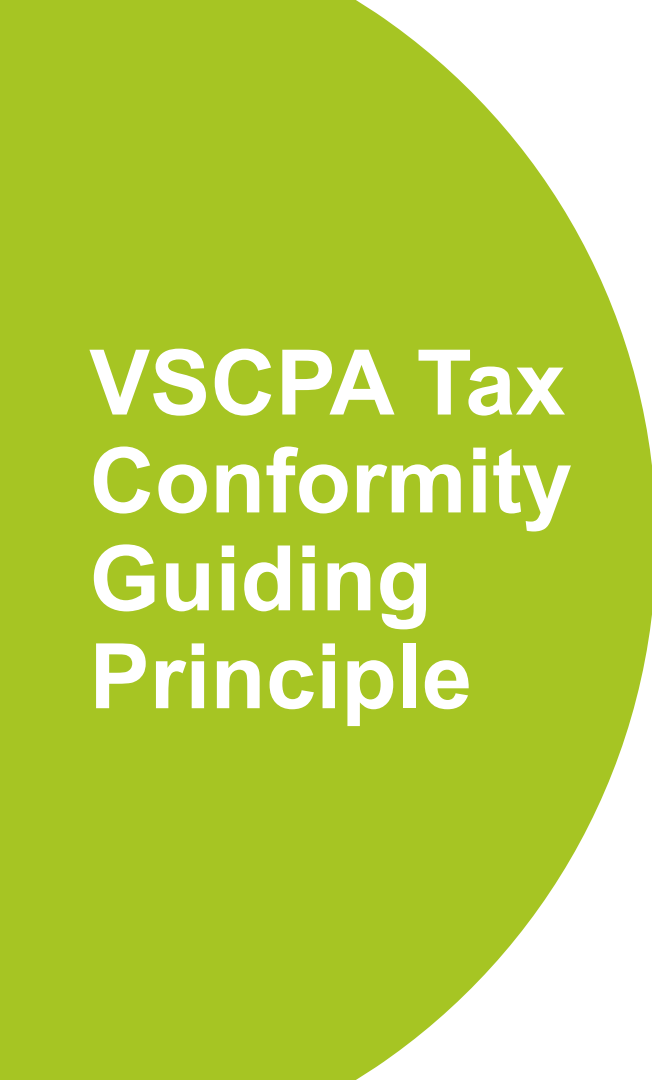



Virginia Tax Conformity Overview

January 11, 2021



VSCPA Tax Conformity Guiding Principle

Whenever possible,
Virginia's tax laws should
conform to federal tax laws.
There should be as little
delay as possible between
the passage of federal tax
law changes and adoption
by the Commonwealth



What is Tax Conformity?

- The adoption of federal **definitions** of income.
 - Individuals: federal adjusted gross income (FAGI)
 - Businesses: federal taxable income (FTI)
- Virginia adopts annually
- Virginia conforms to the Internal Revenue Code as it existed on December 31, 2019, with certain exceptions

Federal Adjusted Gross Income (FAGI)

INCOME

- W-2 income
- Interest & Dividends
- Capital Gains and Losses
- Business income from sole proprietorships or farms
- Rental Income
- Pass-thru income from S Corporations and Partnerships
- Social Security and Pension Income
- Other Income (alimony, gambling winnings, etc)

DEDUCTIONS

- Self-employment Tax
- Self-employed health insurance
- IRA and other pension contributions
- HSA contributions
- Other Deductions (educator, alimony, tuition, etc)

= Federal Adjusted Gross Income

Federal Taxable Income (FTI)

- Revenues minus Expenses
- +/- Tax adjustments
- = FTI

Deconforming Provisions §58.1-301

Bonus
depreciation

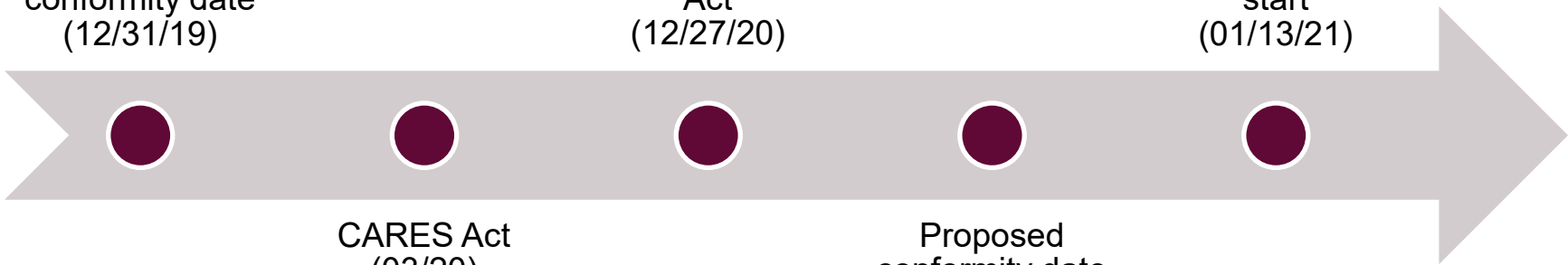
NOL
carrybacks

High yield
discount
obligations

Debt
cancellation

Pease
limitation

Medical
expense
deduction floor



Current
conformity date
(12/31/19)

