Policy Brief

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Every Dollar Counts:

The Need for Transparency and Evaluation of Business Tax Incentives

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Every year, West Virginia's policymakers scrutinize the state's budget. Every dollar spent must be accounted for, and how much is allocated to education, healthcare, infrastructure and other public services must be carefully considered. And once the fiscal year is over, the budget process begins again, and what programs are funded and where the tax dollars are allocated are examined and debated by the state's policymakers.

However, one form of "back door" spending receives virtually no scrutiny from the state's policymakers, despite costing the state millions each year. The use of tax incentives for economic growth and job creation has a major impact on the state's budget each year, but currently West Virginia policymakers lack the tools and information needed to properly evaluate them. Instead, millions of taxpayer dollars are handed out with little oversight and accountability.

West Virginia, like many states across the country, has relied heavily on tax incentives to encourage businesses to locate and expand in the state, and to promote economic growth. However, the actual cost and true economic impact of the state's business tax expenditures is unknown, and neither policymakers nor the public know the return on its investment. As tax incentives remain a major policy tool for economic development, it is critical that the state regularly and effectively evaluates them and uses that information to inform the state's policy choices.

This is not a new problem in West Virginia. In 1999, the Governor's Commission on Fair Taxation reported to then-Governor Cecil Underwood that, "Many (tax credits) have little or no relation to economic development. Further, research is necessary to determine the overall impact of such credits."[1] More recently, the Wise Administration in 2002 examined 22 of the state's existing business tax credits and recommended eliminating half of them despite being unable to prove if they led to job creation or economic growth.[2]

What Are Tax Expenditures?

West Virginia code defines tax expenditures as "exclusions, deductions, tax preferences, credits and deferrals designed to encourage certain kinds of activities or to aid taxpayers in special circumstances."[3] Examples of state tax expenditures include the Family Tax Credit, which decreases or eliminates the personal income tax liability for taxpayers below the federal poverty line, and the Homestead Exemption that reduces the property tax liability for those 65 years old or older, or permanently disabled.

Tax expenditures cost the state money in much the same way as direct spending, because they result in the loss of revenue that would otherwise be collected. For this reason, tax expenditures are often referred to as "spending simply by another name."[4] But, unlike annual public spending that is subject to annual appropriations each year, tax expenditures are not. Thus, they more closely resemble an entitlement program (for example, Medicaid) than discretionary spending programs (for example, higher education) because any person or entity that meets the requirements for them can receive the benefits.

Many of West Virginia's largest tax expenditures are tax incentives for businesses. While the goal of these tax incentives might be to boost job creation, attract new businesses, and promote economic growth, very little is done to account for and evaluate them. Unlike direct spending, which is reviewed and documented each year in the budget process, the review and evaluation of the state's tax expenditures is done sporadically, with little evaluation of their effectiveness.

Examples of West Virginia's business tax incentives include the Economic Opportunity Tax Credit, the thin-seam coal tax credit, the Film Industry Investment Tax Credit, and the Manufacturing Property Tax Credit (for more examples, **see Appendix**).

Evaluating Business Tax Incentives in West Virginia

States that effectively evaluate business tax incentives get the most "bang for the buck." States that successfully use tax incentives to promote job creation and economic growth do so because they know whether or not their efforts are working. This is according to a recent report by the Pew Center on the States called "Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth." According to the report, evaluations of tax incentives for businesses must cover four key areas:[5]

1. Timeliness - the evaluations should be timely, and provide policymakers with the most up-to-date data as possible.
2. Scope - the evaluations should contain relevant data about recipients and they should cover all major tax expenditures.
3. Impact - the evaluations should accurately measure the full economic impact of the tax expenditures.
4. Goals - the evaluations should identify and draw clear conclusions about the goals of the tax expenditures.

   Goals of tax expenditures can include: creating quality jobs, benefiting distressed areas, or making the state more economically competitive. Within each goal the evaluations should identify relevant measures, like the number of jobs and wages, and whether recipients were hiring state residents.

The "Evidence Counts" report shows that West Virginia is "trailing behind" other states when it comes to evaluating its business tax incentives. Other groups, like Good Jobs First have also ranked West Virginia below most other states when it comes to transparency and accountability of economic development incentives.[6] This report uses the standards for successful tax incentive evaluations outlined in the "Evidence Counts" report to examine and critique West Virginia's efforts at evaluating its business tax incentives.

West Virginia's business tax incentive expenditures are accounted for and evaluated by the State Tax Department in three separate documents. The West Virginia Tax Credit Review and Accountability Report reviews four of the state's business tax credits on the basis of cost and jobs created. The West Virginia Tax Credit Disclosure List accounts for every business claiming a business tax credit, listing its name, address, and a cost range. The West Virginia Tax Expenditure Study lists the various tax expenditures offered by the state by the tax it offsets, and also includes rationales for the expenditures and aggregate cost estimates.

