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HOUSE BILL NO. 1743**AMENDMENT IN THE NATURE OF A SUBSTITUTE**

(Proposed by the House Committee on Finance

on January 29, 2025)

(Patron Prior to Substitute—Delegate Watts)

A *BILL to amend and reenact § 58.1-3732 of the Code of Virginia, relating to license taxes; deduction for out-of-state receipts.*

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-3732 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-3732. Exclusions and deductions from "gross receipts."

A. Gross receipts for license tax purposes shall not include any amount not derived from the exercise of the licensed privilege to engage in a business or profession in the ordinary course of business.

The following items are excluded:

1. Amounts received and paid to the United States, the Commonwealth or any county, city or town for the Virginia retail sales or use tax, for any local sales tax or any local excise tax on cigarettes, or amounts received for any federal or state excise taxes on motor fuels.

2. Any amount representing the liquidation of a debt or conversion of another asset to the extent that the amount is attributable to a transaction previously taxed (e.g., the factoring of accounts receivable created by sales which have been included in taxable receipts even though the creation of such debt and factoring are a regular part of its business).

3. Any amount representing returns and allowances granted by the business to its customers.

4. Receipts which are the proceeds of a loan transaction in which the licensee is the obligor.

5. Receipts representing the return of principal of a loan transaction in which the licensee is the creditor, or the return of principal or basis upon the sale of a capital asset.

6. Rebates and discounts taken or received on account of purchases by the licensee. A rebate or other incentive offered to induce the recipient to purchase certain goods or services from a person other than the offeror, and which the recipient assigns to the licensee in consideration of the sale goods and services shall not be considered a rebate or discount to the licensee, but shall be included in the licensee's gross receipts together with any handling or other fees related to the incentive.

7. Withdrawals from inventory for purposes other than sale or distribution and for which no consideration is received and the occasional sale or exchange of assets other than inventory whether or not a gain or loss is recognized for federal income tax purposes.

8. Investment income not directly related to the privilege exercised by a business subject to licensure not classified as rendering financial services. This exclusion shall apply to interest on bank accounts of the business, and to interest, dividends and other income derived from the investment of its own funds in securities and other types of investments unrelated to the licensed privilege. This exclusion shall not apply to interest, late fees and similar income attributable to an installment sale or other transaction that occurred in the regular course of business.

B. The following shall be deducted from gross receipts or gross purchases that would otherwise be taxable:

1. Any amount paid for computer hardware and software that are sold to a United States federal or state government entity provided that such property was purchased within two years of the sale to said entity by the original purchaser who shall have been contractually obligated at the time of purchase to resell such property to a state or federal government entity. This deduction shall not occur until the time of resale and shall apply to only the original cost of the property and not to its resale price, and the deduction shall not apply to any of the tangible personal property which was the subject of the original resale contract if it is not resold to a state or federal government entity in accordance with the original contract obligation.

2. Any receipts attributable to business conducted in another state or foreign country in which the taxpayer (or its shareholders, partners, or members in lieu of the taxpayer) is liable for an income or other tax based upon income. *Such receipts shall be determined based upon the facts and circumstances of the taxpayer's business operations, without regard to the amount of income, receipts, or revenue ultimately computed as taxable under the methodology used by such state or country to which such receipts are attributable. For purposes of this subdivision, "income or other tax based upon income" means a net income tax, as defined in 15 U.S.C. § 383, or any other tax the measure of which is based in whole or in part on gross or net income, or receipts.*

2. That the provisions of the first enactment of this act shall become effective on July 1, 2026.

3. That the Department of Taxation shall convene a work group to review (i) current policy and methodology of the deduction set forth in subdivision B 2 of § 58.1-3732 of the Code of Virginia, as amended by this act; (ii) any concerns regarding the existing laws governing such deduction; (iii) any

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60 potential impact of the amendments set forth in the first enactment of this act, including potential
61 revenue impacts to localities, potential administrative complexities, and potential complexities to
62 taxpayers; and (iv) any impact to such deduction from other existing provisions of law. The work
63 group shall consist of representatives of the Virginia Municipal League, the Virginia Association of
64 Counties, the Commissioners of the Revenue Association of Virginia, and the Virginia Chamber of
65 Commerce and any other key business representatives as determined by the Department of Taxation.
66 The Department of Taxation shall submit a report of the findings and recommendations, if any, of the
67 work group to the Chairs of the House Committee on Finance, the House Committee on
68 Appropriations, and the Senate Committee on Finance and Appropriations by October 1, 2025.