

MANUFACTURING PROPERTY TAX ADJUSTMENT CREDIT

REPORT TO THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE

July 1, 2015

Submitted by:
West Virginia State Tax Department
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State Tax Commissioner

MANUFACTURING PROPERTY TAX ADJUSTMENT CREDIT

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 [*sic*].”

The following report is provided in conformity with the above requirement. The report provides details on the Manufacturing Property Tax Adjustment Credit (MPTAC) from Corporation Net Income Tax (CNIT) and Business Franchise Tax (BFT) returns in State Tax Department databases as of May 18, 2015.

Description of the Manufacturing Property Tax Adjustment Credit

Manufacturers, and all other businesses, are subject to both State and local taxes. The local taxes may include tangible personal property taxes on manufacturing inventory other than finished goods inventory destined for export outside the State. A number of 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. In order to provide some tax relief to manufacturers without directly reducing revenue for local governments, the MPTAC was enacted as the Manufacturing Property Tax Adjustment Act by Chapter 215, Acts of the Legislature, 2008. As codified in Chapter 11, Article 13Y of the West Virginia Code, 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 CNIT year and BFT year. The credit was effective for CNIT years and BFT years beginning on or after January 1, 2009. Pertinent definitions relative to the MPTAC 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 [§§11-23-1 et seq.] or article twenty-four [§§11-24-1 et seq.] 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.

Manufacturing Property Tax Adjustment Credit Claimed

MPTAC claims by tax type and business type, from CNIT and BFT¹ returns available for analysis as of May 18, 2015, are shown in Table 1 and Figure A.

Table 1
Manufacturing Property Tax Adjustment Credit Claims by Tax Type and Business Type

	2009	2010	2011	2012	2013	2014	Total
BFT – Pass-Through Entities	\$395,274	\$303,132	\$515,218	\$580,003	\$406,417	\$19,139	\$2,219,183
BFT – C-Corporations	\$2,267,681	\$2,789,835	\$2,306,214	\$1,458,303	\$631,580	\$5,399	\$9,459,012
CNIT	\$1,540,426	\$1,263,830	\$985,822	\$1,323,199	\$538,166	\$91,617	\$5,743,060
Grand Total	\$4,203,381	\$4,356,797	\$3,807,254	\$3,361,505	\$1,576,613	\$116,155	\$17,421,255

Pass-Through Entities include Sub-Chapter S-corporations, partnerships, and other business types treated in a similar manner.

