

H.R. 1 Impact on Virginia and Federal Outlook

November 20, 2025

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Overview of H.R. 1



H.R. 1 will have a Significant Impact on Virginia's Budget

H.R. 1 (P.L. Law 119-21), signed into law on July 4, 2025

H.R. 1 Major Actions

- Extends previously enacted tax cuts and adds additional tax cuts;
- Modifies various government programs;
- Allocates funding for national security;
- Modifies agriculture programs;
- Changes policies related to energy and the environment; and
- Makes other changes to federal government operations.

H.R. 1 Impacts to Virginia

- Tax policy extensions and new tax policy changes;
- Changes to Medicaid and SNAP;
- Modifications to higher education funding and student financial aid; and
- Eliminations and changes to clean energy programs.

Health and Human Resources Impacts



SNAP is the Largest Nutrition Assistance Program

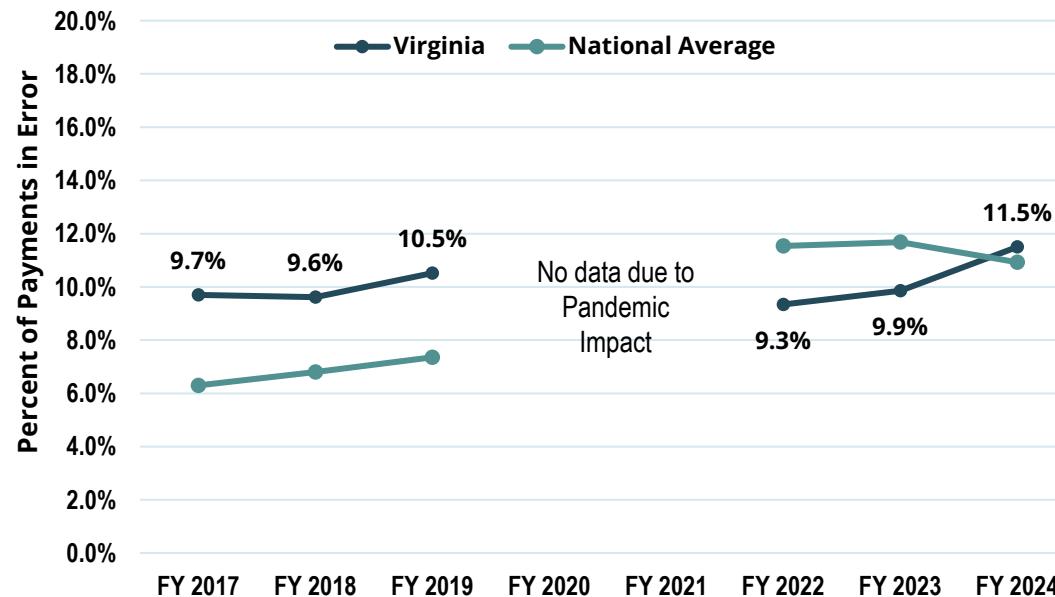
- The Supplemental Nutrition Assistance Program (SNAP) is the largest federal food assistance program.
 - Households receive a monthly benefit on an electronic benefits card that can be used at stores that sell groceries.
 - Generally, to qualify for SNAP, a household's gross monthly income must be at or below 130 percent of the federal poverty level (i.e. \$41,796 annually for a household of four).
 - In Virginia, the program serves about 850,000 individuals.
- In Virginia, local departments of social services (LDSS) operate SNAP under the supervision of the Department of Social Services (DSS).
 - The LDSS is responsible for determining eligibility and the benefit amount.

SNAP Changes in H.R. 1 Result in a Significant Cost Shift to the State

Noncitizen Eligibility	Work Requirements	Thrifty Food Plan	Admin. Cost Share	Benefits Cost Share
Effective July 4, 2025 <ul style="list-style-type: none">Limits SNAP benefits to individuals who reside in the U.S. and to certain immigrants.	Effective July 4, 2025 <ul style="list-style-type: none">Age limit increased from 54 to 65.Exemptions removed for veterans, homeless, and foster care youth.	Effective Oct. 1, 2025 <ul style="list-style-type: none">Re-evaluates how the Thrifty Food Plan is updated.Requires annual adjustment of cost each October to reflect changes in CPI-U.	Effective Oct. 1, 2026 <ul style="list-style-type: none">State's administrative cost share of the SNAP program increases from 50.0 to 75.0 percent.Fiscal impact up to \$90.0 million GF per year.	Effective Oct. 1, 2027 <ul style="list-style-type: none">States must match from 0.0 to 15.0 percent of the benefits based on the state's payment error rate.Fiscal impact up to \$270.0 million GF a year.

Largest SNAP Cost Impact is on Benefits Tied to the Payment Error Rate

Virginia's SNAP payment error rate has ranged from 9.3% to 11.5% in recent years.



H.R. 1 SNAP Benefits Match Requirement (\$ in millions)		
Payment Error Rate	State Match Required	Annual Fiscal Impact
10.0% or Higher	15.0%	\$270.0
8.0% to 9.9%	10.0%	\$180.0
6.0% to 7.9%	5.0%	\$90.0
Less than 6.0%	0.0%	\$0.0

Source: U.S.D.A. Food and Nutrition Service.

