

LD3281176

HOUSE BILL NO. 2249

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Joint Conference Committee
on February 20, 1995)

(Patron Prior to Substitute—Delegate Cranwell)

A BILL to amend and reenact § 58.1-302 of the Code of Virginia, relating to the definition of foreign source income.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-302 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-302. Definitions.

For the purpose of this chapter and unless otherwise required by the context:

"Affiliated" means two or more corporations subject to Virginia income taxes whose relationship to each other is such that (i) one corporation owns at least eighty percent of the voting stock of the other or others; or (ii) at least eighty percent of the voting stock of two or more corporations is owned by the same interests.

"Compensation" means wages, salaries, commissions and any other form of remuneration paid or accrued to employees for personal services.

"Corporation" includes associations, joint stock companies and insurance companies.

"Domicile" means the permanent place of residence of a taxpayer and the place to which he intends to return even though he may actually reside elsewhere. In determining domicile, consideration may be given to the applicant's expressed intent, conduct, and all attendant circumstances including, but not limited to, financial independence, business pursuits, employment, income sources, residence for federal income tax purposes, marital status, residence of parents, spouse and children, if any, leasehold, sites of personal and real property owned by the applicant, motor vehicle and other personal property registration, residence for purposes of voting as proven by registration to vote, if any, and such other factors as may reasonably be deemed necessary to determine the person's domicile.

"Foreign source income" means:

1. Interest, other than interest derived from sources within the United States;
2. Dividends, other than dividends derived from sources within the United States;
3. Rents, royalties, license, and technical fees from property located or services performed without the United States or from any interest in such property, including rents, royalties, or fees for the use of or the privilege of using without the United States any patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other like properties; and
4. Gains, profits, or other income from the sale of intangible or real property located without the United States ; and

5. *The amount of an individual's share of net income attributable to a foreign source qualified business unit of an electing small business corporation (S corporation). For purposes of this subsection, qualified business unit shall be defined by § 989 of the Internal Revenue Code, and the source of such income shall be determined in accordance with §§ 861, 862 and 987 of the Internal Revenue Code.*

In determining the source of "foreign source income," the provisions of §§ 861, 862, and 863 of the Internal Revenue Code shall be applied *except as specifically provided in subsection 5 above.*

"Income and deductions from Virginia sources" includes:

1. Items of income, gain, loss and deduction attributable to:
 - a. The ownership of any interest in real or tangible personal property in Virginia;
 - b. A business, trade, profession or occupation carried on in Virginia; or
 - c. Prizes paid by the Virginia Lottery Department, and gambling winnings from wagers placed or paid at a location in Virginia.
2. Income from intangible personal property, including annuities, dividends, interest, royalties and gains from the disposition of intangible personal property to the extent that such income is from property employed by the taxpayer in a business, trade, profession, or occupation carried on in Virginia.

"Individual" means all natural persons whether married or unmarried and fiduciaries acting for natural persons, but not fiduciaries acting for trusts or estates.

"Nonresident estate or trust" means an estate or trust which is not a resident estate or trust.

"Resident" applies only to natural persons and includes, for the purpose of determining liability for the taxes imposed by this chapter upon the income of any taxable year every person domiciled in Virginia at any time during the taxable year and every other person who, for an aggregate of more than 183 days of the taxable year, maintained his place of abode within Virginia, whether domiciled in Virginia or not. The word "resident" shall not include any member of the United States Congress who is domiciled in another state.

60 "Resident estate or trust" means:

- 61 1. The estate of a decedent who at his death was domiciled in the Commonwealth;
62 2. A trust created by will of a decedent who at his death was domiciled in the Commonwealth;
63 3. A trust created by, or consisting of property of a person domiciled in the Commonwealth; or
64 4. A trust or estate which is being administered in the Commonwealth.

65 "Sales" means all gross receipts of the corporation not allocated under § 58.1-407, except the sale or
66 other disposition of intangible property shall include only the net gain realized from the transaction.

67 "State" means for purposes of Article 10 of this chapter any state of the United States, the District of
68 Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, and any
69 foreign country.

70 "Trust" or "estate" means a trust or estate, or a fiduciary thereof, which is required to file a fiduciary
71 income tax return under the laws of the United States.

72 "Virginia fiduciary adjustment" means the net amount of the applicable modifications described in
73 § 58.1-322 (including subsection E thereof if the estate or trust is a beneficiary of another estate or trust)
74 which relate to items of income, gain, loss or deduction of an estate or trust. The fiduciary adjustment
75 shall not include the modification in subsection D of § 58.1-322, except that the amount of state income
76 taxes excluded from federal taxable income shall be included.

77 **2. That any changes in tax liability resulting from the amendment to the definition of foreign**
78 **source income in § 58.1-302 pursuant to this act for taxable years beginning (i) on and after**
79 **January 1, 1994, but before January 1, 1995, shall be reflected in returns filed for taxable year**
80 **1996 and (ii) on and after January 1, 1995, but before January 1, 1996, shall be reflected in**
81 **returns filed for taxable year 1997.**

82 **3. That the provisions of this act shall become effective on January 1, 1996.**