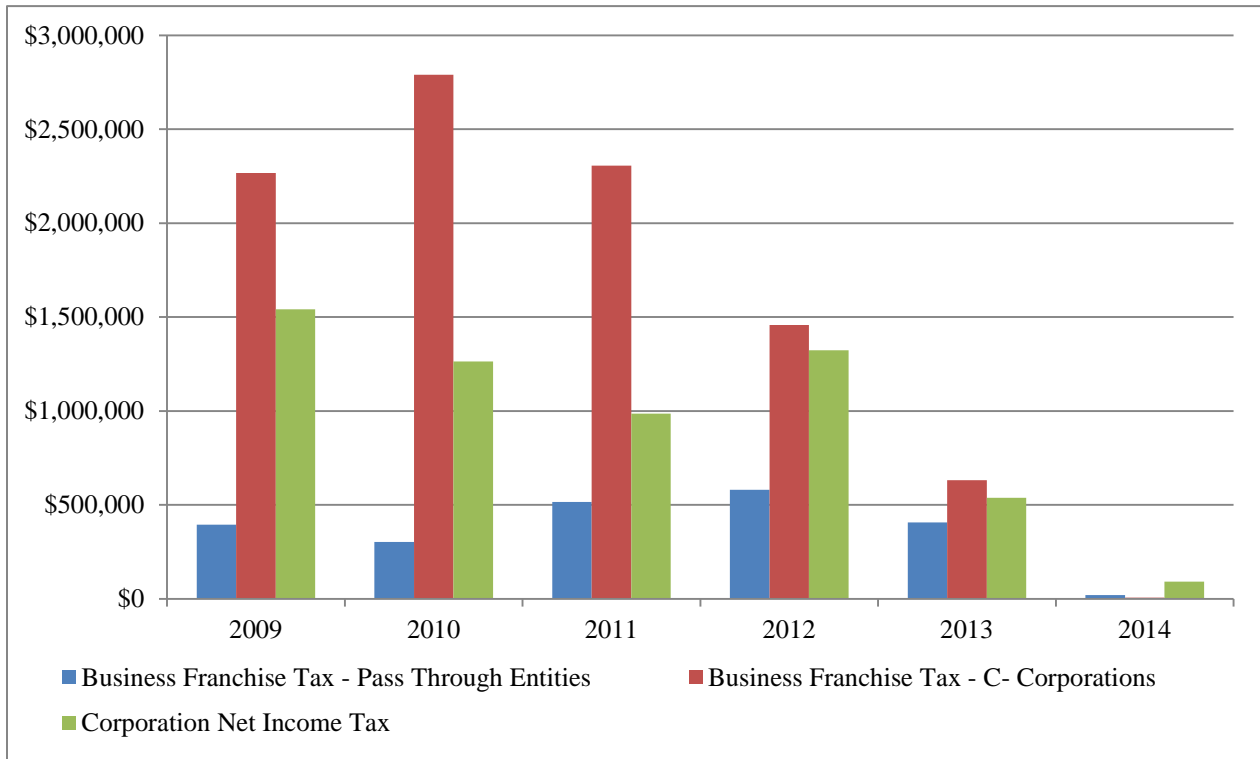
The information on credit claims as shown in Table 1 above and Figure A below is from returns available for analysis as of May 18, 2015. Although the due dates² of tax returns for tax year ending December 31, 2014 were before the analysis cut-off date, many Taxpayers use an automatic six-month extension before filing final returns with credit claims. Since tax returns can normally be amended through the third year following the original due date, the above numbers are subject to revision. Changes in the claims of the MPTAC from the prior report to the above values are shown in Appendix A.

¹ Prior to implementation of the Manufacturing Property Tax Adjustment Credit, the BFT was scheduled for elimination. The schedule for the phase-out of the BFT was as follows:

For taxable years beginning on or after January 1, 2009	0.48 percent
For taxable years beginning on or after January 1, 2010	0.41 percent
For taxable years beginning on or after January 1, 2011	0.34 percent
For taxable years beginning on or after January 1, 2012	0.27 percent
For taxable years beginning on or after January 1, 2013	0.20 percent
For taxable years beginning on or after January 1, 2014	0.10 percent
For taxable years beginning on or after January 1, 2015	0.00 percent

² March 15, 2015 for C-corporations and April 15, 2015 for Pass-Through Entities.