Virginia will have to Cover Nine Months of the New Match on Benefits in the 2026-2028 Budget

- Currently, benefit payments to households are 100.0 percent federally funded, so a state match for benefits is new.
 - This new match rate begins Oct. 1, 2027, and the first-year amount is based on the federal FY 2025 or 2026 payment error rate (state's choice).
 - For the 2026-2028 biennial budget, this new cost will impact the last nine months of the biennium.
- The state match rate amount will, after the first year, be based on the payment error rate on a rolling basis each year.

The Department of Social Services is Taking Steps to Reduce the Federal FY 2026 Error Rate

- The payment error rate is based on DSS' Quality Control (QC) Unit.
 - The QC Unit reviews monthly random samples of households receiving SNAP benefits, referred to as active or positive cases, and households for which participation was denied, suspended or terminated, referred to as closed or negative cases, and determines if eligibility and benefit amounts were correct.
 - Out of the 450,000 annual cases, the QC Unit reviews 1,020 active and 680 negative cases.
 - The USDA Food and Nutrition Services staff review 50.0 percent of Virginia's reviews to confirm accuracy.
- DSS is currently:
 - Focusing on high-caseload departments by conducting targeted reviews and providing technical assistance and training through specialized consultants;
 - Revising guidance for clarity and introducing tip sheets and micro-trainings to reduce errors and improve eligibility accuracy;
 - Rolling out new required training for staff who determine or supervise SNAP benefits;
 - Implementing dashboards, automation tools, and expanded quality control reviews to track errors, support corrective actions, and identify system improvements; and
 - Utilizing a vendor (KPMG) to develop recommendations for improvement based on proactive case reviews and assessment of program structure, policies, and systems.

Virginia will need to Invest Resources to Improve the Process for SNAP to Reduce the Error Rate

- In the 2026 Session, the General Assembly will need to consider additional investments to further reduce and/or maintain a lower error rate.
- These could include:
 - Deploying technology for instant policy guidance to benefits staff at the point of need;
 - Expanding Artificial Intelligence with the state's eligibility systems to reduce human error and improve staff efficiency;
 - Increasing state and local department capacity through public/private partnerships and ongoing vendor support, freeing staff to focus on error reduction; or
 - Creating and funding incentives for local departments to sustain best practices in error rate reduction.

H.R. 1 also Shifts More of SNAP's Administrative Costs to the States

- Currently, administrative costs are split 50.0 percent federal and 50.0 percent state.
- Beginning Oct. 1, 2026, states will be responsible for 75.0 percent of the share while the federal government will cover 25.0 percent.
- In 2024, Virginia's administrative costs were \$355.0 million.
 - This results in an increase of approximately \$90.0 million to Virginia.
 - Local governments cover 15.5 percent of the administrative costs for SNAP, which amounts to an estimated \$12.0 million in additional annual costs.
- For the 2026-28 biennium budget, the increase in costs is for nine months of the first year (\$68.0M) and the entire second year (\$90.0M), for a total cost of \$158.0 million GF.

SNAP H.R. 1 Changes Result in a Total Additional GF Cost of \$360.0 Million GF Annually if the Error Rate is not Reduced

H.R. 1 Potential Annual Fiscal Impact (\$ in millions)				
Payment Error Rate	State Match	Benefit Cost	Admin. Cost	Ongoing Cost (Benefit + Admin.)
10.0% or Higher	15.0%	\$270.0	\$90.0	\$360.0
8.0% to 9.9%	10.0%	\$180.0	\$90.0	\$270.0
6.0% to 7.9%	5.0%	\$90.0	\$90.0	\$180.0
Less than 6.0%	0.0%	\$0.0	\$90.0	\$90.0

- Total 2026-28 Biennium Cost: \$360.0 million
 - FY 2027 GF Cost: \$68.0 million
 - FY 2028 GF Cost: \$293.0 million
- Administration is working to lower the payment error prior to the end of FFY 2026.
 - However, this may be difficult given that localities are responsible for calculating the benefit amount.

Medicaid Provisions in H.R. 1 will have Substantial Operational Impacts but No Major Cost Shift

Non-Citizen Requirements	Work Requirement	Eligibility Requirements	Cost Sharing Requirement	Provider Tax Limitations
Effective Oct. 1, 2026	Effective Jan. 1, 2027	Effective Jan. 1, 2027	Effective Oct. 1, 2028	Effective Oct. 1, 2028
<ul style="list-style-type: none">Narrows the definition of qualified alien.Payments for services under Emergency Medicaid limited to 50.0 percent federal match rate if non-citizen under Expansion.	<ul style="list-style-type: none">Requires able-bodied adults to work, volunteer, or engage in training or education 80 hours a month.	<ul style="list-style-type: none">Requires six-month eligibility redeterminations for members in Medicaid Expansion.Retroactive coverage reduced to no more than two months based on enrollment.	<ul style="list-style-type: none">Requires cost sharing for individuals at or above 100 percent of the federal poverty level.Will reduce Medicaid costs as the member or provider will cover the cost.	<ul style="list-style-type: none">Reduces the max provider tax from 6.0 percent to 3.5 percent by federal FY 2032.Limits state-directed payments to a Medicare payment limit.

