

**DEPARTMENT OF TAXATION  
2024 Fiscal Impact Statement**

1. **Patron** Joseph P. McNamara

3. **Committee** House Finance

4. **Title** Individual Income Tax: Deduction for  
Qualified Business Income

2. **Bill Number** HB 541

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would provide an individual income tax deduction in an amount equal to fifty percent of the federal qualified business income (“QBI”) deduction, excluding qualified real estate investment trust (“REIT”) dividends.

This bill would be effective for taxable years beginning on and after January 1, 2024.

**6. Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

**7. Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

**7b. Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2025	(\$168.3 million)	GF
2026	(\$115.5 million)	GF
2027	(\$120.6 million)	GF
2028	(\$126.6 million)	GF
2029	(\$133.0 million)	GF
2030	(\$139.9 million)	GF

**8. Fiscal implications:**

Administrative Costs

The Department of Taxation (“the Department”) considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an estimated negative General Fund revenue impact of \$168.3 million in Fiscal Year 2025, \$115.5 million in Fiscal Year 2026, \$120.6 million in Fiscal Year 2027, \$126.6 million in Fiscal Year 2028, \$133.0 million in Fiscal Year 2029, and \$139.9 in Fiscal

Year 2030. These estimates assume the extension of the federal QBI deduction, which is currently set to expire on January 1, 2026.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary: No**

**11. Other comments:**

Qualified Business Income Deduction

The Tax Cuts and Jobs Act (Public Law 115-97) allows owners of sole proprietorships, partnerships, S corporations and some trusts and estates to claim a federal qualified business income (“QBI”) deduction on their personal income tax returns under IRC § 199A. The QBI deduction does not apply to corporations. The QBI deduction allows eligible taxpayers to deduct the lesser of (i) up to twenty percent of their combined qualified business income plus twenty percent of qualified real estate investment trust (“REIT”) dividends and qualified publicly traded partnership (“PTP”) income, or (ii) twenty percent of taxable income less net capital gains.

The QBI deduction is subject to limitations depending on the taxpayer’s income, including the type of trade or business that may qualify, the amount of W-2 wages paid by the business, and the unadjusted basis immediately after acquisition of certain depreciable property held by the trade or business.

The starting point for computing Virginia taxable income for Virginia taxpayers eligible for the federal QBI deduction is federal adjusted gross income (“FAGI”). These taxpayers do not currently receive the benefit of the federal QBI deduction on their Virginia returns, because the federal QBI deduction is taken after calculating FAGI. On the federal return the QBI deduction is taken after determining the federal adjusted gross income (“FAGI”).

Proposed Legislation

This bill would provide an individual income tax deduction in an amount equal to fifty percent of the federal qualified business income (“QBI”) deduction, excluding qualified real estate investment trust (“REIT”) dividends.

This bill would be effective for taxable years beginning on and after January 1, 2024.

cc : Secretary of Finance

Date: 1/16/2024 SJH  
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