



QUESTIONS ABOUT
TAX INCENTIVES FOR
YOUR BUSINESS?

CONTACT ONE OF OUR
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VALUABLE TAX INCENTIVES FOR VIRGINIA BUSINESSES

The tax rules of the State of Virginia contain 28 valuable incentives for businesses in the form of tax credits and/or grants. These incentives help businesses and individuals recover the costs of capital investments made in the State of Virginia. Among these credits are the following:

HISTORIC REHABILITATION CREDIT

- ◆ An individual, estate, trust, or corporation incurring eligible expenses in the rehabilitation of a certified historic structure is entitled to claim a credit against their respective taxes.
- ◆ Credit is equal to 25% of rehabilitation expenses for projects completed in 2000 and thereafter.
- ◆ The cost of the rehabilitation must equal to at least 50% (25% if building is owner occupied) of the assessed value of the building.
- ◆ The rehabilitation work must be certified by the Virginia Department of historic Resources and be consistent with the Secretary of the Interior's Standards for Rehabilitation.
- ◆ The allowable credit may not exceed your tax liability.
- ◆ Unused credits may be carried forward for 10 years.
- ◆ Applications for certification of buildings and rehabilitation projects may be obtained from the Virginia Department of Historic Resources, 2801 Kensington Avenue, Richmond, VA 23221.
- ◆ You must receive certification for the credit before claiming it on your tax return.

LAND PRESERVATION TAX CREDIT (LPC)

- ◆ The LPC is available for taxpayers that convey land or an interest in land located in Virginia donated to a public or private agency to hold the land or in the interest in the land for conservation or preservation purpose.
- ◆ Annual Cap on Credits Granted
 - The Department of Taxation (TAX) is authorized to acknowledge no more than \$102,287,081 in LPC credits for tax year 2008.
 - The amount of the annual limit for each year will be increased by an amount equal to \$100 million multiplied by the percentage that the consumer price index published by the U.S. Department of Commerce, for the 12 month period ending August 31 of the previous year exceeds the CPI-U as of August 31, 2006.
- ◆ Must file Form LPC-1 to register a donation, and credits will be issued on a "first-come, first-serve basis." Credit will not be allocated until a completed Form LPC-1 application and all supporting documents are received by TAX. This includes the approval from the Department of Conservation and Recreation (DCR) for donations requesting a credit of \$1 million or more. Once the annual CAP limit is met, any subsequent credit requests will be issued for the next available calendar year. If taxpayer files a return claiming a credit before the credit is acknowledged, processing of the return will be significantly delayed.

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SUCCESS STORIES

Keiter Stephens routinely identifies tax credit deals that can save our clients on both the federal and state levels. During 2005, we assisted clients with the purchase of approximately \$4,700,000 in Virginia Land Preservation Tax Credits resulting in total tax savings of approximately \$1,175,000.

We have also helped a number of clients plan for a gift of property or conservation easement that resulted in creation of land preservation credits and then helped to sell the excess credits to other clients.

- ◆ The credit amount is 40% of the appraised value of the land donation made on or after January 1, 2007.
- ◆ Credits may be carried forward for 10 years from the year in which they are issued.
- ◆ Transfers of unused credits
 - A transfer fee will be imposed on any transfer arising from the sale of land preservation credits and on all pass-through allocations. The fee will be 2% of the appraised value of the donated interest. Because of the statute relates the 2% fee to the donated interest and the credit is 40% of that figure, the fee is equal to 5% of the credit amount being transferred or allocated.

MAJOR BUSINESS FACILITY JOB CREDIT

- ◆ Companies engaged in any business in the Commonwealth, except for retail trade business, may claim a Virginia tax credit if the taxpayer creates at least 100 new full-time jobs in connection with the establishment or expansion of a major business facility.
- ◆ If taxpayer is located in an enterprise zone or in an economically distressed are, the threshold is 50 new jobs. The credit is equal to \$1,000 (in excess of the 100/50 threshold) per qualified full-time employee who was employed during the credit year.
- ◆ The allowable credit may not exceed your tax liability.
- ◆ Unused credits may be carried forward for 10 years.
- ◆ Credits will be recaptured proportionately if employment decreases during the five years following the initial credit year.
- ◆ Must compute on Form 304. It takes up to 90 days.

