

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** David A. Nutter

2. **Bill Number** HB 428

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Tax administration: Filing of Tax Returns by
Military Personnel in Combat Zones

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would prohibit the Tax Commissioner from imposing interest or penalties and from performing collection actions with regard to tax returns of military personnel while such persons are serving in combat zones.

This bill is effective for taxable years beginning on or after January 1, 2006

6. No Fiscal Impact: (See Line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

Because TAX already provides extensions and waives penalties to military personnel operating in a combat zone, there is no revenue impact from this bill.

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Current Virginia Policy

Virginia law authorizes the Tax Commissioner to waive penalties and grant extensions. The Department has used this authority to administratively provide extensions and other tax benefits to members of the Armed Forces serving in areas designated as combat zones. For purposes of the Virginia extensions and other tax benefits, the term "combat zone" includes hazardous duty areas and contingency zones that qualify for similar federal extensions and tax benefits.

Members of the Armed Forces serving in a combat zone will receive either the same individual income tax filing and payment extensions as those granted to them by the IRS, plus an additional fifteen days, OR a one-year extension, whichever date is later. Federal law provides an automatic extension for individuals serving in the Armed Forces in areas of a combat zone, equal to all of the time of combatant activities in such zone, any time spent in continuous qualified hospitalization attributable to an injury received while serving in such zone, plus the next 180 days thereafter.

While the filing and payment obligations of a member of the Armed Forces are suspended because of service in a combat zone, Virginia also suspends the service member's obligation to make installment payments of estimated income tax. Virginia also suspends collection activities for any delinquent taxes attributable to other taxable years during the extension period. No penalty or interest will accrue during the extension period.

All extensions also apply to spouses of military personnel.

Members of the Armed Forces may be eligible for several other tax benefits in addition to those listed above. For example, combat pay will be totally excluded from Virginia taxable income for both enlisted personnel and officers, unlike federal law. Under current federal law, enlisted military personnel can exclude amounts received as compensation for active duty service in a combat zone. Federal law, however, grants only a limited exclusion to commissioned officers.

Proposal

This bill would partially codify existing administrative policies with regards to barring interest, penalties, and collection actions with regard to any state tax returns of military personnel while such personnel are serving in a combat zone.

cc : Secretary of Finance

Date: 01/27/2006 PTR
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