DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement

1. **Patron** Kathy K.L. Tran

2. **Bill Number** HB 969
House of Origin:
X **Introduced**
___ **Substitute**
___ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Child Tax Credit

5. **Summary/Purpose:**

This bill would establish a $500 per dependent individual income tax credit for each dependent younger than eighteen. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed $100,000. The credit provided by this bill would generally be refundable. However, the credit would be nonrefundable for Virginia nonresidents and part-year residents.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

6. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
Item 274 and 276, Department of Taxation

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

Fiscal Year	***Dollars***	***Positions***	***Fund***
2024-25	$230,760	0	GF
2025-26	$48,500	0	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") estimates that this bill would result in administrative costs of $230,760 in FY 2025 and $48,500 in FY 2026. These costs include the expenses associated with creating a new tax credit program, including updating technology, forms, and systems.

Revenue Impact

This bill would result in a significant unknown negative General Fund revenue impact beginning in FY 2025. According to the Department's FY 2022 Annual Report, a total of 1,394,346 dependents were claimed by households with adjusted gross income lower than $100,000. Based on a sample of Taxable Year 2021 returns, approximately 93 percent of dependents claimed on Virginia returns were children under the age of 18. Assuming that 93 percent of taxpayers claiming dependents will be entitled to the maximum credit, the estimated revenue loss could be as high as $651 million annually. However, the actual impact of this bill is unknown because the number of individuals who would claim this credit is unknown. In addition, it is unknown the number of such dependents who would be claimed on a part-year or nonresident return, where the full credit may not be claimed because it is limited to tax liability.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Child Tax Credit

Under federal law, a taxpayer may claim a $2,000 child tax credit against the individual income tax for each qualifying child for whom the taxpayer is allowed a dependency deduction. 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.

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.

Federal Credit for Child and Dependent Care Expenses

Under federal law, a nonrefundable credit is allowed for a portion of qualifying child and dependent care expenses paid for the purpose of allowing the taxpayer to be gainfully employed. To be eligible for the credit, the taxpayer must incur employment-related expenses in providing care for one or more qualified individuals.

For purposes of this credit, the term "qualifying individual" means a dependent of the taxpayer who has not attained age 13; a dependent of the taxpayer who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than half of the taxable year; or the taxpayer's spouse, if the spouse is incapable of caring for himself or herself and has the same principal place of abode as the taxpayer for more than half of the taxable year.

Qualifying employment-related expenses include expenses paid for household services and for the care of a qualifying individual that allow the taxpayer to work or look for work. Services rendered outside the home qualify if they involve the care of a qualified individual who regularly spends at least eight hours per day in the taxpayer's home.

The maximum amount of employment-related expenses to which the credit may be applied is $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals, less the amount excludable by the taxpayer for any employer-provided dependent care assistance. The amount of the credit is equal to the amount of qualified expenses multiplied by the applicable percentage, as determined by the taxpayer's adjusted gross income ("AGI"). Taxpayers with an AGI of $15,000 or less use the highest applicable percentage of 35 percent. For taxpayers with an AGI over $15,000, the credit is reduced by one percentage point for each $2,000 of AGI, or fraction thereof, in excess of $15,000. The minimum applicable percentage of 20 percent is used by taxpayers with an AGI greater than $43,000. Thus, the maximum dependent care credit amount is $1,050 for one qualifying individual and $2,100 for two or more qualifying individuals.

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.

Proposed Legislation

This bill would establish a $500 per dependent individual income tax credit for each dependent younger than the age of 18. The credit would only be allowed for an individual or married persons filing a joint return whose family Virginia adjusted gross income does not exceed $100,000.

The credit provided by this bill would generally be refundable. Therefore, if the amount of the credit exceeds the taxpayer's liability for the taxable year, the excess would be refunded to the taxpayer within 90 days of filing their return. However, the bill would provide that the credit would be nonrefundable for Virginia nonresidents and part-year residents. As a result, this credit would be limited to a Virginia nonresident's and part-year resident's Virginia tax liability.

The Department would be required to develop guidelines, exempt from the provisions of the Administrative Process Act, implementing the tax credit.

This bill would be effective for taxable years beginning on and after January 1, 2024, but before January 1, 2029.

Similar Legislation

House Bill 887 would establish a Child and Dependent Care Tax Credit and make certain other changes.

cc : Secretary of Finance

Date: 2/2/2024 JLOF
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