

CITY OF MUSKEGON

2006 CORPORATION INCOME TAX RETURN INSTRUCTIONS FOR FORM M-1120 FOR CORPORATIONS WITH BUSINESS ACTIVITY IN MUSKEGON

Direct Deposit

Direct deposit refund of overpayments is available for 2006 tax returns.

Corporations Required to File

Every corporation doing business in the city, whether or not it has an office or place of business in the city, is required to file an annual City of Muskegon Corporation Income Tax Return, Form M-1120.

Corporations cannot elect to file and be taxed as partnerships. Subchapter S corporations are treated as C Corporations.

The Muskegon Income Tax Ordinance specifically exempts financial institutions from taxation. "Financial Institutions" are defined as state and national banks, trust companies, building and loan associations, savings and loan associations, credit unions, safety and collateral deposit companies, and any other association, joint stock company or corporation at least 90% of whose assets consist of intangible personal property and at least 90% of whose gross income consists of dividends, interest or other charges resulting from the use of money or credit.

Mailing of Return Forms

Corporation income tax return forms are normally mailed to every corporation that filed a return for the previous tax year.

Tool & Die Recovery Zone Deduction

A corporation located and doing business in a Muskegon Tool & Die Recovery Zone may be eligible to claim the Tool & Die Recovery Zone deduction. This deduction allows the corporation to deduct the portion of their income earned in a Muskegon Tool & Die Recovery Zone from income subject to Muskegon income tax. A taxpayer is not qualified to claim the deduction if the corporation is delinquent for any Michigan or local taxes. A Muskegon income tax return must be filed to claim this deduction. Schedule RZ of M-1120 is required to be attached to the corporation return when claiming the Tool & Die Recovery Zone deduction.

Tax Rate

1.0% effective July 1, 1993.

Filing Date

Taxpayers on a calendar year are required to file by April 30, 2007. Those on a fiscal year must file by the last day of the fourth month following the end of the fiscal year. Returns shall be for the same calendar year, fiscal year or other accounting period as the taxpayer uses for federal income tax purposes.

Remittance

The tax due must be paid when filing the return. Make check or money order payable to:

TREASURER, CITY OF MUSKEGON

Mailing Address

Mail your return and remittance to:

CITY OF MUSKEGON INCOME TAX DEPARTMENT
PO BOX 29
MUSKEGON, MI 49443-0029

Effective Date of Tax

The City of Muskegon income tax became effective July 1, 1993. Corporations are required to pay the tax each year on that part of their net income attributable to business activity conducted in Muskegon, commencing with their first year ending after July 1, 1993.

Extensions

Upon filing the form APPLICATION FOR EXTENSION OF TIME TO FILE MUSKEGON INCOME TAX RETURNS (available on the City's website) on or before the date for filing a return, the Income Tax Administrator may extend the time for filing up to six months. When an extension is requested, the tentative tax must be paid.

When an extension form is filed, it may be assumed that the extension is automatically granted unless otherwise notified. When the return is filed, a copy of the application for extension must be attached. If the return is filed after the extended due date, penalty and interest will apply from the original due date.

INSTRUCTIONS FOR PAGE 1

Lines 1-9. Follow the instructions printed on the return form.

Lines 11 and 12. Follow the instructions printed on the return form.

RENAISSANCE ZONE OR TOOL & DIE RECOVERY ZONE DEDUCTION

Line 10. A corporation located and doing business in a Muskegon Renaissance or Tool & Die Recovery Zone may be eligible to claim a tax deduction. Corporations qualified to claim Renaissance or Tool & Die Recovery Zone deduction must calculate the deduction on M-1120 RZ form. A corporation is not qualified to claim the deduction if the corporation is delinquent for any Michigan or local taxes. Contact the Income Tax Department to request the Schedule RZ.

PAYMENTS AND CREDITS

Line 13. Enter the total of 2006 estimated payments, amounts carried forward from a 2005 M-1120, amounts paid with an extension request and credit for tax paid by a partnership on behalf of the corporation on line 13.

OVERPAYMENT OF TAX

Line 14. If the total tax payments (line 13) are greater than tax due (line 12) subtract line 12 from line 13 and enter the tax overpayment.

