DEPARTMENT OF TAXATION
2026 Fiscal Impact Statement

1. **Patron** Phil M. Hernandez

2. **Bill Number** HB 1074
   House of Origin:
   X **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

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

3. **Committee** House Finance

4. **Title** State taxation in the Commonwealth.

5. **Summary/Purpose:**

This bill would make numerous changes to the Commonwealth's tax structure including:

Virginia Individual Income Tax

- For taxable years beginning on and after January 1, 2027, create a new 7.75 percent individual income tax bracket for income in excess of $1,000,000,
- For taxable years beginning on and after January 1, 2026, increase the standard deduction to $10,000 for single individuals and $20,000 for married individuals, and
- For taxable years beginning on and after January 1, 2026, increase the income tax subtraction available for military benefits from $40,000 to $60,000 and adjusted annually for inflation each year thereafter.

Earned Income Tax Credit

- For taxable years beginning on and after January 1, 2026, the bill would make the refundable Virginia Earned Income Tax Credit ("the Virginia EITC") permanent and increase the credit from 20 percent to 25 percent of the federal credit.

Health Insurance Premium Tax Credit

- For taxable years beginning on and after January 1, 2026 but before January 1, 2031, this bill would establish a refundable "enhanced premium credit" for taxpayers who:
  - Have a Virginia adjusted gross income equal to or less than 250 percent of the poverty guidelines and
  - Are eligible for a tax credit pursuant to § 36B of the Internal Revenue Code ("IRC").
  - The "enhanced premium credit" would be equal to the difference between the federal tax credit under IRC § 36B the taxpayer would have been eligible to receive for taxable years 2025 and 2020.
  - For taxable years beginning on and after January 1, 2026, but before January 1, 2027, the total amount of credits allowed to all taxpayers would be capped $50 million per taxable year.

Virginia Child Tax Credit

- For taxable years beginning on and after January 1, 2026, but before January 1, 2031, this bill would create a one-time tax credit equal to $400 per dependent under the age of 6 for taxpayers whose family Virginia adjusted gross income does not exceed $100,000.
- Only one credit may be claimed for each dependent.
- If the taxpayer is a resident of the Commonwealth for the full taxable year, the credit would be refundable, and the Department of Taxation would be required to develop a process allowing taxpayers to elect to receive any such refund in multiple payments.

The provisions of this bill regarding the increasing the standard deduction, the military benefits subtraction and Virginia EITC would be effective for taxable years beginning on and after January 1, 2026. The provisions of this bill establishing the Health Insurance Premium Tax Credit and Child Tax Credit would be effective for taxable years beginning on and after January 1, 2026, but before January 1, 2031. The provisions of this bill creating a new income tax bracket would be effective for taxable years beginning on and after January 1, 2027. If enacted during the regular session of the 2026 General Assembly, all other provisions of this bill would become effective July 1, 2026.

6. **Budget amendment necessary:** Yes.
   Item(s): <u>Page 1 Revenue Estimates</u>
   <u>261 and 263 Department of Taxation</u>

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

Fiscal Year	***Dollars***	***Positions***	***Fund***
2026-27	$947,243	2	GF
2027-28	$377,001	2	GF
2028-29	$258,201	2	GF
2029-30	$257,601	2	GF
2030-31	$196,701	2	GF
2031-32	$19,101	0	GF

8. **Fiscal implications:**

<u>Administrative Costs</u>

The Department of Taxation ("the Department") requests an amendment to the bill to replace the requirement for multiple payments of the child tax credit with a pilot program to allow taxpayers to request an advance payment as soon as practicable:

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Line 521 after: "establish a"
Strike: the remainder of line 521 and all of lines 522 and 523
Insert: "pilot program as soon as practicable in which certain taxpayers who are eligible to receive the credit may elect to receive the at least a portion of the credit as an advance payment.

This request is being made 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).

For the provisions of the bill related to the Health Insurance Credit and the Child Tax Credit, except for the multiple payments that are the subject of the requested amendment, the Department would incur estimated expenditures as shown above. Such costs would primarily consist of programming the system and processing credit applications. Two full-time employees would be required to handle customer questions and process credits that are capped and have potential carryovers.

The expenses to implement the remaining provisions of the bill, new bracket, standard deduction, military benefits deduction and earned income tax credit, would be routine and the Department would not require an additional appropriation above what was requested on Line 7a.