However, each document has significant shortcomings that deprive state policymakers of the ability to effectively evaluate the state's tax incentives, or even answer basic questions about them, like how much the credits cost, and who is currently receiving them. None of the evaluations cover all of the four key areas of evaluations identified by the Pew report; instead the reports include incomplete, inconclusive, and out-of-date data.

This issue brief examines how West Virginia reviews its business tax incentives, including how they are evaluated, where the state is falling short in its evaluation, and how it can move toward providing greater transparency and accountability.

Section One

The West Virginia Tax Credit Review and Accountability Report*

The West Virginia Tax Credit Review and Accountability Report is the state's only method for evaluating the impact of business tax credits on the economy. First published in 2006 and since published once every three years, the report reviews the state's Economic Opportunity Tax Credit, the Manufacturing Investment Tax Credit, the Strategic Research and Development Tax Credit, and the High-Growth Business Investment Tax Credit (see **Appendix**).

The tax credits are reviewed on the basis of:

1. The number of taxpayers claiming the credit.
2. The net number, type, and duration of new jobs created by tax credit recipients.
3. The cost of the credit.
4. The cost of the credit per new job created.
5. A comparison of employment trends for the industry and for tax credit recipients.

According to the report, the four business tax credits reviewed in the report cost the state nearly $44 million in forgone revenue between 2003 and 2009 (**Table 1**).

Shortcomings of the West Virginia Tax Credit Review and Accountability Report

According to state officials, the tax credits reviewed in the West Virginia Tax Credit Review and Accountability report have helped attract new businesses and spurred the growth of existing businesses.[7] But the report does not provide enough data to properly make that determination and fails to meet any of Pew's four criteria for effectively evaluating business tax incentives evaluations.

Timeliness - For the evaluation of state tax incentives to matter, policymakers must act in a timely manner on its findings. If they are unable to do so, any evidence gathered on the effectiveness of the tax incentives is wasted.

The West Virginia Tax Credit Review and Accountability Report is only published once every three years, and the data reviewed in the report are at least three years old. For example, the 2012 report listed the number of taxpayers claiming the four credits in 2009.

TABLE 1

Cost of West Virginia's Business Tax Incentives

Tax Year	Economic Opportunity Tax Credit	Strategic Research and Development Tax Credit	Manufacturing Investment Tax Credit	High-Growth Business Investment Tax Credit
2003	$60,163	$637,702	$121,404	-
2004	$358,911	$1,374,894	$469,527	-
2005	$937,300	$1,191,316	$882,718	$491,574
2006	$2,707,970	$1,483,875	$2,165,900	$176,860
2007	$4,034,894	$2,229,222	$2,392,172	$341,376
2008	$5,715,396	$2,362,293	$2,903,985	$115,044
2009	$4,868,252	$1,592,956	$4,345,101	$15,863
Total	$18,682,886	$10,872,258	$13,280,807	$1,140,717

Source: West Virginia State Tax Department, West Virginia Tax Credit Review and Accountability Report.

*Note: All quotations in this section are from the 2012 Tax Credit Review and Accountability Report.

Because of the three-year gap between reports, policymakers are limited in their ability to use the findings to inform policy. But when the fiscal data in the report are also out of date, they create a bigger challenge for policymakers to effectively act on the evaluations. Resources can be wasted for years on ineffective incentives, while incentives that that do work can be neglected unless they are regularly reviewed with up-to-date data.

Scope – Company-specific data and demographic data about workers can help policymakers ensure that West Virginians are the primary beneficiaries of the incentive. Jobs and other benefits can "leak" out of the state offering the incentives, and the extent to which that happens can help determine the value of a tax incentive.

In addition, all major tax incentives offered to businesses are important when evaluating their effectiveness. By including all available tax incentives, states can compare them to each other and determine which are the most effective, which are duplicative of one another, and which complement one another.

The West Virginia Tax Credit Review and Accountability Report does not disclose the recipients or the location of the tax credits, nor does it provide demographic information about the workers hired. Only the total costs and number of jobs are disclosed. Nor does the report include all of West Virginia's business tax incentives. For example, business tax credits not included in the report include the Film Industry Investment credit, the Natural Gas Industry Jobs Retention Credit, the Thin-Seamed Coal Tax Credit, the Manufacturing Property Tax credit, the Commercial Patent credits, the Apprenticeship Training Tax credits and the Tourism Development credit.

Impact – In order to determine whether or not state business tax incentives are achieving their goal of driving economic growth, states not only need to ask the right questions, they also need accurate information.

As mentioned above, the West Virginia Tax Credit Review and Accountability Report provides the cost and number of jobs created for the state's business tax credits, as well as employment trends for the industries which receive the credits. But this information is insufficient to estimate the economic impact of the tax incentives. The report does not answer the question of cause and effect, or to what extent the tax incentives change business decisions, and whether they played a crucial role in expanding an existing business or adding new jobs. Instead it simply reports the number of "jobs created" with no further analysis.

