DRAFT FORM — NOT FOR FILING

This draft form has been updated to include the most recent changes effective for Tax Year 2026 Virginia returns. If legislative changes or issues arise, we will post a new version of this draft form.

Please continue to monitor **tax.virginia.gov/early-release-forms** for future drafts of this form. Once forms are final, we will post them on our website at **tax.virginia.gov/forms**.

Instructions for 2026 Virginia Form 502PTET Pass-Through Entity Elective Income Tax Return

Important Note: *Form 502PTET, corresponding schedules, and payments must be submitted electronically.*

Background

Under legislation enacted by the 2022 General Assembly, Virginia established a new elective pass-through entity (PTE) tax for Taxable Years 2021-2026. Additional legislation enacted in 2023 expanded PTET eligibility by removing the requirement that a PTE must be 100% owned by natural persons or persons eligible to be shareholders of an S corporation in order to make the PTET election. Legislation enacted in 2026 removed the sunset date for the PTET election. The elective PTE tax only applies to the pro rata or distributive share of income, gain, loss, or deduction attributable to eligible owners. The instructions that follow provide guidance for submitting forms and payments for the Taxable Year 2026 PTE elective tax.

General Information

For taxable years beginning on and after January 1, 2021, a pass-through entity may make an annual election to pay an elective income tax at a rate of 5.75%, provided that the pass-through entity's taxable income is adjusted to eliminate any federal deduction for state and local income taxes. The elective PTE tax is only applicable to the pro rata or distributive share of income, gain, loss, or deduction attributable to eligible owners.

An eligible owner may claim a corresponding refundable individual and fiduciary income tax credit for taxable years beginning on or after 2021 for any amount of income tax paid by a PTE if the PTE makes the election and pays the elective income tax imposed at the entity level. The elective income tax and corresponding refundable credit allow the PTE to shift the income tax burden from the eligible PTE owners to the PTE itself.

A PTE may make an annual election on its timely filed Form 502PTET for taxable years beginning on or after January 1, 2022. The election must be made on or before the due date for filing Form 502PTET, including any automatic extensions allowed. An electing PTE must file Form 502PTET to compute the PTE tax and the amount of the credit that may be claimed by eligible owners. The amount of PTE elective tax payment credit that is distributed to eligible owners is reported on Schedule VK-1. Form 502PTET including all required schedules must be completed and filed before the Department will allow eligible owners to claim the credit on their income tax returns.

Contact Customer Service: write to **Department of Taxation, P.O. Box 1115, Richmond, Virginia 23218-1115**, call **(804) 367-8037**, fax **(804) 254-6111,** or send a secure message via your Online Services for Businesses account.

Refer to the Department's website at **www.tax.virginia.gov** for additional information, including the Virginia Pass-Through Elective Income Tax Guidelines and Virginia Tax Bulletins 22-6 and 23-3.

Amended Returns

An electing PTE files Form 502PTET instead of Form 502. If a pass through entity return (Form 502 or Form 502PTET) has already been filed for the taxable year, any subsequent returns must be marked as amended. Use Amended Return Reason Code 05 if the subsequent return is related to the elective PTE tax. For other Amended Return Reason Codes, refer to the Form 502 Instructions.

An electing PTE is not permitted to file Form 765, Unified Nonresident Individual Income Tax Return (Composite Return). If composite payments were made before the PTET election, the PTE can submit an original or amended Form 765 that reflects a zero tax liability and receive a refund of payments made. If a Form 765 has not been filed, the PTE can contact Customer Service to request a transfer of the payments.

Definitions

The following words and terms have the following meanings unless the context clearly indicates otherwise.

Electing pass-through entity (Electing PTE) – a PTE that has made the election to pay the elective pass-through entity tax levied pursuant to *Va. Code* § 58.1-390.3. Note: This may include PTEs that do not conduct business in Virginia or have Virginia source income and are electing to pay on behalf of Virginia resident owners.

Eligible owner – a direct owner of a pass-through entity who is a natural person subject to the tax imposed by Article 2 (§ 58.1-320 et seq.) or an estate or trust subject to the tax imposed by Article 6 (§ 58.1-360 et seq.).

