

For example, if you are single, claim no dependents and moved to Virginia on July 1, your prorated Virginia personal exemption is computed as follows:

#### Prorated Virginia Personal Exemption

\$930 (One personal exemption)

X .504 (Ratio Schedule factor for July 1 move to Virginia)

\$468.72 (Be sure to round to \$469.00)

Each spouse must compute his or her own prorated personal exemptions based on the number of exemptions claimed in the Exemption Section. Use the separate exemption amounts for “you” and your “spouse” when completing Lines 1-11 of the Prorated Exemption Worksheet in Part 2 of the Schedule of Income. Enter in the appropriate column on Form 760PY, Line 14. If claiming Filing Status 2, the combined exemption amount for you and spouse should be entered on Form 760PY, Line 14, column A.

#### Exception

If 100% of your federal adjusted gross income was earned while you were a Virginia resident, you do not have to prorate your personal exemptions. If you are married, each spouse’s personal exemption is prorated separately based on that spouse’s period of residence in Virginia. However, if 100% of either spouse’s income is from Virginia sources, that spouse’s personal exemption does not have to be prorated.

If you moved into and out of Virginia during the year (or vice versa), base the proration on the total number of days that you were a Virginia resident.

When using Filing Status 3, if the number of exemptions *cannot* be accounted for separately, they *must* be proportionately allocated between each spouse based upon each spouse’s income.

#### Part 3 - Moving Information

If you moved into Virginia during the year, enter your prior state or foreign country of residence. If you are filing a joint return, also enter the prior state or foreign country of residence for your spouse.

If you moved out of Virginia during the year, enter the state or foreign country to which you moved. If you are filing a joint return, also enter the state or foreign country to which your spouse moved.

### SCHEDULE 760PY ADJ LINE INSTRUCTIONS

#### FIXED DATE CONFORMITY UPDATE FOR 2016

Virginia’s date of conformity with the Internal Revenue Code (IRC) was advanced from December 31, 2014 to December 31, 2015, with limited exceptions.

**Bonus Depreciation:** Virginia will continue to disallow any bonus depreciation claimed for certain assets under IRC § 168(k) during Taxable Year 2001 and thereafter. Virginia will also continue to disallow bonus depreciation claimed under IRC §§ 168(l), 168(m), 1400L, and 1400N. To the extent that such bonus depreciation was claimed for federal income tax purposes, the depreciation deduction must be recomputed for Virginia income tax purposes. For taxable years when the recomputed Virginia depreciation deduction is less than the federal deduction, the taxpayer must claim a Virginia addition equal to the difference. For taxable years when the recomputed Virginia depreciation deduction is more than the federal deduction, the taxpayer may claim a Virginia subtraction equal to the difference.

**Applicable High Yield Discount Obligations:** Virginia will continue to deconform from IRC § 163(e)(5)(F), which suspends the application of the applicable high yield debt obligation

(“AHYDO”) rules for certain debts issued between September 30, 2008, and December 31, 2009. For federal purposes, special rules generally apply to computing the interest deduction that applies to certain high-yield original issue discount obligations. Because Virginia will continue to deconform from the federal provision that suspends the AHYDO rules, such rules will continue to apply for Virginia income tax purposes. Any resulting difference in the federal and Virginia deduction should be claimed as a modification on your Virginia return.

**Cancellation of Debt Income:** Under IRC § 108(i), taxpayers were permitted to defer the income realized upon the reacquisition of certain business debt during 2009 and 2010, and instead report such income in Taxable Years 2014 through 2018.

Virginia deconformed from this federal provision and required taxpayers to claim a Virginia addition equal to the amount of the federal exclusion. However, for transactions completed on or before April 21, 2010, taxpayers were permitted to partially defer such income by claiming the Virginia addition over three taxable years.

A taxpayer who previously claimed the Virginia cancellation of debt addition may claim a subtraction on his or her Taxable Year 2016 Virginia income tax return, to the extent such income was reported on his or her 2016 federal income tax return.

At the time these instructions went to print, the only required adjustments for “fixed date conformity” were those mentioned above. However, if federal legislation is enacted that results in changes to the IRC for the 2016 taxable year, taxpayers will be required to make adjustments to their Virginia returns that are not described in the instruction booklet. Information about any such adjustments will be posted on the Department’s website at [www.tax.virginia.gov](http://www.tax.virginia.gov).

### ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME

#### Line 1 - Interest on Obligations of Other States

Enter the interest earned while a Virginia resident that was not included in federal adjusted gross income, less related expenses to the extent not deducted in determining federal taxable income, on obligations of any state other than Virginia, or of a political subdivision of any such state unless created by compact or agreement to which this state is a party.

#### Line 2a - Fixed Date Conformity

**A. Bonus Depreciation** - For an explanation, please see the section titled, *Fixed Date Conformity Update*. Enter the amount that should be added to federal adjusted gross income based upon the recomputation of allowable depreciation. ....

**B. Other Changes Not Listed Above** - Add any other amounts not covered above that should be adjusted because of Virginia’s conformity to the Internal Revenue Code as it existed on December 31, 2015. Check the Department’s website, [www.tax.virginia.gov](http://www.tax.virginia.gov), for other Fixed Date Conformity adjustments that may have passed after these instructions were printed. ....

**C. Total of Lines A and B** - Enter the total of Lines A and B here and on Schedule 760PY ADJ, Line 2a. ....

## Mutual Funds

If you received federally tax exempt interest dividends from a regulated investment company (mutual fund) that invested in obligations both taxable and exempt for Virginia purposes, the entire dividend income earned while you were a Virginia resident must be entered as an addition unless you enclose a statement provided by the fund that:

- details the amount of dividends you earned while a Virginia resident; and
- summarizes the prorations between exempt and taxable dividends (monthly breakdown is preferred).

