

INSTRUCTIONS FOR PREPARING
FORM 500
VIRGINIA CORPORATION INCOME TAX
RETURN FOR 2016



COMMONWEALTH OF VIRGINIA
DEPARTMENT OF TAXATION
RICHMOND, VIRGINIA

Instructions for Preparing Form 500

Virginia Corporation Income Tax Returns for 2016

What's New

Advancement of Virginia's Fixed Date Conformity with the Internal Revenue Code

Virginia's date of conformity with the Internal Revenue Code (IRC) was advanced from December 31, 2014 to December 31, 2015, with limited exceptions. Virginia will continue to deconform from the bonus depreciation allowed for certain assets under federal law; the five-year carryback of certain federal net operating loss (NOL) deductions generated in Taxable Year 2008 or 2009; the federal income tax treatment of applicable high yield discount obligations; and the federal income tax treatment of cancellation of debt income realized in connection with certain business debts.

At the time these instructions went to print, the only required fixed date conformity adjustments were those mentioned above. However, if legislation is enacted that results in changes to the IRC for the 2016 taxable year, taxpayers may need to make adjustments to their Virginia returns that are not described in these instructions. Information about any such adjustments will be posted on the Department's website at www.tax.virginia.gov.

Food Crop Donations to a Nonprofit Food Bank Tax Credit

For taxable years beginning on and after January 1, 2016, but before January 1, 2022, a tax credit is allowed for taxpayers that are engaged in the business of farming for growing food crops in the Commonwealth and donating such crops to a nonprofit food bank. The amount of the credit is equal to 30% of the fair market value of such crops. No taxpayer is permitted to claim more than \$5,000 in credits for a taxable year. This credit is subject to a \$250,000 annual credit cap.

To the extent a credit is allowed for growing food crops in the Commonwealth and donating such crops to a nonprofit food bank, an addition to a taxpayer's federal taxable income is required for any amount claimed by the taxpayer as a federal income tax deduction for such donation.

Modified Method of Apportionment for Taxpayers with Enterprise Data Center Operations

A taxpayer with an enterprise data center operation that enters into a memorandum of understanding with the Virginia Economic Development Partnership Authority ("VEDP") to make a new capital investment of at least \$150 million in an enterprise data center in Virginia is required to apportion Virginia taxable income using a single sales factor method of apportionment. This modified method of apportionment is phased in as follows:

- From July 1, 2016 until July 1, 2017, qualifying corporations are required to use a quadruple-weighted sales factor; and
- From July 1, 2017, and thereafter, qualifying corporations are required to use the single sales factor method of apportionment.

Research and Development Expenses Tax Credit

For taxable years beginning on and after January 1, 2016, several changes were made to the existing Research and Development Expenses Tax Credit. Such changes include increasing the annual credit cap from \$6 million to \$7 million, increasing the amount of credits each taxpayer may claim, allowing a taxpayer to determine the credit using a simplified method in lieu of the primary statutory method, extending the sunset date for the credit from taxable years beginning before January 1, 2019 to taxable years beginning before January 1, 2022, and prohibiting a taxpayer from claiming both this credit and the new Major Research and Development Expenses Tax Credit for the same taxable year.

Major Research and Development Expenses Tax Credit

Taxpayers with Virginia qualified research and development expenses in excess of \$5 million for a taxable year may claim the new Major Research and Development Expenses Tax Credit. The amount of the credit is equal to 10% of the difference between the Virginia qualified research and development expenses paid or incurred by the taxpayer during the taxable year; and 50% of the average Virginia qualified research and development expenses paid or incurred by the taxpayer for the 3 taxable years immediately preceding the taxable year for which the credit is being determined. If the taxpayer did not pay or incur Virginia qualified research and development expenses in any one of the 3 taxable years immediately preceding the taxable year for which the

credit is being determined, the credit is equal to 5% of the Virginia qualified research and development expenses paid or incurred by the taxpayer during the taxable year. The total amount of Major Research and Development Expenses Tax Credits that may be issued for each fiscal year is limited to \$20 million.

Exception to the Captive REIT Addition

For taxable years beginning on or after January 1, 2016, any voting power or value of the beneficial interests or shares in a real estate investment trust ("REIT") that are held in a separate asset account of a life insurance corporation are excluded from consideration for purposes of determining whether a REIT is a captive REIT subject to the Virginia income tax addition for captive REITs.

Assistance

www.tax.virginia.gov

The Department's website contains valuable information to help you.

- **Online Services** - Link to online registration, filing, payment, and other electronic services.
- **Laws, Rules & Decisions** – Access the Code of Virginia, Tax Regulations, Legislative Summaries, Rulings by the Tax Commissioner, Tax Bulletins and Attorney General Opinions.
- **e-Alerts** – Sign up and stay informed. By subscribing, you will periodically receive automatic e-mail notifications regarding legislative changes, filing reminders, and other relevant information.

Contact the Department

Customer Service Inquiries

Department of Taxation
P.O. Box 1115
Richmond, Virginia 23218-1115

Phone: (804) 367-8037

FAX: (804) 254-6111

Forms Request Unit

Department of Taxation
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INSTRUCTIONS FOR PREPARING FORM 500
VIRGINIA CORPORATION INCOME TAX RETURNS FOR 2016
(References are to the Code of Virginia, unless otherwise noted)

General Information

Corporations Required to File

Every corporation organized under the laws of Virginia, every foreign corporation registered with the State Corporation Commission for the privilege of doing business in Virginia, and every corporation having income from Virginia sources, aside from corporations that qualify for an exception, must (with the exceptions stated in these instructions) file a return through the Federal/State e-File program. The return should be submitted and accepted on or before the 15th day of the 4th month (15th day of the 6th month for nonprofit corporations) following the close of its taxable year.

Receivers, trustees in dissolution, trustees in bankruptcy, and assignees, operating the property or business of corporations must make returns of income for such corporations. If a receiver has full custody of and control over the business or property of a corporation, he is deemed to be operating such business or property, whether he is carrying on the business for which the corporation was organized or is only in marshaling, selling, or disposing of its assets for purposes of liquidation. (*Va. Code* § 58.1-441).

A Foreign Sales Corporation (FSC) and any income attributable to an FSC are exempt under Virginia law; however, it may be necessary for an FSC to file an information return if it meets the provisions of *Va. Code* § 58.1-441 and the regulations thereunder.

Any electric supplier, pipeline distribution company, gas utility, or gas supplier that is subject to federal income tax is also subject to the Virginia corporation income tax and should file a Virginia Corporation Income Tax Return, Form 500.

Electric suppliers may be subject to a minimum tax instead of the corporate tax for any taxable year that their minimum tax liability is greater than their corporate income tax liability. Schedule 500EL is used to compute the minimum tax and determine which tax applies.

Electric Cooperatives are subject to tax on all modified net income derived from nonmember sales and must file a Form 500EC even if no tax is due. Electric cooperatives may be subject to a minimum tax instead of the modified net income tax if their minimum tax liability is greater than their modified net income tax liability. See Schedule 500MT.

Beginning on or after January 1, 2009, a Captive REIT is required to add back any federal deduction for dividends paid to its shareholders. It will then allocate and apportion income, and pay Virginia income tax, in the same manner as other corporations. A Captive REIT is defined as a REIT (i) whose shares are not publicly traded, (ii) 50% or more of the shares are owned by a corporate entity, and (iii) more than 25% of the income of the REIT consists of rents from real property. Exceptions are provided to ensure that an affiliated group of REITs will not be considered captive REITs unless

the ultimate ownership of the group is by a single corporate entity. Also, entities organized under the laws of Australia and other foreign countries that are similar to REITs will not be considered a captive REIT, if they are widely held. In addition, for taxable years beginning on or after January 1, 2016, any voting power or value of the beneficial interests or shares in a REIT that are held in a separate asset account of a life insurance corporation are excluded from consideration for purposes of determining whether the REIT is a captive REIT for purposes of the addition.

Electing small business corporations, not taxable as corporations under *Va. Code* § 58.1-400, are required to file Form 502, for pass-through entities.

Exempt Corporations

Corporations not organized for pecuniary profit, which are also exempt from income tax under IRC § 501(c), are taxed only on their unrelated business taxable income and must report that unrelated business income on Form 500; otherwise, no returns are required.

Public service corporations that pay a state franchise tax or license tax upon gross receipts, insurance companies that pay a state license tax on gross premiums and reciprocal or inter-insurance exchanges that pay a premium tax to the state are not required to file an income tax return. Additionally, state and national banks, banking associations, trust companies, and credit unions organized and conducted as banking institutions are not taxed on their income by Virginia and are not required to file an income tax return. In addition, effective for taxable years beginning on or after January 1, 2014, Interest-Charged Domestic International Sales Corporations (IC-DISCs) are exempt from Virginia Corporation Income Tax and are not required to file an income tax return. (*Va. Code* § 58.1-401.)

Nonprofit Hospitals

Nonprofit hospitals are required to provide the Department with a copy of the hospital's federal Form 990 or Form 990-EZ (or the successor form to such form) that was filed with the Internal Revenue Service for the relevant year. Non-Profit Hospitals are not required to file a Form 500; therefore, a paper copy of the federal Form 990 or Form 990-EZ must be mailed directly to the Department. A paper copy of the form shall be provided to the Department within 30 days following the filing of the federal Form 990 or Form 990-EZ tax form with the Internal Revenue Service. In addition, such hospital shall provide the Department a copy of any interim tax form, report, or return that the hospital filed with or provided to the Internal Revenue Service for the relevant year pursuant to Title 26 of the United States Code or the rules and regulations thereunder. The copy of the interim tax form, report, or return shall be provided to the Department within 30 days following the filing of the same with, or the providing of the same to, the Internal Revenue Service.

Period to be Covered by Return

A corporation's taxable year is the same as its taxable year for federal income tax purposes. If a corporation's taxable year is changed for federal income tax purposes, its taxable year also changes for state income tax purposes. (*Va. Code* § 58.1-440.)

Accounting Methods

A corporation's method of accounting is the same as its method of accounting for federal income tax purposes. In the absence of any method of accounting for federal income tax purposes, Virginia taxable income shall be computed using the accounting method that is regularly used in the corporation's bookkeeping, provided such method clearly reflects income in the opinion of the Department. If a corporation's accounting method changes for federal income tax purposes, it also changes for state income tax purposes. (*Va. Code* § 58.1-440.)

Standard Apportionment Method for Corporations

A double-weighted sales factor is used for corporate apportionment. Under this formula, the sales factor is weighted 50% and payroll and property are both weighted 25% in determining the overall corporate income apportionment factor.

Apportionment for Manufacturers - Alternative Election

Qualifying manufacturing corporations may elect to determine their Virginia taxable income by using a single sales factor method of apportionment based on sales. This modification will be phased in as follows:

- A triple-weighted sales factor method of apportionment may be elected for taxable years beginning on or after July 1, 2011, but before July 1, 2013;
- A quadruple-weighted sales factor method of apportionment may be elected for taxable years beginning on or after July 1, 2013, but before July 1, 2014; and
- A single sales factor method of apportionment may be elected for taxable years beginning on and after July 1, 2014.

For purposes of this election, a manufacturing corporation is defined as a domestic or foreign corporation primarily engaged in activities that in accordance with the North American Industry Classification System (NAICS), United States Manual, United States Office of Management and Budget, 1997 Edition, would be included in Sector 11, 31,32, or 33. See the instructions for Schedule 500A for details on how to compute apportionment factors.

Apportionment for Retail Companies

Retail companies are required to use a single sales factor method of apportionment for taxable years beginning on and after July 1, 2015.

For purposes of this requirement, a retail company is defined as a domestic or foreign corporation primarily engaged in activities that, in accordance with the North American Industry Classification System (NAICS), United States Manual, United States Office of Management and Budget, 1997 Edition, would be included in Sectors 44-45.

See the instructions for Schedule 500A for details on how to compute apportionment factors.

Apportionment for Certain Enterprise Data Center Operations

A taxpayer with an enterprise data center operation that enters into a memorandum of understanding with the Virginia Economic Development Partnership Authority ("VEDP") to make a new capital investment of at least \$150 million in an enterprise data center in Virginia is required to apportion Virginia taxable income using a single sales factor method of apportionment. This modified method of apportionment is phased in as follows:

- From July 1, 2016 to July 1, 2017, qualifying corporations are required to use a quadruple-weighted sales factor; and
- From July 1, 2017, and thereafter, qualifying corporations are required to use the single sales factor method of apportionment.

When to File

Every corporation income tax return must be submitted on or before the 15th day of the fourth month (15th day of the 6th month for nonprofit corporations) following the close of a corporation's taxable year. (*Va. Code* § 58.1-441).

How to File

The Department requires that corporation income tax returns and payments be submitted electronically. There are two options available. Returns may be filed through the Federal/State e-File program, or certain Virginia corporations may qualify to file a Form 500EZ using eForms on the Department's website. See below for more information.

e-File (Form 500)

The e-File system is supported by numerous commercial software programs. e-File software will automatically check for completeness, correct errors, generate the applicable corporation income tax schedules, and electronically transmit the return and payment to the Federal/State e-File processing systems. A list of approved commercial software is available on the Department's website. If a tax payment is required, the payment can be made through e-File or eForms as a direct debit, or the corporation may pay with an ACH Credit established through the corporation's bank. The e-File program provides many benefits to corporations:

- The federal and state returns may be filed electronically at the same time.
- The federal return is automatically provided to the state electronically.
- Consolidated and combined returns are supported.
- Portable Document Format (PDF) files of required documents may be attached.
- Choice of approved e-File software programs. Corporations may find their current software already supports e-Filing.
- The ability to schedule to pay a tax due through direct debit for a future date when filing before the due date.

- e-File prior year returns for up to 2 tax years.

