



**LEXINGTON**

# **LEXINGTON FAYETTE URBAN COUNTY GOVERNMENT**

## **2023 Form 228 Net Profits License Fee Return Instructions**

### **2023 Highlights**

- State and local license fees or taxes based on income (regardless of jurisdiction), must be added to Line 9 of the Net Profits Worksheet.
- In accordance with Ordinance Section 13-8.4(b) filers claiming credit on Line 9 of the front page of the Net Profits License Fee Return must claim that credit within two (2) years of the due date of the return which generated the credit, or the date payment was made to Lexington-Fayette Urban County Government (whichever is later). **If credits are not claimed within the two-year statute of limitations, they are no longer eligible for refund.**
- Net Profit License Fee Returns must have original signatures. No photocopies or emailed returns/signatures will be accepted.
- Extension requests using Form 228 EXT or Federal Forms 4868 or 7004 will be accepted if received on or before the due date **with** the estimated license fee due. The Division of Revenue account number and tax year must be included and legible on the extension request.

Due date of the return: FIFTEENTH DAY OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE FISCAL YEAR (APRIL 15, 2024, FOR CALENDAR YEAR FILERS)

Make checks payable to: LEXINGTON FAYETTE URBAN COUNTY GOVERNMENT (LFUCG)

Mail returns to: DIVISION OF REVENUE  
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
PO BOX 14058  
LEXINGTON KY 40512

Any questions please call: (859) 280-8300 Website: [www.lexingtonky.gov/revenue](http://www.lexingtonky.gov/revenue) Hours: 8:00am-5:00pm

The following instructions are provided to aid the licensee in the completion of Form 228, 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 Ordinances and Regulations. If you have any questions that are not addressed in these instructions, please refer to the License Fee Ordinance. Any interpretation of these instructions which is inconsistent with the ordinance is to be resolved in favor of the ordinance.

**Who Must File Form 228:**

1. Corporations, partnerships, sole proprietorships, estates and trusts, or other businesses engaged in an occupation, trade, profession, enterprise, or other activity with 1) business activity in Fayette County, Kentucky and 2) business nexus in Fayette County, Kentucky, sufficient to justify the imposition of the license fee.
2. Individuals and those fiduciaries acting on behalf of individuals or deceased individuals having rental income, if the gross receipts arising from the rental of real property located within Fayette County are greater than or equal to \$50,000 a year.

Any other business entity is presumed to be in business regardless of the rental income amounts.

**You Must File Form 228 Even If:**

- Your business activity resulted in a loss for the tax year. Complete Form 228 according to the instructions provided, sign the form, and return it to the Division of Revenue with the required Federal Forms, schedules, and statements.
- You were not actively engaged in business within Fayette County during the year **and meet** requirements to file exempt. Indicate “No Business Activity” on Form 228. Sign the form and return it to the Division of Revenue with the federal form 1040 and schedules.
- You were not actively engaged in business within Fayette County during the year and **do not meet** requirements to file exempt. Indicate “No Business Activity” on Form 228 pay minimum on Line 11. Sign the form and return to the Division of Revenue with federal form and schedules.
- Your business activity ceased prior to the completion of the tax period. Complete Form 228 according to the instructions provided and check “Final Return” box on the form. Complete question G, sign the form and return with federal forms and schedules to the Division of Revenue.
- You applied for a business license with the intention of starting a business but never transacted business within Lexington- Fayette County. Check the box designated “FINAL RETURN”, complete question G, sign the form and return it to the Division of Revenue.
- As a sole proprietor, your non-rental gross receipts were equal to or less than \$4,400.00 or as a sole proprietor, your rental gross receipts are less than \$50,000. You must file a return to qualify for the exemption. Check the Minimum License Fee Exemption box, attach the supporting Federal schedules, sign the form, and return it to the Division of Revenue.

**When to File:** Form 228 must be delivered or postmarked by the 15<sup>th</sup> day of the 4<sup>th</sup> month after the end of the fiscal year (April 15, 2024, for calendar year filers).

**Where to File:** All returns should be mailed to the Lexington-Fayette Urban County Government, P.O. Box 14058, Lexington, KY 40512, or delivered to 218 E. Main Street, along with your check made payable to Lexington-Fayette Urban County Government (abbreviated LFUCG).

