Virginia Tax Updates

May 20, 2025

IRMS System Replacement

What is IRMS?

IRMS is the agency's legacy core tax processing and accounting system that administers 36 tax types, processing around 12 million tax returns a year and generating revenues of close to $30 billion annually, which contributes 95% of the Commonwealth's General Fund revenue. IRMS was developed and implemented from 1999 through 2005.

Many of the IRMS systems and databases are now obsolete and are becoming increasingly vulnerable and expensive to maintain, posing significant risks to the integrity of our taxpayer data. They also limit our ability to deliver the positive taxpayer experience that the citizens of Virginia rightfully expect.

Key stakeholders for IRMS include

- General Assembly – legislators and money committee staff
- Taxpayers – Businesses and individuals
- Agency staff – phone representatives, auditors, collectors, error resolvers, legal services, internal auditors, etc.
- Other state agencies and local governments
- Attorney General and Auditor of Public Accounts
- Tax professionals – preparers of individual and corporate income tax and business tax returns
- Payroll providers (companies making withholding payments for multiple business taxpayers)
- Courts (debt collection)
- Tax software providers (e.g., Turbo Tax, H&R Block)

IRMS Enables

Tax Processing & Accounting

$30 billion in revenue,
$2.8 billion refunds,
12 million tax returns

Online Portals (for Individuals, Businesses & Tax Practitioners)

Individual portal (451,684 users)
Business portal (166,969 users)
Tax Professional portal (N/A)

Collections & Compliance

$1.1 billion compliance assessment
$914 million collected

Locality Online Portal

2,842 users; $6 million refunds

Audit Selection

$245 million in assessments generated

Customer Relationship Management (CRM)

757,000 customer contacts

Audit Case Management

68,000 cases

Refund Fraud Prevention

$61 million in fraudulent refunds stopped

IRMS Replacement RFP and Project Timeline

Start

2017

Performed Current State Assessment and determined IRMS was nearing end of life and must be replaced soon
(Performed by CapTech)

2019

Issued RFI to determine Build (Custom) vs Buy decision
(Performed by MathTech)

2020

Evaluated RFI responses for Build vs. Buy decision, and determined Buy
(Performed by MathTech)

2022

GA directs Virginia Tax to conduct IRMS Assessment (HB30)
(Performed by Gartner)
Assessment affirms need to replace IRMS with a Commercial off the Shelf Solution (Buy)

2023

Requested funding to develop and issue RFP and to replace IRMS

2024

Developed and Issued RFP for IRMS replacement (HB 6001)
(Performed by Gartner)

2025

Funds Appropriated and Project Kick Off

2026

Sales and Use and Withholding Implemented in Modern ITS

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IRMS Replacement - Detailed Project Timeline

Activity	Date
Requests for Proposal Advertised	July 19
Received Written Proposals	August 28
Evaluation Began	September 3
Negotiations Began	November 11
Funding Appropriated	May 2
Notice of Intent to Award Posted	June 2025
Anticipated Contract Signature	July 1
Anticipated Agency Team Project Kick Off	July 1
Anticipated Vendor Team Project Kick Off	August 1
Phase 1 Rollout: To include Sales and Use and Withholding	September 2026
Phase 2 Rollout: To include Corporate Income, Bank Franchise Insurance Premium	September 2027
Phase 3 Rollout: To include Individual Income and PTET Rollout	September 2028
Phase 4 Rollout: To include Property, Tobacco, Cigarette, and Miscellaneous Taxes	September 2029

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IRMS Replacement Project Timeline

CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
		(Ready for Jan 2028 Filing Season)	*(Ready for Jan 2029 Filing Season)*	
Start Implementation	Implement Release 1	Implement Release 2	Implement Release 3	Implement Release 4
	To Include:	To Include:	To Include:	To Include:
	Sales and Use	Corporate Income	Individual Income	Property
	Withholding	Bank Franchise	Pass-through Entity	Cigarettes and other Tobacco Products
		Insurance Premium		Miscellaneous

