

MANUFACTURING PROPERTY TAX ADJUSTMENT CREDIT

REPORT TO THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE

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Submitted by:

West Virginia State Tax Division
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State Tax Commissioner

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This report is submitted to the Joint Committee on Government and Finance pursuant to the provisions of West Virginia Code §11-13Y-8(a), which requires in pertinent part:

“The Tax Commissioner shall provide to the Joint Committee on Government and Finance by the first day of July, two thousand eleven, and on the first day of July of each year thereafter, a report detailing the amount of credit claimed pursuant to this article. The report is to include the amount of credit claimed against the business franchise tax and the amount of credit claimed against the corporate net income tax.”

In conformity with the above requirement, the following report provides details on the Manufacturing Property Tax Adjustment Credit (Inventory Tax Credit) from Corporation Net Income Tax (CNIT) returns for tax years 2017 through 2023 in State Tax Department databases as of June 13, 2025. Information from Inventory Tax Credit claims prior to 2017 can be found in reports from prior years.

Description of the Inventory Tax Credit

As with all other businesses, manufacturers are subject to both State and local taxes. State and local taxes may include tangible personal property taxes on manufacturing inventory, other than finished goods inventory destined for export outside the State. Several tax reform studies have recommended repeal of manufacturing inventory property taxes. However, the tax on inventory is provided for in the West Virginia Constitution and generally benefits local governments. Thus, any change in the tax on inventory would require a Constitutional Amendment to be ratified by the State’s electorate. Such an Amendment was submitted to voters for approval in November 2022 and not approved. The Manufacturing Property Tax Adjustment Credit provides some tax relief to manufacturers without directly reducing revenue for local governments.

As codified in West Virginia Code §11-13Y-1 *et seq.*, eligible Taxpayers are allowed a tax credit in an amount equal to the West Virginia Property Tax paid by the Taxpayer on the value of manufacturing inventory of the eligible Taxpayer during the Corporation Net Income Tax or Business Franchise Tax year. The credit was effective for tax years beginning on or after January 1, 2009. Pertinent definitions related to the Manufacturing Property Tax Adjustment Credit included in the Statute are as follows:

"Eligible taxpayer" means any manufacturing business that is subject to the tax imposed under article twenty-three [§§11-23-1 *et seq.*] or twenty-four [§§11-24-1 *et seq.*] of this chapter, or both: *Provided*, That taxpayers owning property assessed by the Board of Public Works are not eligible taxpayers for purposes of this article. "Eligible taxpayer" also means and includes those members of an affiliated group of taxpayers engaged in a unitary business, in which one or more members of the affiliated group is a person subject to the tax imposed under article twenty-three or article twenty-four of this chapter, or both. Affiliates not engaged in the unitary business do not qualify as eligible taxpayers.

"Manufacturing business" means any business primarily engaged in 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 that also paid ad valorem property tax on

manufacturing inventory to one or more West Virginia counties during the taxable year.

"Manufacturing inventory" means and is limited to raw materials, goods in process and finished goods of a business primarily engaged in 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.

"Tax year" or "taxable year" means the tax year of the taxpayer for federal income tax purposes.

"Taxpayer" means any person subject to the tax imposed under article twenty-three [§§11-23-1 et seq.] or twenty-four [§§11-24-1 et seq.] of this chapter, or both.

Data Notes

Taxpayers use a variety of taxable periods for the purpose of filing income tax returns. For consistency, the Tax Years reported in this document reflect the year in which a Taxpayer's taxable year begins. For example, some Taxpayers are calendar year filers (*i.e.*, Tax Year 2024 began on January 1, 2024) while others are fiscal year filers¹ (*e.g.*, Tax Year 2024 began on July 1, 2024). Although the statutory due dates² of tax returns for calendar year 2024 Taxpayers occurred before the analysis date (*i.e.*, June 13, 2025) of this report, many Taxpayers use an automatic six-month extension of time before filing final returns with credit claims. Most returns of fiscal year taxpayers would not be due until after the analysis date. Given that most calendar year and fiscal year 2024 returns had not yet been filed or fully processed by the Tax Department at the time of this analysis, Tax Year 2024 credit claims are omitted from this report. In addition, due to the complex nature of some tax returns, many Tax Year 2023 returns have yet to be fully processed.

To not misrepresent State Inventory Tax Credit claims, statistical results for all taxable periods—particularly more recent Tax Years—may not include certain returns which are not finalized and thus do not represent complete records of manufacturing inventory tax credit claims. Additionally, tax returns can generally be amended through the third year following the original due date of the return. It is important to note that credit claims for Tax Years 2021, 2022, and 2023 as provided in the tables and figures of this report may be subject to revision by the Taxpayer or upon audit by the Tax Department.

