CITY OF COVINGTON, KENTUCKY
NET PROFIT LICENSE FEE RETURN FORM OL-3

www.covingtonky.com (859)292-2183 fax (859)292-2131

Taxable Year Ended		
Month	Day	Year

Print Business Name & Address

Business Entity: Classification
- ☐ Individual
- ☐ Partnership
- ☐ Corporation
- ☐ Other _____

Account #

Social Security# or Federal ID #

Remit To:
CITY OF COVINGTON
20 W. Pike St.
Covington, KY 41011

Due the 15th Day of the 4th Month Following the Close of the Taxable Year

☐ Final Return (Check only to inactivate account. Complete Question E) ☐ No business activity within Covington during tax year

A) If business entity is exempt from net profit license fee, state why. ☐ Total gross residential rents from 1 unit < $6,000
☐ Nonprofit entity with no unrelated business income ☐ No business activity ☐ Other _____

B) Business Phone # _____ C) Principal business activity _____

D) Did the Business have employees working within Covington during the taxable year? _____ If Yes, Indicate the number _____

E) If business activity was discontinued within the City during the year, state when and why _____ ☐ Dissolution
☐ Sale. If by sale, give name and address of successor _____ ☐ Other _____

F) Is the Business Entity an Affiliate of a Consolidated Corporate Federal Return? ☐ No ☐ Yes (If Yes, See Specific Instructions)

IMPORTANT

Attach Federal Return

- ☐ Schedule C
- ☐ Schedule E
- ☐ Form 4797
- ☐ Form 6252
- ☐ Form 1065
- ☐ Form 1120S
- ☐ Form 1120
- ☐ Form 8825

Other _____

PART IV: FEE COMPUTATION

1) Adjusted Net Income (See Reverse, Line L of Part I)	
2) Business Apportionment (Enter 100% or Line 4 of Part III)	
3) Taxable Net Profit (Multiply Line 1 by Line 2)	
4) Occupational License Fee (Multiply Line 3 by 2.5%)	
5) Total Fees Due (Enter $100 minimum or Line 4, whichever is greater, max $40,000)	
6) Less Estimated Payments and Credits	
7) Balance Due	
8) Penalty @ 5% per month or portion thereof (Minimum $25, Max 25%)	
9) Interest @ 1% per month from Due Date	
10) Total Amount Due	
11) Overpayment Claimed ☐ Refund ☐ Credit to next year estimated payment	

RETURN MUST BE SIGNED - I hereby certify, under penalty of perjury, that the statements made herein and in any supporting schedules are true, correct, and complete to the best of my knowledge.

PREPARER'S SIGNATURE DATE LICENSEE'S SIGNATURE DATE

PRINT NAME SS# PRINT NAME TITLE

IMPORTANT Enclose Copy of Applicable Federal Form(s)	**CITY OF COVINGTON NET PROFIT WORKSHEET**	Account #

PART I: ADJUSTED NET INCOME

BUSINESS INCOME

A) All business entities enter the net profit or loss as shown on Federal Schedule C and/or E, the ordinary income or loss from Federal Form 1065 or Form 1120S, the taxable income AFTER special deductions and net operating loss from Federal Form 1120, the unrelated business taxable income from Form 990T, or equivalent. _____

B) Individuals that report business income on Federal Schedule C and/or E, enter the gain or loss from the sale of business property used in a trade or business from Federal Form 4797 or 6252 reported on Schedule D _____

C) Partnerships and corporations that are pass-through entities for Federal tax purposes enter the additions from Schedule K of Form 1065, 1120S, or equivalent _____

D) All business entities enter other income items (See Instructions) _____

E) Partnerships and corporations that are pass-through entities for Federal tax purposes enter the allowable subtractions from Schedule K of Form 1065, 1120S, or equivalent _____

F) TOTAL INCOME (Total of lines A through D less line E.) _____

ITEMS NOT DEDUCTIBLE - ADDITIONS TO TOTAL INCOME

G) All business entities add back the state income taxes and occupational license fees based on net or gross income deducted from the Federal return _____