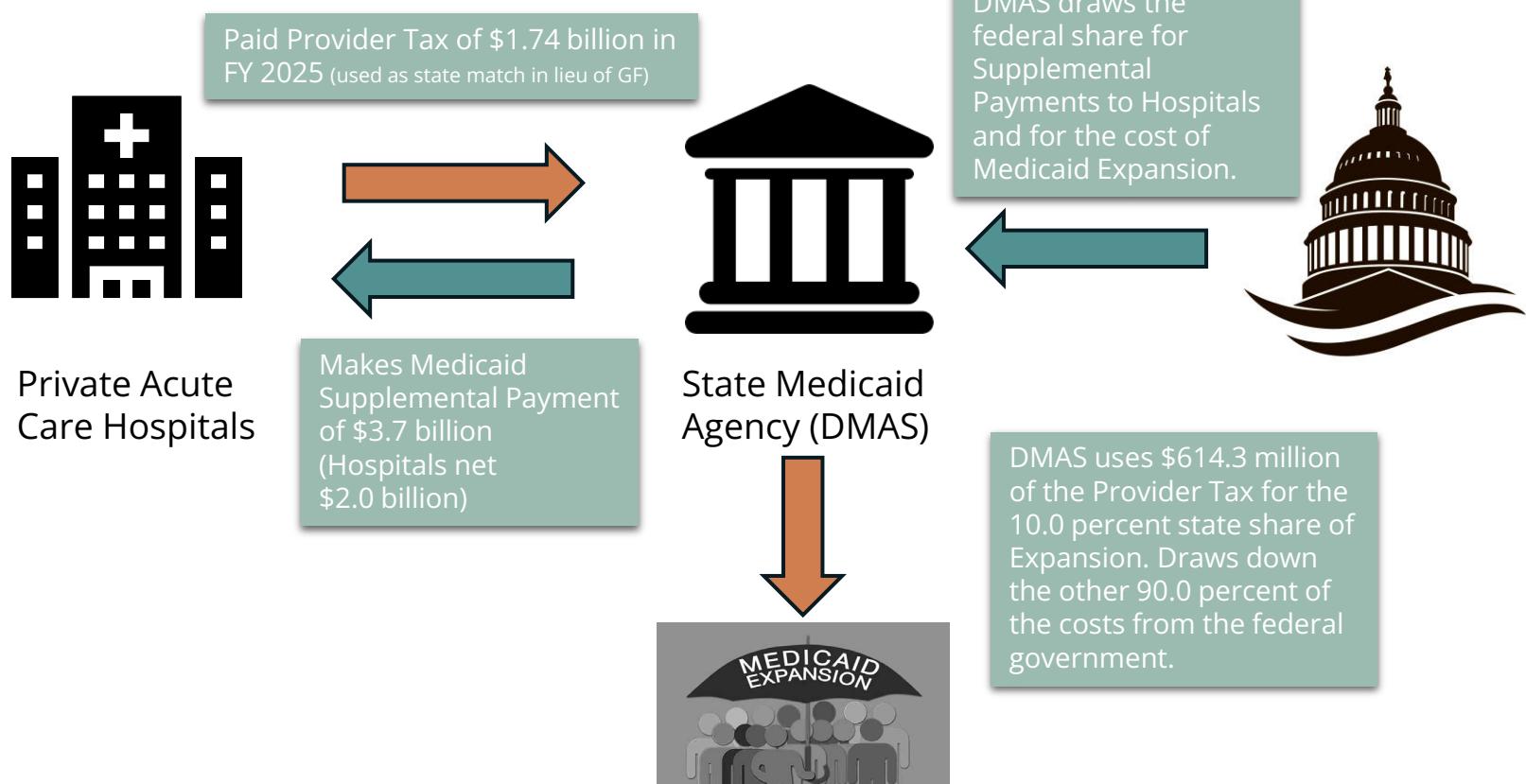
Most Significant Change to Medicaid is the Community Engagement Requirement

- This new requirement directs that individuals must engage in 80 hours per month of one or more of the following activities:
 - Employment;
 - Participation in a work program, such as job training;
 - Enrollment in an educational program (at least half time);
 - Community service activities; or
 - A combination of these activities.
- Applies to able-bodied adults in the Medicaid Expansion population (~600,000), but not Base Medicaid. Individuals are exempt if they are:
 - Foster care youth;
 - Indian Health Service members;
 - Caregivers of children under 14 or a disabled individual;
 - Disabled veterans;
 - Medically frail, pregnant, or in a substance use disorder program;
 - Meeting TANF or SNAP work requirements;
 - Incarcerated or recently incarcerated; or
 - Experiencing short-term hardship.

