

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Tony O. Wilt

3. **Committee** House Finance

4. **Title** Income Tax: Child Day-care Facility Investment and Child Day-care Expense Reimbursement Tax Credits

2. **Bill Number** HB 1412

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would provide employers a nonrefundable individual and corporate income tax credit for twenty-five percent of amounts incurred for employees' eligible child day-care expenses that are either paid directly by the employer or reimbursed to employees during the taxable year.

This bill would also increase from \$25,000 to \$50,000 the amount for which an employer may claim a credit for establishing a child day-care facility.

This bill would increase the limit for approval of applications for the credits to those that are assumed to result in no more than \$5 million of credits in any fiscal year. Under current law, such limit is \$100,000.

Under current law, this credit is considered obsolete and may not be claimed by a taxpayer without express permission from the General Assembly. This bill would re-instate the credit, so that it would no longer be considered obsolete.

This bill would become effective for taxable years beginning on and after January 1, 2027.

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	(\$75,182)	0	GF
2027-28	(\$402,075)	1	GF
2028-29	(\$144,000)	1	GF
2029-30	(\$88,800)	1	GF
2030-31	(\$88,800)	1	GF

8. implications:

Administrative Costs

The Department of Taxation (“the Department”) would incur estimated expenditures, as shown on Line 7a. The costs above would be incurred to hire one full-time employee and to update the Department’s forms and systems to re-implement this credit, which was deemed obsolete in 2013. See Line 11 for more information.

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 beginning in FY 2028 of no greater than the \$5 million annual tax credit cap. It is unknown the extent to which the changes made by this bill would incentivize taxpayers to use the tax credit, the number of employers eligible for establishing a new day care facility for the children of their employees, or who would reimburse employees for day-care expenses.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Child Care Tax Benefits

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.

The Day-Care Facility Investment Tax Credit was deemed obsolete in the 2013 Obsolete Tax Credits Report pursuant to Virginia Code §58.1-319, and may not be claimed for taxable years beginning on and after January 1, 2014 without express authorization from the General Assembly

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). In general, the maximum amount of deduction allowed, \$3,000 for one dependent and \$6,000 for two or more dependents.

Federal Child Care Tax Benefits

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.

Proposal

This bill would provide employers a nonrefundable individual and corporate income tax credit for twenty-five percent of amounts incurred for employees' eligible child day-care expenses that are either paid directly by the employer or reimbursed to employees during the taxable year.

This bill would also increase from \$25,000 to \$50,000 the amount for which an employer may claim a credit for establishing a child day-care facility.

This bill would increase the approval of applications for the credits to those that are assumed to result in no more than \$5 million of credits in any fiscal year. Under current law, such limit is \$100,000.

"Child day-care facility" would mean a child day program operated under the authority of a license issued by the Superintendent of Public Instruction.

"Eligible child day-care expenses" would mean expenses directly incurred to provide child day-care services at a child day-care facility to the dependent minors of the taxpayer's employees.

Under current law, this credit is considered obsolete and may not be claimed by a taxpayer without express permission from the General Assembly. This bill would re-instate the credit, so that it would no longer be considered obsolete.

The Department would be required to develop guidelines for claiming this credit.

This bill would become effective for taxable years beginning on and after January 1, 2027.

Similar Bills

HB 403 would provide a refundable child tax credit equal to 20% of the credit claimed pursuant to the federal Child and Dependent Care Credit and 50% of an employer's qualified child care expenditures not to exceed \$500,000, adjusted annually for inflation.

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 equal to the taxpayer's federal child tax credit which is up to \$2,200 per child.

cc : Secretary of Finance

Date: 02/01/2026 ALS
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