A typical situation would involve a mutual fund that invests in bonds of several states, including Virginia. The interest on the bonds issued by the other state is taxable for Virginia purposes even though exempt for federal purposes. Unless the taxpayer is able to substantiate the amount attributable to the Virginia bonds, the total amount of dividends exempt from federal taxation will be an addition on the Virginia return.

If you enclose the information specified above, enter the exempt portion of income on Line 1 or Line 2, as appropriate.

## Lines 2b - 2c - Other Additions

On Lines 2b - 2c, enter the 2-digit code listed below, followed by the amount, for any additions to federal adjusted gross income. **If you have more than 2 additions on Lines 2b - 2c of Schedule 760PY ADJ, enter code "00" and the total addition amount on Line 2b and enclose an explanation of each addition to your return.**

### CODE

#### 10 Interest on Federally Tax-Exempt US Obligations

Enter the interest or dividends earned while a Virginia resident, 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 tax.

#### 11 Accumulation Distribution Income

Enter the taxable income used to compute the partial tax on an accumulation distribution as reported on federal Form 4970.

#### 12 Lump-Sum Distribution Income

If you received a lump-sum distribution from a qualified retirement plan while you were a Virginia resident and elected to use the 20% capital gain election, the 10-year averaging option, or both on federal Form 4972, complete the worksheet below to determine what portion, if any, must be included as an addition on the Virginia return.

1. Enter the total amount of the distribution subject to federal tax (ordinary income and capital gain) .....
2. Enter the total federal minimum distribution allowance, federal death benefit exclusion and federal estate tax exclusion .....
3. Deduct Line 2 from Line 1. Include this amount on Form 760PY, Line 2 .....

#### 14 Income from Dealer Disposition of Property

Enter the amount that would be reported under the installment method from certain dispositions of property.

If, in a prior year, the taxpayer was allowed a deduction for certain income from dealer dispositions of property made on or after January 1, 2009, in the years following the year of disposition, the taxpayer is required to add back the amount that would have been reported under the installment method. Each disposition must be tracked separately for purposes of this adjustment.

#### 16 Telework Expenses

Individuals who claim the Virginia Telework Expenses Tax Credit are not allowed to exclude those expenses from Virginia income. To the extent excluded from federal adjusted gross income, any expenses incurred by a taxpayer in connection with the Telework Expenses Tax Credit must be included as an addition on the Virginia return.

#### 17 First-Time Home Buyer Savings Accounts

To the extent excluded from federal adjusted gross income, an account holder must add any loss attributable to his or her first-time home buyer savings account that was deducted as a capital loss for federal income tax purposes. For more information, see the First-Time Home Buyer Savings Account Guidelines, available in the Laws, Rules & Decisions section of the Department's website at [www.tax.virginia.gov](http://www.tax.virginia.gov).

#### 18 Food Crop Donation

To the extent a credit is allowed for growing food crops in the Commonwealth and donating such crops to a nonprofit food bank, an addition to the taxpayer's federal adjusted gross income is required for any amount claimed by the taxpayer as a federal income tax deduction for such donation.

#### 99 Other

Enclose an explanation for other additions.

## Line 3 - Total Additions

Add Lines 1 through 2c and enter the total in the box. Enter this amount on Line 2 of Form 760PY.

## SUBTRACTIONS FROM FEDERAL ADJUSTED GROSS INCOME

To the extent included in federal adjusted gross income, the following subtractions are allowed on the Virginia return. No amount previously excluded from FAGI can be claimed as a subtraction in computing Virginia taxable income. The same income may not be included in more than one subtraction.

**Special instructions for members of the military** Virginia law provides three subtractions for military servicemembers.

- military pay and allowances earned while serving in a combat zone or qualified hazardous duty area (Va. Code § 58.1-322 C 21);
- military basic pay for personnel on extended active duty for periods in excess of 90 consecutive days (Va. Code § 58.1-322 C 23); and
- wages or salaries received for active and inactive service in the National Guard of the Commonwealth (Va. Code § 58.1-322 C 11).

Servicemembers may be eligible for more than one subtraction, but the same income may not be included in more than one subtraction. For example, a servicemember may not deduct the same income for both the military basic pay subtraction and the National Guard subtraction.

Mutual Funds

If you received income from a regulated investment company (mutual fund) that invested in obligations both taxable and exempt for Virginia purposes, the entire income earned while you were a Virginia resident must be considered taxable by Virginia unless you enclose a statement provided by the fund that:

- details the amount of income you earned; and
- summarizes the prorations between exempt and taxable income (monthly breakdown is preferred).

If you enclose the information specified above, enter the exempt portion of income on Schedule 760PY ADJ, Line 4 or Line 6, as appropriate.

Line 4 - Income From U.S. Obligations

Enter the amount of income received while a resident of Virginia (interest, dividends and gain) derived from obligations or the sale or exchange of obligations of the United States and on obligations or securities of any authority, commission or instrumentality of the United States to the extent included in federal adjusted gross income, but exempt from state income taxes under the laws of the United States. This includes, but is not limited to, stocks, bonds, treasury bills and treasury notes. It does not include interest on refunds of federal taxes, equipment purchase contracts or normal business transactions. A partial list of taxable and exempt income follows.

This list is based on the Department’s analysis of federal and state law as applicable to selected organizations. For organizations not listed below, additional information must be enclosed showing that the income is exempt from Virginia individual income tax.

