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HOUSE BILL NO. 2266
AMENDMENT IN THE NATURE OF A SUBSTITUTE
 (Proposed by the Governor
 on March 24, 2025)

(Patron Prior to Substitute—Delegate Tran)

A BILL to amend and reenact §§ 58.1-322.03 and 58.1-402 of the Code of Virginia and to amend the Code of Virginia by adding in Chapter 23 of Title 56 a section numbered 56-596.5, relating to electric utilities; distribution cost sharing program established; income tax deduction; report.

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-322.03 and 58.1-402 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding in Chapter 23 of Title 56 a section numbered 56-596.5 as follows:

§ 56-596.5. Distribution cost sharing program.

A. As used in this section:

"Hosting capacity" means the amount of aggregate generation that can be accommodated on the electric distribution system without any infrastructure upgrades.

"Program" means the distribution cost sharing program established pursuant to this section.

"Qualifying upgrade" means a system upgrade that increases the hosting capacity of the utility's distribution system.

"Sharing project" means any distributed energy resource with an alternating current (AC) nameplate capacity rating greater than or equal to 250 kilowatts and less than or equal to three megawatts within the Phase I or Phase II Utility's service territory seeking to interconnect to the utility's distribution system and participate in net energy metering pursuant to § 56-594 that utilizes distribution system upgrades that were necessary to interconnect a triggering project.

"Triggering project" means a project application in the interconnection queue at a given substation or feeder that requires a qualifying upgrade to successfully interconnect the project to the electric distribution system.

B. The Commission shall establish by regulation a distribution cost sharing program for Phase I and Phase II Utilities, as those terms are defined in subdivision A 1 of § 56-585.1, to construct distribution system upgrades required to interconnect triggering projects. Under the program, when a Phase I or Phase II Utility determines that a qualifying upgrade is required to interconnect a triggering project, such utility shall determine the costs of the qualifying upgrade and the net increase in hosting capacity that would result from the construction of the qualifying upgrade. The costs of the qualifying upgrade shall be subject to approval by the Commission that the costs are reasonable and prudent. The program shall require each Phase I and Phase II Utility to allocate the costs of qualifying upgrades among any sharing projects based on the AC nameplate capacity rating of each sharing project, except that a project shall be exempted from the program if the owner or developer of such project elects to pay in full the approved cost of any associated qualifying upgrade. The Commission shall determine limits on cost recovery for ratepayers and the appropriate time period for cost recovery under the program. The program shall also require that the costs attributed to jurisdictional triggering projects are recovered from jurisdictional sharing projects and costs attributed to nonjurisdictional triggering projects are recovered from nonjurisdictional sharing projects. The Commission may establish a system to refund projects for any interconnection upgrade costs collected during time periods in which such projects are not operational and may provide such refunds upon the petition of the owner of a participating project.

§ 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 income tax purposes.

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

The additional deduction for blind or aged taxpayers allowed under this subdivision 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 § 63.2-908, provided that the taxpayer can also claim the child as a personal exemption under § 151 of the Internal Revenue Code.

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

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

For the purposes of this subdivision, "adjusted federal adjusted gross income" means federal adjusted gross income minus any 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, as amended.

6. 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. A deduction shall be allowed to the purchaser or contributor for the amount paid or contributed during the taxable year for a prepaid tuition contract or college savings trust account entered into with the Commonwealth Savers Plan, pursuant to Chapter 7 (§ 23.1-700 et seq.) of Title 23.1. Except as provided in subdivision b, the amount deducted on any individual income tax return in any taxable year shall be limited to \$4,000 per prepaid tuition contract or college savings trust account. No deduction shall be allowed pursuant to this subdivision 7 if such payments or contributions are deducted on the purchaser's or contributor's federal income tax return. If the purchase price or annual contribution to a college savings trust account exceeds \$4,000, the remainder may be carried forward and subtracted in future taxable years until the purchase price or college savings trust contribution has been fully deducted; however, except as provided in subdivision b, in no event shall the amount deducted in any taxable year exceed \$4,000 per contract or college savings trust account. 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. For the purposes of this subdivision, "purchaser" or "contributor" means the person shown as such on the records of the Commonwealth Savers Plan as of December 31 of the taxable year. In the case of a transfer of ownership of a prepaid tuition contract or college savings trust account, the transferee shall succeed to the transferor's tax attributes associated with a prepaid tuition contract or college savings trust account, including, but not limited to, carryover and recapture of deductions.