Owner – any individual or entity who is treated as a partner, member, or shareholder of a pass-through entity for federal income tax purposes.

Pass-through entity (PTE) – any entity, including a limited partnership, a limited liability partnership, a general partnership, a limited liability company, a professional limited liability company, a business trust, or a Subchapter S corporation, that is recognized as a separate entity for federal income tax purposes, in which the partners, members, or shareholders report their share of the income, gains, losses, deductions, and credits from the entity on their federal income tax returns or make the election and pay the tax levied pursuant to *Va. Code* § 58.1-390.3.

Pass-through entity elective tax – a tax at the rate of 5.75% imposed on the pro rata or distributive share of each item of income, gain, loss, or deduction attributable to eligible owners. The Virginia taxable income is calculated pursuant to *Va. Code* § 58.1-391 for each pass-through

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entity that makes an election to pay the tax at the entity level for the taxable year. Taxpayers must follow the requirements and procedures established by the Virginia Department of Taxation for taxable years beginning on and after January 1, 2021.

Pass-through entity elective tax credit – the amount of tax paid by the PTE at the entity level that is passed through to the eligible individual and fiduciary owners to claim on their respective income tax returns as a refundable income tax credit.

Making the Election

For Taxable Years beginning on and after 2023, a pass-through entity has the option to make the election to pay PTET for the taxable year by:

- Making an estimated payment of PTET for the taxable year,
- Making an extension payment of PTET for the taxable year,
- Filing Form 502PTET on or before the extended due date for the taxable year.

Note: All payments and returns must be submitted electronically.

Once Form 502PTET is filed, the election is binding for that taxable year.

Each electing PTE must obtain consent from its eligible owners; provided, however, the election is binding on all the eligible owners once the election is made. Eligible owners do not have the option to opt out of an entity's election with the Department.

Filing Information

How to File and Pay

Form 502PTET, instead of Form 502, and all associated schedules must be filed through the Federal/State e-File program or the Department's Online Services for Businesses. Paper submissions will not be accepted. Waivers of the electronic filing requirement will not be granted.

All payments must be made electronically. Electronic payments can be made when the Form 502PTET return is filed through the e-File program or the Department's Online Services for Businesses. Electronic payments can also be made through eForms using Form PTET-PMT at **www.tax.virginia.gov** or through an ACH credit transaction initiated by your bank.

Visit the Department's website, **www.tax.virginia.gov**, for more information.

Due Date

Form 502PTET return and any tax payments due must be submitted on or before the 15th day of the 4th month after the close of the entity's taxable year.

Extended Due Date

An automatic extension of time to file is granted to the date 6 months after the due date for filing Form 502PTET or 30 days after the extended due date for filing the federal income tax return, whichever is later.

The automatic extension of time to file does not extend the payment due date for the elective tax. The payment is due on the original due date of the PTE's return, regardless of whether the extension to file Form 502PTET is used. Extension payments must be made electronically through the Department's eForms application using Form PTET-PMT or by arranging an ACH credit transaction through your bank. Visit **www.tax.virginia.gov** for more information on electronic payments and to access eForm PTET-PMT.

A PTE that fails to file more than 6 months after the original due date, or more than 30 days after the federal extended due date will not be permitted to file Form 502PTET unless it has made corresponding estimated payments or an extension payment for the taxable year.

Estimated Pass-Through Entity Tax

Beginning in Taxable Year 2023, an electing PTE is required to make estimated payments if its PTET for the taxable year can reasonably be expected to exceed $1,000. Estimated payments for electing PTEs are based upon the rules set forth under Virginia law for the corporate income tax.

Payments of estimated pass-through entity tax must be made electronically through the Department's eForms application using Form PTET-PMT or by arranging an ACH credit transaction through your bank. Visit **www.tax.virginia.gov** for more information on electronic payments and to access eForm PTET-PMT.

