



COMMONWEALTH of VIRGINIA

Department of Taxation

October 31, 2025

The Honorable L. Louise Lucas
Chair, Senate Finance and Appropriations Committee

The Honorable Luke E. Torian
Chair, House Appropriations Committee

The Honorable Vivian E. Watts
Chair, House Finance Committee

All Other Members of the General Assembly

Dear Senators and Delegates:

Item 3-5.13 B of the 2025 Appropriation Act (House Bill 1600, Chapter 725) requires the Department of Taxation ("the Department") to report on the revenue impact of every sales tax exemption and tax credit that is scheduled to expire within two years of the date of the report. Such report is due to every member of the General Assembly and to the Joint Subcommittee to Evaluate Tax Preferences by November 1, 2025 and every five years thereafter.

Enclosed please find the Fiscal Year 2025 report, which provides data regarding the revenue impact of such provisions. The Department elected to provide data beyond that required by the Appropriations Act to ensure that there would be no gaps in the data provided during the five-year period between reports. As a result, this report includes data on sales and use tax exemptions and income tax credits expiring between July 1, 2025 and July 1, 2030.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Alex", written over a horizontal line.

James J. Alex
State Tax Commissioner
Commonwealth of Virginia

C: The Honorable Stephen E. Cummings, Secretary of Finance
Kristin Collins, Deputy Tax Commissioner

Attachment: Fiscal Year 2025 Tax Preferences Report

Fiscal Year 2025 Tax Preferences Report

October 31, 2025

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INTRODUCTION

Pursuant to Item 3-5.13 B of the 2025 Appropriation Act (House Bill 1600, Chapter 725), this report provides information regarding the Fiscal Year 2025 estimated sales and local tax impact of each sales tax exemption currently scheduled to expire on or before July 1, 2030, as well as the Fiscal Year 2025 General Fund revenue impact of each income tax credit currently scheduled to expire on or before July 1, 2030.

SALES AND USE TAX EXEMPTIONS

Table 1 below shows the sales and use tax exemptions that are scheduled to expire on or before July 1, 2030. Since taxpayers are generally not required to report the amount of purchases that they make that qualify for a sales tax exemption, the Department does not have actual data on the amount of exemptions granted. Accordingly, the impact of sales and use tax exemptions must be estimated based on a combination of industry and US Census data. In some cases, the impact of a particular exemption is unknown

due to a lack of data for a specific NAICS (North American Industry Classification System) code.

Table 1: Estimated FY 2025 Revenue Impact of Expiring Sales Tax Exemptions

Exemption	FY 2025 Estimates (in millions)			
	Total	General Fund ¹	Transportation ²	Local+ Regional ³
Natural Gas and Oil Equipment § 58.1-609.3 (12)	\$8.21	\$4.80	\$1.28	\$2.13
Gold, Silver, Platinum Bullion or Legal Tender Coins § 58.1-609.1 (19)	unknown	unknown	unknown	unknown
<i>Media-Related Exemptions:</i>				
Audiovisual Works Production § 58.1-609.6(6)	unknown	unknown	unknown	unknown
Printed Materials Distributed Outside Virginia § 58.1-609.6(4)	\$10.81	\$6.32	\$1.68	\$2.81
Medicines Purchased by Veterinarians § 58.1-609.10 (22)	\$8.03	\$4.69	\$1.25	\$2.08
Aircraft Repair Parts & Supplies § 58.1-609.10 (20)	\$0.20	\$0.12	\$0.03	\$0.05
<i>Sales Tax Holidays:</i>				
EnergyStar and WaterSense Products § 58.1-639.1 B(3)	\$0.61	\$0.36	\$0.10	\$0.16
Portable Generators § 58.1-639.1 B(4)	\$0.01	\$0.003	\$0.00	\$0.00
Hurricane Preparedness Equipment § 58.1-639.1 B(5)	\$0.51	\$0.30	\$0.08	\$0.13
School Supplies, Clothing & Footwear § 58.1-639.1 B(1) & § 58.1-639.1 B(2)	\$4.15	\$2.43	\$0.65	\$1.08

1) General Fund column includes 2.025% General Fund Unrestricted, 0.250% Education – SOQ, 1% Education based on school-age population, 0.125% Education based on school age population, -0.01% Dealer Discount
 2).Transportation column includes 0.8% CTF and 0.10% CTF (GF transfer)
 3).Local + Regional column includes 1% Local Option and regional taxes for Hampton Roads (0.7%), Northern Virginia (0.7%), Central Virginia (0.7%), and Historic Triangle (1%), and additional tax in the counties of Charlotte, Gloucester, Danville, Halifax, Henry, Northampton, Patrick, and Pittsylvania (1%).