H) Corporations add back the net operating loss allowed under Section172 of the Internal Revenue Code deducted from Federal Form 1120, 1120-REIT, 990T, or equivalent _____

ITEMS NOT TAXABLE - SUBTRACTIONS FROM TOTAL INCOME

I) All business entities subtract the alcoholic beverage sales deduction as calculated in Part II, Line 3 _____

J) All business entities enter other adjustments (See Instructions) _____

K) TOTAL ADJUSTMENTS (Add lines G and H then subtract lines I and J. Enter the total on line K) _____

L) ADJUSTED NET INCOME (Add lines F and K. Enter total here and on front, line 1 of Part IV: FEE COMPUTATION) _____

PART II: ALCOHOLIC BEVERAGE SALES DEDUCTION

NOTE: "Total Sales" is Total Gross Receipts of Business including Non-Alcoholic Beverage Sales

1) **DIVIDE→** $\frac{\text{Kentucky Alcoholic Beverage Sales}}{\text{Total Sales}}$ = _____ %

2) Enter the total of line F of Part I: ADJUSTED NET INCOME _____

3) Alcoholic Beverage Sales Deduction (Multiply line 1 by line 2. Enter here and line I, Part I) _____

PART III: BUSINESS APPORTIONMENT

All licensees whose business operations were not conducted entirely in the City of Covington must complete this part, regardless of profit or loss. **DIVIDE↓**

	APPORTIONMENT FACTORS	COLUMN A City of Covington	COLUMN B Everywhere	COLUMN C A / B = C
1)	PAYROLL FACTOR Compensation Paid or Payable to Employees			%
2)	SALES FACTOR Gross Receipts from Sales, Rents, Work or Services Performed			%
3)	TOTAL PERCENTAGES (Add Lines 1 and 2 of Column C)			%
4)	**BUSINESS APPORTIONMENT** (If your business had both a sales factor and a payroll factor, then divide line 3 by two (2). However, if the business had either a sales factor or a payroll factor, but not both, then enter the single factor percentage here and on front, Line 2 of Part IV: FEE COMPUTATION.)			%

CITY OF COVINGTON, KENTUCKY
NET PROFIT LICENSE FEE RETURN FORM OL-3
GENERAL INSTRUCTIONS

The following instructions are provided to aid the licensee in the completion of the NET PROFIT LICENSE FEE RETURN FORM OL-3. They are not intended to be all-inclusive and therefore should be used only as a supplement to the existing OCCUPATIONAL LICENSE TAX ORDINANCE. If you have any questions that are not addressed in these instructions please refer to COVINGTON, KY CODE OF ORDINANCES CHAPTER 110: BUSINESS AND OCCUPATION LICENSE FEES.

WHO MUST FILE THE NET PROFIT LICENSE FEE RETURN FORM OL-3

Except as provided in §110.04 of the City of Covington, Kentucky Code of Ordinances, every person or business entity engaged in any business, trade, occupation, or profession and any person or business entity that makes a filing with the Internal Revenue Service or the Kentucky Revenue Cabinet shall be required to file and pay to the City an annual OCCUPATIONAL LICENSE TAX for the privilege of engaging in such activities within the City.

A NET PROFIT LICENSE FEE RETURN MUST BE FILED EVEN IF:

1) Your business activity resulted in a **loss** for the tax year. Complete the tax return according to the specific instructions.
2) Your business was operational for a portion of the tax year, but **ceased operation** prior to the completion of the fiscal period. Check the box labeled "FINAL" and complete the tax return according to the specific instructions provided. Note that question E must be completed in its entirety.
3) You were **not actively engaged** in business during the tax year, but do intend to resume operations at a future date. Check the box labeled "No Activity". No tax is due for the tax year; however, the form must be signed and returned to the City of Covington.
4) 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 labeled "No Activity" and "FINAL". Complete question E in its entirety. No tax is due for the tax year; however, the form must be signed and returned to the City of Covington.
5) You applied for a tax number with the intention of starting a business, but **never transacted business** within the City of Covington and do not intend to do so in the future. Check the boxes labeled "No Activity" and "FINAL". No tax is due for the tax year; however, the form must be signed and returned to the City of Covington.

