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Source: Virginia Department of Taxation



GUIDE TO VIRGINIA TAX INCENTIVES

VIRGINIA TAX CREDITS

TAX CREDITS	CODE OF VIRGINIA
Agricultural Best Management Practices Credit	§ 58.1-339.3 and 439.5
Alternative Corporate Recycling Tax Credit	§ 58.1-439.8
Clean-Fuel Vehicle and Certain Refueling Property Credit	§ 58.1-438.1
Clean Fuel Vehicle Job Creation Credit	§ 58.1-439.1
Coal Employment and Production Incentive Credit	§ 58.1-2626.1
Coalfield Employment Enhancement Credit	§ 58.1-439.2
Cogenerators and Small Power Producers Credit	§ 58.1-433
Conservation Tillage Equipment Credit	§§ 58.1-334 and 432
Day-Care Facility Investment Credit	§ 58.1-439.4
Temporary Assistance to Needy Families (TANF) Credit	§ 58.1-439.9
Enterprise Zone Business Credit	§ 59.1-280
Enterprise Zone Real Property Investment Credit	§ 59.1-280.1
Equity and Subordinated Debt Investment Tax Credit	§ 58.1-339.4
Fertilizer and Application Equipment Credit	§ 58.1-337 and 436
Historic Rehabilitation Credit	§ 58.1-339.2
Low-Income Housing Credit	§§ 58.1-336 and 435
Major Business Facility Job Credit	§ 58.1-439
Neighborhood Assistance Act Credit	§§ 58.1-333 and 430
Qualifying Steam Producers Tax Credit	§ 58.1-439.3
Recyclable Materials Processing Equipment Credit	§ 58.1-338 and 439.7
Rent Reduction Credit	§ 58.1-339
Waste Motor Oil Burning Equipment Credit	§ 58.1-439.10
Worker Retraining Credit	§ 58.1-439.6

MAJOR BUSINESS FACILITY JOB TAX CREDIT

DESCRIPTION: The Major Business Facility Job Tax Credit provides a credit to qualifying companies for the creation of new, permanent full-time positions in the Commonwealth. The credit is available to individuals, trusts and estates, corporations, banks, insurance companies and public service companies.

QUALIFICATION: The credit is available to any company that establishes or expands a Major Business Facility in the Commonwealth, except a retail trade business if such trade is the principle activity of the facility. A Major Business Facility is established or expanded when a company creates at least 100 new, permanent full-time positions during the taxable year or any 12 month period ending within the taxable year. If the company locates its facility in a state designated enterprise zone or an economically distressed area, the job creation requirement for qualifying for the credit is reduced to 50 jobs.

A “new, permanent full-time position” is defined as a position requiring a minimum of thirty-five hours of an employee’s time per week for at least 48 weeks of a company’s normal year of operations.

An “economically distressed area” is a city or county with an unemployment rate for the preceding year of at least ½% higher than the average statewide unemployment rate for such year. The listing of economically distressed areas is published annually by the Virginia Economic Development Partnership. A copy of the listing for 1997 is attached.

COMPUTATION: A credit of \$1,000 is allowed with respect to each qualified full-time employee employed during the credit year. The “credit year” is the first taxable year following the taxable year in which 100 new, permanent full-time positions were created (50 jobs in an enterprise zone or an economically distressed area). Any full-time employee who is employed for less than 12 full months during the credit year must be prorated over the number of full months that the employee worked for the company during the credit year.

Companies claim the credit over three taxable years, with the first 1/3 of the credit being claimed in the credit year.

Two or more affiliated companies may elect to aggregate the number of jobs created for full-time employees in order to satisfy the necessary job threshold amount as a group rather than on an individual company basis.

For examples of computing the credit, see the attached Proposed Virginia Regulation 630-3-439.

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RECAPTURE: The credit will be recaptured for any of the five years succeeding the credit year in which the average number of qualified full-time employees employed during such year decreases below the average number of qualified full-time employees employed during the credit year.

CARRYOVER: The amount of credit not usable for the taxable year the credit was allowed may be carried over for the next 10 succeeding taxable years.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1995, but before January 1, 2005.