Exemption for Natural Gas and Oil/Mineral Equipment

Current law provides an exemption from the Retail Sales and Use Tax for raw materials, fuel, power, energy, supplies, machinery or tools or repair parts or replacement parts that are used directly in the drilling, extraction, or processing of natural gas or oil and the reclamation of the well area. The term “natural gas” is defined to mean gas, natural gas, and coalbed methane gas. “Drilling, extraction, and processing” includes production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a usable condition, and the gathering and transportation of raw natural gas to a

facility where the gas is converted into a usable condition. The exemption for machinery, tools, and equipment, or repair parts and replacement parts is available only if the preponderance of their use is directly in the drilling, extraction, refining, or processing of natural gas or oil for sale or resale, or in well area reclamation activities required by state or federal law. This exemption was scheduled to sunset on July 1, 2025 but was extended until July 1, 2026 by Item § 3-5.23 of 2025 House Bill 1600 (2025 Acts of Assembly, Chapter 725).

Exemption for Metal Bullion and Legal Tender Coins

Current law provides a sales and use tax exemption for gold, silver, or platinum bullion or legal tender coins (*Va. Code* § 58.1-609.1(19)). The exemption applies to gold, silver, or platinum, and any combination thereof, that has gone through a refining process and is in a state or condition such that its value depends on its mass and purity and not on its form, numismatic value, or other value. Legal tender coins eligible for exemption include coins of any metal content issued by a government as a medium of exchange or payment of debts. The exemption does not apply to jewelry or works of art. This exemption was scheduled to sunset on July 1, 2025 but was extended until July 1, 2026 by Item § 3-5.25 of 2025 House Bill 1600 (2025 Acts of Assembly, Chapter 725).

Exemption for Audiovisual Works Production

Current law provides a comprehensive exemption for entities engaged in the lease, rental, license, sale, other transfer, or use of any audio or video tape, film, or other audiovisual work for the purpose of licensing, distributing, broadcasting, commercially exhibiting, or reproducing the work or incorporating the work into another exempt audiovisual work (*Va. Code* § 58.1-609.6). Activities of entities exempt from the tax include scriptwriting, photography, sound, musical composition, special effects, animation, adaptation, dubbing, mixing, editing, cutting, and provision of production facilities or equipment. The exemption has a sunset date of July 1, 2027.

Exemption for Printed Materials Distributed Outside of Virginia

Virginia law provides a sales tax exemption for sales of printing to a Virginia advertising business for distribution out-of-state (*Va. Code* § 58.1-609.6). This exemption was enacted by the 1995 General Assembly to make Virginia printers more competitive with out-of-state printers. Newspaper supplements, not otherwise exempted, purchased by advertising agencies for placement in state or out-of-state publications are also exempt. This current exemption (*Va. Code* § 58.1-609.6(4)) applies to catalogs, letters, brochures, reports, and similar printed materials, except administrative supplies, the envelopes, containers, and labels used for packaging and mailing the same, and paper furnished to a printer for fabrication into such printed materials distributed for use outside Virginia. The sunset date has since been extended multiple times and is currently July 1, 2028.

Exemption for Medicine and Drugs Purchased by Veterinarians

During the 2022 Session, the General Assembly granted an exemption to veterinarians from Retail Sales and Use Tax on their purchases of prescription medicines and drugs that are administered or dispensed to patients within a veterinarian-client-patient relationship (*Va. Code* § 58.1-609.10(22)). This legislation also repealed provisions which provided that a veterinarian dispensing or selling medicines or drugs on prescription is deemed to be the user or consumer of all such medicines and drugs. This exemption is currently set to expire on July 1, 2028.