Line 15. Enter all or other portion of the overpayment to be applied to the 2007 estimated tax as a credit forward.

Line 16. For future use. There are no donations available for tax year 2006.

Line 17. Enter all or the portion of the overpayment to be refunded via a paper refund check.

Line 18. Enter all or the portion of the overpayment to be refunded via a direct deposit and enter the following: routing number, type of account and account number.

An overpayment refund will be issued via a paper check or direct deposit. A refund may not be split. Please allow 90 days before making any inquiry relative to a refund.

TAX DUE

Line 19. If tax due (line 12) is greater than the total tax payments (line 13) subtract line 13 from line 12 and enter the tax due. Tax due must be paid when filing the return. Make check or money order payable to TREASURER, CITY OF MUSKEGON, and mail the remittance with the return to CITY OF MUSKEGON INCOME TAX DEPARTMENT, PO BOX 29, MUSKEGON, MI 49443-0029.

INSTRUCTIONS FOR PAGE 2

SCHEDULE S

S corporations must file as C corporations. Schedule S is used to reconcile the amount reported on Line 1, Page 1 of M-1120 with federal Form 1120S and Schedule K (Form 1120S).

SCHEDULE C

Column 1 Line 1. Enter on Line 1 the nondeductible portion of a loss from the sale or exchange of property acquired prior to July 1, 1993. The portion of the loss occurring prior to the inception of the Ordinance, July 1, 1993 is not recognized. The amount of loss occurring prior to July 1, 1993 is determined by either (1) computing the difference between the total gain or loss for the property as reported for federal income tax purposes and the Muskegon taxable portion of the loss computed by substituting the fair market value of the property on July 1, 1993 (the June 30, 1993, closing price for traded securities) for the basis in determining gain or loss; or (2) by multiplying the loss for the entire holding period, as computed for federal income tax purposes, by a fraction, the numerator being the number of months the property was held prior to July 1, 1993 and denominator being the total number of months the property was held. See Column 2, Line 5 for instructions relative to gains from sales or exchanges of property acquired prior to July 1, 1993.

Capital losses from U.S. Government obligations included in income reported on Page 1, Line 1 are not deductible. Remove these losses by including them in the amount reported on Line 1.

Column 1, Line 4. Enter the losses from entities filing as partnerships that are included in taxable income reported on Page 1, Line 1.

Column 2, Line 1. Enter the amount of interest income from obligations of the United States, the states or subordinate units of government of the state that is included in taxable income reported on Page 1, Line 1.

Column 2, Line 2. If you reported dividend income, enter on this line the amount of the dividend-received deduction allowed by the federal Internal Revenue Code for dividends received.

Column 2, Line 3 and Line 4. Taxpayers may deduct income war profits and excess profits taxes imposed by foreign countries or possessions of the United States, allocable to income included in taxable net income, any part of which would be allowable as a deduction in determining federal taxable income under the applicable provisions of the federal Internal Revenue Code.

If a foreign tax credit, rather than a foreign tax deduction, was claimed on your federal return, enter on line 3 the portion of the foreign tax credit which was grossed up and included in your Muskegon return as dividends received. Enter on Line 4 the "foreign taxes paid or accrued" portion of the foreign tax credit claimed on your federal return, not in excess of the federal limitations thereon. The balance of your foreign tax credit is not deductible.

Column 2, Line 5. Enter on Line 5 the nontaxable portion of a gain from the sale or exchange of property acquired prior to July 1, 1993. The portion of the gain occurring prior to the inception of the Ordinance is not recognized. Refer to the instructions for Schedule C, Column 1, Line 1 for computation instructions.

Capital gains from U.S. Government obligations included in income reported on Page 1, Line 1 are not taxable. Remove these gains by including them in the amount reported on Line 5.

Column 2, Line 6. Enter income from entities filing as partnerships that are included in taxable income reported on Page 1, Line 1.

SCHEDULE D

The business allocation percentage formula must be used by corporations with business activity both within and outside the City of Muskegon who have not been approved to use the separate accounting method. If a corporation has a property and payroll percentage that is 100% Muskegon, you do not have a business activity outside the City of Muskegon and may not allocate sales. Enter 100% on Schedule D, Line 5.