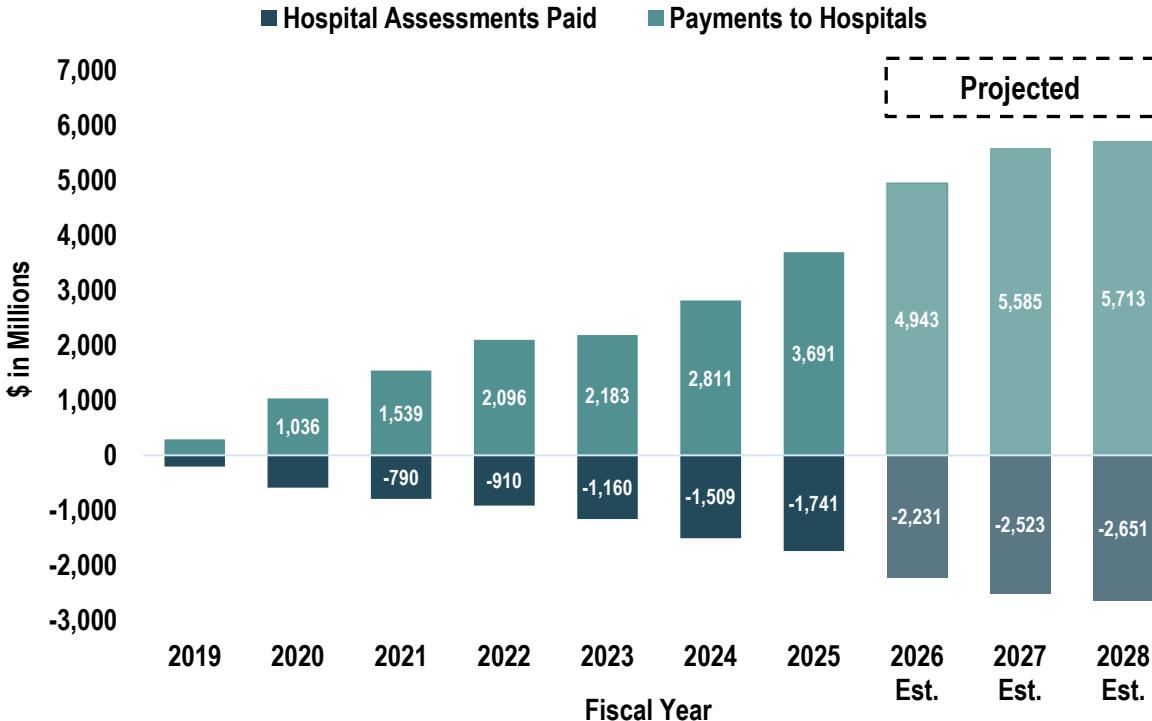
H.R. 1 will Reduce the Provider Tax Revenue Over Time and Change the Payment Methodology

- Prohibits states from establishing any new provider taxes or from increasing the rates of existing taxes.
- Reduces the maximum tax from the current 6.0 percent by 0.5 percent annually, starting in federal FY 2028, until the limit reaches 3.5 percent in FY 2032.
 - New limit applies to taxes on all providers except nursing facilities and intermediate care facilities.
- Revises state directed payment regulations to cap the total payment rate for inpatient hospital and nursing facility services at 100 percent of the total published Medicare payment rate for states that have adopted Medicaid expansion.
 - Current limit is based on the average commercial rate.
- These limits will reduce the ability of the Commonwealth to make supplemental payments to private acute care hospitals.
 - While the H.R. 1 actions may reduce payments to hospitals, such payments were supplemental to normal Medicaid claims payments and therefore would not be backfilled by other state funds.

Medicaid Provider Taxes are a Mechanism States Use to Draw Down Federal Funds



Hospital Assessment Payments have Increased Substantially Since FY 2019



- A coverage and rate assessment is paid by 63 acute care hospitals to the Department of Medical Assistance Services.
- The coverage assessment pays the 10.0 percent state share for Medicaid Expansion and the rate assessment increases payments to hospitals.
 - **Total assessments are limited by federal law to no more than 6.0 percent of net patient revenue.**
- The net revenue benefit to hospitals was \$448.6 million in FY 2020, \$1.9 billion in FY 2025, and is projected to reach \$3.1 billion in FY 2027.

Source: 2025 DMAS Official November 1, 2025, Medicaid Forecast.

New Rural Health Transformation Fund can be Used to Improve Rural Health

- A new federal program created in H.R. 1 (P.L. 119-21), signed into law on July 4, 2025, creates a \$50.0 billion fund to promote improvements in rural health.
- Congress provided \$10.0 billion a year from federal FY 2026 through FY 2030, and no state match is required.
 - 50.0 percent of the funds (\$5.0 billion a year) are non-competitive and disbursed equally to states upon an approved application by December 31, 2025. States could expect \$100.0 million a year.
 - 50.0 percent of the funds (\$5.0 billion a year) are competitive and awarded by the Administrator of the Centers for Medicare and Medicaid Services based on the size of a state's rural population, proportion of state rural health facilities to the number nationwide, the situation of hospitals in a state that serve a disproportionate number of low-income patients with special needs, and other factors the Administrator deems appropriate. (At least one-fourth of the states with an approved application may be allotted these additional funds.)
- Each allotment is available to a state through the end of the following federal fiscal year and any unexpended balance or unobligated funds as of October 1, 2032, shall be returned to the U.S. Treasury.

Virginia Requested \$1.0 Billion and Proposed a Five-Year Investment Plan with Four Priority Areas

- “CareIQ” (\$282.6M) aims to strengthen tech innovation by funding start-ups, supporting AI and interoperability tools, modernizing health IT infrastructure, and expanding remote patient monitoring to improve care delivery, provider efficiency, and patient outcomes.
- “Homegrown Health Heroes” (\$132.0M) strengthens workforce development by expanding medical training opportunities, funding allied health education programs, creating paid apprenticeships, and building career pipelines starting in high school.
- “Connected Care, Closer to Home” (\$412.0M) expands access to essential healthcare in rural communities by using mobile units and telehealth, supporting EMS-led community care models, and enhancing maternal health services through innovative, locally-based approaches.
- “Live Well, Together” (\$124.2M) invests in nutrition-based programs, digital health tools, active living spaces, and better care coordination for dual-eligible seniors.

Original ACA Premium Tax Credits are Separate from the Enhanced Premium Tax Credits

Original ACA Premium Tax Credits

- Established in 2014 as part of the Affordable Care Act.
- Eligibility for premium assistance is limited to households with incomes between 100 and 400 percent of the Federal Poverty Level (FPL).
- These credits are not impacted by the expiration of the enhanced premium tax credits.

