DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** David A. Reid

2. **Bill Number** HB 403
   House of Origin:
   X **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Income Tax: Childcare Related Expenses Tax Credits

5. **Summary/Purpose:**

   This bill would establish two new refundable tax credits: the child-care expenses tax credit and the employer-provided child-care tax credit. Each of these credits would be subject to a $10 million annual cap.

   The child-care expense tax credit would be available to individual income taxpayers with a household income below 400 percent of the federal poverty guidelines and the amount of the credit would be equal to 20 percent of the Federal Child and Dependent Care Credit claimed by a qualified taxpayer on their federal return.

   The employer-provided child-care tax credit would be available to employers and equal to 50 percent of an employer's qualified childcare expenditures not to exceed $500,000 per taxable year.

   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.
   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***
2026-27	$801,905	4	GF
2027-28	$458,200	4	GF
2028-29	$317,200	4	GF
2029-30	$317,200	4	GF
2030-31	$317,200	4	GF

7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2026-27	($20 million)	GF
2027-28	($20 million)	GF
2028-29	($20 million)	GF
2029-30	($20 million)	GF
2030-31	($20 million)	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("The Department") would incur estimated expenditures as shown above, on line 7a. Such costs would primarily consist of updating the Department's forms and systems to implement the credit and the hiring of 4 new full-time employees.

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

The bill would have an estimated negative General Fund revenue impact as shown on line 7b. Based on the number of taxpayers claiming the Virginia deduction for dependent care expenses and the number of qualifying child-care facilities, the Department estimates that the amount of credits requests for both of these new tax credits would exceed their $10 million cap on an annual basis.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The intent of the Patron may be to restrict the credit to individuals residing in Virginia or having a Virginia income tax liability. If that is the Patron's intent the Department recommends the following technical amendment.

> Line 31, after "*refund*"
> Insert: "*, or in the case of a nonresident or a person to which § 58.1-303 applies for the taxable year shall not exceed the individual's or married individuals' Virginia income tax liability*"

11. Other comments:

Federal Child and Dependent Care Credit

The Child and Dependent Care Credit is a nonrefundable individual income tax credit for taxpayers who pay for household and dependent care expenses so they can work or actively look for work. Taxpayers may claim a limited amount of expenses ($3,000 for one child and $6,000 for two or more children) per year. Starting in 2026, the maximum applicable percentage of dependent care expenses increases from 35% to 50% for taxpayers with federal adjusted gross income ("FAGI") of up to $15,000. The credit percentage decreases as the taxpayer's FAGI increases until the credit plateaus at 20% for those with FAGI exceeding $103,000 ($206,000 for joint filers).

Assuming a taxpayer qualifying for the 50% credit had the maximum amount of allowable expenses, this would result in a maximum federal credit of $1,500 for one child or $3,000 for two or more children. Assuming a taxpayer that qualified for the minimum 20% credit had the maximum amount of allowable expenses this would result in a minimum federal tax credit of $600 for one child and $1,200 for two or more children.

Federal Employer-provided Childcare Tax Credit

Starting in 2026, the maximum amount of the Employer-provided Childcare Tax Credit will be increased from $150,000 to $500,000 and indexed for inflation. The federal credit calculation was also made more generous and now equals 40% of qualified childcare facility expenditures plus 10% of the qualified childcare resource and referral expenditures during the tax year. These amounts were increased to $600,000 maximum credit and 50% of qualified childcare facility expenditures for eligible small businesses.

Dependent Care Expenses Deduction

The Virginia Code allows a deduction equal to the amount of employment-related expenses upon which the federal credit is based (not the federal credit amount). The maximum amount of deduction allowed, $3,000 for one dependent and $6,000 for two or more dependents.

Day-care facility investment tax credit

During the 1996 Session, the General Assembly established a nonrefundable income tax credit for 25 percent of expenditures relating to the establishment of a licensed child day-care center for the children of the taxpayer's employees. The credit could not exceed $25,000. Credits were awarded first-come first-served and could be carried over for up to three years. The yearly cap was $100,000.

Expenditures paid or incurred for planning, site preparation, construction, renovation, or acquisition of facilities for the purpose of establishing a child day-care facility to be used primarily by the children of employees were qualified for the Day-care Facility Investment Tax Credit. In addition, equipment installed for permanent use within or immediately adjacent to such facility, including kitchen appliances, to the extent that such equipment or appliances are necessary in the use of such facility for purposes of child day-care also qualified for the tax credit.

This credit is currently considered obsolete under Virginia law and may not be claimed by a taxpayer without permission from the General Assembly.

<u>Proposal</u>

This bill would establish two new refundable tax credits: the child-care expenses tax credit and the employer-provided child-care tax credit. For each credit, the total amount of credits allowable cannot exceed $10 million per taxable year.

Child-Care Expenses Tax Credit

This bill would allow any qualified taxpayer eligible for a Federal Child and Dependent Care Credit to claim a refundable credit against their individual income tax in an amount equal to 20 percent of the federal credit.

“Qualified taxpayer” would mean a single individual or married individuals filing jointly whose Virginia adjusted gross income does not exceed 400 percent of the poverty guidelines amount.

“Poverty guidelines” would mean the same as the poverty guidelines as defined under federal law. The 2026 poverty guidelines are $15,960 for the first household member plus $5,680 for each additional household member.

Employer-Provided Child-care Tax Credit

This bill would also allow a refundable credit against individual or corporate income tax for 50 percent of the employer’s qualified child-care expenditures. The total credit amount allowed for each taxpayer cannot exceed $500,000 per taxable year. The total credit amount would be adjusted annually for inflation beginning January 1, 2027.

The employer is required to submit the records of its qualified expenditures.

“Qualified child-care expenditure” would mean the cost of (i) acquiring, constructing, rehabilitating, or expanding property used as a qualified child day center; (ii) operating a qualified child day center, including training costs, certain compensation for employees, and scholarship programs; and (iii) contracting with a qualified child day center to provide child-care.

“Qualified child day center” would mean a licensed child day center and child day program offered to (i) two or more children under the age 13 in a facility that is not the residence of the provider or of any of the child in care or (ii) 13 or more children at any location. The child day center is required to participate in the Virginia Quality Birth to Five (“VQB5”) system where a uniform measurement and improvement system has been implemented.

The Tax Commissioner would be required to develop guidelines for both credits.

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

Similar Bills

HB 1004 would provide a $300 per dependent individual income tax credit for taxpayers whose family VAGI does not exceed $100,000.

SB 268 would create a refundable individual income tax credit in an amount equal to that allowed for the corresponding federal child tax credit.

cc : Secretary of Finance

Date: 01/31/2026 ALS
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