

# DEPARTMENT OF TAXATION

## 2022 Fiscal Impact Statement

1. **Patron** Nicholas J. Freitas

3. **Committee** House Finance

4. **Title** Individual and Corporate Income Tax; Virginia  
National Guard Employment and Self-  
Employment

2. **Bill Number** HB 290

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide an individual or corporate income tax credit to an employer for a certain percentage of wages paid to qualified Virginia National Guard employees. This bill would also provide a self-employed Virginia National Guard member an individual or corporate income tax credit for a certain percentage of the income attributable to his or her trade or business. The applicable percentage for both portions of this credit would be 25 percent for employees who were in military pay status for 65 or more days during the taxable year, and 15 percent for employees who were in military pay status for more than 44 days, but fewer than 65 days during the taxable year. This credit would not be subject to an annual credit cap.

This bill would be effective for taxable years beginning on and after January 1, 2022 and before January 1, 2027.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Unknown. (See Line 8.)

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation considers implementation of this bill as routine, and does not require additional funding.

#### Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2023. In 2021, there were approximately 8,739 National Guard members in Virginia. However, it is unknown to what extent employers and self-employed National Guard members would qualify for and claim this credit.

### 9. **Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary: No.**

**11. Other comments:**

Virginia Military Tax Preferences

Taxpayers may subtract the following military items for the purposes of computing Virginia taxable income:

- Wages or salaries received for service in the Virginia National Guard, not exceeding income for thirty-nine days of service or \$3,000, whichever is less. This subtraction only applies to persons in the ranks of O3 and below.
- All military pay and allowances earned while serving in a combat zone or qualified hazardous duty area, to the extent they were included in federal adjusted gross income.
- \$15,000 of military basic pay for military personnel on extended active duty for periods in excess of ninety days. The subtraction amount is reduced dollar-for-dollar by the amount which the taxpayer's military basic pay exceeds \$15,000 and will be reduced to zero if such pay is equal to or exceeds \$30,000.
- Any amount received as military retirement income by an individual awarded the Congressional Medal of Honor.
- The amount of military death gratuity payments received after September 11, 2001, by survivors of military personnel who are killed in the line of duty. This subtraction amount must be reduced dollar-for-dollar by the amount that is allowed as an exclusion from federal adjusted gross income to the survivor on his or her federal income tax return.

For taxable years beginning on or after January 1, 2011, Virginia exempts from taxation the real property, including the joint real property of a husband and wife, and the land, not exceeding one acre, upon which the real property is situated of any military veteran who has been rated by the VA to have a 100 percent service-connected, permanent, and total disability, and who occupies the real property as his or her principal place of residence. The surviving spouse of a veteran may also qualify for this exemption, so long as the following conditions are met: the veteran's death occurred on or after January 1, 2011; the surviving spouse does not remarry; and the surviving spouse continues to occupy such real property as his or her principal place of residence.

Sunset Dates for New Income Tax Credits and Sales Tax Exemptions

Section 3-5.14 of the 2021 Appropriation Act provides that any new sales tax exemption or tax credit enacted by the General Assembly after the 2019 Session, but prior to the 2024 Session, must have a sunset date of not later than June 30, 2025.

Proposed Legislation

This bill would provide an individual or corporate income tax credit to an employer for a certain percentage of wages paid to qualified Virginia National Guard employees. This bill would also

provide a self-employed Virginia National Guard member an individual or corporate income tax credit for a certain percentage of the income attributable to his or her trade or business. The applicable percentage for both portions of this credit would be 25 percent for employees and self-employed members who were in military pay status for 65 or more days during the taxable year, and 15 percent for employees and self-employed members who were in military pay status for more than 44 days, but fewer than and 65 days during the taxable year. The credit would not be subject to an annual credit cap.

“National Guard employee” would be defined as an employee of an employer that is also an active member of the National Guard of the Commonwealth of Virginia.

“Self-employed National Guard member” would be defined as an active member of the National Guard of the Commonwealth of Virginia who derives a substantial portion of his income from a trade or business;

- Operated by the member as a sole proprietor,
- Through which the member has attempted to earn taxable income, and
- For which the member has filed the appropriate Internal Revenue Service Form 1040, Schedule C or F, for the previous taxable year.

“Employer” would be defined the same as that term is defined for Virginia income tax withholding purposes.

“Wages” would be defined the same as that term is defined for Virginia income tax withholding purposes and includes wages or salaries paid during the deployment of a National Guard employee.

Self-employed National Guard members would be prohibited from claiming this credit if an employer is also claiming the credit for the same National Guard member.

This bill would be effective for taxable years beginning on and after January 1, 2022 and before January 1, 2027.

#### Similar Legislation

**House Bill 233** would increase the income tax subtraction for Virginia National Guard pay from \$3,000 to \$5,000 and expand the military ranks that qualify for purposes of the subtraction.

cc : Secretary of Finance

Date: 1/23/2022 RWC  
HB290F161