Payment Due Dates

Calendar Year Filers

Electing PTEs that file on a calendar year basis (January 1st – December 31st) must submit estimated tax payments as follows:

- **1st payment** = 25% –by– **April 15.**
- **2nd payment** = 25% –by– **June 15.**
- **3rd payment** = 25% –by– **September 15.**
- **4th payment** = 25% –by– **December 15.**

Fiscal Year Filers

If an electing PTE's accounting period is a fiscal year, the PTE is required to make a declaration of estimated income tax and pay 25% of the amount due to the Department in 4 payments:

- **1st payment:** **15th day** of the **4th month** following the beginning of its fiscal year.
- **2nd payment:** **15th day** of the **6th month.**
- **3rd payment:** **15th day** of the **9th month.**
- **4th payment:** **15th day** of the **12th month** following the beginning of its fiscal year.

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Underpayments of Estimated Tax

In case of any underpayment of estimated tax by an electing pass-through entity, *Va. Code* § 58.1-504 requires that an addition to tax be made at the established interest rate for underpayments unless one of the exceptions in that section applies. See Line 16 instructions to compute this addition to the tax and/or to indicate that an exception applies.

Penalties and Interest

Penalties

The penalties for electing PTEs are based upon the corporate penalties in Article 14 (*Va. Code* § 58.1-450 et seq.) instead of the penalties in Article 9 (*Va. Code* § 58.1-390.1 et seq.).

Extension Penalty

If the PTET return is filed within the 6-month extension, but the electing PTE failed to pay 90% of the tax due by the original due date, then the PTE is subject to an extension penalty of 2% per month or fraction of a month thereof from the original due date through the date of filing of the return, the date of full payment, or the extended due date, whichever is earlier.

Late Payment Penalty

If the full amount is not paid when the return is filed, the late payment penalty will be assessed at the rate of 6% per month up to a maximum of 30% of the tax due:

- In the case of a Form 502PTET filed within the extension period, from the date of filing through the date of payment, or
- In the case of a Form 502PTET filed on or before the original due date of the return, from the date of the original return due date through the date of payment.

Late Filing Penalty

If the PTET return is filed after the extended due date or is not filed at all, the extension provisions do not apply and the PTE is subject to the late filing penalty (*Va. Code* § 58.1-455) equal to 30% of the tax due. In no case will the penalty for failure to file timely be less than $100, and this minimum $100 penalty applies whether or not tax is due for the period covered by the return. The late payment penalty does not apply to the extent that the taxpayer is already subject to the late filing penalty.

Penalty for Fraudulent Returns

Civil and criminal penalties may be imposed for filing a fraudulent return. The criminal penalty for filing a fraudulent return is a Class 6 felony (*Va. Code* §§ 58.1-451 and 58.1-452).

Penalty for Returned Check or EFT Nonpayment

If your bank does not honor your payment to the Department, the Department may impose a penalty of $35, as authorized by *Va. Code* § 2.2-614.1. This penalty will be assessed in addition to other penalties due.

Interest

Interest on the unpaid balance of any tax and penalty is charged at the underpayment rate established by IRC § 6621, plus 2%, from the original due date until paid.

Form 502PTET Submissions

Form 502PTET

An electing PTE must file Form 502PTET to compute the Virginia income tax at the entity level. The checkbox on Form 502PTET, Page 1 must be marked in order to confirm the election and certify the consent of eligible owners. Once Form 502PTET is filed, the election is binding for that taxable year. See the line instructions for completing the Form 502PTET in the next section.

The following schedules and forms must be submitted with Form 502PTET:

- **Schedule PTET ADJ (Required)**

  PTEs must report the entity's total Pass-Through Entity Elective Tax on the Schedule PTET ADJ as a refundable credit amount passed through to eligible owners. This schedule is also used if the PTE is reporting other tax credits, subtractions, or additions to income.

- **Schedule(s) VK-1 (Required)**

  PTEs must report the eligible owner's pro rata share of Pass-Through Entity Elective Tax Payment Credit from Schedule PTET ADJ on the Schedule VK-1. This schedule is also required to report each owner's share of income, Virginia modifications, and credits. A Schedule VK-1 for each owner must be included in the Form 502PTET e-File submission. See the instructions for Schedule VK-1 in the Form 502 Instructions.

