



TAX BULLETIN 26-1

Virginia Department of Taxation

February 20, 2026

IMPORTANT INFORMATION REGARDING 2025 VIRGINIA INCOME TAX RETURNS: VIRGINIA'S ROLLING CONFORMITY TO THE INTERNAL REVENUE CODE REPLACED WITH A FIXED DATE OF DECEMBER 31, 2025

Under the 2026 Amendments to the 2025 Appropriation Act (House Bill 29, Chapter 7 of the 2026 Acts of Assembly), Virginia will conform to the provisions of the 2025 federal Budget Reconciliation Act (P.L. 119-21), with certain exceptions. This bulletin is intended to provide taxpayers with guidance on reconciling this legislation with their 2025 Virginia income tax returns.

Virginia's Conformity Legislation

During the 2026 General Assembly Session, the 2026 Amendments to the 2025 Appropriation Act replaced Virginia's rolling conformity to the IRC with a fixed conformity date of December 31, 2025. The legislation also provides that Virginia will continue to automatically conform to any federal tax law amendment that extends the expiration date of a federal tax provision to which Virginia conforms or has previously conformed. This legislation allows Virginia to conform to most of the provisions of the 2025 federal Budget Reconciliation Act (P.L. 119-21) and decreases Virginia's deduction for disallowed business interest for Taxable Year 2025 and thereafter as described below.

Because these changes are included in the amendment to the 2024-2026 biennial budget, they are effective as of the date of enactment, February 20, 2026, unless specifically stated otherwise.

2025 H.R. 1 Budget Reconciliation Act (P.L. 119-21)

The 2025 federal Budget Reconciliation Act ("2025 H.R. 1") was signed into law on July 4, 2025. This federal legislation introduced significant changes to individual and corporate income tax rules including amending and/or making permanent many provisions of the *Tax*

Cuts and Jobs Act of 2017 (P.L. 115-97). Most of the federal corporate income tax changes apply beginning in Taxable Year 2025, while most of the federal individual income tax changes apply beginning in Taxable Year 2026. Except where specifically noted, Virginia will conform to the provisions of 2025 H.R. 1 to the extent that they affect the computation of:

- Federal adjusted gross income or federal itemized deductions for individuals, or
- Federal taxable income for corporations.

Virginia's Deconformity from 2025 H.R. 1

Business Taxpayers

Virginia will deconform from the following provisions of 2025 H.R. 1:

- Immediate expensing of qualified production property;
- Immediate expensing of domestic research and experimental ("R&E") expenditures, including retroactive and catchup provisions; and
- Increases to the expensing limits for certain depreciable business assets.

Virginia's deconformity from these provisions will affect the timing of deductions and recoveries, potentially impacting multiple taxable years. Taxpayers benefiting from these federal provisions must maintain separate Virginia records and calculate depreciation, amortization, carryforwards, and adjustments as if the 2025 H.R. 1 changes had not been enacted. If such records indicate that Virginia deductions are smaller than federal deductions in a given year (for example, due to federal immediate expensing), a fixed date conformity addition will be required for that year in the amount by which the federal deduction exceeds the deduction allowed for Virginia purposes. Conversely, if such records indicate that Virginia deductions exceed federal deductions in later years (for example, because Virginia allows continued depreciation or amortization after federal full expensing), a fixed date conformity subtraction will be required for that year in the amount by which the deduction allowed for Virginia purposes exceeds the federal deduction.

2025 H.R. 1 also modifies the federal limitation on the deduction of business interest expenses under IRC §163(j), which affects the amount of business interest disallowed as a deduction on the federal return. Virginia conforms to this federal change. However, for Taxable Years 2025 and thereafter, the Virginia subtraction for disallowed business interest is reduced from 50 percent to 20 percent of the amount of business interest disallowed on the federal return.

Individual Taxpayers

Individual income taxpayers should continue to follow the guidance provided in the Taxable Year 2025 instructions and forms regarding Virginia's overall limitation on itemized deductions. Although the federal overall limitation on itemized deductions (the "Pease" limitation) was suspended by the *Tax Cuts and Jobs Act of 2017* (Public Law 115-97) and later replaced by a new federal limitation under 2025 H.R. 1, Virginia does not conform to these federal changes and continues to apply the Pease limitation.

2025 H.R. 1 temporarily increased the federal limitation on the deduction of state and local taxes ("SALT cap") above the prior \$10,000 limit. Virginia generally does not apply a SALT cap when computing Virginia itemized deductions. However, taxpayers subject to Virginia's overall limitation on itemized deductions (the Pease limitation) must apply the SALT cap applicable for the taxable year (including the higher temporary cap enacted by 2025 H.R. 1, if applicable to that taxpayer) when calculating that limitation on their Virginia return.

Existing Exceptions to Conformity for Taxable Year 2025 and Thereafter

Virginia will continue to deconform from the following provisions of federal tax law:

- Bonus depreciation allowed for certain assets under federal income taxation;
- Five-year carry back of certain net operating losses ("NOLs") generated in Taxable Years 2008 and 2009;
- Tax exclusions related to cancellation of debt income;
- Tax deductions related to the application of the applicable high yield debt obligation rules;
- Suspension of the federal overall limitation on itemized deductions;
- Reduction in the medical expense deduction floor;
- Certain business provisions of the federal CARES Act; and
- Deduction of business expenses through certain COVID-related small business assistance programs prior to Taxable Year 2021.

Virginia's deconformity from these provisions is explained in [prior tax bulletins](#).

Instructions for Taxpayers

Taxpayers should consult the instructions for the appropriate 2025 Virginia income tax return for information about how to make adjustments related to one of Virginia's existing exceptions to conformity. In addition, taxpayers should consult the Department's website for guidance on how to make adjustments related to Virginia's deconformity from 2025 H.R. 1 and the decrease of Virginia's deduction for disallowed business interest.

Virginia Tax Bulletin 26-1
February 20, 2026

Taxpayers who have already filed a 2025 Virginia income tax return but need to make an adjustment should consult the instructions for the appropriate income tax return and the Department's website for further information about filing an amended tax return. If you have additional questions, please visit <https://www.tax.virginia.gov>, or contact the Department at 804.367.8031 for individual income tax questions or 804.367.8037 for corporate income tax questions.