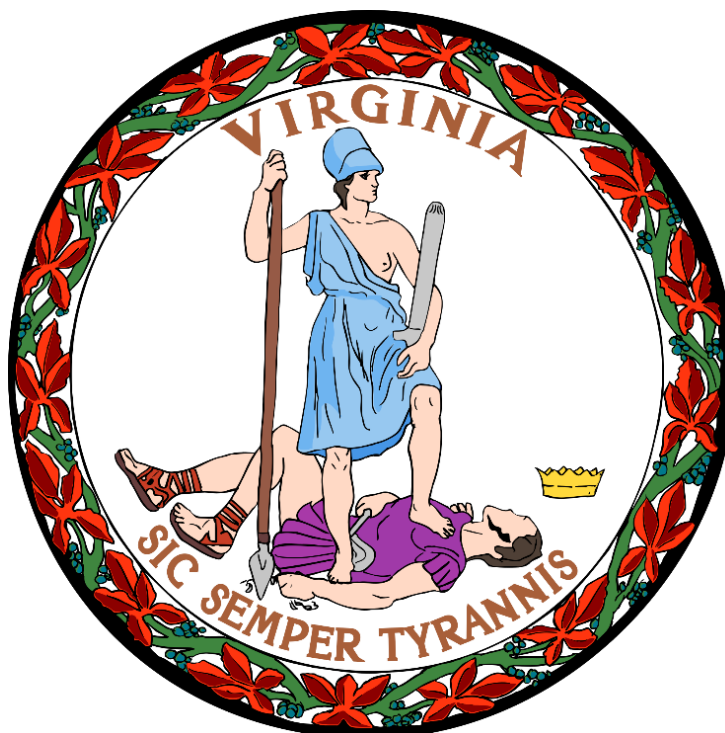


Virginia Department of Taxation



Individual Income e-File Guide and Specifications

Tax Year 2020



Table of Contents

1 OVERVIEW	3
2 SUMMARY OF CHANGES AFFECTING E-FILE DEVELOPMENT	4
2.1 CODE, CREDIT, CONTRIBUTION AND WAGE STATEMENT UPDATES	4
2.2 AMENDED RETURN REASON CODES	4
2.3 VIRGINIA SCHEDULE A CHANGES	4
2.4 FORM 502FED-1	4
2.5 EXCEPTION MET ON AN ADDITION TO TAX	5
2.6 STAND-ALONE ESTIMATED PAYMENTS	5
3 DEVELOPER CONTACTS AND RESOURCES.....	5
3.1 EMAIL UPDATES.....	5
3.2 PHONE NUMBERS & EMAIL	5
3.3 WEBSITE RESOURCES.....	5
4 OVERVIEW OF VIRGINIA FEDERAL / STATE E-FILE PROGRAM.....	6
4.1 DESCRIPTION.....	6
4.2 SUPPORTED TAX YEARS.....	6
4.3 VIRGINIA E-FILE CALENDAR – TAX YEAR 2020	6
4.4 SOFTWARE DESIGN INFORMATION.....	6
4.5 ROUTINE SYSTEM MAINTENANCE	7
5 TYPES OF ELECTRONIC FILING.....	7
5.1 LINKED RETURNS	7
5.2 UNLINKED RETURNS	7
6 FORMS AND SCHEDULES FOR E-FILE	7
6.1 FORMS – INDIVIDUAL	7
6.2 FORMS WITH CRITERIA – INDIVIDUAL	8
7 PDF AND BINARY ATTACHMENTS.....	9
7.1 DESCRIPTION.....	9
7.2 PDF – BINARY ATTACHMENTS	9
7.3 NAMES AND DESCRIPTIONS FOR PDFS.....	9
7.4 PDF FILE GUIDELINES	9
7.5 CREATE THE PDF FILE	10
7.6 PDF FILE NAME.....	10
7.7 DESC ELEMENT.....	10
7.8 CREATE REFERENCE	10
7.9 NUMBER OF ATTACHMENTS	10
7.10 ATTACHMENT FOLDER	10
7.11 FILE STRUCTURE	10
7.12 RETURN PACKAGING AND DIAGRAM	11
8 SAMPLE NON-XML DOCUMENT ATTACHMENT	11
9 REQUIRED BINARY ATTACHMENTS.....	12
10 REFUNDS.....	13
10.1 TURNAROUND TIMES.....	13
10.2 REFUND OPTIONS	13

