



## **SUPPORT HB 1456 (McNamara) / SB 1476 (Petersen)**

### **Income tax, state; pass-through entities**

#### **BILL SUMMARY:**

**Income tax; pass-through entities.** Makes changes to the elective entity level tax on pass-through entities. The bill would impose the tax only on the share of income, gain, loss, or deduction attributable to eligible owners, as opposed to imposing the tax on the entire entity. "Eligible owner" is defined in the bill as an owner of a pass-through entity that is a natural person or a person eligible to be a shareholder in an S corporation. The bill also strikes the requirement that to qualify for the tax a pass-through entity must be 100 percent owned by natural persons or persons eligible to be shareholders in an S corporation.

#### **ADDITIONAL BACKGROUND:**

- During the 2022 General Assembly legislation was adopted to permit pass-through entities (PTEs) to pay an entity-level tax which can then be applied as a credit for individual owners.
- The 2022 legislation limited this option to PTEs 100% owned by natural persons, which unintentionally disqualified many PTEs from being able to use this methodology. The bill addresses this by removing the definition of "qualifying entity" and replacing it with "eligible owners".
- The bill also makes technical updates related to the calculation and apportionment for PTE owners.

#### **VSCPA POSITION: SUPPORT**

The Virginia Society of CPAs strongly **SUPPORTS** HB 1456 and SB 1476. The technical changes presented in this legislation make this tax compliance methodology available to all owners of pass-through entities meeting the eligibility criteria.

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