

Schedule WV/SRDTC-A

INSTRUCTIONS FOR APPLICATION FOR WEST VIRGINIA STRATEGIC RESEARCH AND DEVELOPMENT TAX CREDIT FOR EXPENSES OR INVESTMENTS PLACED IN SERVICE ON OR AFTER JANUARY 1, 2003

The Strategic Research And Development Tax Credit (R&D) is available to a Taxpayer engaging in qualified research and development activities (on or after January 1, 2003) within West Virginia.

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.

Research and development includes, but is not limited to, design, refinement and testing of prototypes of new or improved products or equipment or the design, refinement and testing of manufacturing processes before commercial sales relating thereto have begun. The term, commercial sales, includes, but is not limited to, sales of prototypes or sales for market testing.

Research and development does not include: market research; sales research; efficiency surveys; consumer surveys; product market testing; product testing by product consumers or through consumer surveys for evaluation of consumer product performance or consumer product usability; the ordinary testing or inspection of materials or products for quality control; management studies; advertising; promotions; the acquisition of another's patent, model, production or process or investigation or evaluation of the value or investment potential related thereto; research in connection with literary, historical or similar activities; research in social sciences, economics, humanities or psychology and other non-technical activities; and the providing of sales services or any other service, whether technical service or non-technical service.

Qualified research and development credit property means depreciable property purchased for the conduct of qualified research and development. Qualified research and development expenses means the sum of in-house and contract research and development expenses for qualified research and development allocated to West Virginia, which are paid or incurred by the eligible Taxpayer during the taxable year. These expenses do not include any expense that must be capitalized and depreciated for federal income tax purposes, or any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent or quality of any deposit of coal, limestone or other natural resource, including oil and natural gas. In addition, these

expenses do not include any wage or salary expense for wages or salary reported on form W-2 for federal income tax purposes on which the West Virginia personal income tax is imposed, and against which tax the Strategic Research And Development Tax Credit is applied.

The allowable tax credit is the greater of three percent [3.0%] of the annual combined qualified research and development expenditure within West Virginia, or ten percent [10.0%] of the excess of the annual combined qualified research and development expenditure within West Virginia over the base amount. The base amount equals the average annual combined research and development expenditure within West Virginia during the three years preceding the current year.

For a taxpayer that has filed a WV Corporation Net Income tax return for 1 or 2 prior taxable years (but fewer than 3 taxable years), determined on the basis of all filings by the Taxpayer's controlled group, the base amount is the average annual combined qualified research and development expenditure for the number of immediately preceding taxable years, other than short taxable years, during which the taxpayer filed a WV Corporation Net Income Tax return.

For a Taxpayer that has not filed a WV Corporation Net Income tax return for at least 1 taxable year, determined on the basis of all filings by the taxpayer's controlled group, the base amount is zero.

By Law, no credit may be allowed or applied for any qualified investment property placed in service until the person asserting a claim for the credit makes written application to the Tax Commissioner. Failure to timely apply for credit will result in forfeiture of 100% of the annual credit allowance otherwise available under this requirement. Form SRDTC-A is designed to be a general application form for taxpayers wishing to claim credit based upon research expenses and research investments placed into use or service on or after January 1, 2003. The timely filing of this application is a condition precedent to claiming tax credits. This application must be filed for each year, in which qualified research and development expenses or investments are to be made, no later than the due date of the Taxpayer's West Virginia income tax return for the year the expense is incurred or the investment is made, including any legally granted extension of time for filing such returns.

Instructions To Form SRDTC-A

Line 1 Base Amount of Research and Development in West Virginia:

Enter the amount of annual qualified research and development expenditure, if any, in West Virginia for the three taxable years immediately preceding the taxable year for this application form as follows. [Note that for years prior to 2003, the amounts entered below should represent the qualified expenditure made under the assumption that the Strategic Research and Development Tax Credit had been in place at that time.]

- a) Enter the amount of annual qualified research and development expenditure in West Virginia during the immediately preceding tax year.
- b) Enter the amount of annual qualified research and development expenditure in West Virginia during the tax year two years preceding the current year (i.e. two years ago).
- c) Enter the amount of annual qualified research and development expenditure in West Virginia during the tax year three years preceding the current year (i.e. three years ago).

Line 2 Business Activity in West Virginia:

- a) Enter the North American Industry Classification System Code that most closely describes your business activity in West Virginia.
- b) Describe in detail the nature of your research and development activity in West Virginia.

Line 3a Investment: Enter the total dollar amount of investment placed into service or use in the first column and the dollar amount of qualified investment placed into service or use in the second column. Qualified Investment is determined according to the following useful life table (straight line depreciation):

Useful Life		
At Least	But Less Than	Percent Qualified
0	4 years	33-1/3
4	6 years	66-2/3
6 or more years		100

Line 3b Enter the location(s) of the qualified investment property (i.e. Main Street, Weston, or 12 miles north of Pipestem at the Intersection of State Route 3 and State Route 20).

Line 3c Provide a general description of the qualified investment property in the space provided (i.e. \$100,000 to be invested in buildings, \$500,000 to be invested in machinery and equipment, etc.)

Line 4 Provide Written Information On The Research And Development Plan.

Line 5 Qualified Research and Development Expenses:

- a) Enter the total amount of your qualified in-house wages paid for research and development within West Virginia.
- b) Enter the total amount of your qualified in-house expenditures for supplies for use in research and development in West Virginia.
- c) Enter the total amount of your qualified in-house expenditures paid to another person for the right to use personal property in the conduct of research and development in West Virginia.
- d) Enter the total amount of contract research and development expenses incurred in West Virginia for qualified research and development in West Virginia.

Line 6 Employment:

- a) Enter your total West Virginia payroll and number of jobs attributed to that payroll for the prior year (i.e., twelvemonth period) before the incurrence of this year's qualified expenditures subject to Strategic Research and Development Tax Credit.
- b) Enter your total West Virginia payroll and number of jobs for the current year.

Line 7 Benefits:

- a) Enter the percentage of your employees covered under your sponsored health insurance plan.
- b) Enter the average annual cost of your employer-provided health insurance benefits (i.e., benefit costs divided by number of covered employees).
- c) Enter the percentage of your employees covered under your retirement plan.
- d) Enter the average annual retirement benefit contribution cost per covered employee.

The timely filing of this application and project approval are required for the Applicant to begin claiming Strategic Research and Development Tax Credit benefits. Filing of the application will not bar or otherwise prevent the Tax Commissioner from auditing or examining the Applicant's books and records for compliance with the Strategic Research and Development Tax Credit law and regulations or other West Virginia tax provisions.

This application must be signed by an officer of the company to be valid.