Issuing Organization	VA Tax Status
Export-Import Bank of the United States (Export-Import Bank of Washington)	Exempt
Farm Credit Bank	Exempt
Federal Deposit Insurance Corporation	Exempt
Federal Home Loan Bank	Exempt
Federal Intermediate Credit Bank	Exempt
Federal Land Bank	Exempt
Federal Reserve Stock	Exempt
Governments of Guam, Puerto Rico and Virgin Islands	Exempt
Resolution Trust Corporation	Exempt
Student Loan Marketing Association (Sallie Mae)	Exempt
Tennessee Valley Authority	Exempt
US Postal Service	Exempt
US Treasury bills, notes, bonds & savings bonds (such as Series E, EE, H, HH, etc.)	Exempt
Federal Home Loan Mortgage Corporation (Freddie Mac)	Taxable
Federal National Mortgage Association (Fannie Mae)	Taxable
Government National Mortgage Association (Ginnie Mae)	Taxable
Inter-American Development Bank	Taxable
International Bank for Reconstruction and Development	Taxable

Line 5 - Disability Income

Enter the amount of disability income reported as wages (or payments in lieu of wages) on your federal return for permanent

and total disability received while a Virginia resident. On joint returns, each spouse can qualify for the deduction. Individuals can deduct up to \$20,000 of disability income as defined under IRC § 22(c)(2)(b)(iii).

You - Enter YOUR disability subtraction on Line 5a, Column A.

Spouse, Filing Status 4 - Enter SPOUSE’S disability subtraction on Line 5b, Column B.

Spouse, Filing Status 2 - Enter SPOUSE’S disability subtraction on Line 5b, Column A.

NOTE: Eligible taxpayers may claim EITHER this disability income subtraction OR the age deduction on Form 760PY, Line 4. If you are married filing a joint return, each spouse may claim, if eligible, either an age deduction or disability subtraction. Use the one that benefits you the most.

Line 6a - Fixed Date Conformity

A. Bonus Depreciation. For an explanation, please see the section titled, Fixed Date Conformity Update. Enter the amount that should be deducted from federal adjusted gross income based upon the recomputation of allowable depreciation. ...

B. Other Changes Not Listed Above. Deduct any other amounts not covered above that should be adjusted because of Virginia’s conformity to the Internal Revenue Code as it existed on December 31, 2015. Also, please enclose a schedule and explanation of such subtraction. Check the Department’s website, www.tax.virginia.gov, for other Fixed Date Conformity adjustments that may be required as a result of federal legislation enacted after these instructions were printed. ....

C. Total of Lines A and B. Enter the total of Lines A and B here and on Schedule 760PY ADJ Line 6a. ....

Line 6b - 6d - Other Subtractions

Enter the code and subtraction amount on Lines 6b - 6d to the extent included in federal adjusted gross income and received while a Virginia resident. If you have more than 3 subtractions, enter Code “00” and the total amount of Other Subtractions on Line 6b. Enclose with your return a list of each subtraction claimed along with its subtraction code and amount.

CODE

20 Income from Virginia Obligations  
Enter the amount of income from Virginia obligations that you included in your federal adjusted gross income and received while you were a resident of Virginia.

21 Federal Work Opportunity Tax Credit Wages  
Enter the amount of wages or salaries eligible for the federal work opportunity tax credit not subtracted for federal income tax purposes and received while a resident of Virginia.

22 Tier 2 and Other Railroad Retirement and Railroad Unemployment Benefits  
Enter the amount of Tier 2 vested dual benefits and other Railroad Retirement Act benefits and Railroad Unemployment Insurance Act benefits included in federal adjusted gross income and reported on your federal return

as a taxable pension or annuity and received while a resident of Virginia.

If any part of your Tier 1 Railroad Retirement Act benefits paid by the Railroad Retirement Board is properly treated as a fully taxable pension on your federal income tax return, deduct the amount received while a resident of Virginia on this line. Do not include any amount of Tier 1 Railroad Retirement Board retirement benefits that were included in your gross income as the taxable portion of your social security and railroad retirement benefits on your federal return because that portion should be deducted on Line 5 of the Form 760PY.

This subtraction does not apply to supplemental annuities received by retired employees of railroads under a company pension plan set up by a particular railroad, whether the plan was contributory or non contributory.

#### **24 Virginia Lottery Prizes**

Enter the amount of each prize less than \$600 awarded to you by the Virginia Lottery Department to the extent included in federal adjusted gross income and received while a resident of Virginia.

#### **28 Virginia National Guard Income**

Enter, to the extent included in federal adjusted gross income, the wages or salaries received while a resident of Virginia for active and inactive service in the rank of O3 and below in the Virginia National Guard not to exceed the amount of income derived from up to 39 days of such service or \$3,000, whichever amount is less. This subtraction does not apply to members of: 1) the active or reserve components of the Army, Navy, Air Force or Marines; or 2) the National Guard of other states or the District of Columbia. If you claim this subtraction, you cannot claim a Credit for Low-Income Individuals or Virginia Earned Income Credit.

#### **30 Military Pay and Allowances Attributable to Active Duty Service in a Combat Zone or a Qualified Hazardous Duty Area**

To the extent included in federal adjusted gross income and not otherwise subtracted, deducted or exempted, enter any military pay and allowances earned while a resident of Virginia serving by order of the President of the United States with the consent of Congress in a combat zone or qualified hazardous duty area treated as a combat zone for federal tax purposes pursuant to IRC §112.

#### **31 Retirement Plan Income Previously Taxed by Another State**

Enter the amount of retirement income, received during the taxable year while a resident of Virginia, on which the contributions were taxed in another state, but were deductible from the federal adjusted gross income during the same period. The total amount of this Virginia subtraction cannot exceed the amount of contributions previously taxed by another state. This subtraction applies to retirement income from qualified pension, profit sharing, or stock bonus plans as described by IRC § 401, individual retirement accounts or annuities established under IRC § 408, deferred compensation plans as defined by IRC § 457, or any federal government retirement program as long as you paid tax to another state on contributions to the plan.