ADMINISTERED BY: Virginia Department of Taxation - (804) 367-8010

ENTERPRISE ZONE ACT INCENTIVES

I. IN GENERAL

An enterprise zone is a distinct geographical area of a county, city or town as designated by the Governor. The state and local governments enter into a twenty year partnership designed to offer a package of incentives to encourage business expansion and recruitment. Virginia law permits the designation of 50 enterprise zones. Currently, 46 zones have been designated. Attached is a map showing the locations of the 46 enterprise zones.

In order to be designated an enterprise zone, an area must meet one of the three criteria;

- 1) Have 25% or more of the population with incomes below 80% of the median income of the jurisdiction.
- 2) Have an unemployment rate 1.5 times the state average.
- 3) Demonstrate a floor vacancy rate of industrial and/or commercial properties of 20% or more.

The Enterprise Zone Program is administered by the Virginia Department of Housing and Community Development (DHCD). The incentives available under the program are the General Business Tax Credit, the Real Property Improvement Tax Credit, the Zone Investment Tax Credit and Job Grants.

The maximum amount of tax credits the DHCD can authorize is subject to an annual fiscal limitation of \$19 million. This annual limitation takes the form of two distinct credit “pools” of \$3 million and \$16 million. If the event that requests for credits exceed the annual fiscal limitation, each qualified business will be granted a pro rata amount. The tax credits offered under the program are assigned to the \$3 and \$16 million tax credit pools as shown in the following table.

ENTERPRISE ZONE TAX CREDIT POOLS

Type of Credit	Annual Limitation
Business Tax Credit	\$16 Million Credit Pool
Business Tax Credit for Large Firms	\$3 Million Credit Pool
Real Property Improvement Tax Credit	\$16 Million Credit Pool
Zone Investment Tax Credit	\$3 Million Credit Pool

In any fiscal year in which one of the pools is undersubscribed, that pool can be allocated to the oversubscribed pool. For example, if the \$3 million tax credit pool has not been fully utilized in a particular fiscal year, the unused portion of the \$3 million pool may be allocated to the \$16 million pool provided this pool is oversubscribed. The amount of Job Grants that can be authorized in any fiscal year is limited to an annual appropriation by the General Assembly to a special fund for the payment of these grants.

II. GENERAL BUSINESS TAX CREDIT

DESCRIPTION: A qualified business firm can claim a General Business Tax Credit equal to a percentage of its annual tax liability for a period of 10 years. The credit can be applied against the income tax, the bank franchise tax, and the gross receipt taxes paid by insurance and public service companies.

QUALIFICATION: An **existing business** must increase its full-time employment by 10% and 25% of the increase must be either low-income based on family size prior to being hired or a zone resident. A **new business** must have at least 25% of its total full-time employment be either low-income or a zone resident.

A “full-time employee” for the purposes of this credit is defined as an individual employed by a business firm who works at least 35 hours a week during the firm’s payroll period or two or more individuals who together share the same job position and together work the normal number of hours a week as required by the business firm for that one position.

COMPUTATION: The credit is equal to 80% of the tax liability of a qualified business in its first year of eligibility and 60% of the tax in years two through ten. Businesses investing \$25 million or more and creating 100 jobs in an enterprise zone are classified as a “**large qualified business firm.**” A large qualified business firm must negotiate the amount of its credit with the Department of Housing and Community Development. A qualified business can only use the General Business Tax Credit to offset the tax on income attributable to zone activity. A business with locations in Virginia both inside

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and outside an enterprise zone must apportion income attributable to a zone using a two factor formula of property and payroll.

CARRYOVER: The credit has no carryover provisions.

STATUTORY AUTHORITY: Code of Virginia § 59.1-280

IV. REAL PROPERTY IMPROVEMENT TAX CREDIT

DESCRIPTION: The Real Property Improvement Tax Credit allows enterprise zone businesses a credit for improvements to real property and the construction of new buildings located in an enterprise zone. The credit can be applied against the income tax, the bank franchise tax, and the gross receipt taxes paid by insurance and public service companies.

QUALIFICATION: Businesses that are **rehabilitating** or **improving** an existing structure must make a minimum investment of \$50,000 or amount equal to the assessed value of the real property prior to the improvements, whichever is greater. Businesses that are **constructing new buildings** must make a minimum investment of \$250,000 in qualified zone improvements.