In order to successfully e-File, the corporation must:

- Use an approved commercial e-File software product. Approved e-File software vendors will be listed on our website.
- Be able to create a readable PDF. This means you must either have a scanner that allows you to scan documents into a PDF file, or software that allows you to save documents as a PDF. This feature will allow you to e-file your state return if the IRS does not support the federal return and/or schedules through the e-File system. You can attach unsupported federal returns and schedules as PDF files to the state return electronic transmission.
- The Virginia e-File program has been designed to accept transmission of the federal and state return together or separately. This is often referred to as a state-only transmission. The state only transmission option can be used when the federal return being filed is not supported by the federal e-File system. This allows the state return to be e-Filed by itself. Most software vendors support the electronic transmission of the federal and state returns together or separately.
- Large corporations must decide whether to use an Electronic Return Originator (ERO) to electronically file the return or prepare and e-File the return themselves. If a corporation chooses to prepare and e-File the return themselves, they may have to register and apply with the IRS to obtain an Electronic Filing Identification Number (EFIN) and possibly an Electronic Transmitter Identification Number (ETIN) depending upon the e-File option chosen. See our website for detailed information.
- Small corporations should use an online provider to avoid having to register with the IRS for an Electronic Filing Identification Number (EFIN).

eForms (Forms 500EZ, 500CP, 500V, and 500ES)

An online return, Form 500EZ, is available through the eForms application on the Department's website. This return is a shorter version of the existing Form 500, and is designed to simplify the filing process. You can submit corporation income tax payments electronically through eForms as well. This includes return payments (Form 500V), estimated payments (Form 500ES) and extension payments (Form 500CP). Using eForms is a fast and free way to file and pay state taxes.

To be eligible to file Form 500EZ, you must meet all of the criteria below:

- 100% of the corporation's business is in Virginia.
- The total additions to federal taxable income are \$1,000 or less.
- The total subtractions from federal taxable income are \$1,000 or less.
- The corporation may not claim the Savings and Loan Association Bad Debt Deduction.
- The corporation is not included in a consolidated or combined filing of another entity.

- The corporation claims no tax credits other than tentative tax payments or estimated tax payments.
- The corporation is not required to pay federal Alternative Minimum Tax.
- The taxpayer is not a Telecommunications Corporation required to file Form 500T or an Electric Cooperative required to file Form 500EL.
- The corporation will not claim a Net Operating Loss Deduction for the year being filed.
- The Corporation is not a Pass-Through Entity.
- The Federal Taxable Income of the Corporation may not exceed \$40,000 for the taxable year of this form.
- The Corporation may not have any Fixed-Date Conformity Adjustments or Modifications

If the corporation meets the above conditions, complete and file Form 500EZ on the Department's website under eForms at www.tax.virginia.gov.

Waiver Request

If you are unable to file and pay electronically, you may request a waiver. All requests for waivers must be submitted to the Department in writing using the Corporation Income Tax Electronic Filing Waiver Request form on the Department's website at www.tax.virginia.gov.

Extension of Time

You are allowed an automatic 7-month extension of time (6 months for nonprofit corporations and entities other than C-corporations) to file your corporation income tax return. This provision does not extend the due date for payment of taxes; and you must pay at least 90% of your tax by the original due date for filing the return.

If Form 500 is filed within the automatic extension period, but less than 90% of the tax liability was paid by the original due date, an extension penalty will apply. The extension penalty is imposed at the rate of 2% per month or part of a month on the balance of the tax due with the return from the original due date through the date of filing to a maximum of 14% (12% for nonprofit corporations and entities other than C-corporations). If an additional tax payment is needed to ensure that the tax liability has been paid, the extension payment must be made electronically. The Department provides two secure online options for submitting extension payments, eForms (using Form 500CP) and Business iFile. Corporations can also pay using an ACH Credit transaction. Electric cooperatives are required to make sufficient payments based on their estimated modified net income tax liability. **If the return is filed after the extended due date, a 30% late filing penalty will apply on the balance of tax due with the return. The minimum penalty for failure to file timely is \$100.**

If any amount of the tax is underestimated, interest accrues at the underpayment rate set in IRC § 6621, plus 2%.

Penalties and Interest

If the return is filed within the 7-month extension (6 months for nonprofit corporations), but the corporation failed to pay 90% of the tax due by the original due date, then the corporation

is subject to an extension penalty of 2% per month or fraction of a month thereof from the original due date to the filing of the corporation income tax return to the date of payment. The penalty is applied to the balance of tax due with the return from the original due date through the date of filing. The maximum extension penalty is 14% of the tax due (12% for nonprofit corporations and entities other than C-corporations). If the return is filed after the extended due date, the extension provisions do not apply and the corporation is subject to the late filing penalty. (*Va. Code* § 58.1-455.) In no case will the penalty for failure to file timely be less than \$100, and this minimum \$100 penalty applies whether or not tax is due for the period covered by the return. If Form 500 is filed within the extension period and the total amount due is not included with the return, the late payment penalty will be assessed at the rate of 6% per month from the date of filing through the date of payment, up to a maximum of 30% of the tax due. Civil and criminal penalties may be imposed for filing a fraudulent return. The criminal penalty for filing a fraudulent return is a Class 6 felony. (*Va. Code* § 58.1-451 and *Va. Code* § 58.1-452.) Interest on the unpaid balance of any tax and penalty is charged at the underpayment rate established by IRC § 6621, plus 2%, from the due date until paid.

Penalty for Returned Check or EFT Nonpayment.

If your bank does not honor your payment to the Department, the Department may impose a penalty of \$35, as authorized by *Va. Code* § 2.2-614.1. This penalty will be assessed in addition to other penalties due.

Return Forms and Schedules

Listed below are the available forms and schedules to submit through the Federal/State e-File Program.

Form 500 - Corporation Income Tax Return. Used to compute a corporation's income tax liability and to determine the amount of tax due or the amount of the refund.

Schedule 500ADJ - Schedule of Adjustments. Used to report additions to or to claim subtractions from Federal Taxable Income and to claim withholding reported to a corporation by a Pass-Through Entity on Virginia Schedule VK-1. Also, used to compute the corrected tax liability for an amended Form 500.

Schedule 500CR - Schedule of Credits. Used to claim both nonrefundable and refundable credits.

Schedule 500FED – Schedule of Federal Line Items. Used to report specific line items from the corporation's federal income tax return.

Schedule 500A - Multistate Corporation. Used to allocate and apportion income by corporations that transact or conduct part of their business within Virginia and part of their business outside Virginia.

Schedule 500AB – Schedule of Related Entity Add Backs and Exceptions. Used to: (i) add back certain deductions that may be taken by a corporation on its federal return for interest, royalties, and other expenses related to intangible property such as trademarks and patents; (ii) report payments; and (iii) identify exceptions.

Schedule 500AC – Schedule of Affiliated Corporations. Corporations filing as Combined or Consolidated are required to submit a Schedule 500AC for each member, including the parent company, that is doing business in Virginia, or that has Virginia source income, and is part of the group included in this tax return. The number of Schedules AC enclosed with the return must equal the number of affiliates reported on Form 500, Page 1.

Form 500C – Underpayment of Estimated Tax. Used to determine if an addition to tax charge is owed for failure by the corporation to pay sufficient estimated tax during the taxable year.

Form 500T – Telecommunication Companies Minimum Tax. Every telecommunications company as defined by statute and certified by the State Corporation Commission must complete and submit Form 500T.

Schedule 500EL – Electric Suppliers Corporation Minimum Tax and Credit Schedule. Every electric supplier as defined by statute and certified by the State Corporation Commission must complete and submit Schedule 500EL.

Attach Copy of the Federal Return The corporation must submit a copy of the income tax return that it filed with the IRS to the Department.

Not all federal income tax returns are available to electronically file. If the federal income tax return is not available to file electronically, then the federal return can be attached as a PDF file to the Virginia electronic return.

Consolidated or Combined Returns

If one corporation owns 80% or more of the outstanding voting stock of another corporation(s), or if 80% or more of the outstanding voting stock of two or more corporations is owned by the same interest, a consolidated or a combined return may be filed by those corporations that are subject to Virginia income taxes. Returns filed on a consolidated or combined basis must enclose with the group return a completed Schedule of Affiliated Corporations, Schedule 500AC, for each member included in the combined or consolidated Virginia return, including all affiliates and the parent company.

If a corporation elects to file on a separate, consolidated, or combined basis, all returns thereafter must be filed on the same basis, unless the Department grants permission to change the election. (*Va. Code* § 58.1-442.) A binding election is made in the first year in which a group of affiliated corporations is eligible to file a consolidated or combined return in Virginia. *Prior elections continue in effect and can be changed only if permission is granted by the Department.*

If a group of affiliated corporations has previously elected to file separate returns or a combined return for two or more members, then permission to file a consolidated return will generally be denied unless the group: (1) files a consolidated federal return, and (2) includes corporations that are required for Virginia purposes to use different apportionment factors. Any request to switch from one filing method to another must be submitted on or before the due date for the first return to use the requested filing method.

For purposes of *Va. Code* § 58.1-442:

- (1) a consolidated return means a single return for a group of corporations affiliated within the meaning of *Va. Code* § 58.1-302, prepared in accordance with the principles of IRC § 1502 and the regulations thereunder;
- (2) a combined return means a single return for a group of corporations affiliated within the meaning of *Va. Code* § 58.1-302, in which income or loss is separately determined in accordance with the following:
 - a. Virginia taxable income or loss is computed separately for each corporation;
 - b. allocable income is allocated to the state of commercial domicile separately for each corporation;
 - c. apportionable income or loss is computed utilizing separate apportionment factors for each corporation; and
 - d. income or loss computed in accordance with a through c above is combined and reported on a single return for the affiliated group.

All supplementary and supporting schedules filed with a consolidated or combined return should be prepared in columnar form, one column being provided for each corporation included in the consolidated or combined return. Supporting schedules for consolidated returns should also include a column for totals of like items before adjustments are made, a column for intercompany eliminations and adjustments, and a column for totals of like items after giving effect to the eliminations and adjustments. The items included in the columns for eliminations should be symbolized to readily identify contra items affected, and suitable explanations should be added if necessary.

Prohibition of worldwide consolidation or combination. The Department shall not require, and no corporation may elect, that a consolidation or combination of an affiliated group include any controlled foreign corporation, the income of which is derived from sources outside of the United States. (*Va. Code* § 58.1- 443.)

Effective for applications filed with the Department on or after July 1, 2003, a group of affiliated corporations that has filed Virginia income tax returns on the same basis for at least the preceding 20 years will be granted permission to change the basis of the type of return filed from consolidated to separate or from separate or combined to consolidated if:
(1) the tax computed under the affiliated group's requested return basis would be equal to or greater than the tax for the full taxable year immediately preceding the taxable year for which the requested return basis would be applicable; and
(2) the affiliated group agrees to compute its tax liability under both the requested return basis and the elected return basis and pay the greater of the two amounts for the taxable year in which the requested return basis is effective and for the immediately succeeding taxable year.

In-State Corporations

If the entire business of the corporation is transacted or conducted within Virginia, the tax is computed upon the entire Virginia taxable income of the corporation for each taxable

year. The entire business of the corporation will be considered to have been transacted or conducted within this state if the corporation is not subject to a net income tax, a franchise tax measured by net income or a franchise tax for the privilege of doing business in another state. (*Va. Code* § 58.1-405.)

Multistate Corporations

A corporation having income from business activity that is taxable both within and without Virginia must allocate and apportion its net income as provided in *Va. Code* § 58.1-406 through *Va. Code* § 58.1-421. Such a corporation must complete and attach Schedule 500A to the return. A corporation is not taxable in another state if that state is prohibited from imposing an income tax on the corporation because its business activity in the state does not exceed the minimum standards set forth in Public Law 86-272. (15 U.S.C.A. §§ 381 - 384.)

Report of Change in Federal Taxable Income

If the amount of a corporation's federal taxable income as reported on its federal income tax return for any taxable year is changed or corrected by the IRS (or other competent authority), or is changed as the result of a renegotiation of a contract or subcontract with the United States, the taxpayer must report this change to the Department within one year. Any taxpayer filing an amended federal return must also file an amended state return and must pay any additional tax and interest due, if applicable.

Refund of Virginia Tax

A corporation may file an amended return to claim a refund within the later of:

- (1) 3 years from the due date of the return or extended due date (whichever is later);
- (2) 1 year from the final determination of any change or correction in the liability of the taxpayer for any federal tax upon which the state tax is based, provided that the refund does not exceed the amount of the decrease in Virginia tax attributable to such federal change or correction;
- (3) 2 years from the filing of an amended Virginia return resulting in the payment of additional tax, provided that the amended return raises issues relating only to the prior amended return and the refund does not exceed the amount of the tax payment made with the prior amended return; or
- (4) 2 years from the payment of an assessment, provided that the amended return raises issues relating only to the prior assessment and the refund does not exceed the amount of tax paid on the prior assessment.

Attach a copy of federal Forms 1120X or 1139, the Revenue Agent's Report, Statement of Adjustment to Your Account, or other forms or statements showing the nature of any federal change and the date that it became final. For an Electric Cooperative subject to the modified net income tax, an amended return may be filed on Form 500EC.

The Federal/State e-File program only supports amended returns for the current taxable year and the 2 preceding taxable years. Amended returns for prior taxable years

must be filed by paper. Amended Forms 500EC will also need to be filed by paper. For the above-mentioned types of amended returns, write to: **Virginia Department of Taxation, P.O. Box 1500, Richmond, Virginia 23218-1500.**

Net Operating Loss Deductions

Note: Virginia tax law generally conforms to the IRC as it existed on December 31, 2015. There is no specific Virginia statutory provision allowing net operating loss deductions, carrybacks or carryforwards. However, because the starting point (Line 1, Form 500) for computing Virginia taxable income is federal taxable income, taxpayers are generally permitted to claim net operating loss deductions, carrybacks, and carryforwards for Virginia tax purposes to the extent that such losses were included in federal taxable income. Since federal income must be modified for Virginia additions and subtractions, the additions and subtractions of the loss year follow the federal loss to the year the loss is utilized. Thus, if the federal net operating loss is fully utilized in a carryback or carryover year, the net amount of additions and subtractions will be applied in the same ratio to the applicable year. The federal net operating loss deduction may be used only to reduce federal taxable income, and a federal net operating loss deduction cannot create or increase a federal net operating loss.