CARES Act
(03/20)

Consolidated
Appropriations
Act
(12/27/20)

Proposed
conformity date
(12/31/20)

GA Session
start
(01/13/21)

Currently

Virginia conforms to the IRC as it existed on December 31, 2019, with certain exceptions



2020 Federal Legislation

- CARES Act
- Consolidated Appropriations Act

CARES Act Major Provisions

INDIVIDUAL

- COVID-19 related retirement distributions
- Exclusion of educational payments
- For AGI charitable contribution deduction
- Deduction limitations for certain charitable contributions
- NOL carrybacks

BUSINESS

- Loss-limitation for non-corporate taxpayers
- Limit on net interest deductions
- Modification of NOL deduction
- Exclusion for forgiveness of PPP loans
- QIP bonus depreciation

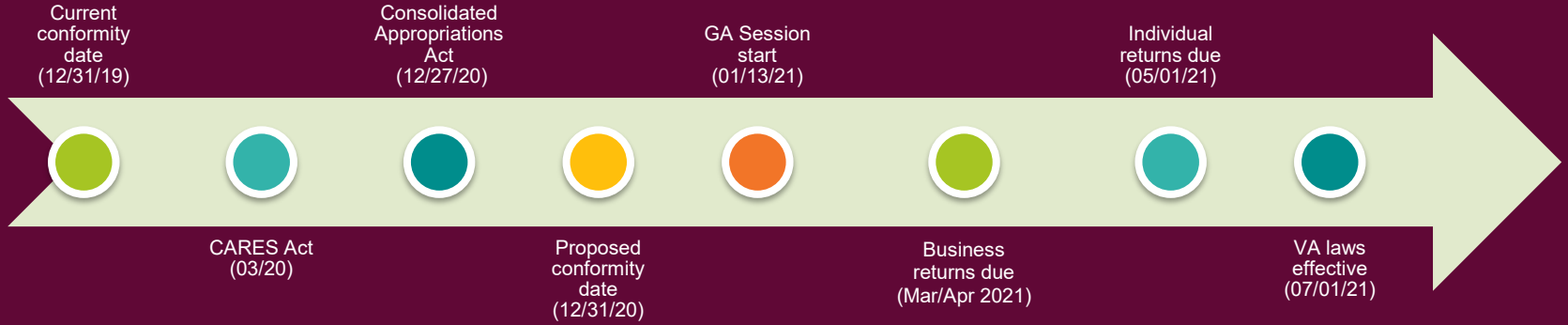
Consolidated Appropriations Act

INDIVIDUAL PROVISIONS

- Deduction for educators for PPE
- Reduced medical deduction floor

BUSINESS PROVISIONS

- Deductibility of expenses paid with PPP funds
- Depreciation on certain residential rental real estate



Current conformity date
(12/31/19)

Consolidated Appropriations Act
(12/27/20)

GA Session start
(01/13/21)

Individual returns due
(05/01/21)

CARES Act
(03/20)

Proposed conformity date
(12/31/20)

Business returns due
(Mar/Apr 2021)

VA laws effective
(07/01/21)


Conformity Legislation:

HB 1935 (Watts)
SB 1146 (Howell)

- Emergency legislation required to take effect before the May 1 filing deadline
 - Requires 80% approval vote in each chamber
 - If not emergency, would take effect July 1

VSCPA Simplicity Guiding Principle

Earliest possible conformity helps to minimize complexity in Virginia return preparation, allowing taxpayers to accurately comply with the rules in a cost-efficient manner.





Without Conformity

Returns would require significant adjustments, essentially requiring taxpayers to complete two federal returns – one that uses the current federal definitions of income and one that uses the definitions as they existed on 12/31/19

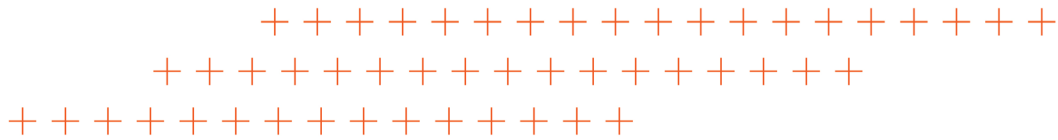


Without Timely Passage

- Significant delays in ability to file returns
- Virginia Department of Taxation and software companies would have to make significant program changes
- Timing of fiscal revenue



What
questions do
you have?



Thank you!