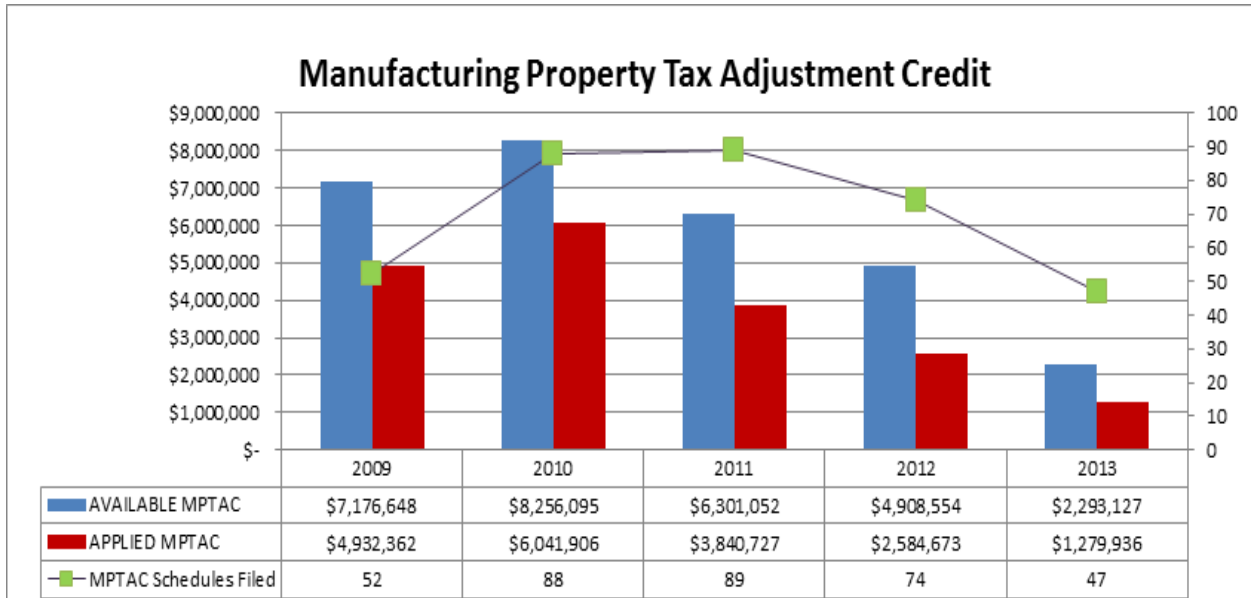
Figure A
Manufacturing Property Tax Adjustment Credit Claims by Tax Type and Business Type



Manufacturing Property Tax Adjustment Credit Available and Claimed

As shown in Figure B, the actual amount of credit claimed is less than the available, or potential, credit. One factor in the difference in the amount of credit claimed and the available credit is the Manufacturing Property Tax Adjustment Act requirement, stating the MPTAC is to be claimed after all other available credits. Some Taxpayers were able to reduce their tax liability by the application of other credits such that their remaining tax liability was less than the available MPTAC. Factors include a lack of sufficient State tax liability due to net operating losses, the temporary use of bonus depreciation to reduce taxable income or low net equity. In addition, the phase-out of BFT rates and phase-down of CNIT rates gradually lowered State tax liabilities available for tax credit offsets. For those Taxpayers claiming the MPTAC, the total share of available credit utilized rose from 69 percent in 2009 to 73 percent in 2010. The tax credit utilization ratio then declined to 61 percent in 2011, to 53 percent in 2012, and to 56 percent in 2013.

Figure B
Available Credit Versus Utilized Credit (2009-2013)



Although Tax Year 2011, 2012, and 2013 returns were due more than a year before the data cut-off period for this report (i.e., May 18, 2015), some amended returns will probably be filed. Thus, the credit claims for all three years (2011, 2012 and 2013) may change from the amounts shown above. Additionally, since most Tax Year 2014 Taxpayers generally utilize the automatic six-month extension to file returns, the majority of 2014 returns have not yet been filed or fully processed by the State Tax Department. Data for 2014 were not reflected in Figure B due to just three return filings to date.

Additional Tax Return Information

The following information is from a computer analysis that only considered tax years 2009, 2010, 2011, and 2012 returns, since these are the most complete tax years covered by this report. Also, in the tables below, the following acronyms are used:

PTE – Pass-Through Entity (only BFT)
 CIT – C-corporation (BFT and CNIT)
 MPTAC – Manufacturing Property Tax Adjustment Credit

The higher average gross BFT (i.e., tax before credits) for the MPTAC claimant group was expected since Taxpayers assigned to this group had to have a pre-credit tax liability against which the credit could be applied. The requirement that the MPTAC claimants have a pre-credit tax liability also contributed to the large number of filers that claimed other available tax credits. For the BFT, there is a minimum tax of \$50. As indicated in the tables below, the majority of filers reported the minimum tax. The BFT is levied on a Taxpayer's net equity. While a reported minimum tax could indicate a small business or a business with a small West Virginia apportionment factor, often the minimum reported tax is due to negative net equity.