Also, due to the reduced tax liability in carryback and carry forward years, any credits previously claimed in those years may need to be adjusted as well as the credit carryover amounts. An amended Form 500 should be filed indicating the change in the amount of credits claimed and the corrected carryover amounts. Attach a revised Schedule 500CR to the amended returns filed to report the changes to the credit(s) claimed or carryover amount resulting from the net operating loss carryback.

In most cases, the carryback period for net operating losses will be the same for federal and Virginia purposes. However, under IRC § 172(b)(1)(H), taxpayers may carryback net operating loss deductions generated in taxable years 2008 and 2009 for 5 years for federal purposes. Virginia does not conform to that provision of the IRC and such losses may only be carried back for 2 years for Virginia purposes. Consequently, to the extent that federal and Virginia net operating loss carrybacks and carryforwards differ, separate accounting will be required.

Note: Do not file Form 500 to carryback a net operating loss. Use Form 500NOLD, Corporation Application for Refund Carryback of Net Operating Loss. Be sure to file the correct form. Using the incorrect form will delay the processing of your return and may result in having your tax return sent back to you. File Form 500 NOLD by paper; the form is not supported by the Federal/State e-File Program. For a copy of the Virginia regulations, visit www.tax.virginia.gov. **For more information, call (804) 367-8037 or write to Virginia Department of Taxation, P.O. Box 1115, Richmond, VA 23218-1115. Tenemos servicios disponibles en Español.**

Estimated Income Tax

Corporation estimated income taxes (Form 500ES) must be

filed and paid electronically. Visit www.tax.virginia.gov for details on electronic payment options which include e-Forms, Business iFile, and ACH Credit EFT.

In case of any underpayment of estimated tax by a corporation, *Va. Code* § 58.1-504 requires that an addition to tax be made at the established interest rate for underpayments unless one of the exceptions in that section applies. Use **Form 500C** to compute this addition to the tax and/or to indicate that an exception applies.

Calendar Year Filers

Every corporation subject to Virginia income tax that uses a calendar year accounting period is required to make a declaration of estimated tax for the calendar year if its Virginia income tax for that period can reasonably be expected to exceed \$1,000. Payment of the estimated tax must be made to the Department as follows: 25% by April 15, 25% by June 15, 25% by September 15, and 25% by December 15.

Fiscal Year Filers

If a corporation's accounting period is a fiscal year, the corporation is required to make a declaration of estimated income tax and pay 25% of the amount due to the Department by the 15th day of the 4th month following the beginning of its fiscal year. Subsequent installments will be payable by the 15th day of the 6th month, the 15th day of the 9th month, and the 15th day of the 12th month following the beginning of its fiscal year. (*Va. Code* § 58.1-500 - *Va. Code* § 58.1-504.)

Virginia Taxable Income

Virginia taxable income for a taxable year means the federal taxable income for such year of a corporation (or the "investment company taxable income" of regulated investment companies, or the "real estate investment trust taxable income" of real estate investment trusts, to which shall be added in each case any amount of capital gains taxable to the corporation under federal law) or the unrelated business taxable income of organizations exempt from income tax under IRC § 501(c), adjusted as provided under *Va. Code* § 58.1-402; except a corporation subject to the provisions of *Va. Code* § 58.1-403.

Form 500 Instructions

Fiscal Year Filers or Short Year Filers: Complete this line **only** if your taxable year is not from January 1 to December 31. You must use the same taxable period on your Virginia return as on your federal return.

Check if:

- Initial Filer - This is your first time filing in Virginia.
- Name Change - Your name has changed since your last filing.
- Mailing Address Change - Your mailing address has changed since your last filing.
- Physical Address Change - Your physical address has changed since your last filing.

Be sure that your federal employer identification number, name, mailing address and physical address are correctly

reported. Enter the date and state or country of incorporation.

Entity Type Enter the entity type code from the list below:

- CC - C-Corp
- SC - S-Corporation
- LL - Limited Liability Company
- NZ - Non-Profit Organization
- NP - Non-Profit Corporation
- BA - Bank
- SL - Savings and Loan
- CO - Cooperative
- PS - Public Service
- OB - Other Business
- UB - Unknown Business
- LP - Limited Liability Partnership
- PG - General Partnership
- PL - Limited Partnership

NAICS Code: Enter the 6 digit North American Industry Classification System (NAICS) code. You can access a list of these codes on the Department's website, www.tax.virginia.gov.

Check the Applicable Boxes to indicate any of the following:

- Consolidated - Schedule 500AC Attached
- Combined - Schedule 500AC Attached
- Change in Filing Status
- Multistate Corporation Schedule 500A Attached
- Schedule 500AB Attached
- Nonprofit Corporation

If the box for either the consolidated or combined return is checked, enter the number of affiliates included in the return on the line provided. Enclose a Schedule AC for each member included in the combined/consolidated return, including the parent company.

Final Return - If this is the final return, check the applicable boxes and provide the requested information.

Telecommunications Company - Corporations - Complete **Form 500T** and enter the amount from **Form 500T**, Line 7 on Page 1 of Form 500 in the Telecommunications Company section and Line 11 on Page 2 of Form 500.

Noncorporate Telecommunications Companies: Complete Form 500T, check the Noncorporate Telecommunications Company Box, and enter the amount from **Form 500T**, Line 10 on Form 500 on Page 1 in the Noncorporate Telecommunications section and Line 11 on Page 2 of Form 500.

Electric Supplier Company - Complete Schedule 500EL and enter the amount from Schedule 500EL, Line 7 or 14.

Amended Return - Check the amended box if this is an amended return. Also, check other applicable boxes to

indicate the reason for filing the amended return. Complete Form 500, Schedule 500ADJ, Schedule 500CR, and all other applicable forms and schedules. Complete the amended Form 500 using the corrected figures, as if it were the original return. Do not make any adjustments to the amended return to show that you received a refund or paid a balance due as a result of the original return. This computation is made in Section C of Schedule 500ADJ. Include any original schedules filed (as adjusted) as well as any new or added schedules. You must also provide an explanation of changes to income and modifications. Provide the line reference from the Form 500 for which a change is reported, and give the reason for each change. Show any computation in detail and include any applicable schedules. Also, include federal Form 1120X if an amended federal return was filed.

The Federal/State e-File program only supports amended returns for the current taxable year and the 2 preceding taxable years. Amended returns for prior taxable years must be filed by paper. Amended Forms 500EC will also need to be filed by paper. **Note:** Do not file Form 500 to carryback a net operating loss. Use Form 500NOLD, Corporation Application for Refund Carryback of Net Operating Loss. Be sure to file using the correct form. Using the incorrect form will delay the processing of your return and may result in having your tax return sent back to you. File Form 500 NOLD by paper; the form is not supported by the Federal/State e-File Program.

Questions and Related Information - Complete questions A - F.

Line Instructions

Line 1 Federal Taxable Income

Enter taxable income after net operating loss deductions and special deductions for dividends as it appears on the federal income tax return filed with the Internal Revenue Service. Line 1 may not be less than zero except to report a net operating loss in the current year. Any corporation that is included in a consolidated return for federal income tax purposes, but files separate or combined Virginia returns or files a consolidated Virginia return with fewer than all of the members included in the federal return, must include with the Virginia return, schedules and statements necessary to reconcile actual consolidated federal taxable income to the federal taxable income reported on the Virginia return.

Line 2 Total Additions from Schedule 500ADJ

Enter the total additions reported on Schedule 500ADJ, Section A, Line 7.

Line 3 Total. Add Line 1 and Line 2.

Line 4 Total Subtractions from Schedule 500ADJ

Enter the total subtractions reported on Schedule 500ADJ, Section B, Line 10.

Line 5 Balance. Subtract Line 4 from Line 3.

Line 6 Savings and Loan Bad Debt Deduction

If a Savings and Loan Association used the percentage of income method to compute its federal deduction for bad

debts, then it must add the federal bad debt deduction and recompute the bad debt deduction for Virginia purposes by multiplying the amount on Line 5 by 40%. If the Savings and Loan Association used the percentage of loans method or the experience method, enter the amount claimed for addition Code 13 on Schedule 500ADJ. (Va. Code § 58.1-403.)

Line 7 Virginia Taxable Income

Subtract Line 6 from Line 5. This is your Virginia taxable income if the entire business of the corporation is transacted or conducted within Virginia. Corporations other than multistate corporations, skip to Line 9.

Line 8 Multistate Corporations Only

Multistate corporations with no Virginia income must enter zeroes in 8(a) and 8(b). Otherwise, follow the instructions for Lines 8(a) through 8(d) below.

Line 8(a) Income Subject to Virginia Tax

A corporation with income from business activity that is taxable both within and without Virginia should enter its multistate income that is subject to Virginia tax from Schedule 500A, Section B, Line 3(j).

Line 8(b) Apportionment Factor

Enter the apportionment factor from the appropriate line from Schedule 500A, Section B, Line 1 or 2(g).

Line 8(c) and 8(d) Nonapportionable Investment

Nonapportionable Investment Function Net Income and Loss (applicable only to multistate corporations):

Virginia law does not provide for an addition or subtraction of this income, nor does the law provide for the allocation of any income other than dividends. Lines 8(c) and 8(d) on the Form 500 recognize that some taxpayers may be entitled to an alternative method of allocation and apportionment if they can demonstrate that the application of Virginia's apportionment law to their particular facts for the taxable year would be contrary to the principles set forth in *Allied Signal, Inc. v. Director, Div. of Taxation*, 504 U.S. 768 (1992).

In *Allied Signal, Inc.*, the Court reaffirmed the continued validity of apportionment of any income received directly by the taxpayer, including investment income such as capital gains, unless the capital transaction serves an investment function that is completely unrelated to any operational activities carried on in the state. The Court also reinforced the principle that investment income may be included in apportionable income if there is a unitary relationship between the taxpayer and the entity in which the taxpayer has invested. However, the Court made it clear that the absence of a unitary relationship does not necessarily preclude apportionment.

These adjustments are only available to those multistate corporations that file a Virginia Schedule 500A to apportion and allocate their income, and provide clear and cogent evidence that the asset producing the income serves an investment function that is unrelated to operational functions. The denominator of the relevant apportionment factors shall also be adjusted to exclude items related to the investment assets.

Any taxpayer who qualifies for an alternative method of allocation and apportionment for this type of income is required to add back any loss included in federal taxable income that is attributable to the acquisition, ownership, management, stewardship, sale or exchange of investment assets that are unrelated to the taxpayer's operational function on Line 8(d). If the taxpayer has previously claimed a subtraction for nonapportionable investment function income with respect to any investment assets, the addition is required for any subsequent losses generated by such assets.

Burden of Proof: As a prerequisite to the ability to claim an adjustment on Lines 8(c) and 8(d) (which effectively allocates income other than dividends) the taxpayer must be able to demonstrate that the application of Virginia law to their particular facts will be unconstitutional. The burden is on the taxpayer to provide clear and cogent evidence that the capital investment was completely separate from its operations, and that the taxpayer's investment function was located outside of Virginia. The taxpayer must also demonstrate that the classification of the capital asset and its income for Virginia purposes is consistent with the manner in which the income has been allocated and apportioned with other state tax authorities. The taxpayer will be under a particularly heavy burden of proof in cases where the asset was clearly operational at any time. Objective evidence is required; an unsubstantiated statement as to the taxpayer's intent, purpose, or state of mind will be insufficient to meet the burden.

Taxpayers claiming an adjustment for nonapportionable income on 2016 corporate tax returns must attach a statement to the return stating the nature of the adjustment and the basis for the position that relief is provided under the Constitution. Supplemental evidence should be clearly referenced and included with the return. The taxpayer should submit all evidence considered necessary to support the taxpayer's position. For additional information, see Virginia Tax Bulletin 93-4 (4/6/93).

Line 9 Income Tax

Multiply the income (Line 7 or Line 8(a), whichever is applicable) by 6%.

Line 10 Nonrefundable Tax Credits

Enter the total nonrefundable credit amount allowable this year from Schedule 500CR, Section 2, Line 1B.

Line 11 Adjusted Corporate Tax

Subtract Line 10 from Line 9. Telecommunication Companies should refer to Form 500T. Electric Supplier Companies should refer to Schedule 500EL.

Line 12 Estimated Income Tax Credits

Enter the total amount paid as estimated income tax. Include the amount of overpayment for the taxable year 2015, elected as a credit against 2016 estimated tax.

Line 13 Extension Payments

Enter the amount of any extension payments.

Line 14 Total Refundable Tax Credits

Enter the amount from Schedule 500CR, Section 4, Line 1A.

If filing a combined or consolidated return with a telecommunications company, do not enter refundable credits included on Form 500T.

Line 15 Pass-Through Entity Withholding from Schedule 500ADJ

Enter the total amount of Virginia income tax withheld from Page 2, Section D, of Schedule 500ADJ.

Line 16 Total Payments and Credits

Add Lines 12 through 15.

Line 17 Tax Owed

If Line 11 is greater than Line 16, subtract Line 16 from Line 11.

Line 18 Penalty for Return Filed After the Original Due Date With or Without Payment of Amount Due

(a) If filed within the extended period and the balance of tax due exceeds 10% of the actual tax liability (Line 9), enter 2% per month or fraction thereof of the balance (Line 17).

The maximum extension penalty is 14% (12% for nonprofit corporations and entities other than C-Corporations) of the tax due. Note: In addition, if the tax is not paid in full when the return is filed, a late payment penalty will be assessed on the amount of tax due (Line 17) at the rate of 6% per month or part of a month from the date the return is filed through the date the tax is paid, up to a maximum of 30%. If the return is filed during the extension period, but the tax due is not paid when the return is filed, both the extension penalty and the late payment penalty may apply. The extension penalty will apply from the due date of the return through the date the return is filed, and the late payment penalty will apply from the date the return is filed through the date of payment. To avoid paying the late payment penalty during the extension period, the tax owed must be paid when the return is filed.

or

(b) If filed after the extended due date, enter 30% of Line 17 or \$100, whichever is greater.

