# Virginia Department of Taxation



## Individual Income e-File
## Guide and Specifications

## Tax Year 2018

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## Virginia e-File Guide – Change History

| Revision Date | Section | Description |
|---|---|---|
| 08/31/18 | Tax Year 2018 Guide | Original Posting |
| 11/02/18 | 5.2 and 16.1 | New Forms Added / Conformity Messaging Details |
|  | 16.2 | Removed Addition Code 19 Reference |
|  | 16.7 | Amended Return Handling |

# 1.0   Individual e-File Guide Overview

The Virginia Department of Taxation (Virginia Tax) designed this guide as an overview of processing updates and legislative changes that impact the Individual e-File system.

In addition, this guide offers full details and procedures for:
- how the Virginia e-File system functions,
- testing practices,
- product approval, and
- special instructions refined for the Individual e-File System

It is important to review each section of this guide to ensure your product(s) perform properly for Virginia taxpayers.

Additional details can be found on our website and in tax return instructions.

# 2.0   Developer Contacts and Resources

## 2.1  Email Updates

Virginia offers a free online service that provides up-to-date information on events that affect e-File throughout the filing season and beyond.  Sign up for Email Updates to receive these emails.

## 2.2  Phone Numbers & Email

Virginia Tax Hours of Availability – Monday – Friday, 8:30 a.m. – 5:00 p.m.

Phone Numbers – these are the phone numbers to be used when advising users how to contact Virginia Tax.
- Customer Services – (804) 367-8031
- Tax Professionals Hotline – (804) 367-9286
  **NOTE**: Only ProSeries software should have the hotline number.

Email Address – the Individual Income e-File mailbox (Ind_eFile@tax.virginia.gov) is to be used by our software partners for the development and maintenance of the Virginia e-File system.

## 2.3  Website Resources

This section provides general website resources that impact e-Filing tax data. Additional details can be found in the links to our website as well as in the instructions for each supported tax type returns.

Individual Income Tax Filing

Options for electronic payments – Individual Tax

Early Release Forms (TY2018) – drafts of tax forms

Web Forms – all forms supported by Virginia Tax

Legislative Summary Reports and What's New – Tax Credits

## 2.4  Virginia's Fixed Date Conformity with the Internal Revenue Code

Review the Fixed Date Conformity in Virginia section of our website for details regarding Virginia Tax's date of conformity advancement with the Internal Revenue Code (IRC).

# 3.0   Overview of Virginia Fed / State e-File Program

### 3.1   Description

Virginia's e-File program works with the IRS Fed / State e-File program.  This allows Software Providers to electronically file both federal and state returns or state only returns for the taxpayer.

An e-File tax return consists of tax forms, schedules, and attachments that can be submitted.  The tax return uses schemas created using Extensible Markup Language (XML).  This language defines the structure and content of an XML document to implement all forms, schedules and attachments in electronic format for e-File.  Business rules are created to specify requirements that cannot be defined in the XML.

### 3.2   Supported Tax Years

Virginia Income Tax e-File Program accepts original and amended returns for:

- Tax Year 2018
- Tax Year 2017
- Tax Year 2016

### 3.3   Virginia e-File Calendar – Tax Year 2018

Virginia Tax follows the IRS e-File calendar and dates are based upon IRS System availability and are subject to change.

- ATS testing begins (in conjunction with the IRS)          November 2018
- Begin transmitting returns to IRS/Virginia                     January 2019

### 3.4   Software Design Information

Software Developers (including developers acting as EROs) must:

- Develop tax preparation software according to statutory requirements and Virginia tax return preparation instructions.  For details, use the following resources in our Laws, Rules & Decisions.
  - Tax Code of VA, Regulations, Legislative Summaries, and Rulings of the Tax Commissioner
  - Tax Bulletins, Attorney General's Opinion, Guidance Documents, and Return Preparation Instructions
- Provide accurate Virginia tax returns in correct electronic format for transmission through the Fed/State e-File program.
- Develop software capable of producing a processable printed copy of the complete electronic filing.
- Provide up-front data validation, verification and error detection to prevent transmissions of incomplete, inaccurate or invalid return information.
- Prevent electronic filing of any form not approved and/or supported for electronic filing by Virginia.
- Perform a full review of schema and form instructions to ensure all changes and updates are incorporated.

### 3.5   Routine System Maintenance

Routine system maintenance is generally on Sunday from 12:00 am to 8:00 am, EST. Virginia Tax may conduct system maintenance on weekends as well.

This process may result in intermittent down time for transmitters.  Work scheduled during this window will generally not be communicated to the software developers.  For details regarding system status and/or possible delays, refer to the IRS e-File Status page, sign up for IRS Alerts.

# 4.0 Types of Electronic Filing

## 4.1 Types of Electronic Filing

Virginia Tax's e-File programs accept two kinds of submissions: Linked and Unlinked.

## 4.2 Linked

Linked filing occurs when the federal and state returns are filed together in one transmission to the IRS. The IRS validates and verifies the federal return data. The IRS will either accept or reject the federal return. The state return is made available to Virginia Tax **only if** the federal return is accepted by the IRS. The corresponding federal submission id is submitted in the state manifest.

If a federal return is rejected in a Linked submission, the state return is not made available to Virginia Tax.  In this case, the next corrected transmission should include **both** the federal return and the state return.

## 4.3 Unlinked

Unlinked filing occurs when the state return is transmitted through the Fed/State system **without** simultaneously transmitting an original federal return.  The software must support unlinked filing in order for the state only transmissions to be available to the electronic filer.

Unlinked returns are transmitted to the IRS and made available for states to retrieve in the same fashion as the Linked transmission. The corresponding federal submission id is not submitted in the state manifest.

Virginia Tax requires a copy of the complete federal return, including federal binary attachments, in the state submission.

# 5.0   Forms and Schedules for e-File

## 5.1   Description

The Virginia Tax schemas are used in conjunction with IRS Federal/State schemas. Our state specific schemas support the forms and schedules listed below for Individual Income Taxes.

## 5.2   Forms – Individual

- Form 760CG (Pages 1 & 2) – Individual Resident Income Tax Return
- Schedule A / CG – Virginia Schedule for Itemized Deductions
- Schedule ADJ/CG – Schedule for Additions, Subtractions, Deductions and Earned Income Credit
- Schedule ADJS/CG – Supplemental Schedule of Adjustments
- Schedule CR/CG – Schedule for Credit Computations
- Schedule FED/CG – Schedule of Federal Line items
- Schedule INC/CG – Schedule for multiple wage, income and tax statements
- Schedule OSC/CG – Schedule for Credit for Tax Paid to Another State
- Schedule VAC/CG – Schedule for Contributions
- Schedule VACS/CG – Schedule for Additional VA College Savings Plan Contributions
- Form 760PY – Virginia Part-Year Resident Individual Income Tax Return
- Schedule 760PY ADJ – Schedule of Adjustments for 760PY
- Schedule 760PY ADJS – Supplemental Schedule of Adjustments for 760PY
- Schedule of Income (760PY) – Schedule of 760PY Income
- Form 763 – Virginia Nonresident Income Tax Return
- Schedule 763 ADJ – Schedule of Adjustments for 763
- Schedule VK-1 – Virginia VK-1 Income Statement
- Form W-2 – Wage and Tax Statement
- Form W-2G – Certain Gambling Winnings
- Form 1099-B – Broker and barter exchanges
- Form 1099-DIV – Dividends and Distributions
- Form 1099-G – Certain Government Payments
- Form 1099-INT – Interest Income
- Form 1099-K – Payment Card and Third Party Network Transactions
- Form 1099-MISC – Miscellaneous Income
- Form 1099-OID – Difference between the bond's stated redemption price and its issue price.
- Form 1099-R – Distributions from Pensions, Annuities, Retirement, etc.

