

Form SEV-401

West Virginia Annual Severance Tax Return Instructions

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.**

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 \$500.00 credit may be claimed by each business entity, not to exceed \$500.00.

Please note: The \$500 credit does not apply to your WC/Additional Severance. If there is a taxable balance on Gas Computation Schedule A, MCF's must be reported on your WC/Additional Severance 401V.

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 for all classifications except coal, limestone or sandstone, 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.

Completion, Signatures, and Dates: All applicable sections of the tax return must be completed and substantiating documents attached. The 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 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 the

**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
tax.wv.gov**

Natural resource producers are subject to the severance tax measured by the application of various rates depending on the type of resource to the gross value of the resource. This return covers all natural resource producers except for coal production and processing, timber production, and waste coal. Coal producers and processors must file Coal Severance Tax Return WV/SEV-401C, Waste Coal Producers must file WV/SEV-401W, and Timber Producers must file WV/SEV-401T.

"Gross value" in the case of natural resources, means the market value of the natural resource product, in the immediate vicinity where severed, determined after application of post-production processing generally applied by the industry to obtain commercially marketable or usable natural resource products.

For all natural resources, gross value is to be reported as follows:

1. For natural resources severed or processed (or both severed and processed) and sold during a reporting period, gross value is the amount received or receivable by the taxpayer.
2. In a transaction involving related parties, gross value shall not be less than the fair market value for natural resources of similar grade and quality.
3. In the absence of a sale, such as when the severer consumes the natural resource, gross value shall be the fair market value for natural resources of similar grade and quality.
4. For natural gas, gross value is the value of the natural gas at the wellhead immediately preceding transportation and transmission. For natural gas sold at a point beyond the wellhead, transportation costs may be deductible. See 110 C.S.R. 13A §4.8 for detailed information on transportation allowances.

5. For limestone and sandstone, the gross value is the value of the limestone or sandstone as it hits the quarry floor.
6. For oil and gas, the gross value of the oil and gas is determined before any conversion or refining process.

In all instances, the gross value **shall not** be reduced by any state or federal taxes, royalties, sales commissions, or any other expense. Due to legislation enacted in 1995, local governments will receive a portion of oil and natural gas severance tax receipts. The total volume of natural gas (e.g. 1,000 Mcf) and total volume of oil (e.g. 12 barrels) extracted for a county forms the basis of the local tax distribution.

“Severing” or “severed” means the physical removal of the natural resources from the earth or waters of this State by any means. “Severing” or “severed” shall not include the removal of natural gas from underground storage facilities into which the natural gas has been mechanically injected following its initial removal from the earth. “Severing” or “severed” oil and natural gas shall not include any separation process of oil or natural gas commonly employed to obtain marketable natural resource products. “Extraction of ores and minerals from the ground” includes extraction by mine owners or operators of ores or minerals from the waste or residue of prior mining, such as gob piles or slurry ponds.

Any person required to make monthly or quarterly payments of an annual tax and fails to make a timely payment or remits less than the required amount is subject to additions to tax as calculated above. 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 schedule may be obtained from our website tax.wv.gov.

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

TO COMPLETE THE RETURN:

- Line 1** Enter total amount from Severance Tax Computation Schedule(s).
- Line 2** Enter the Total Credits (Schedule TC line 3 - Attach Appropriate Schedules). Failure to provide schedules will result in denial of credit.
- Line 3** Enter the amount of Adjusted Tax (Line 1 minus Line 2). If Line 2 is greater than Line 1, enter 0.

- Line 4** Enter the Total Payments made for the Period covered by this Return and any Prior Years Overpayment.
- Line 5** Enter the Balance of Tax Due (Line 3 minus Line 4). (If Line 4 is greater than Line 3, enter 0, and enter the overpaid amount on line 10).
- Lines 6-8** Internal use only.
- Line 9** Enter the Total Tax (Line 5).
- Line 10** Enter the Overpayment amount (Line 4 minus Line 3) If Line 3 is greater than Line 4, enter 0.
- Line 11** Enter the amount of Credit (Line 10) to carry forward to next year’s taxes.
- Line 12** Enter the amount to be Refunded (Line 10) .

Line 12 must be completed in order to receive a refund. Failure to input refund amount will result in a credit carry forward to next year’s taxes.

Severance Tax Computation Schedule

- Line 1** Total tax due from Schedule A, Column J plus total tax due for natural gas liquids from Schedule C, Column G (Commodity Codes 101, 102, 103, and 104) and enter here.
- Line 2** Total tax due from Schedule B, Column I and enter here.
- Line 3** Total tax due from Schedule C, Column G for coalbed methane (Commodity Code 100) and enter here.
- Line 4** Total tax due from Schedule C, Column G for sand, gravel, and other mineral product not quarried or mined (Commodity Codes 300, 400, and 600) and enter here.
- Line 5** Total tax due from Schedule C, Column G for limestone and sandstone (Commodity Code 200 and 201) and enter here.
- Line 6** Total tax due from Schedule C, Column G for other natural resource products (Commodity Codes 200, 500, and 700) and enter here.

Schedule TC

- Line 1** Enter the amount of Credit (\$500 per year or \$41.67 per each month engaged in business in West Virginia if fewer than 12 months). Only one annual credit may be claimed by each business entity and must not exceed \$500.
- Line 2** Enter the amount of Manufacturing Investment Credit
- Line 3** Add Lines 1 and 2 and enter on Page 1 Line 2.

CREDITS AVAILABLE:

NOTE: Appropriate credit forms and documentation must be attached for processing of return. Forms may be obtained from our website at tax.wv.gov.

MANUFACTURING INVESTMENT TAX CREDIT

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. **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, including lawful extensions of time to file.** Manufacturing Investment Tax Credit may be used to offset up to 50% of the taxpayer’s annual liability for Business Franchise Tax, 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. Taxpayers must complete and file Schedule MITC-1 and Schedule MITC-A when claiming this credit.

Additional Annual Severance Tax on the Severance of Natural Gas § 11-13V: For periods beginning on or after December 1, 2005 through June 30, 2016, additional privilege taxes are imposed on severing or producing natural resources in this state for the purpose of the unfunded liability in the Workers’ Compensation Fund or payment of principal and interest on workers compensation debt retirement bonds or both. Form **WV/SEV-400V** will be filed to report this tax.