

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Vivian E. Watts

2. **Bill Number** HB 1969

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Tax & Sales and Use Tax: Sunset Extensions

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would extend the sunset dates of numerous income tax and sales and use tax provisions that are set to expire between January 1, 2025 and January 1, 2026.

The following provisions expired on January 1, 2025:

- The eligible educator expenses deduction;
- The Reforestation and Afforestation Tax Credit;
- The apportionment modification for eligible companies;
- The Worker Training Tax Credit for manufacturing orientation, instruction, and training;
- The Recyclable Materials Processing Equipment and Alternative Recycling Tax Credit;
- The Green and Alternative Energy Job Creation Tax Credit;
- The Research and Development Tax Credit; and
- The Major Research and Development Tax Credit.

The following provisions are currently set to expire on July 1, 2025:

- The Worker Training Tax Credit for eligible worker training;
- The Major Business Facility Job Tax Credit;
- The Retail Sales and Use Tax exemption for gold, silver, and platinum bullion and legal tender coins;
- The Retail Sales and Use Tax exemption allowed for the purchase of printing materials by advertising businesses when the printed material is distributed outside Virginia;
- The Retail Sales and Use Tax exemption for parts, engines, and supplies used for maintaining, repairing, or reconditioning aircraft or any aircraft's avionics system, engine, or component parts; and
- Retail Sales and Use Tax exemption for prescription medicines and drugs purchased by veterinarians.

The following provisions are currently set to expire January 1, 2026:

- The individual income tax exclusion for the discharge of certain student loans for disabled military veterans;
- The refundable Virginia Earned Income Tax Credit;
- The elective Pass-through Entity Tax (“PTET”), its corresponding associated credit, and out-of-state credit for certain taxes paid by a PTE under another state’s substantially similar PTE tax structure;
- The Communities of Opportunity Tax Credit; and
- The Housing Opportunity Tax Credit (“HOTC”).

The sunset dates of all these tax provisions would be extended so that they expire on July 1, 2026.

If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

6. Budget amendment necessary: No.

7. No Fiscal Impact. (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

If the technical amendments on Line 10 are adopted, this bill would have no impact on General Fund revenues because the extension of sunset dates on tax provisions are generally assumed in the official General Fund revenue forecast.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. It is the Department’s understanding that the intent is to extend the income tax provisions through Taxable Year 2026. Because some taxpayers file on a fiscal year, rather than a calendar year, basis, sunset dates for income tax provisions set forth in the *Code of Virginia* are generally tied to taxable years beginning on or after January 1 of a particular year. Otherwise, some taxpayers could qualify for the relevant tax preferences for TY 2026 while others would not. Accordingly, the following line amendments are recommended:

Lines 45, 189, 237, 269, 296, 325, 371, 548, 556, 605, 675, 686, 732, 796, 916, 984, 1000, and 1001

Strike: July 1, 2026
Insert: January 1, 2027

Because the HOTC is subject to an overall program cap, the extension of the sunset date on the HOTC is not assumed in the official General Fund revenue forecast. The Department understands that the intent of this bill is to extend expiring provisions to the extent that their extension is already assumed in the official General Fund revenue forecast. To prevent this bill from having an unintended revenue impact, the following amendment is recommended:

Line 975, beginning of Line
Strike: Lines 975-1077

Similarly, for the provisions of this bill relating to apportionment by eligible companies in certain disadvantaged localities, the bill currently only amends *Va. Code* § 58.1-408 to advance the sunset date by a year. However, there are references in *Va. Code* § 58.1-405.1, which is not set forth in the bill, to the existing January 1, 2025 sunset date that would need to be updated to prevent any potential inconsistency.

11. Other comments:

Proposal

This bill would extend the sunset dates of numerous income tax and sales and use tax provisions that are set to expire between January 1, 2025 and January 1, 2026.

The following provisions expired on January 1, 2025:

- The eligible educator expenses deduction, which is an individual income tax deduction of up to \$500 for qualifying expenses paid or incurred by an eligible educator.
- The Reforestation and Afforestation Tax Credit, which is an individual income tax credit for expenses incurred by a taxpayer for the implementation of beneficial hardwood management practices. The credit is equal to the taxpayer's eligible expenditures up to \$1,000.
- The apportionment modification for eligible companies, which permits an eligible company that operates a qualified locality to elect to modify the application of Virginia's statutory three-factor method of apportionment by reducing the numerator of the property factor by an amount equal to the value of its property acquired in any qualified localities, reducing the numerator of the payroll factor by an amount equal to any payroll attributable to jobs created in any of such localities; and reducing the numerator of the sales factor by an amount equal to any sales in Virginia for the taxable year.
- The Worker Training Tax Credit for manufacturing orientation, instruction, and training, which is an individual and corporate income tax credit for businesses primarily engaged in manufacturing in an amount equal to 35 percent of its direct

costs incurred during the taxable year in conducting orientation, instruction, and training of certain students in Virginia relating to the manufacturing activities undertaken by the business.

