

## SCHEDULE C: CREDIT FOR B&O TAX PAYABLE

Attach to Form IT-140 or Form IT-140NR/PY, whichever applies.

	BUSINESS NAME	IDENTIFICATION NUMBER	NET INCOME (OR LOSS)	B&O TAX PAYABLE
1.				
a.	_____	_____	_____	_____
b.	_____	_____	_____	_____
c.	_____	_____	_____	_____
d.	TOTAL INCOME AND TAX PAYABLE			1d
2.	West Virginia total income tax (line 8 of your IT-140 or line 11 of your IT-140NR/PY)			2
*3.	Net Income (subject to B&O Tax) included in your West Virginia income and shown on line 1 above			3
4.	West Virginia income (line 4 of your IT-140 or line 1 of your IT-140NR/PY)			4
**5.	Limitation of credit (line 2 multiplied by line 3 and divided by line 4)			5
6.	TOTAL SCHEDULE C CREDIT. Enter the SMALLEST of the amounts shown on lines 1d, 2, and 5			6

\*Line 3 should include ONLY the net income derived from a business or activity subject to B&O Tax. Salaries that are not, in fact, part of the distributive share of partnership income and salaries paid to stockholders of Sub-Chapter S corporations cannot be included in the amount shown on line 3.  
\*\*An alternative method to compute the line 5 limitation is to divide line 3 by line 4, round the result to three places, and multiply this percentage by line 2.

### INSTRUCTIONS FOR SCHEDULE C

**WHAT IS THE CREDIT?** West Virginia taxpayers who have a business or activity which is subject to the West Virginia Business and Occupation (B&O) Tax shall be allowed a credit against their personal income tax. The formula set forth in Schedule C automatically limits the credit to the smallest of the following amounts:

- A. The amount of B&O Tax imposed (AFTER all credits except Industrial Expansion or Revitalization credit), line 1d of Schedule C, or
- B. The amount of personal income tax before credits, line 2 of Schedule C, or
- C. The amount of income tax imposed on the income derived from the business or activity, line 5 of Schedule C.

This limit is placed upon the amount of credit to prevent exempting from personal income tax any income not derived from a business or activity subject to B&O Tax. Stated another way, the credit for B&O Tax cannot offset the income tax imposed on income derived from sources which are not subject to B&O Tax.

There can be NO credit against personal income tax for B&O Tax imposed on a business that operated at a loss, because no income from a business or activity which operated at a loss enters into a taxpayer's West Virginia taxable income. Likewise, there can be no credit against personal income tax for B&O Tax imposed, unless the West Virginia taxable income of the taxpayer includes a positive amount of business or activity income. The West Virginia taxable income of a taxpayer is determined by offsetting business losses against business gains.

**WHO MAY CLAIM THE CREDIT?** The credit is allowable to taxpayers who engaged in activities subject to the B&O Tax in their capacities as proprietors, members of partnerships, beneficiaries and fiduciaries of trusts and estates, and stockholders of corporations IF AND ONLY IF they elected to be taxed under Sub-Chapter S of the Internal Revenue Code. The credit allowed these taxpayers is based on their share of the B&O Tax imposed on business or activity income of the proprietorship, partnership, Sub-Chapter S corporation, estate or trust. Salaries that are not, in fact, part of the distributive shares of the partnership income (for example, salaries guaranteed to partners by the articles of partnership) and salaries paid to stockholders of Sub-Chapter S corporations are not income of partnerships or Sub-Chapter S corporations for the purpose of computing a Schedule C credit. Such salaries are expenses of the partnership or corporation, deducted to arrive at the net income for each activity. Salaries deducted as a business expense for Federal income tax purposes in determining net income from the business or activity subject to B&O Tax shall not thereafter be included as income from the business in determining the individual's Schedule C Credit.