Exemption for Aircraft Parts

Generally, the Retail Sales and Use Tax applies to purchases of repair and maintenance items of tangible personal property within the Commonwealth. Airlines operating in intrastate, interstate, or foreign commerce as common carriers providing *scheduled* air service on a continuing basis to one or more Virginia airports at least one day a week were already able to purchase all tangible personal property used or consumed directly exempt from sales tax under the common carrier exemption. Since 2017, *unscheduled* common carriers and owners of private planes have been able to purchase parts, engines, and supplies used to maintain, repair, and recondition their manned and unmanned aircraft and avionic systems, engine, or component parts exempt from the Retail Sales and Use Tax. The exemption does not cover tools or equipment not attached to or that do not become part of the aircraft. The exemption is scheduled to expire on July 1, 2030.

Sales Tax Holidays

The combined sales tax holiday takes place each year for a three-day period that begins on the first Friday in August and ends at 11:59 p.m. the following Sunday. The combined sales tax holiday, scheduled to expire July 1, 2030¹, includes Energy Star and WaterSense products, certain school supplies, clothing & footwear, portable generators, and hurricane preparedness equipment.

The sales tax holiday for school supplies and clothing was originally enacted in 2006. School supply items eligible for exemption include dictionaries, notebooks, pens, pencils, notebook paper, calculators, and similar items, provided that the sales price for each item does not exceed \$20. Articles of clothing with a sales price of \$100 or less per item are also exempt.

The Energy Star Sales Tax Holiday was enacted in 2007 and expanded in 2008 to include qualifying WaterSense items. Qualifying items must be purchased for noncommercial or personal use, and the sales price for each qualifying item must not exceed \$2,500. Energy Star qualified products include any dishwasher, clothes

¹ Because the annual sales tax holiday does not take place until August of each year, the sales tax holiday effectively expires prior to July 1, 2030 in August of 2029.

washer, air conditioner, ceiling fan, compact fluorescent light bulb, dehumidifier, programmable thermostat, or refrigerator, the energy efficiency of which has been designated by the United States Environmental Protection Agency and the United States Department of Energy as meeting or exceeding each such agency's requirements under the Energy Star program. WaterSense qualified products are defined as those products that have been recognized as being water efficient by the WaterSense program, as indicated by a WaterSense label. Qualifying items include bathroom sink faucets, faucet accessories, toilets, showerheads, urinals, and landscape irrigation controllers.

The Hurricane Preparedness Sales Tax Holiday was enacted in 2007. Items eligible for the hurricane preparedness exemption during the holiday include blue ice, carbon monoxide detectors, cell phone batteries, cell phone chargers, gas or diesel fuel tanks, nonelectric food storage coolers, portable self-powered light sources, portable self-powered radios, two-way radios, weather band radios, storm shutter devices, tarpaulins or other flexible waterproof sheeting, ground anchor systems or tie-down kits, gas-powered chain saws and chain saw accessories, and packages of AAA-cell, AA-cell, C-cell, D-cell, 6-volt, or 9-volt batteries, excluding automobile and boat batteries. The tax exemption also applies to gas-powered chainsaws with a selling price of \$350 or less and to the other hurricane preparedness equipment with a selling price of \$60 or less. Portable generators with a selling price of \$1,000 or less are also eligible for the exemption during the holiday.

INCOME TAX CREDITS

Table 2 below shows the income tax credits that are currently scheduled to expire on or before July 1, 2030 and the General Fund revenue impact of such credits. This table reflects the amount of credits claimed on income tax returns processed during Fiscal Year 2025, regardless of the taxable year. This includes any credit amounts carried over from prior taxable years. If a return was amended or audited during the fiscal year, only the additional credit amount (or reduction) is included. It does not reflect any tax credit amounts that could not be utilized due to an insufficient tax liability and, therefore, carried over to future taxable years.

Table 2: Income Tax Credits Claimed During FY 2025

Credit	Number of Returns	Amount (\$ millions)
PTET Credit* § 58.1-390.3 E	55,348	\$1,695.92
PTET Out-of-State Credit § 58.1-332 C.2	369	\$35.36
Refundable Earned Income Tax Credit § 58.1-339.8 B.3**	253,759	\$130.39
Neighborhood Assistance Act Tax Credit § 58.1-439.20:2	4,048	\$16.84
Worker Training Tax Credit § 58.1-439.6:1	7	\$0.05
Major Business Facility Jobs Tax Credit § 58.1-439	8	\$1.78
Tax Credit for Participating Landlords ("Communities of Opportunity") § 58.1-439.12:04	47	\$0.20
Recyclable Materials Processing Equipment Tax Credit § 58.1-439.7	57	\$2.47
Motion Picture Production Tax Credit § 58.1-439.12:03	***	\$3.50
Food Donation Tax Credit § 58.1-439.12:12	22	\$0.04
Firearm Safety Device Tax Credit § 58.1-339.14	1,283	\$0.33
Conservation Tillage and Precision Agriculture Equipment § 58.1-337, § 58.1-436	131	\$1.21
Agricultural Best Management Practices Tax Credit § 58.1-339.3, § 58.1-439.5	135	\$0.57

