 3, below.....	_____	_____	_____

<b>Apportionment Ratio Summary</b>	(1) Factor	÷	(2) Weight	=	(3) Weighted Factor
1. Sales (line 17).....	_____	x	.70	=	_____
2. Property (line 21).....	_____	x	.15	=	_____
3. Payroll (line 22).....	_____	x	.15	=	_____
4. Total weighted apportionment ratio.....	_____				

If the denominator of any factor is zero, the weight given to the other factors must be proportionately increased so that the total weight given to the combined factors used is 100%.

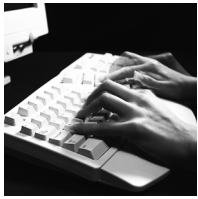
**Federal Privacy Act Notice**

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 your Social Security number is mandatory. Ohio Revised Code 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.

# Taxpayer Assistance

---

## By Internet



### Ohio Department of Taxation Web Site – [tax.ohio.gov](http://tax.ohio.gov)

<b>E-mail Us</b>	<b>Instructions</b>
<b>Frequently Asked Questions</b>	<b>Refund Status</b>
<b>Information Releases</b>	<b>Tax Forms</b>

**For the deaf, hearing-impaired or speech-impaired who use TTY or TDD only:** Contact the Ohio Relay Service at 1-800-750-0750 or 7-1-1 and give the communication assistant the Ohio Department of Taxation phone number that you wish to contact.

## By Phone



### Toll-Free Telephone Numbers

Toll-Free <b>Forms Request</b>	1-800-282-1782
Toll-Free <b>Tax Questions</b>	1-800-282-1780

## Written



### Ohio Department of Taxation Taxpayer Services Mailing Address

Ohio Department of Taxation  
Taxpayer Services Division  
P.O. Box 182382  
Columbus, OH 43218-2382

## Walk-in



### Ohio Department of Taxation Taxpayer Service Center

**Taxpayer Service Center Hours**  
Office hours: 8 a.m. – 5 p.m.  
Monday through Friday  
4485 Northland Ridge Blvd., 1st Floor  
Columbus, OH 43229-6596