

**REPORT OF THE JOINT SUBCOMMITTEE
TO STUDY INCENTIVES FOR PERSONS
CARING FOR THE ELDERLY IN THEIR HOMES
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 29

**COMMONWEALTH OF VIRGINIA
DIVISION OF PURCHASES AND SUPPLY
RICHMOND
1979**

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Report of the Joint Subcommittee

To Study Incentives for Persons

Caring for the Elderly in Their Homes

To

The Governor and the General Assembly of Virginia

Richmond, Virginia

January, 1979

To: Honorable John N. Dalton, Governor of Virginia

and

The General Assembly of Virginia

Introduction

In light of the rapidly rising cost of health care and the desire of many elderly persons to remain in their homes or in their family's home, a Joint Subcommittee of the House of Delegates and Senate Finance Committees was created to study incentives which may be offered to persons caring for the elderly in their homes, pursuant to House Joint Resolution Number 184 of 1978:

HOUSE JOINT RESOLUTION NO. 184

Requesting the Committees on Finance of the House of Delegates and Senate to study incentives which may be offered to persons who care for the elderly in their homes.

WHEREAS, the majority of elderly persons desire to remain at home under the care of their families rather than be placed in an institution; and

WHEREAS, the cost of health care is increasing rapidly and home health care for the elderly has been proven to be more cost-beneficial to the State and to the individual taxpayer than any other form of placement for the elderly; and

WHEREAS, the care of an elderly family member frequently results in hardship and expense for the family which must bear the responsibility and the financial burden of health care of the elderly person; and

WHEREAS, incentives are needed to encourage families to care for their elderly relatives at home whenever possible and further study of the issues involved is required to consider the provision of such incentives as income tax subtractions or deductions, property tax exemptions or deferrals, increased appropriations for the delivery of home health services in the State and provisions in insurance coverage to include reimbursement for the care of dependent adults in the home; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Committees of Finance of the House of Delegates and Senate are requested to study the provision of viable incentives to

families who care for elderly relatives in their homes.

The Commissioner of the Department of Taxation and the Commissioner of Insurance of the State Corporation Commission are requested to cooperate with the Committee in conducting this study.

The Committees shall report their findings and recommendations to the Governor and General Assembly no later than December one, nineteen hundred seventy-eight.

From the membership of the House Finance Committee, Delegate Ray L. Garland was appointed. Senators Brault and Truban were appointed from the Senate Finance Committee. Senator Brault and Delegate Garland were elected Chairman and Vice-Chairman, respectively. Staff assistance was provided by E. M. Miller, Jr., Jill M. Pope, and John A. Garka of the Division of Legislative Services and the Office of the Clerk of the House of Delegates.

Recommendation

The Joint Subcommittee recommends that the current income tax deduction for work-related expenses, commonly referred to as the "child-care deduction," be allowed for those persons filing an income tax return under the standard deduction form (Appendix E).

Rationale

Under current law, the work related expense deduction is allowed only if an itemized return is filed. Approximately twenty to twenty-five per centum of Virginia income tax payers itemize their income tax returns. The Joint Subcommittee feels that the work related expense deduction is indeed an incentive to care for elderly dependents in the home. The allowance of the deduction on standard deduction returns would allow more Virginia citizens to take advantage of this incentive.

The visible cost of this provision, according to the State Department of Taxation, is approximately \$1.6 million annually. However, studies have shown that this cost is partially off-set by the value of home services provided by family and friends. The cost of these services generally exceeds the cost of these services provided by public agencies at public expense. In addition, it should be emphasized that the total cost of the services provided in the home exceeds the cost of institutionalization, thereby indirectly lessening the cost burden to the Commonwealth and its citizens.

Background

At the first meeting of the Subcommittee, Delegate Walter Emroch, patron of HJR 184, indicated the purpose was to pursue alternatives which could lead to de-institutionalization of elderly persons. Specifically, he was concerned with those persons, in their own homes or those of relatives, who, without some measure of care, would require institutionalization.

