

**DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement**

1. **Patron** Christie New Craig
3. **Committee** Senate Finance and Appropriations
4. **Title** Individual Income Tax; Child Tax Credit

2. **Bill Number** SB 268
House of Origin:
 Introduced
 Substitute
 Engrossed
- Second House:**
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would provide a refundable income tax credit for an individual or married persons filing a joint return with a household income at or below 300 percent of the federal poverty level for each qualifying child. The amount of the credit is equal to the taxpayer’s federal child tax credit which is up to \$2,200 per child.

The credit cap is \$5 million per taxable year and is allocated on a first-come, first-served basis.

The bill would become effective for taxable years beginning on and after January 1, 2027, but before January 1, 2032.

6. **Budget amendment necessary:** Yes.
 Item(s): 261 and 263 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	\$222,823	2	GF
2027-28	\$403,495	2	GF
2028-29	\$177,600	2	GF
2029-30	\$177,600	2	GF
2030-31	\$177,600	2	GF
2031-32	\$177,600	2	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures as shown above. Such costs would primarily consist of updating the Department’s forms and systems to implement the credit and the hiring of two new full-time employees.

Because of the implementation and release schedule for the Integrated Revenue Management System (“IRMS”) replacement project, this legislation will not be impacted by such project if enacted during the 2026 Regular Session of the General Assembly. For more information on the new system implementation releases, see the [2025 Status Report on the Replacement of the Integrated Revenue Management System](#) (IRMS).

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2028. Such impact would not exceed the \$5 million annual cap.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department believes that the Patron’s intent may be to reduce this credit by the amount, if any, claimed for the same qualifying child under the income tax credit for low-income taxpayers, which allows a \$300 per dependent tax credit for qualifying individuals. However, the referenced code section contains multiple tax credits including both the refundable and non-refundable Virginia Earned Income Tax Credit (“EITC”). The Virginia EITC credits are not calculated on a per dependent basis, but rather on a household size basis. If the patron’s intent was to reduce this credit only by the amount of the \$300 per dependent credit, the Department recommends the following technical amendment.

Line 23: After “58.1-339.8”
Insert: “B 1”

11. Other comments:

Background

Federal Child Tax Credit

“Qualifying 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 on their federal return. 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.

Amount of the Credit

Under the Tax Cuts and Jobs Act (“TCJA”) of 2017 the federal child tax credit was doubled from \$1,000 per child to \$2,000 per child. Like most of the individual income tax provisions of the TCJA, the increase in the federal child tax credit was set to expire after 2025. 2025 H.R. 1 (P.L. 119-21) increased the value of the credit up to \$2,200 per qualifying child. This higher child tax credit amount was made permanent and will be adjusted for inflation after 2025.

Limitations on the Credit

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.

Other Virginia Tax Benefits for Dependents

The Virginia Personal Exemption

An exemption of \$930 may be claimed for each dependent claimed on the taxpayer’s federal income tax return. Part-year residents must prorate their exemption amounts, based on their period of residency in Virginia.

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.

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either:

- The Tax Credit for Low-Income Individuals or
- The Virginia EITC.

The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual’s spouse, and any person claimed as a dependent on such individual’s or married individual’s income tax return for the taxable year.

The Virginia EITC is not a per dependent tax credit but rather a tax credit based on household income and size. The nonrefundable Virginia EITC is equal to 20 percent of the federal EITC and does not expire. In 2022 Virginia introduced a refundable EITC that was

15 percent of the federal EITC, and in 2025, Virginia increased the amount of the refundable EITC to match the nonrefundable Virginia EITC at 20 percent of the federal EITC. The refundable Virginia EITC is set to expire after Taxable Year 2026.

Proposal

This bill would provide a refundable income tax credit for an individual or married persons filing a joint return with a household income at or below 300 percent of the federal poverty level for each qualifying child. The amount of the credit is equal to that allowed for the corresponding federal child tax credit which is up to \$2,200 per qualifying child. The bill would also limit each taxpayer to one credit per qualifying child, and the aggregate amount of all credits allowed to all taxpayers would be limited to \$5 million per taxable year allocated on a first-come, first-served basis.

“Qualifying child” means a child that qualifies as dependent on the taxpayer’s federal income tax return and is under the age of 17.

The bill requires any credit to be reduced by the amount claimed for the same qualifying child pursuant to any of the credits permitted by the income tax credit for low-income taxpayers section of the Virginia Code. No Virginia credit may be permitted to the extent the corresponding federal credit has been denied, reduced, or recaptured due to fraud, ineligibility, or noncompliance with federal requirements.

The Department of Taxation would be required to develop guidelines for claiming the credit.

The bill would become effective for taxable years beginning on and after January 1, 2027, but before January 1, 2032.

Similar Bills

HB 403 would provide a refundable child tax credit equal to 20% of the credit claimed pursuant to the federal Employer Provided Childcare Credit and 50% of an employer’s qualified child care expenditures not to exceed \$500,000, adjusted annually for inflation.

HB 1004 would provide a \$300 per dependent individual income tax credit for taxpayers whose family VAGI does not exceed \$100,000.

HB 1412 would provide nonrefundable individual and corporate income tax credits for 25 percent of either amounts incurred for eligible child day-care expenses of the taxpayer’s employees or all expenditures for establishing a child day care facility.

cc : Secretary of Finance

Date: 01/26/2026 ALS
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