

DEPARTMENT OF TAXATION

2026 Fiscal Impact Statement

1. **Patron** Vivian E. Watts

3. **Committee** House Finance

4. **Title** Taxation Provisions;
Individual Income Tax

2. **Bill Number** HB 979

House of Origin:

Introduced

Substitute

Engrossed

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

The Department of Taxation ("the Department") understands that the Patron intends to introduce a substitute. This Fiscal Impact Statement is based upon the substitute.

This bill would make changes to the individual income tax, the Virginia Housing Opportunity Tax Credit, and the local portion of the retail sales and use tax.

Individual Income Tax

- Establish two new tax brackets at:
 - Eight percent on income in excess of \$600,000 but not in excess of \$1,000,000, and
 - 10 percent on income in excess of \$1,000,000.
- 5.5 percent of revenues generated by all individual income tax brackets will be dedicated to localities for maintenance, operation, capital outlays, debt and interest payments, or other expenses incurred in the operation of public schools.
- Increase the standard deduction to:
 - \$12,000 for single filers;
 - \$18,000 for head of household filers; and
 - \$24,000 for joint filers.
- Index the new standard deduction amounts for inflation beginning in 2028.

Virginia Earned Income Tax Credit

- This bill would also remove the sunset provision, which applies to the refundable Virginia Earned Income Tax Credit ("Virginia EITC").
- Under current law, the refundable Virginia EITC, which is equal to 20 percent of the federal earned income tax credit ("EITC") amount claimed on the taxpayer's federal return, is set to expire after Taxable Year 2026.

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.

Virginia Housing Opportunity Tax Credit

- Remove the \$575 million aggregate cap on the amount of housing opportunity tax credits that may be claimed for qualified projects across all calendar years.

Local Portion of the Retail Sales and Use Tax

- Exempt food purchased for human consumption and essential personal hygiene products from the local sales tax.

If enacted during the regular session of the 2026 General Assembly, the provisions affecting the sales tax exemption for food and essential personal hygiene products would become effective July 1, 2026. The provisions of this bill enacting the Child Tax Credit would be effective for taxable years beginning on and after January 1, 2026, but before January 1, 2031. The rest of the provisions of this bill would become effective for taxable years beginning on and after January 1, 2027.

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	\$662,266	1	GF
2027-28	\$227,901	1	GF
2028-29	\$167,901	1	GF
2029-30	\$167,901	1	GF
2030-31	\$107,901	1	GF
2031-32	\$19,101	0	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) requests a delayed effective date of January 1, 2027, for the provisions of the bill relating to the Retail Sales and Use Tax 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 this bill establishing a new Child Tax Credit, the Department would incur estimated expenditures as shown on line 7a. Provided that a delayed effective date of January 1, 2027 as included on line 10 below is adopted for such Retail Sales and Use Tax changes, the Department considers all other provisions of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have a net positive General Fund revenue impact beginning in Fiscal Year 2027 and each year thereafter. This bill would have a net negative local revenue impact in Fiscal Year 2027, and a net positive local revenue impact beginning in Fiscal Year 2028 and each year thereafter.

Assuming that the Child Tax Credit for all currently eligible children is fully claimed in the first taxable year, the Department was able to estimate the minimum positive revenue impact for Fiscal Year 2027, as shown below. The revenue impact for Fiscal Years 2028 through 2031 is also expected to be positive; however, the specific amounts cannot be estimated due to insufficient data related to the bill's Child Tax Credit provisions:

General Fund & Local Revenue Impact of Changes to the Individual Income Tax ("IIT") and Local Sales Tax (in millions)						
	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
New Bracket Revenue	\$1,131.7	\$2,463.7	\$2,564.0	\$2,730.8	\$2,910.3	\$3,103.3
5.5% of IIT Revenue	\$0	(\$1,342.5)	(\$1,430.6)	(\$1,485.4)	(\$1,556.0)	(\$1,633.6)
Standard Deduction Increases, Head of Household Status and Adjustments for Inflation	(\$411.6)	(\$903.1)	(\$953.8)	(\$1,040.1)	(\$1,130.6)	(\$1,208.9)
Child Tax Credit	(Up to \$94.3)	Unknown	Unknown	Unknown	Unknown	--
HOTC/Permanent Refundable VA EITC	No Impact/Assumed					
Net General Fund Impact	\$625.8	\$218.1*	\$179.6*	\$205.3*	\$223.7*	\$260.8
5.5% of IIT Revenue	\$0	\$1,342.5	\$1,430.6	\$1,485.4	\$1,556.0	\$1,633.6
Repeal of 1% Local Sales Tax	(\$290.3)	(\$325.0)	(\$334.4)	(\$334.8)	(\$356.5)	(\$366.5)
Net Local Revenue Impact	(\$290.3)	\$1,017.5	\$1,096.2	\$1,150.6	\$1,199.5	\$1,267.1

* Does not include unknown revenue loss due to the child tax credit.

Refundable Virginia Earned Income Tax Credit

The provision of the bill making the refundable Virginia EITC permanent has no General Fund revenue impact because its extension is assumed in the official revenue forecast. In Fiscal Year 2025 the combined Low-Income Tax Credit and the Virginia EITC was claimed on 522,435 returns for a total of \$224.1 million.