To the end of providing a monetary incentive for persons caring for the elderly in their homes, House Bill 970 was introduced by Delegate Emroch in 1978 (Appendix A). The bill allowed an additional deduction of one thousand dollars for each person aged 65 and over and who, because of health reasons, could qualify for certain institutionalization. Discussion with the State Department of Taxation revealed that the maximum relief from this additional deduction would be fifty-seven dollars a year. In light of this minimal effect, the Subcommittee decided to investigate the present provisions for the elderly and alternatives.

There are two tax relief provisions for the elderly. One is a local option real property tax exemption or deferral for the elderly or permanently and totally disabled persons within income and net worth restrictions (Appendix B).

The income tax statutes allow for the second relief provision. The benefit is two-fold. An additional deduction of \$400 is allowed for each tax payer aged 65 and over. The other benefits a work-related expense deduction, commonly referred to as the "child-care" deduction. Within specified income restrictions, all employment related expenses for household and dependent care services for

individuals maintaining a household, which includes a dependant physically or mentally incapable of caring for himself, are deductible for income tax purposes.

As presently structured, this form of tax relief has many restrictions, for the most part imposed by federal regulations. Expenses are limited to the amount of earned income of the spouse earning the smaller amount. The Virginia deduction can be claimed by married persons only if a joint return is filed. Both spouses of a married couple must be employed to qualify for the deduction. The deduction can be claimed only if an itemized return is filed.

A recent survey of the itemized tax returns for taxable year 1977 revealed that this deduction had not been taken by any Virginia taxpayers, except for child care. This could be due to the fact that the federal and State income tax forms are entitled "child care expenses" rather than "work-related expenses" and many eligible taxpayers are unaware that this deduction is not limited to child care expenses alone.

The Joint Subcommittee also reviewed the present home health care and home aide services generally and specifically available to the elderly. They learned that there are many services available to the elderly, funded by the federal, state, and local governments and private agencies. (See Appendix C and D). Currently, these services are publicized by the local agencies on aging.

Two of the services available that would lessen the need for institutionalization were the homemaker and the health aide. The Department of Health and Welfare were directed by HJR 33 of 1978 to study the feasibility of consolidating these positions. This could possibly allow the more efficient provision of services as there are some persons needing both minimal health care attention and homemaker services in order to avoid institutionalization. The Joint Subcommittee reviewed the findings of this study but makes no recommendation. The Joint Subcommittee does, however, wish to emphasize that there are a number of services available for the elderly which may decrease the need for institutionalization.

The Joint Subcommittee was also charged with investigating increased appropriations for the delivery of home health services in the State. The Joint Subcommittee felt that this was a budgetary problem and out of the purview of its study.

Respectfully submitted,

Ray L. Garland

Adelard L. Brault

William A. Truban

APPENDIX A

HOUSE BILL NO. 970

A BILL to amend and reenact § 58-151.013 of the Code of Virginia, relating to Virginia taxable income.

Be it enacted by the General Assembly of Virginia:

1. That § 58-151.013 of the Code of Virginia is amended and reenacted as follows:

§ 58-151.013. Virginia taxable income.—(a) General.—The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, with the modifications specified in this section.

(b) Additions.—To the extent excluded from federal adjusted gross income, there shall be added:

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

(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.

(c) Subtractions.—To the extent included in federal adjusted gross income, there shall be subtracted:

(1) Interest or dividends on obligations of the United States (other than on refunds of federal taxes) and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States; and

(2) Interest on obligations of this State or of any political subdivision or instrumentality of this State.

(3) The following items of pension or retirement income and benefits:

(A) Pensions or retirement income to officers and employees of this State, its subdivisions and agencies, or surviving spouses of such officers or employees exempt from State income taxation under the laws of this State, and pensions or retirement income to officers and employees who are retired under the provisions of Chapter 2 (§ 51-3 et seq.) of Title 51, or to spouses of such officers and employees;

(B) to (F) [Repealed.]

(4) Dividends to the extent includible in gross income for federal income tax purposes and in excess of any dividend exclusion provided in the laws of the United States relating to federal income taxes, upon stock in:

(A) [Repealed.]

(B) Any Domestic International Sales Corporation (as defined by § 992 of the Internal Revenue Code of 1954, as amended), fifty percent or more of the income of which was assessable for the preceding year, or the last year in which such corporation has income, under the provisions of the income tax laws of this State.

(5) The amount of any refund or credit for overpayment of income taxes imposed by this State or any other taxing jurisdiction.

