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SENATE BILL NO. 1319

Offered January 17, 2003

A BILL to amend and reenact § 58.1-322 of the Code of Virginia, relating to indexing the personal exemption amount in determining individual income tax liability.

Patrons—Rerras and Bolling

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:**1. That § 58.1-322 of the Code of Virginia is amended and reenacted as follows:**

§ 58.1-322. Virginia taxable income of residents.

A. The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, which excludes combat pay for certain members of the Armed Forces of the United States as provided in § 112 of the Internal Revenue Code, as amended, and with the modifications specified in this section.

B. To the extent excluded from federal adjusted gross income, there shall be added:

1. Interest, less related expenses to the extent not deducted in determining federal income, on obligations of any state other than Virginia, or of a political subdivision of any such other state unless created by compact or agreement to which Virginia is a party;

2. Interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes;

3. Unrelated business taxable income as defined by § 512 of the Internal Revenue Code;

4. The amount of a lump sum distribution from a qualified retirement plan, less the minimum distribution allowance and any amount excludable for federal income tax purposes which is excluded from federal adjusted gross income solely by virtue of an individual's election to use the averaging provisions under § 402 of the Internal Revenue Code;

5. through 7. [Repealed.]

8. For taxable years beginning on and after January 1, 1990, and before January 1, 1994, any amount of self-employment tax deduction under § 164 (f) of the Internal Revenue Code; and

9. The amount required to be included in income for the purpose of computing the partial tax on an accumulation distribution pursuant to § 667 of the Internal Revenue Code.

C. To the extent included in federal adjusted gross income, there shall be subtracted:

1. Income derived from obligations, or on the sale or exchange of obligations, of the United States and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States including, but not limited to, stocks, bonds, treasury bills, and treasury notes, but not including interest on refunds of federal taxes, interest on equipment purchase contracts, or interest on other normal business transactions.

2. Income derived from obligations, or on the sale or exchange of obligations of this Commonwealth or of any political subdivision or instrumentality of this Commonwealth.

3. [Repealed.]

4. Benefits received under Title II of the Social Security Act and other benefits subject to federal income taxation solely pursuant to § 86 of the Internal Revenue Code.

4a. Through December 31, 2000, the same amount used in computing the federal credit allowed under § 22 of the Internal Revenue Code by a retiree under age sixty-five who qualified for such retirement on the basis of permanent and total disability and who is a qualified individual as defined in § 22 (b) (2) of the Internal Revenue Code; however, any person who claims a deduction under subdivision 5 of subsection D of this section may not also claim a subtraction under this subdivision.

4b. For taxable years beginning on or after January 1, 2001, up to \$20,000 of disability income, as defined in § 22 (c) (2) (B) (iii) of the Internal Revenue Code; however, any person who claims a deduction under subdivision 5 of subsection D of this section may not also claim a subtraction under this subdivision.

5. The amount of any refund or credit for overpayment of income taxes imposed by the Commonwealth or any other taxing jurisdiction.

6. The amount of wages or salaries eligible for the federal Targeted Jobs Credit which was not deducted for federal purposes on account of the provisions of § 280C (a) of the Internal Revenue Code.

7. Any amount included therein which is foreign source income as defined in § 58.1-302.

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59 8. [Repealed.]

60 9. [Expired.]

61 10. Any amount included therein less than \$600 from a prize awarded by the State Lottery
62 Department.

63 11. The wages or salaries received by any person for active and inactive service in the National
64 Guard of the Commonwealth of Virginia, not to exceed the amount of income derived from thirty-nine
65 calendar days of such service or \$3,000, whichever amount is less; however, only those persons in the
66 ranks of O3 and below shall be entitled to the deductions specified herein.

67 12. Amounts received by an individual, not to exceed \$1,000 in any taxable year, as a reward for
68 information provided to a law-enforcement official or agency, or to a nonprofit corporation created
69 exclusively to assist such law-enforcement official or agency, in the apprehension and conviction of
70 perpetrators of crimes. This provision shall not apply to the following: an individual who is an employee
71 of, or under contract with, a law-enforcement agency, a victim or the perpetrator of the crime for which
72 the reward was paid, or any person who is compensated for the investigation of crimes or accidents.

73 13. [Repealed.]

74 14. (Expires for taxable years beginning on and after January 1, 2004.) The amount of any qualified
75 agricultural contribution as determined in § 58.1-322.2.

76 15. [Repealed.]