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

8. 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 that the individual has not claimed a deduction for such amount on his federal income tax return.

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

income tax return.

10. The amount an individual pays annually in premiums for long-term health care insurance, provided that the individual has not claimed a deduction for federal income tax purposes, or, for taxable years beginning before January 1, 2014, a credit under § 58.1-339.11. For taxable years beginning on and after January 1, 2014, no such deduction for long-term health care insurance premiums paid by the individual during the taxable year shall be allowed if the individual has claimed a federal income tax deduction for such taxable year for long-term health care insurance premiums paid by him.

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

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

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

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

13. The lesser of \$5,000 or the amount actually paid by a living donor of an organ or other living tissue for unreimbursed out-of-pocket expenses directly related to the donation that arose within 12 months of such donation, provided that the donor has not taken a medical deduction in accordance with the provisions of § 213 of the Internal Revenue Code for such expenses. The deduction may be taken in the taxable year in which the donation is made or the taxable year in which the 12-month period expires.

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

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

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

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

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

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

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

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

18. For taxable years beginning on and after January 1, 2022, but before January 1, 2025, the lesser of \$500 or the actual amount paid or incurred for eligible educator qualifying expenses. For purposes of this subdivision, "eligible educator" means an individual who for at least 900 hours during the taxable year in

184 which the credit under this section is claimed served as a teacher licensed pursuant to Chapter 15 (§
185 22.1-289.1 et seq.) of Title 22.1, instructor, student counselor, principal, special needs personnel, or student
186 aide serving accredited public or private primary and secondary school students in Virginia, and "qualifying
187 expenses" means 100 percent of the amount paid or incurred by an eligible educator during the taxable year
188 for participation in professional development courses and the purchase of books, supplies, computer
189 equipment (including related software and services), other educational and teaching equipment, and
190 supplementary materials used directly in that individual's service to students as an eligible educator, provided
191 that such purchases were neither reimbursed nor claimed as a deduction on the eligible educator's federal
192 income tax return for such taxable year.

193 *19. For taxable years beginning on and after January 1, 2026, the amount paid or cost incurred for*
194 *installing a qualifying upgrade required to interconnect a triggering project. No deduction shall be allowed*
195 *under this section for a taxpayer who has claimed a deduction under subsection I of § 58.1-402 for the same*
196 *amount paid or cost incurred to install such qualifying upgrade.*

197 *For purposes of this subdivision, "qualifying upgrade" and "triggering project" have the same meanings*
198 *as provided for those terms in § 56-596.5.*

199 **§ 58.1-402. Virginia taxable income.**

200 A. For purposes of this article, Virginia taxable income for a taxable year means the federal taxable
201 income and any other income taxable to the corporation under federal law for such year of a corporation
202 adjusted as provided in subsections B, C, D, E, G, ~~and~~ H, and I.

203 For a regulated investment company and a real estate investment trust, such term means the "investment
204 company taxable income" and "real estate investment trust taxable income," respectively, to which shall be
205 added in each case any amount of capital gains and any other income taxable to the corporation under federal
206 law which shall be further adjusted as provided in subsections B, C, D, E, G, ~~and~~ H, and I.

207 B. There shall be added to the extent excluded from federal taxable income:

208 1. Interest, less related expenses to the extent not deducted in determining federal taxable income, on
209 obligations of any state other than Virginia, or of a political subdivision of any such other state unless created
210 by compact or agreement to which the Commonwealth is a party;

211 2. Interest or dividends, less related expenses to the extent not deducted in determining federal taxable
212 income, on obligations or securities of any authority, commission or instrumentality of the United States,
213 which the laws of the United States exempt from federal income tax but not from state income taxes;

214 3. [Repealed.]