The closest the state's report comes to answering the question of cause and effect is the comparison of employment trends for the industry versus taxpayers within the industry that claim the credit. This comparison uses no empirical evidence, however, to show that the tax incentives are the cause of the claimant's performance. And the report states multiple times that the "statistics may not provide meaningful information," due to the simplicity of the analysis and its small sample size.

Answering this question can involve a great deal of economic research, but it is crucial if the state wants to effectively evaluate if the business tax incentives working. For example, a report from Minnesota's legislative auditor estimated that 79 percent of the jobs reported from recipients of the state's Job Opportunity Building Zones would have been created without the incentives.[8] As a result, the state began to require businesses to certify that they would not have located or expanded in Minnesota without the program.[9]

The report also does not address indirect costs and benefits. Business tax incentives have both costs and benefits on the broader economy beyond their intended effect. On one hand, if a tax incentive causes a business to expand, the expansion ripples through the economy, as the company buys new products and its employees spend their new incomes. These indirect impacts go beyond the number of jobs created. On the other hand, revenue forfeited by offering a tax incentive must be offset by spending cuts or tax increases, which can be a drag on economic growth.

For example, the Massachusetts Department of Revenue analyzed the state's film-industry tax incentives and estimated that they created 1,643 jobs in 2009. However, the agency also found that the spending cuts required to pay for the incentives would reduce employment by 1,421 jobs, meaning the incentive was only responsible for 222 new jobs. The incentives cost more than $70 million that year, bringing the cost per job to $300,000. The next year, the analysis found that the incentive cost more jobs in 2010 than it created.[10]

Goals – Successful evaluations of business tax incentives draw clear conclusions and indicate whether or not the incentives are meeting state goals. Often this is done at the outset, with some states clearly defining the purpose of the incentives and setting benchmarks for determining success.

Even when a tax incentive's goal is not clearly established, the evaluation process can be used to define goals after the fact. When the North Carolina General Assembly commissioned a study to assess the effectiveness of its business tax incentives, it identified three broad goals: creating quality jobs, benefiting distressed areas, and making the state more economically competitive. Within each goal it identified relevant measures, like the number of jobs and wages, and whether recipients were hiring North Carolina residents.[11]

The tax credits reviewed in the West Virginia Tax Credit Review and Accountability Report do have goals, but they are not clearly definable or measurable. The report does report a basic "jobs created" number, but, in fact, only the Economic Opportunity Tax Credit has a job creation requirement (see **Appendix**). And as mentioned above, there is no "cause and effect" analysis for the reported number of jobs created.

The other tax credits reviewed in the report have goals of encouraging industry activity and growth, but these goals do not have defined and measurable outcomes. The report does attempt to evaluate these goals by making a comparison of employment trends for the industry versus taxpayers within the industry that claim the credit, but this is a simple comparison with no empirical evidence to show that the tax incentives are the cause of the claimant's performance. And the report states multiple times that the "statistics may not provide meaningful information," due to the simplicity of the analysis and its small sample size.

The report's conclusion on the effects of the tax incentives on overall economic growth is anything but clear, stating, "The credit programs may help some individual business taxpayers, but the overall impact of the credit programs on economic growth is arguable." Other findings are simply repeated from previous reports, providing no new information, and no information about the goals of the incentives. Fifteen of the eighteen other major findings in the 2012 report are simply repeated from the 2009 report, and seven of those findings are repeated from the initial 2003 report. This means that West Virginia policymakers have been without new conclusions from the West Virginia Tax Credit Review and Accountability Report since the report was first created nearly ten years ago.

Section Two

West Virginia Tax Credit Disclosure List

The West Virginia Tax Credit Disclosure List provides the name and address of every business claiming a number of investment tax credits. The credits listed include:

- Industrial Expansion and Revitalization Credit
- Aerospace Industrial Facility Credit
- Capital Company Credit
- Coal Loading Facility Credit
- Economic Opportunity Credit
- Historical Rehabilitation Building Credit
- Manufacturing Investment Credit
- Research and Development Credit
- Residential Housing Credit
- Strategic Research and Development Credit
- Super Credit (Business Investment and Jobs Expansion)
- Telephone Low Income Credit
- Utility Low Income Credit

The list also includes a value range of the credit received by each business. The value ranges listed are:

- $0 - $50,000
- $50,000 - $100,000
- $100,000 - $250,000
- $250,000 - $500,000
- $500,000 -$1,000,000
- $1,000,000+

Appendix Item 2 lists the details of the examined tax expenditures.

Shortcomings of the West Virginia Tax Credit Disclosure List

Timeliness – The West Virginia Tax Credit Disclosure List is published once every five years, and the data in the report are five years old when published. Because the report's information is dated, it is nearly impossible to use it to evaluate the tax incentives. Many of the tax incentives listed in it are no longer in use, have been terminated by the state or have expired, and include the Business Investment and Jobs Expansion Credit, the Research and Development Projects Credit, the Aerospace Industrial Facilities Credit and the Residential Housing Development Projects Credit.