11 PAYMENTS	13
11.1 ELECTRONIC BANKING RULES	13
11.2 ELECTRONIC PAYMENTS – E-FILE SYSTEM	13
11.3 OTHER ELECTRONIC PAYMENT OPTIONS	14
11.4 PAYMENT BY CHECK	14
11.5 PAPER PAYMENT COUPONS AND ADDRESSES	14
12 ACKNOWLEDGEMENTS	15
12.1 ELECTRONIC POSTMARK – OVERVIEW	15
12.2 ELECTRONIC POSTMARK	15
12.3 ACKNOWLEDGEMENT OF E-FILED RETURNS	15
12.4 ACCEPTED E-FILE RETURNS	16
12.5 REJECTED E-FILE RETURNS	16
12.6 RESUBMISSION OF REJECTED E-FILE RETURNS	16
12.7 PERFECTION PERIODS FOR REJECTED SUBMISSIONS	16
13 VALIDATING TAX RETURNS	16
13.1 DESCRIPTION	16
13.2 SCHEMA VALIDATION	16
13.3 BUSINESS RULE VALIDATION	17
13.4 MANIFEST VALUES	17
13.5 REQUIREMENTS FOR REPORTING WITHHOLDING	17
14 TRANSMISSION REQUIREMENTS	17
14.1 AUTHORIZED E-FILE PROVIDERS PARTICIPATING IN VIRGINIA TAX E-FILE AS A TRANSMITTER MUST:	17
14.2 TRANSMISSION REQUIREMENTS	17
14.3 TRANSMISSIONS – ACCEPTED	18
14.4 TRANSMISSIONS – REJECTED	18
14.5 ADDITIONAL REQUIREMENTS FOR ONLINE TRANSMITTERS PARTICIPATING	18
15 SOFTWARE ACCEPTANCE AND TESTING	18
15.1 E-FILE SOFTWARE GUIDELINES	18
15.2 TESTING PURPOSE	19
15.3 WHO IS REQUIRED TO TEST	19
15.4 TEST SUBMISSIONS SCHEDULE	19
15.5 TRANSMITTING TEST SUBMISSIONS	19
15.6 WHAT IS TESTED	19
15.7 ACKNOWLEDGEMENTS ON TEST SUBMISSIONS	20
16 SOFTWARE PRODUCT APPROVAL	20
16.1 APPROVAL PROCEDURE	20
16.2 PRODUCT UPDATES – AFTER PRODUCT APPROVAL	21
17 SPECIAL INSTRUCTIONS – GENERAL	21
17.1 DUE DATE	21
17.2 LOCALITY CODES – ALPHABETICAL ORDER	21
17.3 DRIVERS / STATE ID LICENSE – FRAUD PREVENTION	21
17.4 E-STANDARDS – AUTHENTICATION HEADER	21
17.5 ELECTRONIC SIGNATURE FORM VA-8453	21
17.6 TAX PAID TO OTHER STATES SCHEMA	21
18 SPECIAL INSTRUCTIONS – FORMS 760, 760PY AND 763	22
18.1 OVERSEAS INDICATOR AND DUE DATE	22

