

CITY OF HIGHLAND PARK INCOME TAX PARTNERSHIP RETURN

Instructions for Form HP-1065

Who Must File a Partnership Return

Every partnership that conducted business activities in the City of Highland Park, whether or not an office or place of business was maintained in the city, is required to file an annual return. Syndicates, joint ventures, pools and like organizations will also use Form HP-1065. A partnership may not elect to file as a corporation. So-called "tax option" corporations (under Secs. 1371-1377, Internal Revenue Code) must file as corporations on Form HP-1120.

FILING DATE: Calendar year taxpayers must file by April 30 each year. Fiscal year taxpayers must file within four (4) months after the end of their fiscal year.

Option to Pay Tax

The tax rate is 2% for residents, and 1% for nonresidents of the City of Highland Park.

At its election, the partnership may file either an information return or it may compute and pay the tax which is due with respect to each partner's share of the net profits of the business. The partnership may pay the tax for partners only if it pays for ALL partners subject to the tax.

REMITTANCE: Partnerships electing to pay the tax for all partners must remit the tax when filing the return if the tax due is one dollar (\$1.00) or more.

Make remittance payable to:

Treasurer, City of Highland Park

Partnership as Taxpayer

If the partnership elects to pay the tax for the partners, the individual partners are not required to file a return if such partners have no other income subject to the tax. However, an individual return shall be required from any partner having taxable income other than his distributive share of the net profits of the partnership. (In such instances, a partner who is required to file an individual return should refer to the instructions for such return.)

If the partnership elects to pay the tax on behalf of the partners, then it assumes the status of a taxpayer to the extent that: (1) timely payment must be made; (2) a Declaration of Estimated Income Tax, Form HP-1040-ES will be required if the total estimated tax for the partnership is expected to exceed \$40. The calendar or fiscal year of the partnership will govern in establishing the dates for filing the declaration and paying the estimated tax.

Income Taxable to Resident vs. Nonresident Partners

The Partnership Return Form HP-1065 is designed to distinguish between that income taxed to residents and that taxed to nonresidents. The purpose of the return is to set forth the entire net profit covered and to show the distributive share of each partner, indicating those who are residents of Highland Park and those who are nonresidents. (If residency changes during the taxable period for any partner, use two lines to indicate allocation of income by status in all schedules where applicable.)

Schedule C indicates the total income of the partnership which may be subject to the tax. Ordinary business income in Schedule C is transferred to Schedule E, column 1, showing the amount of ordinary income distributable to each partner. The non-business income portion of Schedule C is first transferred to Schedule B, by total amounts for each type of income, to determine the taxable portion for each class of partners. This taxable income is then transferred to Schedule E showing the amounts applicable to the individual partners. Column 1 on page 1 is the final summary transferred from Schedule E, column 7.

Partners who are RESIDENTS are taxed on their entire distributive share of the net profits of the partnership, including that arising from business activities outside the City and including interest, dividends, rents and royalties, other income, and gains from the sale or exchange of property, either tangible or intangible, regardless of where such property was located.

Partners who are NONRESIDENTS of Highland Park are taxed on their distributive share of the portion of the net profits which is attributable to business activity in the City, plus net rentals of tangible property in the City and gains from the sale or exchange of tangible property in the City. They are not taxed on their share of net rentals on property outside the City, gains from the sale or exchange of tangible property outside the City, gains from the sale or exchange of securities or other intangible property, or on interest and dividends. However, when the receipt of interest and other intangible income is directly related to the nature of the business, such interest, etc. shall be considered as business income taxable to nonresidents, and is to be reported in Schedule C, on either line 1 or line 11.

Instructions for Page 1

The amounts to be inserted in column 1, page 1, are transferred from Schedule E on page 3 of the return. If this return is to be an information return only, the remaining columns 2 through 6 on page 1 need not be filled in; however, if the partnership elects to pay the tax, columns 2 through 6 must also be completed.

