

**DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement**

1. **Patron** Glen H. Sturtevant, Jr.
3. **Committee** Senate Finance and Appropriations
4. **Title** Individual Income Tax; Nonpublic School and Public School Tax Credits.

2. **Bill Number** SB 732
House of Origin:
 X **Introduced**
 Substitute
 Engrossed
- Second House:**
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would establish both the Nonpublic Schooling Tax Credit and the Public School Tax Credit.

Nonpublic Schooling Tax Credit

This credit would be a refundable individual income tax credit for up to \$5,000 in qualifying expenses incurred by the parent or legal guardian of an eligible student that is both domiciled in a designated opportunity zone located within Planning District 15 and either in home education or attending a private school. If the taxpayer's family Virginia adjusted gross income does not exceed 300 percent of federal poverty guidelines, the taxpayer may claim an additional \$2,500 refundable tax credit.

“Qualifying expense” would mean any expense incurred during the taxable year for

- instruction-related materials, including textbooks, workbooks, and supplies;
- courses or programs used in home instruction;
- tuition and fees for any private school, career preparatory, technical, or higher education institutions;
- necessary educational assistance for an eligible student with a disability;
- fees for nationally standardized achievement tests, advanced placement examinations, education related admission examinations; and
- transportation to and from an eligible student’s education provider.

Public School Tax Credit

This credit would be a refundable individual income tax credit for up to \$1,500 in qualifying expenses incurred by the parent or legal guardian of a student that is both domiciled in a designated opportunity zone located within Planning District 15 and in public school. If the taxpayer's family Virginia adjusted gross income does not exceed 300 percent of federal poverty guidelines, the taxpayer may claim an additional \$2,500 refundable tax credit.

"Qualifying expense" would mean any expense incurred during the taxable year for

- instruction-related materials, including textbooks, workbooks, and supplies;
- tuition and fees for career preparatory, technical, or higher education institution;
- necessary educational assistance for an eligible student with a disability;
- fees for nationally standardized achievement tests, advanced placement examinations, education related admission examinations; and
- transportation to and from an eligible student’s education provider.

Both credits would allow taxpayers one credit per eligible student per year and require taxpayers to submit purchase receipts to verify qualifying expenses for each credit.

The aggregate amount of credits allowable for each credit is limited to \$25 million per taxable year and will be allocated by the Department of Taxation on a first-come, first-served basis. In the event that the aggregate amount of credits claimed in a single taxable year is greater than ninety percent of such amount, then such aggregate credit cap amount would be increased in the immediately succeeding taxable year by 10 percent.

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

6. Budget amendment necessary: Yes.

Page 1, Revenue Estimates

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>
2025-26	\$373,016	1	GF
2026-27	\$138,800	1	GF
2027-28	\$113,800	1	GF
2028-29	\$100,800	1	GF
2029-30	\$94,800	1	GF
2030-31	\$88,800	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures as shown on Line 7a. These costs would be for developing an application form, revising forms and our website and systems programming. One new employee would be required to administer these two tax credit programs. Taxpayers would need to provide receipts and other documentation to demonstrate qualification for the credit.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning with Fiscal Year 2027. The impact of this bill in FY 2027 would be limited to no more than \$50 million, which is the sum of the Nonpublic Schooling Tax Credit's \$25 million aggregate cap and the Public School Tax Credit's \$25 million aggregate cap.

The impact of this bill could be up to \$55 million in FY 2028, \$60.5 million in FY 2029, \$66.6 in FY 2030, \$73.21 million in FY 2031, and \$80.53 million in FY 2032. This is because the bill contains a provision stating that, if the aggregate amount of credits claimed in a taxable year is greater than 90% of the aggregate credit cap, then the aggregate cap amount would be increased in the next taxable year by 10 percent. Because it is unknown whether this escalation provision would be triggered each year, the actual impact of this bill is unknown.

According to Weldon Cooper, there are approximately 175,000 school aged children living in the three localities in Planning District 15 that currently have Opportunity Zones. However, only a fraction of these students are domiciled in an Opportunity Zone, and as a result it is unknown how many students would qualify for the credit.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Background

Planning Districts

Pursuant to the Regional Cooperation Act, Virginia has 21 planning districts commissions. These are voluntary associations of local governments and citizens to facilitate cooperation in addressing regional issues.

Planning District 15 is comprised of the:

- Town of Ashland
- City of Richmond
- Counties of Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, and Powhatan

Opportunity Zones

Opportunity Zones are low-income communities and certain neighboring areas, defined by population census tracts. The governor in each state nominates tracts to be designated as Opportunity Zones, and the U.S. Treasury certifies qualifying tracts. Beginning on July 1, 2026, new Opportunity Zones will be nominated and then re-designated every 10 years thereafter. The new Opportunity Zones nominated in July will be certified by U.S. Treasury

and will go into effect on January 1, 2027. Qualifying investments in Opportunity Zones receive preferential tax treatment including deferral on the recognition of gains or a total exemption of gains depending on length of time the qualified investment is held by the taxpayer.