*The PTET Credit is equal to the amount of pass-through entity tax paid by the entity that is attributable to the owner.

** The total amount of low-income taxpayer credit processed in FY 2025 was \$224.1 million with 522,435 returns. The estimate attributable to the 15% refundable credit is reported. If the refundable credit were to expire, many taxpayers claiming such refundable credit would become eligible to claim the nonrefundable credit instead, likely at a reduced amount.

*** Number of returns for this credit is not available for release because fewer than four returns claiming the credit were processed in FY 2025.

PTET Credit

During the 2022 Session, the General Assembly enacted legislation to permit certain pass-through entities "PTEs" to make an annual election to pay an elective income tax at a rate of 5.75 percent at the entity level. The 2022 legislation also allowed a corresponding refundable income tax credit to certain PTE owners for income paid by a PTE if such PTE makes the election and pays the elective income tax imposed at the entity level. The effect of PTET and corresponding refundable credit is to offer taxpayers a workaround to the \$10,000 cap on the federal deduction for state and local taxes

("SALT") paid. During the 2023 Session, the General Assembly enacted legislation that expanded the number of PTEs that were eligible to make this election. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2027.

PTET Out-of-State Credit

Individual taxpayers may claim a credit for taxes paid to other states under laws that are substantially similar to Virginia's PTET. This credit overrules Public Document 21-156 (December 29, 2021), which generally denied a credit for a tax paid to Maryland under that state's elective pass-through entity income tax. This provision only applies to taxes paid by a PTE under the law of another state that is substantially similar to *Va. Code § 58.1-390.3*. Therefore, it does not apply to any other entity-level taxes, such as any franchise, privilege, business, license, or occupation taxes described in *Va. Code § 58.1-332.2*. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2026.

Refundable Earned Income Tax Credit

Virginia allows individual taxpayers to claim either:

- The Tax Credit for Low-Income Individuals or
- The Virginia Earned Income Tax Credit ("Virginia EITC").

The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married person's income tax return for the taxable year.

Taxpayers that elect to claim the Virginia EITC may claim either the nonrefundable EITC or the refundable EITC. Virginia's nonrefundable EITC generally equals 20 percent of the federal EITC. During the 2025 Session, the General Assembly increased the amount of Virginia's refundable EITC from 15 percent to 20 percent of the federal EITC.

Virginia's nonrefundable EITC does not expire and remains equal to 20 percent of the federal EITC. Virginia's refundable EITC is currently scheduled to expire for taxable years beginning on or after January 1, 2027.

Neighborhood Assistance Act Tax Credit

The Virginia Neighborhood Assistance Act provides an income tax credit to business firms and individuals that donate to neighborhood organizations for approved programs that benefit impoverished people. Under this Act, a neighborhood organization is allocated funding through the Neighborhood Assistance Act Program. The Department of Social Services and the Department of Education are responsible for approving programs proposed by neighborhood organizations and allocating Neighborhood

Assistance Act Tax Credits to neighborhood organizations with approved programs. A business firm or individual that makes a donation to a neighborhood organization for an approved program is then eligible to receive an income tax credit from that neighborhood organization.

The amount of the credit for a business firm or individual who donates professional services is equal to 65 percent of the value of the money, property, professional services, or contracting services donated by such taxpayer to a neighborhood organization for an approved program. No credit less than \$400 may be granted to a business firm or individual who provides professional services for any donation. Therefore, a business firm or individual who provides professional services must make a donation with a value of at least \$616 to meet the minimum credit threshold, and receive an allocation of credits.

