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SENATE BILL NO. 288

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the House Committee on Finance
on February 23, 2022)

(Patron Prior to Substitute—Senator Ebbin)

*A BILL to amend and reenact §§ 58.1-322.03 and 58.1-402 of the Code of Virginia, relating to Virginia taxable income; corporations; deductions; business interest.***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 as follows:**
§ 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) and (ii) for taxable years beginning on and after January 1, 2019, but before January 1, 2026, \$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). 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 Virginia College Savings 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

60 future taxable years until the purchase price or college savings trust contribution has been fully
61 deducted; however, except as provided in subdivision b, in no event shall the amount deducted in any
62 taxable year exceed \$4,000 per contract or college savings trust account. Notwithstanding the statute of
63 limitations on assessments contained in § 58.1-312, any deduction taken hereunder shall be subject to
64 recapture in the taxable year or years in which distributions or refunds are made for any reason other
65 than (i) to pay qualified higher education expenses, as defined in § 529 of the Internal Revenue Code or
66 (ii) the beneficiary's death, disability, or receipt of a scholarship. For the purposes of this subdivision,
67 "purchaser" or "contributor" means the person shown as such on the records of the Virginia College
68 Savings Plan as of December 31 of the taxable year. In the case of a transfer of ownership of a prepaid
69 tuition contract or college savings trust account, the transferee shall succeed to the transferor's tax
70 attributes associated with a prepaid tuition contract or college savings trust account, including, but not
71 limited to, carryover and recapture of deductions.

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

77 8. The total amount an individual actually contributed in funds to the Virginia Public School
78 Construction Grants Program and Fund, established in Chapter 11.1 (§ 22.1-175.1 et seq.) of Title 22.1,
79 provided that the individual has not claimed a deduction for such amount on his federal income tax
80 return.

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

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

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

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

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

101 12. An amount equal to 20 percent of the sum paid by an individual pursuant to Chapter 6
102 (§ 58.1-600 et seq.), not to exceed \$500 in each taxable year, in purchasing for his own use the
103 following items of tangible personal property: (i) any clothes washers, room air conditioners,
104 dishwashers, and standard size refrigerators that meet or exceed the applicable energy star efficiency
105 requirements developed by the U.S. Environmental Protection Agency and the U.S. Department of
106 Energy; (ii) any fuel cell that (a) generates electricity using an electrochemical process, (b) has an
107 electricity-only generation efficiency greater than 35 percent, and (c) has a generating capacity of at least
108 two kilowatts; (iii) any gas heat pump that has a coefficient of performance of at least 1.25 for heating
109 and at least 0.70 for cooling; (iv) any electric heat pump hot water heater that yields an energy factor of
110 at least 1.7; (v) any electric heat pump that has a heating system performance factor of at least 8.0 and
111 a cooling seasonal energy efficiency ratio of at least 13.0; (vi) any central air conditioner that has a
112 cooling seasonal energy efficiency ratio of at least 13.5; (vii) any advanced gas or oil water heater that
113 has an energy factor of at least 0.65; (viii) any advanced oil-fired boiler with a minimum annual
114 fuel-utilization rating of 85; (ix) any advanced oil-fired furnace with a minimum annual fuel-utilization
115 rating of 85; and (x) programmable thermostats.

116 13. The lesser of \$5,000 or the amount actually paid by a living donor of an organ or other living
117 tissue for unreimbursed out-of-pocket expenses directly related to the donation that arose within 12
118 months of such donation, provided that the donor has not taken a medical deduction in accordance with
119 the provisions of § 213 of the Internal Revenue Code for such expenses. The deduction may be taken in
120 the taxable year in which the donation is made or the taxable year in which the 12-month period
121 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. For taxable years beginning on and after January 1, 2018, *but before January 1, 2022*, 20 percent of business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code. *For taxable years beginning on and after January 1, 2022, 30 percent of business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code.* For purposes of this subdivision, "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 on and after January 1, 2020, but 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.

§ 58.1-402. Virginia taxable income.

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

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

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

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

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

3. [Repealed.]

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

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

6. [Repealed.]

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

8. a. For taxable years beginning on and after January 1, 2004, the amount of any intangible 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 intangible expenses and costs if one of the following applies:

(1) 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;

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

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

189 b. A corporation required to add to its federal taxable income intangible expenses and costs pursuant
190 to subdivision a may petition the Tax Commissioner, after filing the related income tax return for the
191 taxable year and remitting to the Tax Commissioner all taxes, penalties, and interest due under this
192 article for such taxable year including tax upon any amount of intangible expenses and costs required to
193 be added to federal taxable income pursuant to subdivision a, to consider evidence relating to the
194 transaction or transactions between the corporation and a related member or members that resulted in the
195 corporation's taxable income being increased, as required under subdivision a, for such intangible
196 expenses and costs.

