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HOUSE BILL NO. 1965
AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the House Committee on Finance
on _____)
(Patron Prior to Substitute—Delegate Tata)

A BILL to amend and reenact § 58.1-322.03 of the Code of Virginia, relating to income tax deduction; tips.

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-322.03 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-322.03. Virginia taxable income; deductions.

In computing Virginia taxable income pursuant to § 58.1-322, there shall be deducted from Virginia adjusted gross income as defined in § 58.1-321:

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 that, 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 18 cents per mile; or

b. Provided that the taxpayer has not itemized deductions for the taxable year on his federal income tax return: (i) for taxable years beginning before January 1, 2019, and on and after January 1, 2026, \$3,000 for single individuals and \$6,000 for married persons (one-half of such amounts in the case of a married individual filing a separate return); (ii) for taxable years beginning on and after January 1, 2019, but before January 1, 2022, \$4,500 for single individuals and \$9,000 for married persons (one-half of such amounts in the case of a married individual filing a separate return); (iii) for taxable years beginning on and after January 1, 2022, but before January 1, 2024, \$8,000 for single individuals and \$16,000 for married persons (one-half of such amounts in the case of a married individual filing a separate return); and (iv) for taxable years beginning on and after January 1, 2024, but before January 1, 2026, \$8,500 for single individuals and \$17,000 for married persons (one-half of such amounts in the case of a married individual filing a separate 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 \$930 for each personal exemption allowable to the taxpayer for federal

31 income tax purposes.

32 b. Each blind or aged taxpayer as defined under § 63(f) of the Internal Revenue Code shall be entitled to
33 an additional personal exemption in the amount of \$800.

34 The additional deduction for blind or aged taxpayers allowed under this subdivision shall be allowable
35 regardless of whether the taxpayer itemizes deductions for the taxable year for federal income tax purposes.

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

39 4. An additional \$1,000 deduction for each child residing for the entire taxable year in a home under
40 permanent foster care placement as defined in § 63.2-908, provided that the taxpayer can also claim the child
41 as a personal exemption under § 151 of the Internal Revenue Code.

42 5. a. A deduction in the amount of \$12,000 for individuals born on or before January 1, 1939.

43 b. A deduction in the amount of \$12,000 for individuals born after January 1, 1939, who have attained the
44 age of 65. This deduction shall be reduced by \$1 for every \$1 that the taxpayer's adjusted federal adjusted
45 gross income exceeds \$50,000 for single taxpayers or \$75,000 for married taxpayers. For married taxpayers
46 filing separately, the deduction shall be reduced by \$1 for every \$1 that the total combined adjusted federal
47 adjusted gross income of both spouses exceeds \$75,000.

48 For the purposes of this subdivision, "adjusted federal adjusted gross income" means federal adjusted
49 gross income minus any benefits received under Title II of the Social Security Act and other benefits subject
50 to federal income taxation solely pursuant to § 86 of the Internal Revenue Code, as amended.

51 6. The amount an individual pays as a fee for an initial screening to become a possible bone marrow
52 donor, if (i) the individual is not reimbursed for such fee or (ii) the individual has not claimed a deduction for
53 the payment of such fee on his federal income tax return.

54 7. a. A deduction shall be allowed to the purchaser or contributor for the amount paid or contributed
55 during the taxable year for a prepaid tuition contract or college savings trust account entered into with the
56 Commonwealth Savers Plan, pursuant to Chapter 7 (§ 23.1-700 et seq.) of Title 23.1. Except as provided in
57 subdivision b, the amount deducted on any individual income tax return in any taxable year shall be limited to
58 \$4,000 per prepaid tuition contract or college savings trust account. No deduction shall be allowed pursuant
59 to this subdivision 7 if such payments or contributions are deducted on the purchaser's or contributor's federal