The amount of the credit for an individual who makes a monetary donation or marketable securities donation to a neighborhood organization for an approved program is equal to 65 percent of the value of such donation. To receive an allocation of credits, an individual is required to make a donation of at least \$500. For purposes of determining the amount of credits allocated to an individual, the value of the individual's donation is limited to the lesser of the actual value of the donation or \$125,000. The \$125,000 cap on the value of donations caps the credit at \$81,250 per taxpayer. The credit is currently scheduled to expire on July 1, 2028.

Worker Training Tax Credit

Business taxpayers may claim Worker Training Tax Credits in an amount equal to 35 percent of the expenses incurred for eligible worker training during the taxable year. The amount of the credit is limited to \$500 for training related to each qualified employee or \$1,000 for training related to each non-highly compensated worker. "Eligible worker training" includes the training of a qualified employee or non-highly compensated worker in the form of:

- Credit or noncredit courses at any institution recognized on the Eligible Training Provider List that results in the qualified employee or non-highly compensated worker receiving a workforce credential; or
- Instruction or training that is part of an apprenticeship agreement approved by the Commissioner of Labor and Industry.

This portion of the credit may be claimed against the individual income tax, income tax imposed on estates and trusts, corporate income tax, bank franchise tax, insurance premiums license tax, and license tax on telegraph, telephone, water, heat, light, power, and pipeline companies.

In addition, a business taxpayer primarily engaged in manufacturing may claim an individual or corporate income tax credit equal to 35 percent of the direct costs it incurs during the taxable year for conducting orientation, instruction, and training in Virginia

relating to the manufacturing activities undertaken by such taxpayer. Taxpayers may claim a maximum \$2,000 in credits per taxable year for conducting such orientation, instruction, and training. This credit is permitted for programs that:

- Provide orientation, instruction, and training solely to students in grades 6 through 12;
- Are coordinated with the local school division; and
- Are conducted either at a plant or facility owned, leased, rented, or otherwise used by the business or at a public middle or high school in the Commonwealth.

The amount of credits allowed to be claimed cannot exceed the tax imposed for such taxable year. Any credits not used in the taxable year the credit is first allowed may be carried forward for the next 3 succeeding taxable years. The credit is subject to an aggregate annual credit cap of \$1 million.

The portion of the credit for eligible worker training is currently scheduled to expire for taxable years beginning on or after July 1, 2025. The portion of the credit for manufacturing businesses expired for taxable years beginning on or after January 1, 2025.

Major Business Facility Jobs Tax Credit

A taxpayer may claim the Major Business Facility Job Tax Credit if the taxpayer creates at least 50 new full-time jobs in connection with the establishment or expansion of a major business facility and the company is engaged in a qualifying industry in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area, as defined by the Virginia Economic Development Partnership, the threshold is reduced from 50 jobs to 25 jobs. The amount of the credit is equal to \$1,000 for each qualifying new job in excess of the applicable job threshold. A "major business facility" is a company that is engaged in any business in the Commonwealth, except a retail trade business, if such trade is the principal activity of an individual facility in the Commonwealth.

The credit may be claimed against the individual income tax, income tax imposed on estates and trusts, corporate income tax, bank franchise tax, insurance premiums license tax, and the tax on public service corporations.

Taxpayers may claim the credit ratably over 2 taxable years, beginning with the taxable year following the year in which the facility is established or expanded, or the new qualifying jobs are added. The amount of credits allowed to be claimed cannot exceed the tax imposed for such taxable year. Any credits not used in the taxable year the credit is first allowed may be carried forward for the next 10 succeeding taxable years.

In cases where the number of qualified full-time employees in any of the 5 years succeeding the credit year decreases below the average number of employees during the credit year, the taxpayer is required to recapture part or all of the credit by

increasing the tax in such taxable years. The amount of the tax increase is determined by:

- Recomputing the credit which would have been earned for the original credit year, using the decreased number of qualified full-time employees; and
- Subtracting such recomputed credit from the amount of credit previously earned.

In the event that the average number of qualifying full-time employees employed at a facility falls below the applicable threshold in any of the 5 taxable years succeeding the credit year, all credits earned with respect to such facility must be recaptured. The credit is not subject to an annual credit cap. The credit is currently scheduled to expire for taxable years beginning on or after July 1, 2025.

