

Task Force #1 HJR 60 (2002)

State Income Tax Issue

1. Conformity with federal law--conformity or deconformity; fixed date

Currently, Virginia is considered a conformity state when it comes to state income taxes. In calculating taxable income for state income tax purposes, a taxpayer begins with his federal adjusted gross income. From that amount the taxpayer may add, subtract, deduct, exempt and credit amounts (tax preferences) applicable to his situation and that are allowed by the income tax provisions of the Code of Virginia. Each time a tax preference is added to the code, Virginia deconforms one more step away from federal tax law. In other words, any time a deduction, subtraction, addition, exemption or credit is added to Virginia's tax code that is not in the federal tax code, Virginia deconforms and adds to the complexity of the system.

Attached is an explanation of the fiscal impact the most recent changes in federal tax laws would have had on Virginia had the budget bill NOT contained the language conforming Virginia's tax code to the federal tax code as of December 31, 2001.