**Signature:** If the return is being filed by a corporation, it must be signed and dated by a corporate officer authorized to sign. If the return is being filed by a partnership, it must be signed by a general partner. If the return is being filed by a sole proprietor, it must be signed by that individual. Additionally, the licensee who signs the return must print his/her name and phone number in the area provided. All signatures must be original signature or e-signature.

**Extensions:** If an extension of time for filing is required, a separate extension request to the Lexington-Fayette Urban County Government is mandatory in all cases. You must file Form 228 EXT or a copy of your federal extension application to request an automatic 6-month extension to file the Net Profit License Fee Return. All extension requests should include your Division of Revenue account number. The request must be postmarked, or hand delivered to the Division on or before the original due date and it must be accompanied by the amount estimated as due. If an extension of time for the filing of a return has been granted, any balance of the occupational tax unpaid by the regular due date bears interest at the rate of twelve percent (12%) per annum. **Penalty and/or interest will be assessed when extension is received without reasonable payment of estimated liability due.**

**Estimated Tax** - Taxpayers other than sole proprietors who may have a total tax obligation above \$5,000.00 in any tax year are required to submit quarterly estimated payments.

**Penalties for Failure to File and/or Pay:** There is a five percent (5%) penalty per month, or a fraction of a month, to a maximum of twenty-five percent (25%) of the total license tax liability for failure to file and/or pay a tax return by the regular or extended due date. **Pursuant to KRS 67.790, there is a minimum \$25.00 penalty for failure to file and/or pay any return or report by the due date.**

**Interest:** Interest is computed at 1% penalty per month, or a fraction of a month from the original due date until the date of payment.

**Refund Request:** Claims for refund or credit must be submitted within two (2) years from the due date of the tax return, or two (2) years from payment, whichever is later.

**State Exemptions** The following persons are exempt under Kentucky law from the net profits license fee and are not required to file a return.

1. Any company that pays both an ad valorem tax and a franchise tax pursuant to the provisions of KRS 136.120.
2. Persons whose **sole** business activity is the manufacture of and/or sale of alcoholic beverages. (However, persons having only a portion of their business activity being derived from the manufacturing and/or selling of alcoholic beverages are required to file a return, but may exclude that portion of their net profits derived from such manufacture and/or sale of alcoholic beverages on the appropriate Line of the Worksheet)
3. Insurance companies incorporated under the laws of and doing business in the Commonwealth of Kentucky, except as provided in KRS 91A.080.
4. Banks, trust companies, combined banks and trust companies, combined trust, banking and title businesses and savings and loan associations, whether state or federally chartered.
5. Persons whose sole wages, salaries, commissions or other compensations for work performed or services rendered in Fayette County, Kentucky, are derived from service as members of the Kentucky National Guard for active-duty training, unit training assemblies and annual field training.

6. Persons engaged in the business of conducting a racetrack at which races are run for stakes, purses or prizes, under the jurisdiction of the State Racing Commission, whose only activity in Fayette County is the conducting of such racetrack and/or the operating or maintenance of pari-mutuel machines.

**Note:** Those organizations that pay wages, salaries, commissions, or other compensation for work performed or services rendered within Fayette County must apply for a license fee account and submit withholdings on those wages, salaries, commissions or other compensation.

**Special Provisions of Local Laws:** The following persons are exempt under Fayette County ordinances from the net profits license fee and are not required to file a Net Profits License Fee Return:

- a) With regards to income or entities, Proof of Internal Revenue Service approval of not-for-profit status must be furnished upon application for a license fee account and/or upon the request of the Division of Revenue.
- b) Nonresidents who sell farm products, other than trees, shrubs, or ornamental plants, in the Urban County, or nonresident owners who sell or who board livestock in the Urban County for breeding purposes.
- c) Persons authorized by the Lexington-Fayette Urban County Government to demonstrate, sell, or offer for sale any goods, wares or merchandise at any festival or event sponsored it.
- d) Funds received from the state as a share of the various tobacco settlement funds to be paid to farmers are exempt from inclusion in net profits for the purpose of calculating the net profits which are subject to this occupational license fee.

**Licensee Information** - In order for your return to be processed properly you **must**:

- File using Division of Revenue’s Form 228, Net Profits License Fee Return.
- Complete the Worksheet on the reverse of Form 228, Net Profits License Fee Return.
- Enter or verify the account number assigned to your business, the tax year for which the return is filed and the federal identification number or social security number under which your federal tax return was filed.
- Clearly indicate or verify the name and address of the business and note any changes.
- Check the appropriate box(es) to indicate whether this is an initial, amended, or final return and if a new address is entered. In case of Amended return please attach statement indicating reason for amendment.
- Attach copies of the **appropriate federal tax forms and all supporting documentation.**
- Sign and date the return.

