WEST VIRGINIA TAX CREDIT REVIEW AND ACCOUNTABILITY REPORT

Economic Opportunity Tax Credit
Strategic Research and Development Tax Credit
Manufacturing Investment Tax Credit

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EXECUTIVE SUMMARY

In 2002, the West Virginia Legislature enacted comprehensive legislative reform of investment tax credits per the recommendations of a tax incentive evaluation report jointly prepared by the West Virginia Department of Revenue and the West Virginia Development Office. As a result, 13 existing investment tax credits were repealed and replaced with three new investment tax credits. The repealed investment tax credits were the:

- Business Investment and Jobs Expansion Credit (Super Credit),
- Research and Development Projects Credit,
- Coal-Based Synthetic Fuels Credit,
- Aerospace Industrial Facilities Credit,
- Colin Anderson Employment Credit,
- Value-Added Wood Manufacturing Operations Credit,
- Value-Added Agricultural Products Credit,
- Value-Added Steel Manufacturing Operations Credit,
- Value-Added Aluminum or Polymer Manufacturing Operations Credit,
- Residential Housing Development Projects Credit,
- Convenience Food Store Security Tax Credit,
- Increased Generation of Electricity from Coal Tax Credit, and
- Coal Coking Facilities Credit.

The new investment tax credits were the:

- Economic Opportunity Tax Credit (WV/EOTC),
- Strategic Research and Development Tax Credit (WV/SRDTC), and
- Manufacturing Investment Tax Credit (WV/MITC).

The law required a triennial tax credit review and accountability report evaluating the cost effectiveness of the three new investment tax credit programs. The first evaluation report, issued in 2006, contained minimal feedback due to the lack of significant data on the new investment tax credit programs. With more extensive historical information now available, recent reports provide a broader evaluation of the WV/EOTC, WV/SRDTC, and WV/MITC programs.

Statutory changes enacted in subsequent years enhanced the 2002 reform via a number of provisions. These changes included a temporary venture capital tax credit, called the High-Growth Business Investment Tax Credit, for investors who invested in qualified small research and development companies between July 2005 and June 2008 and a temporary refundable tax credit option available to qualified small research and development firms related to WV/SRDTC investments made between July 2004 and December 2007. Economic Opportunity Tax Credits were made available under slightly modified rules to qualified high-technology manufacturers in 2007 and qualified businesses creating fewer than 20 new jobs in 2008. Finally, the Legislature repealed the Strategic Research and Development Tax Credit effective January 1, 2014.

In addition, the Legislature enacted comprehensive business tax reforms between 2006 and 2008, which have further altered the business tax structure. These changes include the phase-out of the Business Franchise Tax by 2015, required mandatory combined reporting for unitary corporations beginning in 2009, a nonrefundable tax credit equal to local West Virginia property taxes paid on manufacturing inventory beginning in 2009, and a gradual reduction of the Corporation Net Income Tax rate from 9.0 percent to 6.5 percent by 2014.

The 2018 report provides updated fiscal information on three separate economic incentive tax credit programs for the period between 2009 and 2015.[1] The three tax credit programs under review include the Economic Opportunity Tax Credit, the Strategic Research and Development Tax Credit, and the Manufacturing Investment Tax Credit.[2] Recent costs of these programs following Table 1.

Table 1 – Programmatic Costs of Investment Tax Credit Programs Tax Years 2009 – 2015

Tax Year	WV/EOTC	WV/SRDTC	WV/MITC	Total
2009	$ 5,280,845	$ 1,663,600	$ 4,573,114	$ 11,517,559
2010	$ 1,498,542	$ 695,818	$ 5,094,845	$ 7,289,205
2011	$ 7,151,378	$ 5,234,459	$ 5,509,305	$ 17,895,142
2012	$ 16,851,990	$ 3,822,390	$ 6,101,867	$ 26,776,247
2013	$ 2,944,791	$ 1,120,946	$ 5,670,747	$ 9,736,484
2014	$ 12,149,879	$ 252,818	$ 5,461,104	$ 17,863,801
2015	$ 6,691,003	$ 110,831	$ 5,155,180	$ 11,957,014

Data are subject to change.