215 4. The amount of any net income taxes and other taxes, including franchise and excise taxes, which are
216 based on, measured by, or computed with reference to net income, imposed by the Commonwealth or any
217 other taxing jurisdiction, to the extent deducted in determining federal taxable income;

218 5. Unrelated business taxable income as defined by § 512 of the Internal Revenue Code;

219 6. [Repealed.]

220 7. The amount required to be included in income for the purpose of computing the partial tax on an
221 accumulation distribution pursuant to § 667 of the Internal Revenue Code;

222 8. a. For taxable years beginning on and after January 1, 2004, the amount of any intangible expenses and
223 costs directly or indirectly paid, accrued, or incurred to, or in connection directly or indirectly with one or
224 more direct or indirect transactions with one or more related members to the extent such expenses and costs
225 were deductible or deducted in computing federal taxable income for Virginia purposes. This addition shall
226 not be required for any portion of the intangible expenses and costs if one of the following applies:

227 (1) The corresponding item of income received by the related member is subject to a tax based on or
228 measured by net income or capital imposed by Virginia, another state, or a foreign government that has
229 entered into a comprehensive tax treaty with the United States government;

230 (2) The related member derives at least one-third of its gross revenues from the licensing of intangible
231 property to parties who are not related members, and the transaction giving rise to the expenses and costs
232 between the corporation and the related member was made at rates and terms comparable to the rates and
233 terms of agreements that the related member has entered into with parties who are not related members for
234 the licensing of intangible property; or

235 (3) The corporation can establish to the satisfaction of the Tax Commissioner that the intangible expenses
236 and costs meet both of the following: (i) the related member during the same taxable year directly or
237 indirectly paid, accrued or incurred such portion to a person who is not a related member, and (ii) the
238 transaction giving rise to the intangible expenses and costs between the corporation and the related member
239 did not have as a principal purpose the avoidance of any portion of the tax due under this chapter.

240 b. A corporation required to add to its federal taxable income intangible expenses and costs pursuant to
241 subdivision a may petition the Tax Commissioner, after filing the related income tax return for the taxable
242 year and remitting to the Tax Commissioner all taxes, penalties, and interest due under this article for such
243 taxable year including tax upon any amount of intangible expenses and costs required to be added to federal
244 taxable income pursuant to subdivision a, to consider evidence relating to the transaction or transactions
245 between the corporation and a related member or members that resulted in the corporation's taxable income

being increased, as required under subdivision a, for such intangible expenses and costs.

If the corporation can demonstrate to the Tax Commissioner's sole satisfaction, by clear and convincing evidence, that the transaction or transactions between the corporation and a related member or members resulting in such increase in taxable income pursuant to subdivision a had a valid business purpose other than the avoidance or reduction of the tax due under this chapter, the Tax Commissioner shall permit the corporation to file an amended return. For purposes of such amended return, the requirements of subdivision a shall not apply to any transaction for which the Tax Commissioner is satisfied (and has identified) that the transaction had a valid business purpose other than the avoidance or reduction of the tax due under this chapter. Such amended return shall be filed by the corporation within one year of the written permission granted by the Tax Commissioner and any refund of the tax imposed under this article shall include interest at a rate equal to the rate of interest established under § 58.1-15 and such interest shall accrue as provided under § 58.1-1833. However, upon the filing of such amended return, any related member of the corporation that subtracted from taxable income amounts received pursuant to subdivision C 21 shall be subject to the tax imposed under this article on that portion of such amounts for which the corporation has filed an amended return pursuant to this subdivision. In addition, for such transactions identified by the Tax Commissioner herein by which he has been satisfied by clear and convincing evidence, the Tax Commissioner may permit the corporation in filing income tax returns for subsequent taxable years to deduct the related intangible expenses and costs without making the adjustment under subdivision a.

The Tax Commissioner may charge a fee for all direct and indirect costs relating to the review of any petition pursuant to this subdivision, to include costs necessary to secure outside experts in evaluating the petition. The Tax Commissioner may condition the review of any petition pursuant to this subdivision upon payment of such fee.