EXEMPTED ACTIVITIES

The following businesses are exempt from the OCCUPATIONAL LICENSE TAX, however, **are required to file a Form OL-3**:

1) Any business entity engaged in the letting or rental of any dwelling unit in the City that owns no more than one dwelling unit for lease in the City and whose rents from all dwelling units owned, whether within or outside the City when taken together, do not exceed $6,000,
2) Persons whose sole business activity is the manufacture of and/or sale of alcoholic beverages. Persons engaged in the business of manufacturing and/or selling alcoholic beverages are required to file a return, but may exclude the portion of their net profits derived from such manufacturing and/or sale of alcoholic beverages,
3) Nonprofit organizations, as determined by the Internal Revenue Service approval of not-for-profit status. To qualify for this exemption, the organization must submit satisfactory proof of their exempt status for federal income tax purposes. If any part of the earnings of such business inures to the benefit of any person, it shall be sufficient to defeat the exemption. If an organization earns "unrelated business income" as defined and administered in Section 511 of the Internal Revenue Code, a net profit license tax is assessed on the "unrelated business income".

DUE DATE: April 15th following the close of the calendar year or the 15th day of the 4th month following the fiscal year.

EXTENSIONS, PENALTIES, AND INTEREST

1) The City may grant any business entity an extension of **not more than six (6) months**, unless a longer extension has been granted by the Internal Revenue Service or a longer extension is agreed to by the City and the business entity. An extension will only be granted if the business entity, **on or before the date prescribed for payment** of the OCCUPATIONAL LICENSE TAX, requests the extension and pays the amount properly estimated as its tax.
2) A business entity subject to tax on net profits may be subject to a **penalty** equal to **five percent (5%)** of the tax due for each calendar month or fraction thereof if the business entity:
   a) **Fails to file** any return or report on or before the due date prescribed for filing or as extended by the City; or
   b) **Fails to pay** the tax computed on the return or report on or before the due date prescribed for payment.

   The total penalty levied pursuant to this subsection shall **not exceed twenty- five percent (25%)** of the total tax due; however, the penalty shall **not be less than twenty-five dollars ($25)**.
3) In addition to the penalties prescribed in this section, any business entity shall pay, as part of the tax, an amount equal to twelve percent **(12%) per annum simple interest** on the tax shown due, but not previously paid, from the time the tax was due until the tax is paid to the City. A fraction of a month is counted as an entire month.

SEPARATE ACCOUNTING METHOD is not permitted. Therefore, if a business entity has operations both inside and outside Covington, the total income or loss reported on the Federal return of the business entity is reported on the City return and apportioned to Covington by multiplying the total adjusted net profit by the BUSINESS APPORTIONMENT percentage determined in PART III.

CITY OF COVINGTON, KENTUCKY
NET PROFIT LICENSE FEE RETURN FORM OL-3
SPECIFIC INSTRUCTIONS

Enter the following information into the appropriate boxes:

- **TAXABLE YEAR ENDED** - Enter the calendar year or fiscal year ending upon which the basis of net income is computed for Federal income tax purposes.
- **ACCOUNT #** - Enter the number assigned by the City of Covington that was issued upon receipt of the APPLICATION FOR AN OCCUPATIONAL LICENSE
- **SOCIAL SECURITY # or Federal ID #** - Enter the social security number or the Federal identification number under which the business income is filed for Federal income tax purposes.
- **BUSINESS ENTITY** - Enter the form of legal entity under which the business operates for Federal income tax purposes.

All questions must be answered completely. If the question does not apply to the business indicate "NA".

Line A: If no payment is attached to the NET PROFIT LICENSE FEE RETURN FORM OL-3 because the business entity is exempt from the net profit license fee, indicate the reason for the exemption.

