

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** R. Lee Ware, Jr.

3. **Committee** Senate Finance

4. **Title** Income Tax; Conformity to the Internal Revenue Code

2. **Bill Number** HB 1727

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from January 2, 2013 to December 31, 2014. This bill would allow Virginia to conform to the provisions of the Tax Increase Prevention Act of 2014 ("TIPA").

Because some taxpayers will be preparing their Virginia returns while the General Assembly is in session, **this bill contains an emergency clause** which states that it would be in force from its passage.

This is a Secretary of Finance Bill.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation considers implementation of this bill as routine, and is not requesting additional funding.

Revenue Impact

Because the advancement of Virginia's date of conformity to the IRC is assumed in the General Fund revenue forecast, this bill would have no impact on General Fund revenue. Failure to enact this bill would result in a General Fund revenue increase of \$76.1 million in Fiscal Year 2015, and \$77.1 million in Fiscal Year 2016. This revenue increase would be the result of Virginia not allowing taxpayers to utilize many long-standing federal tax preferences when filing their Virginia income tax returns.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Virginia's date of conformity to the IRC is currently fixed to the IRC as it existed on January 2, 2013. During the 2014 Session, the General Assembly did not advance Virginia's date of conformity. Because no federal legislation was enacted during Taxable Year 2013 that would impact the filing of Virginia income tax returns, it was not necessary to advance Virginia's date of conformity.

Federal Law

On December 19, 2014, Congress enacted TIPA. This legislation extended a number of expiring federal tax provisions including:

- The above-the-line deduction for certain expenses of elementary and secondary school teachers;
- Accelerated and bonus depreciation for certain property;
- The increased deduction for certain types of property pursuant to IRC § 179;
- The deduction for mortgage insurance premiums;
- The deduction for qualified tuition and related expenses;
- The deduction for state and local sales tax;
- The exclusion from gross income for individual retirement account (IRA) distributions for charitable purposes; and
- The exclusion from gross income for the discharge of qualified principal residence indebtedness.

When Congress enacted TIPA, it also incorporated the provisions of the Achieving a Better Life Experience Act of 2014. These provisions allow certain disabled individuals and their families to create a tax-free savings account, and use distributions from such account to pay qualified disability expenses on behalf of the disabled individual. Such expenses include, but are not limited to, education, housing, transportation, employment training and support, assistive technology, personal support services, health care expenses, financial management, and administrative services.

Unless Virginia advances the date of conformity, taxpayers who claimed these items on their 2014 federal income tax returns would be required to make adjustments when filing their Virginia income tax returns.

Proposed Legislation

This bill would advance Virginia's date of conformity to the IRC from January 2, 2013 to December 31, 2014. This would allow Virginia to conform to TIPA.

Virginia would continue to disallow any bonus depreciation allowed for certain assets under federal income taxation and any five year carry-back of NOLs allowed for NOLs generated in either Taxable Year 2008 or 2009. In addition, Virginia would continue to disallow the federal treatment of tax deductions related to applicable high yield discount obligations. Virginia would continue to deconform from any tax exclusions related to cancellation of debt income realized in connection with a reacquisition of business debt at a discount after December 31, 2008, and before January 1, 2011.

Because some taxpayers will be preparing their Virginia returns while the General Assembly is in session, this bill contains an emergency clause which states that it would be in force from its passage.

Similar Bills

Senate Bill 1044 is identical to this bill.

cc : Secretary of Finance

Date: 2/9/2015 MTH
HB1727F161