The report is also not available online, unlike other state documents that review tax expenditures.

Scope – The West Virginia Tax Credit Disclosure List does provide some company-specific data. It contains the name and address of the companies receiving the credits, but does not provide an actual dollar amount of the expenditure, only a range. In addition, the number of jobs or any demographic information about workers is not included.

While the list covers more business tax credits than the West Virginia Tax Credit Review and Accountability report, it is not comprehensive, and most of the included credits are terminated. Significant expenditures not compiled in the list include:

- Reduced rate for thin-seamed coal - $75 million
- Special valuation for qualified capital additions to manufacturing facilities - $8.6 million
- WV Film Tax Credit - up to $11 million

Impact - The West Virginia Tax Credit Disclosure List does not measure or evaluate the economic impact of the listed business tax credits.

Goals – The West Virginia Tax Credit Disclosure List does not draw any conclusions about any of the listed tax expenditures other than listing a value range of the credit and which company or person received the credit.

Section Three

West Virginia Tax Expenditure Study

The West Virginia Tax Expenditure Study lists all of the state's tax expenditures, including those on sales and use, business and occupation (B&O), personal income, corporate income, business franchise, property, business registration, and special business taxes. The study provides a description of the expenditure, the value if possible, and the rationale behind the expenditure.

Appendix Item 3 lists business tax expenditures included in the West Virginia Tax Expenditure Study that are not found in other publications.

Shortcomings of the West Virginia Tax Expenditure Study

Timeliness – While the West Virginia Tax Expenditure study is published once a year, it is done on a three-year rotating basis. That means each year's study only contains a portion of the state's expenditures. The past three studies were divided up as follows:

- 2012 – Special Business Tax, Business Registration Tax, Excise Tax, Property Tax
- 2011 – Corporate Net Income Tax, Business Franchise Tax, Personal Income Tax
- 2010 – Consumer Sales and Service Tax, Use Tax

Since many of West Virginia's business tax expenditures can be used to offset more than one tax, the rotating nature of the West Virginia Tax Expenditure Study makes it difficult to determine the actual value of a given tax expenditure in one year.

Scope – Of the state's three documents reviewing and accounting for tax expenditures, the West Virginia Tax Expenditure Study reviews more expenditures than the Tax Credit Review and Accountability Report and the Tax Credit Disclosure list. However, it does not report the value of all tax expenditures separately. Instead, numerous tax expenditures are categorized and grouped together, with a total value reported. Many tax expenditures have no value listed. This, combined with the rotating reporting, makes it nearly impossible to determine the value of any specific tax expenditure on an annual basis. The study also does not include any information about recipients, jobs, distribution or demographics.

Impact – The West Virginia Tax Expenditure Study does not measure or evaluate the economic impact of the listed tax expenditures. Further, the state has never comprehensively reviewed the state tax expenditures.

Goals – The West Virginia Tax Expenditure Study lists the rationale for the listed tax expenditures, but it does not draw any conclusions about them.

Section Four

Other Important Considerations

What about local business tax expenditures?

None of the three reports on West Virginia's tax expenditures considers local business tax expenditures. Local governments often set up tax-free zones, or offer Business and Occupation (B&O) tax breaks and property tax abatements as incentives. For example, the city of South Charleston offered Gestamp International $5 million in B&O tax breaks to reopen its stamping plant.[12] In another case, the city of Nitro annexed a ring around an industrial park to avoid local taxes, all without any oversight or review.[13] In neither case were the incentives offered by these local governments included in the state's evaluation of business tax incentives. According to a recent study by the Lincoln Institute, property tax incentives cost state and local governments between $5 billion and $10 billion a year in forgone tax revenue nationally.[14]

When local governments reduce property taxes through abatements and other methods, it directly impacts the state budget via the school aid formula (Public School Support Program). This is because the amount of property taxes collected at the local level determines how much state school support funding is distributed to local county school boards. But where these activities occur, how often, and how much it costs is not reported to or evaluated by the state. The reimbursement through the school aid formula can act as a state subsidy for local property tax incentives. This eliminates the constraint of lost revenue on the local governments giving the incentives, reducing the need for accountability and discretion.

Disclosure of "clawbacks"

Several of West Virginia's business tax incentives have recapture or clawback provisions for companies receiving incentives that fail to meet job or benefit agreements. While the Tax Department has the authority to conduct audits and require refunds for noncompliance, this information is not published.