According to the Department of Housing and Community Development, there are currently 212 Opportunity Zones in Virginia, and 22 Opportunity Zones in Planning District 15 (Chesterfield 4, Henrico 7 and Richmond City 11).

Other Virginia Education Tax Credits

Education Improvement Scholarships Tax Credits Program

The program provides state tax credits for donations made to approved scholarship Foundations that provide scholarships to eligible students and attending participating private schools and non-public pre-kindergarten programs. Approved scholarship foundations make payments directly to eligible schools selected by qualifying parents or legal guardians.

Proposal

This bill would establish both the Nonpublic Schooling Tax Credit and the Public School Tax Credit.

Nonpublic Schooling Tax Credit

This credit would be a refundable individual income tax credit for up to \$5,000 in qualifying expenses incurred by the parent or legal guardian of an eligible student that is both domiciled in a designated opportunity zone located within Planning District 15 and either in home education or attending a private school. If the taxpayer's family Virginia adjusted gross income does not exceed 300 percent of federal poverty guidelines, the taxpayer may claim an additional \$2,500 refundable tax credit. No more than \$2,000 (\$3,000 for those students qualifying for the additional credit) of the credit could be used for computer, internet access, or transportation-related expenses.

“Qualifying expense” would mean any expense incurred during the taxable year for

- instruction-related materials, including textbooks, workbooks, and supplies;
- courses or programs used in home instruction;
- tuition and fees for any private school, career preparatory, technical, or higher education institutions;
- necessary educational assistance for an eligible student with a disability;
- fees for nationally standardized achievement tests, advanced placement examinations, education related admission examinations; and
- transportation to and from an eligible student’s education provider.

“Eligible student” would mean a student who is

- Exempt from the compulsory attendance law for the purpose of home education or enrollment in a private educational institution,
- At the time any qualifying expense is incurred, domiciled in an area that has at any time been designated an Opportunity Zone in Planning District 15,
- Under the age of 18 at the close of the school year for which a credit under this section is sought, and
- Either receiving home instruction or enrolled full time in a kindergarten through twelfth grade education program at any private school in the Commonwealth during the school year for which a credit is sought.

Public School Tax Credit

This credit would be a refundable individual income tax credit for up to \$1,500 in qualifying expenses incurred by the parent or legal guardian of a student that is both domiciled in a designated opportunity zone located within Planning District 15 and in public school. If the taxpayer's family Virginia adjusted gross income does not exceed 300 percent of federal poverty guidelines, the taxpayer may claim an additional \$2,500 refundable tax credit. No more than \$600 (\$1,600 for those students qualifying for the additional credit) of the credit could be used for computer, internet access, or transportation-related expenses.

"Qualifying expense" would mean any expense incurred during the taxable year for

- instruction-related materials, including textbooks, workbooks, and supplies;
- tuition and fees for career preparatory, technical, or higher education institution;
- necessary educational assistance for an eligible student with a disability;
- fees for nationally standardized achievement tests, advanced placement examinations, education related admission examinations; and
- transportation to and from an eligible student's education provider.

“Eligible student” would mean a student who is

- Subject to Virginia's compulsory attendance law,
- At the time any qualifying expense is incurred, domiciled in an area that has at any time been designated an Opportunity Zone in Planning District 15,
- Under the age of 18 at the close of the school year for which a credit under this section is sought, and
- Enrolled full time in a kindergarten through twelfth grade education program at any public school in the Commonwealth during the school year for which a credit is sought.

Provisions Applicable to Both Credits

Both credits would allow taxpayers one credit per eligible student per year and requires taxpayers to submit purchase receipts to verify qualifying expenses for each credit.

“Household” would mean an individual, or in the case of married individuals, an individual and his spouse, regardless of whether the individual and his spouse file combined or separate Virginia individual income tax returns.

“Poverty guidelines” would mean the annual federal poverty guidelines for the 48 contiguous states and the District of Columbia.

“Qualified Opportunity Zone” would mean the same as the term is defined by federal law.

The aggregate amount of credits allowable for each credit is limited to \$25 million per taxable year and will be allocated by the Department of Taxation on a first-come, first-served basis. In the event that the aggregate amount of credits claimed in a single taxable year is greater than ninety percent of such amount, then such aggregate credit cap amount shall be increased in the immediately succeeding taxable year by 10 percent.

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

cc : Secretary of Finance

Date: 01/27/2026 RWC
SB732F161