Table 2
Gross BFT – 2009

Return Type	Filer Classification	Return Count	Average Gross BFT	Percentage of Filers Reporting the Minimum Gross BFT	Percentage of Filers Claiming Other Tax Credits
PTE	MPTAC Claimant	14	\$63,717	0.0%	78.6%
PTE	Other Manufacturers	1,419	\$2,821	55.4%	3.2%
PTE	Other Businesses	36,828	\$1,162	64.3%	1.4%
PTE	Sub-Total	38,261	\$1,246	63.9%	1.5%
CIT	MPTAC Claimant	33	\$228,609	6.1%	72.7%
CIT	Other Manufacturers	1,752	\$10,719	38.8%	4.3%
CIT	Other Businesses	17,607	\$5,817	57.0%	1.5%
CIT	Sub-Total	19,392	\$6,639	55.3%	1.9%

Table 3
Gross BFT - 2010

Return Type	Filer Classification	Return Count	Average Gross BFT	Percentage of Filers Reporting the Minimum Gross BFT	Percentage of Filers Claiming Other Tax Credits
PTE	MPTAC Claimant	19	\$41,555	5.3%	73.7%
PTE	Other Manufacturers	1,139	\$1,407	56.2%	2.4%
PTE	Other Businesses	37,907	\$1,196	65.2%	1.5%
PTE	Sub-Total	39,065	\$1,222	64.9%	1.5%
CIT	MPTAC Claimant	59	\$111,013	6.8%	50.8%
CIT	Other Manufacturers	1,365	\$8,945	41.0%	3.0%
CIT	Other Businesses	17,038	\$6,058	57.2%	1.3%
CIT	Sub-Total	18,462	\$6,607	55.9%	1.6%

**Table 4
Gross BFT - 2011**

Return Type	Filer Classification	Return Count	Average Gross BFT	Percentage of Filers Reporting the Minimum Gross BFT	Percentage of Filers Claiming Other Tax Credits
PTE	MPTAC Claimant	23	\$43,442	13.0%	73.9%
PTE	Other Manufacturers	1,161	\$1,466	56.5%	2.7%
PTE	Other Businesses	38,635	\$1,248	65.7%	1.5%
PTE	Sub-Total	39,819	\$1,279	65.4%	1.6%
CIT	MPTAC Claimant	60	\$70,243	8.3%	55.0%
CIT	Other Manufacturers	1,284	\$8,901	42.3%	4.0%
CIT	Other Businesses	16,672	\$5,818	57.6%	1.5%
CIT	Sub-Total	18,016	\$6,252	56.4%	1.8%

**Table 5
Gross BFT - 2012**

Return Type	Filer Classification	Return Count	Average Gross BFT	Percentage of Filers Reporting the Minimum Gross BFT	Percentage of Filers Claiming Other Tax Credits
PTE	MPTAC Claimant	30	\$29,548	6.7%	56.7%
PTE	Other Manufacturers	1,089	\$1,248	57.7%	3.0%
PTE	Other Businesses	39,353	\$1,227	65.9%	1.9%
PTE	Sub-Total	40,472	\$1,248	65.6%	1.9%
CIT	MPTAC Claimant	44	\$71,212	6.8%	45.5%
CIT	Other Manufacturers	1,058	\$4,782	59.4%	2.7%
CIT	Other Businesses	15,081	\$6,925	58.9%	1.4%
CIT	Sub-Total	16,183	\$6,960	58.7%	1.6%