No suit for the purpose of contesting any action of the Tax Commissioner under this subdivision shall be maintained in any court of this Commonwealth.

c. Nothing in subdivision B 8 shall be construed to limit or negate the Department's authority under § 58.1-446;

9. a. For taxable years beginning on and after January 1, 2004, the amount of any interest expenses and costs directly or indirectly paid, accrued, or incurred to, or in connection directly or indirectly with one or more direct or indirect transactions with one or more related members to the extent such expenses and costs were deductible or deducted in computing federal taxable income for Virginia purposes. This addition shall not be required for any portion of the interest expenses and costs, if:

(1) The related member has substantial business operations relating to interest-generating activities, in which the related member pays expenses for at least five full-time employees who maintain, manage, defend or are otherwise responsible for operations or administration relating to the interest-generating activities; and

(2) The interest expenses and costs are not directly or indirectly for, related to or in connection with the direct or indirect acquisition, maintenance, management, sale, exchange, or disposition of intangible property; and

(3) The transaction giving rise to the expenses and costs between the corporation and the related member has a valid business purpose other than the avoidance or reduction of taxation and payments between the parties are made at arm's length rates and terms; and

(4) One of the following applies:

(i) The corresponding item of income received by the related member is subject to a tax based on or measured by net income or capital imposed by Virginia, another state, or a foreign government that has entered into a comprehensive tax treaty with the United States government;

(ii) Payments arise pursuant to a pre-existing contract entered into when the parties were not related members provided the payments continue to be made at arm's length rates and terms;

(iii) The related member engages in transactions with parties other than related members that generate revenue in excess of \$2 million annually; or

(iv) The transaction giving rise to the interest payments between the corporation and a related member was done at arm's length rates and terms and meets any of the following: (a) the related member uses funds that are borrowed from a party other than a related member or that are paid, incurred or passed-through to a person who is not a related member; (b) the debt is part of a regular and systematic funds management or portfolio investment activity conducted by the related member, whereby the funds of two or more related members are aggregated for the purpose of achieving economies of scale, the internal financing of the active business operations of members, or the benefit of centralized management of funds; (c) financing the expansion of the business operations; or (d) restructuring the debt of related members, or the pass-through of acquisition-related indebtedness to related members.

b. A corporation required to add to its federal taxable income interest expenses and costs pursuant to subdivision a may petition the Tax Commissioner, after filing the related income tax return for the taxable year and remitting to the Tax Commissioner all taxes, penalties, and interest due under this article for such taxable year including tax upon any amount of interest expenses and costs required to be added to federal taxable income pursuant to subdivision a, to consider evidence relating to the transaction or transactions

308 between the corporation and a related member or members that resulted in the corporation's taxable income
309 being increased, as required under subdivision a, for such interest expenses and costs.

310 If the corporation can demonstrate to the Tax Commissioner's sole satisfaction, by clear and convincing
311 evidence, that the transaction or transactions between the corporation and a related member or members
312 resulting in such increase in taxable income pursuant to subdivision a had a valid business purpose other than
313 the avoidance or reduction of the tax due under this chapter and that the related payments between the parties
314 were made at arm's length rates and terms, the Tax Commissioner shall permit the corporation to file an
315 amended return. For purposes of such amended return, the requirements of subdivision a shall not apply to
316 any transaction for which the Tax Commissioner is satisfied (and has identified) that the transaction had a
317 valid business purpose other than the avoidance or reduction of the tax due under this chapter and that the
318 related payments between the parties were made at arm's length rates and terms. Such amended return shall
319 be filed by the corporation within one year of the written permission granted by the Tax Commissioner and
320 any refund of the tax imposed under this article shall include interest at a rate equal to the rate of interest
321 established under § 58.1-15 and such interest shall accrue as provided under § 58.1-1833. However, upon the
322 filing of such amended return, any related member of the corporation that subtracted from taxable income
323 amounts received pursuant to subdivision C 21 shall be subject to the tax imposed under this article on that
324 portion of such amounts for which the corporation has filed an amended return pursuant to this subdivision.
325 In addition, for such transactions identified by the Tax Commissioner herein by which he has been satisfied
326 by clear and convincing evidence, the Tax Commissioner may permit the corporation in filing income tax
327 returns for subsequent taxable years to deduct the related interest expenses and costs without making the
328 adjustment under subdivision a.