Virginia's Conformity to Federal Tax Law

Conformity to Federal Tax Law

- Most states use the same definitions of income adopted by Congress in the Internal Revenue Code
- These states generally either use (1) rolling conformity or (2) fixed date conformity

Rolling Conformity	Fixed-Date Conformity
State automatically conforms to federal tax law changes as they are adopted	State conforms to federal law as of a specified date – conformity not automatic
No state legislation required to conform	State legislation required to conform
Less control over state revenues - legislation required to deconform	Greater control over state revenues/policy
Greater certainty for taxpayers	Less certainty for taxpayers
No tax filing season delays	Potential tax filing season delays

Virginia's Tax Conformity History

Virginia Fixed-Date Conformity (20 Years)

1971
Virginia adopts rolling conformity as part of tax code rewrite

2002
Virginia temporarily freezes conformity

2003
Virginia adopts fixed-date conformity

2023
Virginia returns to rolling conformity with revenue triggers

2025
Pause on rolling conformity for 2025 and 2026

Virginia Rolling Conformity (30+ Years)

Back to Rolling Conformity in 2023... but with Triggers

- In 2023, Virginia adopted rolling conformity, except Virginia deconforms from:
  - Any single change with a projected Virginia revenue impact of at least $15 million
  - Any changes made after reaching a total projected Virginia revenue impact of $75 million*

Per Provision Trigger	Aggregate Trigger	Virginia Treatment
Single Change More Than $15M	N/A	Deconform
Single Change Equal to or Less Than $15M	At or under the $75M Aggregate Trigger	Conform
Single Change Equal to or Less Than $15M	Over the $75M Aggregate Trigger	Deconform

*Virginia conforms to any federal tax extenders, regardless of the revenue triggers.

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Temporarily Back to Fixed Date Conformity in 2025

- The budget bill pauses rolling conformity for any provisions enacted during 2025 or 2026 that would have any revenue impact on Virginia during the next five years.
- As a result, specific legislative action (likely emergency legislation due to the timing of filing season) will be required to adopt federal tax law changes during this period.
- Virginia will continue to automatically conform to federal tax extenders.
- As under prior law, a report of any federal tax law changes is due to the Chair of SFAC and Chair of HAC by November 15 each year.

Example of Rolling Conformity Under Pre-2025 Law

- If the federal government were to pass legislation with an expected Virginia revenue impact of less than $15M and it had passed **on December 20, 2024:**

- **Previous Rolling Conformity before 1/1/2025**
- 15M per change threshold
- $75M aggregate cap

December 20, 2024

Virginia would automatically conform

- Because the cost is less than the $15M rolling conformity threshold, no state legislation would be required unless $75M aggregate cap has been met

Example of Fixed-Date Conformity Under Current Law

- If the federal government were to pass legislation with an expected Virginia revenue impact of less than $15M and it passed **on December 20, 2025**:

- **Rolling Conformity Paused as of as of 1/1/2025**
- Tied to the version of the IRC that existed on 12/31/2024

December 20, 2025

Virginia would NOT automatically conform

- State legislation would be required to conform
- Modification on VA return required if conformity legislation is not passed

