

26103412D

**HOUSE BILL NO. 1258**

Offered January 14, 2026

Prefiled January 14, 2026

A *BILL to amend the Code of Virginia by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.15, relating to pass-through limitation tax credit; report; penalty.*

Patron—Scott, P.A.

Committee Referral Pending

**Be it enacted by the General Assembly of Virginia:**

**1. That the Code of Virginia is amended by adding in Article 3 of Chapter 3 of Title 58.1 a section numbered 58.1-339.15 as follows:**

**§ 58.1-339.15. Pass-through limitation tax credit.**

A. As used in this section:

"Consumer Price Index" means the Consumer Price Index for All Urban Consumers (CPI-U) for the South, as published by the Bureau of Labor Statistics of the U.S. Department of Labor, or its successor index.

"Qualified rental property" means real property that has been rented solely for residential purposes for at least 24 consecutive months and has no outstanding notices of violation of the Uniform Statewide Building Code (§ 36-97 et seq.) or local property maintenance codes that have remained uncorrected for more than 90 days. "Qualified rental property" does not include (i) owner-occupied properties with fewer than four rental units, (ii) properties receiving tax benefits under § 58.1-3295 for affordable rental housing, and (iii) properties receiving federal Low-Income Housing Tax Credits or similar federal or state affordable housing subsidies.

"Qualifying tax increase" means any increase in real property tax on a qualified rental property that exceeds the limitation set forth in subsection A of § 58.1-3321, whether resulting from general reassessment, biennial assessment, annual assessment, or an increase in the tax rate pursuant to subsection B of § 58.1-3321.

"Renewal lease" means a rental lease agreement for a dwelling unit with a tenant who has continuously occupied such unit for at least 12 months immediately preceding the commencement of the new lease term.

"Weighted average rent increase" means the average percentage increase in rent across all dwelling units in a qualified rental property, weighted by the number of units at each rent level.

B. For taxable years beginning on and after January 1, 2026, but before January 1, 2031, a taxpayer that owns a qualified rental property that limits rent increases as described in subsection C shall be allowed a nonrefundable credit against the tax levied pursuant to § 58.1-320. Such credit shall be equal to:

1. In the first tax year following the qualifying tax increase, 50 percent of the qualifying tax increase;

2. In the second tax year following the qualifying tax increase, 30 percent of the original qualifying tax increase; and

3. In the third tax year following the qualifying tax increase, 10 percent of the original qualifying tax increase.

C. A taxpayer that owns qualified rental property shall be eligible for a credit pursuant to this section, provided that he certifies that (i) for all renewal leases executed during the applicable tax year, the weighted average rent increase for occupied units does not exceed the annual percentage increase in the Consumer Price Index for the 12-month period ending on December 31 of the preceding calendar year and (ii) all real property taxes, business licenses, and other local taxes and fees related to the property are current and have been paid in full for the preceding two years.

D. The Department shall develop guidelines for the administration of the credit, including an application process that requires a taxpayer that owns qualified rental property to apply to the Department for each taxable year in which the credit is claimed. Such application shall include (i) a notarized certification that the rent increase limitations described in subsection C have been met, (ii) documentation of the difference in rent paid for the current and preceding lease terms of each dwelling unit located in the qualified rental property, (iii) copies of all renewal leases executed for dwelling units located on the property during the applicable period or a summary thereof, and (iv) a calculation of the weighted average rent increase for such property.

E. The Department shall conduct an audit of no less than five percent of the qualified rental properties for which a credit is claimed in a taxable year. If the Department determines that an owner of qualified rental property that claimed a credit pursuant to this section falsely certified compliance with any of the requirements of this section, the owner (i) shall be required to recapture the full amount of credit received, and (ii) shall be prohibited from qualifying for a subsequent credit pursuant to this section for five years

INTRODUCED

HB1258

59 following the discovery of such false certification. Any tax credits recaptured shall increase the income tax  
60 liability of the taxpayer who claimed the credit in a like amount and shall be included on the tax return of the  
61 eligible taxpayer submitted for the taxable year in which the recapture is identified. Any owner that  
62 knowingly makes a false statement in an application for a tax credit pursuant to this section is guilty of a  
63 Class 3 misdemeanor.

64 F. For qualifying tax increases occurring on and after January 1, 2026, but before January 1, 2027, the  
65 credit shall be available only for qualified rental properties containing 10 or more dwelling units. For  
66 qualifying tax increases occurring on and after January 1, 2027, but before January 1, 2028, the credit shall  
67 be available only for qualified rental properties containing three or more dwelling units. For qualifying tax  
68 increases occurring on and after January 1, 2028, the credit shall be available for all qualified rental  
69 properties.

70 G. By November 1 of each year, the Department shall report to the Chairs of the House Committee on  
71 Appropriations, House Committee on Finance, and Senate Committee on Finance and Appropriations on the  
72 utilization of the credit. Such report shall include (i) the number of taxpayers receiving a credit pursuant to  
73 this section, (ii) the total amount of credits granted, (iii) the average weighted rent increase of properties for  
74 which taxpayers are receiving credits, (iv) the number of dwelling units in properties for which taxpayers are  
75 receiving credits, and (v) the number of applications for the credit denied and the reasons for denial.

76 H. The aggregate amount of credits allowable under this section shall not exceed \$5 million per taxable  
77 year. Credits shall be allocated by the Department on a first-come, first-served basis.

78 I. The amount of the credit that may be claimed in any single taxable year shall not exceed the individual's  
79 liability for taxes imposed by this chapter for that taxable year. If the amount of the credit allowed under this  
80 section exceeds the individual's tax liability for the taxable year in which the eligible transaction occurred,  
81 the amount that exceeds the tax liability may be carried over for credit against the income taxes of the  
82 individual in the next five taxable years or until the total amount of the tax credit has been taken, whichever  
83 is sooner.

84 J. The Tax Commissioner shall develop guidelines for claiming the credit provided by this section. Such  
85 guidelines shall be exempt from the provisions of the Administrative Process Act (§ 2.2-4000 et seq.).