

2018 Instructions for Schedule 500A, Corporation Allocation and Apportionment of Income

General

Allocation and Apportionment of Income

A corporation having income from business activity which is taxable both within and without Virginia must allocate and apportion its Virginia taxable income as provided in *Va. Code* §§ 58.1-407 through 58.1-420, 58.1-422, 58.1-422.1, or 58.1-422.2.

How Dividends are Allocated

Dividends received to the extent they are included in Virginia taxable income are allocable to the state of commercial domicile of the taxpaying corporation. "Commercial domicile" means the principle place from which the trade or business of the taxpayer is directed or managed.

Corporation Taxable in Another State

For purposes of allocation and apportionment of income under *Va. Code* §§ 58.1-407 through 58.1-420, 58.1-422, 58.1-422.1, or 58.1-422.2 a corporation is taxable in another state if it is subject to a net income tax, a franchise tax measured by net income, or a franchise tax for the privilege of doing business in such other state (*Va. Code* § 58.1-406). "State" means any state, territory or possession of the United States, District of Columbia, Commonwealth of Puerto Rico and any foreign country (*Va. Code* § 58.1-302).

A corporation is not taxable in another state if that state is prohibited from imposing an income tax on the corporation because its business activity in the state does not exceed minimum standards set forth in Public Law 86-272 (15 USC §§ 381-384).

Corporation Transacting or Conducting Entire Business Within This State

No corporation, whether chartered under the laws of Virginia or the laws of another state, is entitled to use Schedule 500A where the entire business of the corporation was transacted or conducted within Virginia.

If the entire business of a corporation was transacted or conducted within Virginia, the Virginia income tax is imposed upon the entire net income of the corporation for the taxable year. The entire business of a corporation is deemed to have been transacted or conducted within Virginia if the corporation was not subject in any other state to a net income tax, a franchise tax measured by net income, or a franchise tax for the privilege of doing business (*Va. Code* § 58.1-405).

Pass-Through Entities

S corporations, partnerships, and limited liability companies will use Schedule 502A, rather than Schedule 500A, to determine the income from Virginia sources that will be passed to their owners.

Certified Company Apportionment for Business Conducted in Certain Disadvantaged Localities

For taxable years beginning on or after January 1, 2018, certain companies may decrease the amount of their income taxed by Virginia when they meet specific eligibility requirements and are certified by the Virginia Economic Development Partnership Authority ("VEDP"). This includes a requirement that a specified number of jobs be created and, if applicable, investments be made in particular disadvantaged localities.

Once the company is certified by VEDP as meeting the applicable eligibility requirements, it is entitled to decrease the amount of income taxed by Virginia. For multistate certified companies, the decrease in income is accomplished by allowing such companies to make modifications to their apportionment factors ("Certified Company Apportionment"). For instate certified companies, this is accomplished by allowing such companies the ability to use apportionment and to use Certified Company Apportionment to make modifications to their apportionment factors. See Schedule 500AP Instructions for detailed information.

Schedule 500A Instructions

Enter the corporation's name and federal employer identification number.

If the corporation is filing a consolidated or combined return, check the box as indicated. The consolidated or combined check box must also be marked on Form 500. If an entity is electing to use the manufacturer's alternative method of apportionment or is required to use the retail company method of apportionment and is included in a consolidated or combined return, then the consolidated or combined check box must be checked. You must enclose a completed Schedule 500A for each entity included in a combined filing. Consolidated filings that include one or more entities using the manufacturer's or retailer's method of apportionment should also enclose a Schedule 500A for each entity. Consolidated returns that do not include entities using the manufacturer's or retailer's method of apportionment should enclose one consolidated Schedule 500A and detailed apportionment schedules for each company.

If the corporation is certified by VEDP as eligible to use Certified Company Apportionment, check the box and enclose the Schedule 500AP. Use the modified Virginia apportionment factor that was computed on Schedule 500AP, Column C to complete the Schedule 500A. See the instructions for Schedule 500AP Instructions for additional information.

Apportionable Income

All income of the corporation except the class of income allocable as specified in the instructions for Section B – Line 3 is apportioned to this state in accordance with items below (*Va. Code* § 58.1-408).

Section A – Apportionment Method

Line 1 – Motor Carriers

If a corporation is a motor carrier and an exception applies, check the proper box for Exception 1 or Exception 2. See the instructions for Section B, Line 1.

