



For taxable year beginning in

2018

Ohio IT 1041
Fiduciary Income
Tax Return Instructions

Rev. 01/19

Ohio

Department of
Taxation

tax.Ohio.gov

Highlights for 2018

NEW: Qualified Pre-income Trust Check-box. This check-box is new for the 2018 tax filing period. If you have previously made this election, see page 2 for instructions.

NEW: 168K Bonus Depreciations and 179 Expense Add-back Schedule. Beginning for tax year 2018, use Schedule XIII 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.

NEW: Nonresident Credit Calculation for Estates. Effective for tax year 2018, Form IT 2023 is replaced by Form IT NRCE. This form is used by estates to calculate the nonresident credit. For instructions to the IT NRCE, see pages 11-14.

IT NRCE - Ohio Nonresident Credit Instructions. Estates must use the IT NRCE to calculate the nonresident portion of their federal taxable income. This amount is used to calculate the Ohio nonresident credit. Include this form with your completed Ohio IT 1041 and retain a copy for your records. If your tax preparation software allows for PDF attachments, you should include a copy of this form. See page 11 for more information.

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. This form may be obtained at <https://www.tax.ohio.gov/Forms.aspx>.

Matching Expense and Loss Amounts and Distribution Deductions Against Income and Gain. The fiduciary should directly match against items of income and gain (and against excluded income and gain, if any) those expenses and losses that are directly related to the items of income or gain. For more information, see page 10.

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](#).

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.

Estimated Tax Payments for Next Year. The estate or trust must make estimated tax payments for 2019 if the 2019 tax after nonrefundable credits is more than \$500. An interest penalty may apply to estimated payments not timely made.

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 after.

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

Federal election to treat a qualified revocable trust as part of an estate. The taxpayer must check one or more of the two estate boxes (Bankruptcy estate or Decedent's estate) if a taxpayer has made a 645 election on federal Form 8855. The Bankruptcy estate or Decedent's estate designation **requires** the taxpayer to only utilize the schedules on the Ohio IT 1041 that are applicable for an estate.
Note: Please do not check any trust boxes if a 645 election has been made.

Refundable and Nonrefundable Credit Allocation for Trusts. If a trust has a refundable or nonrefundable credit and makes a distribution to one or more beneficiaries, the trust is only entitled to the portion of the credit that relates to the retained earnings in the trust. See R.C. 5747.02(D)(3).

Note: There could be a requirement to withhold on the distributions made to the nonresident beneficiaries. Refer to the "What is a Qualifying Trust" section of the IT1140 instruction booklet.

Filing Options. The Ohio IT 1041 can be filed either electronically or by paper.

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.

2018 Ohio Form IT 1041 General Instructions

Note: Arrange the tax return in proper page number 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.

Purpose of Form. A trust or estate uses Ohio IT 1041 to report:

- The income, deductions, gains, losses, etc. of the estate or trust that are taxable to Ohio **AND**
- Any income tax liability of the estate or trust on retained or undistributed earnings

Income Taxed to the Estate. The income tax imposed on the fiduciary is based upon the estate's Ohio taxable income. Ohio taxable income is federal taxable income as adjusted on Schedule II.

If the executor and trustee make the Internal Revenue Code (I.R.C. section 645 election):

- The estate must include the income of the trust
- The trust is not subject to Ohio's income tax for that year to which the election applies

Income Taxed to the Trust. The income tax imposed on the fiduciary shall apply to the trust's modified Ohio taxable income. Modified Ohio taxable income is the sum of a trust's:

- Qualifying trust amount
- Modified Business Income
- Qualifying Investment Income **AND**
- Modified Nonbusiness Income, to the extent allocable or apportionable to Ohio

See R.C. 5747.01(B)(6).

Who Must File. All estates that file the federal 1041 and reside in Ohio, or earn or receive income in Ohio, must file the IT 1041.

All trusts that file the federal 1041, have retained earnings and meet at least one of the following:

- The trust resides in Ohio **OR**
- The trust earns or receives income that is allocable or apportionable to Ohio

See R.C. 5747.08.

Common Situations Seen for Trusts

- A nonresident trust investing only in savings accounts, certificates of deposit, publicly traded stocks, bonds, commercial paper and/or mutual funds **will not owe** any Ohio income tax
- A resident trust investing only in savings accounts, certificates of deposit, stocks, bonds, commercial paper and/or mutual funds **will owe** Ohio income tax if the trust had federal taxable income after distributions. The tax on each resident trust will generally be based upon the trust's federal taxable income, plus or minus the adjustments set forth on Ohio IT 1041.

Qualified Pre-Income Tax Trusts

Trusts described in Ohio Revised Code R.C. 5747.01(FF) that timely and properly made the election described in that division are not subject to Ohio income tax. Such trusts should file pages 1 and 2 of Ohio IT 1041 and complete those pages as follows:

- Select "qualified pre-income tax trust" check box option
- Enter on line 1 the trust's federal taxable income
- Enter on line 2 as the negative amount shown on line 1
- Enter -0- on lines 3 and 13
- Sign and date the return

Important: The trust must include with the return a copy of the Ohio Department of Taxation-issued letter acknowledging that the trust is exempt from Ohio income tax.

Filing Exclusions

The following types of **trusts** are excluded from filing:

- Grantor trusts
- Charitable remainder trusts
- Retirement trusts
- Pre-need funeral trusts
- Qualified funeral trusts
- Endowment and perpetual care trusts
- Qualified settlement trusts and funds
- Retirement trust funds

See R.C. 5747.02(E).

Any other **trust or estate** is not required to file a Ohio IT 1041 with the state of Ohio if **all** of the following apply:

- The fiduciary's federal 1041 shows no taxable income or has a negative taxable income (e.g., simple trusts and most estate tax returns) **AND**
- The estate or trust did not earn or receive any Ohio sourced income **AND**
- There are no Ohio adjustments that would result in Ohio taxable income

Return Due Date. For all estates and trusts, the Ohio IT 1041, along with all Ohio IT K-1(s), federal K-1(s), W2s, 1099s etc. is due by the date listed on Table 1 of page 3.

Extensions to File. To request an extension of time to file your Ohio IT 1041, check the federal extension box on Ohio IT 1041 and include a copy of the federal extension with the Ohio return or provide the federal confirmation number for the extension if electronically filed. See Table 1 of page 3.