Data indicate that the average annual cost of the WV/EOTC program was roughly $7.5 million from tax years 2009 to 2015. The average annual cost of the WV/SRDTC program was approximately $1.8 million, largely supported by older tax years. As Table 1 indicates, annual costs for this program are declining due to termination of the credit and elimination of the Business Franchise Tax in tax years 2014 and 2015, respectively. Average annual costs of the WV/MITC were nearly $5.4 million for this period. The annual cost of the three credit programs reviewed in this report averaged $14.7 million for this period. Other major report findings include:

- Total tax credit expenditures for the initial years of these programs were relatively small because of carryover benefits from terminated tax credit programs, a learning curve for the new programs, lack of full compliance regarding the credit application requirement, and the existence of a bonus depreciation deduction for new investment.

- Employees of firms receiving tax credit benefits generally benefitted from employer-provided health insurance and pension plans.

- The amount of tax credit claimed on tax returns will generally be less than the amount of available tax credit due to the tax liability limits of the Taxpayer. Tax credit claims are further limited by the recent elimination of the Business Franchise Tax and reductions in the Corporation Net Income Tax rate.

- The credit programs may help some individual business Taxpayers, but the overall impact of the credit programs on economic growth is debatable.

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[1] The statutes necessitating this triennial review require only the most recent three years for which information is available. This report includes a total of six years to provide some context of recent trends in these credit programs. Analyses of credits for older taxable periods can be referenced in prior Tax Credit Review and Accountability reports.

[2] Due to expiration of High-Growth Business Investment Tax Credit carry forward provisions, there has been no cost of this credit program in recent years. For this reason, mention of this credit is generally omitted from this report.

- The cost of the new business tax credit incentive programs is relatively small in comparison to both the overall state budget and other state and local tax expenditures.

- Business tax credits complicate the Tax Code and result in additional compliance costs for Taxpayers and additional administrative costs for the State Tax Department.

- The West Virginia State tax burden for the manufacturing sector is generally competitive with surrounding states because of the 60 percent tax break[3] offered by the WV/MITC. Local taxes are not part of this equation.

- Local taxes are a larger potential impediment to economic growth than are West Virginia State business taxes. Local property taxes on machinery and equipment represent a significant component of the total tax costs for West Virginia manufacturing businesses. Investment tax credits for the manufacturing sector offset a small portion of these total State and local tax costs.

- As the WV/EOTC, WV/SRDTC, and WV/MITC programs have matured, compliance with the respective tax credit application requirements has improved.

- Despite efforts to streamline the reporting process for the applications, schedules, and other forms required to evaluate and administer these credit programs, there always exists the possibility that some paperwork can be separated from the return a Taxpayer files. Tax returns, particularly those for corporate taxpayers, often exceed 100 pages. Given that these programs have annual filing requirements for supplementary forms to ascertain credit availability, penalties for failure to timely file applications or schedules are sometimes imposed. This constrains the State Tax Department's efforts to timely measure accountability of these credit programs.

- The Strategic Research and Development Tax Credit Act terminated on January 1, 2014 after passage of a bill originally proposed by the State Tax Department; therefore, no additional credit is available to any Taxpayer for any qualified investment or expenditure made on or after that date (W. Va. Code §11-13R-13). Taxpayers who received this credit for qualifying investments made prior to January 1, 2014 may still apply the WV/SRDTC to Corporation Net Income Tax, Business Franchise Tax (prior to 2015), or Personal Income Tax liabilities. States offering Research and Development (R&D) Tax Credits scored poorly on Tax Foundation's State Business Climate Index, because such programs add significant complexity to the Tax Code and effectively place tax administrators in an uncomfortable role of arbiter in making decisions as to what constitutes qualified research.[4]

[3] For tax years beginning before January 1, 2009, the Manufacturing Investment Tax Credit could be used to offset up to 50 percent of eligible taxes and provides some additional relief to manufacturers.
[4] *2015 State Business Tax Climate Index* by Scott Drenkard and Joseph Henchman, Tax Foundation, page 25.

INTRODUCTION

In 2002, the Legislature created three new tax credit programs applicable to investment placed in service or use on or after January 1, 2003: the Economic Opportunity Tax Credit (WV/EOTC), the Strategic Research and Development Tax Credit (WV/SRDTC), and the Manufacturing Investment Tax Credit (WV/MITC). In 2004, an additional new credit, the temporary High-Growth Business Investment Tax Credit, was enacted with a scheduled termination in 2008.

