

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Kelly K. Convirs-Fowler

3. **Committee** House Finance

4. **Title** Individual Income Tax Brackets

2. **Bill Number** HB 188

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create a ten percent individual income tax bracket for individuals with income in excess of \$1 million. The revenue generated from this new tax bracket would be allocated in the following manner:

- Fifty percent to provide additional basic aid funding for public schools;
- Thirty percent to the Child Care Subsidy Program;
- Twenty percent to the Virginia Housing Trust Fund.

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

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2026-27	\$1,487 million	PSF
	\$892 million	CCS
	\$595 million	VHTF
2027-28	\$1,063 million	PSF
	\$638 million	CCS
	\$425 million	VHTF
2028-29	\$1,131 million	PSF
	\$678 million	CCS
	\$452 million	VHTF
2029-30	\$1,204 million	PSF
	\$722 million	CCS
	\$482 million	VHTF
2030-31	\$1,282 million	PSF
	\$769 million	CCS
	\$513 million	VHTF

2031-32	\$1,367 million	PSF
	\$820 million	CCS
	\$547 million	VHTF

8. Fiscal implications:

Administrative Costs

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

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 positive impact on the revenues provided by the Commonwealth as additional basic aid funding for public schools ("public school funding"), the Child Care Subsidy Program, and the Virginia Housing Trust Fund as shown on Line 7b.

This estimate assumes that the additional revenue created by this bill would be distributed as clarified in the Department's technical amendment on line 10. The total revenue brought in by this bill would be divided fifty percent to public school funding, thirty percent to the Child Care Subsidy Program, and twenty percent to the Virginia Housing Trust Fund.

Revenue Impact and Allocation (in Millions of Dollars)				
Fiscal Year	Total Revenue Impact	Local Schools	Childcare Subsidy Program	Virginia Housing Fund Trust
2027	\$2,973.57	\$1,486.78	\$892.07	\$594.71
2028	\$2,125.83	\$1,062.92	\$637.75	\$425.17
2029	\$2,261.18	\$1,130.59	\$678.35	\$452.24
2030	\$2,407.36	\$1,203.68	\$722.21	\$481.47
2031	\$2,564.40	\$1,282.20	\$769.32	\$512.88
2032	\$2,732.96	\$1,366.48	\$819.89	\$546.59

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department believes that the intent of the Patron may be to only distribute revenue newly created under this bill to funds other than the General Fund, and that no revenue currently deposited in the General Fund would be distributed to other funds. If this is the Patron's intent, the Department recommends the following technical amendment to clarify the source and amount of revenue to be distributed to funds other than the General Fund.

Line 44, after "58.1-320,"

Strike: "four and one-quarter percent of such revenue"

Insert: "revenue from four and one-quarter percent of such income"

11. Other comments:

Background

Individual Income Tax Rates

Under current law, the Virginia individual income tax is imposed at the following rates:

Virginia Taxable Income	Virginia Tax Rates
\$3,000 and less	2 Percent
\$3,001 to \$5,000	3 Percent
\$5,001 to \$17,000	5 Percent
\$17,000 or more	5.75 Percent

In 1971, when Virginia studied conforming to the federal income tax law, Virginia originally considered having only the first three tax brackets shown above. Therefore, the top marginal tax rate would have been 5 percent, applicable to Virginia taxable income of \$5,001 or more. However, by 1972, when the General Assembly voted to conform to federal income tax law, it enacted four tax brackets at the same tax rates as under current law.

The amount of Virginia taxable income subject to Virginia's top marginal tax rate was last modified during the 1987 Session, in response to the 1986 federal tax reform.

Year	Taxable Income Subject to 5.75 Percent Tax Rate
1972 – 1986	\$12,001 or more
1987	\$14,001 or more
1988	\$15,001 or more
1989	\$16,001 or more
1990	\$17,001 or more

Since the changes adopted during the 1987 Session adjusting the top bracket to the current income level for Taxable Year 1990 and thereafter, the General Assembly has not enacted any legislation affecting Virginia individual income tax rates or brackets and the

brackets are not currently indexed for inflation. The federal individual income tax rate brackets are indexed for inflation.

Virginia Public Schools

Virginia's public schools receive funding from a combination of local, state, and federal sources. The primary Virginia sources for this funding include real property tax from localities, a portion of the sales and use tax, and appropriations from the Commonwealth's General Fund (which is primarily funded by the individual income tax).

The Child Care Subsidy Program

The Child Care Subsidy Program assists families in paying child care costs for children under age 13 who are not eligible to attend public school during the part of the day when public education is available, or children with special needs under age 18 who reside with the applicant. If the applicant is eligible and approved for services, the Subsidy Program can pay a portion of their child care costs directly to the child care provider.

Virginia Housing Trust Fund

The Virginia Housing Trust Fund ("VHTF") creates and preserves affordable housing and reduces homelessness in the Commonwealth. The VHTF approach addresses housing issues in varied methods for a variety of populations including:

- Families and individuals who cannot afford decent, safe housing;
- Disabled persons needing accessible housing in addition to supportive services;
- Homeless persons struggling with mental health and other issues.

Proposal

This bill would create a ten percent individual income tax bracket for individuals with income in excess of \$1 million. The revenue generated from this new tax bracket would be allocated to existing funds and programs, in addition to any other appropriations, in the following manner:

- Fifty percent to provide additional basic aid funding for public schools;
- Thirty percent to the Child Care Subsidy Program;
- Twenty percent to the Virginia Housing Trust Fund.

This additional funding would supplement, not supplant any funds currently provided by Virginia to basic aid funding for public schools, the Child Care Subsidy Program, and the Virginia Housing Trust Fund.

This bill would also make some technical changes to the language in the amended code sections to remove references to brackets that have been obsolete since 1990.

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

cc : Secretary of Finance

Date: 01/30/2026 JPJ
HB188F161