Table 1: 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
12/31/17	4/15/18	4/17/18	9/30/18	9/30/18
1/31/18	5/15/18	4/15/19	10/31/18	4/15/19
2/28/18	6/15/18	4/15/19	11/30/18	4/15/19
3/31/18	7/15/18	4/15/19	12/31/18	4/15/19
4/30/18	8/15/18	4/15/19	1/31/19	4/15/19
5/31/18	9/15/18	4/15/19	2/28/19	4/15/19
6/30/18	10/15/18	4/15/19	3/31/19	4/15/19
7/31/18	11/15/18	4/15/19	4/30/19	4/30/19
8/31/18	12/15/18	4/15/19	5/31/19	5/31/19
9/30/18	1/15/19	4/15/19	6/30/19	6/30/19
10/31/18	2/15/19	4/15/19	7/31/19	7/31/19
11/30/18	3/15/19	4/15/19	8/31/19	8/31/19

Caution: An extension of time to file does not give the estate or trust an extension of time to pay. See Ohio Adm. Code 5703-7-05. See R.C. 5747.08(G).

Filing Options. Taxpayers who prepare a return with commercial software or the help of a paid tax preparer may be able to file their federal and state returns 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 1041 is available on our Web site at [tax.ohio.gov](https://www.tax.ohio.gov).

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.

Amended Returns

When to amend. You can file an amended Ohio IT 1041 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 1041, 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 **AND**
- Any canceled checks used as payment on the originally filed return

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
- Missing income statements (W-2, 1099, K-1) or credit certificates

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. You have four years from the date of the payment to request a refund. Payments made prior to the due date of the return are deemed made on the due date of the return. You must include supporting documentation to substantiate the changes reported on your amended return. Some common required documentation includes:

- Page 1 of your federal return including applicable schedules and attachments
- Copies of your income statements (W-2, 1099, etc.), Ohio IT K-1, or credit certificates from DSA
- Ohio form IT NRCE

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 Ohio IT 1041 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, you are required to file an amended Ohio IT 1041. Do not file your amended Ohio return 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 1041
- The IRS acceptance letter **AND**
- The 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 1041 should be filed no later than 60 days 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. 5747.10.

Completing the Top Portion of the Ohio IT 1041

On page 1 of the return, you **must** designate whether the entity is an estate or a trust. Trust and estate types (other than resident, nonresident, irrevocable or testamentary) are determined by your federal 1041 filing.

The estate must select one or both of the following:

- Decedent's estate
- Bankruptcy estate

The trust must select one or the other of each of the following:

- Simple or complex
- Resident or nonresident

Note: If applicable, the trust should also select one or more of the following:

- Irrevocable
- Testamentary

Trust Residency

A "resident" trust is a trust in whole or in part that resides in this state. If the resident trust resides in part, it is only a resident with respect to that part. See R.C. 5747.01(I)(3) and information release [IT 2003-02](#).

A trust created at the time of an individual's death under a will (testamentary) is a testamentary trust. A testamentary trust resides in Ohio if the decedent at the time of death was domiciled in Ohio for Ohio estate tax purposes (R.C. 5731).

An irrevocable trust resides in Ohio if (i) at least one "qualifying beneficiary" [R.C. 5747.01(I)(3)(c)] is domiciled in Ohio for all or a portion of the trust's taxable year and (ii) at any time the trust received assets from one or more of the following:

- An individual who was domiciled in Ohio for income tax purposes at the time he/she transferred assets to the trust **OR**
- An individual who was domiciled in Ohio for income tax purposes at the time the trust document became irrevocable even if the individual was not domiciled in Ohio at the time he/she transferred the assets to the trust **OR**
- An estate of an individual who at the time of death was domiciled in Ohio for estate tax purposes **OR**
- An insurance company, pension plan or court award on account of the death of an individual, and at the time of the individual's death either (i) the individual was domiciled in Ohio for estate tax purposes or (ii) the owner of the insurance policy was domiciled in Ohio for income tax purposes

Note: The list above is not all-inclusive. For additional information, see R.C. 5747.01(I)(3)(a),(e) and (f).

Estate Residency

An estate is a resident if the decedent who at the time of death was domiciled in Ohio. See R.C. 5747.01(I)(2)

Schedule I – Taxable Income, Tax, Payments and Net Amount Due Calculations

Line 8 – Tax on Ohio Taxable Income (Estates) or Modified Ohio Taxable Income (Trusts). Use Table 2 to compute the tax based upon the amount on line 3 for estates or line 7 for trusts. See R.C. 5747.02(A)

Table 2: TY 2018 Estates and Trusts Income Tax Brackets and Marginal Tax Rates

TY 2018 Ohio Taxable Income Brackets	TY 2018 Ohio Tax
\$ 0 – \$ 10,850	0.7425% of Ohio taxable income
\$ 10,851 – \$ 16,300	\$ 80.56 plus 1.980% of excess over \$ 10,850
\$ 16,301 – \$ 21,750	\$ 188.47 plus 2.476% of excess over \$ 16,300
\$ 21,751 – \$ 43,450	\$ 323.41 plus 2.969% of excess over \$ 21,750
\$ 43,451 – \$ 86,900	\$ 967.68 plus 3.465% of excess over \$ 43,450
\$ 86,901 – \$ 108,700	\$ 2,473.22 plus 3.960% of excess over \$ 86,900
\$ 108,701 – \$ 217,400	\$ 3,336.50 plus 4.597% of excess over \$ 108,700
More than \$ 217,400	\$ 8,333.44 plus 4.997% of excess over \$ 217,400

Line 10 – Schedules IV, V, IX and Schedule E Credits.

Both estates and trusts may be entitled to claim one or more nonrefundable business credits listed on one of the above-listed schedules. Schedule E can be found at [tax.ohio.gov](#).

Line 12 – Interest Penalty on Underpayment of Estimated Tax.

Enter any interest penalty on underpayment of estimated tax as calculated on the Ohio IT/SD 2210 which is available at [tax.ohio.gov](#).

The trust or estate will owe an interest penalty if (i) the Ohio tax due is greater than \$500 and (ii) withholdings, timely estimated payments and refundable credits are less than either of the following:

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

Note: If a 12-month IT 1041 was not filed for the prior tax year, you may be subject to interest penalty on underpayment of estimated tax. For additional information, see R.C. 5747.09(D).