Housing Opportunity Tax Credit

The removal of the \$575 million aggregate limit on housing opportunity credits would have no impact on General Fund revenues. Because of the ratable allowance structure of this credit, the Official General Fund Revenue Forecast assumes credits will be claimed ratably over a ten-year period and that the sunset date limits the cumulative impact. Since the bill retains the annual \$64 million cap and does not extend the current sunset date of December 31, 2030, this bill would have no impact.

Child Tax Credit

Precise estimates are not feasible given data limitations for the Child Tax Credit. However, the Department was able to produce a speculative revenue estimate of \$94.3 million for such credit based on the total number of qualifying dependents currently residing in eligible households. This estimate assumes that all eligible taxpayers claim this credit in the same year, and that is unlikely. After a credit for all currently qualifying dependents has been claimed, the credit would have a much lower ongoing cost due to annual births and migration into Virginia of additional qualifying dependents. The number of additional qualifying dependents per year and the amount credits claimed in any given year cannot be estimated, but a maximum of no more than \$94.3 million in credits would be claimed in any given year.

9. Specific agency or political subdivisions affected:

Department of Taxation
Virginia Housing Development Authority
Counties and Cities

10. Technical amendment necessary: Yes.

The Department understands that the Patron intends to amend the bill as introduced to include a permanent extension of the refundable Virginia EITC, a one-time \$400 per child tax credit for children 6 and under, and a 5.5 percent distribution to localities. The line amendments below would be needed to effectuate the 5.5 percent distribution to localities:

Page 1

Line 49 after "A."

Strike: The remainder of line 49 and lines 50 through 55.

Insert: "*That 5.5 percent of all revenue generated from the individual income tax each fiscal year, as estimated by the Tax Commissioner, shall be distributed to counties and cities in the manner described in subsection B.*"

Line 57 at the beginning of the line
Strike: "2"

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Line 59 after "*subdivision A*"
Strike: "2"

Line 60: after "*revenue*"
Insert: "*from all individual income tax brackets*"

Lines 66 & 67 after "*revenue*"
Strike: "*generated from the rates*"
Insert: "*as*"

Adding a one-time \$400 per child tax credit for children 6 and under would require an amendment to the bill to create a new section, and making the refundable Virginia EITC permanent would require an amendment to § 58.1-339.8 of the Code of Virginia.

While the "indexing modification" is defined as the year-over-year percentage increase in the Chained CPI-U, the bill does not specify the "base year" or the specific monthly data that will be used to calculate the adjustment. Without this, the Department cannot actually calculate the first year's adjustment. The Internal Revenue Service generally uses an August-to-August time period. To address this and conform to federal practice, the following technical amendment is suggested:

Page 2

Line 99 after "*successor index*"
Strike: "previous year"
Insert: "12-month period ending August 31 of the preceding calendar year over the 12-month period ending August 31 of the second preceding calendar year beginning with calendar year 2028."

11. Other comments:

Background

Individual Income Tax Rates

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

Virginia Taxable Income	Virginia Tax Rates
\$3,000 and less	2 Percent
\$3,001 to \$5,000	3 Percent
\$5,001 to \$17,000	5 Percent
\$17,000 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.

Year	Taxable Income Subject to 5.75 Percent Tax Rate
1972 – 1986	\$12,001 or more
1987	\$14,001 or more
1988	\$15,001 or more
1989	\$16,001 or more
1990	\$17,001 or more

Since the changes adopted during the 1987 Session adjusting the top bracket to the current income level for Taxable Year 1990 and thereafter, the General Assembly has not enacted any legislation affecting Virginia individual income tax rates or brackets and the brackets are not currently indexed for inflation. The federal individual income tax rate brackets are indexed for inflation.

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 is indexed for inflation.

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

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.

Virginia Housing Opportunity Tax Credit

The Virginia Housing Development Authority ("VHDA") administers the tax credit for certain low-income building projects in an amount substantially similar to the amount of federal Low Income Housing Tax Credit ("LIHTC") allocated or allowed by VHDA to such projects. The credit may be allowed for each project for each year of the federal credit period, in an amount equal to the amount of federal LIHTC allocated or allowed by VHDA to such project.

The total amount of housing opportunity tax credits authorized for qualified projects are not allowed to exceed \$15 million for calendar year 2021, \$60 million for calendar years 2022 through 2025, and \$64 million for calendar years 2026 through 2030. However, in addition to these annual limits, the aggregate amount of housing opportunity tax credits is limited to \$575 million for all qualified projects for all calendar years. If the credits are fully utilized each year, they would total \$575 million.

Sales Tax Exemption

Food purchased for human consumption and essential personal hygiene products are exempted from state sales tax in several sections of the Code, while several other sections provide similar exemptions from various additional sales tax imposed in certain planning districts. However, the exemptions do not apply to the one percent local sales tax imposed by all localities. Definitions of relevant terms are contained in another section of the Code.

Proposal

This bill would make changes to the individual income tax, the Virginia Housing Opportunity Tax Credit, and the local portion of the retail sales and use tax.

Individual Income Tax

- Establish two new tax brackets at:
 - Eight percent on income in excess of \$600,000 but not in excess of \$1,000,000, and
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cc : Secretary of Finance

Date: 02/08/2026 JPJ
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