

2020 Update for Tax Professionals

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2020 Filing Season Status Updates

Individual Income Tax – Filing Results as of 9/26/2020

Channel	2019	2020	Refunds	2019	2020
Electronic	3,442,422	3,628,810	Direct deposit	1,845,200	2,136,861
Paper	634,723	544,081	Paper check	720,223	735,211
Total	4,077,145	4,172,891	Total	2,565,423	2,872,072
Electronic	84.43%	86.96%	Electronic filing	71.93%	74.40%
Paper	15.57%	13.04%	Paper filing	28.07%	25.60%

Electronically filed Returns: 90% of refunds are generally processed within 1 week, but could take up to 4 weeks

Paper Returns: May take up to 8 weeks – if mailed certified, allow an additional 3 weeks

Contact Center Performance for Businesses and Individuals

January 1 – September 21, 2020

Total calls handled:	434,167
Average speed to answer:	1 minute, 58 seconds
Service level:	88.99%
Correspondence turnaround:	18 business days

Tax Professional Hotline: Performance through 9/21/2020

Calls Handled:	10,551
Service Level:	94.75%
Average Speed to Answer:	59 seconds

NOTE:

If you need to submit a POA or other documentation, ask for the Virginia Tax representative's personal fax number

804.367.9286

8:30 am – 5 pm (Monday – Friday)

Keep the line open – Tax Professionals Only

Be prepared when you call

- ▶ The “discuss with preparer” must be checked (if you don’t have a POA)
- ▶ You will need to provide the following information:
 - ▶ Your name, address, phone number, and PTIN
 - ▶ Your client’s name, address, phone number, and SSN or FEIN
 - ▶ Specific information from the return

Where's My Refund?

- ▶ Go online at www.tax.virginia.gov – it is fast and easy
- ▶ Or, call 804.367.2486

All you need is SSN, taxable year, and expected refund amount

Refund Fraud

- ▶ All refund returns are carefully reviewed
- ▶ Taxpayers may need to provide additional information
 - ▶ Documentation may be submitted online
 - ▶ The faster the taxpayer responds by providing **all** requested documentation, the quicker we will release the refund
- ▶ If a taxpayer needs assistance using the online process, we can help **if** the taxpayer has sufficient identification information, such as an ID and copies of withholding statements

Denied & Reduced Refunds by Fiscal Year

Fiscal Year	Returns Stopped	Refunds Denied	Refunds Reduced	Denied and Reduced	Total Monetary Value
2015	66,042	14,260	5,083	19,343	\$27,642,368
2016	133,640	26,817	4,832	31,649	\$27,208,909
2017	183,172	53,591	7,567	61,158	\$50,161,209
2018	189,574	43,006	7,408	50,414	\$37,951,972
2019	203,572	54,388	7,838	62,226	\$42,494,899
2020	239,531	76,016	7,854	83,870	\$58,570,427

To reduce the chances a tax return will be stopped, ensure:

- ▶ Withholding & estimated payment information is accurate
- ▶ Virginia Driver's License or Customer ID is provided on return
- ▶ Address on Virginia Driver's license is current and matches address on return
- ▶ Virginia PIN is provided, if applicable
- ▶ If someone calls you to change critical filing data, you must verify it is the taxpayer or someone who is authorized to speak for the taxpayer

How can taxpayers protect themselves?

- ▶ File taxes early and electronically
- ▶ Do not provide personal information to any unknown person
- ▶ Use direct deposit for refunds
- ▶ If fraud occurs, use state and federal resources – IRS, Federal Trade Commission, Virginia Attorney General

16K+ direct deposits were rejected between Jan.- Sept. 2020 for incorrect bank information. Please make sure you have current client banking data.