Line 17 – Refund. Line 16 minus line 13, but not less than zero. This is the amount to be refunded.

Interest on Overpayments. Interest is paid on any overpayment in excess of one dollar from the date of the overpayment until the date of the refund of the overpayment, except that if any overpayment is refunded within 90 days after the due date of the annual return or within 90 days after the return was filed, whichever is later, no interest shall be allowed on such overpayment. See R.C. 5747.11(C).

Line 19 – Interest and Penalty on Late-Paid 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 trust or estate fails to file the Ohio fiduciary income tax return by the due date (or extended federal due date), a failure to file penalty may be charged, 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.

If the trust or estate fails to pay the full amount of tax by the due date of the return, a failure-to-pay penalty may be charged, which is up to a maximum of double the interest charged.

Line 20 – Total Amount Due. 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](#).

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. See [tos.ohio.gov](#).

**Schedule II – Adjustments to Federal
Taxable Income Net of Related Expenses**

Additions

The following apply to both trusts and estates except where noted.

Line 21 – Federal and/or Non-Ohio State or Local Government Interest and Dividends

Enter on this line:

- Interest and/or dividends paid on obligations or securities from a non-Ohio state
- Interest and/or dividends paid on obligations or securities from a non-Ohio local government

Do not enter on this line:

- Any amounts already included in federal taxable income
- Interest and/or dividends paid on obligations or securities from Ohio
- Interest and/or dividends paid on obligations or securities from an Ohio local government
- Interest and/or dividends paid on obligations or securities from a U.S. territory

See R.C. 5747.01(S)(1) and (2).

Line 22 – Pass-Through Entity and Financial Institutions Taxes Paid. Enter Ohio pass-through entity tax (from the IT 1140) and/or Ohio financial institutions tax (from the FIT 10) to the extent that those taxes were deducted in arriving at your federal taxable income. These taxes may be reported to you on an Ohio IT K-1 or provided with the federal K-1. See R.C. 5747.01(S)(11).

Line 23 – Electing Small Business Trust (ESBT) Income. Add the distributive share of income from an S corporation. This amount is apportionable business income and must be included on Schedule VII. Do **not** include on Schedule VIII.

Note: Such income is not included in the trust's federal taxable income. See R.C. 5747.01(S)(13).

Line 24 – Losses From the Sale or Disposition of Ohio Public Obligations. Enter any loss resulting from the sale/disposition of Ohio public obligations to the extent that such losses have been deducted in determining federal taxable income. See R.C. 5747.01(S)(7) and 5709.76.

Line 25 – Recovery of Amount Previously Deducted or Excluded from Federal Taxable Income. Enter the fiduciary's share of any recovery amounts previously deducted on a prior year's Ohio trust or estate income tax return to the extent that the reimbursement is not included in federal taxable income for 2018.

Line 26 – Depreciation Adjustment. 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 pass-through entity in which the taxpayer has less than 5% ownership. See R.C. 5747.01(S)(14) and (A)(20).

Note: This amount is apportionable business income and must be included on Schedule VII. Do **not** include on Schedule VIII.

Line 27 – Personal Exemption (Estates Only) . Enter the amount of the personal exemption allowed to the estate pursuant to I.R.C. 642(b). See R.C.5747.01(S)(3).

Miscellaneous Federal Income Tax Adjustments (Estates and Trusts). Line 27 is also for federal conformity adjustments, however, you must make all other required adjustments for this line. See [tax.ohio.gov/other/Update.aspx](#).

Line 28 – Expenses Claimed on Ohio Estate Return. This line is no longer applicable. Enter -0- on this line. See R.C. 5747.01(S)(8).

Deductions

The following apply to both trusts and estates except where noted. Deduct the income items described below only to the extent that these amounts have not already been deducted or excluded from federal taxable income.

Line 30 – Federal Interest and Dividends. Enter interest and dividend income, to the extent included in federal adjusted gross income, from obligations issued by the United States government or its possessions/territories that are exempt from Ohio tax by federal law.

Examples include:

- U.S. savings bonds (Series E, EE, H or I)
- Treasury notes, bills and bonds
- Sallie Maes

Examples of interest income that are **not** deductible:

- Interest paid by the IRS on a federal income tax refund
- Interest income from Fannie Maes or Ginnie Maes

For additional examples of deductible amounts, see our information release IT 1992-01 entitled "Exempt Federal Interest Income," which is available at tax.ohio.gov. See R.C. 5747.01(S)(4).

Line 31 – State and Municipal Income Tax Refunds. Enter the amount of state and/or municipal income tax refunds included in federal taxable income for the taxable year of this return if the refunds relate to taxes previously claimed as itemized deductions on the decedent's federal income tax return. See R.C. 5747.01(S)(9)(a).

Line 32 – Losses From an ESBT. Deduct the distributive share of loss from an S corporation if the loss has not been directly or indirectly deducted in computing the trusts federal taxable income

Note: This amount is apportionable business income and must be included on Schedule VII. Do **not** include on Schedule VIII.

Line 33 – Wage and Salary Expense Not Previously Deducted. Deduct the amount you reported as your work opportunity tax credit on your federal income tax return. See R.C. 5747.01(S)(5).

Line 34 – Interest/Gains from Ohio Public Obligations. Deduct interest income earned from Ohio public obligations and Ohio purchase obligations if the interest income was included in your federal taxable income. You can also deduct any gains resulting from the sale or disposition of Ohio public obligations to the extent that the gain was included in your federal taxable income.

You can also deduct income from a certain transfer agreement or an enterprise transferred under that agreement if the income was included in your federal taxable income. See R.C. 5747.01(S)(6), 5747.01(S)(7) and 5709.76.

Line 35 – Refund or Reimbursements of a Prior Year Deduction. Deduct amounts included in your federal taxable income that represent refunds or reimbursements of expenses that you previously deducted on federal 1041 return. Do not include any amounts shown on line 31. See R.C. 5747.01(S)(9)(a).

Miscellaneous Federal Income Tax Adjustments. Line 35 is also for federal conformity adjustments, however, you must make all other required adjustments for this line. See tax.ohio.gov/other/Update.aspx

Line 36 – Farm Income (Trusts Only). Deduct any amount that a trust was required to report as farm income on its federal 1041 tax return but only if the assets of the trust directly or indirectly include at least 10 acres of land. See R.C. 5747.01(S)(12) and 5713.30.

Line 37 – 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.