Taxation of Workers in Northern Virginia, MD, and DC

General Rule = Workers Taxed in State of Employment

State of Employment

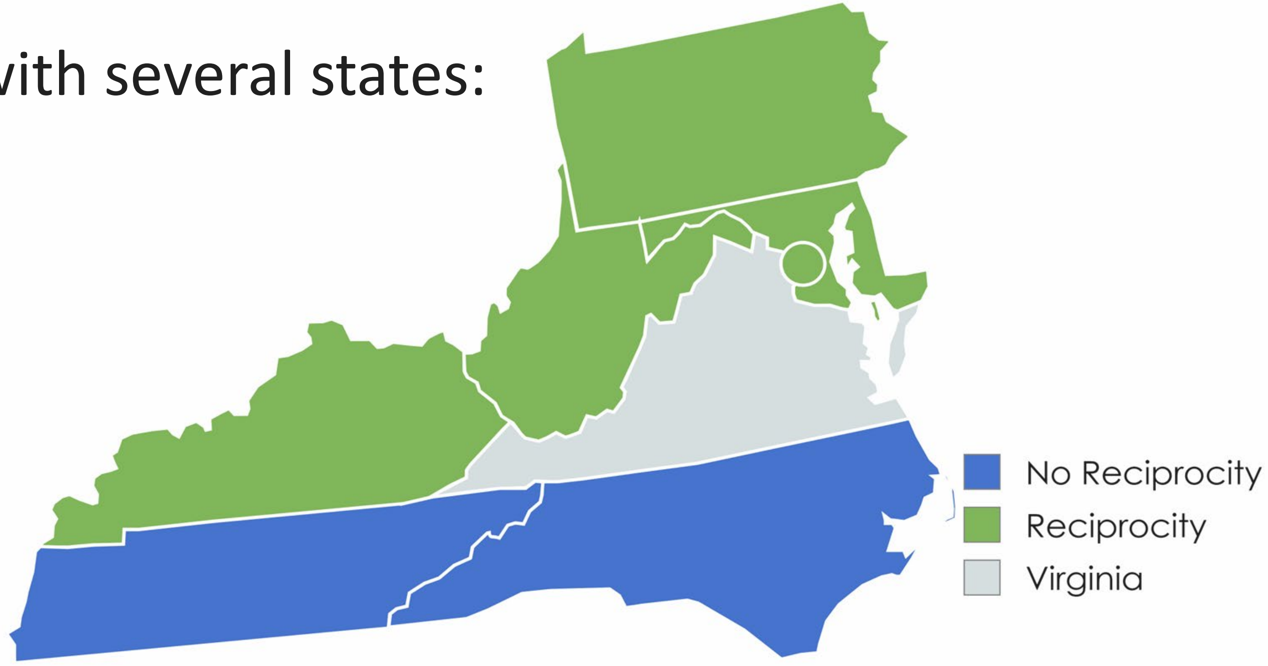
- Generally, individuals pay taxes to the state where they work.
- Therefore, in most cases, employers withhold and remit taxes to the state where the work is performed.
- Taxpayers are generally required to file nonresident returns in their state of employment.

Home State

- In addition, the individual's state of residence ("home state") taxes them on all income wherever it was earned.
- To avoid double taxation, a credit is provided on the home state tax return for any taxes paid to another state.
- There are some exceptions to this rule – for example, California grants a credit to nonresidents, rather than residents.

Special Rule = Workers Taxed in State of Residence

- Virginia has reciprocity agreements with several states:
  - District of Columbia*
  - Kentucky
  - Maryland
  - Pennsylvania
  - West Virginia



- Under these agreements, Virginia residents commuting to these five states are generally taxed by Virginia; likewise, residents of these states commuting into Virginia are generally taxed by their home states. The specific terms vary slightly with regard to each state.

*Virginia does not have an agreement with DC; rather, Virginia and DC have reciprocity by operation of law (a combination of the Home Rule Act and Virginia law).

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Withholding and Reciprocity

Special Rule in States With Reciprocity (DC, KY, MD, PA, WV)

- Employers withhold and send payments **to the employee's home state**
- Employees are generally **only required to file a tax return in their home state**
- Employees commuting to Virginia may use Form VA-4 to be exempted from VA withholding

General Rule

- Employers withhold and send payments **to the state in which the employee works**
- Employees must file a tax return in **both their home state and the state in which they are employed**
- Virginia residents may claim a Virginia tax credit for taxes paid to another state

Thank you

Kristin Collins

Deputy Commissioner

kristin.collins@tax.virginia.gov