

# Qualified Equity And Subordinated Debt Investments Credit

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## To Qualify

This credit is available to individual and fiduciary taxpayers making a qualified investment in the form of "equity" or "subordinated debt" in a pre-qualified small business venture. Businesses must file [Form QBA](#) by December 31 of the year that they request qualification. The business must reapply each year to maintain qualification. Investors must file [Form EDC](#) by April 1 of the year following the investment to apply for their credit. Submitting a late application will disqualify you for the credit. All applications must be sent to the Virginia Department of Taxation, Tax Credit Unit, P. O. Box 715, Richmond, VA 23218 - 0715. The Department of Taxation will notify investors of the amount of their authorized credit by June 30th.

## Qualified Investment

Qualified investment means a cash investment in a qualified business in the form of equity or subordinated debt; however, an investment shall not be qualified if the taxpayer who holds such investment, or any of such taxpayer's family members, or any entity affiliated with such taxpayer, receives or has received compensation from the qualified business in exchange for services provided to such business as an employee, officer, director, manager, independent contractor or otherwise in connection with or within one year before or after the date of such investment. For the purposes hereof, reimbursement of reasonable expenses incurred shall not be deemed to be compensation.

## Commercialization Investment

Commercialization investment means a qualified investment in a qualified business that was created to commercialize research developed at or in partnership with an institution of higher education.

## Equity

Equity means common stock or preferred stock, regardless of class or series, of a corporation; a partnership interest in a limited partnership; or a membership interest in a limited liability company, which is not required or subject to an option on the part of the taxpayer to be redeemed by the issuer within 3 years from the date of issuance. No equity investment will qualify for this credit if it is required to be redeemed or subject to an option to be redeemed by the issuer within 5 years of the date of issuance.

## Subordinated Debt

Subordinated debt means indebtedness of a corporation, general or limited partnership, or limited liability company that (i) by its terms required no repayment of principal for the first 3 years after issuance; (ii) is not guaranteed by any other person or secured by any assets of the issuer or any other person; and (iii) is subordinated to all indebtedness

and obligations of the issuer to national or state-chartered banking or savings and loan institutions.

### Qualified Business

Effective January 1, 2009 a qualified business means a business which (i) has annual gross revenues of no more than \$3 million in its most recent fiscal year, (ii) has its principal office or facility in the Commonwealth, (iii) is engaged in business primarily in or does substantially all of its production in the Commonwealth, (iv) has not obtained during its existence more than \$3 million in aggregate gross cash proceeds from the issuance of its equity or debt investments (not including commercial loans from chartered banking or savings and loan institutions), and (v) is primarily engaged, or is primarily organized to engage, in the fields of advanced computing, advanced materials, advanced manufacturing, agricultural technologies, biotechnology, electronic device technology, energy, environmental technology, information technology, medical device technology, nanotechnology, or any similar technology-related field determined by regulation by the Department of Taxation to fall under the purview of this section.

### How Much is the Credit?

The credit is equal to 50% of the qualified business investments made during the taxable year. If total annual requests for the credit exceed \$5 million for tax year 2015, the Department of Taxation will prorate the credit for each taxpayer.

The credit a taxpayer may claim per taxable year may not exceed the credit authorized by the Department of Taxation, \$50,000, or the income tax liability on that year's return, whichever is less. The credit is nonrefundable. Unused credits may be carried forward up to 15 years.

This credit may be allocated among owners in proportion to each owner's percentage of ownership or interest in the pass-through entity, or as the owners mutually agree, or as provided in the partnership agreement or other entity document using [Form PTE](#) within 30 days after the credit is granted but at least 90 days before filing an income tax return.

### To Claim the Credit

Complete Schedule CR, Section 1, Part 15, to claim this credit. Please note: Since the Department of Taxation does not complete authorization of these credits until June 30 each year, it will be necessary for the taxpayers with a May 1 due date to either file for an extension, or file an amended return in order to claim this credit.

Reference: [Virginia Code 58.1 - 339.4](#).