The Manufacturing Property Tax Adjustment Credit Report

West Virginia has one other report on its business tax expenditures which reviews only one tax expenditure, the Manufacturing Property Tax Adjustment Credit. The report has been released twice, once in 2011 and again in 2012. The report contains information on the costs of the credit as well as against which taxes the credit is applied. However, there is no information on the claimants of the credit, or any measure of its impact. The goals of the credit are not stated, nor are there any goals for economic development or job creation in the state code.[15]

Section Five

Best Practices: Moving Toward Transparency and Accountability

The 2012 Pew Center on States Report, "Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth" cited West Virginia as one of the 29 states that is "trailing behind" in evaluating its business tax incentives. Some of the best practices from other states include:

- ***Unified Economic Development Budgets*** - Five states, Rhode Island, New Jersey, Vermont, Texas, and Illinois, have enacted some type of unified economic development budget to compile all on-budget and off-budget economic development spending into a single document. This enables policymakers to see how subsidies are distributed from various public agencies between regions, industries, and companies.
- ***Sunset Dates*** - In 2009, Oregon put expiration dates of six years on most tax credits. Similarly, the Nevada State Constitution stipulates that all newly enacted tax expenditures include an expiration date. This ensures a thorough and regular review by policymakers of tax expenditures.
- ***Local Incentives*** – The 1995 Minnesota Business Subsidy Law requires all state agencies and local governments (in towns with populations over 2,500) that provide financial assistance to businesses and other organizations to file annual reports that include the recipient's name and the number and value of all subsidies. This information is then consolidated in a comprehensive statewide report, which compares data over the most recent four years and comments on the state's progress in achieving its economic development goals. Arizona requires tax incentives offered in the Phoenix metropolitan area to be reported to the state, and the value of the incentives is deducted from the state aid allocated to the local government.[16]
- ***Accountability*** – The Illinois Corporate Accountability for Tax Expenditure Act requires that all recipients of corporate tax incentives report annually on their progress in achieving state investment and employment goals, including wages and health benefits. It also requires state agencies to issue annual reports disclosing the number of tax subsidies issued as well as the number of organizations and corporations failing to meet their obligations.
- ***Transparency*** - The Illinois Corporate Accountability for Tax Expenditure Act also created a searchable online database to provide access to PDF reports submitted by companies. The database includes which companies got subsidies, where the company located, how much it received and what the results were in terms of job creation and wages.

While West Virginia is currently not doing enough to properly evaluate its business tax expenditures, there are several ways the state could dramatically improve its evaluations:

- Publish the WV Tax Credit Review and Accountability Report, Tax Expenditure Study (complete), and WV Tax Credit Disclosure List on an annual basis.
- Disclose company-specific information pertaining to tax credits and incentive programs, including the recipients, amounts, demographics, and job-related outcomes.
- Publish all reports in an online, easily accessible, searchable database.
- Publish information identifying amounts of subsides subject to redetermination and recapture and ensure that all major business tax incentives are subject to these provisions.
- Consider a unified state economic development budget that includes local economic development deals.
- Include tax expenditures in the governor's budget.
- Consider "sunset" provisions for tax expenditures.

Appendix

The following appendices contain a list of the description, value, rationale, affected taxes, and recapture provisions of the state's major business tax expenditures. The values shown are as reported in the various State Tax Department reports, and range in date from 2009 to 2011. Expenditures with values combined with other expenditures or only partially reported in the Tax Expenditure Study are marked as unknown. The authors requested the most update values available from the State Tax Department and were directed to the mentioned reports.

ITEM 1

Business Tax Expenditures Reviewed in the West Virginia Tax Credit Review and Accountability Report

Business Tax Expenditure	Description	Value	Rationale	Taxes Affected	Recapture Provision
Economic Opportunity Tax Credit	Credit attributable to qualified investment in tangible and real property and the creation of new jobs. The amount of credit allowable is determined by multiplying the amount of the taxpayer's "qualified investment" in "property purchased or leased for business expansion" by the taxpayer's new jobs percentage.	$4,868,252	Encourage greater capital investment in WV and create new jobs.	Business and Occupation, Business Franchise, Corporate Net Income, Personal Income	Subsidies are fully or partially recaptured and future subsidies are recalibrated for companies that fail to meet investment and employment requirements. Exceptions exist for investment property that is stolen or damaged by fire, flood, storm or other casualty.
Strategic Research and Development Tax Credit	Credit attributable to qualified research expenditures. The allowable credit is the greater of: (1) Three percent of the annual combined qualified research and development expenditure; or (2) Ten percent of the excess of the annual combined qualified research and development expenditure over the base amount.	$1,592,956	Encourage research and development activity.	Business and Occupation, Business Franchise, Corporate Net Income, Personal Income	No tax credits are awarded until after the recipient meets investment and expenditure requirements. However, if the property is disposed of prior to the end of its useful life or ceases to be used in a qualified research and development activity prior to the end of its useful life, the agency will claw back a portion of the credit and recalibrate future credits. Exceptions exist for investment property that is stolen or damaged by fire, flood, storm or other casualty.

