DEPARTMENT OF TAXATION
2019 Fiscal Impact Statement

1. Patron Thomas K. Norment, Jr.

2. Bill Number SB 1372
House of Origin:
_____ **Introduced**
__X__ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee Senate Finance

4. Title Commonwealth's Tax System; Conformity with Federal Law; Virginia Tax Policy Changes; Emergency

5. Summary/Purpose:

This bill would advance Virginia's date of conformity to the Internal Revenue Code ("IRC") from February 9, 2018 to December 31, 2018. This bill would also repeal language currently deconforming Virginia from most of the provisions of the Tax Cuts and Jobs Act ("the TCJA") and the Bipartisan Budget Act of 2018 ("the BBA") that affect Taxable Year 2018 and after. This would allow Virginia to fully conform to the TCJA. The portion of this bill amending Virginia's conformity statute would be effective for taxable years beginning on and after January 1, 2018.

This bill would increase the Virginia standard deduction from $3,000 to $4,500 for individuals and married taxpayers filing separately, and from $6,000 to $9,000 for married taxpayers filing joint returns. This portion of the bill would be effective for taxable years beginning on and after January 1, 2019, but before January 1, 2026.

This bill would provide an individual income tax deduction for up to $10,000 of the actual amount of real and personal property taxes imposed by Virginia or any other taxing jurisdiction not otherwise deducted solely on account of the $10,000 annual limitation imposed on the federal deduction for state and local taxes paid. This portion of the bill would be effective for taxable years beginning on and after January 1, 2019.

This bill would provide an individual and corporate income tax subtraction for 20 percent of the amount of business interest that is disallowed as a deduction for federal income tax purposes. This portion of the bill would be effective for taxable years beginning on and after January 1, 2018.

This bill would expand Virginia's existing corporate income tax subtraction for subpart F income so that it also applies to global intangible low-taxed income ("GILTI"). As a result, GILTI would be permitted to be subtracted for Virginia corporate income tax purposes to the extent it is included in a taxpayer's federal taxable income. This portion of the bill would be effective for taxable years beginning on and after January 1, 2018.

This bill would provide a refund of up to $110 to an individual or up to $220 to married persons filing a joint return. In order to receive a refund, the individual or married persons would be required to file a return before July 1, 2019. A refund would only be allowed up to the amount of such individual's or married person's tax liability after the application of any deductions, subtractions, or credits to which the individual or married persons are otherwise entitled. Refunds would be required to be issued on or after October 1, 2019, but before October 15, 2019.

This bill would require that any additional revenues generated by the TCJA from the collection of taxes for taxable years beginning on and after January 1, 2018, but before January 1, 2019, beyond those revenues reasonably expected to be collected absent the federal policy changes, and after refunds are issued pursuant to this bill, be transferred to the Tax Reform Fund. The General Assembly would be required to appropriate any revenues deposited in the Tax Reform Fund to effectuate temporary or permanent tax reform during the 2020-2022 biennium.

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.

6. **Budget amendment necessary:** Yes.
   Item(s): Page 1, Revenue Estimates

7. **Fiscal Impact Estimates are:** Available. (See Line 8.)
   7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2018-19	($532.1 million)	GF
2019-20	($438.7 million)	GF
2020-21	($301.5 million)	GF
2021-22	($309.2 million)	GF
2022-23	($317.8 million)	GF
2023-24	($325.9 million)	GF
2024-25	($333.5 million)	GF

8. **Fiscal implications:**

Administrative Costs

Due to uncertainty about the systems and processing changes that may be required for the 2018 and 2019 income tax filing seasons, the Department is unable to assign administrative costs to this bill at this time. However, the Department anticipates that it will incur administrative costs associated with issuing refund checks as required under this bill. The Department will reevaluate its costs once action is taken and may request additional funding.