Tax Credit for Participating Landlords (“Communities of Opportunity”)

Certain landlords with qualified housing units located in census tracts with poverty rates of less than 10 percent in the Richmond Metropolitan Statistical Area, the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area, and the Washington-Arlington-Alexandria Metropolitan Statistical Area, who participate in a housing choice voucher program may claim the Communities of Opportunity Tax Credit against the individual and corporate income tax. During the 2024 Session, the General Assembly expanded the credit to also include certain non-metropolitan census tracts and earmarked \$100,000 of the annual credit cap to tax credits provided to participating landlords within such census tracts.

The amount of the credit is equal to 10 percent of the fair market value of the rent for a qualified housing unit, computed for the portion of the taxable year the unit qualifies for purposes of the credit. For purposes of the credit, a "qualified housing unit" includes a dwelling unit that is located in an eligible housing area for which a portion of the rent is paid by a housing authority, and payment is pursuant to a housing choice voucher program.

The amount of credits allowed to be claimed cannot exceed the tax imposed for such taxable year. Any credits not used in the taxable year the credit is first allowed may be carried forward for the next five succeeding taxable years. The credit is subject to an annual credit cap of \$500,000. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2026.

Recyclable Materials Processing Equipment Tax Credit

The Recyclable Materials Processing Equipment Tax Credit is an individual and corporate income tax credit for purchases made during the taxable year of:

- Machinery and equipment used predominantly in or on the premises of manufacturing facilities or plant units that manufacture, process, compound or

produce items of tangible personal property from recyclable materials within Virginia for sale; and

- Machinery and equipment used in advanced recycling, which is defined as the operation of a single-stream or multi-stream recycling plants that convert waste materials into new materials for resale by processing them and breaking them down into their raw constituents. This includes the operation of a materials recovery facility or materials reclamation facility that receives, separates, and prepares recyclable materials for sale to end-user manufactures.

The amount of the credit is equal to 20 percent of a taxpayer's qualifying expenditures.

The amount of credits allowed to be claimed per taxable year cannot exceed 40 percent of the taxpayer's Virginia income tax liability for such taxable year. Any credits not used in the taxable year the credit is first allowed may be carried forward for the next 3 succeeding taxable years. The credit is subject to an annual credit cap of \$2 million. This credit was scheduled to sunset on January 1, 2025 but was extended until January 1, 2027 by Item § 3-5.26 of 2025 House Bill 1600 (*2025 Acts of Assembly*, Chapter 725).

Motion Picture Production Tax Credit

The Motion Picture Production Tax Credit is a series of refundable individual and corporate income credits for motion picture production companies that meet certain criteria. A motion picture production company with qualifying expenses of at least \$250,000 may receive a credit equal to 15 percent of qualifying expenses or 20 percent of qualifying expenses if the production is filmed in an economically distressed area of Virginia.

A motion picture production company may receive an additional credit equal to 10 percent of the total aggregate payroll for Virginia residents employed in connection with the production of a film in Virginia when total production costs in Virginia are at least \$250,000, but not more than \$1 million. This additional credit is equal to 20 percent of the total aggregate payroll of such residents when total production costs in Virginia exceed \$1 million.

A motion picture production company may also receive an additional credit equal to 10 percent of the total aggregate payroll for Virginia residents employed for the first time as actors or members of a production crew in connection with the production of a film in Virginia.

"Qualifying expenses" are defined as the sum of the following amounts spent in Virginia by a production company for the production of a motion picture film or an episodic television series filmed in Virginia:

- Goods and services leased or purchased.

- Compensation and wages of up to \$1 million per individual for personal services with respect to a single motion picture production.

The aggregate amount of all credits that may be allocated to taxpayers is capped at \$6.5 million per fiscal year. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2027.

Food Donation Tax Credit

Taxpayers engaged in the business of farming for growing food crops in the Commonwealth and donating such crops to a nonprofit food bank may claim the Food Crop Donation Tax Credit against the individual income and corporate income tax. The amount of the credit is equal to 50 percent of the fair market value of such crops. No taxpayer is permitted to claim more than \$10,000 in credits for a taxable year. Such tax credit is permitted if all of the following requirements are met:

- The use of the donated food crops by the donee nonprofit food bank is related to providing food to the needy;
- The donated food crops are not transferred for use outside the Commonwealth or used by the donee nonprofit food bank as consideration for services performed or personal property purchased; and
- The donated food crops, if sold by the donee nonprofit food bank, are sold to the needy, other nonprofit food banks, or organizations that intend to use the food crops to provide food to the needy.

