

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Kathy K.L. Tran

3. **Committee** House Finance

4. **Title** Individual Income Tax: Child Tax Credit

2. **Bill Number** HB 1004

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide a one-time \$300 per dependent individual income tax credit for each dependent younger than thirteen. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed \$100,000. The credit provided by this bill would generally be refundable. However, the credit would be nonrefundable for Virginia nonresidents and part-year residents.

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.

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>
2026-27	(\$662,266)	1	GF
2027-28	(\$227,901)	1	GF
2028-29	(\$167,901)	1	GF
2029-30	(\$167,901)	1	GF
2030-31	(\$107,901)	1	GF
2031-32	(\$19,101)	0	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 system 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. It is unknown because it’s difficult to determine the actual number of individuals who have dependents younger than the age of thirteen and whose adjusted gross income does not exceed \$100,000.

The Department was able to develop a speculative estimate based on national data from the US Census and American Community Survey 2023 survey. Virginia’s share of these national numbers suggests there are over 500,000 children under the age of thirteen in Virginia households earning less than \$100,000. Applying the maximum credit of \$300 per dependent child, the estimated revenue loss would be at least \$150 million. However, this estimate is based upon the assumption that the age of dependents at the Virginia level largely follows federal level data. As a result, the actual number of children in Virginia under age 13 living in qualified households could differ significantly, resulting in the actual impact of this bill varying significantly. Also, as this would be a one-time rather than annual credit claimed for eligible dependents, the timing of any revenue impact would also be unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Child Tax Credit

“Qualifying Child”

A taxpayer may claim a child tax credit against the individual income tax for each qualifying child for whom the taxpayer is allowed a dependency deduction on their federal return. For purposes of the child tax credit, the term “qualifying child” is defined the same as that for claiming a dependency exemption except that the child must not have attained age 17 by the end of the taxable year. Generally, a “qualifying child” is the taxpayer’s child, stepchild, adopted child, eligible foster child, sibling, step sibling, or a descendant of any such individual, who lives with the taxpayer for more than half of the taxable year and does not provide more than half of his own support.

Amount of the Credit

Under the Tax Cuts and Jobs Act ("TCJA") of 2017 the federal child tax credit was doubled from \$1,000 per child to \$2,000 per child. Like most of the individual income tax provisions of the TCJA, the increase in the federal child tax credit was set to expire after 2025. 2025 H.R. 1 (P.L. 119-21) increased the value of the credit up to \$2,200 per qualifying child. This higher child tax credit amount was made permanent and will be adjusted for inflation after 2025.

Limitations on the Credit

For taxpayers with modified adjusted gross income ("MAGI") above certain thresholds, the otherwise allowable child tax credit is phased out. Specifically, the amount of the credit is reduced by \$50 for each \$1,000, or fraction thereof, by which the taxpayer's MAGI exceeds the applicable threshold amount. The threshold amounts are \$400,000 for married taxpayers filing a joint return, and \$200,000 for all other filers.

Other Virginia Tax Benefits for Dependents

The Virginia Personal Exemption

An exemption of \$930 may be claimed for each dependent claimed on the taxpayer's federal income tax return. Part-year residents must prorate their exemption amounts, based on their period of residency in Virginia.

Virginia Deduction for Child and Dependent Care Expenses

In Virginia, taxpayers may deduct the amount of employment-related expenses on which the federal child and dependent care credit is based. The amount of employment-related expenses that may be deducted is limited to the amount actually used in computing the federal child and dependent care credit. As a general rule, taxpayers are limited to a maximum deduction of \$3,000 for one child and \$6,000 for two or more dependents, or the earned income of the spouse having the lowest income, whichever is less.

Proposal

This bill would provide a one-time \$300 per dependent individual income tax credit for each dependent younger than thirteen. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed \$100,000. The credit provided by this bill would generally be refundable. However, the credit would be nonrefundable for Virginia nonresidents and part-year residents.

The Department would be required to develop guidelines implementing the credit.

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

Similar Bills

HB 403 would provide a refundable tax credit equal to 20% of the Federal Child and Dependent Care Tax Credit.

SB 268 would create a refundable individual income tax credit capped at \$5 million annually in an amount equal to that allowed for the corresponding Federal Child Tax Credit which is up to \$2,200.

cc : Secretary of Finance

Date: 02/01/2026 ALS
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