#### **34 Virginia College Savings Plan Income Distribution or Refund**

Enter the amount of any income included in federal adjusted gross income that is attributable to a distribution of benefits or a refund from the Virginia College Savings Plan

(previously called the Virginia Higher Education Tuition Trust Fund), in the event of a beneficiary's death, disability or receipt of scholarship.

#### **37 Unemployment Benefits**

Enter any taxable unemployment compensation benefits received while a Virginia resident reported as income on your federal income tax return (claim in the same column as the income was reported on Line 6 on the front of the Virginia return).

#### **38 Military Basic Pay**

Military service personnel may subtract up to \$15,000 of military basic pay received during the taxable year, provided they are on extended active duty for a period in excess of 90 consecutive days. Military personnel stationed inside or outside Virginia are eligible. This subtraction is allowed for military basic pay that is included in federal adjusted gross income and is not included in another subtraction, such as the Virginia National Guard Income Subtraction. If the military basic pay does not exceed \$15,000, then the entire amount may be subtracted. If the basic military pay is over \$15,000, then the subtraction is reduced by the amount exceeding \$15,000. For every \$1 of income over \$15,000, the maximum subtraction is reduced by \$1. If your basic military pay is \$30,000 or more, you are not entitled to a subtraction. On joint returns, each spouse can qualify for the subtraction. If you claim this subtraction, you cannot claim a Credit for Low-Income Individuals or Virginia Earned Income Credit.

#### **39 Federal and State Employee**

Any individual who qualifies as a federal or state employee earning \$15,000 or less in annual salary from all employment can subtract up to \$15,000 of the salary from that state or federal job earned while a Virginia resident. If both spouses on a joint return qualify, each spouse may claim the subtraction. The subtraction cannot exceed the actual salary received. If you claim this subtraction, you cannot claim a Credit for Low-Income Individuals or Virginia Earned Income Credit.

#### **40 Income Received by Holocaust Victims**

To the extent included in FAGI and earned while a Virginia resident, subtract any income resulting from the return or replacement of assets stolen during the Holocaust and throughout the time period leading up to, during, and directly after World War II as a result of Nazi persecution, individual being forced into labor against their will, transactions with or actions of the Nazi regime, treatment of refugees fleeing Nazi persecution, or holding of such assets by entities or persons in the Swiss Confederation.

#### **41 Tobacco Settlement Fund Income**

If you received income while a Virginia resident from the tobacco "Master Settlement Agreement" you may be eligible to claim a subtraction for the amount received, provided it has not been subtracted for federal tax purposes. The income must have been received by (i) tobacco farmers; (ii) persons holding a tobacco marketing quota, or tobacco farm acreage allotment; or (iii) persons with the right to grow tobacco pursuant to a quota or allotment as a result of (a) the tobacco Master Settlement Agreement, and (b) the National Tobacco Grower Settlement Trust.

#### **44 Medal of Honor Recipients**

Enter the amount of military retirement income you received as an individual awarded the Medal of Honor while a Virginia resident.

#### **46 Military Death Gratuity Payments**

Retroactive to Taxable Year 2001, survivors of military personnel killed in the line of duty may claim a subtraction for military death gratuity payments made after September 11, 2001, to the extent that the payments were included in federal adjusted gross income and received while a Virginia resident.

#### **49 Certain Death Benefit Payments**

Allows a beneficiary taxpayer to subtract the death benefit payments received while a Virginia resident from an annuity contract that are subject to federal income taxation, for taxable years beginning on or after January 1, 2007. In order to qualify for this subtraction, a death benefit payment is required to meet the following criteria: 1) the death benefit payment is made pursuant to an annuity contract with an insurance company; 2) the payment must have been awarded to the beneficiary in a lump sum; and 3) the payment must be subject to taxation at the federal level.

#### **51 Gains from Land Preservation**

This is a subtraction for federal gain or federal income recognized by a taxpayer on the application of a land preservation tax while a Virginia resident. To the extent a taxpayer's federal return includes gain or loss recognized on the sale or transfer of a Land Preservation Tax Credit, the taxpayer is required to subtract the gain or add back the loss on the Virginia return.

#### **52 Certain Long-Term Capital Gains**

Provided the long-term capital gain or investment services partnership income is attributable to an investment in a "qualified business" as defined in Va. Code § 58.1-339.4 or any other technology business approved by the Secretary of Technology, it may be allowed as a subtraction. The business must have its principal facility in Virginia and less than \$3 million in annual revenues for the fiscal year preceding the investment. The investment must be made between the dates of April 1, 2010, and June 30, 2020. Taxpayers claiming the Qualified Equity and Subordinated Debt Credit cannot claim this subtraction relating to investments in the same business. In addition, no investment is "qualified" for this deduction if the business performs research in Virginia on human embryonic stem cells.

#### **53 Historic Rehabilitation**

To the extent included in federal adjusted gross income, any amount of gain or income recognized by a taxpayer in connection with the Historic Rehabilitation Tax Credit is allowed as a subtraction on the Virginia return.

#### **54 First-Time Home Buyer Savings Accounts**

To the extent included in federal adjusted gross income, an individual may subtract any income attributable to a first-time home buyer savings account that was taxed as interest, capital gains, or other income for federal income tax purposes. Distributions from a first-time home buyer savings account may only be used for the purpose of paying or reimbursing the down payment and allowable closing costs for the purchase of a single-family residence in Virginia by a qualified beneficiary. The subtractions claimed by an account holder in all prior taxable years are subject to

recapture in the taxable year in which account funds are withdrawn for any other purpose.