197 If the corporation can demonstrate to the Tax Commissioner's sole satisfaction, by clear and
198 convincing evidence, that the transaction or transactions between the corporation and a related member
199 or members resulting in such increase in taxable income pursuant to subdivision a had a valid business
200 purpose other than the avoidance or reduction of the tax due under this chapter, the Tax Commissioner
201 shall permit the corporation to file an amended return. For purposes of such amended return, the
202 requirements of subdivision a shall not apply to any transaction for which the Tax Commissioner is
203 satisfied (and has identified) that the transaction had a valid business purpose other than the avoidance
204 or reduction of the tax due under this chapter. Such amended return shall be filed by the corporation
205 within one year of the written permission granted by the Tax Commissioner and any refund of the tax
206 imposed under this article shall include interest at a rate equal to the rate of interest established under
207 § 58.1-15 and such interest shall accrue as provided under § 58.1-1833. However, upon the filing of
208 such amended return, any related member of the corporation that subtracted from taxable income
209 amounts received pursuant to subdivision C 21 shall be subject to the tax imposed under this article on
210 that portion of such amounts for which the corporation has filed an amended return pursuant to this
211 subdivision. In addition, for such transactions identified by the Tax Commissioner herein by which he
212 has been satisfied by clear and convincing evidence, the Tax Commissioner may permit the corporation
213 in filing income tax returns for subsequent taxable years to deduct the related intangible expenses and
214 costs without making the adjustment under subdivision a.

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

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

221 c. Nothing in subdivision B 8 shall be construed to limit or negate the Department's authority under
222 § 58.1-446;

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

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

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

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

238 (4) One of the following applies:

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

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

244 (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 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 interest 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 and that the related payments between the parties were made at arm's length rates and terms, 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 and that the related payments between the parties were made at arm's length rates and terms. 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 interest 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 9 shall be construed to limit or negate the Department's authority under § 58.1-446.

d. For purposes of subdivision B 9:

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

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

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

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

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

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

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

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

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

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

321 (4) Any Qualified Foreign Entity.

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

325 d. For purposes of subdivision B 10:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19, 20. [Repealed.]

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

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

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

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

25. a. Income, including investment services partnership interest income (otherwise known as investment partnership carried interest income), attributable to an investment in a Virginia venture capital account. To qualify for a subtraction under this subdivision, the investment shall be made on or

429 after January 1, 2018, but before December 31, 2023. No subtraction shall be allowed under this
430 subdivision for an investment in a company that is owned or operated by an affiliate of the taxpayer. No
431 subtraction shall be allowed under this subdivision for a taxpayer who has claimed a subtraction under
432 subdivision C 24 for the same investment.

433 b. As used in this subdivision 25:

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

439 "Virginia venture capital account" means an investment fund that has been certified by the
440 Department as a Virginia venture capital account. In order to be certified as a Virginia venture capital
441 account, the operator of the investment fund shall register the investment fund with the Department prior
442 to December 31, 2023, (i) indicating that it intends to invest at least 50 percent of the capital committed
443 to its fund in qualified portfolio companies and (ii) providing documentation that it employs at least one
444 investor who has at least four years of professional experience in venture capital investment or
445 substantially equivalent experience. "Substantially equivalent experience" includes, but is not limited to,
446 an undergraduate degree from an accredited college or university in economics, finance, or a similar
447 field of study. The Department may require an investment fund to provide documentation of the
448 investor's training, education, or experience as deemed necessary by the Department to determine
449 substantial equivalency. If the Department determines that the investment fund employs at least one
450 investor with the experience set forth herein, the Department shall certify the investment fund as a
451 Virginia venture capital account at such time as the investment fund actually invests at least 50 percent
452 of the capital committed to its fund in qualified portfolio companies.

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

458 b. As used in this subdivision 26:

459 "Distressed" means satisfying the criteria applicable to a locality described in subdivision E 2 of
460 § 2.2-115.

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

463 "Virginia real estate investment trust" means a real estate investment trust, as defined in 26 U.S.C.
464 § 856, that has been certified by the Department as a Virginia real estate investment trust. In order to be
465 certified as a Virginia real estate investment trust, the trustee shall register the trust with the Department
466 prior to December 31, 2024, indicating that it intends to invest at least 90 percent of trust funds in
467 Virginia and at least 40 percent of trust funds in real estate in localities that are distressed or double
468 distressed. If the Department determines that the trust satisfies the preceding criteria, the Department
469 shall certify the trust as a Virginia real estate investment trust at such time as the trust actually invests
470 at least 90 percent of trust funds in Virginia and at least 40 percent of trust funds in real estate in
471 localities that are distressed or double distressed.

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

474 28. For taxable years beginning on and after January 1, 2020, but before January 1, 2021, up to
475 \$100,000 of all grant funds received by the taxpayer under the Rebuild Virginia program established by
476 the Governor and administered by the Department of Small Business and Supplier Diversity.

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

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

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

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

488 F. Notwithstanding any other provision of law, the income from any disposition of real property
489 which is held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or
490 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. For taxable years beginning on and after January 1, 2018, *but before January 1, 2022*, there shall be deducted to the extent included in and not otherwise subtracted from federal taxable income 20 percent of business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code. *For taxable years beginning on and after January 1, 2022, there shall be deducted to the extent included in and not otherwise subtracted from federal taxable income 30 percent of business interest disallowed as a deduction pursuant to § 163(j) of the Internal Revenue Code.* For purposes of this subsection, "business interest" means the same as that term is defined under § 163(j) of the Internal Revenue Code.

H. For taxable years beginning on and after January 1, 2020, but 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.