Revenue Impact

The portion of this bill advancing Virginia's date of conformity would have an estimated positive revenue impact of $594.2 million in Fiscal Year 2019; $611.1 million in Fiscal Year 2020; $653.7 million in Fiscal Year 2021; $798.7 million in Fiscal Year 2022; $943.2 million in Fiscal Year 2023; $950.6 million in Fiscal Year 2024; and $943.1 million in Fiscal

Year 2025. No budget amendment would be necessary for this provision because the General Fund revenue impact of advancing Virginia's date of conformity is assumed in the Introduced Executive Budget.

The other changes provided in this bill would result in an estimated negative General Fund revenue impact of $532.1 million in Fiscal Year 2019; $438.7 million in Fiscal Year 2020; $301.5 million in Fiscal Year 2021; $309.2 million in Fiscal Year 2022; $317.8 million in Fiscal Year 2023; $325.9 million in Fiscal Year 2024; and $333.5 million in Fiscal Year 2025. If this bill is enacted, the budget would need to be adjusted to reduce the revenue estimate by $532.1 million in Fiscal Year 2019 and $438.7 million in Fiscal Year 2020. These revenue estimates assume adoption of the technical amendments set forth in Line 10 below.

The chart below shows the estimated impact (in millions) from the tax policy changes set forth in this bill:

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Standard deduction increase and deduction for real and personal property taxes	-	($415.3)	($277.4)	($283.7)	($290.7)	($297.8)	($304.4)
Subtraction 20% of the disallowed net interest deduction	($24.6)	($18.0)	($18.7)	($19.7)	($21.0)	($21.9)	($22.6)
Subpart F Subtraction Extended to GILTI	($7.1)	($5.4)	($5.5)	($5.8)	($6.0)	($6.3)	($6.5)
Total Impact	**($31.7)**	**($438.7)**	**($301.5)**	**($309.2)**	**($317.8)**	**($325.9)**	**($333.5)**

In addition, the proposed refund for individual and married taxpayers who file returns before July 1, 2019 would result in an estimated negative General Fund revenue impact of $419.4 million in Fiscal Year 2019. This estimate assumes that funds from Fiscal Year 2019 would be placed in a fund, to be distributed during Fiscal Year 2020.

This bill would require that any additional revenues generated by the TCJA from the collection of taxes for taxable years beginning on and after January 1, 2018, but before January 1, 2019, beyond those revenues reasonably expected to be collected absent the federal policy changes, and after refunds are issued pursuant to this bill, are required to be transferred to the Tax Reform Fund. As introduced, this legislation would not likely result in the transfer of revenues to the Tax Reform Fund. However, if this legislation is clarified to require the transfer of additional revenues generated by the individual provisions of the TCJA during Fiscal Year 2019, it is estimated that $81.1 million would be transferred to the Tax Reform Fund during Fiscal Year 2019.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

If the intent is that the individual income tax deduction for real and personal property taxes be uncapped for Virginia income tax purposes, the Department suggests the following technical amendment:

Line 377, after January 1, 2019,
Strike: up to $10,000 of

This bill would permit a taxpayer to subtract 20 percent of the disallowed business interest deduction to which they are otherwise entitled. However, this bill would not provide a corresponding individual and corporate income tax addition in the later taxable years when the taxpayer would be able to deduct the disallowed amounts for federal income tax purposes. Without such an offsetting addition, taxpayers would be allowed to subtract 20 percent of their disallowed business interest on their Virginia return in the first year, and then realize a double benefit going forward as their Virginia taxable income would be reduced to the extent they carried forward and deducted such interest in future taxable years. Accordingly, the Department recommends that a technical amendment be adopted to provide such an individual and corporate income tax addition.

