

**JESSAMINE COUNTY OCCUPATIONAL TAX OFFICE
FORM JCOT 2, NET PROFITS LICENSE FEE RETURN
GENERAL INSTRUCTIONS**

The following instructions are provided to aid the licensee in the completion of Form JCOT 2, Net Profits License Fee Return. They are not intended to be all-inclusive and therefore should be used only as a supplement to the existing License Fee Ordinance. If you have questions that are not addressed in these instructions, please refer to the License Fee Ordinance available at www.jessaminco.com or by contacting the Occupational Tax Office at (859) 885-3206.

WHO MUST FILE FORM JCOT 2, NET PROFITS LICENSE FEE RETURN:

Corporations, partnerships, individuals/sole proprietorships, estates and trusts, or other businesses engaged in an occupation, trade, or profession with a business nexus in Jessamine County, Kentucky. The occupational tax is imposed upon the privilege of engaging in a business, profession, occupation, or trade within Jessamine County, Kentucky regardless of the legal residence of the person so engaged.

A TAX FORM MUST BE FILED EVEN IF:

- Your business activity resulted in a loss for the tax year. Complete the tax form according to the instructions provided.
- You were not actively engaged in business during the tax year but intend to resume operations at a future date. Check the box designated "No Activity", sign and mail/deliver to the Occupational Tax Office.
- Your business activity ceased prior to the beginning of the tax year, but you have not provided written notification that operations ceased. Check the boxes designated "No Activity" and "Final Return", enter the date your activity ceased, sign and mail/deliver your return to the Occupational Tax Office.
- Your business was operational for a portion of the tax year but ceased operation prior to completion of the fiscal period. Complete the tax form according to the instructions provided. Check the box designated "Final Return", enter the date activity ceased, sign and mail/deliver the return to the Occupational Tax Office.
- You applied for a tax number with the intention of starting a business but never transacted business within Jessamine County and do not intend to do so in the future. Check the boxes designated "No Activity" and "Final Return", enter the date activity ceased, sign and mail/deliver to the Occupational Tax Office.

AUTOMATIC EXTENSIONS:

An automatic extension of time for filing the Net Profits License Fee Return will be granted for a period not to exceed any extension granted by the Internal Revenue Service for the filing of the federal income tax return for the same year. The extension request must be a written request properly signed by the licensee or a duly authorized agent and received on or before the due date for filing. **A copy of the federal Form 4868, 8736, or 7004 for the same year may be used for the written request.**

An automatic extension of time for filing the Net Profits License Fee Return does not extend the time for payment of the license fee. Full payment of the estimated license fee liability must accompany the request for extension.

Interest at the rate of twelve (12) percent per annum shall apply to any unpaid license fee during the period of extension and shall be included with the amount remitted in payment of the license fee at the time of filing the Net Profits License Fee Return. No penalty shall be assessed in those cases in which all filing and payment requirements have in good faith been fulfilled and the final license fee and interest is paid with the filing of the Net Profits License Fee Return within the period as extended.

Any automatic extension shall be granted with the understanding that all prior filing requirements have been fulfilled. However, if upon further examination it becomes evident that prior filing and payment requirements have not been fulfilled, interest and penalty shall be assessed in full and in the same manner as though no extension had been granted.

Forms should be mailed to:

**Jessamine County Occupational Tax Office
105 Court Row
Nicholasville, Kentucky 40356**

All checks made payable to:

Jessamine County Fiscal Court

SECTION 1 : CALCULATION OF LICENSE FEE LIABILITY INSTRUCTIONS

- Line 1:** Enter the adjusted net business income from Line 24 of Worksheet 1 on the reverse side of Form JCOT 2. This worksheet **must** be completed in order to determine your adjusted net business income.
- Line 2:** Enter the average allocation percentage from Section 2, Line 4, Column C
- Line 3:** Multiply Line 1 by Line 2. Enter the result on Line 3.
- Line 4:** Multiply Line 3 by the license fee rate of 1%. Enter the result on Line 4.
- Line 5:** Enter on Line 5 any estimated payments and/or credits carried forward.
- Line 6:** Subtract Line 5 from Line 4. If Line 6 is less than -0-, go to Line 10.
- Line 7:** If the license fee due is not paid by the due date of the return, penalty is assessed at the rate of five (5) percent for each calendar month or fraction of calendar month the license fee remains unpaid up to a maximum of twenty-five (25%) percent; \$25.00 minimum. Enter the result on Line 7.
- Line 8:** If the license fee due is not paid by the due date of the return, interest is assessed at the rate of twelve (12) percent per annum. Multiply the license fee due on Line 6 by the appropriate percentage. Enter the result on Line 8.
- Line 9:** Add Lines 6 through 8. This is the total due. **Pay this amount.** If you cannot pay the entire balance, file your return and pay as much as possible and attach a separate request for an installment agreement. **NOTE:** You may be required to sign a Promissory Note for the amount of the unpaid license fee, penalty and interest. In addition, interest rate of twelve (12) percent per annum shall apply to any unpaid license fee during the period of the agreement.
- Line 10:** If Line 6 is less than zero, enter the amount on Line 10. You must indicate if you desire to have the overpayment refunded or applied to future returns as a credit. Overpayments of \$25.00 or less will automatically be credited to the next tax year unless the current tax year was the final year of operations in Jessamine County.