Line 19 Interest

Enter the amount due at the underpayment rate established by IRC § 6621, plus 2%, from the due date of the return until payment. This underpayment rate is subject to quarterly adjustment. When penalty is entered under 18(a) above, interest is added from the due date to the date of payment.

Line 20 Additional Charge

Enter the amount from Line 17, Form 500C. Attach Form 500C.

Line 21 Total Due

Enter the total of Lines 17, 18, 19 and 20. This is the total amount due. Payment options: Direct Debit through the e-File system or ACH Credit transaction. If you choose Direct Debit, you can schedule to pay your tax due for a future date, when filing before the due date. In addition, payment may be made

using eForms (Form 500V).

Line 22 Overpayment

If Line 16 is greater than Line 11, subtract Line 11 from Line 16.

Line 23 Amount to be Credited to 2017

Enter the amount of overpayment that you want credited to your 2017 estimated tax, if any.

Line 24 Amount to be Refunded

Subtract Line 23 from Line 22 and enter the amount to be refunded.

Instructions for Schedule 500ADJ

FIXED DATE CONFORMITY UPDATE FOR 2016

Virginia's date of conformity with the Internal Revenue Code (IRC) was advanced from December 31, 2014 to December 31, 2015, with limited exceptions.

Bonus Depreciation: Virginia will continue to disallow any bonus depreciation claimed for certain assets under IRC § 168(k) during Taxable Year 2001 and thereafter. Virginia will also continue to disallow bonus depreciation claimed under IRC §§ 168(l), 168(m), 1400L, and 1400N. To the extent that such bonus depreciation was claimed for federal income tax purposes, the depreciation deduction must be recomputed for Virginia income tax purposes. For taxable years when the recomputed Virginia depreciation deduction is less than the federal deduction, the taxpayer must claim a Virginia addition equal to the difference. For taxable years when the recomputed Virginia depreciation deduction is more than the federal deduction, the taxpayer may claim a Virginia subtraction equal to the difference.

Applicable High Yield Discount Obligations: Virginia will continue to deconform from IRC § 163(e)(5)(F), which suspends the application of the applicable high yield debt obligation ("AHYDO") rules for certain debts issued between September 30, 2008, and December 31, 2009. For federal purposes, special rules generally apply to computing the interest deduction that applies to certain high-yield original issue discount obligations. Because Virginia will continue to deconform from the federal provision that suspends the AHYDO rules, such rules will continue to apply for Virginia income tax purposes. Any resulting difference in the federal and Virginia deduction should be claimed as a modification on your Virginia return.

Cancellation of Debt Income: Under IRC § 108(i), taxpayers were permitted to defer the income realized upon the reacquisition of certain business debt during 2009 and 2010, and instead report such income in Taxable Years 2014 through 2018.

Virginia deconformed from this federal provision and required taxpayers to claim a Virginia addition equal to the amount of the federal exclusion. However, for transactions completed on or before April 21, 2010, taxpayers were permitted to partially defer such income by claiming the Virginia addition over three taxable years.

A taxpayer who previously claimed the Virginia cancellation of debt addition may claim a subtraction on his or her Taxable Year 2016 Virginia income tax return, to the extent such income was reported on his or her 2016 federal income tax return.

At the time these instructions went to print, the only required adjustments for “fixed date conformity” were those mentioned above. However, if federal legislation is enacted that results in changes to the IRC for the 2016 taxable year, taxpayers will be required to make adjustments to their Virginia returns that are not described in the instruction booklet. Information about any such adjustments will be posted on the Department’s website at www.tax.virginia.gov.

Section A - Additions to Federal Taxable Income

Line 1 Fixed Date Conformity Addition – Depreciation.

Enter the amount that should be added to Federal Taxable Income based upon the recomputation of allowable depreciation. If depreciation was included in the computation of your Federal Taxable Income and one or more of the depreciable assets received the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016, then depreciation must be recomputed for Virginia purposes as if such assets did not receive the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016. If the total 2016 Virginia depreciation is less than 2016 federal depreciation, then the difference must be recognized as an addition on Line 1. For further instructions, see Virginia Tax Bulletins 10-8, 11-1, 12-1, 13-3, 14-1, 15-1 and 16-1 at www.tax.virginia.gov or call (804) 367-8037.

Line 2 Fixed Date Conformity Addition – Other.

Disposed Asset – If an asset was disposed of in 2016 and such asset received the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016, and a gain or loss was recognized for federal purposes, then the gain or loss must be recomputed as if such asset did not receive the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016. The adjustment will be the difference in the federal and Virginia basis of the asset when sold. If the federal basis of the asset is greater than the Virginia basis, (resulting in a lower gain reported for federal purposes), then the difference between the bases is an addition on the Virginia return. For further instructions, see Virginia Tax Bulletins 10-8, 11-1, 12-1, 13-3, 14-1, 15-1 and 16-1 which are available on the Department’s website: www.tax.virginia.gov or call (804) 367-8037.

Other changes not listed – Please refer to the Supplemental Fixed Date Conformity Instructions on the Department’s website, www.tax.virginia.gov, for information on any other additions that are necessary due to federal tax legislation passed after the printing deadline for these instructions. The Department’s website will also reflect any action by the Virginia General Assembly to advance the date of conformity to the IRC that may take place before the due date for your return. Enter any amounts described in the Supplemental

Fixed Date Conformity Instructions. Also, please attach a schedule and explanation of such additions.

Line 3 Enter the amount on Line 10, Schedule 500AB, as the taxable amount of payments to a related entity in connection with trademarks, patents and similar intangible property. Attach Schedule 500AB. (*Va. Code* § 58.1-402 B.8 and *Va. Code* § 58.1-402 B.9.)

Line 4 Net income taxes and other taxes, including franchise and excise taxes, which are based on, measured by, or computed with reference to net income, imposed by this state or any other taxing jurisdiction to the extent deducted in determining federal taxable income. (*Va. Code* § 58.1-402 B.4.)

Line 5 Interest, less related expenses to the extent not deducted in determining federal taxable income, on obligations of any state other than Virginia or of a political subdivision of any state other than Virginia unless it was created by a compact or agreement to which this state is a party. (*Va. Code* § 58.1-402 B.1.)

Line 6 Other Additions to Federal Taxable Income.

On Lines 6a - 6c, enter the two-digit code, listed below, in the boxes followed by the amount of the addition. If you are filing electronically and have more than 3 additions, do not enter “00” in the first box and the amount since all the addition codes and amounts can be entered. If Code 99 is claimed, provide a detailed explanation in the applicable space provided, by the software program.

If you are filing by paper and have more than 3 of the additions listed below, enter “00” and the amount of the total other additions in the first box and attach an explanation of each other addition claimed, including the applicable code. If Code 99 is claimed, attach an explanation and supporting documentation, if applicable.

Code

- 01** A gas supplier, pipeline distribution company or gas utility shall add to federal taxable income any amount that was deducted in determining taxable income as a net operating loss carryover from any taxable year beginning on or before December 31, 2000. (*Va. Code* § 58.1-403 8.)
- 02** A gas supplier, pipeline distribution company or gas utility shall add to federal taxable income any amount that was actually deducted in determining taxable income as a net operating loss carryover or net capital loss carryover which would have been an allowable deduction as a net operating or net capital loss carryover in computing taxable income for a year beginning after December 31, 2000, except that such loss had been carried back for a taxable year beginning prior to January 1, 2001. (*Va. Code* § 58.1-403 9.)
- 03** Unrelated business taxable income as defined by IRC § 512 (to the extent excluded from Line 1, **Form 500**). (*Va. Code* § 58.1-402 B.5.)
- 05** The amount required to be included in income

for the purpose of computing the partial tax on an accumulation distribution under IRC § 667. (*Va. Code* § 58.1-402 B.7.)

10 Interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax, but not from state income taxes. (*Va. Code* § 58.1-402 B.2.)

13 The deduction for bad debts allowed in computing federal taxable income for a state or federal savings and loan association. (*Va. Code* § 58.1-403 1.)

14 Enter the amount of dividends deductible under IRC § 561 and IRC § 857 by a REIT. (*Va. Code* § 58.1-402 B.10.)

16 **Income from Dealer Disposition of Property**
Enter the amount that would be reported under the installment method from certain dispositions of property. If, in a prior year, the taxpayer was allowed a subtraction for certain income from dealer dispositions of property made on or after January 1, 2009, in the years following the year of disposition, the taxpayer is required to add back the amount that would have been reported under the installment method. Each disposition must be tracked separately for purposes of this adjustment. (*Va. Code* § 58.1-402 (F).)

18 **Telework Expenses** - Corporations that claim the Virginia Telework Expenses Tax Credit are not allowed to exclude those expenses from Virginia taxable income. To the extent excluded from federal taxable income, any expenses incurred by a taxpayer that are used to claim the Telework Expenses Tax Credit must be added to the Virginia return.

19 **Food Crop Donation** - To the extent a credit is allowed for growing food crops in the Commonwealth and donating such crops to a nonprofit food bank an addition to the taxpayer's federal taxable income is required for any amount claimed by the taxpayer as a federal income tax deduction for such donation.

99 **Other** - Enter the amount of any other income not included in federal taxable income, which is taxable in Virginia. If you are filing electronically, provide a detailed explanation in the space provided by the software program. If you are filing by paper, attach an explanation and supporting documentation, if applicable.

Line 7 Total Additions

Enter the total of Lines 1 - 5 and all amounts for Line 6(a)-(c) here and on **Form 500**, Line 2.

Section B - Subtractions from Federal Taxable Income

Enter the amount by which any of the following changes increased your federal taxable income.

Line 1 Fixed Date Conformity Subtraction – Depreciation.

Enter the amount that should be subtracted from Federal

Taxable Income based upon the recomputation of allowable depreciation. If depreciation was included in the computation of your Federal Taxable Income and one or more of the depreciable assets received the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016, then depreciation must be recomputed for Virginia purposes as if such assets did not receive the special 30% or 50% bonus depreciation deduction for federal purposes in any year from 2001 through 2016. If the total 2016 Virginia depreciation is more than 2016 federal depreciation, then the difference must be recognized as a subtraction on Line 1. For further instructions, see Virginia Tax Bulletins 10-8, 11-1, 12-1, 13-3, 14-1, 15-1 and 16-1 at www.tax.virginia.gov or call **(804) 367-8037**.

Line 2 Fixed Date Conformity Subtraction – Other.

Disposed Asset - If an asset was disposed of in 2016 and such asset received the special 30% or 50% bonus depreciation deduction for federal purposes in any of the years 2001 through 2016, and a gain or loss was recognized for federal purposes, then the gain or loss must be recomputed as if such asset did not receive the special 30% or 50% bonus depreciation deduction for federal purposes in any of the years 2001 through 2016. The adjustment will be the difference in the federal and Virginia basis of the asset when sold. If the federal basis of the asset is lower than the Virginia basis (resulting in a greater gain for federal purposes), then the difference between the two bases is included as a subtraction on the Virginia return. For further instructions, see Virginia Tax Bulletins 10-8, 11-1, 12-1, 13-3, 14-1, 15-1 and 16-1 on the Department's website: www.tax.virginia.gov, or call **(804) 367-8037**.

Other changes not listed – Please refer to the Supplemental Fixed Date Conformity Instructions on the Department's website, www.tax.virginia.gov for information on any other subtractions due to federal tax legislation passed after the printing deadline for these instructions. The Department's website will also reflect any action by Virginia's General Assembly to advance the date of conformity to the IRC that may take place before the due date for your return. Enter any amounts described in the Supplemental Fixed Date Conformity Instructions. Also, please attach a schedule and explanation of such subtractions.

Line 3 Enter the amount of income (interest, dividends and gain) derived from obligations or the sale or exchange of obligations of the United States and on obligations or securities of any authority, commission or instrumentality of the United States to the extent included in federal taxable income, but exempt from state income taxes under the laws of the United States. This includes, but is not limited to, stocks, bonds, treasury bills and treasury notes. It does not include interest on refunds of federal taxes, equipment purchase contracts or normal business transactions. (*Va. Code* § 58.1-402 C.1.)

Line 4 Any amounts included under the provisions of IRC § 78. (*Va. Code* § 58.1-402 C.5.)

Line 5 The amount of any refund or credit for overpayment of income taxes imposed by this state or any other taxing

jurisdiction. (Va. Code § 58.1-402 C.4.)

Line 6 Any amount included therein by the operation of IRC § 951 (subpart F income). (Va. Code § 58.1-402 C.7.)

Line 7 Any amount included in federal taxable income which is foreign source income and defined as follows:

1. Interest other than interest derived from sources within the United States;
2. Dividends other than dividends derived from sources within the United States;
3. Rents, royalties, license, and technical fees from property located or services performed without the United States or from any interest in such property, including rents, royalties, or fees for the use of or the privilege of using without the United States any patents, copyrights, secret processes and formulas, goodwill, trademarks, trade brands, franchises, and other like properties; and
4. Gains, profits, or other income from the sale of intangible or real property located without the United States. (Va. Code § 58.1-402 C.8.)

Line 8 The amount of any dividends received from corporations in which the taxpaying corporation owns 50% or more of the voting stock, to the extent they are included in federal taxable income and to the extent not otherwise subtracted from federal taxable income. (Va. Code § 58.1-402 C.10.)

Line 9 Other Subtractions from Federal Taxable Income. On Lines 9a - 9c, enter the two-digit code, listed below, in the boxes followed by the amount of the subtraction. If you are filing electronically and have more than three subtractions, do not enter "00" in the first box with the total amount since all of the subtraction Codes and amounts can be entered. If Code 99 is claimed, provide an explanation in the applicable space provided, by the software program.