## 5.3   Forms with Criteria – Individual

**Virginia Schedule FED** is generated according to the following criteria:
- Federal Schedule C or C-EZ reports Virginia gross income or loss of income from a business/profession operated as sole proprietor and/or to report Virginia farm income and expenses reported on the federal Schedule F.
- Unreimbursed employee business expense reported on the federal Schedule 2106 and/or 2106-EZ.
- Vehicle information normally listed on federal Schedules C, C-EZ, F, 2106, 2106-EZ and 4562.
- Depreciation and amortization reported on the federal Schedule 4562.
- See the Schedule FED – 760CG Details document for a comparison of 760CG Line numbers to the Federal Schedule Line Numbers.

## 5.4 Paper Forms Produced via e-File Software

While no state schema exists to submit this data through the IRS State/Federal e-File system, the software may still produce these vouchers as applicable for each user's filing(s).

- 760-PMT – Payment Voucher for Individual Income Tax
- 760-PFF – Farmer / Fisherman / Merchant Seaman Payment Voucher for Individual Income Tax

**NOTE**:  The applicable payment voucher should only be printed if Direct Debit is not used for the tax due return.

- 760ES – Estimated Payment Voucher for Individual Income Tax
- 760IP – Extension Payment Voucher for Individual Income Tax

# 6.0 PDF and Binary Attachments

## 6.1 Description

Virginia Tax requires certain supporting documentation to be sent as PDF attachments. All PDF attachments must be listed in the binary attachment portion of the return.

Even though the PDF attachment(s) are an optional element, the PDF is still required for specific filing scenarios (credits, adjustments, certain amount fields, etc.). When the PDF is not properly attached, Virginia Tax will send a missing document letter to the user to request the supporting documentation.

## 6.2 PDF – Binary Attachments

The **referenceDocumentId** attribute must be used to link the attachment to the appropriate location on the return to ensure the attached PDF is recognized properly by the Virginia e-File System.

Users **must**:
- either have a scanner that allows them to scan documents into a PDF file; or
- have another tool that allows them to save a Word / Excel file into a PDF.

Approved e-file tax preparation software **must**
- provide the necessary instructions for creating, scanning or exporting documents in PDF format; and
- submit these documents as attachments that are required by Virginia Tax.

Virginia Tax prefers to receive the required binary attachment(s) with the e-filed return. However, if binary attachments are not included, the software must advise users to mail in their documentation **after** Virginia Tax mails them a "Missing Documentation Letter".

Virginia Tax approved software providers **are also required** to provide messaging about the potential for delay and potential for a credit/adjustment/amount to be denied when supporting documentation is not attached.

## 6.3 Names and Descriptions for PDFs

For all PDF attachments, the preparation software must provide the user the ability to enter a meaningful description. Virginia requires a separate PDF file and **referenceDocumentId** for each attachment.

For example, if 3 out-of-state returns are needed, each out of state return attachment is required to be sent in a separate PDF file with a separate **referenceDocumentId**. (See Section 8.0 Required Binary Attachments for special handling.)

## 6.4 PDF File Guidelines

When creating a PDF file for the e-File submission, follow these guidelines. The IRS and Virginia Tax need a PDF using any compatible software that creates a PDF.
- Do not password-protect or encrypt PDF attachments.
- Do not exceed 60MB (uncompressed) for each PDF file.
- Keep binary attachments as small as possible.
    - Exporting a document to create the PDF makes a much smaller file compared to scanning it.
    - Set the compression/quality on the "Create PDF From Scanner" to higher compression in order to lower the file size when the source document is of adequate quality and from scanner input.
    - Avoid requiring compatibility with Adobe Acrobat earlier than Version 8; it increases the file size.
- Each PDF must start with **%pdf-** and end with **%%EOF**.
- The return rejects if a PDF is not properly formatted.
    **NOTE**: This error occurs if the submitter tries to alter a PDF outside of the product that created it.

## 6.5 Create the PDF File

Create **one** Binary Attachment XML document for each binary attachment in the Submission. There is a one-to-one relationship between the PDF file and the Binary Attachment XML document that describes it.
- In the "AttachmentLocationTxt" element – provide the PDF file with a name, including the extension.
- In the "Desc" element – provide a brief meaningful and unique description of the file contents.

## 6.6 PDF File Name
- The file name is case sensitive and must **exactly match** the name in the "AttachmentLocationTxt" element.
- The schema for the Binary Attachment document is defined in the file named "BinaryAttachment.xsd".
- Example of Out of State Return attachment: NCStateReturn.pdf

## 6.7 Desc Element
- The "Desc" element in the BinaryAttachment.xsd cannot exceed 128 characters.
- Make it as meaningful as possible; the description is displayed to the IRS User to identify file contents.

## 6.8 Create Reference
- The references (if any) are created from the element(s) to which the PDF file is "attached" to the "Binary Attachment XML document".
- If the PDF file is to be attached to an element for a line/form/schedule, create a reference from the element to the Binary Attachment XML document.

## 6.9 Number of Attachments
- The number of binary attachments must be included in the submission in the binaryAttachmentCnt attribute.
- This is used to indicate the number of binary attachments in the return, for the element ReturnHeader.

## 6.10 Attachment Folder
- Include the PDF file in the attachment folder in the submission zip.
- Like-kind binary attachments should be placed adjacent to each other in the submission data XML.

## 6.11 File Structure

Transmitters can transmit federal and state submissions using Web Services. A state submission contains XML data and binary attachments. The state return may also contain a copy of part or all of the user's federal return. The state determines what part of the federal return the user should include in the state submission.

Like a federal submission, the state submission must be zipped into its own file and placed into the container zip file. This file is then attached to the Send Submissions service request. Federal and state submissions can be included in the same attachment (container zip file) or each in their own zip file.

## 6.12 Return Packaging and Diagram

The state submission or filing under Virginia e-File is a zipped package. The following diagram shows the structure of the unzipped return package. The leading slash, "/" is optional.

```
📂Manifest\
        ↳ Manifest.xml              (manifest formatted to IRS standards)

📂XML\
        ↳ Submission.xml            ("Submission" is replaced by the unique state submissions id)

📂Attachment\
        ↳ Attachment1.pdf           (PDF files of binary attachments)
        ↳ Attachment2.pdf           (etc.)

📂IRS\
        📂XML\
        ↳ Submission.xml            ("Submission" is replaced by the unique state submissions id)

📂Attachment\
        ↳ Attachment1.pdf           (PDF files of binary attachments)
        ↳ Attachment2.pdf           (etc.)
```

A federal or state submission must include the **/manifest** and **/xml** archive directories and may include an optional /attachment directory.

If the submission is a state submission, the same archive directories will contain the state submission manifest, state submission and PDF documents attached to state submission, respectively.

In addition to these archive directories, a state submission may also include optional **/irs/xml** and **/irs/attachment** archive directories. If present, they contain the federal submission and PDF documents attached to the federal submission.

# 7.0   Sample non-XML Document Attachment

If the node type defined in the schema begins with 'VARef',
- it must have attached documentation; and
- it must have an attribute called 'referenceDocumentId'.

Any Binary Attachment node must have an attribute called 'documentId'. The documentIds used must be unique.