Enhanced Premium Tax Credits

- Established under the American Rescue Plan Act of 2021 and extended in the Inflation Reduction Act of 2022.
- The previous eligibility limit of up to 400 percent of FPL is temporarily eliminated, allowing households with incomes above that level to qualify for the subsidies, and increasing the amount of financial assistance for all individuals.
- Set to expire December 31, 2025.

The Enhanced Premium Tax Credits Expiration will Increase Premiums

Enrolled Household Data								
Income by Federal Poverty Level	Total Enrolled Households	Average Income	2025 Average Premium	2025 Average Net Premium	2026 Estimated Average Premium	2026 Estimated Average Net Premium	2026 Estimated Increase in Premium	
100-133%	31,694	\$20,362	\$668	\$27	\$792	\$63	+ \$36	
133-150%	44,394	27,703	652	28	792	100	+ 72	
150-200%	51,571	34,215	682	59	792	178	+ 119	
200-250%	29,942	47,384	816	126	997	308	+ 182	
250-300%	19,312	56,324	845	219	997	427	+ 208	
300-400%	16,965	71,234	949	401	1,140	636	+ 235	
>400%	9,179	110,410	1,199	748	1,440	1,440	+ 692	

Source: SCC Federal Impacts on Virginia Marketplace Eligibility and Enrollment as of September 16, 2025.

Virginia has Limited Options to Supplement the Expiring Enhanced Premium Tax Credits

- The State Corporation Commission has indicated a cost of \$234.7 million to extend the federal premium tax credits.
- Options include:
 - Modify the Commonwealth Health Reinsurance Program to increase its targeted premium reduction above 15.0 percent to reduce overall premiums in the market.
 - This action helps everyone in the marketplace whether they received federal subsidies or not.
 - Provide direct funding to reduce premiums and cost sharing for Marketplace plans.
 - Maryland, Connecticut, California, Vermont, Colorado, New Jersey, New York, New Mexico, Washington, and Pennsylvania (for Plan Year 2026).

Other Impacts of H.R. 1 on Education and Clean Energy



H.R. 1 Impacts Higher Education through Changes to Student Loans and Pell Grants

- Pell Grants: Added \$10.5 billion in mandatory funding for the Pell Grant program.
 - Makes other modifications to Pell Grants, including eligibility requirements.
 - Expands eligibility to very-short-term job training programs, "Workforce Pell Grant."
- Student Loan Limits:
 - Graduate student borrowing capped at \$20,500 a year with a lifetime borrowing limit of \$100,000.
 - Professional student borrowing capped at \$50,000 a year, with a lifetime \$200,000 borrowing limit.
 - Lifetime limit for all borrowers of \$275,500.
- Eliminates the Graduate Plus Program.
- Parent Plus program limited to \$20,000 a year per dependent with a lifetime of \$65,000 per student.
- Replaces all repayment plans with two new plans: standard and an income-based plan.

H.R. 1 Terminates Certain Clean Energy Tax Credits and Programs

- H.R. 1 contains significant modifications to, or elimination of, the majority of clean energy tax credits that were passed in the Inflation Reduction Act (IRA).
 - Terminates clean energy hydrogen credits, several clean energy vehicle credits, and several energy efficiency credits.
- Tech-neutral clean electricity investment and production credits for geothermal, batteries, nuclear, and other clean electricity sources begin to phase out in 2032.
 - Maintains the phase-out percentage based on when a project commences construction.
- Wind and solar receive full credit value as long as construction of the facility begins within 12 months of the date of enactment.
 - If a facility begins construction after the 12 month window, it must be placed into service before December 31, 2027, to receive the credit.
- Advanced Manufacturing Production Tax Credit maintains the IRA's phase out structure for all components except wind.
 - Creates a separate phase-out for critical minerals beginning in 2031 and the credit for critical minerals ends after 2033. The law adds metallurgical coal to the list of applicable critical minerals and continues the credit for only metallurgical coal until 2029.