COMPUTATION: The credit is equal to 30% of the cost of “qualified improvements.” Qualified improvements include exterior, structural, mechanical, or electrical improvements necessary to expand or rehabilitate a building for commercial or industrial use, and excavations, paving, grading, driveways, roads, sidewalks, landscaping, or other land improvements. Qualified improvements also include the costs of demolition, carpentry, sheetrock, plaster, painting, ceilings, fixtures, doors, windows, fire suppression systems, roofing and flashing, exterior repair, cleaning, and cleanup.

In the case of newly constructed buildings, the cost of land, land improvements, paving, grading, driveways, and interest in connection with new construction does not qualify for the credit.

The maximum amount of credit a single business can earn in a five year period is limited to \$125,000.

CARRYOVER: To the extent the credit exceeds tax liability, the credit is refundable.

STATUTORY AUTHORITY: Code of Virginia § 59.1-280.1

V. ZONE INVESTMENT TAX CREDIT

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DESCRIPTION: The Zone Investment Tax Credit allows enterprise zone businesses a credit for the cost of improvements to real property, the construction of new buildings and machinery, tools and equipment used in manufacturing. Businesses claim this credit in lieu of the Real Property Improvement Tax Credit. The credit can be applied against the income tax, the bank franchise tax, and the gross receipt taxes paid by insurance and public service companies.

QUALIFICATION: Requires a “qualified zone investment” of \$100 million and the creation of 200 permanent full-time positions. A qualified zone investment includes the cost of qualified improvements, as defined for the purposes of the Real Property Improvement Tax Credit, and the cost of machinery, tools and equipment used in manufacturing in an enterprise zone.

A “permanent full-time position” is defined as a job of indefinite duration located at a business firm located in an enterprise zone, and requiring either (i) a minimum of 35 hours of an employee’s time a week for the entire normal year of the business firm’s operations, which normal year must consist of at least 48 weeks, (ii) a minimum of 35 hours of an employee’s time a week for a portion of the taxable year in which the employee was initially hired for, or transferred to the business firm or (iii) a minimum of 1,680 hours per year if the standard fringe benefits are paid by the business firm for the employee.

COMPUTATION: The credit must be negotiated with the Department of Housing and Community Development and cannot exceed 5% of the cost of the qualified zone investment.

CARRYOVER: The credit may be carried over until the full amount of the credit has been utilized.

STATUTORY AUTHORITY: Code of Virginia § 59.1-280.1

VI. ENTERPRISE ZONE JOB GRANTS

DESCRIPTION: Enterprise Zone Job Grants are available to business firms which increase their number of permanent, full-time jobs employees in an enterprise zone. Unlike tax credits, job grants involve direct cash payments to qualified business firms.

QUALIFICATION: Business firms must increase the number of permanent, full-time positions by 10% over a base year employment. Base year employment is the calendar year preceding the first year of the grant, or at the firm’s option, the next preceding calendar year. Subsequent three year grants are available provided the business increases permanent, full-time employment by an additional 20%. Only the new employment in excess of the 20% will be eligible for additional grants.

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COMPUTATION: Job Grants of \$1,000 per year for three years are made for new full-time jobs filled by a zone resident and \$500 per year for three years for creating a new full-time jobs filed by a non-zone resident.

A “permanent full-time position” is defined as a job of indefinite duration located at a business firm located in an enterprise zone, and requiring either (i) a minimum of 35 hours of an employee’s time a week for the entire normal year of the business firm’s operations, which normal year must consist of at least 48 weeks, (ii) a minimum of 35 hours of an employee’s time a week for a portion of the taxable year in which the employee was initially hired for, or transferred to the business firm or (iii) a minimum of 1,680 hours per year if the standard fringe benefits are paid by the business firm for the employee.

The maximum grant per firm per year is \$100,000.

Businesses receiving Enterprise Zone Grants are not eligible to receive the Major Business Facility Job Tax Credit.

STATUTORY AUTHORITY: Code of Virginia § 59.1-282.1

VII. LOCAL ENTERPRISE ZONE INCENTIVES

Localities which have state designated Enterprise Zones are permitted under Virginia law to offer a variety of local incentives. The incentives can include the reduction of permit and user fees, the reduction of all local taxes, and financial assistance.

VIII. OTHER

EFFECTIVE DATES: The provisions of the Virginia Enterprise Zone Act are set to expired on January 1, 2005.