The **referenceDocumentId** attribute value must match exactly the value of the attribute called 'documentId' in a Binary Attachment node in the return XML. If not, it will fail schema validation.

```
Example:
        documentId="1"
        documentId="2"
        Or
        documentId="PDFAttach1"
        documentId="PDFAttach2"
```

The "AttachmentLocationTxt" element in the Binary Attachment node in the return XML contains the name of the PDF file. The file name is case sensitive and must exactly match the name of the file attached to the submission.  If not, it will fail the schema validation.  See the example highlighted below.

Use the following guidelines to include binary attachment(s).
- Include total number of binary attachment(s) in the binaryAttachmentCnt attribute in the ReturnHeader element.
- **<ReturnHeaderState binaryAttachmentCnt="1">**

```
Example of binary attachment linking an element:
<CreditABC>
<CreditABC>1234</CreditABC>
<Form JKL referenceDocumentId="1">X</Form JKL>
</CreditABC>
<BinaryAttachment documentId="1">
<Reference>CreditABC</Reference>
<DocumentTypeCd>PDF</DocumentTypeCd>
<Desc>JKL</Desc>
<AttachmentLocationTxt>JKL.pdf</AttachmentLocationTxt>
</BinaryAttachment>
```

# 8.0 Required Binary Attachments

Each of the tax types supported by the Virginia e-File system require certain binary attachments in order to properly process a tax return.

As detailed in Section 6.0, missing attachments will produce a "Missing Documentation Letter" for the user.  The following credits require a binary attachments when filing Individual Income Tax returns.

Schedule CR

- Enterprise Zone Act Tax Credit
- Conservation Tillage Equipment Tax Credit
- Precision Fertilizer and Pesticide Application Equipment Tax Credit
- Vehicle Emissions Testing Equipment Tax Credit
- Foreign Source Retirement Income Tax Credit
- Waste Motor Oil Burning Equipment Tax Credit
- Biodiesel and Green Diesel Fuels Tax Credit
- Coalfield Employment Enhancement Tax Credit
- Virginia Coal Employment and Production Incentive Tax Credit
- Agricultural Best Management Practices Tax Credit

Schedule OSC

- If the software supports out-of-state credits claimed on Schedule OSC, then the PDF attachment of the out-of-state tax return is required for all income tax states claimed on Schedule OSC.
- The software must support binary attachments.

# 9.0   Refunds

## 9.1   Turnaround Times

Software must clearly state turnaround times expected for refund scenarios per the tax year 2018 instructions.

## 9.2   Refund Options

- Direct Deposit
    - Software programs must **force** users to verify the banking information each year; this ensures valid banking details are provided.
    - If Direct Deposit is **not selected** or if the banking information is **missing / incorrect**, Virginia Tax will issue a paper check instead. Software must explain this to users.

- Paper Check
    - Individual Income tax software may offer the paper check refund option.
    - For other refund arrangements, they should contact Customer Services.

**NOTE**:  All users may opt to have part / all of their refund / overpayment applied to their estimated taxes for the next year.

EROs should advise customers that they can avoid refund delays by:

- Having all of their taxes and obligations paid;
- Providing current and correct information to the ERO;
- Ensure that all bank account information is up-to-date and entered correctly; and
- Ensuring the information on the tax return is correct before signing / submitting it.

# 10.0  Payments

## 10.1  Electronic Banking Rules

Due to electronic banking rules, Virginia Tax does not allow Direct Deposit **to or through** financial institutions outside of the territorial jurisdiction of the United States. This International ACH Transaction (IAT) is not supported by Virginia Tax. Attempting to use Direct Deposit to transfer funds electronically to a financial institution outside the territorial jurisdiction of the United States will cause the tax return to reject and ultimately delay refunds.

## 10.2  Electronic Payments – e-File System

Virginia Tax supports **Direct Debit with a Requested Payment Date option** via e-File, which allows a tax due direct debit payment to be scheduled for processing on a date different than the return's submission date. Direct debit should be displayed as the default options for users.

- Users can schedule a payment for withdrawal on a future date.
- A scheduled payment must be effective **on or before** the original return due date.

**NOTE** --- Advise users that **prior** to initiating this transaction, they should **notify the bank** that Virginia Tax is authorized to debit the bank account since some banks use a "filter", which prevents unauthorized debits against a user's account.

- If the bank requests a filter number / Company ID, customers should Contact Us to obtain this number / ID.
- If the bank denies the EFT payment, it is handled like a returned check and late payment charges apply.

If a tax return is filed **after the due date**, the Direct Debit with a Requested Payment Date option must not be presented. Software must leave the requested payment date blank / null.

## 10.3  Electronic Payments – Other Options

If the user opts to pay the tax due amount separately from e-Filing the tax return, inform the user of the other Virginia Tax electronic payment options.

**Payment by eForms**
- Fillable form option via Direct Debit method with a user's checking account
- Individual = 760-PMT & 760-PFF

**ACH Credit via Taxpayer's Bank**
- Instruct users to review the Electronic Payment Guide for details regarding general requirements and the set up with their financial institutions to send payments to Virginia Tax's bank account.
- Messaging should advise that this method may include fees.

## 10.4  Payment by Check

The applicable paper voucher must be produced when a tax due return data is filed electronically via the e-File software, but the payment is not made with the return nor with any of the other electronic options detailed in Section 10.3 above. Instructions for e-filed returns must advise users to use the PO Box addresses for direct mailing to Virginia Tax instead of the locality office.

Advise your users to do the following when paying by check for their e-filed return.

- Always mail the payment voucher with the payment **directly to the Virginia Tax address** on the voucher to ensure timely and correct posting to your tax account.
- Do not mail the payment with a copy of the e-filed return to either Virginia Tax or to your Local Office, as this can cause a problem when posting the payment to your tax account.

### 10.5  Paper Payment Vouchers and Addresses

**Form 760-PMT**   (Payment Voucher for Individual Income Tax)

- Payment is due May 1, 2019
- Applicable to Forms 760CG, 760PY and 763
- Should only be printed if Direct Debit is not used

**Form 760-PFF**   (Farmer / Fisherman / Merchant Seaman Payment Voucher for Individual Income Tax)

- Payment is due March 1, 2019
- Applicable to Forms 760CG, 760PY and 763
- Should only be printed if Direct Debit is not used
- Used only for qualifying farmer, fisherman, and merchant seaman

**Form 760ES** (Estimated Payment Voucher for Individual Income Tax)

- Payment is due May 1, June 15, September 15, and January 15
- Applicable to Forms 760CG, 760PY and 763
- See the Individual Estimated Payments page for electronic filing requirements.

**Form 760IP** (Extension Payment Voucher for Individual Income Tax)

- Payment is due May 1
- Applicable to Forms 760CG, 760PY and 763
- Should only be printed if an extension payment will be made

| Paper Voucher Address Table | | | |
|---|---|---|---|
| *Filing Method =>* | **e-Filed Return** | **Mailed Return to Tax** | **Mailed Return to Locality** |
| 760-PMT and 760-PFF | Department of Taxation PO Box 1478 Richmond, VA 23218-1478 | Department of Taxation PO Box 1478 Richmond, VA 23218-1478 | Use the locality address from the individual tax instructions. |
| 760ES | (Vouchers can be produced by Software.) | Department of Taxation PO Box 1478 Richmond, VA 23218-1478 | Voucher 1 - use address for the Locality Commissioner.<br><br>Vouchers 2, 3, & 4 – Use the address for the Locality Treasurer. |
| 760IP | (Voucher can be produced by Software.) | Department of Taxation PO Box 760 Richmond, VA 23218-0760 | Use the locality address from the individual tax instructions. |

# 11.0   Acknowledgements

**11.1   Electronic Postmark – Overview**

A Transmitter may provide an electronic postmark to users that file Tax Returns through an ERO or through an Online Provider (Online Filing).