**Fully answer all questions which apply.** If the question does not apply to your business indicate “NA”.

**Minimum License Fee Exemption** - Check the box if gross receipts from all Federal Form 1040 Schedules C, and F plus all Form 1099-MISC were equal to or less than \$4,400.00 and/or Sch E gross receipts less than \$50,000. **Attach all federal forms** sign and date the form and return by April 15, 2024.

➤ **Section 1 Calculation of License Fee Liability**

**Line 1:** Enter the adjusted net business income from line 19 of the Worksheet 1. This worksheet **must** be completed to determine your adjusted net business income.

- Line 2:** Enter the apportionment percentage from Section 2, Line 4, Column C
- Line 3:** Multiply Line 1 by Line 2. Enter the result on Line 3.
- Line 4:** Sole Proprietors 65 years of age or older enter \$3,000.00 **and** date of birth.  
All others enter zero.
- Line 5:** Deduct Line 4 from Line 3. Enter result on Line 5.
- Line 6:** Multiply Line 5 by the license fee rate of 2.25%. **If less than \$100.00, enter \$100.00.**
- Line 7:** Enter the Minimum License Fee paid for 2023. If you did not pay the minimum for 2023, enter zero.
- Line 8:** Deduct Line 7 from Line 6. (Cannot be less than zero). This is the amount of license fee due.

**IF LINE 8 IS LESS THAN ZERO, ENTER ZERO. THE ANNUAL MINIMUM LICENSE FEE IS NOT REFUNDABLE.**

- Line 9:** Enter on Line 9 any credits due. Attach a schedule of the following credits being used: Estimated payments; Prior Year overpayments or Payments made with extensions.
- Line 10:** Deduct Line 9 from Line 8.
- Line 11:** This is the Minimum License Fee due for calendar Year 2024 (\$100.00). If this is a final return, enter zero.
- Line 12:** Add lines 10 and 11. If result is less than zero, enter the result here and on line 15.
- Line 13:** 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 per month or portion thereof, not to exceed 25%; the **minimum is \$25.00**. This penalty is to be assessed on the first day after the due date and on the first day of each succeeding calendar month until the license fee is paid, **up to 25%**. Multiply the license fee due on Line 12 by the appropriate percentage. Enter the result, **but not less than \$25.00** on the penalty Line. Interest is assessed at the rate of **one (1) percent** per month or portion thereof. **A fraction of a month is counted as an entire month**. Enter the result on the interest Line. Add the penalty and interest and enter on Line 13.
- Line 14:** Total Amount Due (add Lines 12 and 13).
- Line 15:** Enter amount of overpayment from line 12. Leave blank if line 12 shows License Fee Due
- Line 16:** Enter amount from Line 15 to be refunded.
- Line 17:** Enter amount from Line 15 to be credited to 2024.

- **Section 2 - Calculation of Business Allocation Percentage - must be completed by all licensees with sales revenues and/or payroll both within and without Fayette County.** Completion of the schedule apportions to the Lexington-Fayette Urban County Government the proportionate part of the licensee's total business activity attributable to Fayette County. If your business is conducted entirely within Fayette County, it is not necessary to complete Section 2. Instead, enter 100% on Section 1, Line 2, and complete Lines 3 through 17 of Section 1.

### Sales factor

**Line 1, Column A:** Enter the total sales revenue from the sale, lease, or rental of goods, services, or property received from **all Fayette County sources** during the period covered by the Net Profits License Fee Return. Include receipts attributable to activities or work performed in Fayette County.

**Line 1, Column B:** Enter the total sales revenue from the sale, lease, or rental of goods, services, or property received from **all sources** during the period covered by the Net Profits License Fee Return.

**Line 1, Column C:** Divide Column A by Column B. Enter the result on Line 1, Column C. Carry out to at least six (6) decimal places.

### Payroll factor

**Line 2, Column A:** Enter the total compensation paid or payable to employees for work done or services performed or rendered **within Fayette County** during the tax period.

**Line 2, Column B:** Enter the total compensation paid or payable to employees 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 not 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 to at least six (6) decimal 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 (sales factor or payroll factor) is missing, then the remaining factor is the average allocation percentage (Line 2 of Section 1). A factor (sales factor or payroll factor) is considered missing if:

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

➤ **Worksheet 1 - Calculation of Adjusted Net Business Income** - Refer to the following list to determine which column should be used in completing Worksheet 1.

