H.R. 1 and its Impact on Virginia Tax Conformity

Preliminary Analysis of the Revenue Impact on Virginia

September 16, 2025

Virginia Tax

Legislative Action Required for Conformity

- H.R. 1 extends and modifies some current federal tax policies as well as introduces new federal tax policies that impact Virginia.
- In 2023, Virginia adopted rolling conformity with certain exceptions. 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.*
- The 2025 Appropriation Act 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, legislation will generally be required to adopt federal tax law changes during this period.
  - Virginia will continue to automatically conform to federal tax extenders.

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

Legislative Action Required for Conformity

- General Assembly action is required to the extent Virginia would like to conform to the tax provisions of H.R. 1 and any other federal tax legislation passed during calendar years 2025 and 2026:

Type of Provision	General Assembly Action Required?
Extenders	No (automatic)
Provisions that would “flow through” to Virginia	Yes (update Virginia’s date of conformity to the Internal Revenue Code)

- **“Flow through”** means a provision that impacts federal adjusted gross income (“FAGI”) for individuals or federal taxable income (“FTI”) for corporations, which are the starting points to calculate Virginia income tax.
- **“Conformity”** refers to how closely Virginia’s tax laws “conform” to the federal tax laws used to calculate FAGI and FTI.

Extenders

- Conformity-Related extenders:
  - **“Extender”** means a provision that merely extends without modifying a current federal tax policy that was set to expire.
  - **General Assembly Action Required?**—No.
    - Virginia automatically conforms to extenders that “flow through.”
- The extenders included in H.R. 1 include the extensions of:
  - Rollovers from qualified tuition programs to ABLE accounts.
  - Treatment of certain disaster-related personal casualty losses.
  - Look-thru rule for related controlled foreign corporations.
- Because extension of these provisions is assumed in the forecast, **there is no revenue impact associated with extenders**.

Key Provisions that Would Flow Through to Virginia

- H.R. 1 extends and modifies some provisions of current federal tax law that "flow through."

Provision	Prior Law	H.R. 1
Limits on itemized deductions	No Limit (Virginia limit imposed)	New limit
Section 179 expensing	$1,000,000 limit $2,500,000 phaseout	$2,500,000 limit $4,000,000 phaseout
Business interest deduction	30% of adjustable taxable income ("ATI") limit	Increases cap by changing definition of ATI
Domestic research expenses	Amortized over 5 years	Immediate deduction (retroactive)
Opportunity zones	Deferral and exclusion of eligible gains	Makes permanent & restructures opportunity zones

Key Provisions that Would Flow Through to Virginia

- In addition, H.R. 1 includes new provisions that would flow through to Virginia, such as:
  - A 1% floor for corporate charitable deductions.
  - A 0.5% floor for individual charitable deductions.
  - Special depreciation allowance for qualified property under new IRC Section 168(n).
    - Virginia has historically deconformed from similar “bonus” depreciation provisions under IRC Section 168(k).
- For all provisions that would flow through to Virginia, **General Assembly action is required** to update Virginia’s date of conformity.
- Choosing not to conform to any of these provisions would require Virginia taxpayers to make modifications, some of which may be complicated, when calculating their income for Virginia purposes.

Preliminary Revenue Impact of Updating Virginia's Date of Conformity

($ in millions)	FY 2026	FY 2027	FY 2028
Individual Provisions:			
0.5% floor on charitable contributions (1/1/26)	$9.6	$51.2	$65.0
Miscellaneous individual provisions (1/1/26)	(0.9)	(2.4)	(3.2)
New limit on the value of itemized deductions (repeal of the VA Pease limit) (1/1/26)	(9.8)	(25.3)	(27.6)
Individual Provisions Subtotal	($1.1)	$23.5	$34.2
Business Provisions:			
Restructure of opportunity zones program (7/4/25)	$10.9	$22.9	($27.0)
1% floor on charitable contributions (1/1/26)	4.3	7.7	9.2
Miscellaneous business and international provisions	3.9	15.1	23.9
Increases section 179 expensing limit to $2.5 million (1/1/25)	(28.2)	(19.3)	(16.1)
Increases the business interest deduction (1/1/25-Expires 2030)	(33.6)	(16.0)	(14.8)
Special depreciation allowance for qualified property (7/4/25)	(127.1)	(170.4)	(174.0)
Domestic research deduction (1/1/25-Expires 2030)* (retroactive to December 31, 2021)	(403.6)	(121.4)	(79.0)
Business Provisions Subtotal	($573.4)	($281.4)	($277.8)
Full Conformity (Updating Virginia's Date of Conformity) Total	**($574.5)**	**($257.9)**	**($243.6)**

All estimates are preliminary

*Includes "catch-up" amounts from prior 5-year amortization TCJA rules.

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Impact on 2026 Filing Season

- Conformity legislation updating Virginia’s date of conformity is required to conform to the changes in federal tax policy made by H.R. 1 and address any provisions from which Virginia wishes to deconform.
- If such legislation is enacted during the 2026 Regular Session, it will likely need to be emergency legislation due to the timing of the 2026 filing season.
- If conformity is not addressed by early February 2026, it could result in administrative problems for taxpayers, including:
  - Delaying the tax filing season, which would delay taxpayers from receiving any refunds due.
  - Requiring taxpayers to make numerous, complex adjustments on their Virginia income tax returns.
  - Requiring taxpayers to file amended returns.

Provisions Not Related to Conformity

Key Individual Tax Provisions that Do Not Flow Through to Virginia

- H.R. 1 also creates new tax policy provisions that would not "flow through" to Virginia by updating Virginia's date of conformity.
  - **General Assembly Action Required?**—Yes. **Virginia specific legislation** creating state versions of these federal provisions on the Virginia return.
- Unlike the other policy provisions, choosing not to adopt these provisions would not complicate Virginia tax return filing.

Provision ($ in millions)	FY 2026	FY 2027	FY 2028
Charitable deduction for nonitemizers (TY 2026-2028)	($10.2)	($55)	($71.1)
No tax on car loan interest (TY 2025-2028)	(48.4)	(59.9)	(76.5)
No tax on tips (TY 2025-2028)	(67.0)	(73.0)	(70.4)
No tax on overtime (TY 2025-2028)	(217.1)	(242.3)	(208.8)
Total	**($342.7)**	**($430.2)**	**($426.8)**

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Thank you

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