ADMINISTERED BY: Virginia Department of Housing and Community Development
(804) 371-7030

WORKER RETRAINING TAX CREDIT

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DESCRIPTION: The Worker Retraining Tax Credit allows an employer a credit for all expenditures paid during the taxable year for eligible worker retraining for qualified employees. The credit is available to individuals, trusts and estates, corporations, banks, insurance companies and public service companies.

QUALIFICATION: A “qualified employee” is an employee employed in a full-time position requiring a minimum of 1,680 hours in the entire normal year of employer’s operations and the standard fringe benefits are paid by the employer for the employee.

“Eligible worker retraining” includes noncredit community college or private school courses and worker retraining programs undertaken through an apprenticeship agreement approved by the Virginia Apprenticeship Council. Courses provided by community colleges and private schools must be certified as eligible worker retraining to the Department of Taxation by the Department of Business Assistance. Noncredit courses that are substantially related to the duties of a qualified employee, enhance the qualified employee’s job-related skills, and promote economic development are eligible for the credit.

COMPUTATION: A credit in an amount equal to 30% is allowed for all expenditures paid by an employer during the year for eligible worker retraining for qualified employees. Employers who use private schools to provide eligible worker retraining are allowed a credit equal to the cost per student or \$100 per student, whichever is less.

The total amount of tax credits allowed to all employers for each fiscal year is \$2.5 million.

CARRYOVER: Any credit not usable for the taxable year may be carried over for the next 3 taxable years.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439.6

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1999.

ADMINISTERED BY: Virginia Department of Taxation - (804) 367-8010

RECYCLABLE MATERIALS PROCESSING EQUIPMENT TAX CREDIT

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DESCRIPTION: The Recycling Tax Credit allows a credit for the purchases of machinery and equipment used in manufacturing facilities in Virginia to process recyclable materials for sale. The credit is available to individuals and corporations.

QUALIFICATION: Recycling equipment must be used exclusively 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 for sale.

In order to qualify for the credit, the taxpayer must have the Department of Environmental Quality certify the machinery and equipment is integral to the recycling process.

COMPUTATION: A credit is allowed in an amount equal to 10% of the purchase price paid for recycling machinery and equipment certified by the Department of Environmental Quality. "Purchase price paid" means the original total capitalized cost of the machinery and equipment, less capitalized interest. In addition to the cost of the recycling equipment, capitalized costs typically include taxes paid on the machinery, shipping charges and installation costs.

The amount of credit claimed in a taxable year cannot exceed 40% of the taxpayer's income tax liability (computed prior to the credit) for the taxable year.

CARRYOVER: Any credit not usable in the taxable year the machinery and equipment is purchased may be carried over for the next 10 taxable years.

STATUTORY AUTHORITY: Code of Virginia §§ 58.1-338 and 439.7

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1993, but before January 1, 2001.

ADMINISTERED BY: Virginia Department of Environmental Quality - (804) 698-4217

ALTERNATIVE CORPORATE RECYCLING TAX CREDIT

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DESCRIPTION: The Alternative Recycling Tax Credit allows a credit for the purchases by corporations of machinery and equipment used in manufacturing facilities in Virginia to process recyclable materials for sale. The credit is available to individuals and corporations.

QUALIFICATION: A corporation must invest at least \$350 million in plant, property, equipment in Virginia

Recycling equipment must be used exclusively 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 for sale.

In order to qualify for the credit, the taxpayer must have the Department of Environmental Quality certify the machinery and equipment is integral to the recycling process.

COMPUTATION: A credit is allowed in an amount equal to 10% of the purchase price paid for recycling machinery and equipment certified by the Department of Environmental Quality. "Purchase price paid" means the original total capitalized cost of the machinery and equipment, less capitalized interest. In addition to the cost of the recycling equipment, capitalized costs typically include taxes paid on the machinery, shipping charges and installation costs.

The amount of credit claimed in a taxable year cannot exceed 60% of the taxpayer's income tax liability (computed prior to the credit) for the taxable year.

CARRYOVER: Any credit not usable in the taxable year the machinery and equipment is purchased may be carried over for the next 20 taxable years.

STATUTORY AUTHORITY: Code of Virginia §§ 58.1- 439.8

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1998, but before January 1, 2003.