The Transmitter creates the electronic postmark bearing the date and time, GMT time format, (in the Transmitter's time zone) that the return is received at the Transmitter's host computer. The user must adjust the electronic postmark to the time zone where the user resides in order to determine the postmark's actual time.

**11.2   Electronic Postmark**

If the electronic postmark is:

- **on or before** the prescribed deadline for filing, **but received after** the prescribed deadline for filing – the return is treated as filed timely
- **after** the prescribed deadline for filing – the return is treated as being filed late
- **not available** – the IRS received date is used

**11.3   Acknowledgement of e-File Returns**

Virginia Tax provides an acknowledgment for each return received. The file type will be either "Accepted" or "Rejected". Acknowledgement files must be retained for 1 year after submission.

**11.4   Accepted e-File Returns**

- This indicates that the electronic return was received and accepted.
- The transmission successfully completed the pre-entry validation process and no further action is required.

**11.5   Rejected e-File Returns**

- This indicates that the electronic return was received and rejected.
- Virginia Tax approved software providers **must** mirror image the provided Acknowledgement Error Message for each reject while sending it back to the users.
- The Acknowledgment contains codes/error descriptions, (in the Business Rules Document), that indicate the cause of the reject.
- The error condition(s) must be corrected before the return can be re-transmitted as an "Unlinked" submission.

**11.6   Resubmission of Rejected Tax Returns**

If Virginia Tax rejects the e-Filed return (and the ERO cannot rectify the reason for the rejection), then the ERO **must** take reasonable steps to inform the user of the rejection within 24 hours.

EROs must provide the user with the reject code(s) and an explanation.

If the user opts not to have the e-Filed return corrected and transmitted to Virginia Tax, or if Virginia Tax cannot accept the return for processing, the user must file a timely paper return.

**11.7   Perfection Periods for Rejected Submissions**

Virginia Tax does not allow the IRS return perfection period.  A return must be transmitted and accepted by the due date of the return to be considered timely filed.

# 12.0  Validating Tax Returns

## 12.1  Description

Once the transmission file passes validation, the e-File program validates the submissions contained in the file. Submission validation consists of two parts: Schema Validation and Business Rule Validation.

## 12.2  Schema Validation

Schemas provide the basic definition for elements – field length, data type, allowable values, etc.  Data integrity depends on each data element complying with the data format specifications. If the tax preparation software uses the State-defined XML schemas to create the XML tax return, there should be no data format errors in the return.

If an error is found during Schema Validation, processing stops. Neither the remaining Schema Validations nor the Business Rules will be applied to that submission. If the error is found in the Manifest (described in the next section), the submission (xml archive) will not be Schema Validated either.

The e-File program verifies this by validating each return in the transmission file against the schemas.  The four Virginia Tax schema validation business rules can be found in the SES site.

## 12.3  Business Rule Validation

The e-File program uses a business rule engine to validate returns against the rules.

As submissions are validated, the acknowledgements are made available to the transmitter for retrieval.

When a rule with severity "reject and stop", or "reject" is violated – an error is generated.  Errors result in a rejected return. The complete listing of business rules can be found in the SES site.

## 12.4  Manifest Values

The state manifest **must match** the Government Code, State Submission Type and Submission Category listed below.

| GovernmentCd (Government Code) | StateSubmissionTyp (State Submission Type) | SubmissionCategoryCd (Submission Category) |
|---|---|---|
| VAST | VA760 | IND |
| VAST | VA760PY | IND |
| VAST | VA763 | IND |

## 12.5  Requirements for Reporting Withholding

Virginia Tax follows the same W-2 and 1099 reporting guidelines as the IRS, which requires the manual key entry of the Taxpayer Identification Number (TIN) as it appears on Form W-2 (received from the employer for all people with Individual Taxpayer Identification Numbers (ITINs) who are reporting wages) and 1099.

This helps ensure that the TIN is reported correctly throughout the submission. No software package should use an auto-population feature without the presence of a verification feature to populate the TIN on Forms W-2/1099 for these ITIN filers.

# 13.0   Transmission Requirements

**13.1   Authorized e-file Providers** participating in Virginia Tax e-file as a Transmitter **must**:

- Within 2 business days of transmission:
    - o   Retrieve the acknowledgement file of transmission and match it to the original transmission file; and
    - o   Send the acknowledgement file containing all conditions on accepted returns to the ERO or Intermediate Service Provider;

- Retain an acknowledgement file for 1 year after submission;

- Contact the Individual e-file Administrator (Ind_eFile@tax.virginia.gov) for further instructions; if an acknowledgment of acceptance for processing has not been received within 2 business days of transmission;

- Correct an error that causes the transmission to be rejected;

- Ensure the security of all transmitted data and ensure against unauthorized use of its EFIN or ETIN.

**13.2   Transmission Requirements**

A Transmitter that receives returns from an Intermediate Service Provider for Online Filing must adhere to the same requirements as a Transmitter that transmits ERO returns received from Intermediate Service Providers.

**13.3   Transmissions – Accepted**

If Virginia Tax **accepts** the e-filed return, the **Transmitter** must notify the user of the following:

- The date the transmission was accepted
- The Submission ID

**13.4   Transmissions – Rejected**

If Virginia Tax rejects the e-filed return, the **Transmitter** must notify the user of the following:

- The date the transmission was rejected and what the reject code(s) mean;
- Steps to take to correct the errors; and
- The user must file a timely **paper** return:
    - o   if the electronic return cannot be corrected and retransmitted to Virginia Tax, or
    - o   if Virginia Tax cannot accept the return for processing.

**13.5   Additional Requirements for Online Transmitters Participating**

Transmitters participating in Online Filing must follow all of the above requirements and also **must**:

- Ensure the transmission includes the assigned Online Filing EFIN in the appropriate field;
- Ensure that the ISP's EFIN is included in the electronic return data, when applicable;
- Assign a Submission ID to each user's return and include it in the e-filed transmission;
- Notify the user of the return's status electronically within 2 business days of retrieving the acknowledgement file or by mail within 1 business day of retrieving the acknowledgement file;
- Provide the Internet Protocol Information (Address, Date, Time and Time Zone of the computer used to e-file);
- Include the "Online" in the "Originator Type Code" schema element.

# 14.0  Software Acceptance and Testing

**14.1  e-File Software Guidelines**

This section includes information for testing Virginia Tax e-File returns through the e-File platform (Assurance Testing System, ATS).  Based on the current Virginia schemas, included in the separate e-File Test Package, are multiple test scenarios that reflect the required test criteria for acceptance into the Fed/State e-File Program.

To schedule testing, e-mail the Individual e-File Administrator (Ind_eFile@tax.virginia.gov) prior to submitting tests. The Virginia Software Partner Agreement clarifies the requirements for software providers to start testing.

Test returns must be transmitted through the IRS ATS System with complete submissions.  The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachment messaging.

Return data is formatted using XML.  Each return should be in a separate submission and multiple submissions may be within a single message payload.  Software developers will be notified of the test results and approval by email.

**14.2  Testing Purpose**

The purpose of testing prior to live processing is to ensure that the following conditions are met.
- Software is correctly formatted
- Schemas agree with Virginia Tax specifications
- Edits agree with Virginia Tax specifications
- Business Rules agree with Virginia Tax Specifications
- Electronic submissions are retrieved and processed correctly
- Transmitters retrieve responses from e-File including acknowledgement files

**14.3  Who is Required to Test**

Tax software developers and transmission software developers planning to participate in the Virginia Fed/State e-file Program must submit tests and be approved prior to submitting live TY2018 Virginia returns.