60 income tax return. If the purchase price or annual contribution to a college savings trust account exceeds
61 \$4,000, the remainder may be carried forward and subtracted in future taxable years until the purchase price
62 or college savings trust contribution has been fully deducted; however, except as provided in subdivision b, in
63 no event shall the amount deducted in any taxable year exceed \$4,000 per contract or college savings trust
64 account. Notwithstanding the statute of limitations on assessments contained in § 58.1-312, any deduction
65 taken hereunder shall be subject to recapture in the taxable year or years in which distributions or refunds are
66 made for any reason other than (i) to pay qualified higher education expenses, as defined in § 529 of the
67 Internal Revenue Code or (ii) the beneficiary's death, disability, or receipt of a scholarship. For the purposes
68 of this subdivision, "purchaser" or "contributor" means the person shown as such on the records of the
69 Commonwealth Savers Plan as of December 31 of the taxable year. In the case of a transfer of ownership of a
70 prepaid tuition contract or college savings trust account, the transferee shall succeed to the transferor's tax
71 attributes associated with a prepaid tuition contract or college savings trust account, including, but not limited
72 to, carryover and recapture of deductions.

73 b. A purchaser of a prepaid tuition contract or contributor to a college savings trust account who has
74 attained age 70 shall not be subject to the limitation that the amount of the deduction not exceed \$4,000 per
75 prepaid tuition contract or college savings trust account in any taxable year. Such taxpayer shall be allowed a
76 deduction for the full amount paid for the contract or contributed to a college savings trust account, less any
77 amounts previously deducted.

78 8. The total amount an individual actually contributed in funds to the Virginia Public School Construction
79 Grants Program and Fund, established in Chapter 11.1 (§ 22.1-175.1 et seq.) of Title 22.1, provided that the
80 individual has not claimed a deduction for such amount on his federal income tax return.

81 9. An amount equal to 20 percent of the tuition costs incurred by an individual employed as a primary or
82 secondary school teacher licensed pursuant to Chapter 15 (§ 22.1-289.1 et seq.) of Title 22.1 to attend
83 continuing teacher education courses that are required as a condition of employment; however, the deduction
84 provided by this subdivision shall be available only if (i) the individual is not reimbursed for such tuition
85 costs and (ii) the individual has not claimed a deduction for the payment of such tuition costs on his federal
86 income tax return.

87 10. The amount an individual pays annually in premiums for long-term health care insurance, provided
88 that the individual has not claimed a deduction for federal income tax purposes, or, for taxable years

89 beginning before January 1, 2014, a credit under § 58.1-339.11. For taxable years beginning on and after
90 January 1, 2014, no such deduction for long-term health care insurance premiums paid by the individual
91 during the taxable year shall be allowed if the individual has claimed a federal income tax deduction for such
92 taxable year for long-term health care insurance premiums paid by him.

93 11. Contract payments to a producer of quota tobacco or a tobacco quota holder, or their spouses, as
94 provided under the American Jobs Creation Act of 2004 (P.L. 108-357), but only to the extent that such
95 payments have not been subtracted pursuant to subsection D of § 58.1-402, as follows:

96 a. If the payment is received in installment payments, then the recognized gain may be subtracted in the
97 taxable year immediately following the year in which the installment payment is received.

98 b. If the payment is received in a single payment, then 10 percent of the recognized gain may be
99 subtracted in the taxable year immediately following the year in which the single payment is received. The
100 taxpayer may then deduct an equal amount in each of the nine succeeding taxable years.

101 12. An amount equal to 20 percent of the sum paid by an individual pursuant to Chapter 6 (§ 58.1-600 et
102 seq.), not to exceed \$500 in each taxable year, in purchasing for his own use the following items of tangible
103 personal property: (i) any clothes washers, room air conditioners, dishwashers, and standard size refrigerators
104 that meet or exceed the applicable energy star efficiency requirements developed by the U.S. Environmental
105 Protection Agency and the U.S. Department of Energy; (ii) any fuel cell that (a) generates electricity using an
106 electrochemical process, (b) has an electricity-only generation efficiency greater than 35 percent, and (c) has
107 a generating capacity of at least two kilowatts; (iii) any gas heat pump that has a coefficient of performance
108 of at least 1.25 for heating and at least 0.70 for cooling; (iv) any electric heat pump hot water heater that
109 yields an energy factor of at least 1.7; (v) any electric heat pump that has a heating system performance factor
110 of at least 8.0 and a cooling seasonal energy efficiency ratio of at least 13.0; (vi) any central air conditioner
111 that has a cooling seasonal energy efficiency ratio of at least 13.5; (vii) any advanced gas or oil water heater
112 that has an energy factor of at least 0.65; (viii) any advanced oil-fired boiler with a minimum annual
113 fuel-utilization rating of 85; (ix) any advanced oil-fired furnace with a minimum annual fuel-utilization rating
114 of 85; and (x) programmable thermostats.