(6) Any amount included therein by the operation of the provisions of § 78 of the Internal Revenue Code of 1954.

(7) The amount of wages or salaries eligible for the federal New Jobs Credit which was not deducted for federal purposes on account of the provisions of § 280C of the Internal Revenue Code of 1954, as amended.

(d) Deductions.—There shall be deducted:

(1) 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 this State or any other taxing jurisdiction and deducted on such federal return and increase such itemized deductions by five times the amount allowable as a credit for federal income tax purposes under § 44A of the Internal Revenue Code for expenses for household and dependent care services necessary for gainful employment; or

(2) The amount allowable as the standard deduction or low income allowance for federal income tax purposes pursuant to § 141 of the Internal Revenue Code of 1954, as it existed on December thirty-one, nineteen hundred seventy-four, provided that the taxpayer has not itemized deductions for the taxable year on his federal income tax return; and

(3) A deduction in the amount of six hundred dollars for each personal exemption allowable to the taxpayer for federal income tax purposes, and an additional deduction of four hundred dollars for each exemption allowable to the taxpayer under paragraph (c) of § 151 of the Internal Revenue Code.

(4) An additional deduction in the amount of one thousand dollars for each personal exemption allowable to the taxpayer who qualifies under paragraph (c) of § 151 of the Internal Revenue Code and who because of health reasons could qualify for placement in a home for adults, nursing home licensed by the Department of Health or State hospital operated under the auspices of the Department of Mental Health and Mental Retardation.

(e) Other modifications and adjustments.—(1) There shall be added to or subtracted from federal adjusted gross income (as the case may be) the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58-151.023.

(2) Where husband and wife have not separately reported and claimed items of income, exemptions and deductions for federal income tax purposes, and have not elected to file a joint Virginia income tax return, such items allowable for Virginia income tax purposes shall be allocated and adjusted as follows:

(A) Income shall be allocated to the spouse who earned the income or with respect to whose property the income is attributable.

(B) Allowable deductions with respect to trade, business, production of income, or employment shall be allocated to the spouse to whom attributable.

(C) Nonbusiness deductions, where properly taken for federal income tax purposes, shall be allowable for Virginia income tax purposes, but shall be allocable between husband and wife as they may mutually agree. For this purpose, "nonbusiness deductions" consist of allowable deductions not described in subparagraph (B) above.

(D) Where the standard deduction or low income allowance is properly taken pursuant to subsection (d) (2) of this section such deduction or allowance shall be allocable between husband and wife as they may mutually agree.

(E) Personal exemptions properly allowable for federal income tax purposes shall be allocated for Virginia income tax purposes as husband and wife may mutually agree; provided, however, that exemptions for taxpayer and spouse together with exemptions for old age and blindness must be allocated respectively to the spouse to which they relate.

(3) Where allocations are permitted to be made under subparagraph (2) above pursuant to

agreement between husband and wife, and husband and wife have failed to agree as to such allocations, such allocations shall be made between husband and wife in a manner corresponding to the treatment for federal income tax purposes of the items involved, under regulations prescribed by the Department of Taxation.

(f) Nonresidents.—(1) Nonresident individuals, partners and beneficiaries.—The Virginia taxable income of a nonresident individual, partner or beneficiary shall be an amount bearing the same proportion to his Virginia taxable income, computed as though he were a resident, as the net amount of his income, gain, loss and deductions from Virginia sources bears to the net amount of his income, gain, loss and deductions from all sources.

(2) Certain nonresident shareholders.—For a nonresident individual who is a shareholder in an electing small business corporation, there shall be included in his Virginia taxable income his share of the taxable income of such corporation, and his share of any net operating loss of such corporation shall be deductible from his Virginia taxable income.

(g) Transitional modifications.—There shall be added or subtracted, as the case may be, the amounts provided in § 58-151.0111 as transitional modifications.

(h) Partner's modifications.—Virginia taxable income shall, as to partners, be adjusted to reflect the modifications provided in § 58-151.014.

2. That the provisions of this act shall be effective for the taxable years beginning on and after January one, nineteen hundred seventy-nine.

