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1 **HOUSE BILL NO. 958**

2 Offered January 14, 2026

3 Prefiled January 13, 2026

4 *A BILL to amend and reenact § 58.1-402 of the Code of Virginia, relating to corporate income tax; taxable*
5 *income; net operating loss.*

6 Patron—Watts

7 Committee Referral Pending

8 **Be it enacted by the General Assembly of Virginia:**9 **1. That § 58.1-402 of the Code of Virginia is amended and reenacted as follows:**10 **§ 58.1-402. Virginia taxable income.**11 A. For purposes of this article, Virginia taxable income for a taxable year means the federal taxable
12 income and any other income taxable to the corporation under federal law for such year of a corporation
13 adjusted as provided in subsections B, C, D, E, G, H, and I, and J. *For taxable years beginning on and after*
14 *January 1, 2027, federal taxable income means any income taxable to the corporation under federal law for*
15 *such year excluding net operating loss deductions under § 172 of the Internal Revenue Code.*16 For a regulated investment company and a real estate investment trust, ~~such term~~ *Virginia taxable income*
17 means the "investment company taxable income" and "real estate investment trust taxable income,"
18 respectively, to which shall be added in each case any amount of capital gains and any other income taxable
19 to the corporation under federal law which shall be further adjusted as provided in subsections B, C, D, E, G,
20 H, and I, and J.

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

22 1. Interest, less related expenses to the extent not deducted in determining federal taxable income, on
23 obligations of any state other than Virginia, or of a political subdivision of any such other state unless created
24 by compact or agreement to which the Commonwealth is a party;25 2. Interest or dividends, less related expenses to the extent not deducted in determining federal taxable
26 income, on obligations or securities of any authority, commission or instrumentality of the United States,
27 which the laws of the United States exempt from federal income tax but not from state income taxes;

28 3. [Repealed.]

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

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

33 6. [Repealed.]

34 7. The amount required to be included in income for the purpose of computing the partial tax on an
35 accumulation distribution pursuant to § 667 of the Internal Revenue Code;36 8. a. For taxable years beginning on and after January 1, 2004, the amount of any intangible expenses and
37 costs directly or indirectly paid, accrued, or incurred to, or in connection directly or indirectly with one or
38 more direct or indirect transactions with one or more related members to the extent such expenses and costs
39 were deductible or deducted in computing federal taxable income for Virginia purposes. This addition shall
40 not be required for any portion of the intangible expenses and costs if one of the following applies:41 (1) The corresponding item of income received by the related member is subject to a tax based on or
42 measured by net income or capital imposed by Virginia, another state, or a foreign government that has
43 entered into a comprehensive tax treaty with the United States government;44 (2) The related member derives at least one-third of its gross revenues from the licensing of intangible
45 property to parties who are not related members, and the transaction giving rise to the expenses and costs
46 between the corporation and the related member was made at rates and terms comparable to the rates and
47 terms of agreements that the related member has entered into with parties who are not related members for
48 the licensing of intangible property; or49 (3) The corporation can establish to the satisfaction of the Tax Commissioner that the intangible expenses
50 and costs meet both of the following: (i) the related member during the same taxable year directly or
51 indirectly paid, accrued or incurred such portion to a person who is not a related member, and (ii) the
52 transaction giving rise to the intangible expenses and costs between the corporation and the related member
53 did not have as a principal purpose the avoidance of any portion of the tax due under this chapter.54 b. A corporation required to add to its federal taxable income intangible expenses and costs pursuant to
55 subdivision a may petition the Tax Commissioner, after filing the related income tax return for the taxable
56 year and remitting to the Tax Commissioner all taxes, penalties, and interest due under this article for such

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59 taxable year including tax upon any amount of intangible expenses and costs required to be added to federal
60 taxable income pursuant to subdivision a, to consider evidence relating to the transaction or transactions
61 between the corporation and a related member or members that resulted in the corporation's taxable income
62 being increased, as required under subdivision a, for such intangible expenses and costs.