NEIGHBORHOOD ASSISTANCE ACT CREDIT

- ◆ A business contributing to an approved Neighborhood Assistance Program (NAP) organization may receive a state tax credit equal to 40 percent of their contribution. Eligible business contributions include cash, stock, goods, real estate, rent/lease of nonprofit's facility, and limited health care, professional, and contracting services. Tax credits are available if the contribution value is at least \$1,000 or no more than \$437,500. The minimum tax credit issued for a business contribution is \$400. A contributing business may take a maximum of \$175,000 in NAP credits for any tax year.
- ◆ Individuals who contribute directly to an approved NAP organization may also receive a state tax credit equal to 40% of their contribution. However, only cash contributions and or marketable securities are eligible. The minimum donation by an individual must be at least \$500 for a \$200 tax credit. No maximum tax credit cap is imposed for individuals unless all available tax credits are allocated. Then, the maximum tax credit per taxable year for individuals will be \$50,000.
- ◆ Applications form organizations wishing to participate in NAP must be received in the Virginia Department of Social Services by the first business day in May each year. For a list of currently approved organizations or additional information, contact the Virginia Department of Social Services, Neighborhood Assistance Program, 7 N 8th St., Richmond, VA 23219

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With offices in Richmond and Charlottesville, Keiter Stephens' tax department is one of the largest in the central Virginia area and is led by partners and staff with extensive experience across various industries.

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To learn about new accounting pronouncements or tax law changes, see our blog on www.kshgs.com or join the Keiter Stephens CPAs group on LinkedIn.

QUALIFIED EQUITY AND SUBORDINATED DEBT INVESTMENTS CREDIT

- ◆ Individual and fiduciary taxpayers making a qualified investment in the form of “equity” or “subordinated debt” in a pre-qualified small business venture.
- ◆ Businesses must file Form QBA by December 31 of the year that they request qualification. The business must reapply each year to maintain qualification.
- ◆ Investors must file Form EDC by April 1 of the year following the investment to apply for their credit.
- ◆ Submitting a late application will disqualify you for the credit. All applications must be sent to the Virginia Department of Taxation, Tax Credit Unit, P.O. Box 715, Richmond, VA 23218-0715
- ◆ Equity is common or preferred stock of a corporation, regardless of class or series, including interest in a limited partnership, or a membership in a limited liability company. No equity investment will qualify for this credit if it is required to be redeemed or subject to an option to be redeemed by the issuer within 5 years of the date of issuance. The required holding period for equity investments is 3 years.
- ◆ Subordinated debt is indebtedness of a corporation, general or limited partnership, or limited liability company that by its terms:
 1. Requires no repayment of principal for the first 3 years after issuance
 2. Is not guaranteed by any other person or secured by any assets of the issuer or any other person
 3. Is subordinated to all indebtedness and obligations owed by the issuer to nationally or state-chartered banking or savings and loan institutions.
- ◆ Qualified business is a corporation, general or limited partnership or limited liability company that:
 1. has its principal office or facility operations in the Commonwealth
 2. engages in its business activities primarily within Virginia
 3. has annual gross receipts of \$3 million or less based on the most recently completed fiscal year
 4. has not obtained during its existence more than 3M in aggregate gross cash proceeds from the issuance of its equity or debt investments.
- ◆ Credit is equal to 50% of the qualified business investments made during the taxable year. If total annual requests for the credit exceed \$3 million, Department of taxation will prorate the credit for each taxpayer. It may not exceed the credit authorized by the Department of Taxation, \$50,000, or the income tax liability of that year's return, whichever is less. The credit is nonrefundable. Unused credits may be carried forward up to 15 years.

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