Manufacturing Investment Tax Credit	Credit attributable to qualified manufacturing investment. Credit allowed is equal to five percent of the qualified manufacturing investment.	$4,345,101	Encourage the location of new industry and the expansion, growth and revitalization of existing industrial facilities.	Business Franchise, Corporate Net Income, Severance	No tax credits are awarded until after the recipient meets investment requirements. However, the company forfeits any unused tax credits if it fails to maintain the property for its full useful life, as determined by the Tax Commissioner. The company also must re-determine the amount of the credit allowed for earlier years based on the amount of time the property was actually used for manufacturing activity and pay any additional taxes required. Exceptions exist for investment property that is stolen or damaged by fire, flood, storm or other casualty.
High-Growth Business Investment Tax Credit	Credit attributable to investment in qualified research and development company that maintains its corporate headquarters in West Virginia.	$15,863	Encourage investment in start-up, growth-oriented, research and development business.	Business Franchise, Corporate Net Income	A recipient that fails to maintain a qualified investment for the required period shall pay to the state tax commissioner a penalty equal to all of the tax with interest.

Source: West Virginia State Tax Department West Virginia Tax Credit Review and Accountability Report and West Virginia Code.

ITEM 2

Business Tax Expenditures Reviewed in the West Virginia Tax Credit Disclosure List

Business Tax Expenditure	Description	Value	Rationale	Taxes Affected	Recapture Provision
Aerospace Industrial Facility Investment Credit	Credit attributable to investment in qualified aerospace facility. The amount of allowable credit is equal to fifteen percent of the qualified investment.	?	Encourage the location of new industry and the expansion, growth and revitalization of existing industrial facilities.	Business Franchise, Corporate Net Income	The taxpayer shall forfeit all annual credit otherwise available under this section during any year when West Virginia jobs have been lost or terminated or decreases of working hours or layoffs of employees holding West Virginia jobs have occurred as a result of the making of the qualified investment upon which this credit is based or the establishment or operation of the management information services facility upon which this credit is based.

Capital Company Credit	Credit attributable to qualified investment by certified WV capital company. The total amount of tax credits authorized for a single qualified company may not exceed two million dollars. The total amount of tax credits authorized for a single economic development and technology advancement center may not exceed one million dollars.	?	Encourage and assist the strengthening of the economy through loans, equity investments, and other business transactions.	Busniess Franchise, Corporate Net Income, Personal Income, Severance	N/A
Coal Loading Facility Credit	Credit attributable to qualified investment in coal loading facilities. For investment in a new or expanded or revitalized coal loading facility made on or after the first day of March, one thousand nine hundred eighty-five, the amount of the credit shall be equal to ten percent of the cost of eligible investment.	?	Encourage capital investment in this state, through the construction of new or the expansion or revitalization of existing coal loading facilities.	Business and Occupation, Business Franchise	If during any taxable year, property with respect to which a tax credit has been disposed of prior to the end of its useful life or ceases to be used in a coal loading facility or the eligible taxpayer ceases operation of a coal loading facility in this state, then the unused portion of the allowed credit shall be forfeited for the taxable year and all ensuing years.
Historical Rehabilitation Building Credit	For certified historic structures, the credit is equal to ten percent of qualified rehabilitation expenditures.	?	Encourage historical preservation.	Corporate Net Income, Personal Income	N/A
Industrial Expansion and Revitalization Credit	Credit attributable to industrial expansion or revitalization. The amount of allowable credit shall be equal to ten percent of the eligible investment.	?	Encourage capital investment in this state and thereby increase employment and economic development.	Business and Occupation, Corporate Net Income, Business Franchise, Severance	The taxpayer shall forfeit all annual credit otherwise available under this section during any year when West Virginia jobs have been lost or terminated or decreases of working hours or layoffs of employees holding West Virginia jobs have occurred as a result of the making of the qualified investment.
Manufacturing Investment Credit	Credit attributable to purchase of qualified property for manufacturing investment. Credit is equal to five percent of the qualified manufacturing investment.	?	Encourage the location of new industry in this state, and the expansion, growth and revitalization of existing industrial facilities.	Severance, Business Franchise, Corporate Net Income	If during any taxable year, property with respect to which a tax credit has been disposed of prior to the end of its useful life or ceases to be used in an industrial facility of the taxpayer in this state prior to the end of its useful life then the unused portion of the credit allowed for such property is forfeited for the taxable year and all ensuing years.