Line 1. Enter in Column 1 the average net book value of all real and tangible personal property owned by the business, regardless of location, and in column 2 show the net book value of the real and tangible personal property owned and located or used in the City of Muskegon. The average net book value of real and tangible personal property may be determined by adding the net book values at the end of the year and dividing the sum thus obtained by two.

Line 1a. Enter in Column 1 the gross annual rent multiplied by 8 for all rented real property regardless of location. In Column 2 show the gross annual rent multiplied by 8 for rented real property located in the City of Muskegon. Gross annual rent refers to real property only, rented or leased during the taxable period, and should include the actual sums of money or other consideration paid, directly or indirectly, by the taxpayer for the use or possession of such property.

Line 2. Enter in Column 1 the total compensation paid to all employees during the year, and in Column 2 show the amount of compensation paid to employees for work or services performed within the City of Muskegon during the year.

Line 3. Enter in Column 1 the total gross revenue from all sales or services rendered during the year, and in column 2 show the amount of revenue derived from sales made or services rendered in the City of Muskegon during the year. If there is no regularly maintained sales force outside of the city, this allocation factor must be 100% for businesses with no other business activity outside the city.

Separate Accounting - The taxpayer may petition for, or the administrator may require, use of the separate accounting method. If such method is petitioned, the administrator may require a detailed statement to determine whether the net profits attributable to the city will be apportioned with reasonable accuracy.

Generally, a corporation that is unitary in nature (i.e., has central management, purchasing, warehousing, advertising, etc.) cannot use separate accounting. Taxpayers allocating on any basis other than separate accounting shall include all interest, dividends and other non-operating income to arrive at the total income subject to the allocation percentage.

Taxpayers using separate accounting shall include in income subject to tax a proportionate share of dividends, interest and other non-operating income of the total corporation. This type of income is apportioned to Muskegon activity on the same basis as general administrative and overhead costs are apportioned.

SCHEDULE G

Line 1. Net operating losses carried forward are to be reported on this line. There is no provision for carrying back losses to prior tax years. Carryover losses are to be allocated to Muskegon at the percentage of business conducted in Muskegon in the year in which the loss was sustained. If all business was not conducted in Muskegon in the year in which the loss was sustained, use the business allocation percentage formula to arrive at the deductible portion of the loss. Attach a schedule showing your computation for the amount reported on this line.

Line 2. Enter on this line the net capital loss carryover applicable to Muskegon. Net capital losses sustained by a corporation for periods subsequent to July 1, 1993 may be carried forward in the same manner as under the federal Internal Revenue Code. No deduction will be allowed for capital losses sustained prior

to July 1, 1993. If all business was not conducted in Muskegon in the year in which the loss was sustained, use the business allocation percentage formula to arrive at the deductible portion of the loss. Attach a schedule showing your computation for the amount reported on this line.

Line 3. Corporations who are partners in a business activity taxed as a partnership that has business activity in Muskegon must enter on this line their portion of the Muskegon taxable income or loss from the partnership(s). Attach a schedule showing your computation for the amount reported on this line including the name and taxpayer identification number of the partnership(s).

INFORMATION AND PREPARER AUTHORIZATION

Third Party Designee. If the "yes" box is marked, the corporation is authorizing the Muskegon Income Tax Department to call the preparer to answer any questions that may arise during the processing of its return. The corporation is also authorizing the preparer: to give the Department any information that is missing from the return; to call the Department for information about the processing of the return or the status of any related refund or payments; and to respond to certain notices that the corporation has shared with the preparer about math errors, offsets and return preparation.

DECLARATION AND PAYMENT OF ESTIMATED TAX

- WHO MUST FILE:** Every corporation subject to the tax on all or part of its net profits must file a Declaration of Estimated Income Tax (Form M-1040ES). A Declaration is not required from corporations if the estimated tax is two hundred fifty dollars (\$250.00) or less.
- WHEN AND WHERE TO FILE AND PAY:**
 - Declaration for Calendar Year.** The Declaration for a calendar year must be filed on or before April 30th of that year. The estimated tax is payable in equal installments on or before April 30th, June 30th, September 30th and January 31st.
 - Declaration for Fiscal Year:** the Declaration for a year, or period differing from the calendar year must be filed within four (4) months after the beginning of each fiscal year or period. For example, if a fiscal year begins on April 1st, the Declaration will be due on July 31st. Remaining installments will then be due on the last day of the 6th, 9th and 13th months after the beginning of the fiscal year.
 - Filing and Payment:** The Declaration should be filed with the Muskegon City Income Tax Department, P.O. Box 29, Muskegon, MI 49443-0029. The first installment payment must accompany the Declaration. The estimated tax may be paid in full with the Declaration.