77 16. The amounts of self-employment tax required to be added in computing Virginia taxable income
78 for taxable years beginning on and after January 1, 1990, but before January 1, 1994, pursuant to
79 subdivision B 8 of this section, as follows:

80 a. For taxable years beginning on and after January 1, 1994, and before January 1, 1995, the amount
81 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
82 January 1, 1990, and before January 1, 1991;

83 b. For taxable years beginning on and after January 1, 1995, and before January 1, 1996, the amount
84 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
85 January 1, 1991, and before January 1, 1992;

86 c. For taxable years beginning on and after January 1, 1996, and before January 1, 1997, the amount
87 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
88 January 1, 1992, and before January 1, 1993;

89 d. For taxable years beginning on and after January 1, 1997, and before January 1, 1998, the amount
90 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
91 January 1, 1993, and before January 1, 1994, and any amount of self-employment tax required to be
92 added back for taxable years beginning on and after January 1, 1990, and before January 1, 1994, which
93 was not subtracted in those taxable years.

94 17. For taxable years beginning on and after January 1, 1995, the amount of "qualified research
95 expenses" or "basic research expenses" eligible for deduction for federal purposes, but which were not
96 deducted, on account of the provisions of § 280C(c) of the Internal Revenue Code and which shall be
97 available to partners, shareholders of S corporations, and members of limited liability companies to the
98 extent and in the same manner as other deductions may pass through to such partners, shareholders, and
99 members.

100 18. For taxable years beginning on or after January 1, 1995, all military pay and allowances, not
101 otherwise subtracted under this subsection, earned for any month during any part of which such member
102 performed military service in any part of the former Yugoslavia, including the air space above such
103 location or any waters subject to related naval operations, in support of Operation JOINT ENDEAVOR
104 as part of the NATO Peace Keeping Force. Such subtraction shall be available until the taxpayer
105 completes such service.

106 19. For taxable years beginning on and after January 1, 1996, any income received during the taxable
107 year derived from a qualified pension, profit-sharing, or stock bonus plan as described by § 401 of the
108 Internal Revenue Code, an individual retirement account or annuity established under § 408 of the
109 Internal Revenue Code, a deferred compensation plan as defined by § 457 of the Internal Revenue Code,
110 or any federal government retirement program, the contributions to which were deductible from the
111 taxpayer's federal adjusted gross income, but only to the extent the contributions to such plan or
112 program were subject to taxation under the income tax in another state.

113 20. For taxable years beginning on and after January 1, 1997, any income attributable to a
114 distribution of benefits or a refund from a prepaid tuition contract or savings trust account with the
115 Virginia College Savings Plan, created pursuant to Chapter 4.9 (§ 23-38.75 et seq.) of Title 23. The
116 subtraction for any income attributable to a refund shall be limited to income attributable to a refund in
117 the event of a beneficiary's death, disability, or receipt of a scholarship.

118 21. For taxable years beginning on or after January 1, 1998, all military pay and allowances, to the
119 extent included in federal adjusted gross income and not otherwise subtracted, deducted or exempted
120 under this section, earned by military personnel while serving by order of the President of the United

States with the consent of Congress in a combat zone or qualified hazardous duty area which is treated as a combat zone for federal tax purposes pursuant to § 112 of the Internal Revenue Code.

22. For taxable years beginning on or after January 1, 2000, the gain derived from the sale or exchange of real property or the sale or exchange of an easement to real property which results in the real property or the easement thereto being devoted to open-space use, as that term is defined in § 58.1-3230, for a period of time not less than thirty years. To the extent a subtraction is taken in accordance with this subdivision, no tax credit under this chapter for donating land for its preservation shall be allowed for three years following the year in which the subtraction is taken.

23. Effective for all taxable years beginning on or after January 1, 2000, \$15,000 of military basic pay for military service personnel on extended active duty for periods in excess of ninety days; however, the subtraction amount shall be reduced dollar-for-dollar by the amount which the taxpayer's military basic pay exceeds \$15,000 and shall be reduced to zero if such military basic pay amount is equal to or exceeds \$30,000.

24. Effective for all taxable years beginning on and after January 1, 2000, the first \$15,000 of salary for each federal and state employee whose annual salary is \$15,000 or less.

25. Unemployment benefits taxable pursuant to § 85 of the Internal Revenue Code.

26. For taxable years beginning on and after January 1, 2001, any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.

27. Effective for all taxable years beginning on and after January 1, 1999, income received as a result of (i) the "Master Settlement Agreement," as defined in § 3.1-1106; (ii) the National Tobacco Grower Settlement Trust dated July 19, 1999; and (iii) the Tobacco Loss Assistance Program, pursuant to 7 C.F.R. Part 1464 (Subpart C, §§ 1464.201 through 1464.205), by (a) tobacco farmers; (b) any person holding a tobacco marketing quota, or tobacco farm acreage allotment, under the Agricultural Adjustment Act of 1938; or (c) any person having the right to grow tobacco pursuant to such a quota or allotment, but only to the extent that such income has not been subtracted pursuant to subdivision C 18 of § 58.1-402.