115 13. The lesser of \$5,000 or the amount actually paid by a living donor of an organ or other living tissue
116 for unreimbursed out-of-pocket expenses directly related to the donation that arose within 12 months of such
117 donation, provided that the donor has not taken a medical deduction in accordance with the provisions of §

118 213 of the Internal Revenue Code for such expenses. The deduction may be taken in the taxable year in
119 which the donation is made or the taxable year in which the 12-month period expires.

120 14. For taxable years beginning on and after January 1, 2013, the amount an individual age 66 or older
121 with earned income of at least \$20,000 for the year and federal adjusted gross income not in excess of
122 \$30,000 for the year pays annually in premiums for (i) a prepaid funeral insurance policy covering the
123 individual or (ii) medical or dental insurance for any person for whom individual tax filers may claim a
124 deduction for such premiums under federal income tax laws. As used in this subdivision, "earned income"
125 means the same as that term is defined in § 32(c) of the Internal Revenue Code. The deduction shall not be
126 allowed for any portion of such premiums paid for which the individual has (a) been reimbursed, (b) claimed
127 a deduction for federal income tax purposes, (c) claimed a deduction or subtraction under another provision
128 of this section, or (d) claimed a federal income tax credit or any income tax credit pursuant to this chapter.

129 15. Business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code:

130 a. For taxable years beginning on and after January 1, 2018, but before January 1, 2022, 20 percent of
131 such disallowed business interest;

132 b. For taxable years beginning on and after January 1, 2022, but before January 1, 2024, 30 percent of
133 such disallowed business interest;

134 c. For taxable years beginning on and after January 2, 2024, 50 percent of such disallowed business
135 interest.

136 For purposes of subdivision 15, "business interest" means the same as that term is defined under § 163(j)
137 of the Internal Revenue Code.

138 16. For taxable years beginning on and after January 1, 2019, the actual amount of real and personal
139 property taxes imposed by the Commonwealth or any other taxing jurisdiction not otherwise deducted solely
140 on account of the dollar limitation imposed on individual deductions by § 164(b)(6)(B) of the Internal
141 Revenue Code.

142 17. For taxable years beginning before January 1, 2021, up to \$100,000 of the amount that is not
143 deductible when computing federal adjusted gross income solely on account of the portion of subdivision B
144 10 of § 58.1-301 related to Paycheck Protection Program loans.

145 18. For taxable years beginning on and after January 1, 2022, but before January 1, 2025, the lesser of
146 \$500 or the actual amount paid or incurred for eligible educator qualifying expenses. For purposes of this

147 subdivision, "eligible educator" means an individual who for at least 900 hours during the taxable year in
148 which the credit under this section is claimed served as a teacher licensed pursuant to Chapter 15 (§
149 22.1-289.1 et seq.) of Title 22.1, instructor, student counselor, principal, special needs personnel, or student
150 aide serving accredited public or private primary and secondary school students in Virginia, and "qualifying
151 expenses" means 100 percent of the amount paid or incurred by an eligible educator during the taxable year
152 for participation in professional development courses and the purchase of books, supplies, computer
153 equipment (including related software and services), other educational and teaching equipment, and
154 supplementary materials used directly in that individual's service to students as an eligible educator, provided
155 that such purchases were neither reimbursed nor claimed as a deduction on the eligible educator's federal
156 income tax return for such taxable year.

157 *19. For taxable years beginning on and after January 1, 2026, an amount equal to the cash tips received*
158 *during the taxable year that are included on statements furnished to the employer pursuant to § 6053(a) of*
159 *the Internal Revenue Code.*