Line 2 – Financial Corporations

Check this box if the corporation is a financial corporation. Financial corporations must apportion income based on cost of performance in Virginia versus cost of performance everywhere. See the instructions for Section B, Line 1 for more information.

Line 3 – Construction Corporations

Check this box if the corporation is a construction corporation that has elected to report income on the completed contract basis. Construction corporations that have made this election must apportion income as provided in the instructions for Section B, Line 1.

Line 4 – Railway Companies

Check this box if the corporation is a railway company. Railway companies must determine their net apportionable income by using revenue car miles. See the instructions for Section B, Line 1 for more information.

Line 5 – Retail Company Apportionment

Check this box if the corporation is a retail company. A retail corporation is required to apportion its income using a single sales factor method of apportionment. See the instructions for Section B, Line 1 for more information.

Line 6 – Manufacturer's Modified Apportionment Method

Check this box if a manufacturer is electing the modified apportionment method. Visit the Department's website at www.tax.virginia.gov to download the guidelines for this apportionment method.

Which Manufacturers Qualify: An electing manufacturer must certify to the Department that the average weekly wages of its *full-time employees* was greater than the lower of the state or local average weekly wages for the taxpayer's industry (*Va. Code* § 58.1-422).

In addition, the corporation must maintain 90% of the base year level of employment in Virginia for the first 3 taxable years after making the election. If a corporation fails to meet this requirement, it will be required to pay the difference between taxes calculated under standard apportionment and taxes calculated under the election, as well as interest (*Va. Code* § 58.1-422).

Electing manufacturing corporations are permitted to use a single sales factor method of apportionment to apportion Virginia taxable income.

Once a manufacturing corporation makes this election, it generally may neither revoke such election for 3 taxable years nor amend the return on which such election was made to change its method of apportionment. The manufacturing company will be required to use the apportionment factor that is effective at the time the modified apportionment method election is made, and any apportionment factor that becomes effective in the first 3 taxable years of the election.

Line 6(a). Enter the beginning date (mm/dd/yy) of the election year.

Line 6(b). A taxpayer making this election must certify that the average weekly wages of the full-time employees is greater than the lower of the state or local average weekly wages for its industry, and that the average annual number of full time employees of the manufacturing company is at least 90% of the base year employment. Check the box certifying that the company meets the requirements. The wage and employment certification box should be checked for each year the manufacturer's election is claimed.

Manufacturer does not maintain employment levels for modified apportionment method election. A manufacturing company will be subject to additional tax (recapture) and interest if the average weekly wage of its full-time employees is lower than the state or local weekly wage for its industry or its number of full-time employees do not equal or exceed 90% of its base year employment level. The amount of the recapture is equal to the difference between the tax that would have been due under the standard apportionment method and the amount of tax that was due using the modified apportionment method for each of the first 3 years in which the average weekly wage of its full-time employees was lower than the state or local weekly wage for its industry or its number of full-time employees did not equal or exceed 90% of its base year employment level. The Department will generally assess the manufacturing company with the amount required to be recaptured and any interest due. However, a manufacturing company that fails, or anticipates that it will fail, to meet the wage and employment requirements may file returns for the taxable years for which recapture would be required, using the statutory apportionment method, and pay any taxes and interest due on such returns in lieu of waiting to receive an assessment of such amounts due from the Department. Such company must submit a written explanation with its return detailing why it is changing to the statutory apportionment method.

If you file an amended return and voluntarily change your apportionment method because you anticipate that you will fail to meet the wage and employment requirements, file an amended return by completing a new return for the year of adjustment using the corrected figures, as if it were the original return. Do not make any adjustments to the amended return to show that you received a refund or paid a balance due as the result of the original return. Complete the Amended Return section on Form 500, Page 1 and Schedule 500ADJ, Page 1.

Line 7 – Enterprise Data Center Operation

Check this box if you are an enterprise data center operation that has entered into a memorandum of understanding with the VEDP to make a new capital investment of at least \$150 million in an enterprise data center in Virginia. Such enterprise data center operations are required to apportion Virginia taxable income using a single sales factor method of apportionment.

Line 8 – Multi-Factor Formula with Double-Weighted Sales Factor

Check if using the multi-factor apportionment formula with double-weighted sales factor.

Section B – Apportionment Computation

Schedule 500AP Filers

Prior to completing the Schedule 500A, companies certified by VEDP as eligible to use Certified Company Apportionment and operating in qualified Virginia localities must complete the Schedule 500AP to determine the Virginia modified apportionment factor. Transfer the modified amount from the applicable line of Schedule 500AP, Column C to Schedule 500A, Column B, Line 1 (single factor computation) or Lines 2a - 2c (multi-factor computation), as appropriate. Then, complete all other lines on the Schedule 500A as described in these instructions.