Note: This amount is apportionable business income and must be included on Schedule VII. Do **NOT** include on Schedule VIII. See R.C. 5747.01(S)(14) and (A)(21).

Line 38 – Repayment of Income Reported in a Prior Year.

Deduct amounts that you repaid in the current tax year that was received and included in federal taxable income in a prior year if:

- the repayment has not otherwise reduced your federal taxable income for 2018 or for any other taxable year **AND**
- in the year the income was received the income did not qualify for either the resident or nonresident credit.

See R.C. 5747.01(S)(10).

Schedule III – Estate Credits

The Schedule III credits correspond to applicable credits found on the Ohio individual income tax return (Ohio IT 1040). See R.C. 5747.01(S)(13).

Distributions of Credits. When calculating credits, the fiduciary cannot include any amounts that are allocable to a beneficiary.

Line 41 – Retirement Income Credit. An estate is entitled to a credit for retirement benefits received for the benefit of the decedent's surviving spouse but not distributed. To qualify for this credit, all of the following must be true:

- You must have received retirement income from a pension, profit sharing or retirement plan (such as traditional IRAs, 401(k) plans)
- This income was included in your federal taxable income
- This income was received on account of retirement **AND**
- You have not previously taken the Ohio lump sum retirement credit

The amount of the credit is as follows:

\$500 or less	\$ 0
More than \$500 but not more than \$1,500	\$ 25
More than \$1,500 but not more than \$3,000	\$ 50
More than \$3,000 but not more than \$5,000	\$ 80
More than \$5,000 but not more than \$8,000	\$130
More than \$8,000	\$200

See R.C. 5747.055(B).

Line 42 – Lump Sum Retirement Credit. An estate may claim this credit for eligible lump sum retirement distributions. To qualify for this credit, all of the following must be true:

- You must have received a lump sum distribution on account of retirement
- The distribution must have come from a qualified pension, retirement or profit sharing plan
- You have not previously claimed this credit

Note: If the taxpayer takes this credit, they cannot take the retirement income credit on this year's return or any future return.

Line 43 – Senior Citizen's Credit. An estate may claim this credit if the decedent was 65 years or older as of the date of death. To qualify for this credit, all of the following must be true:

- You were at least 65 at the end of the tax year **AND**
- You have not previously taken the Ohio lump sum distribution credit

The credit is equal to \$50 per return. See R.C. 5747.055(F).

Line 44 – Lump Sum Distribution Credit. An estate may claim this credit for eligible lump sum retirement distributions. To qualify for this credit, all of the following must be true:

- You were at least 65 by the end of the tax year
- You must have received a lump sum distribution from a qualified pension, retirement or profit sharing plan **AND**
- You have not previously claimed this credit

See Ohio LS WKS, page 2, which is available at tax.ohio.gov.
See R.C. 5747.055(G).

Note: If you take this credit, you cannot take the \$50 senior citizen credit on this year's return or on any future return.

Line 45 – Child and Dependent Care Credit. An estate may claim this credit if the decedent qualifies for the federal child and dependent care credit. To qualify for this credit you must have claimed the federal "credit for child and dependent care expenses" on federal form 2441. See R.C. 5747.054.

Line 46 – Ohio Political Contributions Credit. An estate may claim this credit if the estate contributed money to the campaign committee of a candidate for any of the following Ohio offices:

- Governor / Lieutenant governor
- Secretary of state
- Auditor of state
- Treasurer of state
- Attorney general
- Chief justice of the Ohio Supreme Court
- Justice of the Ohio Supreme Court
- Ohio Board of Education
- Ohio Senate
- Ohio House of Representatives

The credit equals the amount contributed during the tax year up to \$50 per return. Contributions to local candidates (such as city or county officials) or federal candidates (such as President or U.S. Senator) **do not** qualify for this credit. See R.C. 5747.29.

Line 47 – Ohio Adoption Credit (Limit \$10,000). An estate may claim this credit if the descendant adopted, during the tax year, a child who was under the age of 18 and not your stepchild.

This credit **IS NOT** related to or based on the calculation of the federal adoption credit. Instead, the credit is the greater of \$1,500 or your adoption-related expenses, capped at \$10,000. For purposes of this credit, "adoption-related expenses" include all of the following:

- Medical care expenses of the birth mother or child in connection with the pregnancy or birth
- Legal fees, guardian ad litem fees, and court expenses in connection with the adoption
- Adoption agency fees **AND**
- Certain living expenses, not exceeding \$3,000, for the birth mother that are incurred during pregnancy

You may claim one credit for each adoption. This credit is nonrefundable, however any unused portion can be carried forward for up to five consecutive years. See R.C. 5747.37 and 3107.055(C).

Schedule IV – Estate Ohio Resident Credit

See return line items 49 - 53.

Schedule V – Estate Nonresident Credit

Line 54 – Portion Not Earned in Ohio. Nonresident estates should enter the portion of Ohio taxable income on line 3 that is not apportioned or allocated to Ohio pursuant to R.C. 5747.20-5747.231. Please refer to Ohio IT NRCE and include with Ohio IT 1041.

Schedule E – Nonrefundable Business Credits

Use Schedule E to claim nonrefundable business credits. You may obtain Schedule E at tax.ohio.gov.

Schedule VI – Allocated Qualifying Trust Amounts

Line 57 – Allocated Qualifying Trust Amounts. Qualifying Trust Amount. Income is a "qualifying trust amount" if all of the following are true:

- The income is included in the trust's Ohio taxable income (Ohio IT 1041, line 3)
- The income is a capital gain or loss from the sale/ disposition of either an ownership interest in, or debt obligations of, a qualifying investee
- The trust owns at least 5% of the qualifying investee at any time during the 10-year period ending on the last day of the trust's tax year **AND**
- The book value of the qualifying investee's physical assets is available.

A "qualifying investee" is any person in which a trust has an ownership interest, or a person or unit of government in which the trust owns debt obligations. Information is "available" if it can be learned by the trust's due date for filing IT 1041. See R.C. 5747.01(BB)(5) and (6).

If income does not meet these requirements, you must enter -0- on this line. Most income is not a qualifying trust amount. Instead, it is modified business income, qualifying investment income, or modified nonbusiness income.

See R.C. 5747.01(BB)(2) and 5747.011. See also *T. Ryan Legg Irrevocable Trust v. Testa*, 2016-Ohio-8418.

