

Summary: Gov. Youngkin's Proposals, Revenue Impacts, and How Virginia Should Respond

Governor Youngkin is proposing to adopt most of the tax changes in the federal bill (H.R. 1) that flow through the state tax code. While the changes vary in design, they essentially have the same effect: tax giveaways to corporations and wealthy households at a high cost to all of us — about \$465 million in the upcoming two-year budget cycle. Youngkin’s proposal would double down on substantial federal tax handouts for the wealthy few and further limit ongoing revenues that could be invested in critical community supports such as high-quality public education, accessible health care, and affordable housing. Lawmakers should instead protect state revenues and detach Virginia from harmful federal provisions.

Federal Tax Change	What It Does	Governor’s Proposal	Revenue Impact (FY25-26)	Recommended Action
Business interest deduction	Loosens rules on interest write-off	Conforms (adopts)	-\$30.8 million	✗ Deconform (do not adopt) and retain current calculation of the cap
Research and experimentation expensing	Allows immediate write-off vs over 5 years; retroactive to 2021	Generally conforms, rejects retroactive and catch-up provisions	-\$163.1 million	✗ Deconform and maintain 5-year write-off
Special depreciation allowance	Allows 100% write-off of qualified property in first year of service	Conforms to 50% for qualified property	-\$177.6 million	✗ Deconform any of the special depreciation allowance
Section 179 expensing	Increases expensing limit for qualified businesses	Conforms	-\$35.4 million	✗ Deconform from new limit
Charitable deductions floor	Creates new floors (1% for corporations; 0.5% for individuals)	Conforms	+\$99.8 million	✓ Conform to new floors
Itemized deduction limit	Creates new limit	Conforms; repeals current state “Pease” limit	-\$54.0 million	✗ Deconform and maintain Pease limit
529 qualified expenses	Doubles limit on tax free spending on private school tuition to \$20k	Conforms	Unknown; negative	✗ Deconform from new changes and prohibit use of funds on private K-12 education
Opportunity Zones (OZs)	Makes OZs permanent and restructures program	Conforms	-\$4.1 million	✗ Deconform from special treatment of capital gains invested in OZs completely
Qualified Small Business Stock (QSBS)	Increases capital gain exemption for stock and asset limit for issuing companies	Conforms	Unknown; negative	✗ Deconform from QSBS entirely