If you are filing by paper and have more than three of the subtractions listed below, enter "00" and the amount of the total other subtractions in the first box. If you are filing electronically, provide a detailed explanation in the space provided by the software program. If you are filing by paper, attach an explanation and supporting documentation, if applicable.

Code

- 50** The amount of wages and salaries eligible for the federal Work Opportunity Tax Credit that are not deducted for federal tax purposes. (Va. Code § 58.1-402 C.6.)
- 51** The dividends of a Domestic International Sales Corporation, 50% or more of the income of which was assessable for the preceding year, or the last year, in which such corporation has income under Virginia law. (Va. Code § 58.1-402 C.3.)
- 52** The amount of income received as a result of payments made under the Tobacco Master Settlement

Agreement, and the National Tobacco Grower Settlement Trust. (Va. Code § 58.1-402 C.18.)

- 54** The amount contributed to the Virginia Public School Construction Grants Program and Fund that has not been claimed as a deduction on the corporation's federal income tax return. (Va. Code § 58.1-402 C.15.)
- 55** There shall be subtracted from federal taxable income, by a gas supplier, pipeline distribution company or gas utility company, the amount that could have been deducted as a net operating loss carryover or net capital loss in arriving at taxable income except that such loss or portion thereof had been carried back for federal purposes. (Va. Code § 58.1-403 9.)
- 56** A subtraction for gas suppliers, pipeline distribution companies, gas utility companies, and electric suppliers, except cooperatives, for the amortization of the Virginia tax basis of assets that are recoverable for financial accounting and/or income tax purposes placed in service prior to the first day of the taxable year that the company became subject to Virginia corporate income tax (adjustment date). "Virginia tax basis" means the aggregate adjusted book basis less the aggregate adjusted tax basis of such assets as recorded on the company's books of accounts as of the last day of the taxable year immediately preceding the adjustment date. The amortization of the Virginia tax basis shall be computed using the straight-line method over a period of thirty years, beginning on the adjustment date. Gain or loss on the disposition or retirement of any such asset shall be computed using its adjusted federal tax basis, and the amortization of the Virginia tax basis shall continue thereafter without adjustment. (Va. Code § 58.1-440.1.)
- 57** A subtraction for intangible expenses and costs added to the federal taxable income of a related member as shown on the Schedule 500AB attached to the Virginia return filed by such related member. (Va. Code § 58.1-402 C. 21.)
- 58** For taxable years beginning on and after January 1, 2006, there shall be subtracted from federal taxable income contract payments to a producer of quota tobacco or a tobacco quota holder as provided under the American Jobs Creation Act of 2004. (P.L. 108-357.) If the payment is received in installment payments, then the recognized gain may be subtracted in the taxable year immediately following the year in which the installment payment is received. If the payment is received in a single payment, then 10% of the recognized gain may be subtracted in the taxable year immediately following the year in which the single payment is received. The taxpayer may then deduct an equal amount in each of the nine succeeding taxable years. (Va. Code § 58.1-402 (D).) For more information, visit www.tax.virginia.gov.
- 59** **Income from Dealer Disposition of Property** - An adjustment is available for certain income from dealer

dispositions of property made on or after January 1, 2009. In the year of disposition the adjustment will be a subtraction for gain attributable to installment payments to be made in future taxable years provided that (i) the gain arises from an installment sale for which federal law does not permit the dealer to elect installment reporting of income, and (ii) the dealer elects installment treatment of the income for Virginia purposes on or before the due date prescribed by law for filing the taxpayer's income tax return. In subsequent taxable years, the adjustment will be an addition for gain attributable to any payments made during the taxable year with respect to the disposition. Each disposition must be tracked separately for purposes of this adjustment. (Va. Code § 58.1-402 (F).)

60 Gains from Land Preservation Tax - Enter the amount of federal gain or income recognized as a result of the sale of Land Preservation Tax Credits. (Va. Code § 58.1-513 (D).)

61 Certain Long-Term Capital Gains - Provided the long-term capital gain or investment services partnership qualified income is attributable to an investment in a "qualified business" as defined in Va. Code § 58.1-339.4 or any other technology business approved by the Secretary of Technology, it may be allowed as a subtraction. For taxable years beginning on or after January 1, 2011, enter any qualified income taxed as a long-term capital gain for federal income tax purposes, or any income taxed as investment services partnership interest income (otherwise known as investment partnership carried interest income) for federal income tax purposes. To qualify for this subtraction, the income must be attributable to an investment in a "qualified business," as defined in Va. Code § 58.1-339.4, or in any other technology business approved by the Secretary of Technology, provided that the business has its principal office or facility in the Commonwealth and less than \$3 million in annual revenues in the fiscal year prior to the investment. The investment must be made between the dates of April 1, 2010, and June 30, 2020. No taxpayer that has claimed a tax credit for an investment in a "qualified business" under Va. Code § 58.1-339.4 shall be eligible for the subtraction under this subdivision for an investment in the same business. (Va. Code § 58.1-402 C.24.)

62 Historic Rehabilitation - To the extent included in federal taxable income, any amount of gain or income recognized by a taxpayer in connection with the Historic Rehabilitation Tax Credit is allowed as a subtraction on the Virginia return.

99 Other - Enter the amount of any other income included in federal taxable income, which is not taxable in Virginia. If you are filing electronically, provide a detailed explanation in the applicable space provided by the software program. If you are filing by paper, attach an explanation and supporting documentation, if applicable.

Line 10 Total Subtractions.

Add Lines 1-8 and 9a-9c. Enter here and on Form 500, Line 4.

Section C Amended Return

If you are filing an amended return, complete a new return using the corrected figures, as if it were the original return. Do not make any adjustments to the amended return to show that you received a refund or paid a balance due as the result of the original return. Be sure to fill in the Amended Return section on Page 1, Form 500.

In cases where a Form 500NOLD is filed to carryback or carry forward a net operating loss, an amended Form 500 should be filed indicating the change in the amount of credits claimed and the corrected carryover amounts. Attach a revised Schedule 500CR to the amended returns filed to report the changes to the credit(s) claimed or carryover amount resulting from the NOL carryback.

The Federal/State e-File program only supports amended returns for the current taxable year and the 2 preceding taxable years. Amended returns for prior taxable years must be filed by paper. Amended Forms 500EC will also need to be filed by paper.

Section D Schedule of VK-1 Withholding

If you are claiming withholding on Line 15 of Form 500, complete Page 2 of Schedule 500ADJ.

Tax Credits

Attach Schedule 500CR to your return when claiming a credit(s). See the instructions below for additional requirements. When claiming a credit(s) that requires documentation, you will need to attach a PDF of such documentation when filing electronically. If you are filing by paper and claiming a credit(s) that requires documentation, the information must be attached. Missing attachments may cause delays in processing the return and may cause a credit to be disallowed.

The following rules apply when claiming credits on Schedule 500CR.

- Nonrefundable credits without a carryover provision are claimed first.
- Carryover credits must be fully used before any 2016 credits (current year credits) are allowed.
- To maximize allowable credit, carryover credits may be claimed in their order of expiration, regardless of the order shown on Schedule 500CR.

Neighborhood Assistance Act Tax Credit

The Virginia Neighborhood Assistance Tax Act provides tax credits to businesses that donate money, marketable securities, property, limited professional services and contracting services directly to pre-approved Neighborhood Assistance Program organizations whose primary function is to provide educational or other qualified services for the benefit of low income families. Licensed veterinarians, physicians, dentists, nurses, nurse practitioners, physician assistants, optometrists, dental hygienists, professional

counselors, clinical social workers, clinical psychologists, marriage and family therapists, physical therapists, chiropractors, pharmacists and physician specialists or mediators who donate their services for an approved organization may be eligible for tax credits. In addition, a trust or a fiduciary for a trust, may receive a tax credit for a donation made to an approved organization. The amount of credit attributable to a partnership or S corporation must be allocated to the partners and shareholders in proportion to their ownership or interest in the partnership or S corporation. Any unused tax credits may be carried forward for the next 5 taxable years. For a list of approved organizations or additional information, write to: **Virginia Department of Social Services, Neighborhood Assistance Program, 801 E. Main Street, Richmond, VA 23219-3301 or the Virginia Department of Education, 21st Floor, P.O. Box 2120, Richmond, VA 23218-2120, Division of Finance and Operations, ATTN: Neighborhood Assistance Tax Credit Program for Education.**

Enterprise Zone Act Credit

Businesses located within an Enterprise Zone that have initiated the use of the Enterprise Zone General Income Tax Credit or have a signed agreement with the Commonwealth regarding the use of such credits in place by July 1, 2005, may be eligible based on job creation to take a credit against the tax due on zone taxable income in an amount equal to 80% of the tax due for the first year and 60% of the tax due for the second through the tenth years. Excess general tax credit, if any, may not be carried forward. Such credits are authorized through fiscal year 2019.

In addition, businesses located within an Enterprise Zone that have initiated the use of the Zone Investment Tax Credit or have a signed agreement with the Commonwealth regarding the use of such credits in place by July 1, 2005, may be eligible for a credit against zone taxable income. The investment credit can be carried forward until the full amount is used. Such credits are authorized through fiscal year 2019. If the annual tax credit requested exceeds the annual appropriation, the Virginia Department of Housing and Community Development (DHCD) will issue a proportionate amount to each qualified business firm requesting the credits.

To claim the Enterprise Zone Credits, businesses qualified by DHCD must complete Enterprise Zone Credit **Form 301**, and transfer the computed amount to the applicable line(s) on Schedule 500CR. Attach Form 301, and Schedule 500CR to your return. For application forms and specific information, write to: **Virginia Department of Housing and Community Development, Community Revitalization Office, Main Street Centre, 600 East Main Street, Suite 300, Richmond, VA 23219**, call (804) 371-7030 or visit www.dhcd.virginia.gov.

Conservation Tillage Equipment Credit

A corporation purchasing and using conservation tillage equipment for the purpose of agricultural production may take a tax credit equaling 25% of conservation tillage equipment expenditures (but not to exceed \$4,000 or the total amount of tax owed, whichever is less) in the year of purchase. The

term "conservation tillage equipment" means a planter, drill, or other equipment used to reduce soil compaction including guidance systems to control traffic patterns that are designed to minimize disturbance of the soil in planting crops, including planters, drills or other equipment designed to reduce soil compaction which may be attached to equipment already owned by the taxpayer. If the amount of such credit exceeds the taxpayer's liability for the taxable year, the amount that exceeds the tax liability may be carried over to the next 5 taxable years. The credit shall be allocated to individual partners and shareholders in proportion to their ownership or interest in the partnership or S-corporation.

Attach a statement to your return showing the conservation tillage equipment purchase date, a description of the equipment, and the credit computation when claiming this credit.

Biodiesel and Green Diesel Fuels Tax Credit

Beginning on January 1, 2008, a credit is available for Virginia biodiesel and green diesel fuel producers who produce up to 2 million gallons of fuel per year. This credit is only available during the first 3 years of production. Taxpayers may claim a nonrefundable credit against their tax liability for the production of these fuels. To claim the tax credit, attach a copy of the certificate from the Department.

Form BFC is used to apply to the Department for a Biodiesel Fuels Credit after the Department of Mines, Minerals and Energy has certified that you have satisfied all of the requirements of *Va. Code* § 58.1-439.12:02.

The amount of the credit is \$0.01 per gallon, not to exceed \$5,000 annually. Any credit not used for the taxable year may be carried over to the next 3 taxable years. The amount of the credit allowed cannot exceed the tax liability for the taxable year in which the credit is being claimed.

The credit may be transferred to another taxpayer. The transfer of the credit must be completed before the end of a taxable year in order to use the credit for that taxable year. For more information, write to: **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**, or call (804) 786-2992.

Precision Fertilizer and Pesticide Application Equipment Credit

Any corporation engaged in agricultural production for market that has in place a nutrient management plan approved by the local Soil and Water Conservation District by the required tax return filing date may claim a tax credit equaling 25% of all expenditures made by such corporation for the purchase of equipment. The amount of the tax credit shall not exceed \$3,750 or the total amount of the tax imposed by this chapter, whichever is less, in the year of purchase. If the amount of such credit exceeds the taxpayer's tax liability for such taxable year, the amount which exceeds the tax liability may be carried over for credit against the income taxes of such individual in the next 5 taxable years until the total amount of the tax credit has been taken.

The equipment is divided into the following categories:

1. Sprayers for pesticides and liquid fertilizers;
2. Pneumatic fertilizer applicators;
3. Monitors, computer regulators, and height adjustable booms for sprayers and liquid fertilizer applicators;
4. Manure applicators;
5. Tramline adapters; and
6. Starter fertilizer banding attachments for planters.

The amount of any credit attributable to the purchase of equipment certified by the Virginia Soil and Water Conservation Board as providing more precise pesticide and fertilizer application by a partnership or electing small business corporation (S corporation) shall be allocated to the individual partners or shareholders in proportion to their ownership or interest in the partnership or S corporation.

Attach a statement to your return showing purchase date, description and credit computation when claiming this credit.

Recyclable Materials Processing Equipment Tax Credit

Recyclable Materials Processing Equipment Tax Credit:

For taxable years beginning on or after January 1, 1999, and before January 1, 2020, an income tax credit may be claimed for purchases made during the taxable year for machinery and equipment used predominantly in or on the premises of manufacturing facilities or plant units which manufacture, process, compound or produce items of tangible personal property from recyclable materials within the Commonwealth for sale. For the purpose of determining "purchase price paid," the taxpayer may use the original total capitalized cost of such machinery and equipment, less capitalized interest. The credit is 20% of such expenditures and cannot exceed 40% of the taxpayer's Virginia income tax liability for the year, computed prior to computing the credit. Any amount unused this year may be carried forward for the next ten taxable years.