The enacting legislation for each of the aforementioned credits includes provisions for the State Tax Commissioner to submit to the Governor, the President of the Senate, and the Speaker of the House of Delegates a triennial tax credit review and accountability report evaluating the cost effectiveness of each tax credit program. The first report was due February 1, 2006, with subsequent reports due on February 1 every third year thereafter, and covered credits related to tax years ending in 2003. Subsequent reports have covered the period beginning with Tax Year 2003 and ending with the taxable year completed three years prior to report publication. This report covers credits related to tax years 2009 through 2015.

DATA NOTES

For the purpose of consistency, data in this report are organized by tax year. A tax year refers to the year in which a Taxpayer's filing period began (e.g., a filing period of October 1, 2014 to September 30, 2015 would be referred to as Tax Year 2014). The first day of a taxable period can vary throughout the year, so organizing these data by Tax Year provides uniformity in the analysis. This report focuses on credits claimed from Tax Year 2009 to Tax Year 2015. Although the statutory due dates[5] of Tax Year 2016 returns occurred before analysis for this report concluded, many Taxpayers use an automatic six-month extension before filing final returns with credit claims. These returns are currently under review and being processed by the State Tax Department.

Due to the complex nature of some tax returns, some of those filed for more recent tax years covered in this report have yet to be fully processed. For this reason, statistical results for these data do not represent complete records of credit claims. Tax returns can generally be amended through the third year following the original due date of the return, but older years can also be amended if opened for audit (e.g., by the Internal Revenue Service). It is important to note that credit claims as provided in the tables and figures of this report may be subject to revision via amendment by the Taxpayer or upon audit by the State Tax Department.

Data for this report are generally extracted from tax credit application forms, tax credit schedules, and tax returns. Finalized changes resulting from tax audits and other review efforts by the Department are incorporated in the results to the extent possible. **It is important to note, however, that all data are subject to change.** Given that analysis for this report concluded in January 2018, any adjustments to tax credits occurring after that date, even for older taxable periods, would alter the number of claims and aggregate amounts reported in this document.

In addition, recent policy changes have collectively led to fewer credit claims and smaller aggregate credit amounts over time. One example of this reduction relates to the Business

[5] Tax Year 2016 due dates are March 15, 2017 for Pass-Through Entities treated as a partnership for federal and state income tax purpose and April 15, 2017 for C-Corporations and limited liability companies that elect to be treated as a corporation for federal and state income tax purposes.

Franchise Tax, which terminated effective January 1, 2015 and thus began substantially affecting trends in Tax Year 2015. The termination of this tax reduced total offsets of the credits discussed in this report. Additionally, Corporation Net Income Tax rates declined by 2.5 percentage points during the taxable periods covered in this report. These modifications to Tax Law provided all corporate Taxpayers a tax benefit without the creation of additional tax credit programs.

A description of the three investment tax credits subject to evaluation in this report follows. Copies of tax credit applications and schedules for these and other West Virginia tax credits may be found on the West Virginia State Tax Department website.[6] Unless otherwise specified, West Virginia employment and wage data used to characterize labor force statistics obtained from credit applications is supplied by Workforce West Virginia.[7]

[6] http://tax.wv.gov/Pages/default.aspx
[7] http://workforcewv.org/

ECONOMIC OPPORTUNITY TAX CREDIT

The intent of the WV/EOTC, as stated in Section 11-13Q-2 of the West Virginia Code, is as follows:

> "The Legislature finds that the encouragement of economic opportunity in this state is in the public interest and promotes the general welfare of the people of this state. In order to encourage greater capital investment in businesses in this state and thereby increase economic opportunity in this state, there is hereby enacted the economic opportunity tax credit."

In order to claim the WV/EOTC, eligible Taxpayers must create a minimum number of new jobs. With the termination of the Business Investment and Jobs Expansion Tax Credit (Super Credit), the WV/EOTC is West Virginia's primary job creation tax incentive. The major enhancement of the WV/EOTC, compared to the Super Credit, was a reduction in the number of new jobs required to qualify for the credit from 50 to 20.