Line B: Enter the business telephone number.

Line C: Enter a brief explanation of the nature of your regular trade or business operations within the City of Covington.

Line D: Indicate if the business had employees working within Covington. If yes, enter the number of employees.

Line E: If the business was discontinued in the current or a prior year, enter the date the business ceased operations within the City of Covington. In addition, indicate if the business was dissolved or sold. If the business was sold, enter the name and address of the purchaser.

Line F: Indicate if the business entity is an affiliate of a consolidated corporate Federal return. If a corporation which is subject to the net profit license fee return is included in a consolidated return, the corporation must submit the following:

1) a NET PROFIT LICENSE FEE RETURN FORM OL-3 based upon the taxable income (or loss) of the affiliate corporation subject to the occupational license return, not the consolidated taxable income.
2) a copy of the consolidated Form 1120 or its equivalent.
3) a computation sheet allocating all revenue and expense items on the consolidated Federal return to each corporation included in that consolidated return.

Business entities classified as disregarded entities for Federal income tax purposes have the same classification for City purposes and are treated as divisions.

IMPORTANT

Attach a copy of the appropriate Federal income tax return in which business income is reported for Federal income tax purposes. Include all forms and schedules required for Federal income tax purposes. Indicate the Federal tax returns included.

- **SCHEDULE E** SUPPLEMENTAL INCOME AND LOSS - Sole proprietors and single-member limited liability companies (LLC) report rental income from real estate and royalties.
- **SCHEDULE C** PROFIT OR LOSS FROM BUSINESS - Sole proprietors and some State classified single-member LLCs report business income.
- **FORM 4797** SALES OF BUSINESS PROPERTY - Business entities report the sale or exchange of property used in a trade or business.
- **FORM 6252** INSTALLMENT SALE INCOME - Business entities report the income from casual sales of real or personal property.
- **FORM 1065** U.S. RETURN OF PARTNERSHIP INCOME - Partnerships, as designated for Federal income tax purposes, report business income. May include State classified dual-member LLCs.
- **FORM 1120** U.S. CORPORATION INCOME TAX RETURN - Corporations, as designated for Federal income tax purposes, report business income, unless exempt under section 501 of the IRS Code.
- **FORM 1120S** U.S. INCOME TAX RETURN FOR AN S CORPORATION - Businesses that have elected to be an S corporation for Federal income tax purposes, report business income.
- **FORM 8825** RENTAL REAL ESTATE INCOME AND EXPENSES OF A PARTNERSHIP OR AN S CORPORATION - Partnerships and S corporations us to report income and deductible expenses form renal real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.
- **OTHER FORMS**: **Schedule F** - sole proprietors report income from farming; **Form 8824** to report like-kind exchanges; **Form 1120-REIT** U.S. INCOME TAX RETURN FOR REAL ESTATE INVESTMENT TRUSTS - Corporations, trusts, or associations that have elected to be a real estate investment trust for Federal income tax purposes, report business income; **Form 1041** U.S INCOME TAX RETURN FOR ESTATES AND TRUSTS; **FORM 990T** EXEMPT ORGANIZATIONS BUSINESS INCOME TAX RETURN - Organizations exempt under Section 501(a) or Section 529(a) of the IRS Code report income if it had gross income from an unrelated trade or business of $1,000 or more; etc.

PART IV: FEE COMPUTATION

Line 1: Complete PART I: ADJUSTED NET INCOME, then enter the total on line 1.

Line 2: Enter 100% if business was conducted entirely within the City of Covington or Line 4 of PART III: BUSINESS APPORTIONMENT if business was conducted within and without the City of Covington

Line 3: Multiply line 1 by line 2. Enter the amount on line 3.

Line 4: Multiply line 2 by 2.5%. Enter the amount on line 4.

Line 5: Enter line 4 or $100, whichever is greater. Do not enter more than $40,000.