To claim the subtraction, an individual must designate an account as a first-time home buyer savings account. An individual may designate an account by submitting an enclosure with their Virginia income tax return for the first taxable year in which such individual claims the subtraction. An individual must submit separate documentation for each account that he or she is designating. The documentation must include the following information:

- The name and address of the financial institution that maintains the account;
- The names of any other individuals with an ownership interest in the account;
- The account number or other account identifier;
- The type of principal (cash or marketable securities) contributed to the account as of the last day of the taxable year;
- The amount of any withdrawals from the account during the taxable year; and
- The account beneficiary or beneficiaries.

After designating an account as a first-time home buyer savings account, the account holder is required to include documentation with updated information for the account for all future taxable years in which he or she is required to file a Virginia income tax return. If an account holder has designated more than one existing first-time home buyer savings account, the account holder is required to submit separate documentation with updated information for each account. More information is available in the First-Time Home Buyer Savings Account Guidelines, which are available in the Laws, Rules & Decisions section of the Department's website at [www.tax.virginia.gov](http://www.tax.virginia.gov).

#### **55 Discharge of Student Loan**

Effective for taxable years beginning on and after January 1, 2015, a subtraction is allowed for income attributable to the discharge of a student loan due to the student's death. For purposes of this subtraction, "student loan" means the same as the term is defined under IRC § 108(f). This is a loan to an individual to assist that individual in attending an educational organization that was made by:

- The United States, or an instrumentality or agency thereof;
- A state, territory, or possession of the United States, or the District of Columbia, or any political subdivision thereof;
- Certain tax-exempt public benefit corporations that have assumed control over a state, county, or municipal hospital and whose employees are deemed public employees under state law;
- Charitable educational organizations, if the loan was made: pursuant to an agreement with one of the above-listed entities; or pursuant to a program designed to encourage its students to serve in occupations or areas with unmet needs, and under which the services provided by the students are for or under the direction of a governmental unit or certain tax-exempt organizations.

This subtraction is not applicable to the discharge of private loans. This subtraction does not apply to loans that are already excluded from federal income taxation.

#### **99 Other**

Enclose a schedule of explanation for other subtractions.

## DEDUCTIONS FROM VIRGINIA ADJUSTED GROSS INCOME

**Lines 8a - 8c Deductions** On Lines 8a - 8c, enter the 3-digit code from the list below in the boxes on Schedule 760PY ADJ, followed by the amount, for any deductions from Virginia adjusted gross income in the categories listed below paid while or pertaining to your residency in Virginia.

**If you have more than 3 deductions on Lines 8a-8c of Schedule 760PY ADJ, enter the code "000" and the amount of total deductions in the first box and enclose an explanation of each deduction with your return.**

### CODE

#### **101 Child and Dependent Care Expenses**

Enter the child and dependent care expenses paid while you were a Virginia resident on which the federal credit for child and dependent care expenses is based. This is the amount on federal Form 2441 that is multiplied by the decimal amount - up to \$3,000 for one dependent and \$6,000 for two or more. Do not enter the federal credit amount.

You may claim the deduction for child and dependent care expenses on your Virginia return only if you were eligible to claim a credit for child and dependent care expenses on your federal return. If you filed a joint federal return and you file a separate Virginia return, you may allocate this amount as mutually agreed.

The amount of employment-related expenses that may be deducted is limited to the amount actually used in computing the federal credit for child and dependent care expenses. As a general rule, you are limited to a maximum of \$3,000 for 1 child and \$6,000 if you are claiming the expenses for 2 or more dependents, or the earned income of the spouse having the lowest income, whichever is less.

#### **102 Foster Care Deduction**

Foster parents may claim a deduction of \$1,000 for each child residing in their home while a Virginia resident under permanent foster care, as defined in the *Code of Virginia*, provided that they claim the foster child as a dependent on their federal and Virginia income tax returns. The foster care deduction must be prorated using the ratio schedule on Page 35, based on the period of residence in Virginia.

#### **103 Bone Marrow Screening Fee**

Enter the amount of the fee paid while a Virginia resident for an initial screening to become a possible bone marrow donor, if you were not reimbursed for the fee or did not claim a deduction for the fee on your federal return.

#### **104 Virginia College Savings Plan Prepaid Tuition Contract Payments and College Savings Trust Account Contributions**

If you are under age 70 on or before December 31 of the taxable year, enter the lesser of \$4,000 or the amount contributed during the taxable year to each Virginia 529 account (Virginia 529 prePAID, Virginia 529 inVEST, College America, or CollegeWealth). If you contributed more than \$4,000 per account during the taxable year, you may carry forward any undeducted amounts until the contribution has been fully deducted. However, if you are age 70 or older on or before December 31 of the taxable year, you may deduct the entire amount contributed during the taxable year. Only the owner of record for an account may claim a deduction for contributions made.

#### **105 Continuing Teacher Education**

An individual employed as a licensed primary or secondary school teacher may enter a deduction equal to 20% of unreimbursed tuition costs incurred to attend continuing teacher education courses that are required as a condition of employment, provided that these expenses were incurred while a resident and not deducted from federal adjusted gross income.

#### **106 Long-Term Health Care Premiums**

Enter the amount of premiums paid for long-term health care insurance, provided you did not claim a deduction for long-term health care insurance premiums on your federal return. The Virginia deduction for long-term health care insurance premiums is completely disallowed if you claimed a federal income tax deduction of any amount for long-term health care insurance premiums paid during the taxable year.