As enacted in 2002 and applicable for tax years beginning on or after January 1, 2003, the WV/EOTC has three components that assist in determining qualification:

1. A requirement that qualifying Taxpayers create at least 20 new jobs.

2. A requirement, directed toward small businesses, that qualifying Taxpayers create at least 10 new jobs.

3. A requirement, directed toward corporate headquarters relocation, that businesses establish headquarters in West Virginia and create at least 15 new jobs.

Two additional components, the specified high-technology manufacturer and additional jobs options, were added in 2007 and 2008, respectively.

The criteria for the review and accountability report for the WV/EOTC, as stated in W. Va. Code §11-13Q-20, are as follows:

- The number of taxpayers claiming the credit.
- The net number of new jobs created by all taxpayers claiming the credit.
- The cost of the credit.
- The cost of the credit per new job created.
- Comparison of employment trends for an industry and for taxpayers within the industry that claim the credit.

The WV/EOTC can be used to offset liabilities for the Business and Occupation Tax, Business Franchise Tax (prior to termination), Corporation Net Income Tax, and Personal Income Tax.[8] Since electing small business corporations, limited liability companies, partnerships, and other unincorporated organizations can allocate credit among the members, the count of taxpayers

[8] Due to Taxpayer confidentiality, a breakout of WV/EOTC credit claims by year and by tax type is not provided as there are insufficient numbers of Business and Occupation Tax and Personal Income Tax credit offsets year-to-year to permit disclosure.

claiming the credit is greater than the number of businesses that made the investment and created the jobs.

The WV/EOTC may be claimed by the Taxpayer over a 10-year period. Thus, taxpayers that made qualifying investment in tax year 2003 would be entitled to claim an annual allocation of the credit for tax years 2003 through 2012. There is also a three-year credit carryover provision that could extend the application of the tax credit for up to 13 years. Table 2 provides counts of taxpayers claiming the WV/EOTC and aggregate associated cost to the State from tax years 2009 to 2015. The number of taxpayers claiming the credit is not additive since some taxpayers are included in the counts for multiple years.

Table 2 – Economic Opportunity Tax Credit Claims and Cost

Tax Year	Claimants	Cost
2009	19	$ 5,280,845
2010	20	$ 1,498,542
2011	23	$ 7,151,378
2012	28	$ 16,851,990
2013	22	$ 2,944,791
2014	29	$ 12,149,879
2015	13	$ 6,691,003

Data are subject to change.

Provisions in the Economic Opportunity Tax Credit Law require the credit claimant to certify the actual number of new jobs created in West Virginia that are directly attributable to the qualified investment with the annual tax return filed for the third taxable year in which the qualified investment was placed in service or use. Such information is collected on the Schedule for Economic Opportunity Tax Credit (form WV/EOTC-1). Where the WV/EOTC-1 for the third tax year was not readily available, the new job information was extracted from the Application for Economic Opportunity Tax Credit (form WV/EOTC-A) filed by the claimant.

Based upon information from tax credit forms filed for the third year following WV/EOTC investment, the number of new jobs created or anticipated to be created by Taxpayers claiming the credit after Year 3 was 2,099 from tax years 2009 to 2015.[9] In some cases, Taxpayers had increases in jobs and investments that qualified for multiple levels of the credit. For example, if a business created 20 or more new jobs over one three-year period and then created 20 or more new jobs over a subsequent three-year period, the Taxpayer would be entitled to a separate WV/EOTC for each three-year period in which at least 20 jobs were created. Over the six-year tax period covered by this report, claims for the WV/EOTC totaled nearly $52.6 million, indicating a programmatic cost of roughly $25,000 per new job. The cost per job for this time period is likely influenced by stacking of WV/EOTC claims from prior years while the number of new jobs created in recent years remains relatively low.

As part of the data collected via the WV/EOTC-A, applicants were asked to provide information on health plans and retirement plans provided to employees. Table 3 summarizes information reported on those Applications on which Taxpayers provided the requested data. The values in this table exclude missing values from the calculations.

[9] Note that some of these jobs could have initially been created prior to the beginning of this six-year period.