Line 6: Enter any credits due from prepayment of estimated tax for the taxable year on line 6.

Line 7: Subtract line 6 from line 5. Enter the amount on line 7.

Line 8: Multiply line 7 by 5% for every month or fraction thereof, not to exceed 25% with the minimum of $25, if the NET PROFIT LICENSE FEE RETURN FORM OL-3 is not filed by the due date or the extended due date granted or if the tax liability is not paid by the due date. Enter the total on line 8.

Line 9: Multiply line 7 by 1% for every month or fraction thereof, if the tax liability is not paid by the due date. Enter the total on line 9.

Line 10: Add lines 7 through line 9. If the balance is a positive number, then enter the total due on Line 10 and pay the total due. If the balance is negative go to Line 11.

Line 11: If Line 10 is a negative number enter the overpayment on Line 11. Indicate if you desire to have the overpayment refunded or credited to next year estimated payment.

PART I: ADJUSTED NET INCOME

Line A: All business entities enter the net profit or loss as shown on Federal Schedule C, E, and/or F, the ordinary income or loss from Federal Form 1065 or Form 1120S, the taxable income AFTER special deductions and net operating loss from Federal Form 1120, the taxable income AFTER net operating loss, total deduction for dividends paid, and section 857(b)(2)(E) deduction from Federal Form 1120-REIT, or the unrelated business taxable income from Federal Form 990T.

Lines B through H are taxable income items which must be included in the adjusted net profit in order to determine the total net profit license fee due. For items that do not apply to your business, enter 0 on the appropriate line.

Line B: For individuals or sole proprietors that report business income on Federal Schedule C, E, and/or F, enter 100% of the short term capital gains and long term capital gains carried over from Federal Form 4797 or Federal Form 6252 (installment sales) to Federal Schedule D representing gain from the sale of property used in your trade or business. (Attach a copy of Form 4797 or Form 6252.)

Line C: For partnerships or corporations that are pass-through entities for Federal tax purposes, the following income items which are allocated to the partners and shareholders on Federal Schedule K are not included as income on Federal Form 1065 or 1120S; therefore, they must be added to business income. Add the total income items from Schedule K and enter the amount on Line C.

*Net income from rental real estate activities
*Net income from other rental activities
*Interest income
*Dividend income
*Guaranteed payments to partners
*Royalty income
*Net short-term capital gain
*Net long-term capital gain
*Other portfolio income
* Net gain under Section 1231(other than due to casualty or theft)

Line D: If a deduction is taken for any other amount which is deemed a taxable income item, then enter the amount on line D. For real estate investment trusts, if a deduction is taken on Federal Form 1120-REIT for total dividends paid and Section 857(b)(2)(E), then the amount of the total deductions must be added back to business income. Enter the amount on line D.

Line E:

For partnerships or corporations that are pass-through entities for Federal income tax purposes, the following items which are allocated to the partners and shareholders on Federal Schedule K are not included as losses or expenses on Federal Form 1065 or Form 1120S, however, are allowed as deductions for net profit license fee purposes. Add the total loss and deduction items from Schedule K and enter the amount on line E.

*Net loss from rental real estate activities
*Net loss from other rental activities
*Portfolio loss
*Deductions related to portfolio income
*Expense deductions for recovery property (Section 179)
*Net short-term capital loss
*Net long-term capital loss
*Charitable Contributions
*Net loss under Section 1231(other that due to casualty or theft)

NOTE: Contributions to KEOGH Plans, Simplified Employee Pension Plan, and Medical Insurance Premiums paid on behalf of partners and deducted on Schedule K of Form 1065 are not deductible on the NET PROFIT LICENSE FEE RETURN FORM OL-3.

Line F: ADD Lines A through D less line E. Enter the amount on Line F.

Line G: If a deduction is taken on Schedule C, E, and/or F, Form 1065, Form 1120, Form 1120S, Form 1120-REIT, or Form 990T for state or local taxes based on gross or net income, regardless of jurisdiction, then enter the amount of those taxes on Line G.

