DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** Phillip A. Scott

2. **Bill Number** HB 1258
   House of Origin:
   __X__ **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Individual Income Tax: Pass Through Limitation Tax Credit

5. **Summary/Purpose:**

This bill would establish a nonrefundable individual income tax credit for owners of qualified rental property in an amount equal to a percentage of any qualifying tax increase in real property tax on such qualified rental property:

- In the first tax year following the qualifying tax increase, 50 percent of the qualifying tax increase;
- In the second tax year following the qualifying tax increase, 30 percent of the original qualifying tax increase; and
- In the third tax year following the qualifying tax increase, 10 percent of the original qualifying tax increase.

For qualifying tax increases occurring on and after January 1, 2026, but before January 1, 2027, the credit shall be available only for qualified rental properties containing 10 or more dwelling units. For qualifying tax increases occurring on and after January 1, 2027, but before January 1, 2028, the credit shall be available only for qualified rental properties containing three or more dwelling units. For qualifying tax increases occurring on and after January 1, 2028, the credit shall be available for all qualified rental properties.

The total amount of credits for all taxpayers would be subject to an annual credit cap of $5 million and credits would be allocated on a first-come, first-served basis.

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): Page 1, Revenue Estimates
   261 and 263 Department of Taxation

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7a. **Expenditure Impact:**

Fiscal Year	***Dollars***	***Positions***	***Fund***
2026-27	$450,568	2	GF
2027-28	$237,900	2	GF
2028-29	$179,100	2	GF
2029-30	$178,500	2	GF
2030-31	$177,600	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. Such costs would primarily consist of updating the Department's systems to implement the credit and two new full-time employees to administer it.

The Department requests a delayed effective date of January 1, 2027, due to the system changes required by this legislation and resource commitments associated with the Integrated Revenue Management System (IRMS) replacement project. Changes needed to implement this bill would impact work in progress for the first rollout of the new system scheduled for September 2026. 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. Based on data from the similar Communities of Opportunity Tax Credit, 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:

Communities of Opportunity Tax Credit

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 credit was expanded in 2019, 2020, 2022, and 2024 to cover qualified housing units in more locations, and now includes qualified housing units in all census tracts located in Virginia with poverty rates of less than 10 percent.

The amount of tax credit for an eligible property is 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.

The tax credit was initially capped at $450,000, but the cap was increased during the 2024 General Assembly Session to $500,000. In the event that the amount of the qualified requests for tax credits in a fiscal year exceeds the $500,000 cap, all qualified applicants receive a prorated tax credit amount. This credit expired on January 1, 2026.

Proposal

This bill would establish a nonrefundable individual income tax credit for owners of qualified rental property in an amount equal to a percentage of any qualifying tax increase in real property tax on such qualified rental property:

- In the first tax year following the qualifying tax increase, 50 percent of the qualifying tax increase;
- In the second tax year following the qualifying tax increase, 30 percent of the original qualifying tax increase; and
- In the third tax year following the qualifying tax increase, 10 percent of the original qualifying tax increase.

To be eligible for the credit, taxpayers would be required to certify that (i) for all renewal leases executed during the applicable tax year, the weighted average rent increase for occupied units does not exceed the annual percentage increase in the Consumer Price Index for the 12-month period ending on December 31 of the preceding calendar year and (ii) all real property taxes, business licenses, and other local taxes and fees related to the property are current and have been paid in full for the preceding two years.

The total amount of credits for all taxpayers would be subject to an annual credit cap of $5 million and credits would be allocated on a first-come, first-served basis. The amount of credits claimed by an individual taxpayer would be limited to their tax liability for the taxable year, and the amount of credit, if any, exceeding the individual's income tax liability could be carried over for up to five years.

"Consumer Price Index" would mean the Consumer Price Index for All Urban Consumers (CPI-U) for the South, as published by the Bureau of Labor Statistics of the U.S. Department of Labor, or its successor index.

"Qualified rental property" would mean real property that has been rented solely for residential purposes for at least 24 consecutive months and has no outstanding notices of violation of the Uniform Statewide Building Code (§ 36-97 et seq.) or local property maintenance codes that have remained uncorrected for more than 90 days. "Qualified rental property" does not include (i) owner-occupied properties with fewer than four rental units, (ii) properties receiving tax benefits under § 58.1-3295 for affordable rental housing, and (iii) properties receiving federal Low-Income Housing Tax Credits or similar federal or state affordable housing subsidies.

"Qualifying tax increase" would mean any increase in real property tax on a qualified rental property that exceeds the limitation set forth in subsection A of § 58.1-3321, whether resulting from general reassessment, biennial assessment, annual assessment, or an increase in the tax rate pursuant to subsection B of § 58.1-3321.

"Renewal lease" would mean a rental lease agreement for a dwelling unit with a tenant who has continuously occupied such unit for at least 12 months immediately preceding the commencement of the new lease term.

"Weighted average rent increase" would mean the average percentage increase in rent across all dwelling units in a qualified rental property, weighted by the number of units at each rent level.

The Department would be required to audit no less than five percent of the qualified rental properties for which a credit is claimed in a taxable year, and if, in the process of such audit, the Department determines that the owner of a qualified rental property that claimed a credit falsely certified compliance with any of the credit eligibility requirements, the credit would be subject to recapture. The bill would also provide that any owner of a qualified rental property that knowingly makes a false statement in an application for the credit is guilty of a Class 3 misdemeanor.

This bill would require the Department to report on the utilization of the credit annually to the House Committee on Appropriations, House Committee on Finance, and Senate Committee on Finance and Appropriations. However, the Department would not be able to provide any information in the required report that would violate taxpayer confidentiality under 58.1-3.

The Department would also be required to develop guidelines for claiming the credit. This would include developing an application process that requires a taxpayer that owns qualified rental property to apply to the Department for each taxable year in which the credit is claimed. Such application would include (i) a notarized certification that the rent increase limitations described in subsection C have been met, (ii) documentation of the difference in rent paid for the current and preceding lease terms of each dwelling unit located in the qualified rental property, (iii) copies of all renewal leases executed for dwelling units located on the property during the applicable period or a summary thereof, and (iv) a calculation of the weighted average rent increase for such property.

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

cc : Secretary of Finance

Date: 02/08/2026 JLOF
HB1258F161