Column 2. Any items of income which are non-taxable and which are included in column 1 are to be deducted in column 2. These items will include the dividend exclusion, 50% capital gain deduction, net operating loss carryover, etc. The dividend exclusion, treatment of capital gains and losses, and net operating loss carryovers are to be handled in the same manner as provided in the Federal Internal Revenue Code. Therefore a net capital loss realized by any of the partners, in excess of the partner's allowable capital loss deduction must be *added back* in column 2, page 1. The allowable capital loss deduction for each partner is the lesser of (1) the net capital loss, (2) the amount in column 1, page 1, computed without regard to capital gains and losses, or (3) \$1,000. Nonresident partners must allocate net operating losses to Highland Park at the percentage of business conducted in Highland Park in the year in which the loss was sustained. A schedule of computations must be attached for all entries in column 2.

Column 3. Exemptions. A \$600 exemption is allowed for each partner, his spouse and his or her dependents. Additional exemptions are allowed if the taxpayer or his spouse is 65 or over, or is blind. In general, the same rules apply in determining dependents as under the Federal Internal Revenue Code. A trust or an estate which is a member of the partnership is not allowed an exemption since trusts and estates are not permitted exemptions under the Highland Park Income Tax Ordinance. A spouse may be taken as an exemption on the partnership return only if such spouse has no income subject to the Highland Park Income Tax. Exemptions for a partner whose residence status has changed from a resident to a nonresident, or from a nonresident to a resident of Highland Park during the taxable year should first be applied against income while a resident. The balance of the amount for exemptions, if any, should then be applied to Highland Park income while a nonresident.

Column 6. Enter in column 6 payments made by the partnership for tax paid with a tentative return, or for payments on a Declaration of Estimated Income Tax, or any payments and credits made by the partnership on behalf of Highland Park resident partners for income taxes to any other municipality, if the income on which such tax was levied is included in this

return. Do NOT take credit for income taxes paid any other municipality on behalf of partners who are not Highland Park residents. The credit shall be the lesser amount of either (1) the income tax paid the other municipality for Highland Park resident partners, or (2) 1/2% of an amount obtained by deducting the amount for exemptions claimed for Highland Park resident partners on page 1, column 3 of this return from the gross amount of income of Highland Park resident partners subject to tax by such other city. All credits in column 6 are to be distributed on lines 8a, b, and c, and totalled on line 9. The total of line 9 must agree with the total of column 6.

General Instructions for Schedule B, Page 3

Schedule B is used to allocate the total non-business income of the partnership between the total amount distributable to resident partners, and the total amount distributable to nonresident partners. Nonresident income is further allocated to compute the total income of nonresident partners which is subject to the Highland Park tax. (Resident partners are taxed on their entire distributive share of non-business income.) After determining the total taxable income for each class of partners, these totals are transferred to Schedule E wherein an analysis is made to show the amounts of non-business income applicable to the individual partners. Therefore, compute the total amounts of distributable non-business income, by type of income, and enter these amounts on lines 3, 5, 6 and 9 of column 1, Schedule B. Columns 2 and 3, on these lines, will be used to show the total distributable amount for each type of income allocable to resident and nonresident partners. The total of columns 2 and 3 must equal the total of column 1. Column 4 is to be used to report that portion of column 3 (non-business income applicable to nonresident partners) which is excludable as not taxable to nonresidents. Subtract the amount in column 4 from the amount in column 3 and enter the difference in column 5 as taxable to nonresident partners. The totals of columns 4 and 5 must equal the total of column 3.

Interest and Dividends, Lines 1 through 3

In column 1, line 1, report the total partnership income from interest and dividends and on line 2, deduct the total nontaxable interest from obligations of the United States and of U.S. governmental units.) The net taxable dividends and interest, reported on line 3, column 1 is to be apportioned between the amount applicable to resident partners (line 3, column 2) and the amount applicable to nonresident partners (line 3, column 3). Since interest and dividend income is not taxable to nonresidents, the entire amount shown on line 3, column 3 will also be inserted on line 3, column 4 as excludable income of nonresidents.