¹ Statutory due date for fiscal year Taxpayers is on or before the 15th day of the fourth month following the close of the taxable year for C-Corporations.

² Tax Year 2024 due date is April 15, 2025, for C-Corporations and limited liability companies that elect to be treated as a corporation for federal and state income tax purposes.

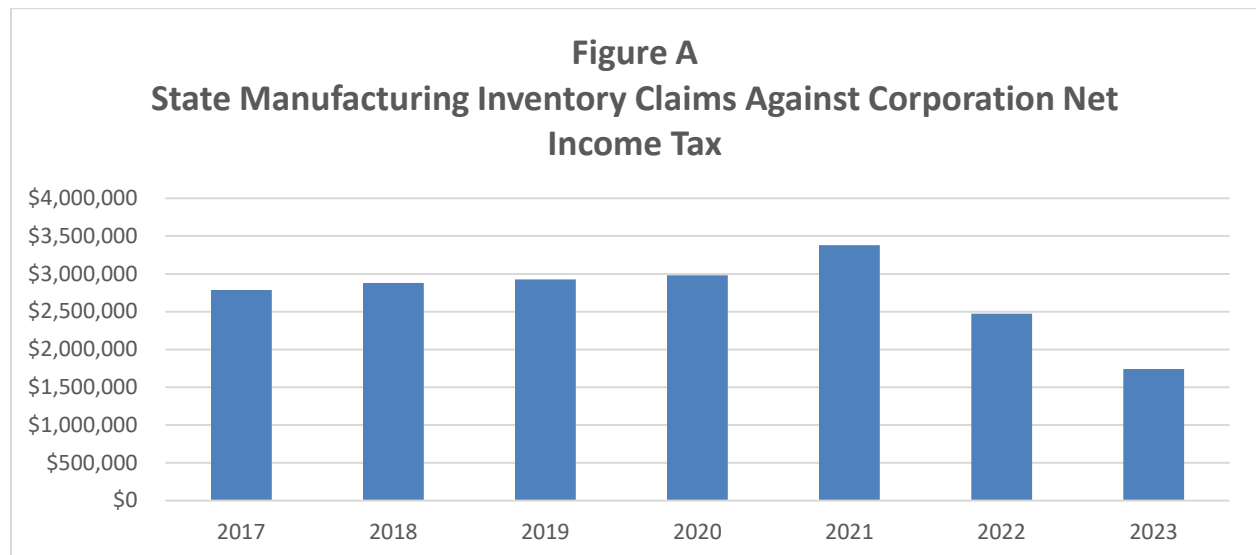
Inventory Tax Credit Claimed

Table 1 and Figure A provide data collected from Inventory Tax Credit claims as reported on Corporation Net Income Tax returns. Appendix A provides changes in the claims of this credit between the July 2024 report and the current report.

Table 1
State Inventory Tax Credit Claims

Tax Year	Claims Against CNIT
2017	\$2,787,281
2018	\$2,879,886
2019	\$2,924,269
2020	\$2,980,808
2021	\$3,381,430
2022	\$2,472,150
2023	\$1,740,327
Total	\$19,166,151

Between 2017 and 2023, the number of inventory tax credit claimants increased by 3 percent. After peaking in 2021 at nearly \$3.4 million, the total value of credits claimed trended lower by nearly 50 percent as of 2023. Lower claim values were at least partially attributable to a change in multistate income apportionment from a three-factor formula based on property, payroll and sales to a single factor based on sales beginning in 2022.



Comparison of Manufacturing Inventory Taxes Paid with State Tax Credit Claims

The Inventory Tax Credit allows manufacturers an offset of up to 100 percent of local manufacturing inventory taxes paid against the entity's pre-credit tax liability for State Corporation Net Income Tax. Statistical feedback from property tax assessment data for the seven-year period between Property Tax Year 2017 and Property Tax Year 2023 indicates an average of \$35.8 million per year in local inventory property taxes assessed to the manufacturing sector. By comparison, during this same period, State tax credits based on inventory taxes paid averaged slightly more than \$2.7 million per year. The State tax credit effectively offset roughly 16 percent of the total local inventory tax paid in years when the State imposed both a Business Franchise Tax and a Corporation Net Income Tax on manufacturers. Following the elimination of the Business Franchise Tax, the tax credit offset amount declined to a multi-year average of less than 10 percent of the local inventory tax paid by the manufacturing sector.

