

# DEPARTMENT OF TAXATION

## 2017 Fiscal Impact Statement

1. **Patron** John S. Edwards

2. **Bill Number** SB 912

3. **Committee** House Finance

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

4. **Title** Virginia taxable income of residents;  
reorganization of additions, subtractions, and  
deductions

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

### 5. **Summary/Purpose:**

This bill would reorganize the provisions of the *Code of Virginia* related to the calculation of Virginia taxable income of residents. The bill would also delete several obsolete provisions and would make some technical changes. This bill would not make any substantive changes to the calculation of Virginia taxable income. The bill is a recommendation of the Virginia Code Commission.

The effective date of this bill is not specified.

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

7. **No Fiscal Impact.** (See Line 8.)

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

#### Revenue Impact

This bill would have no impact on General Fund revenues because it would not make any substantive changes to the calculation of Virginia taxable income. This bill would merely reorganize how the Virginia modifications are set out in the *Code of Virginia*, delete several obsolete provisions, and make some technical changes.

### 9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

## 11. Other comments:

### Virginia's Modifications under the Individual Income Tax

Virginia's Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income ("FAGI") as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates his Virginia adjusted gross income by making two types of modifications: (1) "additions" which increase the amount of income taxable by Virginia and (2) "subtractions" which reduce such amount. The taxpayer calculates his Virginia taxable income by making another type of modification referred to as "deductions," which further reduce the amount of income taxable by Virginia. This computation is shown below:

Federal Adjusted Gross Income ("FAGI")

+Virginia Additions

-Virginia Subtractions

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Virginia Adjusted Gross Income

-Virginia Deductions

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Virginia Taxable Income

The number of Virginia modifications has greatly increased over the years. In 1972, when Virginia first conformed to federal income tax law, there were 13 Virginia modifications. In 1984, when the Virginia tax code was recodified from Title 58 to Title 58.1, the number of Virginia modifications increased to 19. Today, the number of Virginia modifications is 53. Under current law, these 53 Virginia modifications are all contained in one lengthy code section, *Va. Code* § 58.1-322. Below, the number of Virginia modifications are shown for select years:

Year	Virginia Additions	Virginia Subtractions	Virginia Deductions	Other Virginia Modifications*	Total Virginia Modifications
1972	2	5	3	3	13
1984	6	8	3	2	19
1994	6	14	5	2	27
2004	5	25	10	2	42
2014	6	28	14	4	52
2017	7	28	14	4	53

\*"Other Virginia modifications" are modifications that must be made by taxpayers that sometimes increase their income subject to tax—in which case, they are reported as additions—and sometimes decrease their income subject to tax—in which case, they are reported as subtractions or deductions. Often, they are a result of timing differences between federal and Virginia individual income tax laws. For example, federal income tax law may require that certain items of income be taxed in the current taxable year, whereas Virginia income tax law may defer the taxation of such income until a future taxable year.

## Prior Reorganization of Virginia's Sales and Use Tax Exemptions

In 1993, the General Assembly enacted legislation reorganizing the provisions of the *Code of Virginia* related to exemptions from the Virginia Retail Sales and Use Tax. Pursuant to Senate Bill 587 (1993 *Acts of Assembly*, Chapter 310), Virginia's sales and use tax exemptions were reorganized into 11 different code sections instead of one, lengthy code section.

## Proposed Legislation

This bill would reorganize the provisions of the *Code of Virginia* related to the calculation of Virginia taxable income of residents. Current law sets out Virginia additions, subtractions, deductions, and other modifications in one lengthy section. The bill would create four new, smaller sections for Virginia additions, subtractions, deductions, and other modifications, respectively. The bill would also delete several obsolete provisions and would make some technical changes. This bill would not make any substantive changes to the calculation of Virginia taxable income. The bill is a recommendation of the Virginia Code Commission.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/3/2017 JJS  
SB912FE161