ADMINISTERED BY: Virginia Department of Environmental Quality - (804) 698-4217

NEIGHBORHOOD ASSISTANCE ACT CREDIT

DESCRIPTION: The Virginia Neighborhood Assistance Program allows tax credits for business firms which contribute to approved neighborhood assistance organizations

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designed to benefit impoverished individuals. The credit is available to individuals, corporations, banks, insurance companies and public service companies.

QUALIFICATION: To be approved as a neighborhood assistance organization, an organization must be exempt from federal income tax under Internal Revenue Code § 501(c)(3) or § 501(c)(4), and its primary function is providing assistance to impoverished people. Activities sponsored under the program include education, job training, housing assistance, free health care clinics and community services. A qualifying organization is approved by the Virginia Department of Social Services for a 12 month period, and are permitted to granted state tax credits to businesses firms making qualifying donations.

Business firms are permitted to donate money, merchandise and professional services to approved neighborhood organizations in exchange for state tax credits.

COMPUTATION: Business firms are permitted a tax credit equal to 45% of its contributions and must make a minimum donation of \$889 to receive a credit. Donors may take a maximum of \$175,000 in tax credits in any tax year.

The total amount of credits the Department of Social Services in authorized to allocate to approved neighborhood assistance organizations is limited to \$5.25 million in a fiscal year. This amount is schedule to increase to \$8 million effective July 1, 1998.

CARRYOVER: Any credit not usable for the taxable year may be carried over for the next 5 taxable years.

STATUTORY AUTHORITY: Neighborhood Assistance Act (Code of Virginia § 63.1-320 et seq.) and Code of Virginia §§ 58.1-333 and 58.1-430

EFFECTIVE DATES: Currently, the Neighborhood Assistance Act does not authorize credits under the act after June 30, 2000.

ADMINISTERED BY: Virginia Department of Social Services - (804) 692-1895

DAY-CARE FACILITY INVESTMENT TAX CREDIT

DESCRIPTION: The Day-Care Facility Investment Tax Credit is available to any employer which establishes a licensed child day-care center in the Commonwealth for the children of employees. The credit is available to individuals and corporations.

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QUALIFICATION: An employer must make an application to the Tax Commissioner in order to receive the credit. The credit is allowed provided the child-care facility is operated pursuant to license issued by the Commissioner of Social Services, the application for the building permit for the facility was made after July 1, 1996, and the Tax Commissioner approves the application.

COMPUTATION: A credit is allowed in an amount equal to 25% of all expenditures by the employer during the taxable year for planning, site preparation, construction, renovation, or acquisition of facilities for the purposes of establishing the child day-care facility and equipment installed for permanent use at the facility. The amount of credit allowed to a single employer cannot exceed \$25,000.

The total number of applications the Tax Commissioner can approve in a fiscal year is limited to four. Application are approved in the order received.

CARRYOVER: Any credit not usable for the taxable year may be carried over for the next 3 taxable years. However, the balance of the credit will not be allowed in a taxable year in which the facility has operated as a day-care facility for less than six months.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439.4

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1997.

ADMINISTERED BY: Virginia Department of Taxation - (804) 367-8010

COALFIELD EMPLOYMENT ENHANCEMENT TAX CREDIT

DESCRIPTION: The Coalfield Employment Enhancement Tax Credit provides a credit to Virginia producers of coal and coal methane gas. Two credits are available for coal

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mining, one for underground mines and another for surface mined coal. This credit can be applied against any tax imposed by the Commonwealth.

QUALIFICATION: Any person with an economic interest in a coal mine is eligible for the **coal credit**. An "economic interest" is defined as the economic interest required by § 611 of the Internal Revenue Code. A person who receives only an arm's length royalty will not be considered as having an economic interest in coal mined in Virginia.

To be eligible for the **coalbed methane gas** credit, a person must be issued a permit by the Virginia Department of Mines, Minerals and Energy to operate a coalbed methane well.

COMPUTATION: The **coal credit** is equal to the number of tons sold during the taxable year which were mined in Virginia, multiplied by a rate determined by the method the coal was mined. For coal mined underground, the rate is determined according to the seam thickness of the coal as shown below.

CREDIT RATE SCHEDULE

Mining Method	Rate Per Ton Sold
Surface Mined Coal	\$0.40
Underground Mining - Seam Thickness of greater than 36"	\$1.00
Underground Mining - Seam Thickness of 36" or less	\$2.00

The amount of credit earned is subject to a limitation based on employment levels. The credits earned will be decreased if the coal producer's employment levels decline from the previous calendar year.