SECTION 2: BUSINESS ALLOCATION PERCENTAGE INSTRUCTIONS

Section 2 must be completed by all licensees with business receipts and/or payroll both within and without Jessamine County

Business Receipts Factor

- Line 1, Column A: Enter the total gross business receipts received from all Jessamine County sources during the tax period.
- Line 1, Column B: Enter the total gross business receipts received from all sources including Jessamine County during the tax period This amount should equal the total gross business receipts listed on the federal return.
- Line 1, Column C: Divide Column A by Column B. Enter the result on Line 1, Column C. Carry out at least 4 places.

Payroll Factor

- Line 2, Column A: Enter the total wages, salaries, commissions and other compensation paid for work done or services performed or rendered **within Jessamine County** during the tax period.
- Line 2, Column B: Enter the total wages, salaries, commissions and other compensation paid for work done or services performed or rendered in **all business locations** during the tax period. This amount should equal the total salaries and wages listed on the federal return.
**** Do no include the cost of contract labor in either Column****
- Line 2, Column C: Divide Column A by Column B. Enter the result on Line 2, Column C. Carry out at least 4 places.

Average Percentage

- Line 3, Column C: Add Column C, Lines 1 and 2. Enter the result on Line 3, Column C.
- Line 4, Column C: Divide Line 3, Column C by the number of percents used on Lines 1 and 2, Column C. Enter the result on Line 4, Column C and Line 2, Section 1.

Note: If one of the factors (business receipts or payroll) is missing, the remaining factor is the average allocation percentage (Line 2 of Section 1). A factor is considered missing if:

- 1) With regard to the business receipts factor, a licensee's entire business operation did not recognize **any** business receipts. (i.e. Section 2, Line 1, Columns A and B both equal zero)
- 2) With regard to the payroll factor, a licensee's entire business operation did not incur **any** expenditures for payroll. (i.e. Section 2, Line 2, Columns A and B both equal zero)

SECTION 3: WORKSHEET INSTRUCTIONS

Refer to the following list to determine which column should be used in completing the Worksheet:

- **W-2:** Employees receiving salaries, wages, commissions, etc from which no license fee was withheld should complete Form JCOT 1, Annual Return of License Fee Withheld instead of the Net Profits License Fee Return
- **1099-Misc:** Individuals receiving payments for contract services who are not claiming business expenses and do not foresee claiming business expenses in the future may complete Form JCOT 1, Annual Return of License Fee Withheld instead of the Net Profits License Fee Return
- **Schedule C, C-EZ, E or F:** Individuals receiving income from the operation of a trade, business or profession should complete the column marked Individual
- **Form 1065:** Partnerships should complete the column marked Partnership
- **Form 1120, 1120A, 1120S:** Corporations should complete the column marked Corporation and S-corp
- **Form 1041 and other associations:** Fiduciaries and all others should complete the column marked Other
- **Limited liability companies:** LLC's have the same entity classification as that elected for federal income tax filings and shall be assessed occupational license fees accordingly. Complete the column that corresponds to your federal tax filing.

Line 1: Enter the amount of non-employee compensation reported on federal Form 1099 MISC on Line 1. Note: Line 1 should only be completed by individuals who received payments for contract services who are not claiming business expenses and did not own or operate a business during the year (attach a copy of federal Form 1040 and Form 1099 MISC)

Line 2: Enter the net profit or (loss) per federal Schedule C, C-EZ, E and F (attach a copy of federal Form 1040 and all applicable schedule(s)).

- For sole proprietors using **Schedule E** from a jointly filed federal Form 1040 and net income (loss) from rental real estate activities can be combined with the net income (loss) from other sole proprietorships of one or both spouses using any reasonable method. The election to file using a certain method is considered to be made on the initial return filed with the Jessamine County Occupational Tax Office and must be consistently filed on all future returns.
- **Schedule F:** Farm income should be reported only if the farm is located within Jessamine County. **Reminder:** Funds received from the state as a share of the tobacco settlement funds to be paid to farmers are exempt from inclusion in net profits
- **Sole proprietors and single member LLC's** filing as sole proprietors for federal income tax purposes may combine on a single Net Profits License Fee Return the net profits or loss from two or more distinct businesses with activities within Jessamine County provided that all sole proprietorships are owned and operated by the same individual

Line 3: Enter 100% of the short term capital gains and long term capital gains carried over from federal Form 4797 or Form 6252 (installment sales) to federal Schedule D representing gain from the sale of property used in the trade or business. In addition, enter the net gain or (loss) from the sale of property used in the trade or business per federal Form 4797 (attach copy of federal Form 4797, Form 6252 and/or Schedule D)