Prior to testing, all software developers and transmitters must have obtained an ETIN and EFIN from the IRS. They must also have completed the Virginia Registration and submitted a signed Virginia LOI.

**14.4  Test Submissions Schedule**

Test submissions to Virginia Tax are scheduled to begin early November 2018.

This is subject to change depending on IRS ATS system availability and Virginia availability.  Software developers may transmit test returns for TY2018 until the IRS e-File system shuts down for filing season. Virginia Tax expects initial testing for approvals to be completed before the IRS e-File processing season opening date.

**14.5  Transmitting Test Submissions**

Software developers should email the e-File Administrator prior to testing and provide the following information:

- Company Name,
- Contact Person
- Email Address
- Phone Number

Returns must be transmitted through the IRS e-File System.  Both Linked returns and Unlinked returns can be submitted through the IRS Federal/State System.

Virginia Tax requires a copy of the **complete federal return** in the state submission, including binary attachments.  Each return should be in a separate submission and multiple submissions may be within a single message payload.

## 14.6   What is Tested

The test package contains **multiple test scenarios** consisting of various forms/schedules/attachments to be submitted for product/software approval.  Testing scenarios will be provided per the **Virginia e-File Test Package document** located in the SES site, once tax form/schedule instructions are posted.

Virginia Tax expects Software Providers to support all Virginia tax forms and applicable schedules pertaining to Individual Income Tax. However, if Virginia Tax approved an exception, test scenarios may be submitted with adjustments for those forms and schedules not supported.

Testing of additional conditions is permitted.  SSNs / FEINs used for the test scenarios in the **Virginia e-File Test Package document** must not be used on additional tests.  Notify the Virginia Tax e-File Administrator if / when additional tests have been submitted to ensure that these tests are downloaded and processed timely.


## 14.7   Acknowledgements on Test Submissions

Virginia Tax sends acknowledgements to the IRS e-File Fed/State Acknowledgement System in the format defined by the IRS Acknowledgement schema for both testing and production (efileAttachment.xsd).

Acknowledgements are sent through Virginia's ATS system for the returns received. Allow 3 – 5 business days to receive state acknowledgments. Software Providers must retransmit a test return until all tests have been accepted.

Once the test package passes business rules and schema validations, software providers can email Submission IDs to the e-File Administrator mailbox for it to be reviewed. Your email should include any test limitations for the product / test package. Software developers will be notified of the test results and approval by email.

Unless the software developer is the ERO, the developer is responsible for providing the Virginia acknowledgements to the ERO within 2 days after receipt of the acknowledgement.
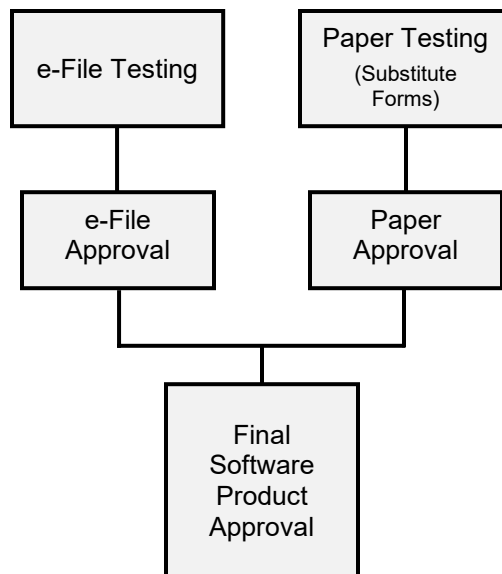
# 15.0   Software Product Approval

## 15.1   Approval Procedure

For final approval, the software provider must transmit all test returns in one single transmission **without errors** which includes business rules error, schema errors and errors pointed out by the Virginia e-File unit.  The software provider must confirm receipt of the state acknowledgements.

The software provider should coordinate ATS test submissions with the submission of paper forms for testing and approval to avoid delays in full approval, as both the print and electronic testing must be complete before access to e-File Production is allowed.

- Once **e-File testing** is complete, an email is sent by the e-File team to confirm approval of the product for e-File.
- Once **paper form testing** is complete, an email is sent by the Substitute Forms team to confirm approval of the product for paper filing.

Once **all testing** is complete, an email is sent by Vendor Management (vendors@tax.virginia.gov) to the software developer and related contacts to confirm the product(s) approval.  Vendor Management will request that the company / product URL to be added to our website as an approved Virginia Tax certified software product.

```
┌─────────────────┐      ┌─────────────────┐
│                 │      │  Paper Testing  │
│  e-File Testing │      │  (Substitute    │
│                 │      │    Forms)       │
└────────┬────────┘      └────────┬────────┘
         │                        │
┌────────┴────────┐      ┌────────┴────────┐
│     e-File      │      │     Paper       │
│    Approval     │      │    Approval     │
└────────┬────────┘      └────────┬────────┘
         │                        │
         └───────────┬────────────┘
              ┌───────┴───────┐
              │     Final     │
              │   Software    │
              │   Product     │
              │   Approval    │
              └───────────────┘
```

**NOTE** – during and after this process, Virginia Tax may request software providers to produce certain screenshots to ensure messaging for data collection is clear.


## 15.2   Product Updates – After Product Approval

If a software developer initially tested with limitations and **later decided** to support additional forms or schedules not included in the initial testing, the software developer **must** inform the Individual e-File Administrator.  The added forms or schedules **must** successfully pass testing before moving to Production.

# 16.0   Special Instructions – Individual Income Tax

## 16.1   Conformity Messaging & Form Impacts

Historically, Virginia has conformed to the Internal Revenue Code, although we have not yet fully conformed for Taxable Year 2018.  We anticipate that the date of conformity will be advanced during the 2019 General Assembly Session, and are preparing for filing season accordingly.

Virginia Schedule A

- Taxpayers claiming itemized deductions on the 2018 Virginia return must submit Virginia Schedule A with the Virginia return.
- All line items on the Virginia Schedule A are defined in federal law.
- Use the 2018 instructions for federal Schedule A (Form 1040) for guidance.
- As in prior years, you must enter the itemized total from Schedule A and the state and local income taxes from Schedule A on the Virginia return to compute Virginia taxable income.

Virginia Supplemental ADJ Schedule (ADJS)

- For paper return filers with additions, subtractions, or deductions that exceed the number allowed on Schedule ADJ, use the new Schedule ADJS.
- Include the total from the supplemental schedule in the total reported on Schedule ADJ.
- This new process applies to individual returns filed on paper: Forms 760, 763, and 760PY.

## 16.2   Credits & Codes Updates

- **Added** – Schedule CR: the new Line E for Section 3, Part 1 has been added to support the "2018 Coalfield Employment Enhancement Tax Credit to be applied toward your 2021 return" amount.
- **Added** – Schedules 760-ADJ/S, 760PY-ADJ, and 763-ADJ support the new subtraction Code 56 for Virginia Venture Capital Account Income. This includes a new related 9-character "Certification Number" field.
  - Code 56 can only be claimed when an approved Certification Number is provided by the user.
  - For printed tax returns, the Certification Number is displayed only when Code 56 is claimed by users.
  - The Certification Number is formatted as 'VCFYY####', where 'VCF' represents Venture Capital Fund, 'YY' represents the year the fund is certified, and the '####' value is assigned by the Subtraction Bank.
- **Subtraction Codes and Contribution Codes** – review the TY2018 Instructions for changes to codes for subtractions, voluntary contributions, library foundations, community foundations, and public school foundations.