Let your clients know:

- ▶ PINs mailed at the end of December 2020 or early January 2021
- ▶ We do *not* provide PINs by phone or fax
- ▶ We will *never* ask for taxpayer's PIN
- ▶ Taxpayers should protect their PIN
- ▶ We will automatically provide a 2021 PIN if PIN was issued in 2020 unless you were issued a PIN and did not use it on either of the prior 2 tax returns
- ▶ For additional information, visit us at www.tax.virginia.gov

Tax Preparer Data Breaches (2018 HB 183)

- ▶ If client data is accessed without authority or you suspect your records have been compromised, notify Virginia Tax ***without unreasonable delay***
- ▶ Call 804.404.4232 and leave a voicemail with the following:
 - ▶ Company name
 - ▶ Contact person's name and phone number
 - ▶ Tax Professional's Identification Number (PTIN)

We will follow up within 1 business day

Payroll Data Breaches (2017 HB 2113)

- ▶ Notify the affected citizens and the Office of the Attorney General (OAG) *without unreasonable delay*
 - ▶ Call Virginia Tax immediately at 804.404.4185:
 - ▶ The OAG will inform us, but time is of the essence
 - ▶ The sooner we know, the quicker we can mitigate the risk
- 2018: Notified of 254 employer data breaches, 80 through the OAG**
- 2019: Notified of 33 employer data breaches, 20 through the OAG**
- 2020: Notified of 69 employer data breaches, 61 through the OAG**

Updates and Tips

Electronic Filing Functionality for Individuals

- ▶ Reminder- taxpayers can file electronically for estimated payments and extension payments
 - ▶ Submit extension payment for current year and select any date for payment to be processed up through May 1
 - ▶ Submit next tax year's estimated payments up through January of the following year (payment dates permitted to differ)
- ▶ Estimated payments may be set up with or without submission of current year tax return (taxpayer may decide to submit estimated payments at time of electronic filing of return or a later date)

Electronic Filing Functionality for Individuals

- ▶ Taxpayers who need to change or cancel payment must call Virginia Tax, **not** their software provider, at least 24 hours before payment date
- ▶ We are strongly encouraging Tax Preparation Software Providers to support the additional functionality
- ▶ Feature is optional so check with your software provider (may support all, part, or none)

Other Online Options for Individuals

- ▶ Updates to our [Individual Online Account Servicing](#) went live in late August
 - ▶ More secure
 - ▶ Accessible from Laptop/Desktop and Mobile hand held devices
 - ▶ View return status
 - ▶ View correspondence sent by Virginia Tax
 - ▶ Make payments – estimated, extension, tax due, bill payments
 - ▶ Update address, phone and banking information
 - ▶ View payment history
 - ▶ Access Secure Messaging, Payment Plans, and 1099G
- ▶ [eForms](#) remain available for making estimated, extension, and tax due payments

Virginia Conformity HB 1413 and SB 582

Overview

- ▶ Virginia's IRC conformity date advanced to December 31, 2019
- ▶ Generally conforms Virginia to the Further Consolidated Appropriations Act ("the federal extenders bill") except the medical expense deduction threshold for 2019 and 2020 tax years
- ▶ Continues to deconform from bonus depreciation allowed for certain assets under federal law; the 5-year carryback of certain federal net operating loss (NOL) deductions generated in the 2008 or 2009 taxable years; the federal income treatment of applicable high yield discount obligations; and the federal income tax treatment of cancellation of debt income realized in connection with certain business debts

Itemized Deductions

- ▶ Generally, line items on the Virginia Schedule A are defined in federal law except:
 - ▶ Virginia deconforms from the federal provision that reduces the medical deduction threshold from 10% to 7.5%
 - ▶ \$10,000 federal cap on state and local taxes paid does not apply to real and personal property taxes
 - ▶ Virginia deconforms to the suspension of the overall limitation on itemized deductions (Pease limitation) for certain high-income earners for 2019 and after
- ▶ Taxpayers claiming itemized deductions on their taxable year 2020 Virginia return must submit **Virginia Schedule A** with the return

Itemized Deductions

- ▶ Virginia Schedule A changes for tax year 2020
 - ▶ Federal filing status box (clarifies income limitation based on federal filing status)
 - ▶ Foreign income tax bubble (clarifies treated in same manner as state and local income taxes)