329 The Tax Commissioner may charge a fee for all direct and indirect costs relating to the review of any
330 petition pursuant to this subdivision, to include costs necessary to secure outside experts in evaluating the
331 petition. The Tax Commissioner may condition the review of any petition pursuant to this subdivision upon
332 payment of such fee.

333 No suit for the purpose of contesting any action of the Tax Commissioner under this subdivision shall be
334 maintained in any court of this Commonwealth.

335 c. Nothing in subdivision B 9 shall be construed to limit or negate the Department's authority under §
336 58.1-446.

337 d. For purposes of subdivision B 9:

338 "Arm's-length rates and terms" means that (i) two or more related members enter into a written agreement
339 for the transaction, (ii) such agreement is of a duration and contains payment terms substantially similar to
340 those that the related member would be able to obtain from an unrelated entity, (iii) the interest is at or below
341 the applicable federal rate compounded annually for debt instruments under § 1274(d) of the Internal
342 Revenue Code that was in effect at the time of the agreement, and (iv) the borrower or payor adheres to the
343 payment terms of the agreement governing the transaction or any amendments thereto.

344 "Valid business purpose" means one or more business purposes that alone or in combination constitute the
345 motivation for some business activity or transaction, which activity or transaction improves, apart from tax
346 effects, the economic position of the taxpayer, as further defined by regulation.

347 10. a. For taxable years beginning on and after January 1, 2009, the amount of dividends deductible under
348 §§ 561 and 857 of the Internal Revenue Code by a Captive Real Estate Investment Trust (REIT). For
349 purposes of this subdivision, a REIT is a Captive REIT if:

350 (1) It is not regularly traded on an established securities market;

351 (2) More than 50 percent of the voting power or value of beneficial interests or shares of which, at any
352 time during the last half of the taxable year, is owned or controlled, directly or indirectly, by a single entity
353 that is (i) a corporation or an association taxable as a corporation under the Internal Revenue Code; and (ii)
354 not exempt from federal income tax pursuant to § 501(a) of the Internal Revenue Code; and

355 (3) More than 25 percent of its income consists of rents from real property as defined in § 856(d) of the
356 Internal Revenue Code.

357 b. For purposes of applying the ownership test of subdivision 10 a (2), the following entities shall not be
358 considered a corporation or an association taxable as a corporation:

359 (1) Any REIT that is not treated as a Captive REIT;

360 (2) Any REIT subsidiary under § 856 of the Internal Revenue Code other than a qualified REIT subsidiary
361 of a Captive REIT;

362 (3) Any Listed Australian Property Trust, or an entity organized as a trust, provided that a Listed
363 Australian Property Trust owns or controls, directly or indirectly, 75 percent or more of the voting or value of
364 the beneficial interests or shares of such trust; and

365 (4) Any Qualified Foreign Entity.

366 c. For purposes of subdivision B 10, the constructive ownership rules prescribed under § 318(a) of the
367 Internal Revenue Code, as modified by § 856(d)(5) of the Internal Revenue Code, shall apply in determining
368 the ownership of stock, assets, or net profits of any person.

369 d. For purposes of subdivision B 10:

"Listed Australian Property Trust" means an Australian unit trust registered as a Management Investment Scheme, pursuant to the Australian Corporations Act, in which the principal class of units is listed on a recognized stock exchange in Australia and is regularly traded on an established securities market.

