DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** Todd E. Pillion

2. **Bill Number** SB 747
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax; First-Time Homebuyer Tax Credit

5. **Summary/Purpose:**

This bill would provide a one-time, nonrefundable individual income tax credit in the amount of $5,000 for the purchase of a principal residence by a first-time homebuyer. The credit would be subject to an annual credit cap of $10 million and would be allocated on a first-come, first-served basis.

This bill would be effective for taxable years beginning on and after January 1, 2026, but before January 1, 2031.

6. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
261 and 263 Department of Taxation

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

7a. Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2025-26	$105,625	0	GF
2026-27	$624,726	2	GF
2027-28	$242,963	2	GF
2028-29	$184,163	2	GF
2029-30	$184,163	2	GF
2030-31	$177,600	2	GF
2031-32	$177,600	2	GF

7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2026-27	($10 million)	GF
2027-28	($10 million)	GF
2028-29	($10 million)	GF
2029-30	($10 million)	GF
2030-31	($10 million)	GF
2031-32	($10 million)	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 systems to implement the credit and two new full-time employees to administer it.

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 estimated negative General Fund revenue impact as shown on Line 7b. It is assumed that this credit would be utilized at its maximum cap amount each year based on the Department's speculative estimate of the revenue impact of this credit without a cap exceeding $50 million annually.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

First-Time Homebuyer Lending Programs

Several federal programs offered through lenders provide incentives to first-time homebuyers, such as lower down payments, lower closing costs or lower interest rates than would otherwise be available to the borrower. These include programs operated by the Federal Housing Administration ("FHA") and the United States Department of Agriculture ("USDA").

Virginia First-time Homebuyer Programs

Virginia Homeownership Down Payment Assistance Program ("DPA")

The DPA program is administered by the Department of Housing and Community Development and provides flexible gap financing for first-time homebuyers at or below 80 percent of the area median income to purchase a home. The down payment assistance is provided in the form of a grant with a mandatory period for the applicant to continue to occupy the house as their primary residence. An eligible homebuyer may receive up to 10 to 15 percent of the sales price, plus up to $2,500 to pay for the cost of closing.

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.

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.

<u>Proposal</u>

This bill would provide a one-time, nonrefundable individual income tax credit in the amount of $5,000 for the purchase of a principal residence by a first-time homebuyer. The credit would be subject to an annual credit cap of $10 million and would be allocated on a first-come, first-served basis.

"First-time homebuyer" would mean an individual or married individuals filing jointly (i) who have had no ownership interest in a principal residence during the preceding three-year period ending on the date of purchase of the residential real property detailed on the purchase agreement and (ii) who have an annual household income in the most recent taxable year that does not exceed the greater of (a) $100,000 or (b) 120 percent of the median annual household income for the locality in which such residential real property is situated according to the most recent data available from the U.S. Census Bureau.

"Principal residence" would mean the residential real property an owner occupies as his permanent home and uses as his principal dwelling place.

The amount of the credit that may be claimed in any single taxable year would not be permitted to exceed the first-time homebuyer’s liability for income taxes for that taxable year. If the amount of the credit allowed under this section exceeds the first-time homebuyer’s tax liability for the taxable year in which the eligible expenditures occurred, the amount that exceeds the tax liability may be carried over for credit against the income taxes of the first-time homebuyer in the next five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

In the event that the principal residence purchased by the first-time homebuyer for which such credit was claimed is sold or no longer serves as the first-time homebuyer's principal residence within three years from the purchase date of such property, the taxpayer would be required to repay any credit amount claimed. Repayment would not be required if the principal residence is sold or no longer serves as the first-time homebuyer's principal residence as a result of (i) a natural disaster or other act of God that made such residential real property uninhabitable or (ii) a military relocation.

The Department would be required to develop guidelines for claiming the credit and for any repayment requirements.

This bill would be effective for taxable years beginning on and after January 1, 2026, but before January 1, 2031.

<u>Similar Bills</u>

HB 183 and **SB 629** would make several changes to Virginia’s First-Time Homebuyer Savings Plan Act.

HB 1211 is identical to this bill.

SB 674 would also provide a one-time, nonrefundable individual income tax credit of up to $10,000 for the purchase of a principal residence by a first-time homebuyer.

cc : Secretary of Finance

Date: 01/26/2026 JLOF
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