PART I: ADJUSTED NET INCOME

Line H: For corporations, if a deduction is taken on Federal Form 1120, Form 1120-REIT, or 990-T for a net operating loss, then the amount of the net operating loss must be added back to business income. Enter the net operating loss amount on line H.

Lines I and J are non-taxable items which must be excluded from the adjusted net profit in order to determine the total net profit license fee due. For items that do not apply to your business, enter 0 on the appropriate Line.

Line I: For all business entities that sell alcoholic beverages, complete PART II: ALCOHOLIC BEVERAGE SALES DEDUCTION. Enter the total on Line I. NOTE: A deduction may be taken only if the business engaged in the selling of alcoholic beverages had a profit.

Line J: If any other income included on line F is deemed not subject to the license fee then enter the amount on line J and attach a full explanation, including the amounts of all items. The following items are non-taxable items and are excluded from adjusted net profit.

*For partnerships, enter any amount of professional expenses claimed by the partners on their individual Form 1040 which are related to, but not reimbursed by the partnership, (Attach Form 1040 and include a schedule listing partners name(s), the type of deduction and the amount of each deduction.)

*If a credit is taken against the federal income tax liability in lieu of a deduction for business expense otherwise available to the licensee, the business expense available for reduction as a result of the credit is a non-taxable item,

*Foreign dividend gross-up under Section 78 of the IRS Code,

*Income from controlled foreign corporations,

*Interest earned on U.S. Obligations, and

*Ordinary income or (loss) from other partnerships or S Corporations which is included in income on Line F of this part.

Line K: ADD Lines G and H, then subtract lines I and J. Enter the total on Line K.

Line L: Add lines F and K. Enter the ADJUSTED NET INCOME amount on line L and on the front page, line 1 of PART IV: FEE COMPUTATION. Go to PART IV: FEE COMPUTATION.

PART II: ALCOHOLIC BEVERAGE SALES DEDUCTION

Persons having a portion of their business activity being derived from the manufacturing and/or selling of alcoholic beverages may exclude that portion of their net profits derived from such sale of alcoholic beverage. A deduction may be taken only if the business engaged in the selling of alcoholic beverages had a profit.

Line 1: Divide the total Kentucky alcoholic beverage sales by the total gross receipts of the business, including the non-alcoholic beverage sales. Enter the amount on line 1.

Line 2: Enter the total income amount from line F of Part I: ADJUSTED NET INCOME.

Line 3: Multiply line 1 by line 2. Enter the amount on line 3 and on line I of Part I: ADJUSTED NET INCOME. Go to Part I.

PART III: BUSINESS APPORTIONMENT

- If 100% of your business is conducted within the City of Covington, do not complete PART II: BUSINESS APPORTIONMENT. Go to Page 1, Line 2 of PART IV: FEE COMPUTATION and enter 100%, then follow the instructions for PART IV: FEE COMPUTATION.
- All licensees whose business operations were not conducted entirely in the City of Covington must complete PART III: BUSINESS APPORTIONMENT, regardless of profit or loss.

Payroll Factor

Line 1, Column A: Enter the total compensation paid to employees for services rendered within the City of Covington during the period covered by the tax return.

Line 1, Column B: Enter the total compensation paid to employees for services rendered everywhere during the period covered by the tax return.

Line 1 Column C: Divide Column A by Column B. Enter the result on Line 1, Column C.

Sales Factor

Line 2, Column A: Enter the total gross receipts from sales, rents, and services in the ordinary course or usual trade of business earned within the City of Covington during the period covered by the tax return.

Line 2, Column B: Enter the total gross receipts from sales, rents, and services in the ordinary course or usual trade of business earned everywhere during the period covered by the tax return.

Line 2, Column C: Divide Column A by Column B. Enter the result on Line 2, Column C.

Business Apportionment

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 Page 1, Line 6 of PART IV: FEE COMPUTATION, then follow the instructions for PART IV: FEE COMPUTATION.