The credit for **coalbed methane gas** is equal to \$0.01 per million BTUs of Virginia coalbed methane sold during the taxable year.

Credits are earned during taxable years beginning on or after January 1, 1996, but must be redeemed according to the following deferral schedule.

CREDIT REDEMPTION SCHEDULE

TAXABLE YEAR EARNED	TAXABLE YEAR REDEEMED

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TAXABLE YEAR EARNED	TAXABLE YEAR REDEEMED
1996	50% in 1999 and 50% in 2005
1997	50% in 2000 and 50% in 2006
1998	75% in 2001 and 25% in 2007
1999	75% in 2002 and 25% in 2008
2000	100% in 2003
2001	100% in 2004

CARRYOVER: To the extent the credit exceeds tax liability, the excess is refundable up to 90% of the face value of the credit. The remaining 10% will be deposited in a regional fund administered by the Coalfield Economic Development Authority.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439.2

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1996, but before January 1, 2002.

ADMINISTERED BY: Virginia Department of Taxation - (804) 367-8010

WASTE MOTOR OIL BURNING EQUIPMENT TAX CREDIT

DESCRIPTION: The Waste Motor Oil Burning Equipment Tax Credit is available to any Virginia taxpayer who accepts waste motor oil from the public. The credit is available to only to corporations.

QUALIFICATION: The Department of Environmental Quality will certify the oil burning equipment. A copy of the certification must be attached to the income tax return filed by the taxpayer claiming the credit.

COMPUTATION: The credit is equal to 50% of the purchase price paid for equipment used exclusively to burn waste motor oil. The maximum amount of the credit in any year is \$5,000.

CARRYOVER: The taxpayer can only use the credit in the year the qualified equipment is purchased. Any unused portion of the credit may not be carried forward to subsequent years.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439.10

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1999.

ADMINISTERED BY: Virginia Department of Environmental Quality - (804) 698-4217

TEMPORARY ASSISTANCE TO NEEDY FAMILIES (TANF) RECIPIENTS TAX CREDIT

DESCRIPTION: The Temporary Assistance to Needy Families (TANF) Recipients Tax Credit is available to any Virginia taxpayer that has 100 or fewer employees and employs individuals receiving Temporary Assistance to Needy Families (TANF) benefits.

QUALIFICATION: Credits are granted out of funds appropriated for the Virginia targeted jobs grant fund. Employers seeking the credit or the grant will apply to the Virginia Department of Social Services. An employer will not be able to qualify for a credit and a grant for the same employee.

COMPUTATION: The credit is equal to 5% of each qualifying employee's annual salary, not to exceed \$750.

CARRYOVER: The credit is not refundable but unused credits can be carried forward for three years.

STATUTORY AUTHORITY: Code of Virginia § 58.1-439.9

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1999.

ADMINISTERED BY: Virginia Department of Social Services - (804) 692-1895

EQUITY AND SUBORDINATED DEBT INVESTMENTS IN SMALL BUSINESSES TAX CREDIT

DESCRIPTION: The Equity and Subordinated Debt Investments in Small Business Tax Credit allows a tax credit to any Virginia individual or fiduciary taxpayer that makes a qualified equity and subordinated debt investment made during the taxable year in a qualified Virginia small business venture.

QUALIFICATION: The amount of tax credits allowed for any fiscal year is limited to \$5 million. The Department of Taxation is responsible for implementing and administering a program of monitoring the \$5 million cap.

A qualified business is a corporation, general or limited partnership or limited liability company that (i) has its headquarters and principal business operations within Virginia; (ii) engages in its business activities primarily within Virginia; and (iii) has annual gross receipts of \$5 million or less based on the most recently completed fiscal year. A "qualified business" is not to include certain financial, government, construction, mining and real estate organizations.

A qualified investment is a cash investment in a qualified business in the form of equity or subordinated debt made during the taxable year.

An individual cannot make a "qualified investment" in a "qualified business" if that individual, members of such individual's family, or any entity with which such individual is affiliated receives compensation from the "qualified business" in exchange for services provided as an employee, officer, director, manager, independent contractor or otherwise at any time during the holding period required for the particular type of "qualified investment." Reimbursement of reasonable out-of-pocket expenses incurred would not be deemed to be compensation.