18.2	AMENDED RETURNS – DIFFERENCES WORKSHEET	22
18.3	VIRGINIA ID THEFT PIN	22
18.4	SALES AND USE TAX	22
18.5	OVERPAYMENT AMOUNT – FORM 760	22
19	SPECIAL INSTRUCTIONS – SCHEDULES ADJ, 760PY ADJ & 763 ADJ.....	23
19.1	LOW INCOME / EARNED INCOME CREDIT.....	23
19.2	VIRGINIA BANK FRANCHISE TAX	23
20	SPECIAL INSTRUCTIONS – SCHEDULE A	23
20.1	FOREIGN INCOME TAXES	23
20.2	FEDERAL AND VIRGINIA FILING STATUSES.....	23
21	SPECIAL INSTRUCTIONS – PAPER RETURNS GENERATED BY SOFTWARE.....	24
21.1	MASKING TAXPAYER DATA – NOT ALLOWED.....	24
21.2	VISUAL 'XXXXX' MESSAGE.....	24
21.3	PRINTED SCHEDULE OSC – VISUAL PAGE NUMBER.....	24
22	SPECIAL INSTRUCTIONS – SCHEDULE OSC	25
22.1	SCHEDULE OSC – CREDIT FOR TAXES PAID TO ANOTHER STATE	25
22.2	SCHEDULE OSC – KEY CONCEPTS	25
22.3	SCHEDULE OSC – COMMON SITUATIONS AND HOW TO MINIMIZE ERRORS.....	26
22.4	SCHEDULE OSC – EXCEPTION STATES: CALIFORNIA (CA), ARIZONA (AZ), AND OREGON (OR):.....	26
22.5	SCHEDULE OSC – BORDER STATE COMPUTATION	27
22.6	SCHEDULE OSC – ADDITIONAL INFORMATION REGARDING JOINT RETURNS & BORDERS STATES	28
22.7	SCHEDULE OSC – COMPOSITE / UNIFIED FILING STATUS IN OTHER STATE.....	28
22.8	SCHEDULE OSC – LIMITATIONS ON PART-YEAR RESIDENTS CLAIMING CREDIT	28
22.9	SCHEDULE OSC – QUALIFYING TAXABLE INCOME	29
22.10	SCHEDULE OSC – ADDITIONAL INFORMATION FOR DEVELOPMENT OF THE VIRGINIA OUT OF STATE CREDITS	29

1 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

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 Summary of Changes Affecting e-File Development

This is not intended to be a comprehensive guide to development changes. Perform a full review of Virginia schemas, business rules and form instructions to ensure all changes and updates are incorporated.

2.1 Code, Credit, Contribution and Wage Statement Updates

- Schedules ADJ, 760PY ADJ and 763 ADJ
 - Added – Addition Code 19 for a Federal Partnership Income Adjustment
 - Added – Subtraction Code 59 for a Federal Partnership Income Adjustment
- Schedule CR
 - Removed – Long-Term Care Insurance Credit
 - Removed – Coalfield Employment Enhancement Credit could not be claimed in 2017, thus cannot be claimed in 2020. Only a 2020 credit may be applied towards a 2023 return.
 - Enterprise Zone Act Credit – Only carryover amounts may be claimed.
 - Worker Training Tax Credit – Carryover credits may now be claimed.
- Schedule VAC
 - Removed – School contribution code: Prince George Alliance for Education Foundation (149001)
- Form 1099-NEC (Nonemployee Compensation) is now supported.

2.2 Amended Return Reason Codes

- Amended returns now require a Reason Code that indicates why the return is being amended.
 - Amended Forms 760, 760PY and 763 will have one of the following reason codes:
 - 01 NOL
 - 02 PTE Federal Adjustment
 - 03 Federal Audit (other than PTE)
 - 04 Nonrefundable or Refundable Tax Credit Change
 - 30 Other
 - The NOL indicator has been removed from Forms 760, 760PY and 763. Reason Code 01 should now be indicated.
 - Reason Code 02 requires Form 502FED-1 to be included in the return submission.
 - Reason Code 30 requires an explanation.