APPENDIX B

MAY, 1978

SURVEY OF PROPERTY TAX RELIEF IN VIRGINIA

Section 58-760.1 of the Code of Virginia permits localities to offer real estate tax relief to elderly or permanently and totally disabled taxpayers who meet certain eligibility standards. A survey of local real estate tax relief programs was completed by the Department of Taxation in May, 1978. 100 percent of the cities and counties and 85 percent of the towns in Virginia responded to the questionnaire. The findings of the survey are indicated in the following tables. Table I summarizes the status of real estate relief in Virginia localities, indicating the degree to which localities have exercised the option to provide property tax relief. Table II provides information on the number of taxpayers receiving property tax relief, the amount of relief granted by localities, and the average property tax savings in 1977. Table III summarizes the eligibility requirements adopted in local ordinances. Table IV provides a listing of those localities presently offering property tax relief for elderly or permanently and totally disabled taxpayers.

Source: State Department of Taxation

MAY, 1978

PROPERTY TAX RELIEF IN VIRGINIA

Virginia's counties, cities and towns are authorized by statute (Code of Virginia, Section 58-760.1) to provide either deferrals or exemptions on the real property taxes of persons who are over sixty-five or who are permanently and totally disabled. Although such relief is on an optional basis for localities, the law stipulates certain requirements concerning the eligibility of property owners. The property for which tax relief is sought must be owned and occupied as the sole dwelling of the applicant. If a deferral is granted, then the accumulated taxes serve as lien on the property. In addition, the statute sets the following maximum financial qualifications:

(1) The combined annual income of the owner, and all relatives living with the owner, cannot exceed \$10,000; however, the first \$4,000 of each such relative's income, except the owner's spouse, is excluded from the total. The maximum income constraint may be increased to \$11,000 if the relief granted is reduced by the amount income exceeds \$10,000.

(2) The combined net financial worth of the owners and spouse, if any, cannot exceed \$35,000 excluding the value of the home and up to one acre of land.

Localities may, however, exercise their option of setting lower ceilings on income and net worth. Therefore, for the specific financial requirements and for the amounts of relief granted by the Virginia localities that have adopted tax relief plans for persons over sixty-five or who are permanently and totally disabled, the local Commissioner of Revenue or Finance Director should be contacted.

1978 LEGISLATIVE ACTIONS

The 1978 General Assembly passed several bills amending § 58-760.1, the property tax relief section of the Code of Virginia. The most significant changes in the provisions include the increase in the maximum permissible combined income and financial net worth standards and an addition to the section which allows otherwise eligible persons who live in permanently affixed mobile homes to qualify for tax relief. The changes in the statute are:

- A) The maximum permissible combined income level increased from \$10,000 to \$12,000, with localities allowed to increase the income limitation to \$13,000 if the ordinance requires the relief to be reduced by the amount income exceeds \$12,000. The financial net worth limitation was increased from \$35,000 to \$50,000 (Chapter 776, 1978 Acts of Assembly).
- B) Mobile homes may now be considered real estate for purposes of property tax relief eligibility if they can be shown to be intended for permanent fixture (Chapter 780).
- C) Local ordinances may now include a procedure for late filing by first-time applicants (Chapter 788) or in hardship cases (Chapter 790).
- D) Persons qualifying for property tax relief as permanently and totally disabled may now be so certified by the Veteran's Administration or the Railroad Retirement Board, rather than solely by the Social Security Administration, or by affidavits of two medical doctors, one of which must be based on a physical examination and the other of which may now be based on relevant records of the Civil Service Administration (Chapter 774).
- E) To clear up a minor error in the 1977 Act, the wording of this section was amended to allow exemption or deferral of property taxes for eligible persons who are permanently and totally disabled (Chapter 777).

TABLE I: SUMMARY OF LOCAL REAL ESTATE TAX RELIEF

	Number of Localities in Virginia	Number of Localities Offering Real Estate Tax Relief	(Percentage of Total)	Increase (Decrease) From 1976 Totals	Number of Localities Presently Considering Tax Relief Ordinance	Number of Localities Which Have Rejected Tax Relief Ordinances
Counties	95	50	(52.6%)	+ 4	8	7
Cities	41	37	(90.2%)	0	1	0
Towns	189*	22	(12.9%)	+ 7	2	4
TOTALS	325	109	(35.6%)	+11	11	11

*

19 towns did not levy a real estate tax in 1977.