"Qualified Foreign Entity" means a corporation, trust, association or partnership organized outside the laws of the United States and that satisfies all of the following criteria:

(1) At least 75 percent of the entity's total asset value at the close of its taxable year is represented by real estate assets, as defined in § 856(c)(5)(B) of the Internal Revenue Code, thereby including shares or certificates of beneficial interest in any REIT, cash and cash equivalents, and U.S. Government securities;

(2) The entity is not subject to a tax on amounts distributed to its beneficial owners, or is exempt from entity level tax;

(3) The entity distributes, on an annual basis, at least 85 percent of its taxable income, as computed in the jurisdiction in which it is organized, to the holders of its shares or certificates of beneficial interest;

(4) The shares or certificates of beneficial interest of such entity are regularly traded on an established securities market or, if not so traded, not more than 10 percent of the voting power or value in such entity is held directly, indirectly, or constructively by a single entity or individual; and

(5) The entity is organized in a country that has a tax treaty with the United States.

e. For taxable years beginning on or after January 1, 2016, for purposes of subdivision B 10, any voting power or value of the beneficial interests or shares in a REIT that is held in a segregated asset account of a life insurance corporation as described in § 817 of the Internal Revenue Code shall not be taken into consideration when determining if such REIT is a Captive REIT.

11. For taxable years beginning on or after January 1, 2016, to the extent that tax credit is allowed for the same donation pursuant to § 58.1-439.12:12, any amount claimed as a federal income tax deduction for such donation under § 170 of the Internal Revenue Code, as amended or renumbered.

C. There shall be subtracted to the extent included in and not otherwise subtracted from federal taxable income:

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. Dividends upon stock in any domestic international sales corporation, as defined by § 992 of the Internal Revenue Code, 50 percent or more of the income of which was assessable for the preceding year, or the last year in which such corporation has income, under the provisions of the income tax laws of the Commonwealth.

4. The amount of any refund or credit for overpayment of income taxes imposed by this Commonwealth or any other taxing jurisdiction.

5. Any amount included therein by the operation of the provisions of § 78 of the Internal Revenue Code (foreign dividend gross-up).

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 § 280C(a) of the Internal Revenue Code.

7. Any amount included therein by the operation of § 951 of the Internal Revenue Code (subpart F income) or, for taxable years beginning on and after January 1, 2018, § 951A of the Internal Revenue Code (Global Intangible Low-Taxed Income).

8. Any amount included therein which is foreign source income as defined in § 58.1-302.

9. [Repealed.]

10. The amount of any dividends received from corporations in which the taxpaying corporation owns 50 percent or more of the voting stock.

11. [Repealed.]

12, 13. [Expired.]

14. For taxable years beginning on or after January 1, 1995, the amount for "qualified research expenses" or "basic research expenses" eligible for deduction for federal purposes, but which were not deducted, on account of the provisions of § 280C(c) of the Internal Revenue Code.

15. For taxable years beginning on or after January 1, 2000, the total amount 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.

16. For taxable years beginning on or after January 1, 2000, but before January 1, 2015, the gain derived from the sale or exchange of real property or the sale or exchange of an easement to real property which results in the real property or the easement thereto being devoted to open-space use, as that term is defined in § 58.1-3230, for a period of time not less than 30 years. To the extent a subtraction is taken in accordance with this subdivision, no tax credit under this chapter for donating land for its preservation shall be allowed

432 for three years following the year in which the subtraction is taken.

433 17. For taxable years beginning on and after January 1, 2001, any amount included therein with respect to
434 § 58.1-440.1.

435 18. For taxable years beginning on and after January 1, 1999, income received as a result of (i) the
436 "Master Settlement Agreement," as defined in § 3.2-3100; and (ii) the National Tobacco Grower Settlement
437 Trust dated July 19, 1999, by (a) tobacco farming businesses; (b) any business holding a tobacco marketing
438 quota, or tobacco farm acreage allotment, under the Agricultural Adjustment Act of 1938; or (c) any business
439 having the right to grow tobacco pursuant to such a quota allotment.

440 19, 20. [Repealed.]

441 21. For taxable years beginning on and after January 1, 2004, any amount of intangible expenses and costs
442 or interest expenses and costs added to the federal taxable income of a corporation pursuant to subdivision B
443 8 or B 9 shall be subtracted from the federal taxable income of the related member that received such amount
444 if such related member is subject to Virginia income tax on the same amount.