#### **107 Virginia Public School Construction Grants Program and Fund**

Enter the amount of total contributions to the Virginia Public School Construction Grants Program and Fund made while a Virginia resident, provided you have not claimed a deduction for this amount on your federal income tax return.

#### **108 Tobacco Quota Buyout**

Allows a deduction from taxable income for payments received in the preceding year in accordance with the Tobacco Quota Buyout Program of the American Jobs Creation Act of 2004 to the extent included in federal adjusted gross income and received while a Virginia resident. For example, on your 2016 Virginia return you may deduct the portion of such payments received in 2015 that is included in your 2015 federal adjusted gross income; while payments received in 2016 may generate a deduction on your 2017 Virginia return. Individuals cannot claim a deduction for a payment that has been, or will be, subtracted by a corporation unless the subtraction is shown on a Schedule VK-1 you received from an S corporation. If you chose to accept payment in installments, the gain from the installment received in the preceding year may be deducted. If, however, you opted to receive a single payment, 10% of the gain recognized for federal purposes in the year that the payment was received may be deducted in the following year and in each of the 9 succeeding taxable years.

#### **109 Sales Tax Paid on Certain Energy Efficient Equipment or Appliances**

Allows an income tax deduction for 20% of the sales tax paid while a Virginia resident on certain energy efficient equipment or appliances, up to \$500 per year. If filing a joint return, you may deduct up to \$1,000.

#### **110 Organ and Tissue Donor Expenses**

Allows a deduction for unreimbursed expenses that are paid while a Virginia resident by a living organ and tissue donor, that have not been taken as a medical deduction on the taxpayer's federal income tax return. The amount of the deduction is the lesser of \$5,000 or the actual amount paid by the taxpayer.

#### **111 Charitable Mileage**

Enter the difference between 18 cents per mile and the charitable mileage deduction per mile allowed on federal Schedule A to the extent that the charitable mileage was driven while a resident of Virginia. If you used actual expenses for the charitable mileage deduction, and those

expenses were less than 18 cents per mile, then you may use the difference between actual expenses and 18 cents per mile.

## 112 Virginia Bank Franchise Tax

A shareholder of a bank may be required to make certain adjustments to his or her federal adjusted gross income. Such adjustments are required only if the shareholder invests in a bank that (1) is subject to the Virginia Bank Franchise Tax for state tax purposes (see *Va. Code* § 58.1-1207) and (2) has elected to be taxed as a small business corporation (S corporation) for federal tax purposes.

### Computation of Virginia Bank Franchise Tax Deduction

If an adjustment is required, complete the worksheet below to determine the amount of your adjustment. Attach a copy of Schedule K-1 provided to you by the bank.

- |   |       |
|---|-------|
| a. If your allocable share of the income or gain of the bank was included in federal adjusted gross income, enter the amount here...  | _____ |
| b. If your allocable share of the losses or deductions of the bank was included in federal adjusted gross income, enter the amount here.....  | _____ |
| c. Enter the value of any distributions paid or distributed to you by the bank to the extent that such distributions were excluded from federal adjusted gross income.....                | _____ |
| d. Add Line b and Line c .....  | _____ |
| e. Subtract Line d from Line a. This is your net deduction amount. If this amount is negative you must enter the amount on Schedule ADJ, Line 8a and use brackets to indicate a loss..... | _____ |

## 113 Income from Dealer Disposition of Property

Allows an adjustment for certain income from dealer dispositions of property made on or after January 1, 2009, while a Virginia resident. In the year of disposition the adjustment will be a deduction for gain attributable to installment payments to be made in future taxable years provided that (i) the gain arises from an installment sale for which federal law does not permit the dealer to elect installment reporting of income, and (ii) the dealer elects installment treatment of the income for Virginia purposes on or before the due date prescribed by law for filing the taxpayer's income tax return. In subsequent taxable years the adjustment will be an addition for gain attributable to any payments made during the taxable year with respect to the disposition. Each disposition must be tracked separately for purposes of this adjustment.

## 114 Prepaid Funeral, Medical, or Dental Insurance Premiums

You may be allowed a deduction for payments made while a Virginia resident for (i) a prepaid funeral insurance policy that covers you or (ii) medical or dental insurance premiums for any person for whom you may claim a deduction for such

premiums under federal income tax laws. To qualify for this deduction, you must be age 66 or older with earned income of at least \$20,000 for the taxable year and federal adjusted gross income not in excess of \$30,000 for the taxable year. The deduction is not allowed for any portion of premiums for which you have been reimbursed, have claimed a deduction for federal income tax purposes, have claimed another Virginia income tax deduction or subtraction, or have claimed a federal income tax credit or any Virginia income tax credit.

## 115 ABLE Savings Trust Account Contributions

Effective for taxable years beginning on or after January 1, 2016, you may claim a deduction for the amount contributed during the taxable year to an ABLE savings trust account entered into with the Virginia College Savings Plan. No deduction is allowed if such contributions are deducted on the contributor's federal income tax return. If the contribution to an ABLE savings trust account exceeds \$2,000, the remainder may be carried forward and subtracted in future taxable years until the amount has been fully deducted; however, in no event shall the amount deducted in any taxable year exceed \$2,000 per ABLE savings trust account. Deductions are subject to recapture in the taxable year or years in which distributions or refunds are made for any reason other than (i) to pay qualified disability expenses; or (ii) the beneficiary's death. A contributor who has attained age 70 is allowed a deduction for the full amount contributed to an ABLE savings trust account, less any amounts previously deducted.

## 199 Other

Enclose an explanation for other deductions.

