

DEPARTMENT OF TAXATION

2025 Fiscal Impact Statement

1. **Patron** Lashrecse D. Aird

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax: Child Tax Credit

2. **Bill Number** SB 1378

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would provide a one-time \$300 per dependent individual income tax credit for each dependent younger than thirteen. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed \$100,000. The credit provided by this bill would generally be refundable. However, the credit would be nonrefundable for Virginia nonresidents and part-year residents.

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

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>
2025-26	\$470,346	1	GF
2026-27	\$207,901	1	GF
2027-28	\$182,901	1	GF
2028-29	\$157,901	1	GF
2029-30	\$107,901	1	GF
2030-31	\$19,101	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 implement the new credit.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in FY 2026. Based upon FY 2024 data, there were approximately 1.33 million dependents claimed on Virginia returns meeting the \$100,000 income threshold set by this bill. However, it is unknown how many of these dependents are children under the age of 13.

Based on national data from the US Census and American Community Survey ("ACS"), there were 1,452,391 children under the age of 13 in Virginia. In addition, about 54 percent of households have income less than \$100,000. Applying 54 percent to the number of dependents less than 13 years of age, the estimated number of dependents younger than 13 years of age from households with AGI less than \$100,000 in VA would be equal to approximately 784,000. Applying the maximum credit of \$300 per dependent child, the estimated revenue loss would be approximately \$235 million per year. However, this estimate is based upon the assumption that the age of dependents at the Virginia level largely follows federal level data. As a result, the actual number of children in Virginia under age 13 living in qualified household could differ significantly, resulting in the actual impact of this bill varying significantly. Also, as this would be a one-time rather than annual credit claimed for eligible dependents, the timing of any revenue impact would also be unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Child Tax Credit

Under the Tax Cuts and Jobs Act ("TCJA") the federal child tax credit was doubled from \$1,000 per child to \$2,000 per child. A taxpayer may claim a child tax credit against the individual income tax for each qualifying child for whom the taxpayer is allowed a dependency deduction. For purposes of the child tax credit, the term "qualifying child" is defined the same as that for claiming a dependency exemption except that the child must not have attained age 17 by the end of the taxable year. Generally, a "qualifying child" is the taxpayer's child, stepchild, adopted child, eligible foster child, sibling, step sibling, or a descendant of any such individual, who lives with the taxpayer for more than half of the taxable year and does not provide more than half of his own support.

For taxpayers with modified adjusted gross income ("MAGI") above certain thresholds, the otherwise allowable child tax credit is phased out. Specifically, the amount of the credit is reduced by \$50 for each \$1,000, or fraction thereof, by which the taxpayer's MAGI exceeds the applicable threshold amount. The threshold amounts are \$400,000 for married taxpayers filing a joint return, and \$200,000 for all other filers. Like most of the individual income tax provisions of the TCJA, the increase in the child tax credit is set to expire after 2025. Unless Congress takes action, the federal child tax credit will revert to \$1,000 per qualifying child beginning in Taxable Year 2026.

Federal Credit for Child and Dependent Care Expenses

Under federal law, a nonrefundable credit is allowed for a portion of qualifying child and dependent care expenses paid for the purpose of allowing the taxpayer to be gainfully employed. To be eligible for the credit, the taxpayer must incur employment-related expenses in providing care for one or more qualified individuals.

For purposes of this credit, the term “qualifying individual” means a dependent of the taxpayer who has not attained age 13; a dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than half of the taxable year; or the taxpayer’s spouse, if the spouse is incapable of caring for himself or herself and has the same principal place of abode as the taxpayer for more than half of the taxable year.

Qualifying employment-related expenses include expenses paid for household services and for the care of a qualifying individual that allow the taxpayer to work or look for work. Services rendered outside the home qualify if they involve the care of a qualified individual who regularly spends at least eight hours per day in the taxpayer’s home.

The maximum amount of employment-related expenses to which the credit may be applied is \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals, less the amount excludable by the taxpayer for any employer-provided dependent care assistance. The amount of the credit is equal to the amount of qualified expenses multiplied by the applicable percentage, as determined by the taxpayer’s adjusted gross income (“AGI”). Taxpayers with an AGI of \$15,000 or less use the highest applicable percentage of 35 percent. For taxpayers with an AGI over \$15,000, the credit is reduced by one percentage point for each \$2,000 of AGI, or fraction thereof, in excess of \$15,000. The minimum applicable percentage of 20 percent is used by taxpayers with an AGI greater than \$43,000. Thus, the maximum dependent care credit amount is \$1,050 for one qualifying individual and \$2,100 for two or more qualifying individuals.

Virginia Deduction for Child and Dependent Care Expenses

In Virginia, taxpayers may deduct the amount of employment-related expenses on which the federal child and dependent care credit is based. The amount of employment-related expenses that may be deducted is limited to the amount actually used in computing the federal child and dependent care credit. As a general rule, taxpayers are limited to a maximum deduction of \$3,000 for one child and \$6,000 for two or more dependents, or the earned income of the spouse having the lowest income, whichever is less.

Proposal

This bill would provide a one-time \$300 per dependent individual income tax credit for each dependent younger than thirteen. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed \$100,000. The credit provided by this bill would generally be refundable. However, the credit would be nonrefundable for Virginia nonresidents and part-year residents.

The Department would be required to develop guidelines implementing the credit.

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

Similar Bills

HB 2180 as amended is identical to this bill.

HB 2728 would provide a child tax credit for dependents under age eighteen and make changes to Virginia's individual income tax brackets, rates, and deductions.

cc : Secretary of Finance

Date: 01/26/2025 JLOF
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