445 22. For taxable years beginning on and after January 1, 2009, any gain recognized from the sale of launch
446 services to space flight participants, as defined in 49 U.S.C. § 70102, or launch services intended to provide
447 individuals the training or experience of a launch, without performing an actual launch. To qualify for a
448 deduction under this subdivision, launch services must be performed in Virginia or originate from an airport
449 or spaceport in Virginia.

450 23. For taxable years beginning on and after January 1, 2009, any gain recognized as a result of resupply
451 services contracts for delivering payload, as defined in 49 U.S.C. § 70102, entered into with the Commercial
452 Orbital Transportation Services division of the National Aeronautics and Space Administration or other space
453 flight entity, as defined in § 8.01-227.8, and launched from an airport or spaceport in Virginia.

454 24. For taxable years beginning on or after January 1, 2011, any income taxed as a long-term capital gain
455 for federal income tax purposes, or any income taxed as investment services partnership interest income
456 (otherwise known as investment partnership carried interest income) for federal income tax purposes. To
457 qualify for a subtraction under this subdivision, such income must be attributable to an investment in a
458 "qualified business," as defined in § 58.1-339.4, or in any other technology business approved by the
459 Secretary of Administration, provided the business has its principal office or facility in the Commonwealth
460 and less than \$3 million in annual revenues in the fiscal year prior to the investment. To qualify for a
461 subtraction under this subdivision, the investment must be made between the dates of April 1, 2010, and June
462 30, 2020. No taxpayer who has claimed a tax credit for an investment in a "qualified business" under §
463 58.1-339.4 shall be eligible for the subtraction under this subdivision for an investment in the same business.

464 25. a. Income, including investment services partnership interest income (otherwise known as investment
465 partnership carried interest income), attributable to an investment in a Virginia venture capital account. To
466 qualify for a subtraction under this subdivision, the investment shall be made on or after January 1, 2018, but
467 before December 31, 2023. No subtraction shall be allowed under this subdivision for an investment in a
468 company that is owned or operated by an affiliate of the taxpayer. No subtraction shall be allowed under this
469 subdivision for a taxpayer who has claimed a subtraction under subdivision C 24 for the same investment.

470 b. As used in this subdivision 25:

471 "Qualified portfolio company" means a company that (i) has its principal place of business in the
472 Commonwealth; (ii) has a primary purpose of production, sale, research, or development of a product or
473 service other than the management or investment of capital; and (iii) provides equity in the company to the
474 Virginia venture capital account in exchange for a capital investment. "Qualified portfolio company" does not
475 include a company that is an individual or sole proprietorship.

476 "Virginia venture capital account" means an investment fund that has been certified by the Department as
477 a Virginia venture capital account. In order to be certified as a Virginia venture capital account, the operator
478 of the investment fund shall register the investment fund with the Department prior to December 31, 2023, (i)
479 indicating that it intends to invest at least 50 percent of the capital committed to its fund in qualified portfolio
480 companies and (ii) providing documentation that it employs at least one investor who has at least four years
481 of professional experience in venture capital investment or substantially equivalent experience. "Substantially
482 equivalent experience" includes, but is not limited to, an undergraduate degree from an accredited college or
483 university in economics, finance, or a similar field of study. The Department may require an investment fund
484 to provide documentation of the investor's training, education, or experience as deemed necessary by the
485 Department to determine substantial equivalency. If the Department determines that the investment fund
486 employs at least one investor with the experience set forth herein, the Department shall certify the investment
487 fund as a Virginia venture capital account at such time as the investment fund actually invests at least 50
488 percent of the capital committed to its fund in qualified portfolio companies.

489 26. a. Income attributable to an investment in a Virginia real estate investment trust. To qualify for a
490 subtraction under this subdivision, the investment shall be made on or after January 1, 2019, but before
491 December 31, 2024. No subtraction shall be allowed for an investment in a trust that is managed by an
492 affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has
493 claimed a subtraction under subdivision C 24 or 25 for the same investment.

b. As used in this subdivision 26:

"Distressed" means satisfying the criteria applicable to a locality described in subdivision E 2 of § 2.2-115.