28. For taxable years beginning on and after January 1, 2000, items of income attributable to, derived from or in any way related to (i) assets stolen from, hidden from or otherwise lost by an individual who was a victim or target of Nazi persecution or (ii) damages, reparations, or other consideration received by a victim or target of Nazi persecution to compensate such individual for performing labor against his will under the threat of death, during World War II and its prelude and direct aftermath. This subtraction shall not apply to assets acquired with such items of income or with the proceeds from the sale of assets stolen from, hidden from or otherwise lost to, during World War II and its prelude and direct aftermath, a victim or target of Nazi persecution. The provisions of this subdivision shall only apply to an individual who was the first recipient of such items of income and who was a victim or target of Nazi persecution, or a spouse, widow, widower, or child or stepchild of such victim.

"Victim or target of Nazi persecution" means any individual persecuted or targeted for persecution by the Nazi regime who had assets stolen from, hidden from or otherwise lost as a result of any act or omission in any way relating to (i) the Holocaust; (ii) World War II and its prelude and direct aftermath; (iii) transactions with or actions of the Nazi regime; (iv) treatment of refugees fleeing Nazi persecution; or (v) the holding of such assets by entities or persons in the Swiss Confederation during World War II and its prelude and aftermath. A victim or target of Nazi persecution shall also include any individual forced into labor against his will, under the threat of death, during World War II and its prelude and direct aftermath. As used in this subdivision, "Nazi regime" means the country of Nazi Germany, areas occupied by Nazi Germany, those European countries allied with Nazi Germany, or any other neutral European country or area in Europe under the influence or threat of Nazi invasion.

D. In computing Virginia taxable income there shall be deducted from federal adjusted gross income:

1. a. The amount allowable for itemized deductions for federal income tax purposes where the taxpayer has elected for the taxable year to itemize deductions on his federal return, but reduced by the amount of income taxes imposed by the Commonwealth or any other taxing jurisdiction and deducted on such federal return and increased by an amount which, when added to the amount deducted under § 170 of the Internal Revenue Code for mileage, results in a mileage deduction at the state level for such purposes at a rate of eighteen cents per mile; or

b. Two thousand dollars for taxable years beginning January 1, 1987, through December 31, 1987; \$2,700 for taxable years beginning January 1, 1988, through December 31, 1988; and \$5,000 for married persons (one-half of such amounts in the case of a married individual filing a separate return); and \$3,000 for single individuals for taxable years beginning on and after January 1, 1989; provided that the taxpayer has not itemized deductions for the taxable year on his federal income tax return. For purposes of this section, any person who may be claimed as a dependent on another taxpayer's return for the taxable year may compute the deduction only with respect to earned income.

182 2. a. A deduction in the amount of \$700 for taxable years beginning January 1, 1987, through
183 December 31, 1987, and \$800 for taxable years beginning on and after January 1, 1988, for each
184 personal exemption allowable to the taxpayer for federal income tax purposes. *For taxable years*
185 *beginning on and after January 1, 2005, this \$800 deduction shall be indexed annually by an amount*
186 *equal to the percentage increase in the consumer price index for all items for all urban consumers*
187 *(CPI-U) from October 1 through September 30 of the year immediately preceding the affected taxable*
188 *year.* For taxable years beginning on and after January 1, 1987, each blind or aged taxpayer as defined
189 under § 63 (f) of the Internal Revenue Code shall be entitled to an additional personal exemption.

190 b. An additional deduction of \$200 for taxable years beginning January 1, 1987, through December
191 31, 1987, for each blind or aged taxpayer as defined under § 63 (f) of the Internal Revenue Code. The
192 additional deduction for blind or aged taxpayers allowed under this subdivision and the *The* additional
193 personal exemption allowed to blind or aged taxpayers under subdivision 2 a of this subsection shall be
194 allowable regardless of whether the taxpayer itemizes deductions for the taxable year for federal income
195 tax purposes.

196 3. A deduction equal to the amount of employment-related expenses upon which the federal credit is
197 based under § 21 of the Internal Revenue Code for expenses for household and dependent care services
198 necessary for gainful employment.

199 4. An additional \$1,000 deduction for each child residing for the entire taxable year in a home under
200 permanent foster care placement as defined in § 63.2-908, provided the taxpayer can also claim the child
201 as a personal exemption under § 151 of the Internal Revenue Code.