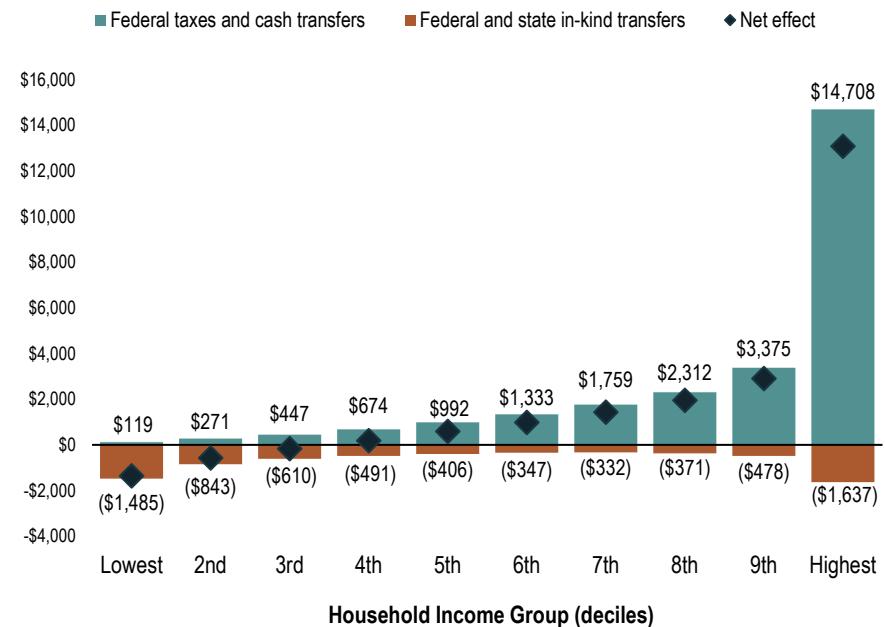
Impact of H.R. 1 on Taxpayers



H.R. 1 Extends TCJA and Includes Additional Tax Cuts

- H.R. 1 extends many of the expiring provisions from the 2017 Tax Cuts and Jobs Act (TCJA) and expands certain provisions.
 - Several provisions in TCJA were set to expire at the end of calendar year 2025 or have changed within the past several years.
- H.R. 1 also introduces new deductions to eliminate income taxes on certain tips and overtime pay.
- Congressional Budget Office (CBO) estimates households, on average, will see an increase in the resources available to them over the 2026–2034 period.
 - The changes in resources will not be evenly distributed among households.
 - CBO estimates the top 10.0 percent of earners will see household resources increase 2.5 percent, while the lowest 10.0 percent will see resources decrease 3.4 percent.

Average Annual Change in Resources per Household Relative to CBO's January 2025 Baseline (2026–2034)



Source: Congressional Budget Office, How the 2025 Reconciliation Act (Public Law 119-21) Will Affect the Distribution of Resources Available to Households, August 11, 2025.

H.R. 1 Extends Most Major Individual Tax Provisions under TCJA

Provision	Prior Law	H.R. 1
Lower Individual Income Tax Rates	Lowered rates	Makes permanent, raises income threshold for bottom two brackets in 2026, adjusts for inflation
Doubled Standard Deduction	\$15,000 for single filers and \$30,000 for joint filers	Makes permanent and increases to \$15,750 for single filers and \$31,500 for joint filers
Personal Exemption	Set limit at \$0	Permanently sets limit at \$0
Child Tax Credit	\$2,000 credit maximum	Increases to \$2,200 in 2026, adjusts for inflation
Mortgage Interest Deduction	Limits deduction to \$750,000 of mortgage debt	Makes limit permanent
State and Local Tax (SALT) Deduction Cap	Set \$10,000 cap	Increases to \$40,000, adjusts for inflation, deduction phases out at a 30.0% rate for those making over \$500,000, and reverts to \$10,000 in 2030
Itemized Deduction Limit	Suspended the Pease limitation (Virginia deconforms and imposes a state limit)	Repeals Pease limitation, sets new limit of 35 cents per dollar for those in the top tax bracket (37%)
Estate Tax Exemption	Set at \$13.99 million for single filers (\$27.98 million for joint filers)	Increases to \$15.0 million for single filers (\$30.0 million for joint filers), adjusts for inflation
Qualified Business Income (QBI) Deduction	20% deduction of QBI	Makes permanent, creates a \$400 minimum deduction for taxpayers with at least \$1,000 of QBI

Most New H.R. 1 Individual Provisions are Deductions

Provision

Senior Deduction

- Adds a \$6,000 deduction per individual over 65 from 2025 through 2028
- Phases out with modified adjusted incomes over \$75,000
- Applies to itemized and standard deductors

"No Tax on Tips" Deduction

- Up to \$25,000 from 2025 through 2028 for cash tips received through work in an occupation that traditionally and customarily receives tips
- Phases out at a 10% rate for income over \$150,000 (\$300,000 for joint filers)
- Applies to itemized and standard deductors

"No Tax on Overtime" Deduction

- Up to \$12,500 (\$25,000 for joint filers) from 2025 through 2028
- Phases out at a 10% rate for those making over \$150,000 (\$300,000 for joint filers)
- Applies to itemized and standard deductors

"No Tax on Car Loan Interest" Deduction

- Applies to new vehicles assembled in the U.S. from 2025 through 2028
- Up to \$10,000 and phases out at a 20% rate for those making over \$100,000 (\$200,000 for joint couples)
- Applies to itemized and standard deductors

H.R. 1 Extends and Enhances Major Business Provisions from TCJA

Provision	Prior Law	H.R. 1
Bonus Depreciation	40% depreciation deduction	Restores 100% depreciation deduction for business investments in machinery, equipment, and other short-lived assets from January 19, 2025
Research & Development	Domestic expenses were amortized over five years since 2022	Permanently restores full expensing retroactive to January 1, 2025, permits small businesses (receipts less than \$31 million) to retroactively deduct after December 31, 2021, and allows all businesses to deduct any remaining research expenditures over one or two years
Section 179 Deduction	\$1.25 million allowance for long-life property expenses (tangible personal property, software, and qualified improvement property), phasing out for property over \$3.13 million	\$2.5 million allowance, phasing out for property over \$4 million
Business Interest Deduction	Limited deductible interest to 30% of adjusted taxable income (Calculated as earnings before interest and taxes (EBIT) since 2021)	Reinstates interest limit applied to earnings (income) before interest, taxes, depreciation, amortization, or depletion (referred to as EBITDA)
Excess Business Losses	Limit set at \$313,000 (\$626,000 for joint filers)	Makes permanent and adjusts for inflation

- **Special depreciation allowance for qualified production property:** Temporarily provides 100 percent expensing of qualifying structures, with the beginning of construction occurring after Jan. 19, 2025, and before Jan. 1, 2029, and placed in service before Jan. 1, 2031. Qualified production property is generally nonresidential real property used in manufacturing.

