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SENATE BILL NO. 1160

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Finance
on February 2, 1999)

(Patron Prior to Substitute—Senator Walker [SB 1160]; Senator Schrock [SB 803]; and Senator Marsh [SB 936])

*A BILL to amend and reenact § 58.1-322 of the Code of Virginia, relating to Virginia taxable income of residents.***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 [Repealed.]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. Income derived from obligations, or on the sale or exchange of 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. Income derived from obligations, or on the sale or exchange of 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, the excess cost recovery amount specified in § 58.1-323.1 B.

9. [Expired.]

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

60 Department.

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

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

71 13. [Repealed.]

72 14. (Expires for taxable years beginning on and after January 1, 2004.) The amount of any qualified
73 agricultural contribution as determined in § 58.1-322.2.

74 15. [Repealed.]

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

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

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

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

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

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

98 18. For taxable years beginning on or after January 1, 1995, all military pay and allowances, not
99 otherwise subtracted under this subsection, earned for any month during any part of which such member
100 performed military service in any part of the former Yugoslavia, including the air space above such
101 location or any waters subject to related naval operations, in support of Operation JOINT ENDEAVOR
102 as part of the NATO Peace Keeping Force. Such subtraction shall be available until the taxpayer
103 completes such service.

104 19. For taxable years beginning on and after January 1, 1996, any income received during the taxable
105 year derived from a qualified pension, profit-sharing, or stock bonus plan as described by § 401 of the
106 Internal Revenue Code, an individual retirement account or annuity established under § 408 of the
107 Internal Revenue Code, a deferred compensation plan as defined by § 457 of the Internal Revenue Code,
108 or any federal government retirement program, the contributions to which were deductible from the
109 taxpayer's federal adjusted gross income, but only to the extent the contributions to such plan or
110 program were subject to taxation under the income tax in another state.

111 20. For taxable years beginning on and after January 1, 1997, any income attributable to a
112 distribution of benefits or a refund from a prepaid tuition contract with the Virginia Higher Education
113 Tuition Trust Fund, created pursuant to Chapter 4.9 (§ 23-38.75 et seq.) of Title 23. The subtraction for
114 any income attributable to a refund shall be limited to income attributable to a refund in the event of a
115 beneficiary's death, disability, or receipt of a scholarship.

116 21. For taxable years beginning on or after January 1, 1998, all military pay and allowances, to the
117 extent included in federal adjusted gross income and not otherwise subtracted, deducted or exempted
118 under this section, earned by military personnel while serving by order of the President of the United
119 States with the consent of Congress in a combat zone or qualified hazardous duty area which is treated
120 as a combat zone for federal tax purposes pursuant to § 112 of the Internal Revenue Code.

121 22. *Effective for all taxable years beginning on or after January 1, 2000, \$15,000 of military basic*

pay for military service personnel on extended active duty for periods in excess of ninety days; however, the subtraction amount shall be reduced dollar-for-dollar by the amount which the taxpayer's military basic pay exceeds \$15,000 and shall be reduced to zero if such military basic pay amount is equal to or exceeds \$30,000.

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

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

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

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

b. An additional deduction of \$200 for taxable years beginning January 1, 1987, through December 31, 1987, 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 itemizes 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 taxable year beginning 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.

6. For taxable years beginning on and after January 1, 1997, the amount an individual pays as a fee for an initial screening to become a possible bone marrow donor, if (i) the individual is not reimbursed for such fee or (ii) the individual has not claimed a deduction for the payment of such fee on his federal income tax return.

7. a. (Effective for taxable years beginning on and after January 1, 1996.) A deduction shall be allowed to the purchaser for the amount paid during the taxable year for a prepaid tuition contract entered into with the Virginia Higher Education Tuition Trust Fund, pursuant to Chapter 4.9 (§ 23-38.75 et seq.) of Title 23. The amount deducted on any individual income tax return in any taxable year shall be limited to \$2,000 per prepaid tuition contract. No deduction shall be allowed pursuant to this section if such payments are deducted on the purchaser's federal income tax return. The deduction allowed

under this section shall not be transferable. If the purchase price exceeds \$2,000, the remainder may be carried forward and subtracted in future taxable years until the purchase price has been fully deducted; however, in no event shall the amount deducted in any taxable year exceed \$2,000 per contract. Notwithstanding the statute of limitations on assessments contained in § 58.1-312, any deduction taken hereunder shall be subject to recapture in the taxable year or years in which distributions or refunds are made for any reason other than (i) to pay qualified higher education expenses, as defined in § 529 of the Internal Revenue Code or (ii) the beneficiary's death, disability, or receipt of a scholarship.

b. (Effective for taxable years beginning on and after January 1, 1996.) The amount paid for a prepaid tuition contract during taxable years beginning on or after January 1, 1996, but before January 1, 1998, shall be deducted in taxable years beginning on or after January 1, 1998, and shall be subject to the limitations set out in subdivision 7 a.

8. For taxable years beginning on and after January 1, 2000, the total amount an individual actually contributed in funds to the Virginia Public School Construction Grants Program and Fund, established in Chapter 11.1 (§ 22.1-175.1 et seq.) of Title 22.1, provided the individual has not claimed a deduction for such amount on his federal income tax return.

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, 2000, unless one or more of the events listed in subsection C of § 58.1-3524 has occurred prior to such date. If any one of these events occurs before January 1, 2000, this act shall not become effective for taxable years beginning on and after January 1, 2000, but shall instead become effective for taxable years beginning on and after January 1 of the first year thereafter during which none of the events listed in subsection C of § 58.1-3524 has occurred during the immediately preceding calendar year.