Research and Development Credit	Credit attributable to investment in an eligible research and development project. The amount of allowable credit shall be equal to ten percent of the eligible investment.	?	Encourage research and development activity.	Business and Occupation, Business Franchise	The taxpayer shall forfeit all annual credit otherwise available under this section during any year when West Virginia jobs have been lost or terminated or decreases of working hours or layoffs of employees holding West Virginia jobs have occurred as a result of the making of the qualified investment upon which this credit is based or the establishment or operation of the management information services facility upon which this credit is based.
Residential Housing Credit	Credit attributable to property and services purchased for a qualified housing development project. The amount of allowable credit shall be equal to ten percent of the eligible investment.	?	Encourage housing development.	Business and Occupation, Business Franchise	The taxpayer shall forfeit all annual credit otherwise available under this section during any year when West Virginia jobs have been lost or terminated or decreases of working hours or layoffs of employees holding West Virginia jobs have occurred as a result of the making of the qualified investment upon which this credit is based or the establishment or operation of the management information services facility upon which this credit is based.
Super Credit (Business Investment and Jobs Expansion)	Credit against the portion of taxes imposed by this state that are attributable to and the consequence of the taxpayer's qualified investment in a new or expanded business in this state, which results in the creation of new jobs. The amount of credit allowable is determined by multiplying the amount of the taxpayer's "qualified investment" in "property purchased for business expansion" by the taxpayer's new jobs percentage.	?	Encourage capital investment in businesses in this state and thereby increase employment and economic development.	Business and Occupaiton, Business Franchise, Corporate Net Income, Personal Income, Severance	If during any taxable year, property with respect to which a tax credit has been disposed of prior to the end of its useful life, ceases to be used in an eligible business of the taxpayer in this state prior to the end of its useful life, ceases operation of a business facility in this state for which credit was allowed, then the unused portion of the credit allowed for such property shall be forfeited for the taxable year and all ensuing years. If during any taxable year subsequent to the taxable year in which the new jobs percentage is redetermined as provided in section seven of this article, the average number of employees of the taxpayer, for the then current taxable year, employed in positions created because of and directly attributable to the qualified investment falls below the minimum number of new jobs created upon which the taxpayer's annual credit allowance is based, the taxpayer shall calculate what his annual credit allowance would have been had his new jobs percentage been determined based upon the average number of employees, for the then current taxable year, employed in positions created because of and directly attributable to the qualified investment. The difference between the result of this calculation and the taxpayer's annual credit allowance for the qualified investment as determined under section four of this article, shall be forfeited for the then current taxable year, and for each succeeding taxable year unless for such succeeding taxable year the taxpayer's average employment in positions directly attributable to the qualified investment once again meets the level required to enable the taxpayer to utilize its full annual credit allowance for that taxable year.

Telephone Low Income Credit	Credit for providing telephone service at special reduced rates to qualified low-income residential customers. The amount of the credit available to any eligible taxpayer shall be equal to its cost of providing telephone service at special reduced rates to qualified low-income residential customers less any reimbursement of such cost which the taxpayer has received through other means.	?	To reimburse telephone utilities for the revenue deficiencies which they incur in providing telephone service at special reduced rates to certain low-income residential customers.	Telecom Tax, Corporate Net Income	
Utility Low Income Credit	Credit for reducing electric and natural gas utility rates. The amount of the credit available to any eligible taxpayer shall be equal to its cost of providing electric or natural gas service, or both, at special reduced rates to qualified residential customers, less any reimbursement of said cost which the taxpayer has received through any other means.	?	To reimburse public utilities for the revenue deficiencies that they incur in providing special reduced electric or natural gas or water utility rates to low-income residential customers.	Business and Occupation, Corporate Net Income	

*Note - Does not repeat expenditures listed in the West Virginia Tax Credit Review and Accountability Report
Source: West Virginia State Tax Department Tax Credit Disclosure List and WV Code

ITEM 3
Other Business Tax Expenditures

Business Tax Expenditure	Description	Value	Rationale	Taxes Affected	Recapture Provision
Film Industry Investment	Credit attributable for direct production and postproduction expnditures of a qualifed film project that occurs in WV or with a WV vendor. The amount of the credit shall be 27 percent, or an additional 4 percent if the eligible company, or its authorized payroll service company, employs ten or more West Virginia residents as part of its full-time employees working in the state or as apprentices working in the state.	?	To encourage economic growth through the production of motion pictures and other commercial film or audio visual projects.	Business Franchise, Corporate Net Income, Personal Income	If the Film Office board determines that a company did not meet the investment threshold, the company will not receive the tax credit. If the board determines that the company did meet the investment threshold but not the job creation threshold, the company will only receive a 27% tax credit rather than a 31% tax credit.