Income Taxes

Tax Credits

- ▶ **Green Job Creation:** Sunset date extended to January 1, 2025 (HB 408)
- ▶ **Research and Development Credits:** Application deadline extended from July 1, to September 1 of the calendar year following the close of the tax year that expenses related to the credits were paid or incurred (HB 748/SB 110)
 - ▶ Sunset date extended to January 1, 2025
 - ▶ Increased annual credit caps for R&D and MR&D credits to \$7.77 million and \$24 million per fiscal year

Tax Credits

- ▶ **Motion Picture Production:** Sunset date extended to January 1, 2027 (HB 1318/SB 923)
 - ▶ Credit may be issued and claimed in future fiscal years other than taxable year production activities are completed
 - ▶ Virginia Tax is prohibited from paying interest on any prospective or future credits
- ▶ **Land Preservation:** Annual credit limitation scheduled to increase to \$50,000 for tax year 2020 (pending 2020 Special Session budget language that would retain the \$20,000 limitation for tax year 2020)

Tax Credits

- ▶ **Communities of Opportunity:** Expanded to include landlords renting qualified housing units located in an eligible census tract within the Washington-Alexandria Metropolitan Statistical Area (HB 590/SB 200)
 - ▶ Sunset imposed January 1, 2025
- ▶ **Recycling Materials Processing Equipment:** Expanded to include the purchase of machinery and equipment used in advanced recycling (SB 590)
 - ▶ Sunset date extended to January 1, 2025

Reporting Federal Adjustments

- ▶ **Final Determination Date (FDD):** Legislation clarifies when individuals, corporations, estates, and trusts are required to report federal adjustments to Virginia Tax(HB 1417)
 - ▶ Report federal adjustments to Virginia Tax and pay any additional amounts due within 1 year after the FDD of such adjustments
 - ▶ FDD is defined in 58.1-311.2
 - ▶ As a general rule, the FDD is the first day on which no federal adjustments arising from a federal audit or other action remain to be finally determined and all rights of appeal have been waived or exhausted

Reporting Federal Adjustments

- ▶ For agreements required to be signed by the IRS and the taxpayer, the FDD is the date on which the last party signed the agreement
- ▶ For corporations included in a Virginia combined or consolidated return, the FDD is the first day on which no related federal adjustments arising from the audit remain to be finally determined for the entire group
- ▶ If the adjustment results from an amended federal return, a federal refund claim, or an administrative adjustment request or other similar report filed pursuant to § 6225(c) of the IRC, the FDD means the day on which the amended return, claim, request, or other similar report was filed

New Reporting Requirements for Partnership-Level Federal Adjustments (HB 1417)

Federal Reporting Requirements

- ▶ In 2015, Congress enacted the Bipartisan Budget Act (BBA)
- ▶ Partnerships are required to pay the tax owed attributable to the federal return adjustment (the federal default rule)
- ▶ A partnership may elect to push out the adjustments to its partners, thus requiring the partners to pay the tax owed
- ▶ Beginning with Taxable Year 2018, any partnership required to file federal Form 1065 is subject to the BBA provisions, unless the partnership makes a valid election to opt out

State Reporting Requirements

- ▶ Most states do not conform to the procedural rules in the IRC, and they currently have no formal state procedures to follow when a partnership is selected for a BBA audit or makes adjustments at the federal level
- ▶ The Multistate Tax Commission (MTC), working with the states and other stakeholders, formed a workgroup to create a model statute
- ▶ Virginia's HB 1417 is based on the MTC Model Statute

New Virginia Reporting Requirements

- ▶ Partnerships with 100 or fewer partners that opted out of the federal audit rules under the Bipartisan Budget Act of 2015 are exempt from these new reporting requirements
- ▶ Partnerships are required to report federal adjustments to Virginia Tax within 90 days after the FDD

New Virginia Reporting Requirements

- ▶ There are two methods of reporting federal partnership adjustments to Virginia Tax:
 - ▶ Default/Push-Out Method
 - ▶ Partnership Election to Pay Option

New Virginia Reporting Requirements

- ▶ *Default/Push-Out Method:* Partnerships pass federal adjustments through to their partners. The general obligation to pay remains with the partners
- ▶ Within 90 days of the FDD the **partnership** must:
 - ▶ File an amended return, Form 502
 - ▶ Include a completed Form 502FED-1, Virginia Partnership-Level Federal Adjustments Report
 - ▶ Pay any nonresident withholding owed as a result of the adjustment
 - ▶ File an amended composite return (Form 765) and pay tax and interest due as a result of the federal adjustment if an original Form 765 was filed
 - ▶ Send a copy of the completed Form 502FED-1 along with amended Schedules K-1 and VK-1 to each partner