63 If the corporation can demonstrate to the Tax Commissioner's sole satisfaction, by clear and convincing
64 evidence, that the transaction or transactions between the corporation and a related member or members
65 resulting in such increase in taxable income pursuant to subdivision a had a valid business purpose other than
66 the avoidance or reduction of the tax due under this chapter, the Tax Commissioner shall permit the
67 corporation to file an amended return. For purposes of such amended return, the requirements of subdivision
68 a shall not apply to any transaction for which the Tax Commissioner is satisfied (and has identified) that the
69 transaction had a valid business purpose other than the avoidance or reduction of the tax due under this
70 chapter. Such amended return shall be filed by the corporation within one year of the written permission
71 granted by the Tax Commissioner and any refund of the tax imposed under this article shall include interest at
72 a rate equal to the rate of interest established under § 58.1-15 and such interest shall accrue as provided under
73 § 58.1-1833. However, upon the filing of such amended return, any related member of the corporation that
74 subtracted from taxable income amounts received pursuant to subdivision C 21 shall be subject to the tax
75 imposed under this article on that portion of such amounts for which the corporation has filed an amended
76 return pursuant to this subdivision. In addition, for such transactions identified by the Tax Commissioner
77 herein by which he has been satisfied by clear and convincing evidence, the Tax Commissioner may permit
78 the corporation in filing income tax returns for subsequent taxable years to deduct the related intangible
79 expenses and costs without making the adjustment under subdivision a.

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

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

86 c. Nothing in subdivision B 8 shall be construed to limit or negate the Department's authority under
87 § 58.1-446;

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

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

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

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

102 (4) One of the following applies:

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

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

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

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

119 b. A corporation required to add to its federal taxable income interest expenses and costs pursuant to
120 subdivision a may petition the Tax Commissioner, after filing the related income tax return for the taxable

121 year and remitting to the Tax Commissioner all taxes, penalties, and interest due under this article for such
 122 taxable year including tax upon any amount of interest expenses and costs required to be added to federal
 123 taxable income pursuant to subdivision a, to consider evidence relating to the transaction or transactions
 124 between the corporation and a related member or members that resulted in the corporation's taxable income
 125 being increased, as required under subdivision a, for such interest expenses and costs.

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

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

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

151 c. Nothing in subdivision B 9 shall be construed to limit or negate the Department's authority under
 152 § 58.1-446.

153 d. For purposes of subdivision B 9:

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

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

163 10. a. For taxable years beginning on and after January 1, 2009, the amount of dividends deductible under
 164 §§ 561 and 857 of the Internal Revenue Code by a Captive Real Estate Investment Trust (REIT). For
 165 purposes of this subdivision, a REIT is a Captive REIT if:

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

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

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

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

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

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

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

181 (4) Any Qualified Foreign Entity.

182 c. For purposes of subdivision B 10, the constructive ownership rules prescribed under § 318(a) of the

183 Internal Revenue Code, as modified by § 856(d)(5) of the Internal Revenue Code, shall apply in determining
184 the ownership of stock, assets, or net profits of any person.

185 d. For purposes of subdivision B 10:

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

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

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

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

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

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

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

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

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

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

211 1. Income derived from obligations, or on the sale or exchange of obligations, of the United States and on
212 obligations or securities of any authority, commission or instrumentality of the United States to the extent
213 exempt from state income taxes under the laws of the United States including, but not limited to, stocks,
214 bonds, treasury bills, and treasury notes, but not including interest on refunds of federal taxes, interest on
215 equipment purchase contracts, or interest on other normal business transactions.

216 2. Income derived from obligations, or on the sale or exchange of obligations of this Commonwealth or of
217 any political subdivision or instrumentality of this Commonwealth.

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

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

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

226 6. The amount of wages or salaries eligible for the federal Targeted Jobs Credit which was not deducted
227 for federal purposes on account of the provisions of § 280C(a) of the Internal Revenue Code.

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

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

232 9. [Repealed.]

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

235 11. [Repealed.]

236 12, 13. [Expired.]

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

240 15. For taxable years beginning on or after January 1, 2000, the total amount actually contributed in funds
241 to the Virginia Public School Construction Grants Program and Fund established in Chapter 11.1
242 (§ 22.1-175.1 et seq.) of Title 22.1.

