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**HOUSE BILL NO. 2782****AMENDMENT IN THE NATURE OF A SUBSTITUTE**(Proposed by the House Committee on Finance  
on January 30, 1997)

(Patron Prior to Substitute—Delegate Puller)

A *BILL to amend and reenact § 58.1-609.7 of the Code of Virginia and to amend the Code of Virginia by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.4, relating to state tax credits and exemptions.*

**Be it enacted by the General Assembly of Virginia:**

**1. That § 58.1-609.7 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.4 as follows:**

§ 58.1-339.4. *Earned-income credit.*

A. Any eligible individual whose earned income does not exceed \$16,000 for taxable years beginning on and after January 1, 1998, but before January 1, 2001, and \$18,000 for taxable years beginning on and after January 1, 2001, shall be allowed a credit for earned income as provided herein, against the tax levied pursuant to § 58.1-320, equal to a percentage of the earned income credit allowed under § 32 of the Internal Revenue Code of the same taxable year. For purposes of this section, the term "eligible individual" shall have the same meaning as provided in § 32(c)(1) of the Internal Revenue Code. An eligible individual whose credit exceeds his tax liability and who is a Virginia resident shall receive a refund equal to the amount the credit exceeds the tax liability.

B. The allowable credit amount shall be equal to a percentage of the federal earned income credit allowed the eligible individual for the taxable year under § 32(a)(1) of the Internal Revenue Code, using the percentages under § 32(b) with the limitation contained in § 32(a)(2), as follows:

1. Eligible individuals with earned income of \$11,000 or less shall be allowed a credit equal to the following percentage of the federal earned income credit: three and one-half percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999; six and one-half percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; seven and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; eight percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and eight and one-half percent for taxable years beginning on and after January 1, 2002;

2. Eligible individuals with earned income in excess of \$11,000 but not in excess of \$12,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: three percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999, six percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; six and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; seven percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and seven and one-half percent for taxable years beginning on and after January 1, 2002;

3. Eligible individuals with earned income in excess of \$12,000 but not in excess of \$13,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: two and one-half percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999; five percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; five and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; six percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and six and one-half percent for taxable years beginning on and after January 1, 2002;

4. Eligible individuals with earned income in excess of \$13,000 but not in excess of \$14,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: two percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999; four percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; four and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; five percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and five and one-half percent for taxable years beginning on and after January 1, 2002;

5. Eligible individuals with earned income in excess of \$14,000 but not in excess of \$15,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: one and one-half percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999; three percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; three and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; four percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and four and one-half percent for taxable years beginning on and after January 1, 2002;

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6. Eligible individuals with earned income in excess of \$15,000 but not in excess of \$16,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: one percent for taxable years beginning on and after January 1, 1998, but before January 1, 1999; two percent for taxable years beginning on and after January 1, 1999, but before January 1, 2000; two and one-half percent for taxable years beginning on and after January 1, 2000, but before January 1, 2001; three percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and three and one-half percent for taxable years beginning on and after January 1, 2002;

7. Eligible individuals with earned income in excess of \$16,000 but not in excess of \$17,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: two percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and two and one-half percent for taxable years beginning on and after January 1, 2002;

8. Eligible individuals with earned income in excess of \$17,000 but not in excess of \$18,000 shall be allowed a credit equal to the following percentage of the federal earned income credit: one percent for taxable years beginning on and after January 1, 2001, but before January 1, 2002; and one and one-half percent for taxable years beginning on and after January 1, 2002;

C. Nonresidents. In the case of a nonresident taxpayer, the amount of the credit allowed under this section shall not exceed the nonresident's Virginia tax liability.

D. Part-year residents. In the case of a part-year resident taxpayer whose credit exceeds his tax liability, any refund amount shall be limited to the amount of the excess multiplied by a fraction, the numerator of which is federal adjusted gross income for the period of Virginia residence, and the denominator of which is federal adjusted gross income for the entire taxable year.

§ 58.1-609.7. Medical-related exemptions.

The tax imposed by this chapter or pursuant to the authority granted in §§ 58.1-605 and 58.1-606 shall not apply to the following:

1. Medicines, drugs, hypodermic syringes, artificial eyes, contact lenses, eyeglasses and hearing aids dispensed by or sold on prescriptions or work orders of licensed physicians, dentists, optometrists, ophthalmologists, opticians, audiologists, hearing aid dealers and fitters, nurse practitioners, physician's assistants, and veterinarians; controlled drugs purchased for use by a licensed physician in his professional practice, regardless of whether such practice is organized as a sole proprietorship, partnership or professional corporation, or any other type of corporation in which the shareholders and operators are all licensed physicians engaged in the practice of medicine, but excluding hospitals, nursing homes, clinics, and similar corporations not otherwise exempt under this section; and samples of prescription drugs and medicines and their packaging distributed free of charge to authorized recipients in accordance with the Federal Food, Drug and Cosmetic Act (21 U.S.C.A. § 301 et seq., as amended). Any veterinarian dispensing or selling medicines or drugs on prescription shall be deemed to be the user or consumer of all such medicines and drugs.

2. Wheelchairs and parts therefor, braces, crutches, prosthetic devices, orthopedic appliances, catheters, urinary accessories, other durable medical equipment and devices, and related parts and supplies specifically designed for those products; and insulin and insulin syringes, and equipment, devices or chemical reagents which may be used by a diabetic to test or monitor blood or urine, when such items or parts are purchased by or on behalf of an individual for use by such individual. Durable medical equipment is equipment which (i) can withstand repeated use, (ii) is primarily and customarily used to serve a medical purpose, (iii) generally is not useful to a person in the absence of illness or injury, and (iv) is appropriate for use in the home.