Local property taxes paid on inventory are often greater in magnitude than the amount of corporate net income taxes paid by manufacturing entities. Based on statistical data published by the Internal Revenue Service's Statistics of Income Division³, more than 40 percent of all U.S. manufacturing firms filing annual income tax returns report no net taxable income on their tax returns in any given year. Federal taxable income is the starting point for the determination of the West Virginia Income Tax. These businesses would pay no West Virginia income taxes and therefore would not be able to claim any inventory tax credits. Businesses with taxable income would be able to claim the inventory tax credit. However, some of these Taxpayers would pay more in local inventory property taxes than in State income taxes and therefore be limited in the use of the Inventory Tax Credit. West Virginia also offers manufacturing investment tax credits against income tax with the result of less tax liability remaining for offset by the Inventory Tax Credit.

Based on State Inventory Tax Credit schedules filed for Tax Years 2017 to 2023 for companies with a pre-credit state tax liability, a multi-year average of roughly 78 percent of reported available credit funds were claimed by Taxpayers. Figure B compares the amount of credit available, and amount of credit used by the subset of taxpayers with a pre-credit State tax liability between Tax Years 2017 and 2023. The total reported Inventory Tax Credit available increased from \$3.0 million in Tax Year 2017 to \$3.9 million in Tax Year 2023.

³ Table 1 Selected Income Statement <https://www.irs.gov/statistics/soi-tax-stats-corporation-income-tax-returns-complete-report-publication-16>

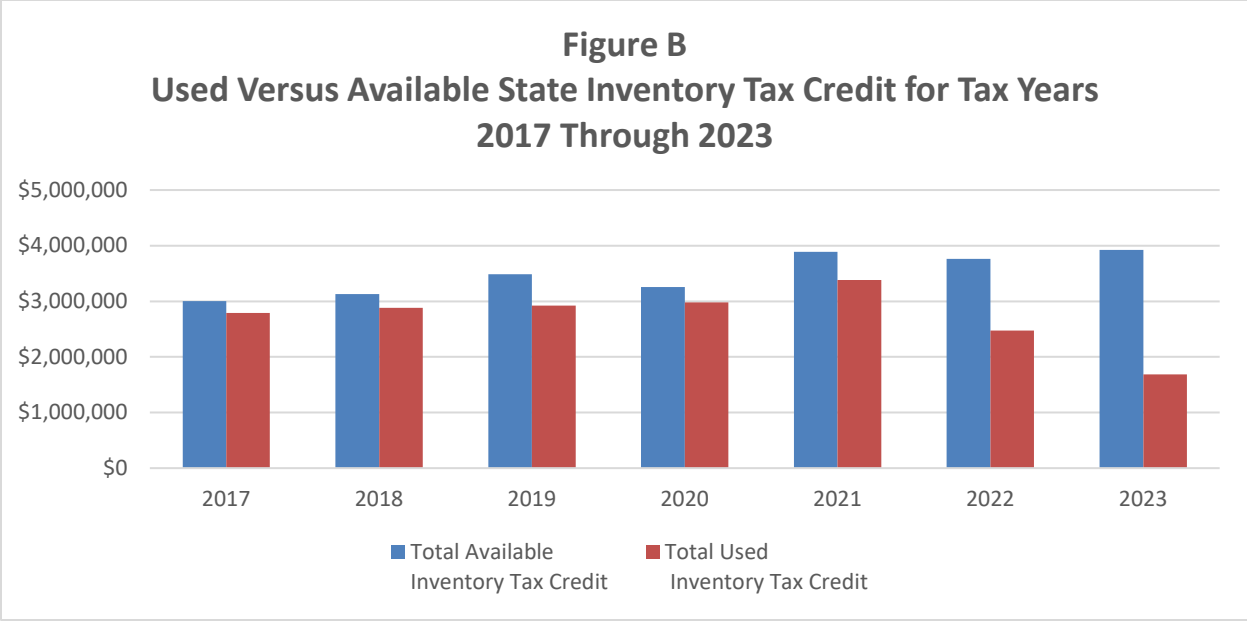


Table 2 contains data on the number of tax credit claims and the share of total credit attributable to the top 5 claims by years since 2017.

Table 2
Inventory Tax Credit Claims

Tax Year	Number of Claims	Share of Credit – Top 5 Claims
2017	31	58.7%
2018	32	62.3%
2019	33	56.3%
2020	29	54.3%
2021	33	48.1%
2022	36	62.0%
2023	32	69.1%

The value of the tax credit tends to be concentrated among a small group of Taxpayers with significant year-to-year variance heavily dependent on the profits and tax liability of this small group of participants. On average, the top five taxpayers account for more than half of total tax credit claimed each year.