Line 1 – Single Factor Computations

Check this box if using the single factor apportionment method. This includes motor carriers, financial corporations, construction corporations, railway companies, retail companies, manufacturers who elected the modified apportionment method in Section A, and certain enterprise data center operations.

For taxpayers using the single factor computation, check the appropriate box for your entity type (motor carrier, financial corporation, construction corporation, railway company, retail company, qualified enterprise data center operation, qualified manufacturer's modified apportionment) in Section A, Lines 1 through 7. Based on the appropriate computation method for your entity type or election, enter the **Total** (Column A), **Virginia** (Column B), and **Percentage** (Column C) amounts in Section B, Line 1.

For example: railway companies are to use the ratio of revenue car miles in Virginia to total revenue miles of the corporation everywhere.

Motor Carriers

Motor carriers of property or passengers, using highways of this state, must, unless they meet one of the two exceptions set forth below, apportion their net apportionable income to Virginia using the ratio of vehicle miles in this state to total vehicle miles everywhere. "Vehicle miles" means miles traveled by vehicles, owned or operated by the taxpayer, hauling property or carrying passengers for a charge or fare.

A carrier meeting either of the exceptions set forth below is not required to apportion income to Virginia (*Va. Code* § 58.1-417).

In such cases a return must be filed but it is necessary only to enter the name and address on appropriate lines, enter a zero on Line 8a, check the appropriate box(es) in Section A, Line 1, and complete Section B, Line 1 of Schedule 500A.

Exception 1: A carrier that neither owns nor rents real or tangible personal property inside this state except vehicles, makes no pickups or deliveries inside this state, and travels no more than 50,000 "vehicle miles" inside this state; provided that the Virginia "vehicle miles" are less than 5% of total vehicle miles.

Exception 2: A carrier that neither owns nor rents real or tangible personal property inside this state except vehicles, and which makes no more than 12 round trips into this state during the taxable year, either hauling property or carrying passengers; provided that the Virginia "vehicle miles" are less than 5% of total vehicle miles traveled during the taxable year.

Financial Corporations

A financial corporation is one that is not exempted from the imposition of tax under the provisions of *Va. Code* § 58.1-401, which derives more than 70% of its gross income from the classes of income enumerated in items 1 through 4 below, without reference to the state where the income is earned, including, but not limited to, small loan companies, sales finance companies, brokerage companies, and investment companies:

1. Fees, commissions, other compensation for financial services rendered;
2. Gross profits from trading in stocks, bonds, or other securities;
3. Interest; and
4. Dividends that are included in Virginia taxable income.

In computing the amounts referred to in items 1 through 4 above, any amount received by a member of an affiliated group (determined under IRC § 1504(a), but without reference to whether any such corporation is an includible corporation under IRC § 1504(b)) from another member of such group, will be included only to the extent the amount exceeds related expenses of the recipient.

The Virginia taxable income of a financial corporation, as defined in *Va. Code* § 58.1-418, excluding income allocable under *Va. Code* § 58.1-407, shall be apportioned within and without this state in the ratio that the business within Virginia is to total business of the corporation. Business within this state shall be based on cost of performance in Virginia over cost of performance everywhere (*Va. Code* § 58.1-418).

"Cost of Performance Factor"

- (a) The cost of performance is the cost of all activities directly performed by the taxpayer for the ultimate purpose of obtaining gains or profit, except activities directly performed by the taxpayer for the ultimate purpose of obtaining dividends allocable under the provisions of *Va. Code* § 58.1-407.
 - (i) Such activities do not include those performed on behalf of a taxpayer, such as those performed by an independent contractor.

- (ii) The cost of performance does not include the cost of funds (interest, etc.), but does include the cost of activities required to procure loans or other financing.
- (b) Activities constituting the cost of performance are deemed performed at the situs of real and tangible personal property or the place at which or from which activities are performed by employees of a taxpayer.
- (c) Cost of performance of a financial institution within and without Virginia shall be determined without regard to the location of borrowers, location of property in which the financial corporation has only a security interest, or the cost to the financial corporation of the funds which it lends (23 Virginia Administrative Code (VAC) 10-120-250).