**Line 9** Filing status 4 filers, enter the total for Column A and Column B in the applicable column of Form 760PY, Line 15. All other filers, enter the total from Column A on Line 15, Column A of Form 760PY.

### COMPUTATION FOR TAX CREDIT FOR LOW-INCOME INDIVIDUALS OR VIRGINIA EARNED INCOME CREDIT

You may be eligible to claim a Credit for Low-Income Individuals if your family Virginia adjusted gross income (family VAGI) is equal or less than the federal poverty guidelines and you meet the eligibility requirements. You are eligible for the Virginia Earned Income Credit if you claimed an Earned Income Tax Credit on your federal return. Claim the credit that benefits you the most.

However, you cannot claim both credits. **Please complete the entire section.**

The Tax Credit for Low-Income Individuals or Virginia Earned Income Credit **may NOT be claimed** if you, your spouse, or any dependent claims any of the following:

- Virginia National Guard subtraction (Subtraction Code 28);
- Basic military subtraction (Subtraction Code 38);
- State and federal employees subtraction for earnings of \$15,000 or less (Subtraction Code 39);
- Exemption for blind taxpayers or taxpayers age 65 and over;
- the Age Deduction; or
- You are claimed as a dependent on another taxpayer's return.

To compute total annual family income you must compute the "Guideline Income" for each family member and add those amounts together.

Guideline Income is defined as federal adjusted gross income modified by the Virginia additions and qualifying Virginia subtractions that apply to full-year residents.

After a worksheet below has been filled in for each person on your tax return, complete Schedule 760PY ADJ, Lines 10 - 17.

**If you and your spouse file separate returns, only one spouse may claim the Credit for Low-Income Individuals. If qualified, both may claim their proportionate share of the Virginia Earned Income Tax Credit.**

### Guideline Income Worksheet

(photocopy as needed)

*The income, additions and subtractions entered on the worksheet **must** be shown for the entire taxable year.*

1. FAGI from the federal return.....\$ \_\_\_\_\_
2. Interest earned on obligations of other states exempt from federal tax\$ \_\_\_\_\_
3. Other additions to FAGI.....\$ \_\_\_\_\_
4. Subtotal. Add Lines 1, 2 and 3. ....\$ \_\_\_\_\_
5. State income tax refund or overpayment credit reported on your federal return. ....\$ \_\_\_\_\_
6. Income (interest, dividends or gains) on U.S. obligations or securities exempt from state income tax, but not from federal tax. ....\$ \_\_\_\_\_
7. Social Security or equivalent Tier 1 Railroad Retirement Act benefits reported as taxable income on your federal return. ....\$ \_\_\_\_\_
8. Disability income reported as wages (or payments in lieu of wages) on your federal return. ....\$ \_\_\_\_\_
9. Unemployment benefits included in FAGI.....\$ \_\_\_\_\_
10. Other subtractions from FAGI reported on Schedule 760PY ADJ and not included above.....\$ \_\_\_\_\_
11. Add Lines 5 through 10.....\$ \_\_\_\_\_
12. Guideline Income. Deduct Line 11 from Line 4. Enter here and on Schedule 760PY ADJ for the appropriate person. ....\$ \_\_\_\_\_

### Family VAGI

If more room is needed, enclose a schedule with the name, SSN and Guideline Income for each additional dependent.

### Your Information

Enter your name, Social Security Number and Guideline Income. Filing Statuses 2, 3 and 4 must also complete spouse's information.

### Your Spouse's Information

Enter your spouse's name, Social Security Number and Guideline Income.

**All married** taxpayers, regardless of filing jointly or separately, must complete this line.

### Dependent(s) Information

Enter the name and Social Security Number for each dependent claimed as an exemption on your return and, if any of your dependents had income, enter the Guideline Income for each dependent.

For Filing Status 3 (Married Filing Separately) also enter the name and Social Security Number of your dependents not claimed as an exemption on your return and, if any of the dependents had income, enter the Guideline Income for each dependent.

### Line 10 - Enter Total Family Guideline Income

Total the Guideline Income Worksheet for each family member (each exemption reported and from any additional schedule enclosed).

### Line 11 - Enter Total Number of Exemptions Listed Above and on Any Enclosed Schedule.

Enter the total number of exemptions listed above and on any enclosed schedule.

### Determine Eligibility for Credit for Low-Income Individuals

Using the number on Line 11 as Eligible Exemptions, compare the dollar amount on Line 10 to the Poverty Guideline Table below. If the Line 10 amount is greater than the Guideline amount, you do not qualify for the Credit for Low-Income Individuals. Continue to Line 14. If the Line 10 amount is less than or equal to the Guideline amount for the number of exemptions on Line 10, complete Line 14 through Line 17, Schedule 760PY ADJ.

Poverty Guideline Table			
Eligible Exemptions	Poverty Guidelines	Eligible Exemptions	Poverty Guidelines
1	\$ 11,880	5	\$ 28,440
2	16,020	6	32,580
3	20,160	7	36,730
4	24,300	8*	40,890
*For each additional exemption add <b>\$4,160</b> .			

### Line 12 - Exemptions

If you are eligible based on the table above, enter the number of personal and dependent exemptions **from Form 760PY**. Do not include exemptions for age 65 or older and blind.

### Line 13 - Multiply

Multiply the number of exemptions reported on Line 12 by \$300. If you do not qualify for the Tax Credit for Low-Income Individuals but claimed an Earned Income Tax Credit on your federal return, enter \$0 on Line 13 and proceed to Line 14.

