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SENATE BILL NO. 196

Offered January 17, 1996

A BILL to amend and reenact § 58.1-322 of the Code of Virginia, relating to the computation of Virginia taxable income.

Patrons—Miller, K.G., Benedetti, Hanger, Lambert, Martin, Norment and Williams; Delegates: Albo, Callahan, Drake, Dudley, Katzen, Landes, McDonnell, Nixon, O'Brien, Parrish, Reid, Wagner, Wardrup, Way and Wilkins

Referred to the Committee on Finance

Be it enacted by the General Assembly of Virginia:**1. That § 58.1-322 of the Code of Virginia is amended and reenacted as follows:**

§ 58.1-322. Virginia taxable income of residents.

A. The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, which excludes combat pay for certain members of the Armed Forces of the United States as provided in § 112 of the Internal Revenue Code, as amended, and with the modifications specified in this section.

B. To the extent excluded from federal adjusted gross income, there shall be added:

1. Interest, less related expenses to the extent not deducted in determining federal income, on obligations of any state other than Virginia, or of a political subdivision of any such other state unless created by compact or agreement to which Virginia is a party;

2. Interest or dividends, less related expenses to the extent not deducted in determining federal taxable income, on obligations or securities of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes;

3. Unrelated business taxable income as defined by § 512 of the Internal Revenue Code;

4. The amount of a lump sum distribution from a qualified retirement plan, less the minimum distribution allowance and any amount excludable for federal income tax purposes which is excluded from federal adjusted gross income solely by virtue of an individual's election to use the averaging provisions under § 402 of the Internal Revenue Code;

5. through 7. [Repealed.]

8. For taxable years beginning on and after January 1, 1990, and before January 1, 1994, any amount of self-employment tax deduction under § 164 (f) of the Internal Revenue Code; and

9. The amount required to be included in income for the purpose of computing the partial tax on an accumulation distribution pursuant to § 667 of the Internal Revenue Code.

C. To the extent included in federal adjusted gross income, there shall be subtracted:

1. Interest or dividends on obligations of the United States and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States including, but not limited to, stocks, bonds, treasury bills, and treasury notes, but not including interest on refunds of federal taxes, interest on equipment purchase contracts, or interest on other normal business transactions.

2. Interest on obligations of this Commonwealth or of any political subdivision or instrumentality of this Commonwealth.

3. [Repealed.]

4. Benefits received under Title II of the Social Security Act and other benefits subject to federal income taxation solely pursuant to § 86 of the Internal Revenue Code.

4a. A deduction equal to the amount used in computing the federal credit allowed under § 22 of the Internal Revenue Code by a retiree under age sixty-five who qualified for such retirement on the basis of permanent and total disability and who is a qualified individual as defined in § 22 (b) (2) of the Internal Revenue Code; however, any person who claims a subtraction under subdivision 5 of subsection D of this section may not also claim a deduction under this subdivision.

5. The amount of any refund or credit for overpayment of income taxes imposed by the Commonwealth or any other taxing jurisdiction.

6. The amount of wages or salaries eligible for the federal Targeted Jobs Credit which was not deducted for federal purposes on account of the provisions of § 280 C (a) of the Internal Revenue Code.

7. Any amount included therein which is foreign source income as defined in § 58.1-302.

8. For taxable years beginning after December 31, 1983, the available portion of total excess cost recovery as defined in former § 58.1-323 B and for taxable years beginning after December 31, 1987,

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SB196

60 the excess cost recovery amount specified in § 58.1-323.1 B.

61 9. [Expired.]

62 10. Any amount included therein less than \$600 from a prize awarded by the State Lottery
63 Department.

64 11. The wages or salaries received by any person for active and inactive service in the National
65 Guard of the Commonwealth of Virginia, not to exceed the amount of income derived from thirty-nine
66 calendar days of such service or \$3,000, whichever amount is less; however, only those persons in the
67 ranks of O3 and below shall be entitled to the deductions specified herein.

68 12. Amounts received by an individual, not to exceed \$1,000 in any taxable year, as a reward for
69 information provided to a law-enforcement official or agency, or to a nonprofit corporation created
70 exclusively to assist such law-enforcement official or agency, in the apprehension and conviction of
71 perpetrators of crimes. This provision shall not apply to the following: an individual who is an employee
72 of, or under contract with, a law-enforcement agency, a victim or the perpetrator of the crime for which
73 the reward was paid, or any person who is compensated for the investigation of crimes or accidents.

74 13. [Repealed.]

75 14. (Expires for taxable years beginning on and after January 1, 1999.) The amount of any qualified
76 agricultural contribution as determined in § 58.1-322.2.

77 15. [Repealed.]

78 16. The amounts of self-employment tax required to be added in computing Virginia taxable income
79 for taxable years beginning on and after January 1, 1990, but before January 1, 1994, pursuant to
80 subdivision B 8 of this section, as follows:

81 a. For taxable years beginning on and after January 1, 1994, and before January 1, 1995, the amount
82 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
83 January 1, 1990, and before January 1, 1991;

84 b. For taxable years beginning on and after January 1, 1995, and before January 1, 1996, the amount
85 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
86 January 1, 1991, and before January 1, 1992;

87 c. For taxable years beginning on and after January 1, 1996, and before January 1, 1997, the amount
88 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
89 January 1, 1992, and before January 1, 1993;

90 d. For taxable years beginning on and after January 1, 1997, and before January 1, 1998, the amount
91 of self-employment tax added to federal adjusted gross income in taxable years beginning on and after
92 January 1, 1993, and before January 1, 1994, and any amount of self-employment tax required to be
93 added back for taxable years beginning on and after January 1, 1990, and before January 1, 1994, which
94 was not subtracted in those taxable years.

