DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** Lily V. Franklin

2. **Bill Number** HB 946
   House of Origin:
   X **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Income Tax: Affordable Rental Housing Tax Credit

5. **Summary/Purpose:**

   This bill creates a nonrefundable individual and corporate income tax credit for eligible landlords in an amount equal to $750 per certified affordable dwelling unit rented by such landlord. Each eligible landlord is limited to no more than a total of $15,000 in credits per taxable year. The aggregate amount of Affordable Housing Rental Credits available to all eligible landlords is capped at $5 million per taxable year, allocated by the Department of Taxation ("the Department") on a first-come, first-served basis.

   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): 261 and 263 Department of Taxation
   102 Department of Housing and Community Development

7. **No Fiscal Impact or Fiscal Impact Estimates are:** Preliminary. (See Line 8.)
   7a. Expenditure Impact – Department of Tax:

Fiscal Year	***Department***	***Dollars***	***Positions***	***Fund***
2026-27	TAX	$584,360	2	GF
	DHCD	$254,000	2	GF
2027-28	TAX	$239,100	2	GF
	DHCD	$254,000	2	GF
2028-29	TAX	$183,600	2	GF
	DHCD	$254,000	2	GF
2030-31	TAX	$183,600	2	GF
	DHCD	$254,000	2	GF
2031-32	TAX	$183,600	2	GF
	DHCD	$254,000	2	GF
2032-33	TAX	$183,600	2	GF
	DHCD	$254,000	2	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation ("the Department") would incur estimated expenditures, as shown on Line 7a. The costs above would be incurred by updating the Department's forms and systems to implement the new credit and adding two new full-time positions. Any costs thereafter would be considered routine.

Because of the implementation and release schedule for the Integrated Revenue Management System (IRMS) replacement project, the Department does not anticipate any system changes or resource constraints for this legislation 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).

This bill will require the Department of Housing and Community Development ("DHCD") to implement a new program certifying units for tax credit eligibility. This new tax credit program would not be absorbable by existing staff and will require two additional positions. The administrative cost is estimated based on the amount of work that is generated from two similar programs: the Communities of Opportunity Tax Credit and the Livable Homes Tax Credit.

Revenue Costs

This bill would have an unknown General Fund revenue impact of up to $5 million beginning in Fiscal Year 2027 through 2031. The revenue impact will depend on the final determination of eligibility criteria under the DHCD and how many landlords will complete the certification process to claim the credit proposed in the bill.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Housing and Community Development

10. Technical amendment necessary: No.

11. Other comments:

Background

Communities of Opportunity Tax Credit

The Communities of Opportunity Tax Credit expired January 1, 2026. The aggregate amount of this credit available was capped at $500,000 per fiscal year. It reserved $400,000 in credits for participating landlords renting qualified housing units in eligible census tracts, defined as census tracts in Virginia in which less than 10 percent of the residents live below the poverty level. The remaining $100,000 was reserved for participating landlords renting qualified housing units in eligible non-metropolitan census tracts, defined as census tracts outside of the Richmond Metropolitan Statistical Area, the Washington-Arlington-Alexandria Metropolitan Statistical Area, and the Virginia Beach Norfolk-Newport News Metropolitan Area, and in which less than 40 percent of the residents live below the poverty line.

The amount of tax credit for an eligible property was based on 10 percent of annual fair market rent for that specific unit and prorated when units are qualified for less than the full taxable year. For purposes of the credit, a "qualified housing unit" includes a dwelling unit that is located in an eligible housing area for which a portion of the rent is paid by a housing authority, and payment is pursuant to a housing choice voucher program.

History

During the 2010 Session, the General Assembly established the Communities of Opportunity Tax Credit for landlords with qualified housing units located in census tracts with poverty rates of less than 10 percent in the Richmond Metropolitan Statistical Area who participate in a housing choice voucher program.

The tax credit was initially capped at $450,000 but then reduced in 2013 to $250,000. In 2024, it was increased to $500,000 in 2024.

Housing Opportunity Tax Credit

The Housing Opportunity Tax Credit ("HOTC") allows eligible taxpayers a credit in an amount equal to the amount of federal low-income housing tax credit Virginia Housing Development Authority ("VHDA") permits for the project. To be eligible, a taxpayer must own or be invested in a building used to provide low-income housing. A building qualifies if:

- It was put into service in Virginia on or after January 1, 2021.
- It meets the definition of low-income building provided in §42(c) of the Internal Revenue Code.

The credit is subject to an annual cap equal to $60 million per calendar year. Credits issued each calendar year are allowed ratably, with one-tenth of the total amount of the credits allowed annually for 10 years over the credit period. There is a reduction in the tax credit allowable in the first year of the credit period due to a federal law calculation, and any reduction by reason of such federal law calculation in the credit allowable for the first taxable year of the credit period is allowable for the first taxable year following the credit period.

In addition to the $60 million annual cap, the multi-year cap on the HOTC program is $255 million. Such cap does not apply per calendar year but instead across all calendar years for which the HOTC is effective.

Of the annual cap of $60 million, $20 million must be reserved for qualified projects located in a geographic area within the Balance of State Pool. The Balance of State Pool is defined by the Qualified Allocation Plan promulgated by the Virginia Housing

Development Authority as the remaining geographic area of Virginia after the Northern Virginia, Northwest/North Central Virginia, Richmond MSA, and Tidewater MSA geographic areas are excluded. Such allocation of HOTC constitutes the minimum amount of such tax credits to be allocated for qualified projects in such localities. However, if the amount of such tax credits requested for qualified projects in such localities is less than the total amount of such credits available for qualified projects in such localities, the balance of such credits is permitted to be allocated for any qualified project, regardless of location.

<u>Proposal</u>

This bill creates a nonrefundable individual and corporate income tax credit for eligible landlords in an amount equal to $750 per certified affordable dwelling unit rented by such landlord. Each eligible landlord is limited to no more than a total of $15,000 in credits per taxable year. The aggregate amount of Affordable Housing Rental Credits available to all eligible landlords is capped at $5 million per taxable year, allocated by the Department on a first-come, first-served basis.

If the amount of Affordable Housing Rental Credits allowed to a taxpayer exceeds the taxpayer's tax liability, the excess may be carried over for up to five years.

The Department of Housing and Community Development will create guidelines for the certification of affordable dwelling units, including:

- Monthly rent of such units does not exceed 30 percent of the area median income for the locality in which such units are located; and
- Such units meet all applicable safety and habitability standards.

"Affordable dwelling unit" would mean an individual housing unit in an apartment building, an individual housing unit in multifamily residential housing, a single-family residence, or any similar individual housing unit that has been certified as an affordable dwelling unit by the Department of Housing and Community Development.

"Eligible Landlord" would mean (i) an individual, (ii) a limited liability company that was organized pursuant to Virginia law and has 10 or fewer employees, or (iii) a nonprofit organization exempt from taxation under 501(c)(3) of the Internal Revenue Code, who is engaged in the business of the rental of dwelling units that are subject to the Virginia Residential Landlord Tenant Act.

The Tax Commissioner would be required to develop guidelines to implement this tax credit.

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

Similar Bills

HB 1135 would create an individual and corporate tax credit for qualifying taxpayers who own an interest in an affordable housing project. The credit is equal to 50 percent of the difference between the fair market value of each unit rented to a qualifying tenant and the actual rent charged.

cc : Secretary of Finance

Date: 02/07/2026 RJ
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