

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

1. **Patron** Aaron R. Rouse

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax: Refundable Virginia
Earned Income Tax Credit

2. **Bill Number** SB 810

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would make the Virginia Earned Income Tax Credit ("Virginia EITC") fully refundable. Therefore, all eligible taxpayers would be able to claim a credit equal to 20 percent of their federal Earned Income Tax Credit ("EITC"), regardless of whether they are claiming the credit on a nonrefundable or refundable basis. This bill would also expand the credit to include individuals and families who lack a valid Social Security number.

Under current law, the refundable Virginia EITC is equal to 15 percent of the federal EITC, and the nonrefundable Virginia EITC is equal to 20 percent of the federal EITC.

This bill would repeal the provision under current law that sunsets the refundable Virginia EITC after Taxable Year 2025.

This bill would also make some technical changes to the language in the amended code sections.

This bill would be effective for taxable years beginning on and after January 1, 2025.

6. **Budget amendment necessary:** Yes.

Item(s): 258 and 260, Department of Taxation

Page 1, Revenue Estimates

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2025-26	\$524,306	2	GF
2026-27	\$168,707	2	GF
2027-28	\$142,407	2	GF
2028-29	\$142,407	2	GF
2029-30	\$142,407	2	GF
2030-31	\$142,407	2	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures, as shown on Line 7a. These estimates are related to the provision of this bill expanding the Virginia EITC to include individuals and families who lack a valid Social Security number. The Department estimates that these administrative costs and the addition of two full-time employees would be necessary to validate information regarding taxpayers who lack a valid Social Security number, as Virginia would no longer be able to rely on federal returns to verify information for such individuals. Under the Department’s current standard processing and systems, issuing any tax refunds to taxpayers without Social Security numbers requires significant manual intervention.

The Department considers the implementation of the provision of this bill that would make the Virginia EITC fully refundable to be “routine” and does not require additional funding to implement this portion of the bill.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2026. The provision of this bill making the Virginia EITC fully refundable would result in a negative General Fund revenue impact of \$35 million in FY 2026, \$34.8 million in FY 2027, \$34.7 million in FY 2028 and 2029, and \$34.5 million in FY 2030 and 2031. The provision of this bill expanding this credit to include an individual, individual’s spouse, or one or more of the individual’s children who do not have a valid Social Security would result in an additional unknown negative General Fund revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker’s family, as well as the amount of the worker’s federal adjusted gross income (“AGI”) and earned income. Taxpayers are required to provide a valid Social Security number for themselves and each dependent they are claiming in the calculation of the EITC, as a result those without valid Social Security numbers may not be included in the federal EITC calculation.

For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC for Taxable Year 2024, an individual's AGI and earned income must be less than:

- \$59,899 (\$66,819 for married filing jointly) if they have three or more qualifying children;
- \$55,768 (\$62,688 for married filing jointly) if they have two qualifying children;
- \$49,084 (\$56,004 for married filing jointly) if they have one qualifying child; or
- \$18,591 (\$25,511 for married filing jointly) if they do not have a qualifying child.

The maximum federal EITC for Taxable Year 2024 is \$7,830 for an individual with three or more qualifying children, \$6,960 for an individual with two qualifying children, \$4,213 for an individual with one qualifying child, and \$632 for an individual with no qualifying children.

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either:

- The Tax Credit for Low-Income Individuals or
- The Virginia EITC.

The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married person's income tax return for the taxable year.

The Virginia EITC generally equals 20 percent of the federal EITC. In 2022, Virginia introduced an option for filers to select a refundable EITC that is 15 percent of the federal EITC. The refundable Virginia EITC option is set to expire after Taxable Year 2025.

To the extent that a Virginia resident wishes to claim the Virginia EITC on a refundable basis, their credit is limited 15 percent of the federal EITC rather than 20 percent. Because Virginia residents claiming the credit on a refundable basis do not receive the full 20 percent, the Virginia EITC is sometimes referred to as "partially refundable."

Proposed Legislation

This bill would make the Virginia EITC fully refundable. Therefore, all eligible taxpayers would be able to claim a credit equal to 20 percent of their EITC, regardless of whether they are claiming the credit on a nonrefundable or refundable basis. This bill would also expand the credit to include individuals and families who lack a valid social security number.

Under current law, the refundable Virginia EITC is equal to 15 percent of the federal EITC, and the nonrefundable Virginia EITC is equal to 20 percent of the federal EITC.

This bill would repeal the provision under current law that sunsets the refundable Virginia EITC after Taxable Year 2025.

This bill would also make some technical changes to the language in the amended code sections.

This bill would be effective for taxable years beginning on and after January 1, 2025.

Similar Bills

HB 1717 is identical to this bill.

SB 782 would remove the sunset provisions which currently apply to the standard deduction amounts of \$8,500/ \$17,000 and the refundable Virginia EITC.

SB 951 would remove the sunsets which currently apply to the standard deduction amounts of \$8,500/ \$17,000, the refundable Virginia EITC, and the elective pass-through entity tax.

cc : Secretary of Finance

Date: 01/22/2025 ALS
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