95 17. For taxable years beginning on and after January 1, 1995, the amount of "qualified research
96 expenses" or "basic research expenses" eligible for deduction for federal purposes, but which were not
97 deducted, on account of the provisions of § 280 C (c) of the Internal Revenue Code and which shall be
98 available to partners, shareholders of S corporations, and members of limited liability companies to the
99 extent and in the same manner as other deductions may pass through to such partners, shareholders, and
100 members.

101 D. In computing Virginia taxable income there shall be deducted from federal adjusted gross income:

102 1. a. The amount allowable for itemized deductions for federal income tax purposes where the
103 taxpayer has elected for the taxable year to itemize deductions on his federal return, but reduced by the
104 amount of income taxes imposed by the Commonwealth or any other taxing jurisdiction and deducted
105 on such federal return and increased by an amount which, when added to the amount deducted under
106 § 170 of the Internal Revenue Code for mileage, results in a mileage deduction at the state level for
107 such purposes at a rate of eighteen cents per mile; or

108 b. Two thousand dollars for taxable years beginning January 1, 1987, through December 31, 1987;
109 \$2,700 for taxable years beginning January 1, 1988, through December 31, 1988; and \$5,000 for
110 married persons (one-half of such amounts in the case of a married individual filing a separate return);
111 and \$3,000 for single individuals for taxable years beginning on and after January 1, 1989; provided that
112 the taxpayer has not itemized deductions for the taxable year on his federal income tax return. For
113 purposes of this section, any person who may be claimed as a dependent on another taxpayer's return for
114 the taxable year may compute the deduction only with respect to earned income.

115 2. a. A deduction in the amount of \$700 for taxable years beginning January 1, 1987, through
116 December 31, 1987 ~~and~~; \$800 for taxable years beginning ~~on and after~~ January 1, 1988, ~~through~~
117 ~~December 31, 1995; \$1,600 for taxable years beginning January 1, 1996, through December 31, 1996;~~
118 ~~and \$2,400 for taxable years beginning on and after January 1, 1997, for each personal exemption~~
119 ~~allowable to the taxpayer for federal income tax purposes. For taxable years beginning on and after~~
120 ~~January 1, 1987, each blind or aged taxpayer as defined under § 63 (f) of the Internal Revenue Code~~
121 ~~shall be entitled to an additional personal exemption.~~

b. An additional deduction of ~~\$200~~ \$800 for taxable years beginning *on and after* January 1, 1987 through ~~December 31, 1987, 1988~~ for each blind or aged taxpayer as defined under § 63 (f) of the Internal Revenue Code. The additional deduction for blind or aged taxpayers allowed under this subdivision and the additional personal exemption allowed to blind or aged taxpayers under subdivision 2 a of this subsection shall be allowable regardless of whether the taxpayer itemized deductions for the taxable year for federal income tax purposes.

3. A deduction equal to the amount of employment-related expenses upon which the federal credit is based under § 21 of the Internal Revenue Code for expenses for household and dependent care services necessary for gainful employment.

4. An additional \$1,000 deduction for each child residing for the entire taxable year in a home under permanent foster care placement as defined in Chapter 10 (§ 63.1-195 et seq.) of Title 63.1, provided the taxpayer can also claim the child as a personal exemption under § 151 of the Internal Revenue Code.

5. Effective for all taxable years beginning on and after January 1, 1990, a deduction in the amount of \$12,000 for taxpayers age sixty-five or older, or \$6,000 for taxpayers age sixty-two through sixty-four, less any amount received pursuant to the (i) Social Security Act or (ii) Railroad Retirement Act and treated for federal income tax purposes as equivalent to social security. Beginning in taxable year 1992 through taxable year 1993, the \$12,000 and \$6,000 deduction amounts shall be indexed annually in each such taxable year by an amount equivalent to the most recent percentage increase in the social security wage base.

Effective for the taxable year beginning January 1, 1994, a deduction in the amount of \$12,944 for taxpayers age sixty-five or older, or \$6,472 for taxpayers age sixty-two through sixty-four. Effective for ~~the all taxable year years~~ beginning *on or after* January 1, 1995, a deduction in the amount of \$10,000 for taxpayers age sixty-five or older, or \$5,000 for taxpayers age sixty-two through sixty-four. ~~Effective for all taxable years beginning on or after January 1, 1996, a deduction in the amount of \$12,000 for taxpayers age sixty-five or older, or \$6,000 for taxpayers age sixty-two through sixty-four.~~

Beginning in taxable year 1995, the deduction under this subdivision shall not be reduced by any amount received pursuant to the (i) Social Security Act or (ii) Railroad Retirement Act and treated for federal income tax purposes as equivalent to social security.

E. There shall be added to or subtracted from federal adjusted gross income (as the case may be) the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58.1-361.

F. There shall be added or subtracted, as the case may be, the amounts provided in § 58.1-315 as transitional modifications.

2. That the provisions of this act shall be effective for taxable years beginning on and after January 1, 1996.