Line 58 – Ohio Percentage of Closely Held Investee's Physical Assets. Divide the net book value (equal to the asset's cost minus its accumulated depreciation) of the qualifying investee's physical assets in Ohio by the net book value of the qualifying investee's physical assets everywhere.

Special Notes:

- (1) If the qualifying investee is a member of a qualifying controlled group, as defined in R.C. 5733.04(M), then special rules apply for purposes of calculating the Ohio ratio. See R.C. 5747.01(BB)(5)
- (2) If the qualifying trust amount from capital gains/losses were recognized on account of the sale, exchange or other disposition of more than one investment, then the fiduciary must make a separate calculation for each gain/loss.

Schedule VII – Apportioned Income for Trusts

Line 60 – Business Income and Qualifying Investment Income. Enter the trust's portion of Ohio taxable income (line 3) not included on line 57 to the extent such income is either of the following:

- Business income/loss (see R.C. 5747.01(B)) **OR**
- Qualifying investment income (see R.C. 5747.012)

Schedule VIII – Allocated Nonbusiness Income for Trusts

Line 63 – Allocation of Income for Resident Trusts. Resident trusts must enter the trust's Ohio taxable income (line 3) not reported on lines 57 or 60.

Line 64 – Allocation of Income for Nonresident Trusts. Nonresident trusts must enter the following types of nonbusiness income to the extent included in the trust's Ohio taxable income (line 3) and not reported on line 57 or 60:

- Capital gains or losses from the sale, exchange or transfer of Ohio real property and/or Ohio-based tangible personal property
- Rents and royalties from Ohio real property and/or tangible personal property used in Ohio
- Patents and copyright royalties used by the payor in Ohio
- Ohio Lottery Commission winnings and gains and/or losses from the sale or transfer of such winnings

Schedule IX – Tax Credit for Resident Trusts

Note: The credit must be taken prior to taking any other credit.

Line 66 – Portion Taxed by Another State. Enter the amount of the resident trust's allocated nonbusiness income (line 60) subjected to tax by another state or in the District of Columbia.

Example: The Pat Smith Trust, a resident trust, does not have a qualifying trust amount or business income. The trust has modified Ohio taxable income of \$75,000 from dividends. The tax shown on line 8 is \$2,061. The trust paid \$1,100 to another state based on \$25,000 of taxable income, which was reported to that state. The trustee would calculate the resident tax credit as follows:

Line 66 \$25,000
Line 67 \$2,061
Line 68 \$75,000
Line 69 0.0275
Line 70 \$688
Line 71 \$1,100
Line 72 \$688

Schedule X - Apportionment Factors

The trust must include in its apportionment ratio its proportionate share of each lower-tiered pass-through entity's property, payroll and sales. See R.C. 5747.231.

If the apportioned income from business income/losses and from qualifying investment income was received from more than one entity whose businesses are not unitary with each other, then the trust must make a separate apportionment calculation for each business.

Property Factor

"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, should be included only in Column B.

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)(1)(b).

Line 73a - Property Owned Within Ohio. Enter the average value of all Ohio business property owned by the trust during the tax year.

Line 73a - Property Owned Total Everywhere. Enter the average value of all business property owned by the trust during the tax year. Business property owned by the trust is valued at its original cost.

Line 73b - Property Rented Within Ohio. Enter the average value of all Ohio business property rented by the trust during the tax year.

Line 73b - Property Rented Total Everywhere. Enter the average value of all business property rented by the trust during the tax year. Business property rented by the trust is valued at eight times the net annual rental rate (annual rental expense less sub-rental receipts).

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 pass-through entity 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. 5747.013(B)(2).

Line 74 - Payroll Within Ohio. Column A: 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 74 - Payroll Total Everywhere. Enter the total compensation paid everywhere during the tax year.

Sales Factor. The sales factor is a 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:

- 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. 5747.013(B)(3)

Note: Income amounts excluded from the sales factor may still be considered business income under Ohio law. R.C. 5747.013.

Line 75 - 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 sales, other than tangible personal property if:
 - The income-producing activity is performed entirely within Ohio **OR**
 - The income-producing activity is performed both within and without Ohio and a greater proportion of the income-producing activity is performed within Ohio than in any other state, based on cost of performance

If the income-producing activity involves the performance of personal services both within and without Ohio, the services performed in each state will constitute a separate income-producing activity. In such case the gross receipts for the performance of services attributable to Ohio shall be measured by the ratio that the time spent in performing such services in Ohio bears to the total time spent in performing such services everywhere. Time spent in performing services includes the amount of time expended in the performance of a contract or other obligations that gives rise to such gross receipts. Personal service not directly connected with the performance of the contract or other obligations (for example, time expended in negotiating the contract) is excluded from the computation.

The term "income-producing activity" means, with respect to each separate item of income, the transaction and activity directly engaged in by the taxpayer in the regular course of its trade or business for the purpose of obtaining gains or profits. Such activity does not include transactions and activities performed on behalf of the taxpayer, such as those conducted on its behalf by an independent contractor.

The term "cost of performance" means direct costs determined in a manner consistent with generally accepted accounting principles and in accordance with accepted conditions or practices in the taxpayer's trade or business. For purposes of this term receipts from rental property are situated to this state if the property (i) is used entirely in this state or (ii) is used more in this state than in any other state.

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. 5733.013(B)(3).

Line 75 - Sales Total Everywhere. Enter the gross receipts from sales everywhere during the tax year.

Schedule XI - Net Payment Worksheet

Note: Please do not include refundable business credits on this schedule.

Schedule XII - Refundable Business Credits

Note: Certificates from the Ohio Development Services Agency (DSA) and/or Ohio IT K-1(s) must be included to verify each refundable credit claimed.

Line 79 - Motion Picture Credit. This credit is granted by the Development Services Agency (DSA). To claim the credit, you must attach a copy of the certificate in whole or in part, to the extent that it exceeds your total Ohio tax liability (Ohio IT 1041, line 13).

For additional information about the requirement for this credit, visit the Ohio Development Services Agency's website at development.ohio.gov, or call 1-800-848-1300. See R.C. 5747.66.

Line 80 - Business Jobs Credit. These credits are granted by the Development Services Agency (DSA). To claim the credit, you must attach a copy of the certificate from DSA that indicates the amount of the credit and the tax year for which the credit is awarded. Additionally, if this credit is based on your ownership of a pass-through entity who holds the certificate, you must also include, when filing your return, documentation of the portion of the credit to which you are entitled. This amount can be refunded, in whole or in part, to the extent that it exceeds your total Ohio tax liability (Ohio IT 1041, line 13).