Table 3 – Benefits Provided by WV/EOTC Businesses

	Health Plan	Retirement Plan
EOTC businesses providing 100 percent coverage	50.0%	37.5%
Weighted percentage of new jobs covered	75.6%	54.8%
Weighted average cost of benefit per employee	$7,623	$2,373

Manufacturers claiming the WV/EOTC projected that the number of West Virginia jobs after three years following investment for the credit would increase by 25.3 percent over the pre-investment level. Non-manufacturers projected a 46.8 percent increase. As shown in Table 4, the three-year growth in jobs of businesses claiming the WV/EOTC was significantly greater than the best three-year job growth Statewide through 2015. When considering employment trends for the industry compared to Taxpayers within the industry that claim the WV/EOTC, it is important to note that the number of claimants relative to the total population of Taxpayers is relatively small. For this reason, these statistics may not provide meaningful information and caution should be exercised when interpreting.

Table 4 – Comparison of Employment Growth Trends

	Manufacturers	Non-Manufacturers
WV/EOTC Businesses		
2012-2015	25.3%	46.8%
Statewide		
2002-2005	-9.4%	3.0%
2003-2006	-5.5%	5.1%
2004-2007	-6.2%	4.1%
2005-2008	-9.3%	3.2%
2006-2009	-17.0%	-0.5%
2007-2010	-17.0%	0.3%
2008-2011	-12.4%	-0.1%
2009-2012	-3.2%	3.0%
2010-2013	-1.4%	2.4%
2011-2014	-3.2%	0.7%
2012-2015	-2.9%	-1.2%

The State Tax Department monitors all WV/EOTC claimants to ensure that the statutory job creation requirements are met over the life of the tax credit benefit. Taxpayers who fail to meet the job creation requirements set forth in the Statute lose entitlement to the WV/EOTC for any year of non-compliance. It is important to note that, while efforts are made to verify these numbers, employment data is self-reported by taxpayers.

STRATEGIC RESEARCH AND DEVELOPMENT TAX CREDIT

As stated in Section §11-13R-2 of the West Virginia Code, the WV/SRDTC was enacted "to encourage research and development in this state and thereby increase employment and economic development." The WV/SRDTC essentially replaced the Research and Development Projects Credit. The previous credit was primarily for manufacturers and producers of natural resources. For purposes of the WV/SRDTC, research and development

> "means systematic scientific, engineering or technological study and investigation in a field of knowledge in the physical, computer or software sciences, often involving the formulation of hypotheses and experimentation, for the purpose of revealing new facts, theories or principles, or increasing scientific knowledge, which may reveal the basis for new or enhanced products, equipment or manufacturing processes."

The criteria for the review and accountability report for the Strategic Research and Development Tax Credit, as stated in W. Va. Code §11-13R-11, are as follows:

- The number of taxpayers claiming the credit.
- The net number, type, and duration of new jobs created by all taxpayers claiming the credit and wages and benefits paid.
- The cost of the credit.
- The cost of the credit per new job created.
- Comparison of employment trends for an industry and for taxpayers within the industry that claim the credit.

The WV/SRDTC can be used to offset Business Franchise Tax (prior to 2015), Corporation Net Income Tax, and Personal Income Tax liabilities.[10] Since electing small business corporations, limited liability companies, partnerships, and other unincorporated organizations can allocate credit among the members, the count of taxpayers claiming the credit is greater than the number of businesses that conducted research and development activities. Additionally, qualifying research and development expenditures or investment qualifying for the WV/SRDTC often entitles the Taxpayer to claim a portion of the tax benefit over a multiple-year period.

The Legislature terminated the WV/SRDTC program for investments made on and after January 1, 2014. It is possible, however, for some credit offsets resulting from qualified investments made prior to the date of termination to continue for a limited time due to credit carryforward provisions. Table 5 provides the number of claimants and aggregate cost of this program from Tax Year 2009 to Tax Year 2015. It is important to note that the number of taxpayers claiming the credit as presented in this table is not additive since some taxpayers are included in the counts for multiple years.

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[10] Due to Taxpayer confidentiality, a breakout of WV/SRDTC credit claims by year and by tax type is not provided as there are insufficient numbers of Personal Income Tax credit offsets for some tax years to permit disclosure.

Table 5 – Strategic Research and Development Tax Credit Claims and Cost

Tax Year	Claimants	Cost
2009	26	$ 1,663,600
2010	31	$ 695,818
2011	21	$ 5,234,459
2012	18	$ 3,822,390
2013	12	$ 1,120,946
2014	10	$ 252,818
2015	6	$ 110,831

Data are subject to change.