It is the Department's understanding that the intent of this bill is to include additional revenues from the individual provisions of the TCJA for Fiscal Year 2019, after taking into account any reduction in revenues from this bill during Fiscal Year 2019. Additionally, it is the Department's understanding that the intent is to pay for the refund in the fourth enactment of this bill using revenues within the Tax Reform Fund. Therefore, the Department suggests the following technical amendments:

Line 750, end of line
Strike: Lines 751 through 757
Insert: 5. That an estimated amount equal to any additional revenues generated by the individual reform provisions contained in Subtitle A of Title I and §§ 13611-13613 of the federal Tax Cuts and Jobs Act, P.L. 115-97 (2017), from the collection of taxes during Fiscal Year 2019, beyond those revenues reasonably expected to be collected absent the federal policy changes, less the estimated reduction in revenues during Fiscal Year 2019 pursuant to the first enactment of this Act, shall be transferred to a special nonreverting fund hereby established and to be known as the "Tax Reform Fund." Such funds shall be used for the issuance of refunds pursuant to the fourth enactment of this Act. The General Assembly shall appropriate any revenues in the Tax Reform Fund remaining after refunds are issued pursuant to the fourth enactment of this Act to effectuate temporary or permanent tax reform during the 2020-2022 biennium.

11. Other comments:

Virginia's Conformity to Federal Tax Law

Virginia's date of conformity to the IRC is currently fixed to the IRC as it existed on February 9, 2018. Virginia law currently deconforms from the following IRC provisions:

- **Bonus depreciation allowed for certain assets under federal income taxation.** Taxpayers who claim bonus depreciation on their federal returns upon purchasing an asset are required to make adjustments on their Virginia returns for the taxable year in which they purchased such asset and in each subsequent year until the asset has been fully depreciated for federal and Virginia purposes.

- **The five-year carry-back of net operating losses ("NOLs") generated in certain taxable years**. Although no longer available, taxpayers who benefited from the use of a five-year carry-back on their federal returns for losses generated during 2008 and 2009 are required to make adjustments on their Virginia returns for the taxable year in which such losses were generated and in each subsequent year until all such losses have been fully utilized for both federal and Virginia purposes.

- **Tax exclusions related to cancellation of debt income**. Although no longer available, taxpayers who benefited from a deferral of income realized upon the reacquisition of certain business debt during 2009 and 2010 on their federal returns are required to make adjustments on their Virginia returns for the taxable year in which they deferred such income and in each subsequent year until such income is fully reported for both federal and Virginia purposes. However, for transactions completed on or before April 21, 2010, taxpayers were permitted to partially defer such income by reporting the income over three taxable years.

- **Tax deductions related to the application of the applicable high yield debt obligation rules**. Although no longer available, taxpayers who benefited from the suspension of the application of the applicable high yield debt obligation rules for certain debts issued between September 30, 2008 and December 31, 2009 on their federal returns, are required to make adjustments on their Virginia returns for the taxable year in which they claimed a deduction and in each subsequent year until such deductions are fully claimed for both federal and Virginia purposes.

In addition to these IRC provisions from which Virginia has historically deconformed, the General Assembly enacted legislation during the 2018 Session that deconformed Virginia from:

- The provision of the TCJA that temporarily increased the medical expenses deduction for Taxable Years 2017 and 2018; and
- All of the provisions of the TCJA and the Bipartisan Budget Act of 2018 that affect Taxable Year 2018 and after other than the provision of the TCJA providing tax relief for specified 2016 disaster areas and the provision extending combat zone

benefits to members of the armed forces performing services in the Sinai Peninsula of Egypt.

Federal Law Regarding Standard and Itemized Deductions

When completing their federal income tax return, taxpayers are generally allowed to elect to claim either the total amount of their itemized deductions or the flat amount of their standard deduction. Taxpayers will generally choose to deduct the greater of the two amounts.

Federal Standard Deduction

The standard deduction is a fixed dollar amount that reduces a taxpayer's taxable income and varies according to their filing status. The current amount of the federal standard deduction is $12,000 for single taxpayers; $18,000 for heads of household; and $24,000 for married taxpayers filing jointly.

The federal standard deduction amounts have increased significantly since 1988. The federal Tax Reform Act of 1986 increased the standard deduction amount for Taxable Year 1988 to $3,000 for individuals; $4,400 for heads of household; and $5,000 for married taxpayers filing jointly. The Act also required, beginning in Taxable Year 1989, the Internal Revenue Service to adjust the amount of such deduction annually for inflation based on the percentage change in the Consumer Price Index for Urban Consumers ("CPI-U") for the preceding calendar year. Because of these inflation adjustments, the federal standard deduction increased annually from Taxable Year 1988 through Taxable Year 2002. For Taxable Year 2002, the standard deduction amounts were $4,700 for individuals; $6,900 for heads of household; and $7,850 for married taxpayers filing jointly.