An equity investment or subordinated debt investment does not qualify for the credit if the investment was originally issued to someone other than the taxpayer. This means the credit will not apply to already existing investments bought and sold on secondary markets. The credit only applies to transactions where the "qualified business" gets new capital directly from the individual. Thus, the same instrument will not qualify for multiple credits by transferring it between investors.

COMPUTATION: The credit is equal to 50% of a qualified equity and subordinated debt investment made during the taxable year in a qualified Virginia small business venture.

CARRYOVER: The aggregate amount of the credit available for each taxpayer in a taxable year is limited to the lesser of the tax imposed for such taxable year or \$50,000. Unused credit can be carried forward to offset future income tax for up to 15 taxable years.

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STATUTORY AUTHORITY: Code of Virginia § 58.1-339.4

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1999.

ADMINISTERED BY: Virginia Department of Taxation - (804) 367-8010

HISTORIC REHABILITATION TAX CREDIT

DESCRIPTION: The Historic Rehabilitation Tax Credit is a percentage of the eligible expenses incurred in rehabilitating a certified historic structure and is available to individuals, trusts and estates, corporations, banks, insurance companies, and utility companies.

QUALIFICATION: The cost of the rehabilitation must equal at least 50% of the assessed value of the building for local real estate tax purposes prior to the rehabilitation. Certification for the credit must be obtained from the Virginia Department of Historic Resources.

COMPUTATION: The credit is equal to equal to a designated percentage of the eligible expenses incurred in rehabilitating a certified historic structure. The percentage of expenses qualifying for the credit will be phased in as follows:

<u>Year</u>	<u>Percentage</u>
1997	10%
1998	15%
1999	20%
2000 and thereafter	25%

CARRYOVER: Unused credit can be carried forward to offset future income tax for up to 5 taxable years.

STATUTORY AUTHORITY: Code of Virginia § 58.1-339.2

EFFECTIVE DATES: The credit is effective for taxable years beginning on and after January 1, 1997.

ADMINISTERED BY: Virginia Department of Historic Resources - (804) 371-6495

PROCEDURE FOR CLAIMING MULTIPLE TAX CREDITS

Whenever a taxpayer is eligible to claim more than one Virginia income tax credit, the following ordering rules shall apply:

1. Two credits are structural in nature, and are considered by the department to be a reduction in tax liability, rather than a credit against the tax. Accordingly, the credit for taxes paid to other states (Code of Virginia § 58.1-332), and the telecommunications company credit (Code of Virginia § 58.1-434) must be claimed before any other credit. (Because these credits are mutually exclusive no ordering between them is necessary.)
2. After the credit for taxes paid to other states and the telecommunications company credit, taxpayers may claim any credit which does not have a statutory carryforward or refundable feature. (The enterprise zone general tax credit allowed by Code of Virginia § 59.1-280 A is an example of such a credit.) Where there are multiple credits of equal priority (i.e. two or more credits without a carryforward period or refundable feature), taxpayers may claim them in the order in which they receive the maximum benefit.
3. Next, taxpayers may claim credit carry forwards to the taxable year, in the order of those carry forwards which are scheduled to expire first. Where there are multiple credits with carry forwards of equal length (i.e. two or more credit carry forwards that both expire at the same time), taxpayers may claim them in the order in which they receive the maximum benefit.
4. Next, taxpayers may claim current year credits, based on the order of those with the shortest carryforward period first. Where there are multiple credits with carry forwards of equal priority (i.e. two or more credits with equal carryforward periods), taxpayers may claim them in the order in which they receive the maximum benefit.
5. Where a taxpayer has a refundable credit, it shall be claimed after all other credits have been applied, and the net excess of the refundable credit over such remaining tax liability shall be refunded.
6. Where a credit is calculated as, or limited to, a percentage of the tax, (such as the enterprise zone general tax credit allowed by Code of Virginia § 59.1-280 A, or the tax credit for purchase of machinery and equipment for processing recyclable materials allowed by Code of Virginia § 58.1-445.1) the "tax" for this purpose shall be the gross tax, less the structural credits allowed by Code of Virginia §§ 58.1-332 (credit for taxes paid to other states) and 58.1-434 (telecommunications company credit).
7. In no event shall this policy operate so as to allow double benefit for any credit claimed or to be claimed, in one or more taxable years.