For additional information about the requirements for this credit, see the Ohio Development Services Agency's website at development.ohio.gov, or call 1-800-848-1300. See R.C. 5747.058(A), 122.171, and former R.C. 122.17(B).

Line 81 - Pass-Through Entity Credit. This credit is for investors in a pass-through entity that filed and paid tax on either the Ohio IT 4708 or the Ohio IT 1140. To claim this credit, you must attach a copy of the Ohio IT K-1 (or if unavailable, an Ohio K-1 equivalent) reporting your portion of income taxes paid by a pass-through entity on your behalf. See R.C. 5747.08(I) and 5747.059.

Line 82 - Venture Capital Credit. This credit is granted by the Development Services Agency (DSA). To claim the credit, you must attach a copy of the certificate from DSA that indicates the amount of the credit and the tax year for which the credit is awarded. Additionally, if this credit is based on your ownership of a pass-through entity who holds the certificate, you must also include, when filing your return, documentation of the portion of the credit to which you are entitled. This amount can be refunded, in whole or in part, to the extent that it exceeds your total Ohio tax liability (Ohio IT 1041, line 13).

For additional information about the requirement for this credit, see the Ohio Development Services Agency's website at development.ohio.gov, or call 1-800-848-1300. See R.C. 5747.80.

Line 83 - Historic Preservation Credit. This credit is granted by the Development Services Agency (DSA). To claim the credit, you must attach a copy of the certificate from DSA that indicates

the amount of the credit and the tax year for which the credit is awarded. Additionally, if this credit is based on your ownership of a pass-through entity who holds the certificate, you must also include, when filing your return, documentation of the portion of the credit to which you are entitled. This amount can be refunded, in whole or in part, to the extent that it exceeds your total Ohio tax liability (Ohio IT 1041, line 13). For additional information about the requirements for this credit, see the Ohio Development Services Agency's website at development.ohio.gov, or call 1-800-848-1300. See R.C. 5747.76.

Line 84 – Financial Institutions Tax (FIT) Credit. This credit is for investors in a pass-through entity and/or beneficiaries of a trust that filed and paid the Ohio Financial Institutions Tax on the Ohio FIT 10. To claim this credit, you must attach a copy of the

Ohio IT K-1 (or if unavailable, an Ohio K-1 equivalent) reporting your portion of the taxes paid by the pass-through entity on your behalf. See R.C. 5747.65.

Schedule XIII - 168K Bonus Depreciation and 179 Expense Add-back Schedule

This schedule is 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.

Schedule XIV - Beneficiary Schedule

Include **all** resident and nonresident beneficiaries of the estate or trust.

Matching Expense and Loss Amounts and Distribution Deductions Against Income and Gain

This guide is useful when calculating distribution deductions as it relates to the association of income vs. expenses.

The fiduciary should directly match against items of income and gain (and against excluded income and gain, if any) those expenses and losses that are directly related to the items of income or gain. For expenses and distributions which the fiduciary **cannot directly match** to items of income and gain, the fiduciary should **proportionately** assign those expenses and distributions. Generally, the basis for assigning expenses, losses and distributions will be the relative profit related to each activity.

Example #1 - Assigning Direct Distributions

The trust document directs that the fiduciary distribute to Lee, a beneficiary, 75% of the yearly profit from rental activities. The profit from these rental activities is \$100,000 of business income. The trust had no other income and the only distribution to Lee from the trust was \$75,000.

The fiduciary must reduce the trust's rental profit by the distribution deduction attributable to the rental profit (in this example, 75% of the rental activity profit). So the amount to be shown on Schedule VII, line 60, will be \$25,000.

Example #2 - Assigning Direct and Indirect Distributions, Expenses and Losses

A Trust has the following amounts listed on its Federal 1041:

Gross rent	\$530,000
Dividend income	200,000
Interest Income	41,000
Net capital gain (stocks and bonds)	60,000
Rental property depreciation expense	- 100,000
Rental property real estate taxes and related payroll expenses	- 25,000
Attorney fees (lease preparation)	- 5,000
Investment advisor fees (stocks & bonds)	- 1,000
Fiduciary fees (based upon profit)	- 10,000
Distribution deduction (discretionary)	- 60,000
Taxable income per IRS form 1041	<u>\$ 630,000</u>

Additionally, assume the following:

- The rental profit constitutes business income
- All other income and gain constitute nonbusiness income
- There are no "Schedule II" Ohio adjustments (so Ohio taxable income equals federal taxable income) **AND**
- There are no amounts to report on Ohio IT-1041 Schedules VI or VII

Matching of Directly Related Expenses and Losses

Rental Activity

Rents	\$ 530,000
Less: Depreciation expense	- 100,000
Real estate taxes and payroll expenses	- 25,000
Attorney fees (for lease preparations)	- 5,000
Tentative apportionable profit from rental activities (business income)	<u>\$ 400,000</u>

Portfolio Income

Dividends, interest and net capital gains	\$ 301,000
Less: Investment advisor fees	- 1,000
Tentative profit from "portfolio" income (nonbusiness income)	<u>\$ 300,000</u>

Matching of Indirect Expenses, Losses, and Deductions to Income and Gain

The total indirect expense and deductions for this trust are \$70,000 (the fiduciary fees plus the distribution deduction).

The portion of \$70,000 assigned to the rental activity is:

$$\frac{\$400,000}{\$400,000 + \$300,000} \times \$70,000 = \$ 40,000$$

The portion of \$70,000 assigned to the portfolio income is:

$$\frac{\$300,000}{\$400,000 + \$300,000} \times \$70,000 = \$ 30,000$$

The amount of apportionable business income (Schedule VII, Line 60) is rental income minus the assigned rental expense.

$$\$400,000 - \$40,000 = \$ 360,000$$

Amount of allocable nonbusiness income (Schedule VII, Line 63) is portfolio income minus assigned portfolio expense.

$$\$300,000 - \$30,000 = \$ 270,000$$

$$\text{Ohio taxable income} = \$ 630,000$$

IT NRCE - Ohio Nonresident Credit Calculation

These instructions are used to complete the form IT NRCE and line 54 of the Ohio IT 1041.