Revenue Impact

Changes to Tax Brackets, the Standard Deduction, the Military Retirement Subtraction, and the Refundable Earned Income Tax Credit

These provisions of the bill would have a net negative General Fund revenue impact in Fiscal Year 2027 and a net positive General Fund Revenue impact in Fiscal Years 2028 through 2032 as shown below:

($ in millions)	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**
New income tax bracket and increase standard deduction	$20.3	$697.9	$734.1	$793.1	$857.0	$930.5
Increase military retirement subtraction to $60,000 and indexed annually thereafter	($23.5)	($17.6)	($20.2)	($24.1)	($28.5)	($33.1)
25% Refundable VA EITC	($18.2)	($18.7)	($19.1)	($19.3)	($19.5)	($19.5)
Total impact of these provisions only	**($21.4)**	**$661.6**	**$694.8**	**$749.7**	**$809.0**	**$877.9**

Child Tax Credit

This bill would have an unknown negative General Fund revenue impact for Fiscal Years 2027 through 2031. It is unknown because it's difficult to determine the actual number of individuals who have dependents younger than the age of six and whose adjusted gross income does not exceed $100,000.

The Department was able to develop a speculative estimate based on national data from the US Census and American Community Survey 2023 survey. Virginia's share of these national numbers suggests there are approximately 240,000 children under the age of six in Virginia households earning less than $100,000. Applying the maximum credit of $400 per dependent child, the estimated revenue loss would be approximately $95 million. However, this estimate is based upon the assumption that the age of dependents at the Virginia level largely follows federal level data. As a result, the actual number of children in Virginia under age 6 living in qualified households could differ significantly, resulting in the actual impact of this bill varying significantly. Also, as this would be a one-time rather than annual credit claimed for eligible dependents, the timing of any revenue impact would also be unknown.

Insurance Premium Tax Credit

The Department lacks sufficient data to estimate the uncapped revenue impact of the Insurance Premium Tax Credit. Given the number of potentially eligible taxpayers, the revenue impact would be very substantial, and as a result it is unknown if this bill would have a net positive or negative General Fund revenue impact for fiscal Years 2028 to FY 2031.

Potential Overall Impact

For the reasons explained above, the overall impact of this bill is unknown. However, if it is assumed that all the Child Tax Credit for existing eligible children is claimed in the first taxable year and because of the $50 million cap on the Insurance Premium Tax Credit, the Department was able to determine the maximum negative revenue impact for Fiscal Year 2027, shown below. However, the revenue impact for the remaining Fiscal Years 2028 through 2031 would be unknown due to the lack of data to estimate the provisions of this bill relating to the Child Tax Credit and Insurance Premium Tax Credit:

($ in millions)	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**
New income tax bracket and increase standard deduction	$20.3	$697.9	$734.1	$793.1	$857.0	$930.5
Increase military retirement subtraction to $60,000 and indexed annually thereafter	($23.5)	($17.6)	($20.2)	($24.1)	($28.5)	($33.1)
25% Refundable VA EITC	($18.2)	($18.7)	($19.1)	($19.3)	($19.5)	($19.5)
Health Insurance Premium Tax Credit (TY26 capped)	($50)	Unknown	Unknown	Unknown	Unknown	*
Child Tax Credit	($94.3)	Unknown	Unknown	Unknown	Unknown	*
Total impact of HB 1074	**($165.7)**	**Unknown**	**Unknown**	**Unknown**	**Unknown**	**$877.9**

*Tax Credits Sunset January 1, 2031

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

The Department's requested amendment to the Child Tax Credit is set out in Line 8 above.

If the intent of the Patron is to allow taxpayers to receive the difference between the enhanced health insurance premium credit that expired December 31, 2025, and the amount of the original credit received before taxable year 2021 or after 2025, under Internal Revenue Code § 36B, the following amendments are suggested:

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Line 485 after: "pursuant to §"
Strike: "36"
Insert: "36B"

Line 487 after: "pursuant to §"
Strike: "36"
Insert: "36B"

Line 487 after: "2020."
Insert: "For any taxable year after 2025 the enhanced premium credit shall be reduced by the amount, if any, that the individual or married individuals received pursuant to § 36B of the Internal Revenue Code for that taxable year exceeds the amount of credit that the individual or married individuals filing jointly would have been eligible to claim for federal individual income taxes pursuant to § 36B of the Internal Revenue Code for taxable year 2020."