243 16. For taxable years beginning on or after January 1, 2000, but before January 1, 2015, the gain derived
244 from the sale or exchange of real property or the sale or exchange of an easement to real property which

245 results in the real property or the easement thereto being devoted to open-space use, as that term is defined in
 246 § 58.1-3230, for a period of time not less than 30 years. To the extent a subtraction is taken in accordance
 247 with this subdivision, no tax credit under this chapter for donating land for its preservation shall be allowed
 248 for three years following the year in which the subtraction is taken.

249 17. For taxable years beginning on and after January 1, 2001, any amount included therein with respect to
 250 § 58.1-440.1.

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

256 19, 20. [Repealed.]

257 21. For taxable years beginning on and after January 1, 2004, any amount of intangible expenses and costs
 258 or interest expenses and costs added to the federal taxable income of a corporation pursuant to subdivision B
 259 8 or B 9 shall be subtracted from the federal taxable income of the related member that received such amount
 260 if such related member is subject to Virginia income tax on the same amount.

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

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

270 24. For taxable years beginning on or after January 1, 2011, any income taxed as a long-term capital gain
 271 for federal income tax purposes, or any income taxed as investment services partnership interest income
 272 (otherwise known as investment partnership carried interest income) for federal income tax purposes. To
 273 qualify for a subtraction under this subdivision, such income must be attributable to an investment in a
 274 "qualified business," as defined in § 58.1-339.4, or in any other technology business approved by the
 275 Secretary of Administration, provided the business has its principal office or facility in the Commonwealth
 276 and less than \$3 million in annual revenues in the fiscal year prior to the investment. To qualify for a
 277 subtraction under this subdivision, the investment must be made between the dates of April 1, 2010, and June
 278 30, 2020. No taxpayer who has claimed a tax credit for an investment in a "qualified business" under
 279 § 58.1-339.4 shall be eligible for the subtraction under this subdivision for an investment in the same
 280 business.

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

287 b. As used in this subdivision 25:

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

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

306 26. a. Income attributable to an investment in a Virginia real estate investment trust. To qualify for a

307 subtraction under this subdivision, the investment shall be made on or after January 1, 2019, but before
308 December 31, 2024. No subtraction shall be allowed for an investment in a trust that is managed by an
309 affiliate of the taxpayer. No subtraction shall be allowed under this subdivision for a taxpayer who has
310 claimed a subtraction under subdivision C 24 or 25 for the same investment.

311 b. As used in this subdivision 26:

312 "Distressed" means satisfying the criteria applicable to a locality described in subdivision E 2 of
313 § 2.2-115.

314 "Double distressed" means satisfying the criteria applicable to a locality described in subdivision E 3 of
315 § 2.2-115.

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

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

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

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

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

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

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

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

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

355 1. 20 percent for taxable years beginning on and after January 1, 2018, but before January 1, 2022;

356 2. 30 percent for taxable years beginning on and after January 1, 2022, but before January 1, 2024; and

357 3. 50 percent for taxable years beginning on and after January 1, 2024.

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

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

364 I. For taxable years beginning on and after January 1, 2026, there shall be deducted the amount paid or
365 cost incurred for installing a qualifying upgrade required to interconnect a triggering project. No deduction
366 shall be allowed under this section for a taxpayer who has claimed a deduction under subdivision 19 of
367 § 58.1-322.03 for the same amount paid or cost incurred to install such qualifying upgrade.

368 For purposes of this subsection, "qualifying upgrade" and "triggering project" have the same meanings as

369 provided for those terms in § 56-596.5.

370 *J. 1. For purposes of this subsection:*

371 "Adjusted federal deductions" means federal deductions after taking into account any adjustments
372 pursuant to § 58.1-301.

