

# DEPARTMENT OF TAXATION

## 2024 Fiscal Impact Statement

1. **Patron** Tim Griffin

3. **Committee** House Finance

4. **Title** Individual Income Tax; Tax Deduction for Birth of a Dependent Household Member

2. **Bill Number** HB 396

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would establish an individual income tax deduction for the for the birth of a dependent member of the taxpayer's household. The deduction would be in the amount of \$1,000 for married persons filing jointly and \$500 for single individuals.

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

6. **Budget amendment necessary:** Yes.

Items: Page 1, Revenue Estimates

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

### 8. **Fiscal implications:**

#### Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

#### Revenue Impact

This bill would have a significant unknown negative impact on General Fund revenue beginning in Fiscal Year 2025. According to historical data from the Centers for Disease Control and Prevention, there were 95,825 live births in Virginia in 2021. Assuming that Virginia had the same number of live births in future years and assuming that all households were eligible for and claimed the maximum deduction of \$1,000, it is anticipated that \$95,825,000 in deductions would be claimed annually. Applying an average individual income tax rate of 5.45%, the revenue loss associated with this bill would be approximately \$5.2 million per fiscal year. However, the actual amount is unknown and could vary greatly.

### 9. **Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

Federal Tax Incentives for Parents

*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.

*Credit for Other Dependents*

A taxpayer is permitted to claim a nonrefundable income tax credit for any of the taxpayer’s dependents who are not qualifying children under age 18. For Taxable Year 2022, the amount of the credit is equal to \$500 per qualifying dependent of any age. Generally, this credit will apply to qualifying children who are past child tax credit age, or qualifying relatives, such as dependent parents. The credit is phased out beginning with taxpayers with federal adjusted gross income of \$200,000 (\$400,000 for married persons filing jointly).

*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

Virginia permits a taxpayer that is eligible to claim the federal child and dependent care expenses credit to claim a deduction in an amount equal to the amount of employment related expenses upon which the federal credit is based for household and dependent care services necessary for gainful employment.

### Proposed Legislation

This bill would establish an individual income tax deduction for the for the birth of a dependent member of the taxpayer's household. The deduction would be in the amount of \$1,000 for married persons filing jointly and \$500 for single individuals. The deduction would be taken in the taxable year of such birth as supported by medical records.

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

### Similar Legislation

**House Bill 810** and **Senate Bill 310** would establish a tax credit for nonfamily adoptions.

**House Bill 969** would establish a tax credit for individuals whose households include dependents younger than age 18.

**House Bill 887** would, among other provisions, establish a Virginia child and dependent care tax credit equal to fifty percent of the amount allowed for the federal child and dependent care tax credit.

cc : Secretary of Finance

Date: 1/17/2024 JLOF  
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