Although job creation is not a requirement for the WV/SRDTC, information on new jobs is part of the report criteria. Potential credit applicants were asked to provide information on employment in West Virginia prior to and after investment. Based upon information from credit applications (WV/SRDTC-A), total employment reported by taxpayers claiming the credit from Tax Year 2009 through termination of the program fell by 135 jobs (2.1 percent). By comparison, total nonfarm employment in the State increased by 2.4 percent from 2009 to 2013 and by 1.2 percent from 2009 to 2015. A valid measurement of total employment impact of the WV/SRDTC program is not possible given the changing mix of participating firms. In part, this disparity in employment trends could be attributable to taxpayer reporting, as some WV/SRDTC-A forms were incomplete with respect to requested employment data. For tax years 2009 through 2015, the total WV/SRDTC cost was $12.9 million.

As with other investment tax credit applications, the WV/SRDTC-A was designed to collect information related to health and retirement plans provided to employees. Table 6 provides a summary of benefits as reported by WV/SRDTC claimants from Tax Year 2009 through Tax Year 2013. Termination of the program effective January 1, 2014 prohibited further health and retirement plan information from being collected.

Table 6 – Benefits Provided by WV/SRDTC Businesses

	Health Plan	Retirement Plan
WV/SRDTC businesses providing 100 percent coverage	0.0%	41.7%
Weighted average cost of benefit per employee	$5,577	$6,869

MANUFACTURING INVESTMENT TAX CREDIT

As stated in Section 11-13S-2 of the West Virginia Code, the intent and purpose of the WV/MITC is as follows:

> "The Legislature finds that the encouragement of the location of new industry in this state, and the expansion, growth and revitalization of existing industrial facilities in this state is in the public interest and promotes the general welfare of the people of this state."

This credit essentially replaced the Industrial Expansion and Revitalization Credit (WV/IERC) for manufacturers. The WV/IERC was retained only for electric power producers. Although the percentage used in determining the amount of credit available from qualifying investment was reduced for the WV/MITC, the credit can now be used to offset Corporation Net Income Tax liability. Additionally, the definition of "manufacturers" was narrowed in comparison to the definition used for the WV/IERC.

The criteria for the review and accountability report for the WV/MITC, as stated in W. Va. Code §11-13S-10, are as follows:

- The numbers of taxpayers claiming the credit.
- The net number, type, and duration of new jobs created by all taxpayers claiming the credit and the wages and benefits paid.
- The cost of the credit.
- The cost of the credit per new job created.
- Comparison of employment trends for an industry and for taxpayers within the industry that claim the credit.

The WV/MITC essentially replaced the WV/IERC. One common feature of the two credits was that the total credit attributable to a qualifying investment was to be allocated evenly over a 10-year period. For example, investments qualifying for the WV/MITC made in Tax Year 2005 would provide an annual credit available for offset for tax years 2005 through 2014. Since many manufacturers make annual upgrades to machinery and equipment, the available credit is often attributable to 10 different investment years.

From reviewing the credit claims of taxpayers applying for the WV/MITC, it was frequently noted that the Taxpayer used accumulated WV/IERC to offset the maximum tax liability possible without having to use earned WV/MITC. However, due to the permitted application of the WV/MITC against the Corporation Net Income Tax, some taxpayers were able to use WV/IERC to reduce Business Franchise Tax liabilities and WV/MITC to reduce Corporation Net Income Tax liabilities. Table 7 shows the use of the WV/MITC for tax years 2009 through 2015 against the Business Franchise Tax (BFT), Corporation Net Income Tax (CNIT), and Severance Tax (SEV).[11]

[11] Given that the last WV/IERC claims were made in Tax Year 2012, data related to this credit are excluded from this report.