The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the standard deduction for married couples filing jointly to $9,500, which was equal to twice the standard deduction for single taxpayers. This was intended to eliminate the standard deduction marriage penalty. From 2003 until 2017, the federal standard deduction continued to increase annually due to inflation adjustments. For Taxable Year 2017, the standard deduction amounts were $6,350 for individuals; $9,350 for heads of household; and $12,700 for married taxpayers filing jointly.

On December 22, 2017, Congress enacted the TCJA, which substantially increased the federal standard deduction amounts beginning with Taxable Year 2018 as follows:

- From $6,350 to $12,000 for single taxpayers;
- From $9,350 to $18,000 for heads of household; and
- From $12,700 to $24,000 for married taxpayers filing jointly.

In addition, beginning with Taxable Year 2019, the Internal Revenue Service is required to adjust the standard deduction amount based upon a new inflation measure, chained CPI-U.

Like the majority of the individual provisions of the TCJA, the increase in the federal standard deduction is currently scheduled to sunset after December 31, 2025, and revert to its pre-2018 amounts. Future legislation would be required to make such increases effective beyond Taxable Year 2025. However, the 2025 sunset date does not apply to the TCJA's substitution of a new inflation measure for indexing the federal standard deduction and other provisions.

Federal Itemized Deductions Generally

In lieu of deducting the standard deduction amount, taxpayers may elect to claim up to approximately a dozen separate deductions, referred to as "itemized deductions," on their federal return to the extent that they qualify for such deductions. The rationale for each itemized deduction is generally to take account of large or unusual personal expenditures that affect a taxpayer's ability to pay. Certain itemized deductions are also provided as a way of encouraging certain desired behaviors and activities. The most common expenses that may be claimed as an itemized deduction include:

- Home mortgage interest;
- State and local income taxes or sales taxes (but not both);
- Real estate and personal property taxes;
- Gifts to charities;
- Casualty or theft losses;
- Unreimbursed medical expenses; and
- Unreimbursed employee business expenses.

The TCJA included a number of provisions that greatly limit or repeal certain federal itemized deductions.

Itemized Deduction for State and Local Taxes

Under federal law, a deduction may be claimed for state and local taxes, such as income or sales tax (but not both), real estate tax, and personal property tax. Prior to the TCJA, taxpayers' deductions for state and local taxes were generally unlimited. For taxable years beginning January 1, 2018, but before January 1, 2026, the TCJA limited the deduction for state and local taxes which are not paid or accrued in carrying on a trade or business or an activity to $10,000 per taxable year.

<u>Virginia Law Regarding Standard and Itemized Deductions</u>

When completing their Virginia income tax returns, taxpayers are bound by the election they made for federal purposes regarding whether to claim a standard deduction or to itemize their deductions. Therefore, if they claimed the standard deduction on their federal income tax return, they are not allowed to claim itemized deductions on their Virginia return. In contrast, if they claimed itemized deductions on their federal income tax return, they are not allowed to claim the standard deduction on their Virginia return.

Virginia's Standard Deduction

Taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. The current amount of the

Virginia standard deduction is $3,000 for single individuals and $6,000 for married persons filing jointly. Virginia's standard deduction amounts increased from Taxable Year 1988 to the present, as shown below:

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Persons Filing Jointly
1987	$2,000	$2,000
1988	$2,700	$2,700
1989-2004	$3,000	$5,000
2005-present	$3,000	$6,000

During the 2005 Session, the General Assembly increased the standard deduction for married persons filing jointly from $5,000 to $6,000. This was intended to eliminate the standard deduction marriage penalty at the state level, similar to how this issue was addressed at the federal level. Since 2005, the Virginia standard deduction amounts have remained at $3,000 for single taxpayers and $6,000 for married taxpayers filing jointly.