Line 4: Enter the ordinary income or (loss) per federal Form 1065 (attach a copy of federal Form 1065, Schedule K and all supporting schedules)

Line 5: Enter the taxable income after special deductions and net operating loss per federal Form 1120 or 1120A (attach copy of federal form 1120 or 1120A and all supporting schedules)

Line 6: Enter the ordinary income or (loss) per federal Form 1120S (attach copy of federal Form 1120S, Schedule K and all supporting schedules)

Line 7: The following income items which are allocated to the partners or shareholders are not included as income on federal Form 1065 or Form 1120S and thus must be added to income on Line 7:

- | | |
|---|---|
| Net income from rental real estate activities | Net long term capital gain |
| Net income from other rental activities | Other portfolio income |
| Interest income | Guaranteed payment to partners |
| Dividend income | Net gain under Sec 1231 (other than due to casualty or theft) |
| Royalty income | Net short- term capital gain |
| Other income items per Schedule K (attach copy) | |

Line 8: Enter all other business income not included on Lines 1-7. Fiduciaries should complete Line 8 based upon the taxable income from federal Form 1041 (attach copy of federal Form 1041 and other documentation necessary to support the items included)

Line 9: Add Lines 1 through 8 to determine total business income. Enter the total on Line 9.

SECTION 3: WORKSHEET INSTRUCTIONS CONTINUED

Line 10: The following items which are allocated to the partners and shareholders are not included in losses or expenses on federal Form 1065 or Form 1120S and are allowed as deductions for license fee purposes on Line 10:

Net loss from rental real estate activities	Net long-term capital loss
Net loss from other rental activities	Net loss under Sec 1231 (other than due to casualty loss or theft)
Portfolio loss	Net short-term capital loss
Deductions related to portfolio income	Charitable contributions
Other allowable deductions per Schedule K (attach Schedule)	
Sec 179 expense	

Line 11: Deduct Line 10 from Line 9 to determine net business income. Enter the result on Line 11.

Line 12: If a deduction is taken for state or local taxes (based on income) or license fees (based on income), regardless of jurisdiction, by an individual on federal Schedule C, C-EZ, E or F or on federal Form 1120, 1120A, 1120S or 1065 then the amount of those taxes or license fees should be entered on Line 12.

Line 13: If a deduction is taken on federal Form 1120 for a net operating loss then the amount of the net operating loss should be entered on Line 13.

Line 14: If a deduction was taken on Form 1065 for partners' salaries from which the license fee was not withheld then enter the amount on Line 14 (attach schedule). **Do not include amounts previously listed as guaranteed payments to partners on Line 7.**

Line 15: If a deduction was taken for expenses associated with income not subject to the license fee then enter the amount on Line 15 (attach full explanation, including amounts, of all items)

Line 16: If a deduction was taken for any other amount that is deemed to be not deductible then enter the amount on Line 16 (attach full explanation, including amounts, of all items):

***Form 1041:** This line should be used to add back the amount of the income distribution deduction since this is not an allowable deduction for purposes of the Net Profits License Fee Return.

***Real Estate Investment Trusts:** This line should be used to add back the amount of the total deduction for dividends paid and the Section 857(b)(2)(E) deduction since these are not allowable deductions for purposes of the Net Profits License Fee Return

Line 17: Add Lines 12 through 16. Enter the total on Line 17.

Line 18: Enter the amount of interest income attributable to U.S. obligations included in Lines 1-9.

Line 19: Enter the amount of any IRC Section 78 foreign dividend gross-up included in Lines 1-9 and any IRC Section 951 Subpart F income included in Lines 1-9 but not actually received.

Line 20: Follow the instructions below for computing the alcoholic beverage deduction (attach a copy of the computation sheet):

Kentucky Alcoholic Beverage Sales divided by Total Sales = Alcoholic Beverage Percentage

Multiply the alcoholic beverage percentage by the net profit of the **business engaged in the sale of alcoholic beverages** to determine the allowable deduction. Note: A deduction may be taken only if the business engaged in selling of the alcoholic beverages had a profit.

Line 21: Enter the amount of any non-business interest and/or dividends that are not subject to the license fee. Be sure to indicate the amount of each on the line provided. This line should not be used to deduct interest and dividends that are considered business income. These amounts are subject to the license fee and are therefore not deductible in determining subject net profits.

Line 22: If any other income included in Line 9 is deemed not subject to the license fee then enter the amount on allowable expenses for which the licensee elected to take a credit against its federal income tax liability in lieu of a deduction for business expenses otherwise available to the licensee. For example, wages and salary expense that is reduced as a result of the work opportunity tax credit and payroll tax expense that is reduced as a result of the federal FICA tax credit on tip income.

Line 23: Add Lines 18 through 22. Enter the total on Line 23.

Line 24: Add Lines 11 and 17, then deduct Line 23, to determine the **adjusted net business income. Enter here and in Section 1, Line 1.**