- **1099-MISC:** Individuals receiving payments for contract services who are not claiming business expenses should complete the column marked Individual.
- **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.
- **Form 1041 and other associations:** Fiduciaries and all others should complete the column marked Individual.
- **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 filings.

**Line 1:** Enter the amount of non-employee compensation reported on Federal Form 1099 MISC or the amount of other income per Form 1040. **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 or C-EZ (attach a copy of Federal Form 1040 and all applicable schedule(s)).

**NOTE:**For individuals, schedule C income or loss should be reported on line 2 only if it the associated income is over \$4,400.00. If the income qualifies for exemption, the loss/gain cannot be included.

**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 Federal Form 4797, Form 6252 and/or Schedule D).

**Line 4:** For sole proprietors using Schedule E from a jointly filed Federal Form 1040 the 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 Urban County and must be consistently applied on all future returns.

**NOTE:** For individuals, rental income or (loss) from the rental of real property should be reported on Line 4 only if the rental property constitutes a **“business activity”**. Rental property is considered a **“business activity”** when the licensee’s Fayette County rental activities produce gross rents of \$50,000 or more per year.

**NOTE:** This test is to be applied on the same basis as the individual’s filing status for federal tax purposes. If the licensee and his/her spouse file married filing joint for federal tax purposes the licensee and his/her spouse is limited to one \$50,000 test regardless of how the Schedule E amounts were combined on Form 228. In addition, single member LLC’s filing as sole proprietors for federal tax purposes are considered to be individuals for purposes of this test.

Corporations, partnerships, and other associations who have business activity in the Urban County and receive income from the rental, ownership or management of real property, wherever located, are considered to be in the business of renting said property, regardless of the amount of gross rental income. The net profits from such rental, ownership or management shall be included in the corporation, partnership, or other association’s Net Profits License Fee Return.

Licensees shall include in net profits any capital gain arising from the sale of any real property included in the licensee’s business of renting real property. An individual’s or fiduciary’s real property is presumed to be included in the licensee’s business of renting property if the **licensee met the “business activity” test referenced above in the current or previous tax year.**

**Line 5:** Enter the net profit or (loss) per federal Schedule F (attach a copy of Federal Form 1040 and all applicable schedule(s)). Farm income should be reported only if the farm is located within Fayette County.

**Line 6:** Enter the ordinary gain or (loss) on the sale of property used in a trade or business per Federal

Form 4797 (attach Federal schedules).

**Line 7:** Enter the ordinary income per Federal Form 1065 (attach Form 1065 and applicable schedules).

**Line 8:** Enter the taxable income or (loss) per Federal Form 1120 or 1120A or Ordinary income or loss per Federal Form 1120S (attach applicable Federal Form and schedules).

**Line 9:** 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 10:** 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 10.

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

**Enter the total of these items on Line 10 (attach a copy of Schedule K, and rental schedule(s), if applicable).**

**Line 11:** 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 11.

**Line 12:** Total Income – Add Line 1 through Line 11.

**Line 13:** 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 13.

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

**Enter the total of these items on Line 13 (attach a copy of Schedule K, and rental schedule(s), if applicable).**

**Note:** Contributions to KEOGH plans, Simplified Employer Pension plans, and medical insurance premiums whether paid on behalf of partners, shareholders or individual owners are not deductible on the Net Profits License Fee Return.

**Line 14:** Enter the Alcoholic Beverage Sales Deduction. 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 equals the alcoholic beverage percentage.**

Multiply the alcoholic beverage percentage by Line 12 minus Lines 13 and 15. **Note:** A deduction may be taken only if the business engaged in the selling of alcoholic beverages had a profit.

**Line 15:** Enter other adjustments not included elsewhere on this Worksheet (attach a full explanation,



including amounts, of all items). Examples are 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.

**Line 16:** Non-Taxable Income examples are Tobacco buyout income, interest on government securities, (attach schedule).

**Line 17:** Professional Expenses not reimbursed by the partnership (attach schedule).

**Line 18:** Total Deductions – Add Line 13 through 17.

**Line 19:** Adjusted Net Profit – Subtract Line 18 from Line 12. Enter here and on Line 1 of Section 1 on the front of the Net Profit form 228.