

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

1. **Patron** Chris Obenshain

2. **Bill Number** HB 2345

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Tax: Child Day-care Facility
Investment and Child Day-care Expense
Reimbursement Tax Credits

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide a nonrefundable individual and corporate income tax credit for 25 percent of amounts incurred for eligible child day-care expenses of the taxpayer's employees that are either paid directly by the taxpayer or reimbursed by such taxpayer to the taxpayer's employees during the taxable year.

This bill would also increase from \$25,000 to \$50,000 the amount for which a taxpayer may claim a credit for establishing a child day-care facility.

This bill would increase the limit for approval of applications for the credits to those that are assumed to result in no more than \$200,000 of credits in any fiscal year. Under current law, such limit is \$100,000.

Under current law, this credit is considered obsolete and may not be claimed by a taxpayer without express permission from the General Assembly.

This bill would become effective for taxable years beginning on and after January 1, 2026.

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

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

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>
2026-27	\$304,755	1	GF
2027-28	\$107,200	1	GF
2028-29	\$88,800	1	GF
2029-30	\$88,800	1	GF
2030-31	\$88,800	1	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures, as shown on Line 7a. The costs above would be incurred to hire one full-time employee and to update the Department’s forms and systems to re-implement this credit, which was deemed obsolete in 2013. These costs assume that the Department’s technical amendment on Line 10 is made.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in FY 2026. It is unknown the extent to which the changes made by this bill would incentivize taxpayers to use the tax credit.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Because the Day-care Facility Investment Tax Credit was deemed obsolete in 2013 (see Line 11) by *Va. Code* § 58.1-319, it is unclear whether the provisions of *Va. Code* § 58.1-319 would continue to apply and deem this bill obsolete. In addition, even if *Va. Code* § 58.1-319 does not apply, it is unclear when the provisions of this bill modifying *Va. Code* § 58.1-439.4 B would take effect. To clarify this, the following amendment is suggested:

Line 57 end of line

Insert: 2. That this act shall apply to taxable years beginning on and after January 1, 2026 notwithstanding any provisions of § 58.1-319 of the *Code of Virginia* to the contrary.

11. Other comments:

Day-care Facility Investment Tax Credit

In 1996, the General Assembly enacted a tax credit for any employer who establishes a licensed child day-care center primarily for the children of employees. The credit was equal to 25 percent of the cost of the facility up to \$25,000. The maximum amount of credits that can be approved in any fiscal year is limited to \$100,000. Expenditures paid or incurred for planning, site preparation, construction, renovation, or acquisition of facilities for the purpose of establishing a child day-care facility to be used primarily by the children of employees are qualified for the Day-care Facility Investment Tax Credit.

In addition, equipment installed for permanent use within or immediately adjacent to such facility, including kitchen appliances, to the extent that such equipment or appliances are necessary in the use of such facility for purposes of child day-care also qualify for the tax credit.

Obsolete Tax Credits

Section 58.1-319 of the *Code of Virginia* requires that any tax credit in Title 58.1 of the Code of Virginia that has not been claimed by any taxpayer during the preceding five calendar years be deemed obsolete. The Department is required to report all tax credits that are deemed obsolete to the House Committee on Appropriations, House Committee on Finance, and Senate Committee on Finance and Appropriations no later than February 1 of each year.

In the 2013 Obsolete Tax Credits Report, the Day-Care Facility Investment Tax Credit and the Tax Credit for Certain Employers Hiring Recipients of Temporary Assistance for Needy Families ("TANF") were both deemed obsolete as required by *Va. Code* § 58.1-319, and no taxpayers may claim such tax credits in taxable years beginning on and after January 1, 2014, without the expressed authorization of the General Assembly. In the 2014 through 2024 Obsolete Tax Credits Reports, no tax credits were deemed obsolete.

Sunset Dates for Income Tax Credits and Sales Tax Exemptions

Section 3-5.13 of the Appropriation Act provides that the General Assembly may not advance the sunset date for any existing income tax credit or sales tax exemption beyond June 30, 2030.

Further, during the 2012 Session, the General Assembly enacted House Bill 246 (2012 *Acts of Assembly*, Chapter 265), which prohibits legislation from adding a new credit or renewing an existing credit unless the legislation contains a sunset date of no longer than five years from the effective date of the new or renewed credit.

Proposed Legislation

This bill would provide a nonrefundable individual and corporate income tax credit for 25 percent of amounts incurred for eligible child day-care expenses of the taxpayer's employees that are either paid directly by the taxpayer or reimbursed by such taxpayer to the taxpayer's employees during the taxable year.

This bill would also increase from \$25,000 to \$50,000 the amount for which a taxpayer may claim a credit for establishing a child day-care facility.

This bill would increase the approval of applications for the credits to those that are assumed to result in no more than \$200,000 of credits in any fiscal year. Under current law, such limit is \$100,000.

"Child day-care facility" would be defined as a child day program operated under the authority of a license issued by the Superintendent of Public Instruction.

"Eligible child day-care expenses" would be defined as expenses directly incurred to provide child day-care services at a child day-care facility to the dependent minors of the taxpayer's employees.

Under current law, this credit is considered obsolete and may not be claimed by a taxpayer without express permission from the General Assembly.

This bill would become effective for taxable years beginning on and after January 1, 2026.

cc : Secretary of Finance

Date: 01/25/2025 JLOF
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