

The Governor's 2026-2028 Biennium Budget Tax Proposals

Makes permanent the increases to the standard deduction, pass-through entity taxes, and increased refundability of the Earned Income Tax Credit (EITC).

- The increase to the standard deduction reduces state revenues by \$900 million in Fiscal Year (FY) 2027 and \$913.7 million in FY28
- The refundable Earned Income Tax Credit reduces revenues by \$201.8 million in FY27 and \$206.7 million in FY28.

Substantially conforms to the major federal tax provisions of H.R. 1. This action reduces revenue by \$148.6 million in FY27 and \$183.2 million in FY28.

- No tax on tips (25% in Tax Year (TY) 26, 50% for TY27 and TY28)
 - Reduces revenue by \$18.3 million in FY27 and \$35.2 million in FY28.
- No tax on overtime (25% in TY26, 50% for TY27 and TY28)
 - Reduces revenue by \$60.6 million in FY27 and \$104.4 million in FY28
- No tax on car loan interest (25% in TY26, 50% for TY27 and TY28)
 - Reduces revenue by \$15 million in FY27 and \$38.3 million in FY28.

Changes Virginia's tax code to Market Based Sourcing (this concerns the apportionment method of multistate taxpayers' income for corporate state income tax purposes). As of 2025, there are 41 states that use the Market Based Sourcing method.

- This action reduces revenue by \$29.1 million in FY28.

Extends Data Center Sales and Use Tax Exemption to 2050, currently scheduled to expire in 2035.

- A JLARC study found that this tax incentive cost the state over \$1 billion in FY24.
- Previous estimates for the value of the data center exemption had ranged from \$80 million to \$100 million per year.