The amount of credit allowed to be claimed cannot exceed the tax imposed for such taxable year. Any credits not used in the taxable year the credit is first allowed may be carried forward for the next 5 succeeding taxable years. The credit is subject to an annual credit cap of \$250,000. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2028.

Firearm Safety Device Tax Credit

Individual taxpayers may take the Firearm Safety Device Tax Credit of up to \$300 for the cost incurred in the purchase of one or more firearm safety devices in an eligible transaction.

During its 2024 Regular Session, the General Assembly amended the definition of "firearm safety device" for purposes of the credit. A firearm safety device now includes both:

- A safe, gun safe, gun case, lock box, or other device that is designed to be or can be used to store a firearm and that is designed to be unlocked only by means of a key, a combination, or other similar means ("safes"), and
- Any device that, when installed on a firearm, is designed to prevent the firearm from being operated without first deactivating the device ("trigger locks").

Prior to the changes made during the 2024 Regular Session, the definition of “firearm safety device” only included safes and not trigger locks.

During the 2025 Session, the General Assembly amended the Firearm Safety Device Tax Credit to allow a qualifying firearm safety device to be purchased from a commercial retailer that is properly registered as a dealer as required under Virginia’s retail sales and use tax instead of only from a federally licensed dealer.

The total amount of credits that may be claimed in aggregate is capped at \$5 million per taxable year and are issued on a first-come, first-served basis. The amount of the credit claimed in any single taxable year cannot exceed the individual’s income tax liability for that taxable year. Taxpayers may carry forward any unused credit for five years. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2028.

Conservation Tillage and Precision Agriculture Equipment Tax Credit

Individual and corporate taxpayers may claim the Conservation Tillage and Precision Agriculture Equipment Tax Credit for expenditures made for the purchase of equipment that reduces soil compaction such as a “no-till” planter, drill, or other equipment, or equipment that provides more precise pesticide and fertilizer application or injection. The amount of the credit is equal to 25 percent of all such expenditures, up to \$17,500 per taxable year.

To be eligible for the new credit, a taxpayer must be engaged in agricultural production for market, have in place a soil conservation plan approved by the local soil and water conservation district, and be implementing a nutrient management plan developed by a certified nutrient management planner. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2030.

Agricultural Best Management Practices Tax Credit

Individual and corporate taxpayers may claim the Agricultural Best Management Practices Tax Credit for the voluntary installation of agricultural best management practices that meet Virginia’s nonpoint source pollution water quality objectives.

“Agricultural best management practice” is defined as a practice approved by the Virginia Soil and Water Conservation Board which will provide a significant improvement to water quality in the state’s streams and rivers and the Chesapeake Bay and is consistent with other state and federal programs that address agricultural, nonpoint-source-pollution management. Virginia law provides that a detailed list of the standards and criteria for practices eligible for credit are to be found in the most recently approved “Virginia Agricultural BMP Manual” published annually prior to July 1 by the Department of Conservation and Recreation. Virginia law also sets forth a non-exhaustive list of eligible practices.

Certain individual and corporate taxpayers with approved soil conservation plans are permitted to claim the Agricultural Best Management Practices Tax Credit. The maximum amount of such credit is 25 percent of the first \$100,000 of such expenditures.

Certain individual and corporate taxpayers with an approved resource management plan may claim an enhanced Agricultural Best Management Practices Tax Credit. The amount of the enhanced credit is 50 percent of the first \$100,000 expended for agricultural best management practices. To be eligible for the enhanced credit, the taxpayer is required to:

- Either be engaged in agricultural production for market or have equines that create needs for agricultural best management practices to reduce nonpoint source pollutants; and
- Have in place a resource management plan approved by the local soil and water conservation district.

The enhanced credit is allowed only for agricultural best management practices implemented on an acreage included in the resource management plan.

The aggregate amount of the Agricultural Best Management Practices Tax Credit and the enhanced Agricultural Best Management Practices Tax Credit claimed by a taxpayer cannot exceed \$75,000 per taxable year. In addition, there is an annual credit cap of \$2 million per fiscal year applicable in aggregate to both the credit and the enhanced credit. Taxpayers are prohibited from claiming tax credits for the same practice in the same management area under both the credit and the enhanced credit. The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2030.