The total amount of credit approved for any tax year may not exceed \$2 million. If the amount of tax credits approved under this section by the Department of Taxation for any taxable year exceeds \$2 million, the Department shall apportion the credits by dividing \$2 million by the total amount of tax credits so approved, to determine the percentage of otherwise allowed tax credits each taxpayer shall receive.

The Virginia Department of Environmental Quality (DEQ) administers the certification of all recycling machinery and equipment. To allow adequate time for the recycling material and equipment to be certified by DEQ, submit a completed Form DEQ 50-11S to DEQ by March 1. Submit your credit application, including the certification you receive from DEQ, to the Department of Taxation by June 1, using Form RMC. Submitting a late application will disqualify you from the credit. All approved applicants filing a timely Form RMC will be notified of the allowable credit by September 1. Since the due date for individual income tax returns is May 1, most claimants will need to file the tax return on extension or amend the original return to claim the credit.

For additional information on how to qualify for certification,

contact the **Department of Environmental Quality, Equipment Certification Officer, P.O. Box 1105, Richmond, VA 23218** or call **(804) 698-4145**.

All applications, Forms RMC, must be submitted to the **Virginia Department of Taxation, Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit to be claimed on your tax return. For form assistance, contact the Tax Credit Unit at the address above or call **(804) 786-2992**.

Alternative Recycling Credit (Expired – Only Carryover Allowed):

The 1998 General Assembly passed legislation creating an alternative recycling tax credit for corporations investing at least \$350 million in Virginia before January 1, 2003. Any unused credit may be carried forward for the next 20 years. A qualified taxpayer may claim either the Recyclable Materials Processing Equipment Credit or the Alternative Recycling Credit but not both. The maximum amount of the Alternative Recycling Credit carryover that may be claimed is 60% of the Virginia income tax liability. If claiming this alternative credit, enter the carryover from prior year(s) in Part 7 on Line B of Schedule 500CR and 60% of the corporation income tax on Line D of Part 7 of Schedule 500CR.

Clean-Fuel Vehicle and Vehicle Emissions Testing Equipment Credits

The Clean-Fuel Vehicle Credit is no longer allowed on the Virginia return. Only carryover credits from prior years are allowed. Previously, taxpayers were permitted to claim the Clean-Fuel Vehicle Credit based on the federal deduction allowed under IRC § 179A or the federal credit allowed under IRC § 30. Since both of these federal provisions have been repealed, taxpayers may no longer claim the Virginia Clean-Fuel Vehicle Credit.

The Vehicle Emissions Testing Equipment Credit is 20% of the purchase or lease price paid during the taxable year for equipment certified by the Department of Environmental Quality (DEQ) for vehicle emissions testing within a locality that is required by law to implement an enhanced vehicle emissions inspection program within any locality adjacent to those localities required to implement the program.

Attach a copy of the Virginia Air Check Station Participation and Services Agreement. For a copy of this agreement, contact Opus Inspection at (703) 822-7587. Only expenses listed in the agreement, or dynamometers purchased or leased separately are eligible. You should retain documentation to support your claim for the tax credit because an audit may be conducted to verify any credit claimed under these provisions. You are not required to submit a specific form for the Emissions Testing Equipment Credit.

Major Business Facility Job Tax Credit

Individuals, estates, trusts, corporations, banks, insurance companies and telecommunications companies may claim a Virginia tax credit if the taxpayer creates at least 50 new full-time jobs in connection with the establishment or expansion of a major business facility or if the company is

engaged in a qualifying industry in Virginia and creates at least 50 new full-time jobs in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area (as defined by the Virginia Economic Development Partnership), the threshold is reduced from 50 to 25. Credits will be recaptured proportionately if employment decreases during the 5 years following the initial credit year.

Qualifying industries include: (1) manufacturing or mining; (2) agriculture, forestry or fishing; and (3) transportation and telecommunications companies. A major business facility includes a headquarters or portion of such a facility located in Virginia, where the majority of the company's financial, personnel, legal, or planning functions are handled either on a regional or national basis. A major business facility shall also include facilities located in Virginia that perform a central management or administrative function for other establishments of the same enterprise such as general management, accounting, computing, tabulating, data processing, purchasing, transportation or shipping, engineering and systems planning, advertising, legal, financial and research and development.

This nonrefundable credit is equal to \$1,000 per qualifying new job in excess of the 50/25 job threshold and is spread over 2 years for taxpayers whose initial credit year begins on or after January 1, 2009. The credit only applies to facilities where an announcement to expand or establish such a facility was made on or after January 1, 1994. The credit must be claimed beginning with the taxable year following the year in which the facility is established or expanded, or the new qualifying jobs are added. Unused credits may be carried forward for the next ten taxable years.

Any amount unused this year may be carried forward for the next 10 taxable years. Credits will be recaptured proportionately if employment decreases during the 5 years following the initial credit year. If employment decreases below the threshold, the entire credit will be recaptured.

All pass-through entities must complete Form PTE at least 60 days before the participants file their income tax return. If the participants' income tax return is due before the Form 502 is filed, they must file an amended return to claim the credit or file for an extension.

Effective for taxable years beginning on and after January 1, 2012, taxpayers may qualify for the Major Business Facility Job Tax Credit even if they have also received an Enterprise Zone Job Creation Grant. However, qualified business firms are not be eligible to receive both an Enterprise Zone Job Creation Grant and a Major Business Facility Job Tax Credit for the same jobs.

To apply for this credit, complete **Form 304**. All applications must be submitted to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715, 90 days prior to the due date of your return**. A letter will be sent to certify the credit. To claim the credit you must complete Schedule 500CR, Section 1, Part 9.

Clean-Fuel Vehicle and Advanced Cellulosic Job Creation Tax Credit

The Clean-Fuel Vehicle and Advanced Cellulosic Biofuels Job Creation Tax Credit expired on December 31, 2014, for new jobs created. Thus, no new job positions created after that date qualify for the credit. Any unused credit may be carried forward for up to 5 years. To claim credit or carryover amount, complete and attach **Form 305**, Clean-Fuel Vehicle Job Creation Tax Credit, and transfer the computed amount to Schedule 500CR, Section 1, Part 8. The Clean-Fuel Vehicle Job Creation Tax Credit will not be allowed for jobs for which the taxpayer claims the Major Business Facility Job Tax Credit.

Historic Rehabilitation Tax Credit

Individuals, estates, partnerships, trusts, or corporations, incurring eligible expenses in the rehabilitation of a certified historic structure are entitled to claim a credit against individual income tax, fiduciary income tax, corporation income tax, the bank franchise tax, and taxes imposed against insurance companies and utility companies.. The credit is equal to 25% of eligible rehabilitation expenses, and final certification must be submitted within 1 year of the completed work. To qualify, the cost of the rehabilitation must equal at least 50% (25% if the building is an owner occupied residence) of the assessed value of the building for local real estate tax purposes in the year preceding the start of the rehabilitation. Unused credits may be carried forward for ten years. The rehabilitation work must be certified by the Virginia Department of Historic Resources as consistent with the Secretary of the Interior's Standards for Rehabilitation. Certification of buildings and rehabilitations are issued by the Department of Historic Resources. Applications for certification may be obtained by writing to **Virginia Department of Historic Resources, 2801 Kensington Avenue, Richmond, VA 23221, calling (804) 367-2323** or visiting www.dhr.virginia.gov.

Day-Care Facility Investment Tax Credit

This credit expired December 31, 2013, and no credits may be claimed for taxable years beginning after that date. Only carryover credits from prior years are allowed. For additional information, contact the **Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**, or call **(804) 786-2992**.

Agricultural Best Management Practices (BMP) Tax Credit

This credit is available to individuals or corporations engaged in agricultural production for market who have in place a soil conservation plan approved by the local Soil and Water Conservation District (SWCD). The credit is 25% of the first \$70,000 expended for agricultural best management practices approved by the local SWCD. The maximum credit is \$17,500 or the total amount of state income tax obligation for the corporation. Effective for taxable years beginning on and after January 1, 2011, this credit is refundable to individual taxpayers. The credit is still non-refundable to corporate taxpayers. If a pass-through entity distributes this credit to an individual partner, shareholder, or member, the amount of the Agricultural Best Management Practices Tax Credit listed on the individual's Schedule VK-1 is refundable.

Any amount distributed by a PTE to a corporate partner, shareholder, or member is non-refundable. Any amount unused this year may be carried forward for the next 5 succeeding taxable years. The credit shall be allocated to individual partners and shareholders in proportion to their ownership or interest in the partnership or S Corporation. For more information about eligible BMPs, contact your local **Virginia Soil and Water Conservation District Office**.

Worker Retraining Tax Credit

The Worker Retraining Tax Credit allows an employer to claim a tax credit for the costs of providing retraining to qualified employees. "Eligible worker retraining" includes noncredit courses that are approved by the **Virginia Economic Development Partnership (VEDP)** and that are provided by any of the Commonwealth's community colleges or a private school. "Eligible worker retraining" programs also include courses (credit and noncredit) undertaken through an apprenticeship agreement approved by the Virginia Apprenticeship Council.

The credit is 30% of all expenditures paid or incurred by the employer during the taxable year, subject to certain limitations. For taxable years beginning prior to January 1, 2013, if the eligible worker retraining consists of courses conducted at a private school, the credit cannot exceed \$100 per qualified employee annually. For taxable years beginning on or after January 1, 2013, if the eligible working retraining consists of courses conducted at a private school, the credit cannot exceed \$200 per qualified employee annually, or \$300 per qualified employee annually if the eligible training includes retraining in a STEM or STEAM discipline. A STEM or STEAM discipline is defined as a science, technology, engineering, mathematics or applied mathematics related discipline as determined by DBA and includes a health care related discipline.

Employers must apply for certification of the amount of allowable credit using **Form WRC**, Worker Retraining Tax Credit, by April 1 of the year following the year the training expenses were paid or incurred before claiming the credit on their income tax return. All approved businesses filing a timely **Form WRC** will be notified of their allowable credit by June 30 of the calendar year following the year that the training expenses were paid or incurred. The maximum worker retraining credits granted to all employers is limited to \$2.5 million annually. If total credits approved exceed this amount, each will be prorated. The credit is allowable against Individual Income Tax, Estate and Trust Tax, Corporation Income Tax, and the Bank Franchise Tax. The credit is also allowable against the Insurance Premiums License Tax and the License Tax on Telegraph, Telephone, Water, Heat Light, Power, and Pipeline Companies (under *Va. Code* § 58.1-2500 et seq. and *Va. Code* § 58.1-2620 et seq.). This credit is nonrefundable, but excess credit may be carried forward for the next 3 taxable years. To claim this credit complete Schedule CR, Section 1, Part 14. For information on pre-approved apprenticeship programs, contact the **Virginia Department of Labor and Industry** at **(804) 225-4362**. For information on noncredit course approval, write to: **Virginia Jobs Investment Program**,

Virginia Economic Development Partnership, 901 East Byrd Street, Richmond, VA 23219 or call (804) 786-2382.

Waste Motor Oil Burning Equipment Credit

A business that operates a facility in Virginia which accepts waste motor oil from the public is allowed a tax credit equal to 50% of the purchase price paid for equipment for the taxable year provided that the equipment is used exclusively for burning waste motor oil at the business facility. The total credit allowed to any taxpayer in any taxable year is limited to \$5,000. Taxpayers successfully applying for the equipment certification with the Virginia Department of Environmental Quality by filing Form **DEQ 50-12** will receive a statement from that agency certifying that the equipment is used for burning waste motor oil. To claim the tax credit, attach a copy of DEQ Form 50-12 and receipts, invoices or other documentation to confirm the purchase price paid. For additional information concerning equipment qualifying for the credit or to apply for tax credit certification, write to: **Virginia Department of Environmental Quality, Attention: Equipment Certification Officer, P.O. Box 1105, Richmond, VA 23218**, or call **(804) 698-4145**.

Riparian Forest Buffer Protection for Waterways Tax Credit

Individuals and corporations may qualify for an income tax credit of 25% of the value of the timber on an area designated as a riparian buffer for a waterway. The credit may not exceed \$17,500 or the total amount of tax, whichever is less. To apply for this credit, file Department of Forestry (DOF) Form 179 with DOF or apply online at **www.dof.virginia.gov**. If you are approved for this credit, DOF will send you a Tax Credit Certificate.

A riparian buffer is land adjacent to a waterway on which timber may be harvested. In order to receive the credit, the owner of such land must refrain from harvesting more than 50% of such timber. The buffer must be at least 35 feet wide and no more than 300 feet. There must be a Stewardship Plan and annual certification of compliance for each tract. The buffer must remain in place for at least 15 years. The land that is the subject of this credit cannot be the subject of this credit again for 15 years after it was first taken. The credit may be carried over for the succeeding 5 taxable years. For more information, write to: **Virginia Department of Forestry, 900 Natural Resources Drive, Suite 800, Charlottesville, VA 22903**, or call **(434) 977-6555**.

Land Preservation Tax Credit

This tax credit is for taxpayers that convey land or interest in land located in Virginia to a public or private agency eligible to hold such land or interests for conservation or preservation purposes. The conveyance must be in perpetuity.

Credits for conveyances made in 2007 and thereafter are equal to 40% of the land's fair market value. All fair market valuations must be substantiated by a "qualified appraisal" and prepared by a "qualified appraiser," as those terms are defined under applicable federal law and regulations governing charitable contributions. Beginning with Calendar Year 2015, the maximum amount of credits that may be

issued in a calendar year may not exceed \$75 million. For Taxable Years 2009, 2010, and 2011, the total amount of credit per taxpayer per taxable year was limited to \$50,000 or the total tax liability, whichever was less. For Taxable Years 2012, 2013, and 2014, the credit limit per taxpayer per taxable year was \$100,000. For Taxable Years 2015 and 2016 the credit limit per taxpayer per taxable year is \$20,000. For Taxable Year 2017 and thereafter, the credit will be limited to \$50,000 per taxpayer per taxable year. However, for any fee simple donation of land conveyed to the Commonwealth on or after January 1, 2015, the amount of the credit claimed is subject a higher limitation of \$100,000 per taxpayer for each taxable year, provided that no part of the charitable contributions deduction under IRC § 170 related to such fee simple donation is allowable by reason of a sale or exchange of property. For taxpayers affected by the 2009 and 2010 usage limit, an additional 2-year carryforward will be added to the credit. For taxpayers affected by the usage limits for Taxable Years 2011 and 2015 and thereafter, an additional 3 years carryforward will be added to the credit. Any unused credit not affected by the usage limits will retain the original carryforward periods (5 years for donations originating prior to January 1, 2007 and 10 years for donations originating on or after January 1, 2007).