## 16.3   Locality Codes – Alphabetical Order

Software must replicate the list of all cities and counties as it is displayed alphabetically in the instructions. Software must not shorten or cut off any part of the City or County name.  For example, "Falls Church City" must be displayed as "Falls Church City" instead of "Falls Church"; these are separate locations.

## 16.4   Drivers/State ID License – Fraud Prevention

The Driver's license/ID number (all 9 digits) and Issuance Date are critical in preventing fraud. These fields are optional but encouraged to be a part of the interview questions to build the user's profile. The data may not be saved to the user's profile from year-to-year. The purpose of this is to verify their information and assist in the tax return review process.

## 16.5   Due Date

Refer to Individual Income Tax Instructions for all due date scenarios. If the due date falls on a Saturday, Sunday or legal holiday, the return must be filed by the next succeeding day that is not a Saturday, Sunday or legal holiday. Virginia Tax does not recognize Washington DC's Emancipation Day as a holiday.

### 16.6 Overseas Indicator and Due Date

When the Overseas Indicator is active/marked on Form 760, 760PY, or 763 – impacted Business Rules will recognize the related July 1st due date instead of the standard due date.  Software should then allow those users to select a Requested Payment Date up through the July 1st Overseas due date.

### 16.7 Masking Taxpayer Data – Not Allowed

Users may opt to use their electronic filing software to print a paper version of their tax return to mail to Virginia Tax. Software is not allowed to mask user data on these printouts. Incomplete / masked data delays the processing of a user's returns to the point where they may be asked to submit another "unmasked" tax return.

### 16.8 Visual 'XXXXX' Message – Printed Copies of e-Filed Returns

If a user opts to print/save their e-Filed return, Virginia Tax requires software to add a visual message of 'XXXXX' to Income Tax returns to indicate the return **was / will be e-Filed**. Virginia Tax uses the 'XXXXX' message to avoid reprocessing a return if users mail in a printed copy. Add the 'XXXXX' to the latest point in the "to be e-Filed" process or after the return was e-Filed.

Use these locations for the printed 'XXXXX' message.
- 760CG – upper right side, next to the Vendor ID field        (See 760CG Exact Positioning Specifications.)
- 760PY – bottom right corner, below Line 13, Column A
- 763 – bottom right corner, below Line 19

### 16.9 E-Standards – Authentication Header

The Virginia Individual e-File program supports the Authentication header. Software Providers must capture and pass all available elements as defined in the Authentication Header Schema.  Software Providers must capture and pass authentication schema elements as requested by the Virginia Fed/State e-File program.

### 16.10 Electronic Signature Form VA-8453

If the user opts to use the Electronic PIN method to sign the return, the software must not provide the option to print the electronic signature form.

### 16.11 Virginia Identity PIN Updated as ID Theft PIN

The field name on the individual income tax returns has been updated to "ID Theft PIN" instead of the previously used "Office Use Only" field name. This ID Theft PIN data must also be present in the Authentication Header.  The software must still continue to:

- Support the ID Theft PIN as a 7-digit alphanumeric value
- Provide / display a way for users to provide their ID Theft PIN for the applicable tax year
- Provide clear wording that the field is only required for users who are issued a ID Theft PIN
- Clearly state that the **Virginia** ID Theft PIN is not the **IRS** Identity PIN
- Advise that only 1 Virginia ID Theft PIN is required for joint filers, even if both filers are issued a PIN
- Ensure professional software advises preparers to inquire with clients if a Virginia ID Theft PIN was issued because the PIN is only issued by letter.

### 16.12 Low Income / Earned Income Credit

Do not provide / display the information for Low Income / Earned Income Credit unless the user claims it.  Do not populate credit information in the data elements unless the user claims the credit for Schedules ADJ, 760PY-ADJ or 763-ADJ.

**NOTE** – when developing 760PY-ADJ, do not use the VAGI from Line 10 of Form 760PY to calculate the credit.  Instead, calculate the Family VAGI using the Guidelines Income Worksheet (per Form 760PY instructions). Failure to use the worksheet's calculation causes errors for the tax return including a **reduction** of the credit or the credit to be **disallowed**.

### 16.13   Sales and Use Tax – Line 35

Virginia requires software to present Line 35 on Forms 760, 760PY, and 763 to all software users when preparing Virginia returns and to require the entry of the amount owed or mark the **"No Sales & Use Tax Due" indicator**.  DO NOT allow users to skip through or over the field and then default the field to zero. Inform the user when sales and use tax should be paid by the users; provide them with instructions to compute the tax owed by using the Sales and Use Tax Worksheet (included in instructions). The software must:

- Provide users a way to report purchases of merchandise shipped to Virginia and not charged the sales and use tax by the seller.
- Compute Sales & Use Tax based on the total purchase amount reported by the user
- If purchases have been made and Sales & Use Tax is owed, then the amount owed must be on Line 35.
- If the user reports that no purchases have been made or no Sales & Use Tax is owed, then the "No Sales & Use Tax Due" indicator must be populated as true.
- Line 35 cannot be defaulted.  An amount must be included or indicator populated to confirm that the user was questioned about possible Sales & Use Tax owed and answered no purchases need to be reported.

### 16.14   Tax Paid to Other States Schema

The Tax Paid to Other States (TPOS) Schema will be included in the general release of the e-Standards schema for Tax Year 2018. This is Virginia Tax's 2nd year as a participant of the pilot program. Software Providers participating in the program are expected to provide data per the TPOS Schema.

### 16.15   Form 760PY Schedule of Income – Moving Expenses

When developing Form 760PY Schedule of Income, use the following columns to ensure moving expenses are calculated and claimed properly on the return. Using the incorrect columns for moving expenses may cause a delay in processing the return and adjustments to the return filed.

- For users moving **into** Virginia, use Column A2 and/or B2; and
- For users moving **out of** Virginia, use Column A3 and/or B3.

### 16.16   Overpayment Amount – Form 760

Ensure that the overpayment / refund amount are carried through to Line 38, otherwise it may interfere with the Refund Verification Process and potential delay / impact your users' refund.

### 16.17   Amended Returns – Differences Worksheet

When customers use your software to prepare / file an amended return, ensure that the difference between the original return amount due / refund and the amended return is provided clearly to the users. An example of a worksheet for amended return amount(s) is included with in the income tax instructions.

# 17.0   Special Instructions – Schedule OSC

**17.1   Schedule OSC – Credit for Taxes Paid to another State**

The information in Section 17 is provided to assist developers with understanding basic business rules for computing credits for taxes paid to another state using the Schedule OSC.  These basic rules are not new.  There have been no recent changes in Virginia Tax's credit for taxes paid to another state.  Instead, we are providing this additional information to software developers due to the large number of returns requiring adjustments for incorrectly computed credits.  To minimize computation errors, you must ensure that your software helps users avoid common mistakes and provides the functionality required to allow taxpayers and tax preparers to compute the credits accurately.

**17.2   Schedule OSC – Key Concepts**

- A taxpayer can be a resident in multiple states.  However, a taxpayer can be a "domiciliary resident" of only 1 state.  If a domiciliary resident of a state meets certain requirements in another state, usually based on the number of days spent in the other state, the individual could be an "actual resident" (also referred to as a "statutory resident") of the other state while still a domiciliary resident of the state in which the individual lives.

