

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Hillary Pugh Kent
3. **Committee** House Finance
4. **Title** Income tax; Credit for surviving spouse's real property taxes

2. **Bill Number** HB 697
- House of Origin:**
 Introduced
 Substitute
 Engrossed
- Second House:**
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would establish a nonrefundable individual income tax credit equal to the real property taxes paid on a primary residence by certain surviving spouses of 100 percent permanently and totally disabled veterans who would have qualified for a real property tax exemption but for the veteran's death occurring prior to January 1, 2011. This credit would be subject to a \$5 million annual cap on credits claimed by all taxpayers in a taxable year.

Current law provides a real property tax exemption for the principal residence and up to one acre owned by a 100 percent permanently and totally disabled veteran or an eligible surviving spouse. The exemption only applies to real property taxes for taxable years beginning on or after January 1, 2011, and for a surviving spouse if the veteran's death occurred on or after that date.

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.

Page 1, Revenue Estimates

Item(s): 261 and 263 Department of Taxation

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

7a. Expenditure Impact:

Fiscal Year	Dollars	Positions	Fund
2026-27	\$284,937	1	GF
2027-28	\$149,100	1	GF
2028-29	\$90,300	1	GF
2029-30	\$89,700	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 above. Such costs would primarily consist of updating the Department’s systems to implement the credit and one new full-time employee 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 unknown negative General Fund revenue impact for Fiscal Years 2027 through 2031. The number of eligible taxpayers and the amount of their qualifying real property tax liabilities are unknown; therefore, the revenue impact of this bill cannot be estimated. However, since the credit is capped at \$5 million annually, the maximum potential revenue loss in any fiscal year would not exceed \$5 million.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia’s Real Property Tax Relief Framework

Virginia’s real property tax relief system is grounded in Article X of the Virginia Constitution and largely implemented at the local level. Under this framework, cities and counties may, by local ordinance, provide exemptions, deferrals, or partial relief from real property taxes, consistent with the Commonwealth’s long-standing tradition of local fiscal autonomy. This authority is set forth primarily in Title 58.1, Chapter 32 of the Code of Virginia. As a general matter, Virginia law relies much more heavily on the exemption model at the local level and makes only limited use of credits tied to property taxes. An exemption removes all or part of a qualifying property from the local tax base so that no tax (or a reduced amount of tax) is assessed. By contrast, a tax credit leaves the assessment unchanged and instead reduces the amount of tax owed, typically through a claim on a tax return.

Exemption for Disabled Veterans and Surviving Spouses

Article X, §6-A of the Virginia Constitution exempts from real property taxation (i) the qualifying dwelling (or portion thereof), and (ii) up to one acre of surrounding land for

disabled veterans and their surviving spouses. Eligibility requires a determination by the United States Department of Veterans Affairs (or its successor agency) of a 100 percent permanent and total service-connected disability. The exemption applies to taxable years starting January 1, 2011, or later, and a surviving spouse qualifies if the veteran's death occurred on or after that date, they remain unmarried and continue occupying the real property as their principal residence, with no restriction on relocating to another primary residence within the Commonwealth. Under §58.1-3219.5 of the Code of Virginia, localities are required to grant this exemption when the eligibility criteria are met. If a locality exempts more than one acre under elderly/disabled relief (§58.1-3210 et seq.), it must also provide same acreage for disabled veterans.

Exemption for Surviving Spouses of Members of the Armed Forces Who Died in the Line of Duty

Article X, §6-A of the Virginia Constitution and the Virginia Code exempt from taxation, for tax years beginning on or after January 1, 2015, the real property of surviving spouses of U.S. armed forces members who died in the line of duty (as determined by the U.S. Department of Defense), including deaths resulting from suicide, provided it is their principal residence, without any restriction on the spouse moving to a different primary residence within the Commonwealth. Although the Constitutional provision is permissive, the General Assembly enacted §58.1-3219.9 of the Code of Virginia in 2014, which makes this exemption mandatory for localities to provide once the surviving spouse qualifies. If a locality exempts more than one acre under elderly/disabled relief (§58.1-3210 et seq.), it must also provide same acreage for disabled veterans.

Proposal

This bill would establish a nonrefundable individual income tax credit equal to the real property taxes paid on a primary residence by certain surviving spouses of 100 percent permanently and totally disabled veterans who would have qualified for a real property tax exemption but for the veteran's death occurring prior to January 1, 2011. This credit would be subject to a \$5 million annual cap on credits claimed by all taxpayers in a taxable year.

Unused credit amounts may be carried forward for up to five taxable years. Credits will be allocated on a first-come, first-served basis under the \$5 million aggregate cap. The Tax Commissioner will issue guidelines exempt from the APA.

Current law provides a real property tax exemption for the principal residence and up to one acre owned by a 100 percent permanently and totally disabled veteran or an eligible surviving spouse. The exemption only applies to real property taxes for taxable years beginning on or after January 1, 2011, and for a surviving spouse if the veteran's death occurred on or after that date.

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

cc: Secretary of Finance

Date: 01/30/2026 SJH
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