

**DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement**

1. **Patron** Joshua G. Cole

2. **Bill Number** HB 1598

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Individual Income Tax: First-time Homebuyer Tax Credit

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would establish a nonrefundable individual income tax credit for first-time homebuyers. The amount of the credit would be equal to five percent of qualified first-time homebuyer expenses up to \$10,000. The total amount of credits that may be claimed in aggregate would be capped at \$10 million per taxable year.

This bill would be effective for taxable years beginning on January 1, 2025, but before January 1, 2030.

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	\$547,451	2	GF
2026-27	\$207,163	2	GF
2027-28	\$184,163	2	GF
2028-29	\$184,163	2	GF
2029-30	\$177,600	2	GF
2030-31	\$177,600	2	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures, as shown on Line 7a. Such costs would primarily consist of communications, form development, and technology costs associated with establishing this new credit, and the addition of 2 new full-time employees to manage responsibilities associated with the credit.

Revenue Impact

This bill would result in an unknown negative General Fund revenue impact beginning in FY 2026. The impact is unknown because it is unknown the extent to which the credit will be used. However, because this bill would be subject to an annual cap of \$10 million, the revenue impact of this bill would be limited to no more than \$10 million per fiscal year.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Line 32, after “*in which the*”
Strike: “*eligible adoption*”
Insert: “*purchase*”

11. Other comments:

First-Time Homebuyer Lending Programs

Several federal programs offered through lenders provide incentives to first-time homebuyers, such as lower down payments, lower closing costs or lower interest rates than would otherwise be available to the borrower. These include programs operated by the Federal Housing Administration (“FHA”) and the United States Department of Agriculture (“USDA”).

Virginia First-time Homebuyer Programs

Virginia Homeownership Down Payment Assistance Program (“DPA”)

The DPA program is administered by the Department of Housing and Community Development and provides flexible gap financing for first-time homebuyers at or below 80 percent of the area median income to purchase a home. The down payment assistance is provided in the form of a grant with a mandatory period for the applicant to continue to occupy the house as their primary residence. An eligible homebuyer may receive up to 10 to 15 percent of the sales price, plus up to \$2,500 to pay for the cost of closing.

Virginia First-Time Home Buyer Savings Accounts

The Virginia First-Time Home Buyer Savings Plan Act allows an individual to designate an account at a financial institution as a first-time home buyer savings account. Distributions from the accounts must be used for the purpose of paying or reimbursing the down payment and allowable closing costs for the purchase of a single-family residence in Virginia by a qualified beneficiary. An account holder may subtract from their income for Virginia income tax purposes any interest, capital gains, or other income attributable to the account to the extent it is subject to federal income taxation. The amount of principal for which an account holder may claim first-time home buyer savings account status is

limited to \$50,000 per account. Only cash and marketable securities are allowed to be contributed to a first-time home buyer savings account. The amount of principal and interest or other income on the principal that may be retained within an account is limited to \$150,000.

Proposal

This bill would establish a nonrefundable individual income tax credit for first-time homebuyers. The amount of the credit would be equal to five percent of qualified first-time homebuyer expenses up to \$10,000. The amount of the credit claimed in a taxable year would be limited to the taxpayer's income tax liability for that taxable year, and any unused credit may be carried forward for up to five years.

"First-time homebuyer expenses" would be defined as first-time homebuyer costs in the purchase of direct ownership in residential real property.

"First-time homebuyer" would be defined as an individual who has had no ownership in a principal residence during the three-year period ending on the date of purchase of the residential real property and who has an annual household income that does not exceed the greater of:

- \$100,000 or
- The median annual household income for the locality.

Credits would be issued on a first-come, first-served basis, and each taxpayer would be limited to one credit per taxable year. The total amount of credits that may be claimed in aggregate would be capped at \$10 million per taxable year.

The credit amount claimed would be required to be repaid to the Commonwealth if the property is sold within three years of purchase unless the sale was made following a natural disaster or other act of God that made the property uninhabitable.

The Department would be required to develop guidelines for claiming the credit and the guidelines would be exempt from the Administrative Process Act.

This bill would be effective for taxable years beginning on January 1, 2025 but before January 1, 2030.

cc : Secretary of Finance

Date: 01/23/2025 ALS
HB1598F161