WEST virginia legislature

2023 regular session

Introduced

Senate Bill 442

By Senators Tarr, Martin, and Oliverio

[Introduced January 23, 2023; referred
to the Committee on Finance]

A BILL to amend the Code of West Virginia, 1931, as amended, by adding thereto two new sections, designated §11-21-12n and §11-21-63, all relating to providing an election for pass-through entities to pay income tax at the entity level; setting forth the method of claiming the election; defining terms; setting forth a rate of tax; dealing with claims for refunds and issuing assessments; dealing with claiming tax credits; providing increasing and decreasing modifications for partners and shareholders when the pass-through entity elects to pay the tax at the entity level; providing for rulemaking; and setting forth an effective date which is retroactive.

Be it enacted by the Legislature of West Virginia:

ARTICLE 21. PERSONAL INCOME TAX.

§11-21-12n. Additional modifications reducing and increasing federal adjusted gross income of partners and shareholders when election is made to pay tax at the pass-through entity level.

(a) When a partnership or S Corporation has elected to the pay the tax imposed by this article at the entity level pursuant to §11-21-63 of this code, a partner or shareholder shall subtract from his or her federal adjusted gross income to the extent included therein the following items:

(1) A taxpayer who is a shareholder of an S corporation that made the election and paid the tax under §11-21-63 of this code may deduct from his or her federal adjusted gross income the amount of the taxpayer's pro rata share of income from the S corporation to the extent it was included in the S corporation's West Virginia taxable income and the taxpayer's federal adjusted gross income.

(2) A taxpayer who is a partner of a partnership that made the election and paid the tax under §11-21-63 of this code may deduct the amount of the taxpayer's distributive share of income from the partnership from his or her federal adjusted gross income to the extent it was included in the partnership's West Virginia taxable income and the taxpayer's federal adjusted gross income.

(b) When a partnership or S Corporation has elected to the pay the tax imposed by this article at the entity level pursuant to §11-21-63 of this code, the partner or shareholder shall add to his or her federal adjusted gross income unless already included therein the following items:

(1) A taxpayer who is a shareholder of an S corporation that made the election and paid the tax under §11-21-63 of this code must add to his or her federal adjusted gross income the amount of the taxpayer's pro rata share of loss from the S corporation to the extent it was included in the S corporation's West Virginia taxable income and the taxpayer's federal adjusted gross income.

(2) A taxpayer that is a partner of a partnership that made the election and paid the tax under §11-21-63 of this code must add to his or her federal adjusted gross income the amount of the taxpayer's distributive share of loss from the partnership to the extent it was included in the partnership's West Virginia taxable income and the taxpayer's federal adjusted gross income.

(c) The amounts authorized to be subtracted from or added to federal adjusted gross income under this section shall be in addition to any amounts authorized to be subtracted from or added to federal adjusted gross income under §11-21-12 of this code or any other provisions of §11-21-1,e*t seq*. of this code: *Provided*, That the modification must not relate to an item of income, gain, loss or deduction from a qualifying pass-through entity that made the election and paid the tax under §11-21-63 of this code.

(d) The modifications authorized by this section become effective and are authorized for taxable years beginning on and after January 1, 2022.

§11-21-63. Elective payment of income tax on pass-through entities.

(a) For taxable years beginning on and after January 1, 2022, a qualifying pass-through entity may make an election, in a format and according to such requirements and procedures established by the Tax Commissioner, to pay the tax levied by this article at the entity level for the taxable year.

(1) A qualifying pass-through entity required to file a return under this article shall make an election for the taxable period covered by such return. The election must be made on or before the due date for filing the applicable return, including any extensions that have been granted.

(2) For the purposes of this section, the term "qualifying pass-through entity" means a pass-through entity that is 100 percent owned by natural persons or, in the case of a Subchapter S corporation, 100 percent owned by natural persons eligible to be shareholders in an S corporation.

(b) A tax at the rate of 6.5 percent of the West Virginia taxable income of qualifying pass-through entity that makes the election provided under this section is hereby annually imposed.

(1) The West Virginia taxable income of a partnership for which the election is made is equal to the sum of:

(A) Each partner’s distributive share of the taxed partnership’s income or loss attributable to West Virginia; and

(B) Each resident partner’s distributive share of the taxed partnership’s income or loss not attributable to West Virginia.

(2) The West Virginia taxable income of a taxed S corporation for which the election is made shall be equal to the sum of the following:

(A) Each shareholder's pro rata shares of the taxed S corporation's income or loss attributable to West Virginia; and

(B) Each resident shareholder's pro rata shares of the taxed S corporation's income or loss not attributable to West Virginia.

(c) A qualifying pass-through entity that elects to pay the tax under this section may be eligible for credits, deductions, or other adjustments to taxable income provided by any applicable sections of this code: *Provided*, That a qualifying pass-through entity's taxable income shall be adjusted to eliminate any federal deduction for state and local income taxes. Any credit or unused portion of such credit claimed by a qualifying pass-through entity that makes the election under this section shall not pass through to its partners or shareholders.

(d) The full amount of the tax payable as shown on the return of the qualifying pass-through entity must be paid to the state within the time allowed for filing the return. In the case of any overpayment of the tax imposed under this section only the qualifying pass-through entity may request a refund of the overpayment. In the case of any underpayment of tax imposed under this section, the Tax Commissioner may collect the tax from the qualifying pass-through entity pursuant to W. Va. Code §11-10-1, *et seq*. of this code.

(e) The Commissioner may propose rules required to administer this section, including emergency rules, in accordance with §29A-3-1, *et seq*. of this code, regarding the election provided in this section.

NOTE: The purpose of this bill is to provide an election for pass-through entities to pay income taxes at the entity level rather than pass the income through to individual owners. The bill sets forth the method of claiming the election; defines terms; sets forth a rate of tax; deals with claims for refunds and issuing assessments; deals with claiming tax credits; provides increasing and decreasing modifications for partners and shareholders when the pass-through entity elects to pay the tax at the entity level; provides for rulemaking; and sets forth an effective date which is retroactive.

Strike-throughs indicate language that would be stricken from a heading or the present law and underscoring indicates new language that would be added.