

# VIRGINIA STATE R&D TAX CREDIT

## ELIGIBILITY

In general, taxpayers are eligible for the R&D Tax Credit if they have QREs as defined by IRC §41 in Virginia during the tax period.

Taxpayers can claim the R&D Tax Credit to use as a tax offset and the remainder of the credit is refundable. Virginia tax returns can only be amended for current year credits.

## CALCULATING THE BENEFIT

The Virginia R&D Credit is claimed by submitting application Form RDC to the Virginia Department of Taxation. The application is due by July 1 following TYE in which the QREs were incurred. The credit will be approved by September 30 and the state return can be amended to claim the credit.

There are two ways to calculate the base amount for Virginia credit: The Primary Method and the Alternative Simplified Method.

**Primary Method:** Very similar to the Federal Regular Method. The credit is calculated as 15% of QREs in excess of the base period up to \$300K. The base period is calculated as the greater of either a) average annual gross for the 4 preceding tax years multiplied by a fixed-base percentage, or b) 50% of current year QREs. The fixed-base percentage is calculated the

same way as the federal method using IRC Section 41(c)(3)(B)(ii).

**ASM:** The credit is calculated as 10% of QREs in excess of the base amount. The base amount is 50% of the average of QREs in the 3 preceding tax years. If there were no QREs in the 3 preceding tax years, the credit is calculated as 5% of current year QREs.

## UTILIZATION

The tax credit, including any carry forward amount, may be used to offset Virginia state tax liability.

Any amount in excess of the tax liability will be refunded to the taxpayer.

## SUMMARY OF STATE CREDIT

- Form: **VA Form RDC**
  - Applications are due by July 1 following the tax year in which QREs were incurred.
- Expiration: **December 31, 2021**
- Primary Method Calc Rate: **15% of the first 300K of QREs over base period**
- ASM Calc Rate: **10% of QREs over base period**
- Limit: **Credit may not exceed \$45K**
- Amendment Period: **Same year only**
- Offset: **state tax liability**
- Refund: **Yes**
- Carry-forward: **None**

YR	TOTAL QREs	CREDIT CALCULATION	VA CREDIT
2019	\$750k	1) Base Amount: $[(650 + 500 + 400) / 3] \times 50\% = 258.3$ 2) $750 - 258.3 = 491.7$ 3) $491.7 \times 10\%$	\$49.2k
Prior Year Amounts			
2018	\$650k		
2017	\$500k		
2016	\$400k		

