

# Form SEV-401T

## West Virginia Annual Timber Severance Tax Return Instructions

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The West Virginia Severance Tax is imposed on the privilege of engaging in or continuing, within West Virginia, the activity of severing, extracting, reducing to possession and producing for sale, profit or commercial use, any natural resource product or products. The amount of tax is determined by the application of a tax rate, to the gross value of each of the natural resource classifications.

**Accounting Periods and Methods of Accounting:** The taxable year and method of accounting are the same as that used for federal tax purposes.

**Due Date:** The annual tax return is due on or before the expiration of one (1) month after the end of the taxable year. The filing of this return is required whether or not any tax is due. If you are no longer in business, you must file a final annual return through the last date of business.

**Extension of Time to File:** The Tax Commissioner may, upon written request received on or before the due date of the return, grant a reasonable extension of time for filing the tax return, if good cause satisfactory to the Tax Commissioner is provided. **An extension of time to file does not extend the time to pay taxes.**

**Periodic Installment Payments:** If the estimated tax liability exceeds one thousand dollars (\$1,000.00) per month, the tax is due on or before the last day of the month following the month in which the severance activity took place, except the installment for May, which is due on or before the **fifteenth of June each year**. If the estimated liability is less than one thousand dollars (\$1,000.00), but more than fifty dollars (\$50.00) per month the tax is due in quarterly installments on or before the last day of the month following the quarter in which the severance activity took place. No installment payments are required if the annual remittance is less than \$600.

**Nonresidents:** Every nonresident person who either directly or through the activity of others severs West Virginia timber which that person owns at the time that it is severed must give the Tax Commissioner written notice of **intent to sever the WV timber identified in the notice**. Nonresident is defined as either: (1) An individual who is a nonresident of this State for purpose of the WV Personal Income Tax; or (2) a person or corporation that does not have its commercial domicile in this State or did not have a permanent office in WV during the three months preceding the date of application for business registration.

The nonresident timber operators must comply with the

following before engaging in timber production in West Virginia: (1) obtain a business registration certificate;(2) obtain a forestry license;(3) give the Tax Commissioner written notice of intent to sever timber identified in the notice between thirty and ninety days before the timbering operation begins; and (4) at the time of the notice, prepay severance tax or post a cash bond or surety bond equal to four percent of the estimated gross value of the timber to be severed. This value may not be less than stumpage value. Forms and information can be found at [www.tax.wv.gov](http://www.tax.wv.gov).

**Underpayment of Estimated Tax Penalty:** Any person required to make monthly or quarterly payments of an annual tax who fails to make a timely payment or remits less than the required amount is subject to additions to tax as calculated on the underpayment of estimated tax penalty worksheet. No additions are imposed if a quarterly taxpayer pays timely estimated tax equal to three-fourths (75%) or more of the actual tax liability. No additions are imposed if a monthly taxpayer timely pays estimated tax equal to eleven-twelfths (92%) of the actual tax liability. The amount of underpayment is determined to be the difference between the amount that should have been paid and that which was actually paid. The period of underpayment of an installment is from the due date of the installment payment to the earlier of either the due date of the annual return for that taxable year or the date upon which such portion is paid. The underpayment of estimated tax penalty worksheet and instructions may be obtained from our website [www.tax.wv.gov](http://www.tax.wv.gov).

**Completion, Signatures, and Dates:** All applicable sections of the tax return must be completed and substantiating documents attached. The Timber Severance Tax Return of a corporation must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other officer authorized to act on behalf of the corporation. The Timber Severance Tax Return of a partnership must be signed and dated by one of the partners. An individual's name signed on the return is prima facie evidence that the individual is authorized to sign the return.

For additional information, please contact:

**West Virginia State Tax Department  
Taxpayer Services Division  
PO Box 3784  
Charleston, WV 25337-3784  
(304) 558-3333 or toll free 1-800-982-8297  
[www.tax.wv.gov](http://www.tax.wv.gov)**

## **Who Pays the Severance Tax on Timber?**

A person who has title to or an “economic interest” in the timber is responsible for paying the severance tax on timber. Even when the timber is cut or processed by someone other than the person who has title to the timber, such as by a contract cutter, the person who has an “economic interest” is responsible for paying the tax. The person who has the right to depletion, pays royalties to the landowner and has control over the sale of the timber is typically considered to have “economic interest” in the timber and is the person who is responsible for the severance tax. A person who is merely providing cutting services for another is not responsible for the severance tax.

## **How is the Tax Calculated?**

Severance tax on timber is imposed on the “gross value” of the timber at the point the tree is cut and delimbed. Effective July 1, 2016, the tax rate is calculated by multiplying by the “gross value” by the tax rate of 1.50%. “**Gross value**” in the case of timber, means the gross proceeds of the sale **if it is sold at the point it is cut and delimbed**. In many instances there is not a sale of the timber at the point of cutting and delimiting. In these instances, the “gross value” can be determined in one of three ways:

1. Use of a value that corresponds closely as possible to the gross proceeds from the sale of similar products of like quality and character.
2. In the absence of such sales, the “gross value” may be determined using a cost basis. The value of the timber would be the sum of all costs attributable to the production of timber, including direct and indirect overhead costs and a reasonable mark-up on the timber.
3. Use of the percentage method. To apply the percentage method in determining the “gross value” subject to tax, the timber producer must find the activity that is similar to their situation, and apply the appropriate percentages to their gross proceeds of the sales.