"Double distressed" means satisfying the criteria applicable to a locality described in subdivision E 3 of § 2.2-115.

"Virginia real estate investment trust" means a real estate investment trust, as defined in 26 U.S.C. § 856, that has been certified by the Department as a Virginia real estate investment trust. In order to be certified as a Virginia real estate investment trust, the trustee shall register the trust with the Department prior to December 31, 2024, indicating that it intends to invest at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed. If the Department determines that the trust satisfies the preceding criteria, the Department shall certify the trust as a Virginia real estate investment trust at such time as the trust actually invests at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double distressed.

27. For taxable years beginning on and after January 1, 2019, any gain recognized from the taking of real property by condemnation proceedings.

28. For taxable years beginning before January 1, 2021, up to \$100,000 of all grant funds received by the taxpayer under the Rebuild Virginia program established by the Governor and administered by the Department of Small Business and Supplier Diversity.

D. For taxable years beginning on and after January 1, 2006, there shall be subtracted from federal taxable income contract payments to a producer of quota tobacco or a tobacco quota holder as provided under the American Jobs Creation Act of 2004 (P.L. 108-357) as follows:

1. If the payment is received in installment payments, then the recognized gain, including any gain recognized in taxable year 2005, may be subtracted in the taxable year immediately following the year in which the installment payment is received.

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

E. Adjustments to federal taxable income shall be made to reflect the transitional modifications provided in § 58.1-315.

F. Notwithstanding any other provision of law, the income from any disposition of real property which is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business, as defined in § 453(l)(1)(B) of the Internal Revenue Code, of property made on or after January 1, 2009, may, at the election of the taxpayer, be recognized under the installment method described under § 453 of the Internal Revenue Code, provided that (i) the election relating to the dealer disposition of the property has been made on or before the due date prescribed by law (including extensions) for filing the taxpayer's return of the tax imposed under this chapter for the taxable year in which the disposition occurs, and (ii) the dealer disposition is in accordance with restrictions or conditions established by the Department, which shall be set forth in guidelines developed by the Department. Along with such restrictions or conditions, the guidelines shall also address the recapture of such income under certain circumstances. The development of the guidelines shall be exempt from the Administrative Process Act (§ 2.2-4000 et seq.).

G. There shall be deducted to the extent included in and not otherwise subtracted from federal taxable income a percentage of the business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code in the amount of:

1. 20 percent for taxable years beginning on and after January 1, 2018, but before January 1, 2022;

2. 30 percent for taxable years beginning on and after January 1, 2022, but before January 1, 2024; and

3. 50 percent for taxable years beginning on and after January 1, 2024.

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

H. For taxable years beginning before January 1, 2021, there shall be deducted to the extent not otherwise subtracted from federal taxable income up to \$100,000 of the amount that is not deductible when computing federal taxable income solely on account of the portion of subdivision B 10 of § 58.1-301 related to Paycheck Protection Program loans.

I. For taxable years beginning on and after January 1, 2026, there shall be deducted the amount paid or cost incurred for installing a qualifying upgrade required to interconnect a triggering project. No deduction shall be allowed under this section for a taxpayer who has claimed a deduction under subdivision 19 of § 58.1-322.03 for the same amount paid or cost incurred to install such qualifying upgrade.

For purposes of this subsection, "qualifying upgrade" and "triggering project" have the same meanings as provided for those terms in § 56-596.5.

2. That the State Corporation Commission (the Commission) shall finalize the regulations establishing the distribution cost sharing program (the program) pursuant to § 56-596.5 of the Code of Virginia, as created by this act, by no later than July 1, 2026. The Commission shall require each utility to file any

556 tariffs, agreements, or forms necessary for the implementation of the program by December 1, 2026.

557 3. That the State Corporation Commission shall submit a report on the implementation of the
558 distribution cost sharing program established pursuant to § 56-596.5 of the Code of Virginia, as
559 created by this act, to the Chairs of the House Committee on Labor and Commerce and the Senate
560 Committee on Commerce and Labor by no later than November 1, 2028.