202 5. Effective for all taxable years beginning on or after January 1, 1996, a deduction in the amount of
203 \$12,000 for taxpayers age sixty-five or older, or \$6,000 for taxpayers age sixty-two through sixty-four.

204 6. For taxable years beginning on and after January 1, 1997, the amount an individual pays as a fee
205 for an initial screening to become a possible bone marrow donor, if (i) the individual is not reimbursed
206 for such fee or (ii) the individual has not claimed a deduction for the payment of such fee on his federal
207 income tax return.

208 7. a. A deduction shall be allowed to the purchaser or contributor for the amount paid or contributed
209 during the taxable year for a prepaid tuition contract or savings trust account entered into with the
210 Virginia College Savings Plan, pursuant to Chapter 4.9 (§ 23-38.75 et seq.) of Title 23. Except as
211 provided in subdivision 7 c, the amount deducted on any individual income tax return in any taxable
212 year shall be limited to \$2,000 per prepaid tuition contract or savings trust account. No deduction shall
213 be allowed pursuant to this section if such payments or contributions are deducted on the purchaser's or
214 contributor's federal income tax return. If the purchase price or annual contribution to a savings trust
215 account exceeds \$2,000, the remainder may be carried forward and subtracted in future taxable years
216 until the purchase price or savings trust contribution has been fully deducted; however, except as
217 provided in subdivision 7 c, in no event shall the amount deducted in any taxable year exceed \$2,000
218 per contract or savings trust account. Notwithstanding the statute of limitations on assessments contained
219 in § 58.1-312, any deduction taken hereunder shall be subject to recapture in the taxable year or years in
220 which distributions or refunds are made for any reason other than (i) to pay qualified higher education
221 expenses, as defined in § 529 of the Internal Revenue Code or (ii) the beneficiary's death, disability, or
222 receipt of a scholarship. For the purposes of this subdivision, the term "purchaser" or "contributor"
223 means the person shown as such on the records of the Virginia College Savings Plan as of December 31
224 of the taxable year. In the case of a transfer of ownership of a prepaid tuition contract or savings trust
225 account, the transferee shall succeed to the transferor's tax attributes associated with a prepaid tuition
226 contract or savings trust account, including, but not limited to, carryover and recapture of deductions.

227 b. The amount paid for a prepaid tuition contract during taxable years beginning on or after January
228 1, 1996, but before January 1, 1998, shall be deducted in taxable years beginning on or after January 1,
229 1998, and shall be subject to the limitations set out in subdivision 7 a.

230 c. A purchaser of a prepaid tuition contract or contributor to a savings trust account who has attained
231 age seventy shall not be subject to the limitation that the amount of the deduction not exceed \$2,000 per
232 prepaid tuition contract or savings trust account in any taxable year. Such taxpayer shall be allowed a
233 deduction for the full amount paid for the contract or contributed to a savings trust account, less any
234 amounts previously deducted. If a prepaid tuition contract was purchased by such taxpayer during
235 taxable years beginning on or after January 1, 1996, but before January 1, 1998, such taxpayer may take
236 the deduction for the full amount paid during such years, less any amounts previously deducted with
237 respect to such payments, in taxable year 1999 or by filing an amended return for taxable year 1998.

238 8. For taxable years beginning on and after January 1, 2000, the total amount an individual actually
239 contributed in funds to the Virginia Public School Construction Grants Program and Fund, established in
240 Chapter 11.1 (§ 22.1-175.1 et seq.) of Title 22.1, provided the individual has not claimed a deduction for
241 such amount on his federal income tax return.

242 9. For taxable years beginning on and after January 1, 1999, an amount equal to twenty percent of
243 the tuition costs incurred by an individual employed as a primary or secondary school teacher licensed

pursuant to Chapter 15 (§ 22.1-289.1 et seq.) of Title 22.1 to attend continuing teacher education courses that are required as a condition of employment; however, the deduction provided by this subsection shall be available only if (i) the individual is not reimbursed for such tuition costs and (ii) the individual has not claimed a deduction for the payment of such tuition costs on his federal income tax return.

10. For taxable years beginning on and after January 1, 2000, the amount an individual pays annually in premiums for ~~long term~~ *long-term* health care insurance, provided the individual has not claimed a deduction for federal income tax purposes.

E. There shall be added to or subtracted from federal adjusted gross income, as the case may be, the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58.1-361.

F. There shall be added or subtracted, as the case may be, the amounts provided in § 58.1-315 as transitional modifications.