Construction Corporations

Construction companies which have elected to report income on the completed contract basis for federal income tax purposes must apportion income within and without this state in the ratio that the business within this state is to total business of the corporation. The business within and without this state is based upon "sales" as defined by *Va. Code* § 58.1-302, to the extent included in taxable income, and is determined as provided by *Va. Code* §§ 58.1-414 through 58.1-419. All other construction companies must determine Virginia taxable income by reference to *Va. Code* §§ 58.1-406 through 58.1-416.

Railway Companies

Railway companies must determine their net apportionable income to this state by multiplying Virginia taxable income of such company, excluding the income allocable under *Va. Code* § 58.1-407, by the use of the ratio of revenue car miles in this state to total revenue car miles of the corporation everywhere.

"Revenue car mile" in the case of railway carriers of property or passengers means the movement of a unit of loaded car equipment a distance of 1 mile. The loaded car miles must be determined in accordance with the Uniform System of Accounts for Railroad Companies of the Interstate Commerce Commission (*Va. Code* § 58.1-420).

Retail Companies

A retail corporation is required to apportion its income using a single sales factor method of apportionment. For purposes of this requirement, a retail company is defined as a domestic or foreign corporation that is primarily engaged in activities that, in accordance with the North American Industry Classification System (NAICS), United States Manual, United States Office of Management and Budget, 1997 Edition, would be included in Sectors 44-45 (*Va. Code* § 58.1-422.1).

Manufacturers Modified Apportionment Method

Use the single sales factor method of apportionment if you elected the Manufacturer's Modified Apportionment Method in Section A. Enter the **Total** (Column A), **Virginia** (Column B), and **Percentage** (Column C) amounts in the appropriate column in Section B, Line 1.

Enterprise Data Center Operations

A taxpayer with an enterprise data center operation that enters into a memorandum of understanding with the VEDP to make a new capital investment of at least \$150 million in an enterprise data center in Virginia is required to apportion Virginia taxable income using a single sales factor method of apportionment.

Line 2 – Multi-Factor Computations

Three-Factor Formula

Corporations that apportion income are generally required to use a three-factor formula of property, payroll, and double-weighted sales. The sum of the property factor, payroll factor, and twice the sales factor is divided by four to arrive at the final apportionment factor. See the specific instructions that follow.

Line 2(a). Property factor: The property factor is a fraction, the numerator of which is the average value of the corporation's real and tangible personal property owned and used or rented and used in this state during the taxable year, and the denominator of which is the average value of all the corporation's real and tangible property owned and used or rented and used during the taxable year and located everywhere; to the extent that such property is used to produce Virginia taxable income and is effectively connected with the conduct of a trade or business within the United States and income derived therefrom is includible in federal taxable income (*Va. Code* § 58.1-409).

Property owned by the corporation is valued at its original cost plus the cost of additions and improvements. Property rented by the corporation is valued at eight times the annual rental rate (*Va. Code* § 58.1-410).

The average value of property is determined by averaging the value at the beginning and ending of the tax period, but the Department may require the averaging of monthly values during the tax period if reasonably required to reflect properly the average value of the corporation's property (*Va. Code* § 58.1-411).

Line 2(b). Payroll factor: The payroll factor is a fraction, the numerator of which is the total amount paid or accrued in this state during the tax period by the corporation for compensation, and the denominator of which is the total compensation paid or accrued everywhere during the tax period; to the extent that such payroll is used to produce Virginia taxable income and is effectively connected with the conduct of a trade or business within the United States and income derived is includible in federal taxable income (*Va. Code* § 58.1-412).

"Compensation" means wages, salaries, commissions, and any other form of remuneration paid or accrued to employees for personal services (*Va. Code* § 58.1-302).

Compensation is paid or accrued in this state if:

- (a) the employee's service is performed entirely within the state; or
- (b) the employee's service is performed both within and without the state, but the service performed without

the state is incidental to the employee's service within the state; or

- (c) some of the service is performed in the state and:
- (i) the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in the state; or
 - (ii) the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the employee's residence is in this state (*Va. Code* § 58.1-413).

Line 2(c). Sales factor: The sales factor is a double-weighted element in the three-factor formula of sales, property, and payroll. The sales factor is a fraction, the numerator of which is the total sales of the corporation in this state during the tax period, and the denominator of which is the total sales of the corporation everywhere during the tax period, to the extent that such sales are used to produce Virginia taxable income and are effectively connected with the conduct of a trade or business within the United States and income derived is includible in federal taxable income (*Va. Code* § 58.1-414). "Sales" means all gross receipts of the corporation other than dividends; except that in the case of the sale or other disposition of intangible property only the net gain is included. Net gain is determined on a per transaction basis (*Va. Code* § 58.1-302).

