

**DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement**

1. **Patron** John Chilton McAuliff

2. **Bill Number** HB 504

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Income tax; tax credit for certain small businesses.

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would establish a one-time, nonrefundable individual and corporate income tax credit equal to \$2,500 for eligible small businesses. The bill limits the total aggregate amount of small business credits claimed by all taxpayers to \$5 million per taxable year.

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

6. Budget amendment necessary: Yes.

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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	\$516,060	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

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
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 above. Such costs would primarily consist of updating the Department’s forms and systems to implement the credit and the hiring of 2 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

This bill would have an estimated negative General Fund revenue impact as shown on Line 7b. The Department estimates that there could be more than 2,000 taxpayers that could qualify for this credit, 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

10. Technical amendment necessary: No.

11. Other comments:

Proposal

This bill would establish a one-time, nonrefundable individual and corporate income tax credit equal to \$2,500 for eligible small businesses. To be eligible a business must:

- Be engaged in the retail trade (NAICS 44 and 45) or the accommodation and food services (NAICS 72) industries;
- Meet the size standards set by the U.S. Small Business Administration for such industry;
- Commence operations during the taxable year for which a credit is claimed; and
- Lease or purchase a place of business in a designated Virginia Main Street Community.

There are 36 Virginia Main Street Communities designated by the Department of Community Development. Most of them are business districts within the following localities:

Localities With Designated Virginia Main Street Communities

Altavista	Fredericksburg	Newport News -
Ashland	Galax	Hilton Village District
Blackstone	Gloucester	Onancock
Bristol	Hampton -	Petersburg
Buena Vista	Downtown Phoebus District	South Boston
Cape Charles	Harrisonburg	St. Paul
Clarksville	Hopewell	Staunton
Colonial Beach	Lexington	Tappahannock
Covington	Luray	Tazewell
Culpeper	Lynchburg	Warrenton
Danville	Manassas	Winchester
Farmville	Marion	Wytheville
	Martinsville	

Source: Department of Housing and Community Development

This bill limits the total aggregate amount of small business credits claimed by all taxpayers to \$5 million per taxable year. Credits will be allocated on a first-come, first-serve basis. If the tax credit exceeds the taxpayer's income tax liability for the taxable year the taxpayer may carryover the unused portion of the tax credit for up to 5 years.

The Tax Commissioner would be required to develop guidelines implementing the tax credit.

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

cc : Secretary of Finance

Date: 02/08/2026 JPJ
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