Unlike the BFT, there is no statutory minimum tax for the CNIT. For purposes of the statistical compilation, the minimum gross CNIT was deemed to be zero. Although Tables 6, 7, 8, and 9 show that some CIT MPTAC claimants reported the minimum gross CNIT, the claimant classification was based on a claim against the BFT reported on the same return. Notwithstanding that some of the CIT MPTAC claimants had zero tax, the average gross CNIT for this group is well above the other groups due in large part to the basis for classification. The tables below also show that larger numbers of non-MPTAC CNIT filers reported the minimum tax (i.e., \$0). As the name of the tax implies, it is a tax on net income. Thus, many of the \$0 gross tax returns are attributable to negative earnings. Some of the negative earnings were attributable to the economic malaise that was the Great Recession and the slow recovery. The tables below also show that fewer filers claimed other credits against the CNIT than for the BFT. While the larger minimum gross tax percentages contribute to lower usage of other credits, many of the tax credits available for both the BFT and the CNIT specify that the first application is against the BFT.

**Table 6
Gross CNIT - 2009**

Return Type	Filer Classification	Return Count	Average Gross CNIT	Percentage of Filers Reporting the Minimum Gross CNIT	Percentage of Filers Claiming Other Tax Credits
CIT	MPTAC Claimant	33	\$212,525	39.4%	15.2%
CIT	Other Manufacturers	1,752	\$11,610	64.8%	0.8%
CIT	Other Businesses	17,607	\$5,882	68.3%	0.2%
CIT	Total	19,392	\$6,751	67.9%	0.3%

**Table 7
Gross CNIT - 2010**

Return Type	Filer Classification	Return Count	Average Gross CNIT	Percentage of Filers Reporting the Minimum Gross CNIT	Percentage of Filers Claiming Other Tax Credits
CIT	MPTAC Claimant	59	\$164,719	44.1%	18.6%
CIT	Other Manufacturers	1,365	\$9,738	63.3%	0.8%
CIT	Other Businesses	17,038	\$9,425	66.8%	0.2%
CIT	Total	19,392	\$9,945	66.5%	0.3%

**Table 8
Gross CNIT - 2011**

Return Type	Filer Classification	Return Count	Average Gross CNIT	Percentage of Filers Reporting the Minimum Gross CNIT	Percentage of Filers Claiming Other Tax Credits
CIT	MPTAC Claimant	60	\$526,540	45.0%	20.0%
CIT	Other Manufacturers	1,284	\$17,029	63.2%	0.9%
CIT	Other Businesses	16,672	\$8,513	66.8%	0.3%
CIT	Total	18,016	\$10,845	66.5%	0.4%

**Table 9
Gross CNIT - 2012**

Return Type	Filer Classification	Return Count	Average Gross CNIT	Percentage of Filers Reporting the Minimum Gross CNIT	Percentage of Filers Claiming Other Tax Credits
CIT	MPTAC Claimant	44	\$435,869	43.2%	15.9%
CIT	Other Manufacturers	1,058	\$18,178	62.4%	0.7%
CIT	Other Businesses	15,081	\$5,911	65.5%	0.4%
CIT	Total	16,183	\$7,882	65.2%	0.5%

Manufacturing Inventory Personal Property Tax

The basis for the MPTAC is the West Virginia Property Tax paid by manufacturers on the value of manufacturing inventory. The formal definition of manufacturing inventory was presented earlier in this report, but 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 range from roughly \$22.6 million to \$29.6 million (after application of the exemption provided by the Freeport Amendment; see Appendix B for the formal description of the exemption).

Formal definitions of all Property Tax classes are presented in Appendix B. In the table below, Class III tax rates would be used for manufacturing inventory located outside municipalities and Class IV tax rates would be used for manufacturing inventory located inside municipalities.

**Table 10
Manufacturing Inventory Personal Property Tax**

Item	Value	Percentage of Appraised Value
Raw Materials	\$1,021,209,285	59.3%
Goods in Process	\$480,420,323	27.9%
Finished Goods	\$219,872,901	12.8%
Total Appraised Value of Inventory	\$1,721,502,509	
Assessed Value of Inventory	\$1,032,901,505	
Estimated Class III Tax	\$22,620,543	
Estimated Class IV Tax	\$29,644,273	

As shown in Table 11 below, five industries account for 73.8 percent of the total inventory value (detail on all manufacturing classifications is presented in Appendix C).