Any taxpayer holding a Land Preservation Tax Credit that originated on or after January 1, 2002, may transfer unused but otherwise allowable credit for use by another taxpayer on Virginia income tax returns. Transfers and pass-through allocations derived from donations recorded on or after January 1, 2007, are subject to a fee. See Schedule A of Form LPC-1 or Form LPC-2 for further information.

A subtraction is allowed for any gain or income recognized by a taxpayer on the application of a Land Preservation Tax Credit against a Virginia income tax liability, to the extent the gain is included in and not otherwise subtracted from federal adjusted gross income. The transfer of the credit and its application against a tax liability shall not create gain or loss for the transferor or the transferee.

Before claiming the credit, complete and file Form LPC-1 and/or Form LPC-2 with the Department of Taxation at least 90 days before filing your income tax return. For land or an interest in land conveyed on or after July 1, 2015, no credit will be allowed unless a completed credit application with regard to such conveyance has been filed with the Department of Taxation by December 31 of the year following the calendar year of the conveyance. Additionally, applicants filing for tax credits of \$1 million or more must apply to the Department of Conservation and Recreation to receive verification of the conservation value. The Department of Taxation will issue a letter acknowledging the amount of the credit. For assistance, contact the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**, or call **(804) 786-2992**.

Virginia Coal Employment and Production Incentive Tax Credit

For taxable years beginning on and after January 1, 2001, every electricity generator in the Commonwealth will be allowed a credit against their corporation income tax or

modified net income tax of an electric cooperative for coal mined in Virginia. The credit is at the rate of 3 dollars per ton for each ton purchased and consumed by the electricity generator provided the coal was mined in Virginia. The credit is available in the year the purchased coal mined in Virginia is consumed by the electric generator. This credit is nonrefundable and any credit not usable for the taxable year in which such credit is earned may be carried over to the next 5 succeeding taxable years or until the full credit is utilized, whichever is sooner. In order to receive this credit, the cogenerator shall include certification by the seller that the coal was mined in Virginia.

The credit may be allocated between the electricity generator and any person with an economic interest in coal, effective for purchases of coal made on or after January 1, 2006 but before July 1, 2016. The allocation of the credit may be provided in the contract between the parties for the sale of the coal. The parties may amend any such allocation with a written instrument prior to December 31 of the year that the coal was purchased. All contracts and written instruments are subject to audit by the Department.

Credits allocated to persons with an economic interest in coal may be used against any tax imposed by the Commonwealth. If such credits exceed the taxpayer's tax liability, the excess may be redeemed in a manner similar to the Coalfield Employment Enhancement Tax Credit. Unused credits may be carried forward for 10 taxable years.

Community of Opportunity Tax Credit

The Community of Opportunity Tax Credit may be claimed by landlords with qualified housing units located in census tracts with poverty rates of less than 10% in the Richmond Metropolitan Statistical Area who participate in the Housing Choice Voucher program.

The amount of tax credit for an eligible property will be equal to 10% of the fair market value of the rent for the unit and will be prorated when units are qualified for less than the full taxable year. Prorations will be based on full calendar months. A landlord may receive tax credits on 1 or more units within the same taxable year. Credits taken for any one taxable year cannot exceed the tax liability for that year. Credits not taken for the year for which they are allocated may be carried forward, but cannot be carried forward for more than 5 years.

Should eligible applications received by the March 1 deadline exceed the annual appropriation, tax credits will be prorated based on the total amount of qualified requests received and the total amount of credits available.

Credits granted to a partnership, limited liability company, or electing small business corporation (S corporation) shall be allocated to the individual partners, members, or shareholders in proportion to their ownership or interest in such business entity. The pass-through entity must assume responsibility for distributing credits in this manner.

For additional information, please write to: **Virginia Department of Housing and Community Development, Main Street Centre, 600 East Main Street, Suite 300, Richmond VA 23219**, or call **(804) 371-7000**.

Green Job Creation Tax Credit

For taxable years beginning on or after January 1, 2010, but before January 1, 2018, a credit may be claimed for each new “green job” that is created in Virginia. The amount of the credit is \$500 for each position that is created and that has an annual salary of \$50,000 or more. The tax credit may be claimed in the first taxable year in which the job has been filled for at least one year, and for the four succeeding taxable years in which the job is continuously filled.

The tax credit is for up to 350 green jobs per taxpayer. Any unused credits may be carried over for 5 taxable years. Any taxpayer claiming a green jobs tax credit may also qualify for benefits under the Enterprise Zone Grant Program. Taxpayers that claim the Green Job Creation Tax Credit are not allowed to claim a Major Business Facility Jobs Tax Credit or a federal tax credit for investments in clean energy manufacturing facilities that fosters the creation of the same job.

To apply for this credit, complete **Form GJC**. All applications must be submitted to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715, 90 days prior to the due date of your return**. A letter will be sent to certify the credit. To claim the credit you must complete Schedule 500CR, Section 1, Part 20.

Farm Wineries and Vineyards Tax Credit

For taxable years beginning on and after January 1, 2011, but before January 1, 2017, an individual and corporation income tax credit is available for Virginia farm wineries and vineyards in an amount equal to 25% of the cost of all qualified capital expenditures made in connection with the establishment of new Virginia farm wineries and vineyards and capital improvements made to existing Virginia farm wineries and vineyards.

The total amount of tax credits available for a calendar year cannot exceed \$250,000. If applications for this credit exceed \$250,000, the Department will allocate the credits on a pro rata basis. Any credit amounts that exceed a taxpayer’s liability can be carried forward for ten years. Taxpayers cannot claim both this credit and a federal deduction for the same expenses under IRC § 179.

The business must apply for the credit by April 1st using **Form FWV**. Submitting a late application will disqualify you from the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit to be claimed on your tax return. A letter will be sent to certify the credit. For assistance contact the **Tax Credit Unit at (804) 786-2992**.

International Trade Facility Tax Credit

For taxable years beginning on and after January 1, 2011, but before January 1, 2022, an income tax credit is allowed for either capital investment in an international trade facility or increasing jobs related to an international trade facility. Taxpayers can elect to claim either credit, but cannot claim both credits in the same taxable year. The amount of the credit is equal to \$3,500 per new qualified full-time employee that results from increased qualified trade activities by the taxpayer or 2% of the amount

of capital investment made by the taxpayer to facilitate the increased eligible trade activities.

No more than \$1.25 million in tax credits can be issued in any fiscal year. If the amount of tax credits requested exceeds \$1.25 million, the credits will be allocated proportionately among all qualified taxpayers. The Department will determine the credit amount for the taxable year and provide a written certification to each taxpayer. The amount of the credit will be limited to 50% of the taxpayer’s tax liability for the taxable year. Any unused credit amount can be carried forward for 10 years.

The business must apply by April 1st using **Form ITF**. Submitting a late application will disqualify you from the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit to be claimed on your tax return. A letter will be sent to certify the credit.

For assistance, contact the **Tax Credit Unit at (804) 786-2992**.

Port Volume Increase Tax Credit

For taxable years beginning on or after January 1, 2011, but before January 1, 2022, a taxpayer that is an agricultural entity, manufacturing-related entity (manufacturer or distributor of manufactured goods), or mineral and gas entity that uses Virginia maritime port facilities and increases its port cargo volume through these facilities may be eligible for an income tax credit.

To qualify for the credit, a taxpayer generally must increase its port cargo volume at Virginia port facilities in a single calendar year by 5% over its base year port cargo volume. Base year port cargo volume is equal to the total amount of net tons of noncontainerized cargo, 20-foot equivalent units (TEUs) of cargo, or units of roll-on/roll-off cargo actually transported by way of a waterborne ship or vehicle through a port facility during the 2015 calendar year or the first calendar year in which it meets the requirements of 75 tons of noncontainerized cargo, 10 loaded TEUs or 10 units of roll-on/roll-off cargo. Base year cargo volume must be recalculated each calendar year after the initial base year. The amount of the credit is generally equal to \$50 for each TEU, unit of roll-on/roll-off cargo, or 16 net tons of noncontainerized cargo above the base year port cargo volume.

However, a qualifying major facility may apply for a credit equal to \$50 for each TEU unit of roll-on/roll-off cargo, or 16 net tons of noncontainerized cargo transported through a port facility during the major facility’s first calendar year.

Any taxpayer claiming this credit must first submit an application to the Virginia Port Authority by March 1 of the calendar year after the taxable year in which the increase in port cargo volume occurs. The maximum amount of tax credits is capped at \$3.2 million for each calendar year. If, on March 15 of each year, the cumulative amount of tax credits requested by qualifying taxpayers for the prior year exceeds \$3.2 million, the credits will be prorated among the qualifying taxpayers who requested the credit. A qualifying taxpayer is generally not permitted to receive more than \$250,000 each calendar year. However, if on March 15 of each year the \$3.2 million credit amount is not fully allocated among qualifying taxpayers, those taxpayers

who have already been allocated a credit for the prior year will receive a pro rata share of the remaining credit amount. For more information, write to: **Virginia Port Authority, 600 World Trade Center, Norfolk, VA 23510**, or call **(800) 446-8098**.

Barge and Rail Usage Tax Credit

For taxable years beginning on and after January 1, 2011, but before January 1, 2022, a business may receive an income tax credit for the usage of barge and rail to move cargo containers throughout the Commonwealth rather than using trucks or other motor vehicles on the Commonwealth's highways.

The amount of the credit is \$25 per 20-foot equivalent unit (TEU) or 16 tons of noncontainerized cargo or 1 unit of roll-on/roll-off cargo moved by barge or rail. To receive this credit, an international trade facility is required to apply to the Department. No more than \$500,000 in tax credits can be issued in any fiscal year. The Department will determine the allowable credit amount for the taxable year and provide a written certification of the credit amount to each taxpayer. Taxpayers can claim this credit against the individual income tax, the corporate income tax, the tax on estates and trusts, the bank franchise tax, the insurance premiums tax, and the tax on public service corporations. Any unused tax credits may be carried over for 5 taxable years.

The business must apply by April 1st using **Form BRU**. Submitting a late application will disqualify you from the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit to be claimed on your tax return. A letter will be sent to certify the credit.

For assistance contact the **Tax Credit Unit at (804) 786-2992**.

Livable Home Tax Credit

Effective for taxable years beginning on and after January 1, 2011, licensed contractors may be eligible for an income tax credit of up to \$5,000 for the purchase/construction of a new accessible residence or up to 50% of the cost of retrofitting activities on an existing residence not to exceed \$5,000. Any tax credit that exceeds the eligible licensed contractor's tax liability may be carried forward for up to seven years. If the total amount of tax credits issued under this program exceeds \$1 million in a fiscal year, Virginia Department of Housing and Community Development (DHCD) will prorate the amount of credits among the eligible applicants. The existing cap of \$1 million for credits earned each year is divided, reserving one-half for the purchase or construction of a new residence and the other half for the renovation of an existing residence. Any portion of the \$500,000 reserved for one activity that is not used will be allocated to the remaining balance of tax credits authorized for the other activity. Licensed contractors must obtain pre-approval before claiming the credit on their income tax returns. Applications are to be filed with the DHCD by February 28 of the year following the year in which the purchase/construction or retrofitting was completed. Documentation must be submitted with the application. For more information, write to: **Virginia Department of Housing and Community Development, Special Needs Housing, Main Street Centre, 600 East Main Street, Suite 300,**

Richmond, VA 23219, or call **(804) 371-7124**.

All pass-through entities distributing this credit to its owner(s), shareholders, partners or members must give each a Schedule VK-1, Owner's Share of Income and Virginia Modifications and Credits. This credit must be allocated among owners in proportion to each owner's percentage of ownership or participation in the pass-through entity.

Research and Development Expenses Tax Credit

A refundable individual and corporate income tax credit is allowed for qualified research and development expenses for taxable years beginning on or after January 1, 2011, but before January 1, 2022. The tax credit is equal to (i) 15% of the first \$300,000 in Virginia qualified research and development expenses, or (ii) 20% of the first \$300,000 of Virginia qualified research and development expenses if the research was conducted in conjunction with a Virginia public or private college or university, to the extent the expenses exceed a base amount. There is a cap on the total amount of credits allowed in any fiscal year. If the total amount of approved tax credits is less than the credit cap amount, the Department of Taxation will allocate the remaining amount to the taxpayers already approved for the tax credit on a pro rata basis. If the total amount of approved credits exceeds the credit cap amount, the Department will allocate credits on a pro rata basis.

Effective for taxable years beginning on or after January 1, 2016, the maximum annual amount of tax credits that may be issued for each fiscal year increases from \$6 million to \$7 million.

For taxable years beginning on or after January 1, 2016, taxpayers may elect to determine the credit using a simplified method. Under the simplified method, the credit is equal to 10% of the difference of (i) the Virginia qualified research and development expenses paid or incurred by the taxpayer during the taxable year; and (ii) 50% of the average Virginia qualified research and development expenses paid or incurred by the taxpayer for the 3 taxable years immediately preceding the taxable year for which the credit is being determined. If a taxpayer electing to use the simplified method did not pay or incur Virginia qualified research and development expenses in any 1 of the 3 taxable years immediately preceding the taxable year for which the credit is being determined, the credit is equal to 5% of the Virginia qualified research and development expenses paid or incurred by the taxpayer during the taxable year. Using such method, a taxpayer may claim up to \$45,000 of credits for a taxable year, or \$60,000 of credits for a taxable year if the Virginia qualified research was conducted in conjunction with a Virginia public or private college or university.