3. Drugs and supplies used in hemodialysis and peritoneal dialysis.

4. Tangible personal property for use or consumption by a nonprofit hospital or a nonprofit licensed nursing home.

5. Tangible personal property for use or consumption by community health centers exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established for the purpose of providing health care services for areas of the Commonwealth containing a medically underserved population as defined by 42 U.S.C. § 254 c (b) (3).

6. Special equipment installed on a motor vehicle when purchased by a handicapped person to enable such person to operate the motor vehicle.

7. Tangible nonmedical personal property purchased by a nonprofit organization organized exclusively for the purpose of providing housing and ancillary assistance for individuals suffering from leukemia or oncological diseases, for other ill individuals, and for the families of such individuals during periods of medical treatment of such individuals at any hospital in the Commonwealth.

8. Tangible personal property purchased by a voluntary health organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and organized exclusively for the purpose of providing direct therapeutic and rehabilitative services, such as speech therapy, physical therapy, and camping and recreational activities, to the children and adults of this Commonwealth regardless of the nature of their disease or socio-economic position.

9. Special typewriters and computers and related parts and supplies specifically designed for those products used by handicapped persons to communicate when such equipment is prescribed by a licensed physician.

10. Tangible personal property purchased for use or consumption by health maintenance organizations licensed under Chapter 43 (§ 38.2-4300 et seq.) of Title 38.2 which are exempt from taxation under § 501 (c) (3) of the Internal Revenue Code.

11. Tangible personal property for use or consumption by a nonprofit, nonstock corporation which is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and which is organized under the laws of the Commonwealth exclusively for the purpose of conducting a clinic furnishing free health care services by licensed physicians and dentists.

12. Tangible personal property purchased for use or consumption by any nonprofit hospital cooperative or nonprofit hospital corporation organized and operated for the sole purpose of providing services exclusively to nonprofit hospitals. This exemption shall not apply to any nonprofit hospital, cooperative or nonprofit hospital corporation providing services of any kind or to any extent to other than nonprofit hospitals.

13. From July 1, 1989, through June 30, 1998, tangible personal property purchased for use or consumption by a nonprofit high blood pressure center which is used exclusively to provide medical assistance to indigent persons diagnosed with hypertension.

14. From July 1, 1989, through June 30, 1998, tangible personal property purchased for use or consumption by a tissue bank exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established for purposes of procuring, preserving, processing, allocating or distributing bones, organs, blood, skin and other human tissue to licensed physicians for clinical use.

15. *a. Beginning July 1, 1998, any nonprescription drugs and proprietary medicines purchased for the cure, mitigation, treatment, or prevention of disease in human beings any samples of nonprescription drugs and proprietary medicines for the cure, mitigation, treatment or prevention of disease in human beings designated free-of-charge by the manufacturer, including packaging materials and constituent elements and ingredients.*

*b. The terms "nonprescription drugs" and "proprietary medicines" shall be defined pursuant to regulations promulgated by the Department of Taxation. The exemption authorized in this subdivision shall not apply to cosmetics.*

16. From July 1, 1994, through June 30, 1998, tangible personal property purchased for use or consumption or sold by a volunteer medical services organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established to provide reconstructive surgery and related health care to indigent children and young adults in developing countries and the United States.

17. From July 1, 1995, through June 30, 1998, tangible personal property purchased for use or consumption by a nonprofit organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and organized exclusively for educational, scientific, and charitable purposes relating to the promotion of health within the boundaries of the Eighth Planning District established pursuant to § 15.1-1403, including (i) operating a medical clinic which shall provide services without charge or shall charge less than prevailing rates to those who are unable to obtain health care through conventional means and (ii) educating and providing information to the general public regarding the treatment and prevention of those conditions which commonly affect the poor.

18. From July 1, 1995, through June 30, 1998, equipment and supplies purchased for use or consumption by a nonprofit charitable organization which is exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and which is organized and operated exclusively for the purpose of providing charitable, long-distance, advanced life-support, air ambulance services for low-income medical patients in the Commonwealth.

19. From July 1, 1995, through June 30, 1998, tangible personal property purchased for use or consumption by a nonprofit organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code, organized exclusively to provide medical and psychological evaluations and direct therapeutic and rehabilitative medical and psychological treatment and services to child-abuse victims within the boundaries of the Twenty-third Planning District established pursuant to § 15.1-1403.

20. Through June 30, 1998, medical products and supplies, which are otherwise taxable, such as bandages, gauze dressings, incontinence products and wound-care products, when purchased by a Medicaid recipient through a Department of Medical Assistance Services provider agreement.

21. From July 1, 1995, through June 30, 1998, tangible personal property purchased for use or consumption by an organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code and established to provide a comprehensive network of medical and psycho-social treatment to adults, on both an inpatient and outpatient basis, or to adolescent patients in a residential setting, within the boundaries of the Fifteenth Planning District established pursuant to § 15.1-1403.

22. From July 1, 1996, through June 30, 1998, tangible personal property purchased for use or

183 consumption by an organization exempt from taxation under § 501 (c) (3) of the Internal Revenue Code  
184 and organized and operated primarily to benefit a medical college affiliated with a state university by  
185 providing support services to and conducting the professional practices of faculty members associated  
186 with such medical college.  
187 **2. That the provisions of this act shall be effective for taxable years beginning on and after**  
188 **January 1, 1998.**