2.3 Virginia Schedule A Changes

- Mortgage insurance premiums should now be reported on Schedule A, Line 8d.
- The filing status claimed on the Federal return must now be reported.
- The adjusted gross income from the Federal return on Schedule A, Line 2 must now be reported, even when no medical and dental expense deduction is being claimed.

Refer to [Section 20](#) for complete Schedule A changes and guidance.

2.4 Form 502FED-1

Form 502FED-1 has been added to e-File to accommodate Virginia adjustments that result from tax changes and other changes to taxable income on a partnership's Federal return. This form should be included in an amended return filing with Reason Code 02 to report these adjustments.

Refer to Virginia [Code § 58.1-311](#), Form 502 instructions, and Form 502FED-1 instructions for complete details.

2.5 Exception Met on an Addition To Tax

The ability to attach supporting documentation for an exception met on an addition to tax through a referenced binary attachment on Schedules 760ADJ, 760PY ADJ and 763ADJ has been removed. Supporting documentation should still be included in the return submission as a free-floating binary attachment per form instructions.

Four optional schema elements have been added to Schedules 760ADJ, 760PY ADJ and 763 ADJ to indicate the type of exception met on an addition to tax by period. An exception met in one period does not automatically apply to any other period. Therefore, where applicable, Exception 1, 2, 3 or 4 should be indicated in these schema elements.

Refer to the Form 760C instructions for complete details.

2.6 Stand-Alone Estimated Payments

As of tax year 2019 e-Filing of estimated and extension payments are supported.

In tax year 2020, for Form 760ES submissions that are sent separately from the tax return, the tax year in the ReturnHeaderState must be populated with 2021.

3 Developer Contacts and Resources

3.1 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.

3.2 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 professional 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.

3.3 Website Resources

This section provides general website resources that impact e-Filing tax data. Additional details can be found in the links on 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](#) – drafts of tax forms

[Web Forms](#) – all forms supported by Virginia Tax

[Legislative Summary Reports and What's New – Tax Credits](#)

3.4 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).

4 Overview of Virginia Federal / State e-File Program

4.1 Description

Virginia's e-File program works with the IRS Federal / 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-Filed 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.

4.2 Supported Tax Years

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

- Tax Year 2020
- Tax Year 2019
- Tax Year 2018

4.3 Virginia e-File Calendar – Tax Year 2020

Virginia Tax follows the IRS e-File calendar and dates are contingent on IRS system availability.

- ATS testing begins November 16, 2020
- Begin transmitting returns to IRS/Virginia January 2021

4.4 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 Federal/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.

4.5 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](#).

5 Types of Electronic Filing

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

5.1 Linked Returns

Linked filing occurs when the federal and Virginia 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 Virginia 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 Virginia return is not made available to Virginia Tax. In this case, the next corrected transmission should include **both** the federal return and the Virginia return.

5.2 Unlinked Returns

Unlinked filing occurs when the Virginia return is transmitted through the Federal/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.

6 Forms and Schedules for e-File

The Virginia Tax schemas are used in conjunction with IRS Federal/State schemas. Our state specific schemas support the forms and schedules listed below, in Sections 6.1 and 6.2.

6.1 Forms – Individual

- Form 760CG – 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 CR/CG – Schedule for Credit Computations
- Schedule FED/CG – Schedule of Federal Line items
- Form 502FED-1/CG – Virginia Partnership-Level Federal Adjustments Report
- 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
- Form 760PY – Virginia Part-Year Resident Individual Income Tax Return
- Schedule 760PY ADJ – 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-NEC – Nonemployee Compensation
- Form 1099-OID – Difference between the bond's stated redemption price and its issue price.
- Form 1099-R – Distributions from Pensions, Annuities, Retirement, etc.
- Form 760ES – Estimated Payment Voucher for Individual Income Tax
- Form 760IP – Extension Payment Voucher for Individual Income Tax

6.2 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.

6.3 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 forms / vouchers where applicable.