<b>ACTIVITY</b>	<b>PERCENTAGES</b>
A person who sells timber at the point where it is cut and delimbed.	100%
A person who cuts timber and takes to collection point in woods.	75%
A person who cuts timber and delivers to sawmill for sale.	50%
A person who cuts timber and processes into other products.	25%

## **CREDITS AVAILABLE**

**NOTE: Appropriate credit forms and documentation must be attached for processing of return. Forms may be obtained from our website at [www.tax.wv.gov](http://www.tax.wv.gov).**

**Annual Credit:** Every taxpayer is allowed an annual credit of five hundred dollars (\$500.00) against the tax due. The annual credit is applied at the rate of forty-one dollars and sixty seven cents (\$41.67) per month for each month engaged in the business activity within the reporting period. Only one credit may be claimed by each business entity, and cannot exceed \$500.

## **Manufacturing Investment Tax Credit**

**All taxpayers wishing to qualify for the Manufacturing Investment Tax Credit must file an application for such credit (form WV/MITC-A) on or before the due date of the Personal Income Tax return or Corporation Net Income Tax return filed for the tax year the investment was placed in service or use.**

Manufacturers that make qualified investments for industrial expansion or industrial revitalization in WV may be eligible for the Manufacturing Investment Tax Credit. The term “manufacturing” means any business activity classified as having a sector identifier, consisting of the first two digits of the six-digit North American Industry Classification System code number, of thirty-one, thirty-two or thirty-three. Eligible investments include real property and improvements thereto and tangible personal property constructed or purchased for use as a part of a new or expanded or revitalized business facility of a qualified industrial taxpayer.

Eligible investments may also include replaced or refurbished buildings, equipment, machinery and other tangible personal property used in the operation of a qualified facility located in West Virginia. Eligible investment may also include real or tangible personal property acquired by written lease for a primary term of ten years or longer, if used as a component part of a new, expanded or revitalized industrial facility. The credit is equal to 5% of the taxpayer’s qualified investment pro-rated over a ten-year period at a rate of 10% per year.

Manufacturing Investment Tax Credit may be used to offset up to 50% of the taxpayer’s annual liability for, Severance Tax and Corporation Net Income Tax for a period of 10 years. Any portion of a particular year’s annual credit that remains after application against these taxes for the taxable year is forfeited.

## **ANNUAL TIMBER SEVERANCE TAX RETURN**

### **TO COMPLETE THE RETURN:**

**PLEASE NOTE: THESE INSTRUCTIONS ARE TO ASSIST YOU IN THE PREPARATION OF THE TAX RETURN. THEY ARE NOT A SUBSTITUTE FOR TAX LAW AND REGULATIONS.**

## **SCHEDULE A**

Enter the amounts of timber harvested for the entire taxable year.

**Line 1** Enter the total amount of sawed timber in board feet and the total gross proceeds of sale in dollars for the entire taxable year.

<b>Line 2</b>	Enter the total tons of harvested pulp wood and the total gross proceeds of the sale in dollars for the entire taxable year.		Column 4. This is the taxable amount. Then multiply column 4 by the tax rate and enter amount in column 6.)
<b>Line 3</b>	Enter the total amount of other timber products and the gross proceeds of the sale in dollars for the entire taxable year. Specify the type of product.	<b>Line 5</b>	Sum Column 6, lines 1 through 4
	<b>Schedule TC – Tax Credits</b>	<b>Line 6</b>	Enter amount from Schedule TC, line 3.
<b>Line 1</b>	Enter the amount of Credit (\$500 per year or \$41.67 per each month engaged in business in West Virginia). Only one credit may be claimed by each business entity and must not exceed \$500.	<b>Line 7</b>	Line 5 minus Line 6. (If line 6 is greater than line 5, enter 0)
<b>Line 2</b>	Enter the amount of Manufacturing Investment Credit (MITC-1 must be attached).	<b>Line 8</b>	Enter total payments made in the period covered by this return and any credit from prior year overpayments.
<b>Line 3</b>	Enter total here and on Line 6 on page 1.	<b>Line 9</b>	Line 7 minus line 8. If line 8 is greater than line 7, enter 0 and skip to line 13.
	<b>Tax Computations</b>	<b>Lines 10 – 12</b>	Internal Use Only
<b>Lines 1 – 4</b>	Enter the Gross value of timber or the gross proceeds of your sales for the entire taxable year under the proper class code. (Multiply column 2 by column 3. Enter amount in	<b>Line 13</b>	Line 8 minus line 7. If line 7 is greater than line 8, enter 0.
		<b>Line 14</b>	Amount of Line 13 to be applied to next year's return.
		<b>Line 15</b>	Amount of Line 13 to be refunded. (Line 13 minus line 14.)