No taxpayer with Virginia qualified research and development expenses in excess of \$5 million may claim both the Research and Development Expenses Tax Credit and the Major Research and Development Expenses Tax Credit for the same taxable year.

To claim this tax credit, a taxpayer must apply by July 1st using Form RDC. Taxpayers electing to use the primary

method to determine the proposed credit amount must complete Section 1 - Primary Credit Calculation. Taxpayers electing to use the simplified method to determine the proposed credit amount must complete Section 2 - Alternative Simplified Credit Calculation. Submitting a late application will disqualify you for the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit in order to be claimed on your tax return. A letter will be sent to certify the credit.

The amount of the credit attributable to a partnership, electing small business corporation (S corporation), or limited liability company (LLC) must be allocated to the individual partners, shareholders, or members in proportion to their ownership interests in such entities or in accordance with a written agreement using Form PTE within 30 days after the credit is granted unless the partnership, limited liability company, or electing small business corporation (S corporation) elects for such credits not to be so allocated but to be received and claimed at the entity level by the partnership, limited liability company, or electing small business corporation (S corporation).

The Department shall require taxpayers applying for the credit to provide information including (i) the number of full-time employees employed by the taxpayer in the Commonwealth during the taxable year for which the credit is sought; (ii) the taxpayer's sector or sectors according to the 2012 edition of the North American Industry Classification System (NAICS) as published by the United States Census Bureau; (iii) a brief description of the area, discipline, or field of Virginia qualified research performed by the taxpayer; (iv) the total gross receipts or anticipated total gross receipts of the taxpayer for the taxable year for which the credit is sought; and (v) whether the Virginia qualified research was conducted in conjunction with a Virginia public or private college or university.

Any taxpayer that is allowed a Research and Development Expenses Tax Credit is not allowed to use the same expenses as the basis for claiming any other Virginia tax credit. Research and development expenses that are paid or incurred for research conducted in Virginia on human cells or tissue derived from induced abortions or from stem cells obtained from human embryos do not qualify for the credit. However, if a taxpayer engages in research in Virginia on human cells or tissue derived from induced abortions from stem cells obtained from human embryos, it may receive a nonrefundable credit for other Virginia qualified research and development expenses. Accordingly, if you conducted embryonic stem cell research in Virginia, this credit is nonrefundable and you must enter the amount of credit granted on Schedule 500CR, Section 1, Part 26. If you did not conduct embryonic stem cell research in Virginia, this credit is refundable and you must enter the amount of credit granted on Schedule 500CR, Section 3, Part 3.

Major Research and Development Expenses Tax Credit

For taxable years beginning on or after January 1, 2016, but before January 1, 2022, a taxpayer with Virginia qualified research and development expenses for the taxable year in

excess of \$5 million may claim a non refundable tax credit against the tax levied pursuant to § 58.1-320 or 58.1-400 in an amount equal to 10% of the difference between (i) the Virginia qualified research and development expenses paid or incurred by the taxpayer during the taxable year and (ii) 50% of the average Virginia qualified research and development expenses paid or incurred by the taxpayer for the 3 taxable years immediately preceding the taxable year for which the credit is being determined. If the taxpayer did not pay or incur Virginia qualified research and development expenses in any 1 of the 3 taxable years immediately preceding the taxable year for which the credit is being determined, the tax credit is equal to 5% of the Virginia qualified research and development expenses paid or incurred by the taxpayer during the relevant taxable year.

No more than \$20 million in tax credits may be issued in any fiscal year. If the approved applications for the tax credits exceed \$20 million for any taxable year, the credits will be allocated proportionately among all qualified taxpayers.

No taxpayer is permitted to claim credits in excess of 75% of the income tax imposed on the taxpayer for the taxable year. Any credit not usable for the taxable year for which the credit was first allowed may be carried over for credit against the income taxes of the taxpayer in the next 10 succeeding taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

Any taxpayer who claims the tax credit for Virginia qualified research and development expenses is not allowed to use such expenses as the basis for claiming any other credit provided under the Code of Virginia.

Applications for the tax credit must be received by the Department no later than July 1 of the calendar year following the close of the taxable year in which the expenses were paid or incurred. To apply, the business must file **Form MRD**. Submitting a late application will disqualify you from the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification from the Tax Credit Unit to be claimed on your tax return. A letter will be sent to certify the credit.

No taxpayer with Virginia qualified research and development expenses in excess of \$5 million may claim both the Research and Development Expenses Tax Credit and the Major Research and Development Expenses Tax Credit for the same taxable year.

Credits granted to a partnership, limited liability company, or electing small business corporation (S Corporation) must be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership interests in such entities or in accordance with a written agreement entered into by such individual partners, members, or shareholders.

No tax credit shall be allowed for any expenses that are paid for or incurred by a taxpayer for research conducted in the Commonwealth on human cells or tissue derived from induced abortions or from stem cells obtained from human embryos. The foregoing provision shall not apply to research conducted using stem cells other than embryonic stem cells.

Telework Expenses Tax Credit

The Telework Expenses Tax Credit is an individual and corporate income tax credit for employers who (1) incur eligible telework expenses pursuant to a telework agreement or (2) conduct telework assessments. This credit is equal to the amount of expenses incurred during the calendar year. The amount of the credit cannot exceed \$50,000 per year for each employer.

To qualify for a credit for eligible telework expenses incurred pursuant to a telework agreement, the employer must enter into a signed telework agreement with the teleworking employee on or after July 1, 2012, but before January 1, 2017. This telework agreement must be in accordance with policies set by the Department of Rail and Public Transportation (DRPT). Such policies are available on the Telework!VA website at www.teleworkva.org. The maximum amount of expenses that can be used in determining the amount of this portion of the credit is \$1,200 per employee.

The portion of the credit for telework assessment expenses is equal to the costs of preparing an assessment, not to exceed \$20,000. This portion of the credit can only be claimed once by an employer.

Taxpayers may claim this credit for taxable years beginning on or after January 1, 2012, but before January 1, 2017. The aggregate amount of tax credits that will be issued is capped at \$1 million annually. If credit applications exceed the \$1 million cap, credits will be allocated on a pro rata basis.

The amount of credit claimed cannot exceed the tax liability of the taxpayer. There is no carryforward of any unused credit. Accordingly, even if a taxpayer is granted a credit amount, it must have sufficient tax liability in order to actually claim the full credit amount. If the amount of credit granted exceeds the taxpayer's tax liability, it may only claim the credit up to the amount of tax liability for the taxable year.

To be eligible for this credit, the employer is not allowed to deduct the qualified expenses in any taxable year. If these expenses are deducted for federal purposes, they will need to be included as an addition on your Virginia return. Taxpayers are not eligible for this tax credit if any other income tax credit is claimed for the same expenses.

Taxpayers are required to apply to the Department to reserve a portion of the credit. The reservation application must be filed between September 1 and October 31 of the year preceding the taxable year for which the tax credit is earned. The Department will provide tentative approval by December 31. If the applications for the credit exceed the cap, the credits will be allocated to taxpayers on a pro rata basis.

Information on the application process is available by writing to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**, or by calling **(804) 786-2992**.

Education Improvement Scholarships Tax Credit

For taxable years beginning on or after January 1, 2014, but before January 1, 2028, an income tax credit may be claimed for monetary or marketable securities donations

made to scholarship foundations included on an approved list published by the Virginia Department of Education. Credits may be earned during taxable years beginning on or after January 1, 2013 but before January 1, 2028. Tax credits earned during the taxable year must be claimed beginning with the taxable year during which they were earned. The credit is equal to 65% of the monetary or marketable securities donation made to the scholarship foundation. The credit can be claimed against the individual income tax, corporate income tax, bank franchise tax, insurance premiums license tax, or tax on public service corporations. For individuals, the minimum value of any monetary or marketable securities donation eligible for a tax credit is \$500 in a taxable year, and the maximum value of monetary or marketable securities donations eligible for tax credits is the first \$125,000 in value of donations made in a taxable year. Such limitations on the minimum and maximum values of donations eligible for tax credits in a taxable year do not apply to donations made by any business entity, including a sole proprietorship.

Tax credits will be awarded to taxpayers on a first-come, first-served basis in accordance with procedures established by the Virginia Department of Education. The total amount of credits available in any fiscal year is capped at \$25 million. Any unused tax credits may be carried over for the next 5 succeeding taxable years or until the total amount of credit has been taken, whichever is sooner. For additional information on how to qualify for certification, contact the **Virginia Department of Education, 21st Floor, P.O. Box 2120, Richmond, VA 23218-2120, ATTN: Scholarships Tax Credits Program or call (804) 225-3375**.

Food Crop Donation Tax Credit

For taxable years beginning on or after January 1, 2016, but before January 1, 2022, any person engaged in the business of farming as defined under 26 C.F.R. § 1.175-3 that donates food crops grown by the person in the Commonwealth to a nonprofit food bank may claim an individual or corporate income tax credit for the taxable year of the donation. The amount of the credit is equal to 30% of the fair market value of such crops. No taxpayer is permitted to claim more than \$5,000 in credits for a taxable year. Any unused credit amount may be carried forward for 5 years.

The credit is only allowed if (i) the use of the donated food crops by the donee nonprofit food bank is related to providing food to the needy, (ii) the donated food crops are not transferred for use outside the Commonwealth or used by the donee nonprofit food bank as consideration for services performed or personal property purchased, and (iii) the donated food crops, if sold by the donee nonprofit food bank, are sold to the needy, other nonprofit food banks, or organizations that intend to use the food crops to provide food to the needy.

No more than \$250,000 in tax credits may be issued in any fiscal year.

The business must apply for the credit by April 1st using **Form FCD-1**. Submitting a late application will disqualify you from the credit. All applications must be sent to the **Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715**. This credit requires certification

from the Tax Credit Unit to be claimed on your tax return. A letter will be sent to certify the credit.

Coalfield Employment Enhancement and Refundable Coal Employment and Production Incentive Tax Credits

For taxable years beginning on or after January 1, 1996, but before January 1, 2017, a tax credit may be earned by individuals, estates, trusts and corporations who have an economic ownership interest in coal mined in Virginia. The credit is based on the quantity of coal or methane gas produced and employment levels. If the number of coal mining jobs for the year the credit is earned is less than in the previous year, the maximum earned credit is reduced by an employment factor. The allowable credit must be computed on **Form 306**, Coalfield Employment Enhancement Tax Credit, and reported on the return filed for the taxable year in which the credit is earned. **Form 306** with completed schedules must be attached to the tax return when filed. See "What to Attach" on the instructions for Form 306 for additional attachment requirements and information. The allowable credits may be claimed in the third taxable year following the taxable year in which the credit was earned and allowed. This credit may not be claimed for any ton of coal for which the Virginia Coal Employment and Production Incentive Tax Credit is claimed.

Virginia Coal Employment and Production Incentive Tax Credit: This credit may be allocated between a qualifying electricity generator and qualifying person with an economic interest in coal. The allocation of this credit may not exceed \$3 per ton. All credits earned on or after January 1, 2006, or prior to July 1, 2016 which are allocated to persons with an economic interest in coal may be redeemed by the Tax Commissioner if the credits exceed the taxpayer's state tax liability for the applicable taxable year. You must complete Form 306, Form 306T, and its attachments to claim these credits.

For forms and additional information, contact the Department. To claim these credits, complete **Form 306** and any necessary attachments and transfer the applicable amount to Schedule 500CR Section 3, Part 1.

Motion Picture Production Tax Credit

Qualifying motion picture production companies are eligible to receive a series of refundable individual and corporate income tax credits for taxable years beginning on and after January 1, 2011.

Base-Income Tax Credit: The base credit available is 15% of all qualifying expenses (including wages), with a bonus of 5% if the production is filmed in an economically distressed area of

the Commonwealth, making the total base credit available up to 20% of qualifying expenses.

Additional Virginia Resident Credit: The production company is allowed an additional credit of 10% to 20% of the total aggregate payroll for Virginia residents employed in connection with the motion picture production. For companies that spend at least \$250,000 in total production costs in the Commonwealth, but not more than \$1 million, the credit will equal 10% of the total Virginia resident aggregate payroll. For companies that spend over \$1 million in total production costs in the Commonwealth, the credit will equal 20% of the total aggregate Virginia resident payroll.

Additional Virginia Resident First-Time Industry Employee Credit: In addition to the above outlined credits, companies may claim a credit of 10% of their total aggregate payroll for Virginia residents who are employed as first time actors or first time members of a production crew in connection with a production in Virginia.

The aggregate amount of all motion picture credits to be issued is capped at \$2.5 million for the 2010-2012 biennium. Effective July 1, 2014, (fiscal year 2015), and each fiscal year thereafter, the cap amount increases to \$6.5 million. To qualify for this credit, production companies must submit an initial application to the Virginia Film Office ("VFO") at least 30 days prior to production and must enter into a Memorandum of Understanding. After production is complete, the production company must submit documentation to the VFO and will be issued a certification letter. A taxpayer may only claim this credit after receiving the certification letter from the VFO. For more information, contact: **Virginia Film Office, 901 E. Cary Street, Suite 900, Richmond, VA 23219**, or call **(800) 854-6233**.

Credits available through the Virginia Motion Picture Production Tax Credit are offered in addition to other Virginia production incentives. For additional information regarding all available funding assistance for Virginia productions, please refer to the Virginia Film Office's website **FilmVirginia.org**.

Donations to the General Fund

Legislation passed by the 2002 General Assembly allows you to make donations directly to Virginia's General Fund by writing a check payable to the State Treasurer and designating it as a donation to the Commonwealth's General Fund. To ensure proper accounting for these donations, you must attach your payment to Form GFD. Visit **www.tax.virginia.gov** or call **(804) 367-8037** to obtain this form.