

INSTRUCTIONS FOR PREPARING FORM 500- EC

VIRGINIA COOPERATIVE MODIFIED NET INCOME TAX RETURNS FOR 2007

SPECIFIC INSTRUCTIONS FOR FORM 500-EC, PAGE 1

Fiscal Year Filers or Short Year Filers: Complete this line only if your taxable year is not from January 1 to December 31.

Complete the required information as requested in spaces provided at the top of page one. Be sure that name, address, federal employer identification number, Virginia corporation account number, etc., are correctly reported. Check the "Final Return" box if no further Virginia income tax return is required for any taxable year.

- Line 1** Enter the total revenue received from electricity sales in Virginia.
- Line 2** Enter the total revenue received from electricity sales to members in Virginia.
- Line 3** Subtract line 2 from line 1.
- Line 4** Enter the nonmember share of ordinary and necessary expenses from Page 2, Part I, line 22 or line 25.
- Line 5** Modified Net Income: Subtract line 4 from line 3.
- Line 6** Tax: Multiply the modified net income on line 5 by 6%.
- Line 7** Enter the total tax credits (nonrefundable and refundable credits) from Form 500 CR, line 100 plus line 108. **See special adjustment at the end of these instructions for credit amount adjustment prior to finishing the computation on Form 500 CR.**
- Line 8** Modified Net Income Tax: Subtract line 7 from line 6. Also, enter on line 5 of Schedule 500-MT.
- Line 8a** Enter the amount from line 12, Schedule 500-MT.
- Line 9** Payment Credits:
- (a) Enter the total amount of estimated income tax paid for 2007.
 - (b) Enter any extension payment made or any other payment not included in (a).
- Line 9** Add lines 9(a) and 9(b).
- Line 10** Tax Due: Subtract line 9 from line 8a (if applicable). This is the balance of the tax due.
- Line 11** Penalty:
- (a) Enter 6% of line 10 for each month or part of a month that the return is filed or payment is made after the due date (not to exceed 30% of line 10); or
 - (b) If an extension was granted and the balance of tax due exceeds 10% of the actual tax liability (line 8a), enter 2% per month or fraction thereof of the balance (line 10).

- Line 12** Interest: Enter the amount due at the underpayment rate established by Section 6621 of the Internal Revenue Code, plus 2%, from the due date of the return until payment. This underpayment rate is subject to quarterly adjustment. When penalty is entered under 11(a) above, interest is added from the due date to the date of payment.
- Line 13** Additional charge: Enter the amount from line 17, Form 500C.
- Line 14** Total Due: Enter the total of lines 10, 11, 12 and 13. This is the total amount due and must be paid when the return is filed. Attach Form 500V with payment due.
- Line 15** Overpayment: Enter the amount of overpayment if line 9 is larger than line 8a.
- Line 16** Amount to be Credited to 2008: Enter the amount of overpayment (from line 15) you want credited to your 2008 estimated tax, if any.
- Line 17** Amount to be Refunded: Subtract line 16 from line 15 and enter the amount to be refunded.

INSTRUCTIONS FOR FORM 500-EC, PAGE 2

PART I: Nonmember Ordinary and Necessary Expenses

Method 1

- Line 18** Enter expenses entirely attributable to electricity sales to nonmembers in Virginia. Please attach a schedule itemizing all expenses included in this figure.
- Line 19** Enter other expenses not entirely attributable to electricity sales to either members or nonmembers in Virginia.
- Line 20** Compute and enter nonmember sales ratio: nonmember sales divided by total sales.
- Line 21** Amount of other expenses allocated to electricity sales to nonmembers in Virginia. Multiply line 19 by line 20.
- Line 22** Nonmember share of expenses using method 1: line 18 plus line 21. (Enter here and on Line 4).

Method 2

- Line 23** Compute and enter nonmember sales ratio: nonmember sales divided by total sales.
- Line 24** Total expenses attributed to all electricity sales in Virginia.
- Line 25** Nonmember share of expenses using method 2 : line 23 times line 24. (Enter here and on Line 4).

**Special Instructions For Tax Credit Adjustment In
Connection With Form 500 CR (Credit Schedule)**

Each income tax credit available to the Electric Co-op must be prorated by the nonmember ratio in computing the allowable amount on Form 500 CR. You may use the worksheet below to compute the proper amount to enter on Schedule CR (each credit must be prorated separately).

- 1) Enter the amount of qualifying credit from the appropriate Part of Form 500 CR. (Do not include any carry-over credit on this line). _____
- 2) Enter Nonmember Ratio _____
- 3) Multiply line 1 by line 2
This is the current year credit amount. _____
- 4) Enter Carryover Credit From Prior Years. (Must be the prorated amount).
If first year, enter 0. _____
- 5) Add lines 3 and 4. This is the Credit Allowable This Year. Enter here and on the appropriate line of the claimed credit on Form 500 CR. _____

The carryover amount for each credit should be computed in the appropriate Part of Form 500 CR.