**Table 11
Manufacturing Inventory Appraised Value – Largest Industries**

NAICS	Description	Appraised Value	Percent of Total
325	Chemical Manufacturing	\$502,543,072	29.2%
331	Primary Metal Manufacturing	\$391,895,882	22.8%
332	Fabricated Metal Product Manufacturing	\$174,877,352	10.2%
321	Wood Product Manufacturing	\$102,080,797	5.9%
333	Machinery Manufacturing	\$98,155,696	5.7%

Since the MPTAC has only been in existence for a short period and the number of claimants is fairly small, summaries of the credit by manufacturing classification have been withheld to avoid the possible disclosure of tax information for individual Taxpayers.

In general, the utilization of manufacturing inventory Property Tax as a MPTAC is constrained by the Taxpayer's BFT and CNIT liabilities. While the annual MPTAC will increase for most of the tax periods covered by this report, the availability of applicable tax liability against which the credit could apply may essentially limit the claimed credit to an amount less than one-half the Property Tax paid on manufacturing inventory.

Appendix A
Manufacturing Property Tax Adjustment Credit Claims by Tax Type and Business Type
***** From Current Report *****

	2009	2010	2011	2012	2013	2014	Total
BFT – Pass-Through Entities	\$395,274	\$303,132	\$515,218	\$580,003	\$406,417	\$19,139	\$2,219,183
BFT – C-Corporations	\$2,267,681	\$2,789,835	\$2,306,214	\$1,458,303	\$631,580	\$5,399	\$9,459,012
CNIT	\$1,540,426	\$1,263,830	\$ 985,822	\$1,323,199	\$538,166	\$91,617	\$5,743,060
Grand Total	\$4,203,381	\$4,356,797	\$3,807,254	\$3,361,505	\$1,576,613	\$116,155	\$17,421,255

Manufacturing Property Tax Adjustment Credit Claims by Tax Type and Business Type
***** From July 1, 2014 Report *****

	2009	2010	2011	2012	2013	Total
BFT – Pass-Through Entities	\$395,274	\$303,132	\$515,218	\$580,003	\$47,302	\$1,840,929
BFT – C-Corporations	\$2,267,681	\$2,771,117	\$2,271,505	\$1,172,370	\$180,997	\$8,663,670
CNIT	\$1,540,426	\$850,638	\$1,008,297	\$666,691	\$127,614	\$4,193,666
Grand Total	\$4,203,381	\$3,924,887	\$3,795,020	\$2,419,064	\$355,913	\$14,698,265

Manufacturing Property Tax Adjustment Credit Claims by Tax Type and Business Type
***** Change from July 1, 2014 Report to Current *****

	2009	2010	2011	2012	2013	2014	Total
BFT – Pass-Through Entities	\$0	\$0	\$0	\$0	\$359,115	\$19,139	\$378,254
BFT – C-Corporations	\$0	\$18,718	\$34,709	\$285,933	\$450,583	\$ 5,399	\$795,342
CNIT	\$0	\$413,192	(\$22,475)	\$656,508	\$410,522	\$91,617	\$1,549,364
Grand Total	\$0	\$431,910	\$12,234	\$942,441	\$1,220,220	\$116,155	\$2,722,960

Appendix B

Property Tax Classes³:

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 bonafide tenants.

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

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

Freeport Amendment:

West Virginia Constitution §10-1c. Exemption from ad valorem taxation of certain personal property of inventory and warehouse goods, with phase in to 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.

³ There are no property taxes currently imposed under Class I.