Table 7 – Manufacturing Investment Tax Credit Claims by Taxable Liability and Cost

Tax Year	Credit Claims: BFT		Credit Claims: CNIT		Credit Claims: SEV		Total Claims	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2009	113	$ 2,833,143	17	$ 978,530	13	$ 761,441	143	$ 4,573,114
2010	128	$ 3,238,948	18	$ 962,306	9	$ 893,591	155	$ 5,094,845
2011	117	$ 3,365,283	17	$ 1,202,766	8	$ 941,256	142	$ 5,509,305
2012	118	$ 3,368,783	23	$ 1,898,867	8	$ 834,217	149	$ 6,101,867
2013	117	$ 2,596,856	26	$ 2,178,708	8	$ 895,183	151	$ 5,670,747
2014	112	$ 1,667,410	34	$ 2,859,460	8	$ 934,234	154	$ 5,461,104
2015			32	$ 4,472,370	10	$ 682,810	42	$ 5,155,180

Data are subject to change. The Business Franchise Tax was eliminated for all taxpayers beginning in 2015.

Although job creation is not a requirement for the WV/MITC, information on new jobs is part of the report criteria. Similar to the previous credits included in this report, potential WV/MITC claimants were required to file an Application for West Virginia Manufacturing Investment Tax Credit (WV/MITC-A) before claiming the credit. Based upon information from the WV/MITC-A, the number of new jobs created, as reported by taxpayers applying for this credit, is shown in Table 8. It is important to note that, while efforts are made to verify these numbers, employment data is self-reported by taxpayers.

Table 8 – Change in Employment of WV/MITC Applicants

	West Virginia Jobs			
Tax Year	**Prior to Investment**	**Year Investment Placed in Service**	**Net Change**	**Median Change**
2009	16,504	15,743	(761)	(3)
2010	14,047	14,115	68	0
2011	14,732	14,968	236	0
2012	13,048	12,711	(337)	0
2013	11,975	12,559	667	0
2014	11,968	12,040	72	0
2015	7,828	8,346	524	2

Data are subject to change.

As of the time of this analysis, total West Virginia jobs as reported by taxpayers applying for the WV/MITC fell by 761 positions in Tax Year 2009. This decline, as well as the sluggish growth through 2012, is likely attributable to the national economic slowdown in effect at that time. The largest single-year increase in this period (667 jobs) was reported in Tax Year 2013. The number of new jobs created is inflated somewhat by jobs created by taxpayers who also qualify for the WV/EOTC. Further, many manufacturers make annual upgrades to machinery and equipment and therefore submit a new WV/MITC-A each tax year. For this reason, although some businesses were shedding jobs during these taxable periods, those still making some investment that would qualify for this credit allowed for a fluid update of employment data year-to-year.

The decline in total West Virginia jobs in place prior to investment and in the year investments were placed in service between tax years 2014 and 2015 is primarily attributable to the expiration of the Business Franchise Tax. It is also important to note that some WV/MITC-A forms are filed retroactively for businesses who initially applied for the WV/EOTC program but failed to maintain the minimum job creation threshold required for qualification. These amended filings impact employment data in older years.

As shown in Table 9, statewide manufacturing jobs declined for every year covered by this report except for 2011 when manufacturing employment improved 0.8 percent. In total, employment in the manufacturing sector fell by roughly 5.5 percent from 2009 to 2015, a loss of approximately 2,800 jobs.

Table 9 – Statewide Manufacturing Employment

Year	Total Manufacturing Employment	Change in Manufacturing Employment
2009	50,500	-10.6 %
2010	49,100	-2.8 %
2011	49,500	0.8 %
2012	49,100	-0.8 %
2013	48,400	-1.4 %
2014	47,900	-1.0 %
2015	47,700	-0.4 %