Prior to 1987, the Virginia standard deduction was not a fixed amount. For example, in Taxable Year 1986, the Virginia standard deduction was 15 percent of a taxpayer's federal adjusted gross income with a $1,300 minimum and a $2,000 maximum.

Virginia Itemized Deductions

Taxpayers that elect to itemize their deductions for federal purposes are permitted to claim such deductions on their Virginia income tax return as well. The amount of itemized deductions that may be claimed on such return is equal to the:

- Federally allowable amount of itemized deductions, *minus*

- Amount claimed as a federal deduction for income taxes paid to Virginia or any other state, locality, foreign country, or other taxing jurisdiction, *plus*

- Amount needed to increase the amount deducted federally for charitable contribution transportation to 18¢ per mile.

Virginia and the Itemized Deduction for State and Local Taxes

Virginia permits taxpayers that elect to itemize their deductions for federal income purposes to claim the federal deduction for state and local taxes on their Virginia income tax return. However, Virginia does not permit a taxpayer to deduct income taxes paid to Virginia or any other taxing jurisdiction. Therefore, for Virginia income tax purposes, the federal itemized deduction for state and local taxes is required to be reduced to the extent this limitation applies.

Bipartisan Budget Act of 2018

On February 9, 2018, the BBA was signed into law by Congress. In addition to providing a continuing resolution to fund the federal government, the BBA extends more than 30 tax provisions, commonly known as "extenders," which had expired at the end of 2016, so that they apply to Taxable Year 2017. The law expands the tax relief previously provided to victims of Hurricanes Harvey, Irma, and Maria so that it applies to victims of the 2017 California wildfires, clarifies the definition of "disaster areas" for Hurricanes Irma and Harvey, and makes other changes.

Federal Business Interest Deduction

For federal income tax purposes, a taxpayer may claim a deduction for interest paid or accrued on certain debts related to their trades or businesses. Prior the enactment of the TCJA, only corporations were permitted to claim this deduction and it was not subject to a percentage limitation. Instead, the deduction was limited for certain types of interest if the taxpayer's debt-to-equity ratio exceeded 1.5 to 1.0 and the taxpayer's net interest expense exceeded 50 percent of the taxpayer's adjusted taxable income.

The TCJA permits all businesses, regardless of entity type, to claim the business interest deduction. However, the TCJA generally limited the amount of the deduction to the sum of a taxpayer's:

- Business interest income;
- 30 percent of a taxpayer's adjusted taxable income; and
- Floor plan financing interest.

For purposes of the deduction, "adjusted taxable income," is defined as the taxable income of the taxpayer without regard to:

- Items of income, gain, deduction or loss not allocable to a trade or business;
- Any business interest or business interest income;
- Any net operating loss deduction;
- Any "pass-through" deduction under Internal Revenue Code Section 199A; and
- For taxable years commencing prior to January 1, 2022, any depreciation, amortization or depletion deductions.

The business interest limitation does not apply to certain taxpayers including small businesses that have annual gross receipts for the three-taxable-year period ending with the prior taxable year equal to or less than $25 million. In addition, real property and farming businesses may opt out of the new limitation if they use the alternative depreciation system to depreciate certain property used in their businesses.

Global Intangible Low-Taxed Income

The TCJA made significant changes to the federal taxation of U.S. corporations and individuals that own stock in foreign corporations. Prior to the TCJA, domestic corporations as well as U.S. citizens and U.S. residents were required to report and pay tax on their worldwide income, which includes both their domestic and foreign income. Therefore, the U.S. tax system prior to the TCJA was referred to as a "worldwide system." Despite the apparent far-reaching nature of a worldwide system, some U.S. taxpayers were able to avoid U.S. tax on their foreign income by forming foreign corporations in the countries where they do business. Because foreign corporations are not considered U.S. corporations even if wholly owned by a U.S. parent, their foreign profits were not generally subject to U.S. taxation so long as they kept the profits abroad and did not distribute them to their domestic parent corporation.