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

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

- Schedule ADJS/CG – Supplemental Schedule of Adjustments for Forms 760 and 763
- Schedule 760PY ADJS/CG – Supplemental Schedule of Adjustments for 760PY
- Schedule VACS/CG – Supplemental Contributions Schedule for the Virginia College Savings Plan

7 PDF and Binary Attachments

This instruction is modeled after IRS Publication 4164, Section 2.2.

7.1 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 generally an optional element, the PDF is still required for specific filing scenarios (credits, adjustments, certain amount fields, etc.). When the PDF is not properly referenced, Virginia Tax may send a missing document letter to the taxpayer to request the supporting documentation.

7.2 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.

7.3 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**.

7.4 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.
- The name of the PDF file cannot exceed 64 characters. It must not include any of the following:
 - Slashes (forward / and back \), double period (..), semicolon (;), vertical bar (|), square brackets (left [and right]), right angle brackets (left < and right >), caret (^), grave accent (`), ampersand (%), double quote ("), apostrophe ('), colon (:), question mark (?), and asterisk (*).

- Each PDF must start with **%pdf-** and end with **%%EOF**. The return rejects if a PDF is not properly formatted. This error occurs if the submitter tries to alter a PDF outside of the product that created it.
- Keep binary attachments as small as possible.
 - Exporting a document to create the PDF makes a much smaller file compared to scanning it.
 - If using Adobe Acrobat, 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.

7.5 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.

7.6 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

7.7 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.

7.8 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.

7.9 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.

7.10 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.

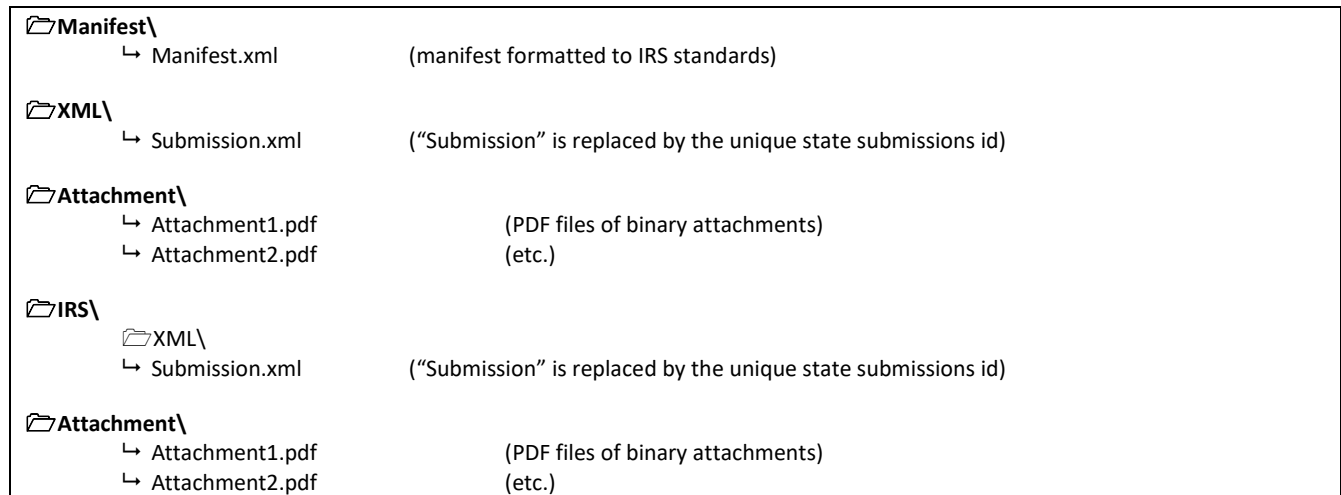
7.11 File Structure

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. A copy of the federal return must be included 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 SendSubmissions service request. Federal and state submissions can be included in the same attachment (container zip file) or each in their own zip file.

7.12 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.



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.