TABLE II: SUMMARY OF REAL ESTATE TAX RELIEF IN 1977

	Approximate Number of Persons Receiving Relief in 1977	Increase (Decrease) From 1976	Approximate 1977 Tax Relief	Increase (Decrease) From 1976	Approximate 1977 Average Tax Relief	Increase (Decrease) from 1976
Counties	11,163 ^{a/}	+1,793 (+19.1%)	\$1,959,000 ^{b/}	\$+ 532,000 (+37.3%)	\$175	\$+ 23
Cities	15,259 ^{c/}	+1,403 (+10.1%)	2,357,000	+ 516,000 (+28.0%)	\$154	\$+ 21
Towns	522	+ 88 (+20.3%)	25,000	+ 6,000 (+31.6%)	\$ 48	\$+ 4
TOTALS	26,944	+3,284 (+13.9%)	\$4,341,000	\$+1,054,000 (+32.1%)	\$161	\$+ 22

^{a/} Total includes 183 permanently and totally disabled persons who were granted tax relief in 1977.

^{b/} Total includes \$1,814.67 specifically exempted for handicapped persons in Roanoke County.

^{c/} Total includes 201 permanently and totally disabled persons who were granted tax relief in 1977.

TABLE III: SUMMARY OF ELIGIBILITY PROVISIONS IN LOCAL TAX RELIEF ORDINANCES

A) MAXIMUM TOTAL COMBINED INCOME

Number of Local Ordinances Having Maximum Income Requirements of:			
	<u>Under \$6,500</u>	<u>\$6,500 - \$8,000</u>	<u>Over \$8,000 - \$11,000</u>
Counties	19	19	12
Cities	8	11	18
Towns	<u>7</u>	<u>5</u>	<u>10</u>
TOTALS	34	35	40

B) MAXIMUM EXCLUDABLE INCOME

Number of Local Ordinances Allowing Maximum Excludable Income per Relative of:			
	<u>Under \$1,500</u>	<u>\$1,500 - \$2,500</u>	<u>Over \$2,500 - \$4,000</u>
Counties	8	23	19
Cities	4	14	19
Towns	<u>4</u>	<u>9</u>	<u>9</u>
TOTALS	16	46	47

C) MAXIMUM NET FINANCIAL WORTH

Number of Local Ordinances Having Maximum Net Worth Requirements of:			
	<u>Under \$15,000</u>	<u>\$15,000 - \$25,000</u>	<u>Over \$25,000 - \$35,000</u>
Counties	1	33	16
Cities	2	18	17
Towns	<u>0</u>	<u>10</u>	<u>12</u>
TOTALS	3	61	45

TABLE IV: VIRGINIA LOCALITIES OFFERING REAL ESTATE TAX RELIEF
AS OF JANUARY 1, 1978

<u>Counties</u>		<u>Cities</u>	
Albemarle*	James City*	Alexandria*	Manassas
Alleghany*	King George	Bedford*	Manassas Park
Arlington*	Lee*	Bristol	Martinsville*
Augusta	Loudoun*	Buena Vista	Newport News*
Bath	Louisa	Charlottesville*	Norfolk
Botetourt*	Middlesex	Chesapeake*	Petersburg*
Campbell*	Montgomery*	Clifton Forge*	Poquoson
Caroline	Nelson	Colonial Heights	Portsmouth
Carroll	Orange*	Covington	Radford
Charles City	Pittsylvania	Danville	Richmond
Chesterfield	Powhatan	Fairfax	Roanoke*
Clarke*	Prince George*	Falls Church*	Salem*
Dinwiddie	Prince William*	Fredericksburg	South Boston
Fairfax*	Roanoke*	Galax	Staunton
Fauquier	Rockbridge*	Hampton*	Virginia Beach*
Frederick	Rockingham*	Harrisonburg*	Waynesboro
Giles	Russell	Hopewell	Williamsburg
Gloucester	Scott	Lexington	Winchester
Goochland	Spotsylvania*	Lynchburg*	
Grayson	Stafford		
Greene	Tazewell		
Hanover	Warren		
Henrico*	Washington		
Henry*	Wise*		
Isle of Wight*	York		
			<u>Towns</u>
		Altavista*	Occoquan
		Ashland	Pound*
		Blacksburg*	Purcellville
		Brookneal	Quantico*
		Crewe	Stephens City
		Dumfries*	The Plains
		Front Royal	Vienna*
		Glade Spring	Vinton*
		Herndon*	Warrenton
		Hillsville	Wise
		Leesburg	
		Luray	

*These localities have amended their property tax relief ordinance to include permanently and totally disabled persons.