ASSISTANCE

If you have questions, would like to request forms, or need assistance in preparing your return call (231) 724-6970. Questions by mail should be directed to Muskegon City Income Tax Department, P.O. Box 29, Muskegon, MI 49442-0029.

WEBSITE

Income tax forms, instructions and additional information are available under the Income Tax Department section of the City of Muskegon website, www.shorelinecity.com/incometax.asp.

NOTICE

These instructions are interpretations of the Muskegon Income Tax Ordinance. The Ordinance will prevail in any disagreement between the instructions and the Ordinance.

2006 CITY OF MUSKEGON M-1120

CORPORATION INCOME TAX RETURN

or Fiscal Year Beginning _____, 2006 and ending _____, _____

NAME		FEDERAL EMPLOYER IDENTIFICATION NUMBER	
ADDRESS (NUMBER AND STREET OR RURAL ROUTE)			
CITY OR TOWN	STATE	ZIP CODE	

A. Amended return? ▶ <input type="checkbox"/>	See instructions	E. Initial Muskegon Return ▶ <input type="checkbox"/>	
B. Is this amended return as a result of a federal audit? ▶ <input type="checkbox"/>		F. Final Muskegon Return ▶ <input type="checkbox"/>	
C. If Yes, enter the Federal Determination date. ▶ <input type="text"/>		G. Did you file a consolidated return with the IRS? ▶ <input type="checkbox"/>	
D. Is this a consolidated return? ▶ <input type="checkbox"/>		H. Short period ▶ <input type="checkbox"/>	

TAX COMPUTATION

Round numbers to nearest dollar

1. Taxable income before net operating loss deduction and special deductions per U.S. 1120 or per Page 2, Schedule S, Line 5 (attach copy of Federal 1120 or 1120S and Schedule K)	▶	1	
2. Enter items not deductible (from Page 2, Schedule C, Column 1, Line 5)	▶	2	
3. TOTAL (add Lines 1 and 2)	▶	3	
4. Enter items not taxable (from Page 2, Schedule C, Column 2, Line 7)	▶	4	
5. TOTAL (Line 3 less Line 4)	▶	5	
6. Apportionment percentage from Schedule D	▶	6	<input type="text"/> %
7. TOTAL (multiply Line 5 by percentage on Line 6)	▶	7	
8. ADJUSTMENTS: applicable portion of net operating loss carryover and/or capital loss carryover and/or allocated partnership income	▶	8	
9. Net income	▶	9	
10. Renaissance Zone Deduction (attach Renaissance Zone Deduction Schedule) and Tool & Die Recovery Zone Deduction	▶	10	
11. TOTAL income subject to tax (Line 9 less Line 10)	▶	11	
12. Tax (multiply Line 11 by 1%)	▶	12	

PAYMENTS AND CREDITS

13. 2006 estimated payments, credits and other payments (see instructions)	▶	13	
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OVERPAYMENT, CREDIT FORWARD OR REFUND

14. If Line 13 is larger than Line 12, enter amount of Overpayment	▶	14	
15. Amount to be credited to 2007 Estimated Tax (if amended - see instructions)	▶	15	
16. Amount to be donated to Annual Project	▶	16	
17. Amount to be refunded (if amended, see instructions) via a refund check	▶	17	
18. Amount to be refunded via direct deposit to the following bank account			
a. Routing number <input type="text"/>			
b. Type of account Checking <input type="checkbox"/> Savings <input type="checkbox"/>			
c. Account number <input type="text"/>	▶	18	

TAX DUE

19. If Line 12 is larger than Line 13, enter amount of Tax Due (Make check payable to: Treasurer, City of Muskegon)	▶	19	
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SCHEDULE S

Schedule S is used by Subchapter S corporations to reconcile the amount reported on Line 1, Page 1, with federal Form 1120S and Schedule K of federal 1120S.

