



Federal and State Tax Incentives: A “Power Assist” for West Virginia Business

By Sophia D. Howes, J.D.

Combining Federal and State tax credits could prove helpful both to new businesses and companies already doing business here in the state. It is an especially good time for companies to apply for federal R&D tax credits, thanks to new, taxpayer-friendly regulations put in place in 2003. So says Dan Fuller, who heads the Central Region Global Credits and Incentives practice for BDO Seidman LLP, one of the largest tax advisory practices in the U.S.

On the State-level, Mark Muchow¹, director of fiscal policy at the West Virginia Division of Tax and Revenue, says the State’s Manufacturing Investment Tax Credit plays a significant role in helping West Virginia companies with their tax burden. Because this credit offsets 50% of a company’s tax liability, as applied to the business franchise tax or corporate net income tax, it helps make West Virginia competitive on a tax basis with surrounding states.

For federal purposes, R&D expenditures include all expenditures incident to the development or improvement of a product. The term “product” includes: a formula, invention, patent, pilot model, process, technique, or similar property. R&D expenditures typically do not include quality control testing, advertising or promotion, consumer or efficiency surveys, management studies, literary or historical projects, or acquisition of another’s patent or process.

Debbie McAlpine² of PricewaterhouseCoopers LLP writes that the federal R&D tax incentive is an incremental scheme, allowing taxpayers to claim 20% of qualifying expenditures (generally wages, supplies and 65% of contract research) above a base amount. Overhead, travel and training costs do not qualify. The taxpayer may elect to take a current deduction, or capitalize and amortize, certain qualified research expenditures.

Mark Muchow also cites West Virginia’s Economic Opportunity Tax Credit as a significant one for the state. This credit is designed for businesses that make a qualified investment, on or after January 1, 2003, in a new or expanded business facility in the state. A qualified business creating at least 20 new jobs (ten new jobs for small businesses) within three tax years gets credit equal to 20% of capital qualified investment.

For example, if a small manufacturer with projected annual sales of less than \$7 million invests \$2 million within West Virginia and that investment results in the creation of 10 new full-time equivalent jobs within the first year, that business may be eligible for a 10% small business economic opportunity tax credit. The tax credit would be equal to \$20,000 per year for a period of 10 years and may be used to reduce qualified state tax liabilities by up to 80% per year for a period of 10 to 13 years.

Articles by Rick Slater^{3,4} of Simpson & Osborne A.C. describe two new West Virginia tax credits for high-growth, start-up and R&D oriented businesses that have been implemented:

The Strategic R&D Tax Credit applies to companies engaging in R&D, and is equal to 3% of all qualified expenses and investment, or 10% of the excess of qualified expenses and investment for the tax year over the average of such expenses for a base period – subject to an overall \$1 million annual cap on total refundable R&D credit.

The High-Growth Business Investment Tax Credit was created to encourage investment in potentially high-growth R&D businesses. It is equal to 50% of the qualified investment made by companies that have been certified by the tax commissioner as eligible for the Strategic R&D Tax Credit. In addition, the Strategic R&D Tax Credit is now refundable for small, qualified research and development businesses in the state.

This article provides general information only and is not designed to advise companies on individual tax issues. For specific advice, companies should consult their tax professional. Many thanks to Karen Price, Mark Muchow, Scott Rotruck, Rick Slater, Dan Fuller and Patty Barnhardt for their assistance in preparation of this update.

EVENTS

West Virginia Manufacturers Association, Manufacturing Matters, 2005 Conference will be held October 13-14, 2005 at Lakeview Resort, Morgantown, WV. For more information contact patty@wvma.com to register for the event, or call (304)342-2123. Registration deadline is September 30, 2005.

West Virginia Wind Working Group Meeting, will be held October 19, 2005, at the Canaan Valley Resort and Conference Center, Davis, WV. To register, contact Patrick Mann, pmann@wvu.edu - For more information about the group, visit For more information about the group, visit the [web site](#).

West Virginia Coal Mining Institute and SME Central Appalachian Section Joint Technical Meeting will be held October 20-22, 2005 at the Greenbrier, White Sulphur Springs, WV. For more information contact Royce J. Watts, WVU College of Engineering and Mineral Resources at (304) 293-5695 or royce.watts@mail.wvu.edu.

DOE OPPORTUNITY FORUM 2005, will be held October 24-25, 2005, at the Sheraton Premiere, in Tysons Corner, VA located in Vienna, VA. For more information send an email to help@doeforum.com or call (585)594-9281 for complete details.

1. Mark Muchow will make a presentation entitled, “How to Access WV Tax Incentives for Manufacturers,” at the West Virginia Manufacturers Association’s Fall Conference to be held October 13-14 at Lakeview Resort and Conference Center in Morgantown. Further program details are available from the WVMA office at (304) 342-2123 or by email at wvma@wvma.com

2. “Tax Credits for R&D Investment”, *IP Value 2005, Building and Enforcing Intellectual Property Value*

3. “Connecting the Dots for Meaningful Change, WV Executive, Winter 2004, www.simpsonosborne.com

4. “Landmark Tax Modernization Bills Passed by 2004 Legislature, www.simpsonosborne.com

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Co-Funding Opportunities for IOF-WV Research Teams

Announcement	Due Dates	Funding
U.S. Department of Energy Materials for Energy Efficient Industrial Processing http://e-center.doe.gov	Now Open (Request for Proposals) October 17, 2005 (Proposals Due)	\$7,600,000
U.S. Department of Energy Laboratory Call for Materials for Energy Efficient Industrial Processing http://e-center.doe.gov	Now Open (Request for Proposals) October 26, 2005 (Proposals Due)	\$2,000,000
National Science Foundation SBIR/STTR Programs Phase I Solicitation FY2006 www.nsf.gov	Now Open (Request for Proposals) December 8, 2005 (Proposals Due)	\$100,000 for Phase I awards \$100,000 to \$750,000 for Phase II awards
U.S. Department of Energy Inventions and Innovations http://e-center.doe.gov	Now Open (Request for Proposals) October 11, 2005 (Pre-proposals Due) January 31, 2006 (Full proposals Due)	\$2,000,000 in total funding
U.S. Department of Energy Chemicals Industry of the Future http://e-center.doe.gov	Now Open (Request for Proposals) January 11, 2006 (Proposals Due)	\$10,000,000 in total funding
U.S. Department of Energy SBIR/STTR http://e-center.doe.gov	Now Open (Request for Proposals) December 2, 2005 (Proposals Due)	\$100,000 for Phase I awards \$100,000 to \$750,000 for Phase II awards

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