Manufacturing Inventory Personal Property Tax for Tax Year 2024

The basis for the credit is the West Virginia Property Tax paid by manufacturers on the value of manufacturing inventory. Manufacturing inventory is essentially raw materials, goods in process, and finished goods of a manufacturer. Based upon information from the West Virginia State Tax Department Property Tax Division, the total potential manufacturing inventory Personal Property

Tax would be approximately \$39.8 million after application of the exemption provided by the Freeport Amendment (see Appendix B for the formal description of the exemption).⁴

Table 3
Manufacturing Inventory Personal Property Tax for Tax Year 2024

Item	Value	Percentage of Appraised Value
Supplemental - Raw Materials	\$1,055,816,505	38.2%
Supplemental - Machine In Process of Installation	\$444,532,341	16.1%
Supplemental - Goods in Process	\$432,993,229	15.7%
Supplemental - Supplies Held for Owner's Liability	\$198,162,364	7.2%
Supplemental -Finished Goods	\$194,097,435	7.0%
Supplemental - Parts Held for Owner's Use	\$176,236,239	6.4%
Inventory	\$103,874,820	3.8%
Supplemental - Inventory	\$81,926,219	3.0%
Supplemental - Incomplete Construction	\$38,163,071	1.4%
Supplemental - Tool in Process of Installation	\$28,020,479	1.0%
Supplies Held for Owner's Use	\$4,982,674	0.2%
Supplemental - Consigned Goods	\$3,977,110	0.1%
Parts Held for Owner's Use	\$26,919	0.0%
Total Appraised Value of Inventory	\$2,762,809,405	100.0%
Assessed Value of Inventory	\$1,657,685,643	
Tax Rate	2.40%	
Estimated Property Taxes on Manufacturing Inventory	\$39,784,455	

Formal definitions of all Property Tax classes are presented in Appendix B. Class III tax rates would apply to manufacturing inventory located outside municipal borders, while Class IV tax rates would apply to manufacturing inventory located inside municipal borders. In Table 3, the estimated property taxes on manufacturing inventory were calculated by taking the weighted average of the Class III and Class IV rates and applying this rate of 2.4% to the assessed value of the manufacturing inventory, as it is often difficult to determine whether certain manufacturing inventory items fall outside or inside municipal boundaries. Manufacturing property tends to be more heavily concentrated in jurisdictions with higher property tax rates.

As shown in Table 4, five industries account for almost 70 percent of the total taxable inventory value. Details on all manufacturing classifications are presented in Appendix C.

Table 4

⁴ These data are provided for illustration of Tax Year 2023 tax rates related to inventory property taxes in West Virginia. Rates of levy vary from year to year; rates of levy for other taxable periods are available online at <https://www.wvsao.gov/localgovernment/reports>.

Manufacturing Inventory Appraised Value for Tax Year 2024 (Largest Industries)

NAICS CODE	Description	Appraised Value of Inventory	% of Total
325	Chemical Manufacturing	\$832,591,299	30.1%
331	Primary Metal Manufacturing	\$372,600,284	13.5%
336	Transportation Equipment Manufacturing	\$277,162,818	10.0%
332	Fabricated Metal Product Manufacturing	\$230,472,535	8.3%
324	Petroleum and Coal Product Manufacturing	\$214,423,284	7.8%

Since the number of Inventory Tax Credit claimants is small, summaries of the credit by manufacturing classification have been withheld to avoid the possible disclosure of tax information for individual taxpayers. The amount of tax credit is constrained by the Taxpayer's Corporation Net Income Tax liability. For Taxpayers who take advantage of this credit, approximately 78 percent of available credit is used on average. When all returns were finalized for the 2020 to 2023 period, the average annual credit claimed since 2017 would be \$2.7 million per year.

Appendix A
Inventory Tax Credit Claims by Tax Year

Table A-1
Claims from Current Report

	2017	2018	2019	2020	2021	2022	2023	Total
CNIT	\$2,787,281	\$2,879,886	\$2,924,269	\$2,980,808	\$3,381,430	\$2,472,150	\$1,740,327	\$19,166,151

Table A-2
Claims from July 1, 2024 Report

	2017	2018	2019	2020	2021	2022	2023	Total
CNIT	\$2,806,005	\$2,823,412	\$2,827,509	\$2,848,592	\$3,124,424	\$2,420,875	\$0	\$16,850,817

Table A-3
Changes in Claims from July 1, 2024 to Current Report

	2017	2018	2019	2020	2021	2022	2023	Total
CNIT	(\$18,724)	\$56,474	\$96,760	\$132,216	\$257,006	\$51,275	\$1,740,327	\$2,315,334

Appendix B

Property Tax Classes and the Freeport Amendment

Property Tax Classes:

Class I – All tangible personal property employed exclusively in agriculture, including horticulture and grazing; all products of agriculture, including livestock, while owned by the producer; all notes, bonds, bills and accounts receivable, stocks and any other intangible personal property.⁵

Class II – All property owned, used, and occupied by the owner exclusively for residential purposes; all farms, including land used for horticulture and grazing, occupied, and cultivated by their owners or bona fide tenants.