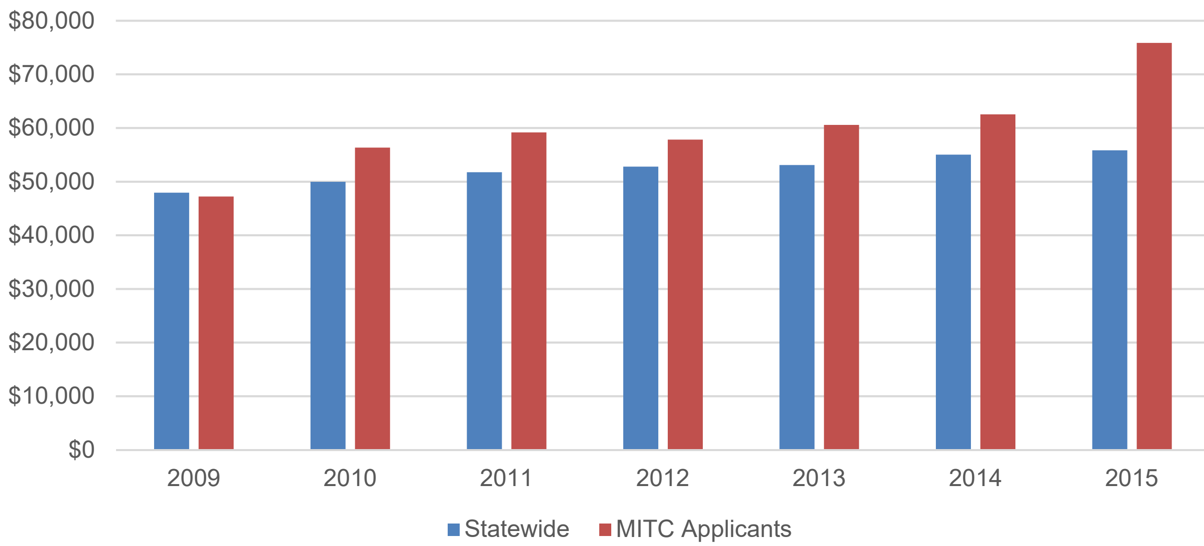
As part of the data collected in the WV/MITC-A, applicants were asked to provide information on health plans and retirement plans provided to employees. Table 10 summarizes information reported on the WV/MITC-A. While employment, health plan, and retirement data requested on applications are generally completed by most businesses, a few were filed with one or more data elements missing. The values in the following table exclude applications with missing data for the benefits from the calculations.

Table 10 – Benefits Provided by MITC Businesses

	Health Plan	Retirement Plan
WV/MITC businesses providing 100 percent coverage	34.5%	36.1%
Weighted average cost of benefit per employee	$9,200	$4,100

The final criterion for WV/MITC analysis is a comparison of employment trends for the industry and for taxpayers within the industry that claim the credit. As shown in Figure 1, the average wage of employees of applicants for the WV/MITC was greater than the statewide average wage for all manufacturing jobs for all periods covered by this report except Tax Year 2009. The large deviation in WV/MITC applicant average annual wage relative to the statewide average annual wage in Tax Year 2015 could be influenced by taxpayers that did not report employment data on WV/MITC-A forms.

Figure 1 – Average Manufacturing Wages Statewide and Among WV/MITC Applicants



Statewide average annual manufacturing wages retrieved from the U.S. Bureau of Labor Statistics.

CONCLUSION

Since the enactment of various new tax credit programs in 2002, West Virginia policymakers greatly altered State tax policy with greater emphasis on broad-based tax relief rather than tax preferences for select businesses. The broad-based tax relief included the phase-out of the Business Franchise Tax and the reduction in the Corporation Net Income Tax rate from 9.0 percent in 2002 to 6.5 percent by 2014. These changes effectively lowered the potential future offset value of tax credits, including those covered in this report.

A relatively low number of applications for the WV/EOTC is likely attributable to a number of factors, including the economic downturn in 2007 and the slow rebound of the economy in the intervening time. For the period covered by this report, employment by manufacturers fell nearly every year and employment in non-manufacturing sectors reported only modest gains at best. In addition, the complexity of filing for and complying with the requirements of the WV/EOTC program may be discouraging some taxpayers from pursuing this credit. The WV/MITC program, which applies to a similar subset of taxpayers and does not require employment creation, is a reasonable substitute for many businesses.

In some cases, taxpayers filing an application and making the necessary investment or expenditure to gain entitlement to one of the new credits did not use any of the credit due to outstanding credit allowances for other credits, including terminated credits. Some taxpayers with Business Franchise Tax or Corporation Net Income Tax liability and available WV/SRDTC were able to use credit entitlement from terminated credits, including the R&D Credit, to reach the maximum allowable tax offset. Similarly, some taxpayers with Business Franchise Tax or Severance Tax liability and available WV/MITC used accumulated WV/IERC to offset the maximum allowable percentage of liability and did not have to use the new credit as a result. In addition, other credits, such as the Manufacturing Property Tax Adjustment Tax Credit WV/MPTAC), have been enacted that do not require an application before the credit can be used. The presence of these alternative credits could impact the use of the credits reviewed in this report.