Line 492 after: "pursuant to §"
Strike: "36"
Insert: "36B"

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Line 505 after: "D."
Strike: "No credit shall be allowed under this section during any taxable year in which § 36B of the Internal Revenue Code, or any successor provision, is in effect. E."

While the indexing adjustment to the subtraction for military benefits is defined as the year-over-year percentage increase in the CPI-U, the bill does not specify the "base year" or the specific monthly data that will be used to calculate the adjustment for Taxable Year 2027 and after. The Internal Revenue Service generally uses an August-to-August time period (although since 2018 it has used the Chained CPI-U instead of the CPI-U). To address this and conform to federal practice, the following technical amendment is suggested:

Page 3

Line 123 after: "Labor for the"
Strike: "previous"
Insert: "12-month period ending August 31 of the preceding calendar year over the 12-month period ending August 31 of the of the second preceding calendar beginning January 1, 2027"

11. Other comments:

Virginia's Individual Income Tax

Under current law, the Virginia individual income tax is imposed at the following rates:

VA Taxable Income	VA Tax Rates
$3,000 and less	2 percent
$3,001 to $5,000	3 percent
$5,001 to $17,000	5 percent
$17,001 or more	5.75 percent

In 1971, when Virginia studied conforming to the federal income tax law, Virginia originally considered having only the first three tax brackets shown above. Therefore, the top marginal tax rate would have been 5 percent, applicable to Virginia taxable income of $5,001 or more. However, by 1972, when the General Assembly voted to conform to federal income tax law, it enacted four tax brackets at the same tax rates as under current law.

The amount of Virginia taxable income subject to Virginia's top marginal tax rate was last modified during the 1987 Session, in response to the 1986 federal tax reform.

Federal Standard Deduction

On July 4, 2025, H.R. 1 ("2025 H.R. 1") (Public Law 119-21) was signed into law making permanent the increased federal standard deduction amounts originally established by the 2017 Tax Cuts and Jobs Act ("TCJA") (Public Law 115-97). Like most other individual provisions of the TCJA, the increase in the amount of the federal standard deduction was scheduled to sunset after December 31, 2025.

The federal standard deduction for Taxable Year 2025 is as follows:

- $31,500 for married taxpayers filing jointly;
- $23,625 for heads of household; and
- $15,750 for single taxpayers and married taxpayers filing separately.

Virginia's Standard Deduction History

Under current law, taxpayers that do not itemize their deductions for federal purposes are permitted to claim a standard deduction on their Virginia income tax returns. Virginia's standard deduction amounts have changed over the years.

Prior to 1987, the Virginia standard deduction was not a flat amount. Instead, for Taxable Year 1986 for example, the Virginia standard deduction was 15 percent of federal adjusted gross income with a $1,300 minimum and a $2,000 maximum. In 1988, it increased to $2,700 for both single individuals and married couples. From 1989 to 2004, the standard deduction for single taxpayers remained at $3,000, while for married taxpayers, it increased to $5,000 during this period. 2004 Special Session I increased the standard deduction for married individuals from $5,000 to $6,000 for Taxable Years beginning on or after January 1, 2005.

After the TCJA increased the federal standard deduction through Taxable Year 2025, Virginia also increased the Commonwealth's standard deduction amount several times. Each of these increases expired at the end of 2025, the same date as the federal increases to the standard deduction. The Virginia standard deduction was increased in:

- 2019 to $4,500 for single filers and $9,000 for joint filers;
- 2022 to $8,000 for single filers and $16,000 for joint filers; and
- 2023 to $8,500 for single filers and $17,000 for joint filers.

Virginia's Current Standard Deduction

The eleventh enactment clause of the 2025 Appropriation Act (House Bill 1600, Chapter 725) increased the standard deduction from $8,500 to $8,750 for single filers and $17,000 to $17,500 for joint filers for taxable years beginning on and after January 1, 2025, but before January 1, 2027. This extended the Virginia increases to the Commonwealth's standard deduction amounts to one year beyond the expiration date then applicable to the federal increases to the federal standard deduction. A few months after the 2025 Appropriations Act was enacted, federal legislation, 2025 H.R. 1, made the increases to the federal standard deduction permanent.

Virginia's current standard deduction amount is scheduled to sunset after Taxable Year 2026 and revert to the standard deduction amounts that applied prior to Taxable Year 2019: $3,000 for single filers and $6,000 for married couples filing jointly.