8 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>
```

9 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 7, missing attachments may produce a “Missing Documentation Letter” for the user. The following credits may require a binary attachment when filing Individual Income Tax returns.

Schedule CR

- 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.
- If the software does not support the PDF attachment of the out-of-state tax return then the user must be informed that Virginia may send a Missing Documentation Letter for the out-of-state return. The user should wait until they receive that letter before mailing in the out-of-state return.

10 Refunds

10.1 Turnaround Times

Software must clearly state turnaround times expected for refund scenarios per the form instructions and the Virginia Tax [website](#).

10.2 Refund Options

- Direct Deposit
 - Users must enter their banking information each year to ensure 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,
- Ensuring 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.

11 Payments

11.1 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.

11.2 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 either leave the requested payment date blank / null or populate the same date in which the return is transmitted. Otherwise the return will reject.

11.3 Other Electronic Payment Options

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

Payment by Individual Online Portal

- Forms supported: 760-PMT, 760-PFF, 760ES and 760IP
- Software products are encouraged to advertise this new centralized payment option when the user opts to pay separately from the return.

Payment by eForms

- Forms supported: 760-PMT and 760-PFF
- Fillable form option via Direct Debit method with a user's checking account

Payment by Credit or Debit Card through Paymentus

- Forms supported: 760-PMT and 760ES
- Make a return payment by selecting the *Individual Tax Return Payments* option
- *Paymentus* is a third-party service that charges a service fee for each payment made by credit or debit card.

11.4 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 11.3 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 the user 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.

11.5 Paper Payment Coupons and Addresses

Form 760-PMT (Payment Coupon for Individual Income Tax)

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

Form 760-PFF (Payment Coupon for Farmers, Fishermen / Merchant Seamen for Individual Income Tax)

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

Paper Voucher Address Table			
<i>Filing Method -></i>	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 . Vouchers 2, 3, & 4 – Use the address for the Locality Treasurer .
760IP	(Voucher can be produced by Software.)	Department of Taxation PO Box 1478 Richmond, VA 23218-1478	Use the locality address from the individual tax instructions .

12 Acknowledgements

12.1 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.

12.2 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

12.3 Acknowledgement of e-Filed 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.

12.4 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.

12.5 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.

12.6 Resubmission of Rejected e-File 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.

12.7 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.

13 Validating Tax Returns

13.1 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. Schemas and Business Rules are updated from year to year.

13.2 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, 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 on the SES site.

13.3 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.

Errors result in a rejected return. The complete listing of business rules can be found on the SES site.

13.4 Manifest Values

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

Forms	GovernmentCd (Government Code)	StateSubmissionTyp (State Submission Type)	SubmissionCategoryCd (Submission Category)
760 Resident Individual Income Tax Return	VAST	VA760	IND
760PY Part-Year Resident Individual Income Tax	VAST	VA760PY	IND
763 Nonresident Individual Income Tax Return	VAST	VA763	IND
760ES Estimated Income Tax Payment	VAST	VA760ES	IND
760IP Automatic Extension Payment	VAST	VA760IP	IND

13.5 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.

14 Transmission Requirements

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

- Within 2 business days of transmission:
 - Retrieve the acknowledgement file of transmission and match it to the original transmission file; and
 - 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.

14.2 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.

14.3 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

14.4 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:
 - if the electronic return cannot be corrected and retransmitted, or
 - if the return cannot be accepted for processing.

14.5 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.

