

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** David A. Reid

3. **Committee** House Appropriations

4. **Title** First-Time Home Buyer Savings Plan

2. **Bill Number** HB 183

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the aggregate amount of principal that can be contributed to a first-time home buyer savings account from \$50,000 to \$100,000. This bill would also increase the limit on the amount of principal and interest or other income on the principal that may be retained in such an account from \$150,000 to \$200,000.

This bill would also define the term "first-time homebuyer" and include townhouses in the definition of "single-family residence" for purposes of the First-Time Home Buyer Savings Plan Act.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers this bill as routine and does not require additional funding.

This legislation does not require significant changes to the Department's systems and is not impacted by the first phase of the Integrated Revenue Management System (IRMS) replacement project. No resource constraints or implementation considerations are anticipated.

Revenue Impact

This bill would have a minimal unknown negative General Fund revenue impact beginning in Fiscal Year 2027 due to the provisions of this bill adding the definition of "first-time

home buyer,” amending the definition of “single-family residence,” and increasing the aggregate limits on the amount of principal contributed and interest and other income held in first-time home buyer savings accounts are expected to have a negative General Fund revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department believes that the intent of the Patron is to expand the number of people eligible to be a qualified beneficiary. As written, this bill would not accomplish this objective.

Line 44: After “of the Commonwealth”
Insert: “or is a first-time homebuyer”

11. Other comments:

First-Time Home Buyer Savings Accounts

Virginia allows an individual to designate a bank account as a tax-exempt first-time home buyer savings account and the qualified beneficiary of these accounts may use distributions from the account for the purpose of paying or reimbursing the down payment and allowable closing costs for the purchase of a single-family residence in Virginia.

Only cash and marketable securities are allowed to be contributed to a first-time home buyer savings account. All interest or other earned income attributable to an account is excluded from the Virginia taxable income of the account holder. 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; however, the statute does not limit the number of accounts that may be owned. The amount of principal and interest or other income on the principal that may be retained within an individual account is limited to \$150,000.

No agency or financial institution is directly responsible for monitoring first-time home buyer savings accounts, how moneys or funds withdrawn from such accounts are used, and whether an account holder is required to remit any taxes or penalties for such accounts. Instead, account holders are solely responsible for administering and tracking activities related to such accounts.

Account holders are required to make an addition to their federal adjusted gross income for any loss for the taxable year that was deducted as a capital loss for federal income tax purposes by an account holder.

First-Time Home Buyer Savings Account Subtraction

To the extent included in federal adjusted gross income, Virginia allows any income of an account holder that was taxed as (i) a capital gain for federal income tax purposes

attributable to such person's first-time home buyer savings account and (ii) interest income or other income for federal income tax purposes attributable to such person's first-time home buyer savings account to be subtracted from the account holder's federal adjusted gross income for Virginia income tax purposes.

Any subtraction for an account holder's income that was attributable to a first-time home buyer savings account and taxed as a capital gain or interest income for federal income tax purposes is subject to recapture in the taxable year or years in which moneys or funds withdrawn from an account were used for any purpose other than the payment of eligible costs. No organization monitors the use of funds withdrawn, and taxpayers are not required to report or otherwise substantiate that funds withdrawn were used to pay eligible costs.

The amount of recapture is a portion of the amount withdrawn that was used for other than the payment of eligible costs, computed by multiplying the amount withdrawn and used for other than the payment of eligible costs by the ratio of the aggregate earnings in the account at the time of the withdrawal to the total balance in the account at such time. Recapture is not required to the extent of moneys or funds withdrawn that were (i) withdrawn by reason of the qualified beneficiary's death or disability, (ii) a disbursement of assets of the account pursuant to a filing for protection under the United States Bankruptcy Code, (iii) or transferred from a first-time home buyer savings account for the benefit of another qualified beneficiary.

Virginia's Individual Income Tax Modifications

Federal Adjusted Gross Income

Virginia's Individual Income Tax substantially conforms to federal income tax law by using federal adjusted gross income ("FAGI") as the starting point for computing Virginia income taxes. Virginia law then provides various modifications to FAGI that must be taken into account that figure in determining Virginia taxable income.

Virginia Adjusted Gross Income

When completing a Virginia individual income tax return, a taxpayer starts with the amount of FAGI reported on his federal return. A taxpayer then calculates Virginia adjusted gross income by making two types of adjustments: (1) "additions" which increase the amount of income taxable by Virginia and (2) "subtractions" which reduce such amount. These adjustments are made only to the extent that they have not already been included or excluded from FAGI.

Virginia Taxable Income

The taxpayer calculates his Virginia taxable income by making another type of modification referred to as "deductions," which further reduce the amount of income taxable by Virginia. These modifications are made regardless of federal treatment unless specifically stated otherwise in the provision.

Please find below an illustration of how taxable income is computed for federal and Virginia income tax purposes and how they interrelate:

Federal Income Tax	Virginia Income Tax
+Wages and Other Income	=Federal Adjusted Gross Income (<u>"FAGI"</u>)
+Federal Adjustments	+Virginia Additions (only if not included in <u>FAGI</u>)
-Federal Adjustments	-Virginia Subtractions (only if not excluded from <u>FAGI</u>)
=Federal Adjusted Gross Income (<u>"FAGI"</u>)	=Virginia Adjusted Gross Income (<u>"VAGI"</u>)
-Federal Standard Deduction or Itemized Deductions	-Virginia Standard Deduction or Federal Itemized Deductions (depends on federal election)
- <u>QBI</u> Deduction	-Deduction for Virginia Exemptions
	-Virginia Deductions (regardless of federal treatment)
=Federal Taxable Income	=Virginia Taxable Income

Because this bill would modify the first-time home buyer subtraction, the amount allowed under this bill could be taken whether the taxpayer chooses to take the Virginia standard deduction or itemize their deductions.

Proposal

This bill would increase the aggregate amount of principal that can be contributed to a first-time home buyer savings account from \$50,000 to \$100,000. This bill would also increase the limit on the amount of principal and interest or other income on the principal that may be retained in such an account from \$150,000 to \$200,000.

This bill would also define "first-time homebuyer" to mean an individual who has not owned a single-family residence as a principal residence at any time during the three-year period immediately preceding the date of purchase of a single-family residence. The term "first-time homebuyer" also would include, regardless of ownership in the preceding three years, an individual who previously owned a single-family residence jointly with a spouse but is now purchasing a single-family residence independently.

This bill would also include townhouses in the definition of "single-family residence" for purposes of the First-Time Home Buyer Savings Plan Act.

If enacted during the regular session of the 2026 General Assembly, this bill would become effective July 1, 2026.

Similar Bills

HB 1211 would create a \$5,000 first-time homebuyer tax credit. "First-time homebuyer" would be defined differently for the purposes of the tax credit.

cc : Secretary of Finance

Date: 01/17/2026 JLOF
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