Impact of H.R. 1 on State Taxes and Revenue



States Conform to Federal Tax Law for Simplicity

- Most states use the same definitions of income adopted by Congress in the Internal Revenue Code (IRC) for simplicity and compliance purposes.
 - Virginia uses federal adjusted gross income (FAGI) for individuals or federal taxable income (“FTI”) for corporations as the starting point to calculate state liability.
- States generally either use rolling conformity or fixed-date conformity.

Rolling Conformity

- State automatically conforms to federal tax law changes as they are adopted
- No state legislation required to conform
- Less control over GF revenue and structural balance – legislation required to deconform
- Greater certainty for taxpayers in tax filing season

Fixed-Date Conformity

- State conforms to federal law as of a specified date – conformity not automatic
- State legislation required to conform
- Greater control over GF revenue/policy and structural balance
- Less certainty for taxpayers in tax filing season

Virginia Operated with Fixed-Date Conformity for 20 Years

2003 Session

- Adopted fixed-date conformity after the federal Job Creation and Worker Assistance Act of 2002 ("JCWAA") substantially reduced Virginia taxable income of businesses.

2023 Session

- Adopted rolling conformity with certain exceptions. Virginia deconforms from:
 - Any single change with a projected Virginia revenue impact of at least \$15.0 million – per provision trigger.
 - Any changes made after reaching a total projected Virginia revenue impact of \$75.0 million – aggregate trigger.

2025 Session

- Paused rolling conformity for any federal provisions enacted during 2025 or 2026 that would have any revenue impact on Virginia during the next five years.
 - As a result, legislative action is required to conform to any federal tax provisions adopted in 2025 or 2026.
 - Any federal tax extenders would be conformed to automatically.

General Assembly Temporarily Extended State Tax Provisions

- Under TCJA, Virginia experiences increased general fund revenue, mainly from individuals using the higher federal standard deduction rather than itemized deductions.
 - If all TCJA provisions impacting the general fund were to expire on December 31, 2025, general fund revenue would decrease \$216.6 million in FY 2026, \$560.5 million in FY 2027, \$610.6 million in FY 2028, \$688.9 million in FY 2029, and \$784.2 million in FY 2030.
- Chapter 725, 2025 Appropriation Act, extends the expiration from December 31, 2025, to December 31, 2026, for state tax preferences that were tied to the federal 2017 Tax Cuts and Jobs Act (TCJA) as Congress had not extended TCJA by sine die.

State Tax Policy	Expiration Extended	Additional Modification 2025 Session
Standard Deduction	Yes	Increases by \$250 for single filers and \$500 for joint filers (\$8,750/\$17,500)
Refundable Earned Income Tax Credit	Yes	Increases from 15.0 to 20.0 percent of federal credit
Elective Pass-Through Entity Tax (PTET)	Yes	

General Assembly Must Decide to Conform to Certain H.R. 1 Provisions Flowing into Virginia's Returns

- H.R. 1 includes tax extenders (extension of an expiring provision) requiring no action by the General Assembly and provisions that would “flow through” to Virginia’s tax liability calculations.
- Federal tax changes **“flow through”** to Virginia tax when the provision impacts the starting points to calculate Virginia income tax (i.e. federal adjusted gross income (“FAGI”) for individuals, or federal taxable income (“FTI”) for corporations).
- General Assembly action is required to the extent Virginia would like to conform to the “flow through” tax provisions of H.R. 1 and any other federal tax legislation passed during calendar years 2025 and 2026.
 - Emergency legislation would be needed due to the timing of the 2026 tax filing season.
 - If the General Assembly decides to not conform to a “flow through” provision, Virginia taxpayers would have to modify their FAGI or FTI to calculate their state income tax liability.

Conforming to H.R. 1 would Reduce GF Revenue by \$1.1 Billion

GF Revenue Impact (\$ in millions)	FY 2026	FY 2027	FY 2028
Individual Provisions:			
0.5% floor on charitable contributions (1/1/26)	\$15.8	\$40.4	\$42.5
Miscellaneous individual provisions (1/1/26)	(0.9)	(2.4)	(3.2)
New limit on the value of itemized deductions (repeal of the VA Pease limit) (1/1/26)	(10.2)	(26.1)	(27.9)
Individual Provisions Subtotal	\$4.7	\$11.9	\$11.4
Business Provisions:			
Restructure of opportunity zones program (7/4/25)	\$10.9	\$22.9	(\$27.0)
1% floor on charitable contributions (1/1/26)	4.3	7.7	9.2
Miscellaneous business and international provisions	3.9	15.1	23.9
Increases section 179 expensing limit to \$2.5 million (1/1/25)	(28.2)	(19.3)	(16.1)
Increases the business interest deduction (1/1/25-Expires 2030)	(33.6)	(16.0)	(14.8)
Special depreciation allowance for qualified property (7/4/25)	(127.1)	(170.4)	(174.0)
Domestic research deduction (1/1/25-Expires 2030) (retroactive to December 31, 2021)	(403.6)	(121.4)	(79.0)
Business Provisions Subtotal	(\$573.4)	(\$281.4)	(\$277.8)
Full Conformity (Updating Virginia's Date of Conformity) Total	(\$568.7)	(\$269.5)	(\$266.4)

Source: Virginia TAX revenue estimates.