Class III – All real and personal property situated outside municipalities, exclusive of Classes I and II.

Class IV – All real and personal property situated inside municipalities, exclusive of Classes I and II.

Freeport Amendment:

West Virginia Constitution §10-1c. Exemption from ad valorem taxation of certain personal property of inventory and warehouse goods, with phase into full exemption over five-year period.

Notwithstanding any other provisions of this Constitution, tangible personal property which is moving in interstate commerce through or over the territory of the State of West Virginia, or which was consigned from a point of origin outside the State to a warehouse, public or private, within the State for storage in transit to a final destination outside the State, whether specified when transportation begins or afterward, but in any case specified timely for exempt status determination purposes, shall not be deemed to have acquired a tax situs in West Virginia for purposes of ad valorem taxation and shall be exempt from such taxation, except as otherwise provided in this section. Such property shall not be deprived of such exemption because while in the warehouse the personal property is assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled, or repackaged for delivery out of state, unless such activity results in a new or different product, article, substance or commodity, or one of different utility. Personal property of inventories of natural resources shall not be exempt from ad valorem taxation unless required by paramount federal law.

The exemption allowed by the preceding paragraph shall be phased in over a period of five consecutive assessment years, at the rate of one fifth of the assessed value of the property per assessment year, beginning the first day of July, one thousand nine hundred eighty-seven.

⁵ Class I property has been exempt from the Property Tax since Tax Year 2008.

Appendix C

Manufacturing Inventory Tax Allocated by North American Industry Classification System (NAICS) Codes for Tax Year 2024

NAICS CODE	Description	Appraised Value of Inventory	Assessed Value of Inventory	Estimated Property Taxes On Manufacturing Inventory	Share of Total Appraised Value
325	Chemical Manufacturing	\$832,591,299	\$499,554,779	\$11,989,315	30.1%
331	Primary Metal Manufacturing	\$372,600,284	\$223,560,170	\$5,365,444	13.5%
336	Transportation Equipment Manufacturing	\$277,162,818	\$166,297,691	\$3,991,145	10.0%
332	Fabricated Metal Product Manufacturing	\$230,472,535	\$138,283,521	\$3,318,805	8.3%
324	Machinery Manufacturing	\$214,423,284	\$128,653,970	\$3,087,695	7.8%
326	Petroleum and Coal Product Manufacturing	\$164,086,443	\$98,451,866	\$2,362,845	6.0%
327	Plastics and Rubber Product Manufacturing	\$147,023,067	\$88,213,840	\$2,117,132	5.3%
321	Wood Product Manufacturing	\$146,299,183	\$87,779,510	\$2,106,708	5.3%
333	Nonmetallic Mineral Product Manufacturing	\$138,979,124	\$83,387,474	\$2,001,299	5.1%
335	Miscellaneous Manufacturing	\$68,691,386	\$41,214,832	\$989,156	2.5%
339	Electrical equipment, Appliance and Component Manufacturing	\$60,927,802	\$36,556,681	\$877,360	2.2%
311	Beverage and Tobacco Manufacturing	\$29,171,406	\$17,502,844	\$420,068	1.1%
312	Food Manufacturing	\$28,301,032	\$16,980,619	\$407,535	1.0%
322	Furniture and Related Product Manufacturing	\$20,017,903	\$12,010,742	\$288,258	0.7%
337	Paper Manufacturing	\$16,986,897	\$10,192,138	\$244,611	0.6%
323	Printing and Related Support Activities	\$6,168,608	\$3,701,165	\$88,828	0.2%
334	Computer and Electronic Product Manufacturing	\$6,132,312	\$3,679,387	\$88,305	0.2%
315	Textile Product Mills	\$1,371,149	\$822,689	\$19,745	0.1%
314	Apparel Manufacturing	\$808,864	\$485,318	\$11,648	0.0%
313	Textile Mills	\$590,931	\$354,559	\$8,509	0.0%
316	Leather and Allied Product Manufacturing	\$3,078	\$1,847	\$44	0.0%
Total		\$2,762,809,405	\$1,657,685,643	\$39,784,455	100.0%