- 1. Ordinary income (loss) from trade or business (per federal 1120S) 1. _____
2. Income (loss) per Schedule K, federal 1120S, Lines 2 through 10 2. _____
3. Total income (loss) (add Lines 1 and 2) 3. _____
4. Deductions per Schedule K, federal 1120S 4. _____
5. Taxable income before NOL deduction and special deductions (subtract Line 4 from Line 3) Enter on Page 1, Line 1 5. _____

SCHEDULE C

Schedule C is used for adjustments provided in the City Income Tax Ordinances. The period of time used to compute these adjustments must be the same as the time period used to report income. These adjustments are allowed to the extent that they are related to income reported on Page 1, Line 1.

COLUMN 1 - ADD ITEMS NOT DEDUCTIBLE

- 1. Nondeductible portion of loss, from sale of property acquired prior to 7/1/1993 1. _____
2. All expenses (including interest) incurred in connection with income not subject to City of Muskegon income tax 2. _____
3. City of Muskegon income tax paid or accrued 3. _____
4. Other (submit schedule) 4. _____
5. Total additions (enter on Page 1, Line 2) 5. _____

COLUMN 2 - DEDUCT ITEMS DEDUCTIBLE

- 1. Interest from obligations of the United States, the states or subordinate units of government 1. _____
2. Dividends received deduction 2. _____
3. Foreign Dividend gross up 3. _____
4. Foreign taxes paid or accrued deduction 4. _____
5. Nontaxable portion of gain from sales of property acquired prior to 7/1/1993 5. _____
6. Other (submit schedule) 6. _____
7. Total Deductions (enter on Page 1, Line 4) 7. _____

SCHEDULE D

In the case of a taxpayer authorized by the Finance Director to use a special formula, attach computations and furnish the following:

- A. Copy of approval letter B. Percentage used - enter here _____ and on Page 1, Line 6.

Are you electing to use the Multistate Tax Compact Provision? YES (if yes, attach schedules) NO

INCOME APPORTIONMENT

- 1. Average net book value of real and tangible personal property
A. Gross annual rent paid for real property multiplied by 8
B. TOTAL (add Lines 1 and 1a)
2. Total wages, salaries, commissions and other compensation of all employees
3. Gross receipts from sales made or services rendered
4. Total (add Lines 1b, 2 and 3. You must compute a percentage for each line)
5. Average* (enter here and on Page 1, Line 6)

Table with 3 columns: Located Everywhere (Col. 1), Located in City of Muskegon (Col. 2), Percentage (Col. 2 ÷ Col. 1). Rows correspond to items 1-5 in the list above.

*In determining the average, divide Line 4 by 3. However, if a factor does not exist, divide the sum of the percentages by the number of factors actually used.

SCHEDULE G - AFTER ALLOCATION ADJUSTMENTS

- 1. Allocated net operating loss deduction (enter as a negative amount) 1. _____
2. Allocated capital loss carryover (enter as a negative amount) 2. _____
3. Allocated partnership income (enter income as a positive and losses as a negative) 3. _____
4. Total adjustments (add Lines 1 through 3) enter here and on Page 1, Line 8 4. _____

Where incorporated _____ Date incorporated _____ Principal business activity (NAICS) _____
Address in City of Muskegon _____ Contact Person _____ Phone _____
Total number of location(s) everywhere _____ Number of City location(s) included in this return _____

Attach a list of addresses of City of Muskegon locations included in this return

THIRD PARTY DESIGNEE Do you want to allow another person to discuss this return with the Income Tax Department?

YES (complete the following) NO

Designee's Name _____ Phone _____

Under penalty of perjury, I declare that I have examined this return (including accompanying schedules and statements) and to the best of my knowledge and belief it is true, correct and complete. If prepared by a person other than taxpayer, the declaration is based on all information of which the preparer has any knowledge.

SIGNATURE OF OFFICER _____ DATE _____ TITLE OF OFFICER _____
SIGNATURE OF OFFICER _____ DATE _____ TITLE OF OFFICER _____

DUE DATE: This return is due April 30, 2007 or at the end of the fourth month after the close of your tax year.

MAIL TO: CITY OF MUSKEGON
PO BOX 29
MUSKEGON MI 494443-0029