Virginia's standard deduction history from Taxable Year 1987 to the present is shown below:

Year	**Virginia Standard Deduction for Single Taxpayers**	**Virginia Standard Deduction for Married Taxpayers Filing Jointly**
1987	$2,000	$2,000
1988	$2,700	$2,700
1989-2004	$3,000	$5,000
2005-2018	$3,000	$6,000
2019-2021	$4,500	$9,000
2022-2023	$8,000	$16,000
2024	$8,500	$17,000
2025-2026	$8,750	$17,500
2027 and following	$3,000	$6,000

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker's family, as well as the amount of the worker's federal adjusted gross income ("AGI") and earned income. Taxpayers are required to provide a valid Social Security number for themselves and each dependent they are claiming in the calculation of the EITC.

2025 H.R. 1 (Public Law 119-21) did not make major changes to the structure or amount of the EITC but did add a new precertification requirement starting in 2028.

For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC for Taxable Year 2025, an individual's AGI and earned income must be less than:

- $61,555 ($68,675 for joint filers) if they have three or more qualifying children;
- $57,310 ($64,430 for joint filers) if they have two qualifying children;
- $50,434 ($57,554 for joint filers) if they have one qualifying child; or
- $19,104 ($26,214 for joint filers) if they do not have a qualifying child.

The maximum federal EITC for Taxable Year 2025 is $8,046 for an individual with three or more qualifying children, $7,152 for an individual with two qualifying children, $4,328 for an individual with one qualifying child, and $649 for an individual with no qualifying children.

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either:

- The Tax Credit for Low-Income Individuals or
- The Virginia EITC.

The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to $300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married individual's income tax return for the taxable year.

The nonrefundable Virginia EITC is equal to 20 percent of the federal EITC and does not expire. In 2022 Virginia introduced a refundable EITC that was 15 percent of the federal EITC, and in 2025, Virginia increased the amount of the refundable EITC to match the nonrefundable Virginia EITC at 20 percent of the federal EITC. Under current law, taxpayers may choose between taking the nonrefundable or refundable Virginia EITC. However, the refundable Virginia EITC is set to expire after Taxable Year 2026.

The refundable Virginia EITC provides a cash refund to the taxpayer, even if their tax liability is zero. The nonrefundable EITC only reduces a taxpayer's tax liability to zero. As a result, taxpayers with little or no income tax liability receive the full value of the refundable credit but would lose much of the benefit of the nonrefundable credit.

Affordable Care Act

Enacted on March 23, 2010, the Patient Protection and Affordable Care Act (“ACA”) largely retained the existing structure of Medicare, Medicaid, and the employer market, but drastically overhauled individual markets. Insurers were required to accept all applicants without charging based on pre-existing conditions or demographic status (except age). The ACA mandated that individuals buy insurance or pay a monetary penalty, and that insurers cover a list of "essential health benefits". Young people were also allowed to stay on their parents' insurance plans until they were 26 years old.

Individuals whose household incomes are between 100 and 400 percent of the federal poverty level are eligible to receive federal subsidies in the form of a premium tax credit (“PTC”) for premiums for policies purchased on an ACA exchange, provided they are not eligible for Medicare, Medicaid, the Children's Health Insurance Program, or other forms of public assistance health coverage, and do not have access to affordable coverage through their own or a family member's employer. The American Rescue Plan Act of 2021 expanded eligibility for and the amount of the PTC for tax years 2021 and 2022. The budget reconciliation measure known as the Inflation Reduction Act extended the enhanced PTC provision for three additional tax years, 2023 to 2025. The enhance PTC expired December 31, 2025.

Federal Child Tax Credit

“Qualifying Child”

A taxpayer may claim a child tax credit against the individual income tax for each qualifying child for whom the taxpayer is allowed a dependency deduction on their federal return. For purposes of the child tax credit, the term “qualifying child” is defined the same as that for claiming a dependency exemption except that the child must not have attained age 17 by the end of the taxable year. Generally, a “qualifying child” is the taxpayer’s child, stepchild, adopted child, eligible foster child, sibling, step sibling, or a descendant of any such individual, who lives with the taxpayer for more than half of the taxable year and does not provide more than half of his own support.