Estates must use the IT NRCE to calculate the nonresident portion of their federal taxable income. This amount is used to calculate the Ohio nonresident credit. **Only nonresidents estates may use this form.**

Include this form with your completed Ohio IT 1041 and retain a copy for your records. If your tax preparation software allows for PDF attachments, you should include a copy of this form.

Individuals should use the IT NRC instead of the IT NRCE to calculate their Ohio nonresident credit. Both forms are available at tax.ohio.gov.

Section I – Nonresident Credit Calculation

All Ohio nonresident estates must complete Part A and Part B.

For Column A (Federal Amount), enter only the specified items of income to the extent they are included in the calculation of your federal taxable income.



Except for line 5, list only non-business income amounts in column B. All Ohio business income should be listed on line 5 after completing Sections II and III of this form.

Line 1 – Nonbusiness Interest and Dividend Income

Enter interest and dividends paid or accrued and allocated to Ohio in Column B. See R.C. 5747.20(B)(6).

Line 2 – Nonbusiness Rent and Royalty Income

Enter rents and royalties in Column B that were received or derived:

- From real property located in Ohio
- From tangible personal property to the extent utilized in Ohio **OR**
- From patents or copyrights to the extent they were utilized in Ohio

Ohio law defines when tangible personal property, patents, and copyrights are “utilized in Ohio.”

See R.C. 5747.20(A), (B)(3) and (B)(4).

Line 3 – Nonbusiness Capital Gain Income

Enter capital gains and/or losses in Column B that:

- Resulted from the transfer of real property located in Ohio **OR**
- Resulted from the transfer of tangible personal property that, when transferred, was located in Ohio

See R.C. 5747.20(A) and (B)(2).

Line 4 – Nonbusiness Other Income

Enter other nonbusiness income reported on your federal return, and paid or accrued and allocated to Ohio in Column B.

Do not enter any income directly deducted on Ohio Schedule II, such as state and local tax refunds.

See R.C. 5747.20(B)(6).

Line 6 – Lottery and Casino Winnings

Enter lottery prizes and casino winnings in Column B that were:

- Paid by the Ohio lottery commission **OR**
- Paid by a casino located in Ohio

Also enter any income from the sale of a lottery prize issued by the Ohio lottery commission.

See R.C. 5747.20(A), (B)(5) and (B)(7).

Line 8 – Net Additions from Ohio Schedule II

Do not include any 168(k) and 179 depreciation expense add-back you made on Ohio Schedule II. Such amounts are already included in the calculation of line 7.

Only include the portion of other Ohio Schedule II additions that were:

- Paid or accrued and allocated to Ohio **OR**
- Related to Ohio activities

See R.C. 5747.20(B)(6).

Line 9 – Net Deductions from Ohio Schedule II

Only include the portion of other Ohio Schedule II deductions that were:

- Paid or accrued and allocated to Ohio **OR**
- Related to Ohio activities

Certain Ohio Schedule II deductions either do not affect the calculation of your Ohio nonresident credit or are accounted for elsewhere on this form.

Do not enter any amounts directly deducted on the following lines of Ohio Schedule II:

- Line 31 – State or Municipal Income Tax Overpayments
- Line 37 – Ohio Depreciation Deduction

See R.C. 5747.20(B)(6).

Line 10 – Income Distribution Deduction

Deduct income distribution deduction utilized on page 1 of the federal 1041 on Section I, Column A.

Deduct income distribution deduction at the same ratio of Ohio income to Federal income on Section I, Column B based on amounts from lines 1-6. For more information on how to determine this amount, see page 12.

Example: An estate has \$1,000,000 in business income. \$100,000 is apportioned to Ohio. There is a \$500,000 distribution made to the beneficiaries.

$$\frac{\$100,000}{\$1,000,000} = 0.1$$

Federal distribution deduction = \$500,000
Ohio distribution deduction = \$50,000

Line 11 – Federal Taxable Income Deduction

Deduct the total amount of federal allowable deductions utilized on page 1 of the federal 1041 on Section I, Column A.

Deduct the total amount of federal allowable deductions at the same ratio of Ohio income to Federal income on Section I, Column B based on amount from lines 1-6. For more information on how to determine this amount, see page 11.

Example: An estate has \$700,00 in nonbusiness income. \$35,000 is allocated to Ohio.

There are \$200,000 in deductions reported on the federal 1041.

$$\frac{\$35,000}{\$700,000} = 0.05$$

Federal distribution deduction = \$200,000
Ohio distribution deduction = \$10,000

Section II – Ohio Business Income

List every business in which you held an ownership interest during the tax year. If you have more than 20 businesses, include additional page 2(s), with only lines 1-20 completed. Total all businesses reported on the additional page 2(s) on line 21.

For each business, enter:

- The total business income included on your federal return in Column A
- The Ohio depreciation adjustment in Column B (from Section III, line 21)
- The Ohio apportioned income in Column C (from Section III, line 17)



Each column is independently calculated for each business. Column A is not a total of Columns B and C.

If you have an Ohio IT K-1 for a business, you must still list that business and check the "IT K-1" box. Additionally, you must enter:

- The total business income included on your federal return in Column A
- The Ohio depreciation adjustment in Column B (from Ohio IT K-1, line 1c)
- The Ohio apportioned income in Column C (from Ohio IT K-1, line 1a plus line 1b)

Line 22 – Column Totals

Column A: This is the total of all business income reported on your federal return.

Column B: This is the total of all Ohio apportioned depreciation adjustments. The total may be a positive or negative number. Enter this amount on Section I, line 7.

Column C: This is the total of all Ohio apportioned business income. It may be positive or negative. Enter the amount on Section I, line 5.

Section III – Business-Level Income & Apportionment

Complete a separate Section III for each business having property, payroll, and/or sales in Ohio. However, if an Ohio IT K-1 reporting income from a pass-through entity is attached with the IT NRCE, a Section III does not need to be completed for that entity.

For each Section III you complete, you must include the name of estate, FEIN / SSN, and ownership percentage in the business, as well as the business' name and FEIN (if applicable) in the spaces provided.

Part A

You must calculate a separate apportionment ratio for each business listed in Section III. Ohio apportionment is based on a three factor, weighted ratio.

The three factors are property and payroll, each weighted at 20%, and sales, weighted at 60%, for a total of 100%. However, if any factor's "total everywhere" is zero, the weights of the remaining factors must be proportionately increased so that the total remains 100%.