The TCJA replaced the worldwide system for certain domestic corporations with what is referred to as a "territorial system." In this system, domestic corporations generally pay U.S. tax only on their domestic income and are exempt from U.S. tax on their foreign income. To prevent multinational firms from shifting their profits to low-tax countries, the TCJA included a provision that requires U.S. corporations and other U.S. shareholders that own stock in specified foreign corporations to pay federal income tax at reduced rates on certain abnormally high overseas profits, referred to as global intangible low-taxed income or "GILTI."

U.S. individuals and domestic corporations that are 10 percent-or-more owners that collectively own more than 50 percent of a foreign corporation, referred to as a "controlled foreign corporation" or "CFC," are required to pay tax on their GILTI. The GILTI inclusion is the taxpayer's aggregate net income from CFCs that exceeds a 10 percent return on the CFCs' tangible assets. Net income means the CFCs gross income less deductions, exclusive of income already taxed or exempted from U.S. tax in the current year. This may include, but is not limited to, Subpart F income, income effectively connected with a U.S. trade or business, and income subject to a high foreign effective tax rate. The 10 percent return on tangible assets is not counted for any CFC with a net loss.

Corporations are allowed a foreign tax credit on their federal income tax returns for foreign taxes allocable to their GILTI inclusion. Therefore, the GILTI inclusion is grossed up for the related foreign taxes. For corporations only, the GILTI inclusion plus the gross-up is reduced by 50 percent for Taxable Years 2018 through 2025 and by 37.5 percent for Taxable Years 2026 and after. The 50 percent or 37.5 percent reduction applies after net operating losses. Any unused excess reduction is lost and may not be carried forward.

Individuals are taxed on the full GILTI inclusion. However, such taxpayers may make an election to be taxed on the deemed income at corporate rates, including credits, which gives temporary relief until the earnings are actually repatriated.

Virginia Income Tax Incentives for Foreign Income

For corporate income tax purposes, Virginia generally exempts income from other countries. This is accomplished by allowing subtractions on the Virginia corporate income tax return for foreign source income and for subpart F income to the extent such income is included in and not otherwise subtracted from federal taxable income. However, GILTI does not currently qualify for either of these corporate income tax subtractions.

History of Virginia's Response to Federal Tax Reform

During the 1987 Session, the General Assembly enacted legislation in response to the federal Tax Reform Act of 1986 that increased the:

- Amounts of the personal exemption and standard deduction;
- Threshold for the top individual income tax rate bracket; and
- Individual income tax filing threshold.

This legislation also required excess revenues from federal tax reform to be set aside in a special fund for purposes of providing future tax relief.

During the 1989 Session, the General Assembly enacted legislation that utilized such revenue to provide a one-time, nonrefundable individual income tax credit in an amount equal to $35 per personal and dependent exemption claimed. Taxpayers with Virginia adjusted gross income of less than $17,000 for individuals and $34,000 for married persons filing joint returns received the full amount of the credit. The amount of the credit declined gradually based on a taxpayer's income in excess of such amounts so that a taxpayer with Virginia adjusted gross income greater than $34,000 for individuals and $68,000 for married persons filing joint returns received no credit.

During the 1989 Session, the General Assembly also enacted a smaller $22.50 tax credit for Taxable Year 1990 through Taxable Year 1993. However, this credit was repealed during the 1990 Session in order to instead eliminate the sales and use tax on nonprescription drugs.

Proposed Legislation

Advance Conformity to the Internal Revenue Code

This bill would advance Virginia's date of conformity to the IRC from February 9, 2018 to December 31, 2018. This bill would also repeal language currently deconforming Virginia from most of the provisions of the TCJA and the BBA that affect Taxable Year 2018 and after. This would allow Virginia to fully conform to the TCJA.

Virginia would continue to deconform from the following IRC provisions:

- Bonus depreciation allowed for certain assets under federal income taxation;
- The five-year NOLs generated in certain taxable years;
- Tax exclusions related to cancellation of debt income; and
- Tax deductions related to the application of the applicable high yield debt obligation rules.

