

Qualified Business Income

Section 199A of the Internal Revenue Code provides many taxpayers a deduction for qualified business income (QBI) from a qualified trade or business operated directly or through a pass-through entity. This change went into effect January 1, 2018. **The Louisville Metro Revenue Commission (LMRC) has determined that the QBI deduction is not applicable for purposes of the Occupational License Tax (OL-3).**

In the past, LMRC has allowed the domestic production activities deduction (DPAD) for pass-through entities only if the entity would qualify for the deduction if it were treated as a corporation. LMRC required that Form 8903 be completed and submitted for the pass-through to determine the amount of the deduction on form OL-3. This deduction was allowed at the pass-through entity level to provide these entities an equitable opportunity to take the deduction in consideration of the fact that we allowed the DPAD as a deduction for corporations.

The QBI is not available to corporations and is focused solely on the members/shareholders of pass-through entities. The specific qualifications for the QBI involve wage and income limitations that determine whether the individual member/shareholder is eligible to take the deduction. These limitations are unique to the member/shareholder and cannot be reasonably determined at the entity level.

Short-Term Rental – OL Filings

Section 280A of the Internal Revenue Code states that if a home is rented for less than 15 days during the taxable year, the income derived from that rental shall not be included in an individual's gross income for federal tax purposes.

However, this income is taxable for Occupational License purposes. Individuals who rent their homes for less than 15 days must report that income on form OL-3 for 2018. Since there would be no corresponding federal return to file with the OL-3, it is advised that individuals attach the transaction statement received from the hosting platform (Airbnb, Homeaway, etc.)

Remember, the OL-3 must be filed online or postmarked by April 15, 2019.

Valid Extension Requests

An extension may be filed if a taxpayer requires additional time to complete their return. Keep in mind an application for extension must be filed with our office by April 15, 2019. Filing of a request with the federal or state government does not satisfy the requirement of written request to LMRC. You can file an extension by logging into your eMINTS account at emints.metrorevenue.org.

In addition to being received by April 15, the extension must have at least 90% of the tax liability as filed to avoid the failure to pay penalty. For example, if the tax liability is \$1,000 at the time of filing, you

must pay \$900 with your extension in order to avoid any penalty. If you fail to pay 90% at the time of extension, a 5% per month penalty will be assessed on the unpaid amount, up to a maximum 25% of the unpaid tax due.

In addition to the 5% failure to pay penalty, interest will be charged at 1% per month on the unpaid tax liability. Interest continues to accrue until the tax is paid in full.