- It is *usually, but not always,* the domiciliary state that will allow the credit for taxes paid to another state. Taxpayers should be encouraged to check with each state in which they may have a filing requirement to determine their residency status and filing obligations.

- *In general*, if a taxpayer has income taxable by a state other than the taxpayer's domiciliary state, the taxpayer will need to complete first the returns for those other states and then complete the domiciliary state return in order to claim credits for taxes paid to another state on the domiciliary resident return.

- There are *exceptions,* however.  Software developers should carefully review Virginia's instructions for residency and the credit for taxes paid to another state to ensure that their users are prompted to prepare their returns for Virginia and the other state(s) in the correct order.  For example, if a taxpayer is a domiciliary resident of Virginia but must also file nonresident returns in California and in New York, the taxpayer would need to complete the nonresident New York return first, then the Virginia resident return, followed by the California nonresident return. This is because California provides the credit for taxes paid to another state on its nonresident return.

- The credit for taxes paid to another state must always be computed based on each taxpayer's Virginia taxable income and that taxpayer's actual taxable income in the other state.  For example, if taxpayers file jointly in Virginia, but separately in another state, then only the Virginia taxable income attributable to the taxpayer that filed separately in the other state can be used to compute the credit.  Refer to the Virginia individual income tax instruction booklets for additional details.

- The Virginia Schedule OSC requires the taxpayer to enter the filing status reported on the return in the other state.  In the case of a joint Virginia return, the taxpayers must indicate which spouse filed in the other state.  It is critical that these fields contain accurate information.

- The information provided is not intended to address every taxpayer's unique situation. In addition, the *Code of Virginia* is subject to change and software developers, tax preparers, and taxpayers are encouraged to stay informed by visiting www.tax.virginia.gov.   In addition, taxpayers with complicated return filings should be encouraged to seek professional tax guidance.

**17.3   Schedule OSC – Common Situations and How to Minimize Errors**

- **Reciprocity**:  Virginia resident taxpayers who file nonresident returns in another state should not claim credits for taxes paid to states that have a reciprocal agreement with Virginia that exempts the taxpayers' income from taxation by the other state.  In this situation, the taxpayer may have actually paid taxes to the other state, but if the taxpayer paid taxes in error on income that was exempt from taxation by the reciprocal state, Virginia will not allow the credit.

  - **Reciprocal States**:  Maryland (MD), Pennsylvania (PA), and West Virginia (WV)

  - **Exempt Income**:  Salaries and wages earned in the reciprocal state, provided the Virginia resident is a nonresident of the reciprocal state.

- **Common Errors:**  In most cases, Virginia domiciliary residents who travel to MD, PA, and WV to work are not eligible to claim a credit for taxes paid to another state.

  o One of the most common errors:  Taxpayer lives in VA but works in MD.  The taxpayer's employer deducts MD withholding, instead of VA withholding. The taxpayer files a nonresident return in MD, but fails to indicate on the MD nonresident return that the withholding was in error (MD Form 505, Residence Information Section, Withholding in Error Checkbox).  Instead, the taxpayer completes the MD nonresident return, including the salaries and wages that are exempt from MD taxation on line 1, column 2, of the MD return, designating the exempt salaries and wages as MD income.  This results in the taxpayer paying income taxes to MD on income that is exempt from taxation by MD.

  o After completing the MD nonresident return, the taxpayer then completes the VA resident return and claims a credit for the taxes paid to MD.  Virginia then denies the credit for income taxes paid to another state because the taxes were paid in error to the other state on exempt income.

  o If the VA resident had only exempt salaries and wages from working in MD, the taxpayer needs to indicate the MD withholding was in error on the MD nonresident return and MD will then refund 100% of such withholding to the taxpayer.  If the taxpayer had exempt salaries and wages, but also had other income subject to MD taxation, the taxpayer needs to allocate the exempt salaries and wages as non-MD income.  Virginia will allow a credit for taxes paid to MD in most cases if the income being taxed is not exempt from taxation by MD.

  o Software developers are encouraged to review the nonresident return instructions for MD, PA, and WV very carefully and ensure that presentation to taxpayers is easy to understand and promotes accurate entry of information by taxpayers and tax preparers.  By ensuring the accurate preparation of nonresident returns in these states, taxpayers will not pay taxes that are not owed and then have the credit on the Virginia return either denied or adjusted.

## 17.4   Schedule OSC – Exception States:  California (CA), Arizona (AZ), and Oregon (OR):

- A **Virginia resident** taxpayer who files a nonresident return in CA, AZ, or OR cannot claim a credit for taxes paid to another state on their Virginia resident return for the taxes paid to these states.  Instead, the taxpayers must claim a credit for taxes paid to Virginia on the nonresident return filed in CA, AZ, or OR.

- Conversely, a **Virginia nonresident** can claim only credits for taxes paid to other states if states = CA, AZ, or OR.

- **Common Error:**  The Virginia resident taxpayer is instructed by the software to complete all nonresident returns first and then prepare the resident return in order to claim credits for the taxes paid as a nonresident to other states on the Virginia resident return.  The taxpayer then prepares the nonresident returns first, even if the nonresident states include CA, AZ, or OR.  Because the Virginia resident return has not been prepared yet, the taxpayers do not have the information needed to claim the credit on the nonresident CA, AZ, or OR returns.

- In addition, after the taxpayer uses the software to prepare the nonresident returns, the software then allows the taxpayer when preparing the Virginia resident return to claim credits that are not allowed to be claimed in Virginia.  Virginia denies the credits.

- **Exception:**  If the nonresident return filed in CA, AZ, or OR was a Composite or Unified nonresident return filed by a Pass-through Entity on behalf of its nonresident shareholders, Virginia will allow the credit for taxes paid to these states.  This is because the Composite or Unified nonresident returns in these states do not allow for a credit to be claimed for taxes paid to another state, as is allowed on their individual nonresident returns.

- The Virginia resident taxpayer must attach documentation provided by the Pass-through Entity that filed the nonresident Composite or Unified return in CA, AZ, or OR to the Virginia return filing to support the credit.  In addition, the Schedule OSC must be correctly coded on Line 1 to indicate the credit for CA, AZ, or OR was due to a Composite or Unified filing.

## 17.5   Schedule OSC – Border State Computation

- There are only 4 states bordering Virginia that impose an income tax – Kentucky (KY), Maryland (MD), North Carolina (NC), and West Virginia (WV).  The border state computation cannot be used for any other state.  In addition, if the border state computation is used to compute the credit for taxes paid to 1 of these states, then the taxpayer cannot claim any other credit for taxes paid to another state.  Only a single credit may be claimed per taxpayer if the taxpayer uses the border state computation to compute that single credit.

- The border state credit computation allows Virginia residents who work in states bordering Virginia to receive a credit equal to 100% of the taxes paid to the bordering state provided that:

  o The taxpayer's Virginia Taxable Income is equal to or greater than the taxable income reported on the return filed in the border state; **AND**
  o The income reported on the return filed in the border state consists solely of wages, salary, and/or business income from federal schedule C; **AND**
  o The taxpayer does not claim a credit for taxes paid to any other state, even if the other state borders Virginia.

  o Note that if the Virginia return is filed jointly, each taxpayer is entitled to claim 1 credit for taxes paid to a bordering state, provided the joint taxpayers filed separately in the border-states.

  o In addition, the income taxed by the border state can only be income from wages, salaries, and/or business income from federal Schedule C.  Key points:
    ▪ Income exempt from taxation in KY, MD, and WV must be excluded.  See #1 above, which discusses reciprocal agreements; AND
    ▪ Income reported on any federal schedule other than federal Schedule C does not qualify for the border state computation.