Sale or Exchange of Property, Lines 4 and 5

Report on line 4, column 1 the total net gain or loss from all sales and exchanges of property as shown in Schedule C, page 2, lines 27 through 30. To arrive at the amount to enter on line 5 of Schedule B first exclude any gain or loss on the sale of obligations of the United States which is included in line 4 of Schedule B. Then enter on line 5 only that portion of the remainder of line 4 which represents gain or loss attributable to the period after July 1, 1966. If the property was acquired prior to July 1, 1966, market values of traded securities as of June 30, 1966 may be used as the cost basis; or the gain or loss applicable to the period after July 1, 1966 may be computed by multiplying the total gain or loss by the ratio of the months the property was held after July 1, 1966 to the total months the property was held.

The nonresident excludable portion of the amount shown in column 3, to be entered in column 4, is that portion of the gain (or loss) which arose from the sale or exchange of intangible assets, and of tangible property located outside of Highland Park. The remaining portion of line 5, column 3 which is to be entered on line 5, column 5 will then include gain (or loss) attributable to the period after July 1, 1966 from the sale or exchange of tangible property located in Highland Park.

Rents and Royalties, Line 6

Report on line 6, column 1, the total net income or loss from all rents and royalties, and then fill in columns 2, 3 and 4. Subtract column 4 (net income or loss from royalties, and rents attributable to property OUTSIDE Highland Park) from column 3, and enter the difference in column 5.

Income from Other Partnerships, Etc. Lines 7 through 9

Include on line 7, column 1, the net income (or loss) from other partnerships, etc. On line 8, deduct any income which is specifically exempt for all taxpayers (interest on U.S. governmental obligations, etc.) and which was included in the amount on line 7, and enter the net amount on line 9, column 1.

Fill in columns 2, 3 and 4. Subtract column 4 (income not taxable to nonresidents) from column 3, and enter the difference in column 5.

Totals, Line 10

Enter on line 10 the totals of lines 3, 5, 6 and 9 for each column in Schedule B. After transferring the amounts from columns 2 and 5 of Schedule B to Schedule E, where distribution of the total is made to the individual partners, the total of column 2 (taxable non-business income of resident partners) must equal the total of column 6a of Schedule E. The total of column 5 must equal the total of column 6b of Schedule E.

Instructions for Schedule C

Schedule C is used to indicate all of the income of the partnership which may be subject to the Highland Park tax. Line 24 of Schedule C will be the total of the partnership's ordinary income from business operations, and lines 25 through 31 of Schedule C will show the total non-business income of the partnership.

Ordinary income from business on line 24 of Schedule C is to be transferred to column 1 of Schedule E. Non-business income on lines 25 through 31 of Schedule C is to be transferred to Schedule B. Instructions for Schedules B and E will indicate how amounts transferred from Schedule C are to be allocated to the individual partners.

Instructions for Schedule D

See instructions on page 4 of the partnership return.

Instructions for Schedule E

The totals of columns 1, 2, 6a and 6b of Schedule E, showing the distribution to individual partners of ordinary and non-business income, must agree with the totals transferred from Schedules B and C.

Column 1. Enter in column 1 the individual partner's share of business income from Schedule C, line 24. If additional first year depreciation is included in Schedule C, line 17, and if the partners have unequal credits for such additional first year depreciation (e.g. if one partner is single and one is married filing jointly for Federal income tax purposes), the apportionment of income to partners in this column will require special computation.

Column 7. Transfer the amount of each individual partner's share shown in column 7, Schedule E to column 1, page 1 of the return.

Tax Due or Refund

If the partnership has elected to pay the tax for the partners and payments and credits exceed the tax due, show the amount of such overpayment on page 1, line 10 and check the proper box on line 12 to indicate whether you wish the overpayment as a refund OR as a credit on your ensuing year's estimated tax. Refunds will be made as quickly as possible, but please allow 90 days before making any inquiry. Refunds of less than one dollar (\$1.00) will not be made. Tax due of less than one dollar (\$1.00) need not be paid.

Mail to: City of Highland Park

Income Tax Dept.

P.O. Box 239

Eaton Rapids, MI 48827-0239