New Virginia Reporting Requirements

- ▶ *Default/Push-Out Method (cont'd):*
 - ▶ Within 1 year of the FDD the **partners** must:
 - ▶ File an amended return including a copy of the Form 502FED-1 and the amended Schedule VK-1 provided by the partnership
 - ▶ Pay any tax and interest due as a result of the amended return

New Virginia Reporting Requirements

- ▶ *Partnership Election to Pay*: Instead of the default push-out method, partnerships may elect to pay Virginia income tax, interest, and penalties attributable to any partnership-level adjustments in lieu of requiring the partners to do so
 - ▶ Within 90 days of the FDD the **partnership** must file Forms 502FED-1 and 502FED-2 to make the partnership election to pay and compute the amount due
 - ▶ Within 1 year of the FDD, the **partnership** must pay any tax, interest, or penalties that result from the adjustments to Virginia taxable income

New Virginia Reporting Requirements

- ▶ *Partnership Election to Pay (cont'd):*
 - ▶ If Form 502FED-2 is not timely filed the election is invalid and the partnership must use the default push out method
 - ▶ An amended return is not required for a partnership or any of its partners where the “election to pay” option is utilized

Late File Penalty

- ▶ A partnership that fails to report federal adjustments within 90 days of the FDD is subject to a penalty of \$200 per month (or fraction of a month) that the partnership is late. If the partnership is more than 6 months late, the penalty is the greater of \$1,200 or 6% of the Virginia taxable income adjustment derived by **all** partners from the partnership
- ▶ A partner that fails to report federal adjustments within 1 year of the FDD is subject to a penalty of \$200 per month (or fraction of a month) that the partner is late. If the partner is more than 6 months late, the penalty is the greater of \$1,200 or 6% of the Virginia taxable income adjustment derived by **that** partner from the partnership

Late Payment Penalty

- ▶ A partnership that selects the “election to pay” option and fails to pay within 1 year of the FDD is subject to penalty of 6% per month, up to a maximum of 30% of the elective payment due but left unpaid

Statute of Limitations (SOL)

- ▶ If a partnership or a partner timely files the required forms and documentation, Virginia Tax has 1 year following the date of filing to assess amounts arising from the federal adjustments
- ▶ If a partnership or partner fails to timely file, or if the filed federal adjustments report omits final federal adjustments or understates the correct amount of tax owed, Virginia Tax may assess amounts arising from the final federal adjustments, if we issue the assessment within 1 year following the date of the filing of the federal adjustments report

Statute of Limitations (SOL)

- ▶ Unless agreed to in writing, adjustments made pursuant to the 1-year SOL are limited to adjustments to the partner's or partnership's tax liability that arise from federal adjustments
- ▶ The 1-year SOL may be extended upon written notice to Virginia Tax by 60 days for an audited partnership or a tiered partner that has 10,000 or more direct partners or by written agreement between the partnership or partner and Virginia Tax
- ▶ In the case of refunds arising from federal adjustments, the refund may be claimed within 3 years from the last day prescribed by law for the timely filing of the return or within one year from the date that the federal adjustments report was due, whichever date is later

State Partnership Representative

- ▶ Authority to act on behalf of a partnership
- ▶ Actions binding on partners
- ▶ Same as the partnership's federal partnership representative unless other designated in writing per Virginia Tax's guidelines

Other State Tax Changes

New Amended Return Reason Codes

- ▶ Amended returns now require codes to indicate the reason the return is being amended
 - ▶ NOL
 - ▶ Partnership level federal adjustment-Enclose Form 502FED-1
 - ▶ Federal return amended or adjusted-Enclose copy of IRS final determination, if applicable
 - ▶ Virginia return-Changes to subtractions, deductions, additions, and credits
 - ▶ Other (enclose explanation)