  Note: Ensure that the owner name, FEIN/SSN, and entity type listed on Schedule VK-1 matches the entity type of the return filed by the owner. For grantor trusts where no Form 770 is being filed, enter **"RES"** if the owner will file an individual Form 760 or Form 760PY resident return and **"NON"** if the owner will file an individual Form 763 return. Be sure to include the individual owner's name and Social Security number on the Form VK-1 or VK-1 Consolidated. For all other grantor trusts, enter "**TE.**" The PTET credit can only be claimed by direct owners of the PTE. A PTET credit that is allocated to an estate or trust cannot subsequently be allocated to the beneficiaries.

  For single member LLCs that do not elect to be treated as a corporation, the VK-1 should also follow the example above.

- **Schedule 502A (Conditionally Required)**

  If the PTE operates both within and without Virginia, the Schedule 502A must be attached to report allocation and apportionment of income. See the instructions for Schedule 502A in the Form 502 Instructions.

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- **Federal Forms (Required)**

  In addition to Virginia forms and schedules, PTEs are required to submit the PTE's federal return of income, as filed with the IRS. This includes the federal Form 1120-S or Form 1065 with Schedule K. Do not include federal Schedules K-1, K-2, or K-3. Linked returns for Form 1120-S or Form 1065 and the Schedule K are preferred. XML format is preferred to PDF form submission, where available.

Form 502PTET Instructions, Page 1

Election Checkboxes

- Mark the first box at the top of the form to certify the consent of eligible owners and election to pay Virginia income tax at the entity level for the taxable year.
- Mark the second box if the electing PTE is required to make withholding payments for nonresident corporate owners. These withholding payments must be reported on Page 2, Section II, Line 7(b) and will be added to the 5.75% pass-through entity tax.
- Also, mark the third box if the electing PTE does not conduct business in Virginia or have Virginia source income.

Number and Types of Direct Owners

Line a – Number of Individual and Fiduciary Nonresident Eligible Owners

Enter the total number of eligible owners that are not residents of Virginia. If the residency status is not known, enter the number of eligible owners whose address of record is not in Virginia.

Line b – Number of Individual and Fiduciary Resident Eligible Owners

Enter the total number of eligible owners that are residents of Virginia.

Line c – Number of Ineligible Owners

Enter the total number of resident or nonresident ineligible owners of the PTE.

Line d – Number of Nonresident Corporate Owners for Which the PTE Is Required to Make Withholding Payments

Enter the total number of nonresident corporate owners for which the PTE is required to make withholding payments. The amount of withholding payments must be reported on Page 2, Section II, Line 7(b).

Note: Lines 1-20 are based on the entire pass-through entity. See the Form 502 Instructions for guidance.

Form 502PTET Instructions, Page 2

All fields below are based on the eligible owners only. Any lines not mentioned below are self-explanatory.

Section I – Income Attributable to Eligible Owners

Enter amounts in the appropriate column for eligible nonresident owners (Column A) and eligible resident owners (Column B). Virginia taxable income is the aggregate of each eligible owner's income from the PTE adjusted by any Virginia modifications. Only the pro rata or distributive share of income, gain, loss, or deduction attributable to eligible owners is subject to the pass-through entity tax. Virginia nonresident eligible owners are subject to tax on the pro rata or distributive share of the Virginia taxable PTE income and Virginia modifications.

If the electing PTE is an S corporation and has eligible owners who are nonresidents and residents, the electing S corporation has the option to compute its Virginia taxable income as if all of its owners are nonresidents. In such cases, the taxable income computation should be reported in the nonresident owner column on the Form 502PTET.

Line 1 – Eligible Owners' Shares of Taxable Income

Compute the eligible owners' shares of taxable income, including amounts from the 'Income' and 'Deductions' sections of the PTE's Schedule K (Form 1065 or Form 1120-S) as applicable for eligible Virginia resident and eligible nonresident owners. As a result, taxpayers should generally refer to the Form 502 Instructions for guidance in determining the eligible owners' shares of taxable income. However, unlike the computation of the nonresident withholding tax on Form 502, separately stated items of deduction are included when calculating each eligible owner's share of the PTE's taxable income on this form. For the purposes of the PTET, any separately stated item of deduction that is subject to a federal limitation, such as the deduction for charitable contributions and the Section 179 deduction, is limited to what is allowed under federal law for a C corporation.