Amount of the Credit

Under the Tax Cuts and Jobs Act (“TCJA”) of 2017 the federal child tax credit was doubled from $1,000 per child to $2,000 per child. Like most of the individual income tax provisions of the TCJA, the increase in the federal child tax credit was set to expire after 2025. 2025 H.R. 1 (P.L. 119-21) increased the value of the credit up to $2,200 per qualifying child. This higher child tax credit amount was made permanent and will be adjusted for inflation after 2025.

Limitations on the Credit

For taxpayers with modified adjusted gross income ("MAGI") above certain thresholds, the otherwise allowable child tax credit is phased out. Specifically, the amount of the credit is reduced by $50 for each $1,000, or fraction thereof, by which the taxpayer's MAGI exceeds the applicable threshold amount. The threshold amounts are $400,000 for married taxpayers filing a joint return, and $200,000 for all other filers.

Other Virginia Tax Benefits for Dependents

The Virginia Personal Exemption

An exemption of $930 may be claimed for each dependent claimed on the taxpayer's federal income tax return. Part-year residents must prorate their exemption amounts, based on their period of residency in Virginia.

Virginia Deduction for Child and Dependent Care Expenses

In Virginia, taxpayers may deduct the amount of employment-related expenses on which the federal child and dependent care credit is based. The amount of employment-related expenses that may be deducted is limited to the amount actually used in computing the federal child and dependent care credit. As a general rule, taxpayers are limited to a maximum deduction of $3,000 for one child and $6,000 for two or more dependents, or the earned income of the spouse having the lowest income, whichever is less.

Proposal

This bill would make numerous changes to the Commonwealth's tax structure including:

Virginia Individual Income Tax

- For taxable years beginning on and after January 1, 2027, create a new 7.75 percent individual income tax bracket for income in excess of $1,000,000,
- For taxable years beginning on and after January 1, 2026, increase the standard deduction to $10,000 for single individuals and $20,000 for married individuals, and
- For taxable years beginning on and after January 1, 2026, increase the income tax subtraction available for military benefits from $40,000 to $60,000 and adjusted annually for inflation each year thereafter.

Virginia Earned Income Tax Credit

- For taxable years beginning on and after January 1, 2026, the bill would make the refundable Virginia Earned Income Tax Credit ("the Virginia EITC") permanent and increase the credit from 20 percent to 25 percent of the federal credit.

Virginia Health Insurance Premium Tax Credit

- For taxable years beginning on and after January 1, 2026 but before January 1, 2031, this bill would establish a refundable "enhanced premium credit" for taxpayers who:
    - Have a Virginia adjusted gross income equal to or less than 250 percent of the poverty guidelines and

    - Are eligible for a tax credit pursuant to § 36B of the Internal Revenue Code ("IRC").
- The "enhanced premium credit" would be equal to the difference between the federal tax credit under IRC § 36B the taxpayer would have been eligible to receive for taxable years 2025 and 2020.
- For taxable years beginning on and after January 1, 2026, but before January 1, 2027, the total amount of credits allowed to all taxpayers would be capped $50 million per taxable year.
- The credit would not be allowed for any taxable year in which IRC § 36B is in effect

Virginia Child Tax Credit

- For taxable years beginning on and after January 1, 2026 but before January 1, 2031, this bill would create a one-time tax credit equal to $400 per dependent under the age of 6 for taxpayers whose family Virginia adjusted gross income does not exceed $100,000.
- Only one credit may be claimed for each dependent.
- If the taxpayer is a resident of the Commonwealth for the full taxable year, the credit would be refundable, and the Department of Taxation would be required to develop a process allowing taxpayers to elect to receive any such refund in multiple payments.
- The tax credit would be nonrefundable of nonresidents and part-year residents.

The Tax Commissioner would be required to develop guidelines for claiming the new Health Insurance Premium Tax Credit and the Child Tax Credit.

The provisions of this bill regarding the increasing the standard deduction, the military benefits subtraction and Virginia EITC would be effective for taxable years beginning on and after January 1, 2026. The provisions of this bill establishing the Health Insurance Premium Tax Credit and Child Tax Credit would be effective for taxable years beginning on and after January 1, 2026, but before January 1, 2031. The provisions of this bill creating a new income tax bracket would be effective for taxable years beginning on and after January 1, 2027. If enacted during the regular session of the 2026 General Assembly, all other provisions of this bill would become effective July 1, 2026.

cc : Secretary of Finance

Date: 02/08/2026 JPJ
HB1074F161