H.R. 1 – Major “Flow Throughs” to the General Fund

Provision	Prior Law	H.R. 1
Limits on itemized deductions	No limit (Virginia deconforms from TCJA and imposed a state limit)	Limits 35 cents on the dollar for taxpayers in the 37% tax rate bracket
Section 179 expensing for qualifying equipment or property	\$1,000,000 limit \$2,500,000 phaseout	\$2,500,000 limit \$4,000,000 phaseout
Business interest deduction	30% of adjustable taxable income (“ATI”) limit	Increases cap by changing definition of ATI by including depreciation and amortization
Domestic research expenses	Amortized over 5 years	Immediate deduction (retroactive)
Opportunity zones	Deferral and exclusion of eligible gains	Makes permanent & restructures opportunity zones

Source: Virginia TAX Presentation to SFAC, September 16, 2025.

H.R. 1 – Major “Flow Throughs” to General Fund (Continued)

- H.R. 1 includes new provisions that would flow through to Virginia:
 - A 1.0% floor for corporate charitable deductions.
 - A 0.5% floor for individual charitable deductions.
 - Special depreciation allowance for qualified property under new IRC Section 168(n).
 - Establishes 100.0% bonus depreciation for qualified production property, generally nonresidential real property used in manufacturing. Construction must begin after January 19, 2025, and before January 1, 2029, with service placement by January 1, 2031.
 - **Virginia has historically deconformed from similar “bonus” depreciation provisions under IRC Section 168.**

Adopting State Deductions Similar to New Deductions in H.R. 1 would Reduce GF Revenue

- H.R. 1 establishes several new tax policy provisions that do not “flow through” to Virginia by conforming to the IRC.
 - These provisions are deductions for certain income, interest, and donations that occur below the line and do not impact adjusted gross income for individuals.
- General Assembly would have to establish state versions of these provisions through legislation.
- If adopted, these provisions would reduce GF revenue by \$1.2 billion in the next budget cycle.

GF Revenue Impact (\$ in millions)	FY 2026	FY 2027	FY 2028
Charitable deduction for nonitemizers (TY 2026-2028)	(\$10.2)	(\$55.0)	(\$71.1)
No tax on car loan interest	(48.4)	(59.9)	(76.5)
No tax on tips (TY 2025-2028)	(67.0)	(73.0)	(70.4)
No tax on overtime (TY 2025-2028)	(217.1)	(242.3)	(208.8)
Total	(\$342.7)	(\$430.2)	(\$426.8)

Source: Virginia TAX Presentation to SFAC, September 16, 2025. * All estimates are preliminary.

Federal Outlook



Longest-Ever Federal Government Shutdown has Ended

- On November 12, a continuing resolution (CR) extended FFY 2025 funding levels until January 30, 2026, ending the longest-ever government shutdown.
- The CR provides full FFY 2026 appropriations bills for: Agriculture, Legislative Branch, and Military Construction-Veterans Affairs.
 - SNAP benefits are funded until September 30, 2026.
- The CR requires that federal employees laid-off during the shutdown be rehired and provided backpay, and the reimbursement of states for normal staff costs.
 - Prevents any additional agency layoffs through January 30th.

Many Federal Grants have been Paused for Review

- Federal grants have been under review to ensure compliance with President Trump's Executive Orders and other Trump Administration priorities (this includes many programs that have been deemed discretionary under the Investment & Jobs Act or the Inflation Reduction Act).
- According to the Virginia Secretary of Finance, the amounts under review for the Commonwealth range from \$200.0 million to more than \$1.2 billion on a weekly basis.
 - The Administration has been monitoring the impacts of federal grants review across Executive Branch agencies (except higher education institutions).
 - As of the week of October 20, \$466.0 million remained paused (excluding higher education).
- As of August 2025, public higher education institutions reported \$272.7 million in paused federal research funding in their six-year plans.

Source: Secretary of Finance Presentation to Committee on October 14, 2025; and Public Higher Education Six-Year Plans, submitted August 2025.

2026 Federal Outlook

- There are still nine appropriation bills for FFY 2026 to complete before the CR expires on January 30, 2026.
 - Failure to adopt those appropriation bills could result in another CR or another shutdown.
 - Bipartisan support in the U.S. Senate is needed to overcome a filibuster.
- Reconciliation may be completed again in FFY 2026.
 - May include additional changes or cuts impacting Virginia.
- Executive actions on appropriations (i.e., impoundment, grant cancellations, rescissions) could complicate the process and outlook as well as judicial review.

Source: Federal Funds Information for States presentation to SFAC staff at Eastern States Legislative Fiscal Officers Association (ESLFOA, September 2025).

Key Takeaways and 2026 Session Outlook



Key Takeaways H.R. 1 Impact on Virginia and Federal Outlook

- H.R. 1 creates a significant cost shift to the state to fund the SNAP program.
- Medicaid changes in H.R. 1 do not shift costs but will create operational challenges to implement, especially the work requirement, and will likely result in coverage losses.
- H.R. 1 limitations on provider taxes and state-directed payments will reduce future Medicaid supplemental payments to private acute care hospitals.
- Not extending the federal enhanced premium tax credits in the individual market will result in higher premiums for certain populations and may result in health care coverage losses.
- General Assembly will have to decide on conforming to tax provisions “flowing-through” to Virginia’s starting point for tax liability.
- General Assembly will also have to decide on extension of the enhanced state standard deduction, elective PTET, and refundable earned income tax credit.
- In 2026, federal activity will need to be monitored for further appropriation or reconciliation actions, and executive actions to appropriations.