Qualified Capital Additions to Manufacturing Facilities	The value of a certified capital addition which exceeds $50 million added to an existing manufacturing facility with an original cost valuation of $100 million or more first placed into operation for tax years beginning on or after July 1, 1997, shall be appraised at five percent of its original cost. Beginning on and after July 1, 2011, when the new capital addition is a facility that is or will be classified under the NAICS code number 211112, or is a manufacturing facility that uses product produced at a facility with code number 211112, then wherever the term "100 million" is used in this subsection, the term "20 million" shall be substituted and where the term "50 million" is used, the term "10 million" shall be substituted. For capital additions certified on or after July 1, 2011, the value of the land before any improvements shall be subtracted from the value of the capital addition and the unimproved land value shall not be given salvage value treatment.	$8,600,000	Encourage manufacturing companies with huge existing facilities within the State to undertake major expansions within the State.	Property	
Natural Gas Industry Jobs Retention Credit	Credit attributable to the number of qualified employees employed by a natural gas storage taxpayer during the taxable year multiplied by $1,000.	?	An incentive for natural gas storage companies to maintain their current employment levels.	Business and Occupation	In any tax year when the number of qualified employees employed by the taxpayer, as determined under section six of this article, is less than sixty percent of the number of qualified employees employed by the taxpayer on the first day of January, one thousand nine hundred ninety-six, as adjusted, in addition to the loss of credit allowed under this article for the tax year, credit recapture shall apply, and the tax payer shall return to the state an amount of tax determined by subtracting the number of qualified employees for such tax year from sixty percent of the number ofqualified employees employed by the taxpayer as of the first day of January, one thousand nine hundred ninety-six, as adjusted, and multiplying the difference by one thousand dollars.

Thin-Seamed Coal Tax Credit	For tax years beginning after April 10, 1997, any new underground mine producing coal from seams of less than 45 inches in average thickness or any existing underground mine that had not produced coal from seams of less than 45 inches in thickness between October 12, 1996 and April 10, 1997 may qualify for reduced severance tax rates. The tax rate is 2% for coal mined from seams with an average thickness of 37 inches to 45 inches and 1% for coal mined from seams with an average thickness of less than 37 inches.	$75,000,000	Encourage greater coal production from thin-seamed underground mines. The application of the reduced tax rates to just "new" mines represents an effort to minimize the initial cost of this expenditure.	Severance	
Manufacturing Property Tax Credit	Credit allowed to the eligible taxpayer in the amount of West Virginia ad valorem property tax paid on the value of manufacturing inventory of the eligible taxpayer.	$1,023,719	-	Business Franchise, Corporate Net Income	If it appears upon audit or otherwise that any person or entity has taken the credit against tax allowed under this article and was not entitled to take the credit, then the credit improperly taken under this article shall be recaptured.
Commercial Patent Credits	Credit for a person engaging in this state in developing plant patent, design patent or patents for direct use in a manufacturing process or product. The amount of credit allowed under this section is equal to 20% of the royalties, license fees or other consideration received by the developer during the taxable year from the sale, lease or licensing of a patent developed in this state for direct use in a manufacturing process or product by the person That the amount of credit allowed under this section is 30% when the person reinvests at least 80% of the amount of the credit claimed for the taxable year in depreciable property purchased for purposes of developing additional patents in this state in taxable years beginning on or after January 1, 2011, or improving upon a patent developed in this state or contributing to a stipend to retain a graduate or post-doctoral student in this state integral to the development of the patents or related technology in taxable years beginning on or after January 1, 2011, during the next taxable year.	?	Encourage greater development and use in this state of commercial intellectual properties by West Virginia businesses.	Business Franchise, Corporate Net Income, Personal Income	

Apprenticeship Training Tax Credits	Credit for wages paid to apprentices in the construction trades who are registered with the United States Department of Labor, Office of Apprenticeship, West Virginia State Office, which: (1) is jointly administered by labor and management trustees; (2) is administered pursuant to 29 U.S.C. Section 50; and (3) is certified in accordance with regulations adopted by the United States Bureau of Apprenticeship and Training. Credit shall be in an amount equal to one dollar per hour multiplied by the total number of hours worked during the tax year by an apprentice working for the taxpayer participating in the qualified apprenticeship training program, provided the amount of credit allowed for any tax year with respect to each such apprentice may not exceed one thousand dollars or fifty percent of actual wages paid in such tax year for such apprenticeship, whichever is less.	?		Business Franchise, Corporate Net Income, Personal Income	
Tourism Development	Credit for sales generated by or derived from the operations of the tourism development project. The maximum amount of credit allowable in this article is equal to twenty-five percent of the approved company's approved costs as provided in the agreement: Provided, That, if the tourism development project site is located within the permit area or an adjacent area of a surface mining operation, as these terms are defined in section three, article three, chapter twenty-two of this code, from which all coal has been or will be extracted prior to the commencement of the tourism development project, the maximum amount of credit allowable is equal to thirty-five percent of the approved company's approved costs as provided in the agreement.	?	To induce the creation of new, or the expansion of existing tourism development.	Sales	

Source: West Virginia Tax Expenditure Study and West Virginia Code.
Note: Does not repeat expendditures listed in the West Virginia Tax Credit Review and Accountability Report and the West Virginia Tax Credit Disclosure List

Endnotes

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15 WV Code §11-13Y

16 "Rethinking Property Tax Incentives for Business," Lincoln Institute of Land Policy, pp.52.