Enhanced Reporting Requirements for Form 1099-K Filers (HB 30)

- ▶ Payment settlement entities are required to send a duplicate of each Form 1099-K submitted to the IRS or a duplicate of each Form 1099-K sent to the IRS for a participating payee with a Virginia address or that is a Virginia taxpayer
- ▶ Due within 30 days of the federal deadline
- ▶ Information reporting only; not to be submitted with any return

Enhanced Reporting Requirements for Form 1099-K Filers (HB 730/SB 211)

- ▶ Third-party settlement organizations are required to submit Form 1099-K information to Virginia Tax if:
 - ▶ Payee has Virginia address
 - ▶ Meets the threshold requirement associated with Form 1099-MISC (\$600 or more in payments for the tax year)
- ▶ Certain third-party settlement organizations may be required to report this information even if they were not required to do so for federal purposes
- ▶ Due within 30 days of the federal deadline
- ▶ Information reporting only; not to be submitted with any return

Increase Litter Tax and Penalty (HB 1154, HB 502)

- ▶ Beginning with the tax due May 1, 2021
 - ▶ Increase in annual litter tax rate to \$20 (from \$10) per establishment
 - ▶ Increase in additional litter tax to \$30 (from \$15) per establishment
 - ▶ Increase existing penalty by \$100 for delinquent payment of litter tax
 - ▶ Equal to amount of litter tax due plus \$100

Exemptions for Victims of Virginia Beach Mass Shooting (HB 839/SB 93)

- ▶ Exemption from probate tax for a person killed in the 2019 Virginia Beach mass shooting
- ▶ Refund required for state or local probate taxes paid prior to July 1, 2020 with respect to an individual who died or was wounded as a result of the Virginia Beach mass shooting

Cigarette and Tobacco Products Tax Increase (HB 30)

- ▶ Cigarette tax
 - ▶ Rate increase to 3.0 cents per cigarette, 60 cents per pack of 20 cigarettes (from 1.5 cents per cigarette, 30 cents per pack of 20), effective July 1, 2020
- ▶ Tobacco products tax
 - ▶ Rates double, effective July 1, 2020
 - ▶ Liquid nicotine products taxed at the rate of \$0.066 per milliliter of liquid nicotine, effective July 1, 2020

Skill Games Tax (HB 881/ SB 971)

- ▶ New tax on skill games (certain electronic gaming machines) provided for play in Virginia
- ▶ \$1,200 for each skill game
- ▶ Paid monthly by distributor on or before 20th day of each month, for period ending the previous month
- ▶ Registration required with ABC
- ▶ Effective July 1, 2020 - July 1, 2021

Motor Vehicle Rental Tax: Peer to Peer Sharing (SB 735)

- ▶ Tax on peer-to-peer vehicle sharing beginning October 1, 2020
- ▶ Different from the Virginia Motor Vehicle Rental Tax
- ▶ Peer-to-Peer vehicle sharing platform collects tax

Plastic Bag Tax (HB 534/ SB11)

- ▶ Authorizes localities to tax disposable plastic bags provided to consumers by certain retailers, beginning no earlier than January 1, 2021
- ▶ Ordinance required
- ▶ Five cents per disposable plastic bag with certain bags exempt
- ▶ Virginia Tax to administer the tax

Retail Sales and Use Tax Changes

Exemption for Gun Safes (HB 888/SB 268)

- ▶ Effective July 1, 2020, exemption provided for gun safes with a selling price of \$1,500 or less per item
- ▶ Gun safe or vault must be
 - ▶ Commercially available
 - ▶ Secured with a digital or dial combination lock
 - ▶ Designed for storage of firearm or firearm ammunition

Additional Local Tax

(HB 200, HB 486, HB 1631, SB 224, SB 943, SB 1028)

- ▶ The following localities are authorized to impose, by ordinance, an additional local sales and use tax at a rate of up to 1%
 - ▶ Charlotte County, City of Danville, Gloucester County, Henry County, Mecklenburg County, Northampton County, Patrick County, Pittsylvania County
- ▶ Requires a local referendum to give Board of Supervisors the authority to impose the additional tax
- ▶ Does not apply to food for home consumption or essential personal hygiene products
- ▶ 2019 legislation authorized Halifax to impose such a tax