- Because business income not reported on the federal Schedule C does not qualify for the border state computation, taxpayers claiming a credit for taxes paid to KY, WV, MD, or NC as a result of their inclusion in a Composite or Unified filing in any of these states would not qualify for the border state computation.

## 17.6  Schedule OSC – Additional Information regarding Joint Returns & Borders States

- If the taxpayers are filing jointly in Virginia, but filed single or married filing separately in the other states, only the portion of the Virginia taxable income attributable to the taxpayer that filed in the border state may be used to compute the credit.  The software should not automatically complete this field for the taxpayer by carrying over the joint Virginia taxable income.

- If joint returns are filed in both Virginia and the border state the taxpayers will make a joint computation of the credit, using the border state method.  In this case, the joint Virginia taxable income will be entered on Schedule OSC, and no other credits may be claimed on Schedule OSC.

- If, however, the Virginia return is being filed jointly, but each of the spouses filed separately in a border state, then each spouse is eligible to claim 1 credit for taxes paid to another state using the border state computation method. Neither spouse may claim any additional credits for taxes paid to any other state. The portion of joint Virginia taxable income attributable to each spouse must be used when computing each spouse's credit.

- If 1 spouse (A) filed separately in a border state and is claiming a credit using the border state method, the other spouse (B) may claim multiple credits for taxes paid to another state provided that spouse B does not claim a credit for taxes to a border state using the border state method.  For each credit claimed by the spouse B, only the Virginia Taxable Income attributable to spouse B may be used to compute the credits, and the taxable income in the other states must also be only the taxable income attributable to only spouse B.

## 17.7  Schedule OSC – Composite / Unified Filing Status in Other State

- If the credit for taxes paid to another state is based on a nonresident Composite or Unified return filed by a Pass-through Entity (PTE), it is important that the software correctly report this on the Schedule OSC.  For example, if the filing status on the nonresident return is "Composite" or "Unified", then Schedule OSC Line 1 must be Code 4 and Line 2 must be Code 1 or Code 2, never Code 3.

- **Additional Information:**  If married taxpayers filing jointly in Virginia are both shareholders in the same PTE and both taxpayers were included in a Composite or Unified return filed by the PTE in another state, each spouse must compute the credit separately.  This is because each spouse is an individual shareholder in the PTE and will therefore be listed separately on the Composite or Unified return.  In addition, each spouse's share of the credit will be based on that spouse's ownership share in the PTE.  The portion of joint Virginia taxable income attributable to each taxpayer must be used when computing each spouse's credit.  Therefore, if Schedule OSC Line 1 indicates the credit is based on a Composite or Unified return or "Other" indicating a Corporate filing in the other state, then the credit is only for 1 individual, even if a joint Virginia return is filed.  The credit can never be computed in this situation as 1 credit computation for both of the joint taxpayers.

## 17.8 Schedule OSC – Limitations on Part-year Residents Claiming Credit

- A person who becomes a resident of Virginia during the taxable year or who, on or before the last day of the taxable year, moves out of Virginia with the bona fide intention of permanently living outside of Virginia, is subject to taxation during the period in which he or she is a Virginia resident. In addition, a part-year resident is taxed as a resident only for the portion of the year that he or a she resides in Virginia and only on the income received while a Virginia resident.

- For the above reasons, Virginia prohibits an individual that files as a part-year resident from claiming the credit for taxes paid to another state on income tax payable to Virginia for any part of the taxable year during which they were a domiciliary or actual resident of another state. However, the prohibition is limited to income earned from a state in which a taxpayer was a domiciliary or actual resident while they were also a part-year resident of Virginia.

- Note that a Virginia part-year resident who receives Virginia source income while not a part-year resident of Virginia may also be required to file the Virginia nonresident return in order to pay any taxes owed to Virginia on Virginia source income received while a nonresident. Software should provide functionality to allow Virginia part-year residents to also file the Virginia nonresident return.

- **Tip:** If a Virginia part-year resident has paid income tax to another state, the software should not automatically compute a credit for taxes paid to another state. While there are situations in which a credit can be claimed on a part-year resident return, they are limited. For example, if a Virginia part-year resident is required to file a **nonresident** return in another state because all or part of the income received while the taxpayer was a Virginia resident is also subject to taxation by the other state, the Virginia part-year resident may be able to claim a credit on the Virginia part-year resident return. In this example, however, the exceptions mentioned in #2 above for CA, AZ, and OR still apply.

- Virginia also allows married taxpayers to file using the Form 760PY if 1 spouse is a part-year resident and the other spouse is a full-year resident. This is allowed as a convenience to the taxpayers. In this situation, the taxpayers would file the Form 760PY using filing status 4, "married filing separately on a combined form". The full-year resident filing on the Form 760PY is entitled to claim this credit as if that taxpayer were filing the Form 760 Resident return using a married filing separately status. The convenience of using the Form 760PY in this situation does not change the rules under which credits are allowed or computed for full-time residents versus part-time residents.

## 17.9 Schedule OSC – Qualifying Taxable Income

- If the nonresident return filed by the Virginia resident in another state computes taxable income using all income as if the taxpayer were a resident of that state and then reduces the taxable income using an allocation method, the Qualifying Taxable Income is the taxable income after reduction by the allocation percentage less any nonrefundable credits.

- If Virginia allows a credit for taxes paid to another state the credit is allowed only to the extent the income was actually taxed by the other state AND is also taxed by Virginia. For example, if a Virginia resident filing as a nonresident in another state paid $500 in taxes to the other state, and Virginia taxed that same income at $400, the taxpayer may be able to claim a credit on the Virginia return up to $400, as applicable. The Virginia credit for taxes paid to another state is not intended to ensure that a Virginia resident never pays taxes in excess of Virginia tax rates. However, to the extent allowed and provided by the Code of Virginia, the credit claimed by a Virginia resident for taxes paid as a nonresident to another state are limited to the amount of tax Virginia would assess the taxpayer on the same income.

- The following is a list of states that compute nonresident taxable income using an allocation method:

| | | | | |
|---|---|---|---|---|
| Arkansas | Kansas | Nebraska | Ohio | West Virginia |
| Colorado | Maine | New Jersey | Oklahoma | Wisconsin |
| Connecticut | Minnesota | New Mexico | Rhode Island | |
| Delaware | Missouri | New York | Utah | |
| Iowa | Montana | North Dakota | Vermont | |

## 17.10 Schedule OSC – Additional Information for Development of the Virginia Out of State Credits:

- **For Single, Married Filing Joint, Married Filing Separately (FS = 1, FS = 2 , FS = 3)**, a copy of each out-of-state return should be attached as a separate PDF for each credit listed on the OSC and would have its own separate reference document ID linking the credit to the PDF attachment.

- **For a Unified/Composite Filer (FS = 4 or FS = 5)** each states credit should be filled out separately on the OSC and each credit will need to have the same reference document ID that links to a single attached PDF. The PDF should list the computation of the credits for all of the states. For example, if there are 3 states that are part of a Unified Filing, there would be 3 separate OSC credits reported on the Schedule OSC which would all reference 1 attached PDF containing the computation of the taxpayer's share of taxable income for each state. The 1 attachment with the list of states is supporting documentation for all of the credits.

- **Development Example**: This scenario is a taxpayer that has over 30 credits on the OSC and 1 single PDF. Each credit has the same referenceDocumentId of RetDoc9999999999 pointing to the 1 PDF BinaryAttachment documentId of RetDoc9999999999. The process for the application development would be similar to below:

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