15 Software Acceptance and Testing

15.1 e-File Software Guidelines

This section includes information on 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 Federal/State e-File Program.

To schedule testing, email the Individual e-File Administrator (Ind_eFile@tax.virginia.gov) prior to submitting tests. The Virginia Letter of Intent clarifies the requirements for software providers to begin 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.

15.2 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

15.3 Who is Required to Test

Tax software developers and transmission software developers planning to participate in the Virginia Federal/State e-File Program must submit tests and be approved prior to submitting live 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 and submitted the Virginia Letter of Intent.

15.4 Test Submissions Schedule

Test submissions to Virginia Tax are scheduled to begin on November 16, 2020.

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

15.5 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.

15.6 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 in the **Virginia e-File Test Package** document located on 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.

15.7 Acknowledgements on Test Submissions

Virginia Tax sends acknowledgements to the IRS e-File Federal/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.

16 Software Product Approval

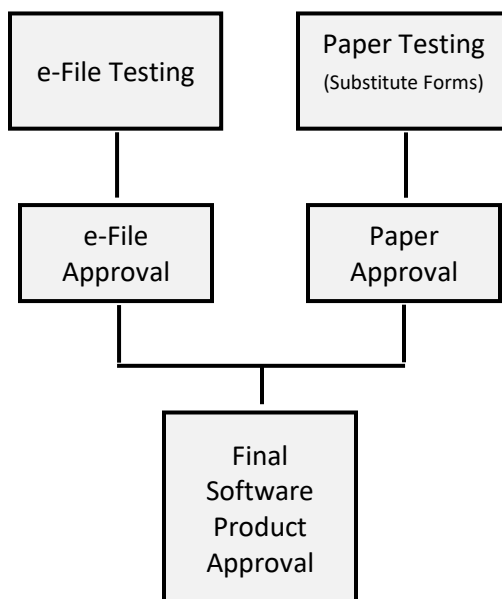
16.1 Approval Procedure

For final approval, the software provider must transmit all test returns in one single transmission without errors which includes business rule errors, schema errors and any other errors pointed out by the Virginia e-File unit.

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 granted.

- 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 from the vendors@tax.virginia.gov email address to the software developer and related contacts to confirm the product(s) approval. The company / product URL will then be added to our website as an approved Virginia Tax certified software product.



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

16.2 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.

17 Special Instructions – General

17.1 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.

17.2 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.

17.3 Drivers / State ID License – Fraud Prevention

The Driver’s License/ID number (all 9 digits) and Issue 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. If this data is saved in the software, it must be validated by the taxpayer from year to year.

17.4 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 Federal/State e-File program.

17.5 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.

17.6 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 2020. Software providers participating in the program are expected to provide data per the TPOS schema.

18 Special Instructions – Forms 760, 760PY and 763

18.1 Overseas Indicator and Due Date

When the Overseas Indicator is marked on Form 760, 760PY or 763 impacted business rules will recognize the related July 1st due date instead of the standard due date. The user should then be allowed to select a Requested Payment Date up to the July 1st Overseas due date.

18.2 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 communicated clearly to the users. An amended return worksheet is included within the income tax instructions.

18.3 Virginia ID Theft PIN

Should a taxpayer be issued an ID Theft PIN, this should be reported at the bottom of Page 2 on Forms 760, 760PY and 763. This data must also be present in the Authentication Header under State Issued PIN. Software must:

- Support the ID Theft PIN as a 7-digit alphanumeric value
- Provide 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.

18.4 Sales and Use Tax

Virginia requires software to present Line 33 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 33.
- 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 passed.
- Line 33 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.

18.5 Overpayment Amount – Form 760

Ensure that the overpayment / refund amount are carried through to Line 36, otherwise it may interfere with the Refund Verification Process and potentially delay / impact your users' refund.

19 Special Instructions – Schedules ADJ, 760PY ADJ & 763 ADJ

19.1 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 Schedule ADJ, 760PY ADJ or 763 ADJ.

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 will cause errors on the tax return including a reduction of the credit or for the credit to be disallowed.

19.2 Virginia Bank Franchise Tax

Ensure that the user has the ability to attach supporting documentation in the form of a non-referenced (free-floating) PDF when Deduction Code 112 for the Virginia Bank Franchise Tax is claimed on Schedules ADJ, 760PY ADJ or 763 ADJ.

20 Special Instructions – Schedule A

Utilize the Schedule A instructions in conjunction with the below instructions.