Sales of tangible personal property are in this state if the property is received in this state by the purchaser. In the case of delivery by common carrier or other means of transportation, the place at which such property is ultimately received after all transportation has been completed is considered the place at which such property is received by the purchaser. Direct delivery in this state, other than for purposes of transportation, to a person or firm designated by a purchaser, constitutes delivery to the purchaser in this state, and such direct delivery outside this state to a person or firm designated by the purchaser does not constitute delivery to the purchaser in this state, regardless of where title passes, or other conditions of sale (*Va. Code* § 58.1-415).

Sales, other than sales of tangible personal property, are in Virginia if: (a) the income-producing activity is performed in Virginia; or (b) the income-producing activity is performed in and outside of Virginia and a greater proportion of this activity is performed in Virginia than in any other state, based on costs of performance (*Va. Code* § 58.1-416).

Line 2(d). Double-Weighted Sales Factor Apportionment: Multiply Line 2c by 2 and enter the result.

Line 2(e). Reserved for future use.

Line 2(f). Sum of Percentages: Add Lines 2(a), 2(b), and 2(d) for the standard multistate factor with double-weighted sales.

Line 2(g). Multi-Factor Percentage (Double-Weighted Sales): Line 2(f) divided by the number 4 (doubled-weighted sales) reduced by the number of factors, if any, having no denominator. Standard apportionable income is apportioned by multiplying the income by a fraction, the numerator of which

is the property factor plus the payroll factor, plus 2 times the sales factor, and the denominator of which is 4.

Line 3 – Income Subject to Virginia Tax

Line 3(a). Virginia Taxable Income: Enter Virginia taxable income from Form 500, Line 7.

Line 3(b). Total Dividends: Enter the total amount of allocable dividends (allocated to business's commercial domicile).

Line 3(c). Nonapportionable Investment Function Income: Enter nonapportionable investment function income from Form 500, Line 8(c).

Line 3(d). Subtotal: Add Lines 3(b) and 3(c).

Line 3(e). Nonapportionable Investment Function Loss: Enter nonapportionable investment function loss from Form 500, Line 8(d).

Line 3(f). Total Nonapportionable Income: Subtract Line 3(e) from Line 3(d).

Line 3(g). Income Subject to Apportionment: Subtract Line 3(f) from Line 3(a).

Line 3(h). Income Apportioned to Virginia: Multiply the percentage on Line 1 or Line 2(g), whichever applies, by Line 3(g).

Line 3(i). Dividends Allocated to Virginia: Enter the amount of dividends, included in Line 3(b), allocated to Virginia. Dividends received to the extent included in Virginia taxable income are allocable to the state of commercial domicile of the taxpaying corporation. "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed (*Va. Code* § 58.1-407).

Line 3(j). Income Subject to Virginia Tax: Add Lines 3(h) and 3(i). Enter on Form 500, Line 8(a).

Alternate Method of Allocation or Apportionment

If any corporation believes that the method of allocation or apportionment administered by the Department will subject it to taxation on a greater portion of its net income than is reasonably attributable to business or sources within this state, it is entitled to file with the Department a statement of its objections and of such alternative method of allocation or apportionment as it believes to be proper under the circumstances with such detail and proof and within such time as the Department may reasonably prescribe. If the Department concludes that the method of allocation or apportionment employed is, in fact, inapplicable or inequitable, it shall redetermine the taxable income by such other method of allocation or apportionment as seems best calculated to assign to the state for taxation the portion of the income reasonably attributable to business and sources within the state, not exceeding, however, the amount which would be arrived at by application of the statutory rules for allocation or apportionment (*Va. Code* § 58.1-421).

A corporation requesting permission to use an alternative method of allocation or apportionment of income must comply with Virginia Corporation Income Tax Regulation

23 VAC 10-120-130. The policy of the Department is that the statutory method is the most equitable method of determining the portion of a multistate corporation's income that is attributable to business activity in Virginia. Permission to use an alternative method of allocation and apportionment will be granted only in extraordinary circumstances.

For additional information call **(804) 367-8037** or write to **Virginia Department of Taxation, P.O. Box 1115, Richmond, VA 23218-1115**. You can obtain most Virginia income tax forms at **www.tax.virginia.gov**.