If your locality is not listed, a check with the local official is advisable.

The list represents a 100 percent response from counties and cities, and an 85 percent response from towns. Approximately 85 percent of the total population of the Commonwealth of Virginia is located within the localities providing property tax relief, according to 1976 population data compiled by the Tayloe Murphy Institute, University of Virginia.

APPENDIX D

TABLE 1

AGING BUDGET, 1978-1980, BY TYPE OF EXPENDITURE

TYPE OF EXPENDITURE	<u>GENERAL FUND</u>	<u>FEDERAL TRUST</u>	<u>TOTAL AMOUNT</u>	<u>% OF TOTAL AMOUNT</u>
I. Direct Services				
Community Services	\$12,268,388	\$46,594,272	\$58,862,660	13.0
Institutional Services	35,172,474	28,983,813	64,156,287	14.2
Capital Improvements and Outlays	<u>1,988,214</u>	<u>0</u>	<u>1,988,214</u>	<u>.4</u>
TOTAL DIRECT SERVICES	\$49,429,076	\$75,578,085	\$125,007,161	27.6
II. Administration				
Full-Time on Aging Services	\$31,778,516	\$5,243,293	\$37,021,809	8.2
Part-Time on Aging Services	<u>1,196,547</u>	<u>989,275</u>	<u>2,185,822</u>	<u>.5</u>
TOTAL ADMINISTRATION	\$32,975,063	\$6,232,568	\$39,207,631	8.7
III. Transfers				
Transfers to Individuals - Community Services	\$ 4,911,719	\$1,153,773	\$6,065,492	1.4
Transfers to Third Parties - Community Services	34,645,787	29,076,189	63,721,976	14.2
Transfers to Third Parties - Institutional Services	<u>92,447,890</u>	<u>124,878,504</u>	<u>217,326,384</u>	<u>48.1</u>
TOTAL TRANSFERS	\$132,005,386	\$155,108,466	\$287,113,852	63.7
TOTAL AGING BUDGET	\$214,409,525	\$ 236,919,119	\$451,328,644	100.0
% OF TOTAL AMOUNT	47.5%	52.5%	100.0%	

Source: Aging Budget of the Commonwealth
 Technical Report
 Office on Aging
 July, 1978

APPENDIX E

A BILL to amend and reenact § 58-151.013 of the Code of Virginia, relating to Virginia taxable income.

Be it enacted by the General Assembly of Virginia:

1. That § 58-151.013 of the Code of Virginia is amended and reenacted as followed:

§ 58-151.013. Virginia taxable income.—(a) General.—The Virginia taxable income of a resident individual means his federal adjusted gross income for the taxable year, with the modifications specified in this section.

(b) Additions.—To the extent excluded from federal adjusted gross income, there shall be added:

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

(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.

(c) Subtractions.—To the extent included in federal adjusted gross income, there shall be subtracted:

(1) Interest or dividends on obligations of the United States (other than on refunds of federal taxes) and on obligations or securities of any authority, commission or instrumentality of the United States to the extent exempt from state income taxes under the laws of the United States; and

(2) Interest on obligations of this State or of any political subdivision or instrumentality of this State.

(3) The following items of pension or retirement income and benefits:

(A) Pensions or retirement income to officers and employees of this State, its subdivisions and agencies, or surviving spouses of such officers or employees exempt from State income taxation under the laws of this State, and pensions or retirement income to officers and employees who are retired under the provisions of Chapter 2 (§ 51-3 et seq.) of Title 51, or to spouses of such officers and employees;

(B) to (F) [Repealed.]

(4) Dividends to the extent includible in gross income for federal income tax purposes and in excess of any dividend exclusion provided in the laws of the United States relating to federal income taxes, upon stock in:

(A) [Repealed.]