Line 2 – Eligible Owners' Shares of Additions

Enter the total amount of additions attributable to PTE eligible owners from Form 502PTET, Page 1, Line 13.

Line 4 – Eligible Owners' Shares of Subtractions

Enter the total amount of subtractions attributable to PTE eligible owners from Form 502PTET, Page 1, Line 18.

Line 5 – Virginia Taxable Income

Subtract Line 4 from Line 3 and enter here. If Line 4 is greater than Line 3, enter zero.

Line 6 – Total Virginia Taxable Income

Add Line 5, Columns A and B. If the amount is negative, enter zero.

Section II – Tax Calculation

Line 7 – Tax Calculation

- **Line 7(a) – Pass Through Entity Tax.** Multiply the Virginia taxable income on Line 6 by the 5.75% tax rate. This is the amount of PTE elective tax credit that will be passed through to an electing PTE's eligible individual and fiduciary owners.
- **Line 7(b) – Withholding Tax Due for Nonresident Corporate Owners.** Enter the amount of withholding tax due for all nonresident corporate owners.

Add the amounts on Lines 7(a) and 7(b) and enter the amount on Line 7.

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Section III – Payments and Credits

Line 8 – Estimated Tax Paid

Enter estimated tax paid for the taxable year.

Line 9 – Extension Payment, Withholding Paid Prior to Return Filing, and Other Payments

Enter the amount of any extension payment or other PTE tax payments made for the current taxable year. This may include any nonresident withholding payments that were made for ineligible owners, such as nonresident corporate owners. In addition, if nonresident withholding payments were made for eligible owners before the PTE made the PTET election, the PTE should report such withholding payment(s) on this line.

Line 10 – Tax Credits

The PTE may directly claim the refundable Motion Picture Production Tax Credit. Report the tax credits that are to be credited or refunded directly to the pass-through entity as follows:

- **Line 10(a).** If the PTE opts to claim the Motion Picture Production Tax Credit refunded at the entity level, enter the amount of credit authorized by the Virginia Film Office within the Virginia Tourism Authority in their certification letter.
- **Line 10(b).** Reserved for future use.
- **Line 10(c).** Reserved for future use.

Use Form TCA to allocate other credits not claimed on Form 502PTET.

Section IV – Tax, Penalty, and Interest

Line 16 – Addition to Tax

For Taxable Years beginning on and after 2023, an addition to tax may be required if estimated tax has been underpaid. Mark the checkbox on this line and enter the addition to tax amount calculated for underpayment of estimated tax on this line.

The addition to tax for the PTET is computed according to the corporate income tax calculation on Form 500C. For your convenience an Underpayment of Estimated Tax Worksheet is included on the following page for guidance when computing the underpayment, exceptions, and any additional charge.

Line 17 – Penalty

Refer to the Penalties section on Page 3 of these instructions and enter the total amount of any extension and late penalties due.

Line 18 – Interest

Enter the amount due at the underpayment rate established by IRC § 6621, plus 2%, from the original due date of the return until payment. This underpayment rate is subject to quarterly adjustment.

Signature

An owner, officer, or employee of the PTE who is authorized to act on behalf of the PTE in tax matters must sign the PTET return. By signing the return, the signer is declaring that they are the authorized representative of the PTE. Because the PTET return must be filed electronically, the return must be signed using the electronic signature procedures established by the Department. See the Department's website for more information.

Schedule PTET ADJ Instructions

Note: For items not specifically described below, refer to Form 502, Schedule 502ADJ Instructions for guidance.

Section C, Part III, Line 10 – Pass-Through Entity Elective Tax Payment Credit

Enter the total tax amount computed in Section II, Line 7a of Form 502PTET. This amount should equal the sum of the corresponding credit amounts reported on the participants' Schedules VK-1.

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