Appendix C
Manufacturing Inventory Property Tax
By North American Industry Classification System (NAICS) Codes

NAICS	Description	Finished Goods	Goods in Process	Raw Materials	Appraised Value of Inventory	Assessed Value of Inventory	Estimated Class III Tax	Estimated Class IV Tax	Share of Total Appraised Value
325	Chemical Manufacturing	\$27,057,390	\$138,574,194	\$336,911,488	\$502,543,072	\$301,525,843	\$6,603,416	\$8,653,792	29.2%
331	Primary Metal Manufacturing	\$26,500,090	\$187,567,754	\$177,828,038	\$391,895,882	\$235,137,529	\$5,149,512	\$6,748,447	22.8%
332	Fabricated Metal Product Manufacturing	\$72,270,022	\$23,135,832	\$79,471,498	\$174,877,352	\$104,926,411	\$2,297,888	\$3,011,388	10.2%
321	Wood Product Manufacturing	\$15,294,207	\$15,467,540	\$71,319,050	\$102,080,797	\$61,248,478	\$1,341,342	\$1,757,831	5.9%
333	Machinery Manufacturing	\$17,566,402	\$28,171,829	\$52,417,465	\$98,155,696	\$58,893,418	\$1,289,766	\$1,690,241	5.7%
324	Petroleum and Coal Products Manufacturing	\$7,550,375	\$8,057,711	\$69,345,068	\$84,953,154	\$50,971,892	\$1,116,284	\$1,462,893	4.9%
327	Nonmetallic Mineral Product Manufacturing	\$15,985,898	\$25,279,580	\$40,757,307	\$82,022,785	\$49,213,671	\$1,077,779	\$1,412,432	4.8%
326	Plastics and Rubber Products Manufacturing	\$11,957,926	\$6,259,777	\$56,327,151	\$74,544,854	\$44,726,912	\$979,519	\$1,283,662	4.3%
336	Transportation Equipment Manufacturing	\$7,493,435	\$21,384,803	\$37,963,826	\$66,842,064	\$40,105,238	\$878,305	\$1,151,020	3.9%
335	Electrical Equipment, Appliance, and Component Manufacturing	\$4,594,311	\$6,960,343	\$25,610,913	\$37,165,567	\$22,299,340	\$488,356	\$639,991	2.2%
339	Miscellaneous Manufacturing	\$3,344,509	\$5,061,397	\$24,964,901	\$33,370,807	\$20,022,484	\$438,492	\$574,645	1.9%
322	Paper Manufacturing	\$3,005,373	\$755,503	\$13,779,893	\$17,540,769	\$10,524,461	\$230,486	\$302,052	1.0%
337	Furniture and Related Product Manufacturing	\$302,870	\$3,349,127	\$11,248,670	\$14,900,667	\$8,940,400	\$195,795	\$256,589	0.9%
311	Food Manufacturing	\$3,644,086	\$4,174,574	\$6,568,475	\$14,387,135	\$8,632,281	\$189,047	\$247,746	0.8%
312	Beverage and Tobacco Product Manufacturing	\$51,488	\$3,119,714	\$3,893,406	\$7,064,608	\$4,238,765	\$92,829	\$121,653	0.4%
334	Computer and Electronic Product Manufacturing	\$733,327	\$1,746,236	\$4,487,954	\$6,967,517	\$4,180,510	\$91,553	\$119,981	0.4%
323	Printing and Related Support Activities	\$1,176,875	\$631,346	\$4,098,848	\$5,907,069	\$3,544,241	\$77,619	\$101,720	0.3%
315	Apparel Manufacturing	\$598,185	\$195,002	\$4,192,872	\$4,986,059	\$2,991,635	\$65,517	\$85,860	0.3%
314	Textile Product Mills	\$742,904	\$2,152	\$4,405	\$749,461	\$449,677	\$9,848	\$12,906	0.0%
313	Textile Mills	\$0	\$525,229	\$15,000	\$540,229	\$324,137	\$7,099	\$9,303	0.0%
316	Leather and Allied Product Manufacturing	\$3,228	\$680	\$3,057	\$6,965	\$4,179	\$92	\$120	0.0%
	Total	\$219,872,901	\$480,420,323	\$1,021,209,285	\$1,721,502,509	\$1,032,901,505	\$22,620,543	\$29,644,273	100.0%