This bill would delete obsolete language regarding Virginia's deconformity from the IRC § 199 domestic production activities deduction. Virginia partially deconformed from this deduction for Taxable Years 2010, 2011, and 2012. However, because Virginia fully conformed to this deduction beginning with Taxable Year 2013 and because the TCJA repealed the deduction beginning with Taxable Year 2018, this language is obsolete.

This portion of this bill amending Virginia's conformity statute would be effective for taxable years beginning on and after January 1, 2018.

Increase Virginia Standard Deduction

This bill would increase the Virginia standard deduction from $3,000 to $4,500 for individuals and married taxpayers filing separately, and from $6,000 to $9,000 for married taxpayers filing joint returns. This portion of the bill would be effective for taxable years beginning on and after January 1, 2019, but before January 1, 2026.

Additional State and Local Tax Deduction

This bill would provide an individual income tax deduction for up to $10,000 of the actual amount of real and personal property taxes imposed by Virginia or any other taxing jurisdiction not otherwise deducted solely on account of the $10,000 annual limitation imposed on the federal deduction for state and local taxes paid. This portion of the bill would be effective for taxable years beginning on and after January 1, 2019.

Business Interest Subtraction

This bill would provide an individual and corporate income tax subtraction for 20 percent of the amount of business interest that is disallowed as a deduction pursuant to the business interest limitation set forth in IRC § 163(j). This portion of the bill would be effective for taxable years beginning on and after January 1, 2018.

Global Intangible Low-Taxed Income Subtraction

The bill would expand Virginia's existing corporate income tax subtraction for subpart F income so that it also applies to GILTI. As a result, GILTI would be permitted to be subtracted for Virginia corporate income tax purposes to the extent it is included in a taxpayer's federal taxable income. This portion of the bill would be effective for taxable years beginning on and after January 1, 2018.

Refunds for Certain Taxable Year 2018 Return Filers

This bill would provide a refund of up to $110 to an individual or up to $220 to married persons filing a joint return. In order to receive a refund, the individual or married persons would be required to file a return before July 1, 2019. A refund would only be allowed up to the amount of such individual's or married person's tax liability after the application of any deductions, subtractions, or credits to which the individual or married persons are otherwise entitled. Refunds would be required to be issued on or after October 1, 2019, but before October 15, 2019.

Tax Reform Fund

This bill would require that any additional revenues generated by the TCJA from the collection of taxes for taxable years beginning on and after January 1, 2018, but before January 1, 2019, beyond those revenues reasonably expected to be collected absent the federal policy changes, and after refunds are issued pursuant to this bill, are required to be transferred to the Tax Reform Fund. The General Assembly would be required to appropriate any revenues deposited in the Tax Reform Fund to effectuate temporary or permanent tax reform during the 2020-2022 biennium.

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 Legislation

House Bill 2355 would advance Virginia's date of conformity to the IRC to December 31, 2018, and would require additional revenues from the temporary individual provisions of the TCJA for Fiscal Year 2019 and Fiscal Year 2020 be transferred to a fund and refunded to taxpayers that realized a Virginia tax increase as an indirect result of the TCJA.

House Bill 2529 would (i) increase Virginia's standard deduction from $3,000 to $4,000 for individuals and married persons filing separately, and from $6,000 to $8,000 for married taxpayers filing joint returns; (ii) provide that a taxpayer may elect either to claim the Virginia standard deduction or to itemize deductions on his or her Virginia return, regardless of whether the taxpayer elected to itemize deductions on his or her federal return; (iii) create a new individual income tax deduction for the amount of certain real property and personal property taxes not otherwise deducted on the state return solely on account of the federal limitation; and (iv) expand Virginia's existing corporate income tax subtraction for subpart F income so that it also applies to GILTI.

House Bill 1618, House Bill 1851, **House Bill 1980**, **House Bill 2086**, **House Bill 2110**, **House Bill 2673**, **House Bill 2701, House Bill 2704, House Bill 2708,** and **House Bill 2765** would make various, different tax policy changes.

cc : Secretary of Finance

Date: 2/1/2019 JJS
SB1372FS1161