20.1 Foreign Income Taxes

If foreign income taxes are claimed:

- For e-File purposes, an additional element has been added to the Schedule A schema. Foreign income taxes should be reported using <ForeignIncomeTaxAmt>. This amount should then be included in the total on Line 6, <TotalOtherTaxesAmt>.
- For purposes of the Schedule A/CG produced by the software, this amount should be included next to Line 6, Foreign Income Taxes, and included in the total on Line 6.

20.2 Federal and Virginia Filing Statuses

The federal filing status must now be reported on Virginia Schedule A.

In situations where a taxpayer files a married filing jointly (MFJ) federal return and a married filing separately (MFS) Virginia return, itemized deductions that cannot be accounted for separately must be allocated proportionately between spouses based on each spouse's share of the federal adjusted gross income.

This applies to:

- Form 760 – Married Filing Separately (Filing Status = 3)
- Form 760PY – Married, Filing Separate Returns (Filing Status = 3)
- Form 763 – Married, Filing Separate Returns (Filing Status = 4)

For e-File purposes, an additional element has been added to the Schedule A schema that should be included in the return submission in these situations where a Federal married filing jointly return and separate Virginia returns are filed. <ItemizeDeductAllocPercent> should be used to report the taxpayer's percentage share of joint Federal AGI.

Federal MFJ and Virginia MFS Schedule A Example:

1. A Virginia taxpayer files a married filing jointly (MFJ) federal return and a married filing separately (MFS) Virginia return.
2. A Federal Filing Status of "2" is populated to indicate Married Filing Jointly.
3. The adjusted gross income from the jointly filed Federal return is reported on Line 2.
4. The taxpayer opts to allocate their Virginia itemized deductions proportionately based on joint Federal AGI. Numerically, an example is:
 - Federal Schedule A Itemized Deductions = \$80,000
 - Spouse 1 AGI = \$232,500
 - Spouse 2 AGI = \$148,187
 - Joint AGI = \$380,687
 - Spouse 1 share of joint income = **61.074%** ($\$232,500/\$380,687$)
 - Spouse 2 share of joint income = 38.926% ($\$148,187/\$380,687$)
 - Spouse 1 allocated itemized deductions = \$48,859 ($61.074\% * \$80,000$)
 - Spouse 2 allocated itemized deductions = \$31,141 ($38.926\% * \$80,000$)
5. The allocation percentage for this taxpayer is **61.074%**.
6. The taxpayer completes all other Schedule A line items per the instructions.
7. Since the joint income threshold was not exceeded this taxpayer does not need to limit itemized deductions.

21 Special Instructions – Paper Returns Generated by Software

21.1 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.

21.2 Visual 'XXXXX' Message

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 12, Column A
- 763 – bottom right corner, below Line 18

21.3 Printed Schedule OSC – Visual Page Number

When more than three out-of-state credits are claimed the page number must be placed on the printed copy of the Schedule OSC/CG. This should be done at the final point just before transmission of the e-Filed return as well as after the return has been e-Filed.

Use the following format: **OSC # of #**. Place it on the bottom right corner of the printed page.

Refer to the 'Schedule OSC(CG) Special Visual Message Details' document on SES for further information.

22 Special Instructions – Schedule OSC

22.1 Schedule OSC – Credit for Taxes Paid to another State

The information in Section 18 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.

22.2 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.

22.3 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.
 - 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.
 - 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.
 - 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.
 - 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.

22.4 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.

22.5 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:
 - 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**
 - 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**
 - The taxpayer does not claim a credit for taxes paid to any other state, even if the other state borders Virginia.
 - 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.
 - 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.

22.6 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.

22.7 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.

22.8 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.

22.9 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	

22.10 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 referencedocumentId 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 RetDoc999999999 pointing to the 1 PDF BinaryAttachment documentId of RetDoc999999999. The process for the application development would be similar to below:

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