- The Recyclable Materials Processing Equipment Tax Credit, which is a nonrefundable individual and corporate income tax credit for purchases made during the taxable year of machinery and equipment used predominantly in or on the premises of manufacturing facilities or plant units that manufacture, process, compound or produce items of tangible personal property from recyclable materials within Virginia for sale.
- The Green and Alternative Energy Job Creation Tax Credit, which is a nonrefundable individual and corporate income tax credit of \$500 for each new qualifying green job created in Virginia with a salary of \$50,000 or more.
- The Research and Development Tax Credit, which is a refundable individual and corporate income tax credit for conducting qualified research and development in Virginia.
- The Major Research and Development Tax Credit, which is a nonrefundable individual and corporate income tax credit for incurring more than \$5 million of Virginia qualified research and development expenses during a taxable year.

The following provisions are currently set to expire July 1, 2025:

- The Worker Training Tax Credit for eligible worker training, which is a credit against the individual income tax, estate and trust income tax, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies in an amount equal to 35 percent of expenses incurred by the business during the taxable year for eligible worker training.
- The Major Business Facility Job Tax Credit, which is a credit against the individual income tax, estate and trust income tax, corporate income tax, bank franchise tax, insurance premiums license tax for the creation of at least 50 new full-time jobs (25 jobs for a taxpayer located in an enterprise zone or economically distressed area) in connection with the establishment or expansion of a major business facility and the company is engaged in a qualifying industry in Virginia.
- The Retail Sales and Use Tax exemption for gold, silver, and platinum bullion and legal tender coins.
- The Retail Sales and Use Tax exemption allowed for the purchase of printing materials by advertising businesses when the printed material is distributed outside Virginia.
- The Retail Sales and Use Tax exemption for parts, engines, and supplies used for maintaining, repairing, or reconditioning aircraft or any aircraft's avionics system, engine, or component parts.
- The Retail Sales and Use Tax exemption for prescription medicines and drugs purchased by veterinarians.

The following provisions are currently set to expire January 1, 2026:

- The individual income tax exclusion for any amount includable in the federal adjusted gross income of veterans who have been rated with a 100 percent service-connected, permanent, and total disability by the U.S. Department of Veterans Affairs, by reason of the whole or partial discharge of certain student loans.
- The refundable Virginia Earned Income Tax Credit, which is a refundable individual income tax credit in the amount equal to 15 percent of the federal earned income tax credit amount claimed on the taxpayer's federal return.
- The elective Pass-through Entity Tax ("PTET"), which permits a pass-through entities ("PTE") to make an annual election to pay an elective income tax at a rate of 5.75 percent at the entity level, allows a corresponding refundable individual and fiduciary income tax credit to eligible owners of a PTE for PTET paid by the PTE, and allows taxpayers to claim Virginia's nonrefundable credit for taxes paid to other states ("out-of-state credit") on their individual income tax return for certain taxes paid by a PTE under another state's substantially similar PTE tax structure.
- The Communities of Opportunity Tax Credit, which is an individual and corporate income tax credit for landlords with qualified housing units located in census tracts located in Virginia with poverty rates of less than 10 percent.
- The Housing Opportunity Tax Credit, which is a credit against the individual income tax, estate and trust income tax, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies for certain low-income building projects in an amount substantially similar to the amount of federal low-income housing tax credit allocated or allowed by the Virginia Housing Development Authority to such projects.

The sunset dates of these tax provisions would be extended so that they expire on July 1, 2026. If enacted during the regular session of the 2025 General Assembly, this bill would become effective July 1, 2025.

Similar Legislation

House Bill 1701 and **Senate Bill 828** would extend the expiration date for the Housing Opportunity Tax Credit and makes other changes to the credit program, including increasing the cap amount.

House Bill 1698 and **Senate Bill 1369** would extend the sunset date for the Retail Sales and Use Tax exemption for prescription medicines and drugs purchased by veterinarians.

House Bill 1997 would extend the sunset date for the Pass-Through Entity Tax (PTET).

House Bill 2336 and **Senate Bill 1321** would extend the Retail Sales and Use Tax exemption for gold, silver, and platinum bullion and legal tender coins.

Senate Bill 782 would remove the sunset dates for the standard deduction increase and the refundability of the Earned Income Tax Credit (EITC).

Senate Bill 871 would extend the sunset date for the Retail Sales and Use Tax exemption allowed for the purchase of printing materials by advertising businesses when the printed material is distributed outside Virginia.

cc : Secretary of Finance

Date: 01/19/2025 JLOF
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