DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** James A. 'Jay' Leftwich

2. **Bill Number** HB 1135
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** House Finance

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

5. **Summary/Purpose:**

This bill would create a nonrefundable individual and corporate income 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 times the percentage of the qualifying taxpayer's ownership interest in the affordable housing project. The aggregate amount of credits for all taxpayers would be capped at $5 million per taxable year, and if request for tax credits exceed this cap, tax credits will be prorated.

The 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. **No Fiscal Impact or Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7a. Expenditure Impact:

Fiscal Year	***Dollars***	***Positions***	***Fund***
2026-27	$584,360	2	GF
2027-28	$239,100	2	GF
2028-29	$183,600	2	GF
2029-30	$183,600	2	GF
2030-31	$183,600	2	GF
2031-32	$183,600	2	GF

7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2026-27	($5 million)	GF
2027-28	($5 million)	GF
2028-29	($5 million)	GF
2029-30	($5 million)	GF
2030-31	($5 million)	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).

Revenue Impact

This bill would have an estimated negative General Fund revenue impact as shown on Line 7b. The Department was not able to estimate the impact of this bill because it is unknown how many affordable housing projects will be determined to qualify for the credit by localities. However, the Department was able to produce a speculative estimate of over $5 million based on criteria narrower than permitted by this bill, as a result, the Department anticipates that this credit would be oversubscribed, meaning the amount of credits requested would exceed the credit cap on an annual basis.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Housing and Community Development
Localities

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.

Proposal

This bill would create a nonrefundable individual and corporate income 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 times the percentage of the qualifying taxpayer's ownership interest in the affordable housing project. The aggregate amount of credits for all taxpayers would be capped at $5 million per taxable year, and if request for tax credits exceed this cap, tax credits will be prorated. If the amount of affordable housing projects tax credits allowed to a taxpayer exceeds the taxpayer's tax liability, the excess may be carried over for up to five years.

"Affordable housing project" would mean a housing project determined by the locality in which it is located to be affordable housing and that is committed for a 30-year term to holding 60 percent of the units aside for qualifying tenants.

"Qualifying taxpayer" would mean a taxpayer that, during the taxable year, owns a direct or indirect interest through one or more pass-through entities in an affordable housing project.

"Qualifying tenant" would mean a tenant with a Virginia adjusted gross income less than 120 percent of the area median income, adjusted for family size.

The Department, in cooperation with the Department of Housing and Community Development, would be required to develop guidelines implementing the credit.

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

Similar Bills

HB 946 would create an affordable rental housing tax credit in an amount equal to $750 per affordable dwelling unit rented by an eligible landlord, limited to an individual total of $15,000 per year.

cc : Secretary of Finance

Date: 02/07/2026 RJ
HB1135F161