Example: ABC LLC is a single-member LLC with no employee payroll. In calculating its Ohio apportionment ratio, ABC LLC must weight its property factor at 25% and its sales factor at 75%.

If this business receives income from pass-through entities, its apportionment ratio calculation must include the proportionate share of each lower-tiered entity's property, payroll and sales.

Line 1 – Property Factor

The property factor is the ratio of:

$$\frac{\text{Average value of property in Ohio}}{\text{Average value of property everywhere}}$$

"Property" includes any real and tangible personal property that is owned, rented, subrented, leased and/or subleased in the course of a trade or 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, should be included only in Column B.

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. 5747.013(B) and 5733.05(B)(2)(a).

Line 1(a) – Property Owned

Column A: Enter the average value of all Ohio business property owned during the tax year.

Column B: Enter the average value of all business property owned during the tax year.

Property owned by the business is valued at its original cost.

Line 1(b) – Property Rented

Column A: Enter the average value of all Ohio business property rented during the tax year.

Column B: Enter the average value of all business property rented 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).

Line 2 – Payroll Factor

The payroll factor is the ratio of:

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

“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 pass-through entity 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 Column B.

See R.C. 5747.21(B) and 5733.05(B)(2)(b).

Column A: Enter the total compensation paid in Ohio during the tax year. Compensation is paid in Ohio if:

- 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 property to the extent the property was used in Ohio

Line 3 – Sales Factor

The sales factor is the ratio of:

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

“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:

- 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.

See R.C. 5747.21(B) and 5733.05(B)(2)(c).

Column A: 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 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).

Column B: Enter the gross receipts from sales everywhere during the tax year.

Line 4 – Ohio Apportionment Ratio

The amount on this line represents the Ohio apportionment ratio for this business. This is used in Parts B and C to determine:

- Income apportioned to Ohio **AND**
- Ohio apportioned depreciation adjustments from Ohio Schedule II.

Part B

For each Section III completed, enter only amounts that are both included in the calculation of your federal adjusted gross income and are “business income” under Ohio law. Remember, because of differences between federal and Ohio law, some amounts reported as business income on the federal return may not be business income on this schedule. **Do not simply list the amounts from**

the federal return.

For more information on how Ohio defines business income and examples of business income, see page 10. See also R.C. 5747.01(B) and 5733.40(A)(7).

Line 5 – Schedule B, Interest and Ordinary Dividends

Enter taxable interest and ordinary dividends reported on federal Schedule B that qualify as business income.

Line 6 – Schedule C, Profit or Loss from Business

Enter the net profit or loss from the business reported on federal Schedule C. Show a business loss as a negative number.

Line 7 – Schedule D, Capital Gains and Losses

Enter capital gains or losses reported on federal Schedule D that qualify as business income. Show a net capital business loss as a negative number.

Do not include any amounts that represent a R.C. 5747.212 gain or loss. Instead, include those amounts on line 15.

Line 8 – Schedule E, Supplemental Income and Loss

Enter the net business income or loss reported on federal Schedule E. Show a net business loss as a negative number. **Do not include any guaranteed payments on this line, even if included on federal Schedule E.**

Line 9 – Guaranteed Payments, Compensation, and/or Wages

If this business is a pass-through entity in which you have at least a 20% direct or indirect ownership, enter any guaranteed payments or compensation paid to you by the entity, or a professional employer organization on its behalf. **Note: “Indirect” ownership does not include beneficial or constructive ownership via Internal Revenue Code attribution rules.**

Line 10 – Schedule F, Profit or Loss from Farming

Enter the net profit or loss from farming reported on federal Schedule F. Show a net business loss as a negative number.

Line 11 – Other Business Income and/or Federal Conformity Additions

Enter any business income included in your federal adjusted gross income that was not entered on lines 5 through 10. Include on this line any amounts reported on the federal 4797 that constitute business income.

Also, enter any federal conformity additions reported on Ohio Schedule II related to this business.

Line 12 – Other Business Deductions and/or Federal Conformity Deductions

Enter any business deductions included in your federal adjusted gross income that were not entered on lines 5 through 10 of this section. Include on this line any amounts reported on the federal 4797 that constitute business loss.

Also, enter any federal conformity deductions reported on Ohio

Schedule II related to this business.

Line 15 – Total R.C. 5747.212 Income

Enter any R.C. 5747.212 income or loss included in your federal adjusted gross income. “R.C. 5747.212 income” is gain or loss resulting from the transfer of an ownership interest in a closely held business having nexus with Ohio. Show the amount as a negative number if the amount was a loss.

Line 16 – R.C. 5747.212 Income Apportioned to Ohio

R.C. 5747.212 amounts are apportioned differently than other business income. For additional information on how to apportion these amounts, see R.C. 5747.212 as well as *Corrigan v. Testa*, 2016-Ohio-2805.

Enter the Ohio portion of the R.C. 5747.212 amount entered on line 15. Show a loss as a negative number. Include your apportionment calculation with this form.

Line 17 – Ohio Apportioned Income

The amount on this line represents the Ohio portion of your income from this business. Enter this amount in Section II, Column C of the line corresponding to this business.

Part C

Line 18 – Ohio Depreciation Addback

Enter any portion of the 168(k) and 179 depreciation expense:

- That was reported as an Ohio Schedule II addition **AND**
- That is attributable to this business.

Line 19 – Ohio Depreciation Deduction

Enter any portion of the deduction for prior year 168(k) and 179 depreciation addbacks:

- That was reported as an Ohio Schedule II deduction **AND**
- That is attributable to this business

This amount is calculated using the current year’s Ohio Schedule A. **Do not use an amount from a prior year’s filing.**

Line 21 – Ohio Apportioned Depreciation

The amount on this line represents the Ohio portion of your Ohio Schedule A depreciation adjustment from this business. Enter this amount in Section II, Column B of the line corresponding to this business.

Taxpayer Assistance

By Internet



Ohio Department of Taxation Web Site – tax.ohio.gov

E-mail Us	Instructions
Frequently Asked Questions	Refund Status
Information Releases	Tax Forms

For the deaf, hearing-impaired or speech-impaired who use TTY or TDD only: Please contact the Ohio Relay Service at 7-1-1 or 1-800-750-0750 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 Forms Request	1-800-282-1782
Toll-Free Tax Questions	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