373 "Virginia net operating loss" means the amount by which a corporate taxpayer's adjusted federal
374 deductions and Virginia deductions for the taxable year, excluding any federal and Virginia net operating
375 loss deduction, exceed its gross income after taking into account any modifications pursuant to § 58.1-402,
376 allocations as described in § 58.1-407, and apportionment as described in §§ 58.1-408 through 58.1-423.
377 Such excess shall be computed with the modifications specified in § 172(d) of the Internal Revenue Code,
378 mutatis mutandis. Such loss shall be further adjusted as follows: (i) for corporations subject to the provisions
379 of § 58.1-405, the Virginia net operating loss earned that year shall be calculated or applied without
380 allocation and apportionment and (ii) for corporations filing on a combined or consolidated basis pursuant
381 to § 58.1-442, the Virginia net operating loss as affiliated members join and exit the affiliated group of
382 corporations shall be tracked under the principles of 26 C.F.R. §§ 1.172-1 and 1.1502-1, mutatis mutandis.

383 2. For taxable years beginning on and after January 1, 2027, there shall be allowed, a Virginia net
384 operating loss deduction, in an amount equal to the aggregate Virginia net operating loss for such taxable
385 year, plus any transitional net operating loss deduction pursuant to subdivision 3, subject to the following
386 adjustments: (i) the Virginia net operating loss deduction shall be the lesser of the aggregate amount of the
387 Virginia net operating loss arising in the taxable year, or 80 percent of the excess, if any, of Virginia taxable
388 income computed without regard to the deduction under § 250 of the Internal Revenue Code for which one or
389 more subtractions are claimed under § 58.1-402; (ii) the entire amount of the Virginia net operating loss
390 shall be carried over to the earliest year to which such loss may be carried; (iii) the portion of such loss
391 carried over to each of the subsequent taxable years shall be the excess, if any, of the amount of such loss
392 over the sum of the taxable income for each of the prior taxable years to which such loss may be carried; (iv)
393 in determining the amount of any such loss carried over to any taxable year, the necessary computations
394 involving any other taxable year shall be made under the law applicable to such other taxable year; and (v)
395 in no case shall Virginia taxable income, after all other adjustments, allocation, and apportionment, be
396 reduced below zero by a Virginia net operating loss deduction.

397 3. If any corporation (i) filed a Virginia income tax return for a taxable year ending in 2026; (ii) had a net
398 operating loss available under § 172 of the Internal Revenue Code to be carried over to the taxable year
399 beginning on and after January 1, 2027, but before January 1, 2028; and (iii) filed a Virginia income tax
400 return for the taxable year beginning on and after January 1, 2027, but before January 1, 2028, then the
401 taxpayer may compute a transitional Virginia net operating loss by multiplying its available federal net
402 operating loss, as adjusted by Virginia modifications made in accordance with the federal net operating loss,
403 by the taxpayer's apportionment factor for the taxable year beginning on and after January 1, 2027, but
404 before January 1, 2028. If the taxpayer is ineligible for an allocation and apportionment of income, then its
405 apportionment factor shall be 100 percent.

406 4. a. For purposes of a consolidated Virginia income tax return, (i) the Virginia net operating loss
407 deduction allowed under subdivision 2 shall be computed and applied on a consolidated basis and (ii) the net
408 income or loss included in the consolidated taxable income shall not be reduced below zero by a Virginia net
409 operating loss deduction.

410 b. For purposes of a combined Virginia income tax return, (i) each corporation named therein shall
411 compute and apply the Virginia net operating loss deduction on a separate basis and (ii) the net income or
412 loss included in the combined taxable income shall not be reduced below zero by a Virginia net operating
413 loss deduction. To the extent that one affiliate's current loss offsets another affiliate's current income on a
414 combined Virginia income tax return, such loss shall not be carried forward and deducted in subsequent
415 taxable years.

416 2. That the provisions of this act shall become effective on January 1, 2027.

417 3. That the Department of Taxation shall issue guidelines implementing the provisions of this act. Such
418 guidelines shall be exempt from the provisions of the Administrative Process Act (§ 2.2-4000 et seq.) of
419 the Code of Virginia. Before issuing final guidelines, the Department of Taxation shall issue and make
420 publicly available preliminary guidelines. The Department of Taxation shall cooperate with and seek
421 the counsel of interested stakeholders and shall not issue any guidelines, preliminary or final, without
422 first soliciting such counsel.