**EXAMPLE:** Mr. X is a stockholder in a Sub-Chapter S corporation and is also an employee of the corporation. Mr. X receives a salary of \$6,000 from the corporation. At the end of the corporation's taxable year, Mr. X receives \$2,000 as his distributive share of profits from the corporation. In computing his Schedule C credit on his West Virginia personal income tax return, Mr. X is permitted to use only his distributive share of profits (\$2,000) as his income basis (line 3 of his West Virginia Schedule C).

**BUSINESS TAX IMPOSED ON CAPITAL GAIN(S).** If you received income from a capital gain that was subject to B&O Tax (i.e. Natural Resource Royalties), you may compute a Schedule C credit only on that positive amount of income determined from the capital gain.

### HOW TO COMPUTE THE CREDIT

**Line 1: B&O Tax Payable.** Enter the name and account identification number under which the business or activity is registered with the Department of Tax and Revenue. Also enter on line 1 your allocable share of the B&O Tax Payable for the same taxable year for which the individual income tax return is being filed. If a partnership or Sub-Chapter S corporation has a taxable year which is different from that of a partner or stockholder, the proportionate amount to be entered on line 1 is the amount for the fiscal year, if the partnership or corporation files its B&O Tax return on such basis. An individual proprietor should enter the amount of tax imposed for the taxable year. A partner should enter that portion of the tax imposed on the partnership which bears the same ratio as his distributive share in the partnership net profit bears to the total net profit of the partnership. A Sub-Chapter S corporation stockholder should enter his allocable share of the total tax payable by the corporation. DO NOT INCLUDE IN THE TOTAL BUSINESS TAXES PAYABLE COLUMN (line 1d) any tax imposed on a business which operated at a loss. Such business loss is properly entered in the 'Net Income or Loss' column and used to determine net business income on line 1d. If the total 'Net Income or Loss' column is zero or less, a Schedule C credit is not allowed. Therefore, you should not complete this schedule.

**Line 2: West Virginia Total Tax.** Enter the total tax computed on your West Virginia taxable income. This figure must agree with the amount shown on line 8 of your IT-140 or line 11 of your IT-140 NR/PY, whichever is applicable.

**Line 3: Net Income from Business(es).** When B&O Tax is imposed on a single business or activity, enter on line 3 the net income from the business included in your West Virginia taxable income. If the business or activity operated at a loss, enter zero on line 3. This will automatically result in no credit being allowed. If B&O Tax was imposed on more than one activity, enter on line 3 the total income after deducting business losses from business gains.

**EXAMPLE:** In order to determine your income from business (line 3 of Schedule C) when a taxpayer is involved in MORE THAN ONE business or activity, the following computations have to be made. Assume a taxpayer had \$8,000 income from a proprietorship subject to B&O Tax, \$1,000 salary not subject to B&O Tax, and a distributive share of \$3,000 loss from a partnership subject to B&O Tax. The amount to be entered on line 3 of Schedule C is \$5,000. This amount was computed by disregarding the \$1,000 salary and by subtracting the business loss (\$3,000) from the business gain (\$8,000).

IF MORE SPACE IS NECESSARY TO LIST THE NAMES AND ACCOUNT IDENTIFICATION NUMBERS OF THE BUSINESSES, ATTACH A STATEMENT WITH THE REQUIRED INFORMATION TO YOUR RETURN.

**Line 4: West Virginia Adjusted Gross Income.** Enter the West Virginia income shown on line 4 of your IT-140 or line 1 of your IT-140 NR/PY, whichever is applicable.

**Line 5: Limitation of Credit.** Multiply the amount on line 2 by the amount on line 3 and divide the product by the amount on line 4, OR divide line 3 by line 4, round the result to the nearest three places, and multiply this rounded percentage by line 2. Enter the result on line 5 of Schedule C.

**Line 6: Total Schedule C Credit.** Enter the smallest of the amounts shown on line 1d, 2 and 5 on line 6 of Schedule C and on line 10 of your IT-140 or line 13 of your IT-140NR/PY, whichever is applicable.