### Line 14 - Earned Income Credit Claimed on Your Federal Return

Enter the amount of Earned Income Tax Credit claimed on your federal return. If you did not claim this credit on your federal return, enter \$0. When a taxpayer using the married filing separately status computes the Virginia Earned Income Tax Credit, the taxpayer must first determine the proportion of the earned income that was used to qualify for the federal Earned Income Tax Credit. That proportion must then be multiplied by the total Virginia Earned Income Tax Credit, which is 20% of the federal Earned Income Tax Credit. The spouses may then claim their proportional share of the credit on their separate returns.

### Line 15 - Multiply

Multiply Line 14 by 20% (.20).

### Line 16

Enter the greater of Line 13 or 15.



## Line 17 - Credit

Compare the amount of tax on Form 760PY, Line 19 to the amount on Schedule 760PY ADJ, Line 16. Enter the lower amount on Line 17. This is your Tax Credit. Also, enter this amount on Form 760PY, Line 23.

These credits are nonrefundable credits. A nonrefundable credit cannot exceed your tax liability. If you claim any credits on Form 760PY, Line 24 or Line 25, in addition to the Tax Credit For Low-Income Individuals or the Virginia Earned Income Tax Credit, the sum of all nonrefundable credit claimed cannot exceed your tax liability on Form 760PY, Line 19.

*Many low-income individuals who work and have earned income under \$53,505 may also qualify for up to \$6,269 in federal Earned Income Credit when filing their federal tax return! See your federal instructions or call 1-800-829-3676 to order Pub 596.*

## ADDITION TO TAX, PENALTY AND INTEREST

### Addition to Tax for Underpayment of Tax

Even if your return results in a refund, you may owe an "addition to tax" for underpaying your withholding or estimated tax. Virginia law requires that you pay your income tax in timely installments throughout the year by having income tax withheld or making payments of estimated tax. If you do not pay at least 90% of your tax in this manner, you may be charged an addition to tax.

There are 4 (quarterly) installment periods for determining whether you underpaid your tax for the year. If your taxable year is from January 1 through December 31, your quarterly payments are due May 1, June 15, September 15 and January 15 (of the following year). Underpayments are determined as of each installment due date, so an overpayment in one quarter cannot cancel out an underpayment for a previous quarter. The addition to tax does not apply if each payment is made on time and:

- the total tax paid through withholding and timely estimated tax payments is at least 90% (66 2/3% for farmers, fishermen or merchant seamen) of the current year's tax liability (after nonrefundable credits) or 100% of last year's tax liability (after nonrefundable credits);
- the sum of the quarterly underpayments for the year is \$150 or less; or
- you meet one of the exceptions computed on Form 760C or Form 760F. Enclose Form 760C or 760F showing the computation.

## Line 18 - Addition to Tax

Enter the amount of the addition to tax computed on Form 760C (for individuals, estates and trusts) or Form 760F (for farmers, fishermen or merchant seamen). If you underpaid your estimated income tax or had insufficient income tax withheld for the taxable

year, you may owe the "addition to tax" computed on Form 760C or Form 760F.

## Line 19 - Penalty

The due date for filing a calendar year return is May 1, and the automatic extension provisions apply to returns filed by November 1. Depending on when you file your return, you may be required to compute an extension penalty or a late filing penalty. For more information on due dates and penalty provisions, refer to When to File Your Return section in these instructions.

**Extension penalty:** If you file your return within 6 months after the due date and the amount of tax due with the return is more than 10% of your total tax liability, you must compute an extension penalty on the balance of tax due. The extension penalty is applied at the rate of 2% per month or part of a month, from the due date through the date of filing. The maximum extension penalty is 12% of the tax due. Note: If you do not pay the tax in full when you file your return, a late payment penalty will be assessed at the rate of 6% per month or part of a month from the date the return is filed through the date the tax is paid, up to a maximum of 30%. The late payment penalty is imposed in addition to the extension penalty.

**Late filing penalty:** If you file your return more than 6 months after the due date, no extension provisions apply, and you must compute a late filing penalty of 30% of the tax due with your return.

## Line 20 - Interest

If you filed a tax due return after the filing date, you are liable for interest on the tax due amount on Form 760PY, Line 27, from the due date to the date filed or postmarked. To obtain the daily interest factor, please call (804) 367-8031 or contact your locality.

Enter the amount on Schedule 760PY ADJ, Line 20.


## Line 21 - Total Adjustments

Enter the total of Lines 18 through 20.

## VIRGINIA SCHEDULE VAC

### Section I - Virginia College Savings Plan<sup>SM</sup> (Virginia529<sup>SM</sup>) Contributions

You may contribute all or part of your income tax refund to one or more existing Virginia529 accounts by completing Schedule VAC. Any contribution(s) made will be deemed a contribution to your account(s) for the 2017 taxable year. Virginia529 is a 529 college savings plan that offers flexible, affordable, tax-advantaged savings for qualified higher education expenses through its four programs: Virginia529 prePAID, Virginia529 inVEST, CollegeAmerica, and CollegeWealth. For information on establishing accounts, visit Virginia529.com. You are not



### Grow your Virginia529 savings account. Tame your Tuition Monster. Shrink your tax bill.

Use Schedule VAC to direct all or part of your Virginia tax refund into your existing Virginia529 account.

**Not saving with Virginia529 yet?**

- Open an account at Virginia529.com with just \$25
- Deduct contributions up to \$4,000 per account per year from your Virginia individual income
- Enjoy tax-free (federal and state) earnings for qualified higher education expenses

Call 1-888-567-0540 or visit Virginia529.com to obtain all program materials. Read them carefully before investing. An investor should consider the investment objectives, risks, and charges and expenses of the programs before investing. For non-Virginia residents: other states may sponsor a 529 plan that offers tax or other benefits not available through Virginia529. © 2016 Virginia College Savings Plan. All Rights Reserved.

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