(B) Any Domestic International Sales Corporation (as defined by § 992 of the Internal Revenue Code of 1954, as amended), fifty percent or more of the income of which was assessable for the preceding year, or the last year in which such corporation has income, under the provisions of the income tax laws of this State.

(5) The amount of any refund or credit for overpayment of income taxes imposed by this State or any other taxing jurisdiction.

(6) Any amount included therein by the operation of the provisions of § 78 of the Internal Revenue Code of 1954.

(7) The amount of wages or salaries eligible for the federal New Jobs Credit which was not deducted for federal purposes on account of the provisions of § 280C of the Internal Revenue Code of 1954, as amended.

(d) Deductions.—There shall be deducted:

(1) 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 this State or any other taxing jurisdiction and deducted on such federal return ~~and increase such itemized deductions by five times the amount allowable as a credit for federal income tax purposes under § 44A of the Internal Revenue Code for expenses for household and dependent care services necessary for gainful employment ; or~~

(2) The amount allowable as the standard deduction or low-income allowance for federal income tax purposes pursuant to § 141 of the Internal Revenue Code of 1954, as it existed on December thirty-one, nineteen hundred seventy-four, provided that the taxpayer has not itemized deductions for the taxable year on his federal income tax return; and

(3) A deduction in the amount of six hundred dollars for each personal exemption allowable to the taxpayer for federal income tax purposes, and an additional deduction of four hundred dollars for each exemption allowable to the taxpayer under paragraph (c) of § 151 of the Internal Revenue Code ; and

(4) A deduction equal to five times the amount allowable as a credit for federal income tax purposes under § 44A of the Internal Revenue Code for expenses for household and dependent care services necessary for gainful employment .

(e) Other modifications and adjustments.—(1) There shall be added to or subtracted from federal adjusted gross income (as the case may be) the individual's share, as beneficiary of an estate or trust, of the Virginia fiduciary adjustment determined under § 58-151.023.

(2) Where husband and wife have not separately reported and claimed items of income, exemptions and deductions for federal income tax purposes, and have not elected to file a joint Virginia income tax return, such items allowable for Virginia income tax purposes shall be allocated and adjusted as follows:

(A) Income shall be allocated to the spouse who earned the income or with respect to whose property the income is attributable.

(B) Allowable deductions with respect to trade, business, production of income, or employment shall be allocated to the spouse to whom attributable.

(C) Nonbusiness deductions, where properly taken for federal income tax purposes, shall be allowable for Virginia income tax purposes, but shall be allocable between husband and wife as they may mutually agree. For this purpose, "nonbusiness deductions" consist of allowable deductions not described in subparagraph (B) above.

(D) Where the standard deduction or low income allowance is properly taken pursuant to subsection (d) (2) of this section such deduction or allowance shall be allocable between husband and wife as they may mutually agree.

(E) Personal exemptions properly allowable for federal income tax purposes shall be allocated for Virginia income tax purposes as husband and wife may mutually agree; provided, however, that exemptions for taxpayer and spouse together with exemptions for old age and blindness must be allocated respectively to the spouse to which they relate.

(3) Where allocations are permitted to be made under subparagraph (2) above pursuant to agreement between husband and wife, and husband and wife have failed to agree as to such allocations, such allocations shall be made between husband and wife in a manner corresponding to the treatment for federal income tax purposes of the items involved, under regulations prescribed by the Department of Taxation.

(f) Nonresidents.—(1) Nonresident individuals, partners and beneficiaries.—The Virginia taxable income of a nonresident individual, partner or beneficiary shall be an amount bearing the same proportion to his Virginia taxable income, computed as though he were a resident, as the net amount of his income, gain, loss and deductions from Virginia sources bears to the net amount of his income, gain, loss and deductions from all sources.

(2) Certain nonresident shareholders.—For a nonresident individual who is a shareholder in an electing small business corporation, there shall be included in his Virginia taxable income his share of the taxable income of such corporation, and his share of any net operating loss of such corporation shall be deductible from his Virginia taxable income.

(g) Transitional modifications.—There shall be added or subtracted, as the case may be, the amounts provided in § 58-151.0111 as transitional modifications.

(h) Partner's modifications.—Virginia taxable income shall, as to partners, be adjusted to reflect the modifications provided in § 58-151.014.