Central Virginia Regional Tax (HB 1541)

- ▶ Effective October 1, 2020, there is an additional 0.7% sales tax in the Central Virginia Region
 - ▶ Charles City County, Chesterfield County, Goochland, Hanover County, Henrico County, New Kent County, Powhatan County, and the City of Richmond
- ▶ Combined tax rate in these areas is 6% (5% state tax and 1% local tax)
- ▶ Revenue generated by the additional tax to administer transportation funding

2020 Guidance Documents and Regulations

Tobacco Products Tax Guidelines and Rules

Cigarette Tax Rate Increase Guidelines and Rules

Research and Development Expenses Guidelines

Major Research and Development Expenses Guidelines

Final Debt Buyer Apportionment Guidelines

Motor Vehicle Rental and Vehicle Sharing Tax Guidelines

2020 Guidance Documents and Regulations

Partnership Reporting (in process)

Worker Misclassification (in process)

Plastic Bag (in process)

Film Tax Credit (in process)

Port Volume Increase Tax Credit Guidelines (in process)

All published Guidelines and Regulations can be found at www.tax.virginia.gov

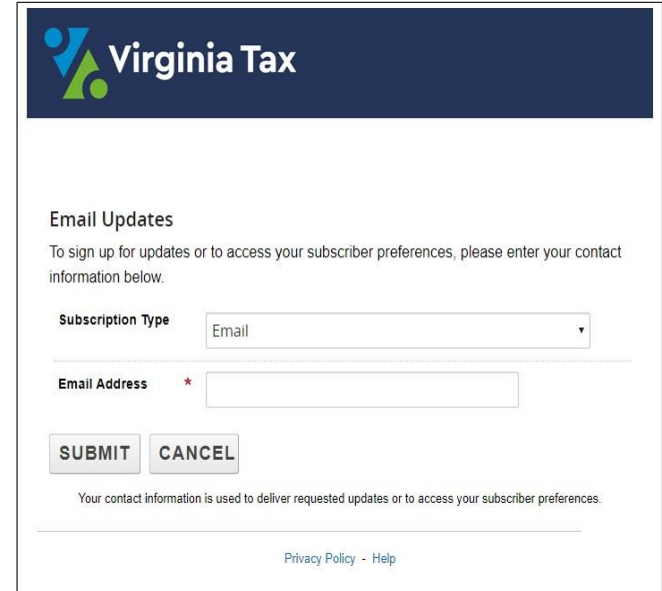
Online Resources

- ▶ Virginia Tax homepage: <https://www.tax.virginia.gov>
- ▶ Laws, Rules, and Decisions: <https://www.tax.virginia.gov/laws-rules-decisions>
- ▶ Guidance Documents: <https://www.tax.virginia.gov/guidance-documents>
- ▶ Refund Fraud Assistance: <https://www.tax.virginia.gov/refund-fraud-prevention>
- ▶ Office of the Attorney General, Computer Crimes Division:
<http://oag.state.va.us/divisions/criminal-justice-public-safety/computer-crime>

For more details about
2020 tax legislation, go to
www.tax.virginia.gov
and search for
“2020 Legislative Summary”

Sign up for Email Updates

- ▶ Get monthly filing reminders and updates about tax law changes and new services
- ▶ Under “Connect with Us” on the Virginia Tax website, select “Sign Up for Email Updates”
- ▶ Subscribe to “Tax Preparers” topic



The screenshot shows the 'Email Updates' sign-up form on the Virginia Tax website. At the top left is the Virginia Tax logo. The form title is 'Email Updates'. Below the title is a paragraph: 'To sign up for updates or to access your subscriber preferences, please enter your contact information below.' There are two input fields: 'Subscription Type' with a dropdown menu showing 'Email', and 'Email Address' with a red asterisk indicating it is required. Below the fields are 'SUBMIT' and 'CANCEL' buttons. At the bottom, there is a line of text: 'Your contact information is used to deliver requested updates or to access your subscriber preferences.' and a link for 'Privacy Policy - Help'.

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