

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** L. Louise Lucas

3. **Committee** Senate Finance and Appropriations

4. **Title** Individual Income Tax; Standard Deduction;
Refundable Earned Income Tax Credit

2. **Bill Number** SB 662

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would extend the sunset provision, which applies to the current standard deduction amounts of \$8,750 for single individuals and \$17,500 for married individuals filing jointly, from January 1, 2027 to January 1, 2029. As a result, the current higher standard deduction amounts would apply and would not revert to \$3,000 for single individuals and \$6,000 for married individuals filing jointly until January 1, 2029.

This bill would also extend the sunset provision, which applies to the refundable Virginia Earned Income Tax Credit ("Virginia EITC"), from January 1, 2027 to January 1, 2029. Under current law, the refundable Virginia EITC, which is equal to 20 percent of the federal earned income tax credit ("EITC") amount claimed on the taxpayer's federal return, is set to expire on January 1, 2027.

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. **No Fiscal Impact.** (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of 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

Because the Official General Fund revenue forecast assumes the extension of these expiring provisions, extending the sunset provision on the increased standard deduction and the refundable Virginia EITC would have no General Fund revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Standard Deduction

On July 4, 2025, H.R. 1 ("2025 H.R. 1") (Public Law 119-21) was signed into law making permanent the increased federal standard deduction amounts originally established by the 2017 Tax Cuts and Jobs Act ("TCJA") (Public Law 115-97). Like most other individual provisions of the TCJA, the increase in the amount of the federal standard deduction was scheduled to sunset after December 31, 2025.

The federal standard deduction for Taxable Year 2025 is as follows:

- \$31,500 for married taxpayers filing jointly;
- \$23,625 for heads of household; and
- \$15,750 for single taxpayers and married taxpayers filing separately.

Virginia's Standard Deduction History

Under current law, taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. Virginia's standard deduction amounts have changed over the years.

Prior to 1987, the Virginia standard deduction was not a flat amount. Instead, for Taxable Year 1986 for example, the Virginia standard deduction was 15 percent of federal adjusted gross income with a \$1,300 minimum and a \$2,000 maximum. In 1988, it increased to \$2,700 for both single individuals and married couples. From 1989 to 2004, the standard deduction for single taxpayers remained at \$3,000, while for married taxpayers, it increased to \$5,000 during this period. 2004 Special Session I increased the standard deduction for married individuals from \$5,000 to \$6,000 for Taxable Years beginning on or after January 1, 2005.

After the TCJA increased the federal standard deduction through Taxable Year 2025, Virginia also increased the Commonwealth's standard deduction amount several times. Each of these increases expired at the end of 2025, the same date as the federal increases to the standard deduction. The Virginia standard deduction was increased in:

- 2019 to \$4,500 for single filers and \$9,000 for joint filers;
- 2022 to \$8,000 for single filers and \$16,000 for joint filers; and
- 2023 to \$8,500 for single filers and \$17,000 for joint filers.

Virginia's Current Standard Deduction

The eleventh enactment clause of the 2025 Appropriation Act (House Bill 1600, Chapter 725) increased the standard deduction from \$8,500 to \$8,750 for single filers and \$17,000 to \$17,500 for joint filers for taxable years beginning on and after January 1, 2025, but before January 1, 2027. This extended the Virginia increases to the Commonwealth's standard deduction amounts to one year beyond the expiration date then applicable to the federal increases to the federal standard deduction. A few months after the 2025 Appropriations Act was enacted, federal legislation, 2025 H.R. 1, made the increases to the federal standard deduction permanent.

Virginia's current standard deduction amount is scheduled to sunset after Taxable Year 2026 and revert to the standard deduction amounts that applied prior to Taxable Year 2019: \$3,000 for single filers and \$6,000 for married couples filing jointly.

Virginia's standard deduction history from Taxable Year 1987 to the present is shown below:

Year	Virginia Standard Deduction for Single Taxpayers	Virginia Standard Deduction for Married Taxpayers Filing Jointly
1987	\$2,000	\$2,000
1988	\$2,700	\$2,700
1989-2004	\$3,000	\$5,000
2005-2018	\$3,000	\$6,000
2019-2021	\$4,500	\$9,000
2022-2023	\$8,000	\$16,000
2024	\$8,500	\$17,000
2025-2026	\$8,750	\$17,500
2027 and following	\$3,000	\$6,000

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker's family, as well as the amount of the worker's federal adjusted gross income ("AGI") and earned income. Taxpayers are required to provide a valid Social Security number for themselves and each dependent they are claiming in the calculation of the EITC.

2025 H.R. 1 did not make major changes to the structure or amount of the EITC but did add a new precertification requirement starting in 2028.

For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC for Taxable Year 2025, an individual's AGI and earned income must be less than:

- \$61,555 (\$68,675 for joint filers) if they have three or more qualifying children;
- \$57,310 (\$64,430 for joint filers) if they have two qualifying children;
- \$50,434 (\$57,554 for joint filers) if they have one qualifying child; or
- \$19,104 (\$26,214 for joint filers) if they do not have a qualifying child.

The maximum federal EITC for Taxable Year 2025 is \$8,046 for an individual with three or more qualifying children, \$7,152 for an individual with two qualifying children, \$4,328 for an individual with one qualifying child, and \$649 for an individual with no qualifying children.

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 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. Under current law, taxpayers may choose between taking the nonrefundable or refundable Virginia EITC. However, the refundable Virginia EITC is set to expire after Taxable Year 2026.

The refundable Virginia EITC provides a cash refund to the taxpayer, even if their tax liability is zero. The nonrefundable EITC only reduces a taxpayer's tax liability to zero. As a result, taxpayers with little or no income tax liability receive the full value of the refundable credit but would lose much of the benefit of the nonrefundable credit.

Proposal

This bill would extend the sunset provision, which applies to the current standard deduction amounts of \$8,750 for single individuals and \$17,500 for married individuals filing jointly, from January 1, 2027 to January 1, 2029. As a result, the current higher standard deduction amounts would apply and would not revert to \$3,000 for single individuals and \$6,000 for married individuals filing jointly until January 1, 2029.

Under current law, the standard deduction is currently set to revert to \$3,000 for single individuals and \$6,000 for married individuals filing jointly on January 1, 2027.

This bill would also extend the sunset provision, which applies to the refundable Virginia EITC, from January 1, 2027 to January 1, 2029. Under current law, the refundable Virginia EITC, which is equal to 20 percent of the federal earned income tax credit ("EITC") amount claimed on the taxpayer's federal return, is set to expire on January 1, 2027.

Under current law, the refundable Virginia EITC is set to expire on January 1, 2027, however taxpayers could still claim the nonrefundable Virginia EITC, which is also equal to 20 percent of the federal EITC amount claimed on the taxpayer's federal return. The nonrefundable Virginia EITC is permanent and does not have a sunset date.

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

Similar Bills

HB 12 would remove the sunset provisions which currently apply to the standard deduction amounts of \$8,750/ \$17,500.

HB 372 would remove the sunset provision which currently applies to the refundable Virginia EITC.

SB 7 and **SB 676** would remove the sunset provisions which currently apply to the standard deduction amounts of \$8,750/ \$17,500 and the refundable Virginia EITC.

SB 710 would remove the sunset provisions which currently apply to the standard deduction amounts of \$8,750/ \$17,500.

cc : Secretary of Finance

Date: 01/28/2026 ALS
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