

Are You Receiving All of the VA Income Tax Credits to Which You are Entitled?



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Virginia offers numerous income tax credits (dollar-for-dollar reduction of taxes) that are available to companies doing business in the Commonwealth—are you aware of and utilizing them to reduce your taxes? The following list of VA tax credits continues to evolve and taxpayers that are familiar with Federal tax credits may not be aware of those offered by Virginia. Following are several credits that are likely to benefit manufacturers, distributors, and retailers:

- › **Port Volume Increased Tax Credit**—This credit is available for manufacturers and distributors of manufactured goods, including processed agricultural products, that transport goods through Virginia ports and increase their cargo volume by 5% in a single year. The credit amount is \$50 per 20-foot equivalent unit (TEU) transported through VA port facilities in excess of the number of TEUs transported during the previous year. The taxpayer must own the goods at the time the port facilities are used (including upon shipment or on delivery) and control the method of transportation. There is a presumption that the company importing cargo controls the method of transportation. This credit was addressed in our January newsletter and more detail is available on our blog at Keitercpa.com.
- › **Research and Development Expenses Tax Credit**—This credit equals i) 15% of the first \$167,000 of Virginia qualified research and development expenses, or ii) 20% of the first \$175,000 of such expenses if the research was conducted in conjunction with a Virginia college or university, to the extent the expenses exceed a base amount. The credit applies to research conducted in Virginia that is undertaken for the purpose of discovering information that is technological in nature and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer. It is not necessary that a Federal research credit be claimed in order to utilize the Virginia credit and applies to activities you may not think of as covered, such as software development. It's a good idea to

discuss the various activities of your business with your accountant as you may unknowingly qualify. This credit was first enacted for 2011 and was expected to cap at \$25,050 per taxpayer for in-house research (\$167,000 * 15%), but applicants ultimately received twice that amount, or \$50,100, because so few companies applied for the credit. The annual state-wide allocation for the research credit is \$5 million and should total applications exceed such amount, the credits will be reduced and allocated pro-rata among the applicants. In the program's first year; however, applications totaled less than \$2.5 million, so benefits were unexpectedly doubled and because this credit is not limited to a taxpayer's tax liability but is refundable, companies with net operating losses received cash payments from the Commonwealth. This is a credit not to be missed if it applies to your company.

- › **Historic Rehabilitation Credit**—This credit is 25% of eligible expenses incurred to rehabilitate a certified historic structure. Rehabilitation costs must be at least 50% of the assessed value of the building (25% if building is owner-occupied) and certified by the VA Dept. of Historic Resources as being consistent with the Secretary of the Interior's Standards for Rehabilitation.
- › **Major Business Facility Job Credit**—Companies engaged in business in the Commonwealth, other than retail trade businesses, may claim a credit of \$1,000 per hired employee when they create at least 100 new full-time jobs (50 if located in an enterprise zone or economically distressed area) in connection with the establishment or expansion of a major business facility.
- › **Recyclable Materials Processing Equipment and Alternative Recycling Credit**—A manufacturing business entity may claim a 10% credit for purchases of equipment that can produce tangible personal property items from recyclable materials.

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- › **Qualified Equity and Subordinated Debt Investments Credit**—Individuals making a qualified investment in the form of equity or subordinated debt in a pre-qualified small business venture may be entitled to a credit equal to 50% of their investment up to \$50,000. There are pre-qualifying activities that must occur and the total annual credits provided by the State to all individuals can not exceed \$3 million.

Certain credits are enacted for a limited period of time, so it is important to stay current on credit qualifications. The above is an overview of several currently existing opportunities. For further details on these or other benefits, please contact us or refer to benefits, please contact us or refer to <http://www.tax.virginia.gov/site.cfm?alias=TaxCredit>

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