COMMONWEALTH of VIRGINIA

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Secretary of Finance

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February 14, 2025

MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: January Revenue Report

For the month of January, total general fund revenues grew by 2.4 percent ($66.0 million) versus the same period last year. Most major revenue sources were higher year-over-year.

Year-to-date, general fund revenues are up 5.9 percent ($958.1 million) year-over-year through the first seven months of Fiscal Year 2025. The strength in year-over-year growth is driven primarily by individual income tax receipts and sales and use tax collections, while other sources, including wills, suits, and deeds; and insurance premiums license tax also contributed meaningfully to growth.

In comparison to the revenue forecast assumed in the Governor's proposed Fiscal Year 2025 budget and accounting for monthly variations in tax collections, year-to-date total general fund revenues are ahead of projections by 0.7 percent ($114.9 million). Year-to-date revenues for net individual income, sales and corporate income taxes, which represent 92 percent of year-to-date revenues, are within one percent of forecast. The positive variance in year-to-date revenues versus projections is attributable to insurance premiums license taxes; will, suits, and deeds; interest income; and other sources of revenues. Based upon the close adherence to the forecast fiscal year-to-date, revenues need only grow 1.8 percent the remainder of the fiscal year to meet the Fiscal Year 2025 forecast. Therefore, we remain confident that full year revenues will meet the forecast.

Among the major revenue sources, withholding was up 3.5 percent ($54.8 million) for the month and is up 6.1 percent ($581.4 million) year-to-date. Nonwithholding increased 9.0 percent ($59.3 million) in January versus last year and is up 13.5 percent ($363.7 million) year-to-date. Corporate income tax collections were higher year-over-year in January by 62.8 percent ($52.8 million). On a year-to-date basis, corporate income tax revenues are lower by 10.0 percent ($106.0 million). Sales tax revenues, reflecting December sales, were up 4.0 percent in January ($18.3 million) and are up 2.0 percent ($57.2 million) year-to-date. The majority of sales tax collections from the holiday shopping season was received in January.

January is a significant month for nonwithholding and includes collections of individual estimated payments, as well as withholding, sales and use taxes, and most minor sources. Revenue collections are discussed in more detail in the following sections.

Economic Review

- The U.S. economy continues to grow. Real GDP increased at an annual rate of 2.3 percent in the fourth quarter of 2024 following an increase of 3.1 percent in the third quarter, according to the advance estimate released by the U.S. Bureau of Economic Analysis.

- U.S. employment continued to grow in January, adding 143,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose 111,000, while government increased 32,000.

- In December, Virginia employment, from the monthly establishment survey increased by 4,900 and was 1.8 percent higher than in December 2023. Virginia's labor force participation rate remains unchanged at 66.0 percent for the fifth consecutive month.

- Unemployment remains stable. Nationally the U.S. unemployment rate ticked down to 4.0 percent in January (-0.1 percentage point), and in Virginia the unemployment rate remained unchanged at 3.0 percent in December.

- Inflation ticked up in January. The Consumer Price Index (CPI) increased slightly to 3.0 percent year-over-year growth, up from the 2.9 percent reported in December, but lower than the 3.1 percent reading in January 2024. The twelve-month change in "core" CPI, which excludes food and energy, increased modestly to 3.3 percent (+0.1 percentage point). The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures price index rose from 2.4 percent to 2.6 percent in December, while the "core" PCE index, remained at 2.8 percent for the third month.

- At its January meeting, the Federal Reserve left the target for the federal funds rate unchanged at 4.25 to 4.5 percent, as expected.

- Retail sales grew at a healthy pace in December. according to the U.S. Census Bureau. Year-over-year growth dipped slightly from an upwardly revised gain of 4.1 percent in November to a still strong gain of 3.9 percent in December.

- The University of Michigan consumer sentiment index retreated to 67.8, according to the preliminary February reading. Despite two months of decline, sentiment overall has generally trended higher over the past two and a half years.

January Revenue Collections

General fund revenues increased 2.4 percent ($66.0 million) for the month of January. Fiscal year-to-date through January 31, general fund revenues are up 5.9 percent ($958.1 million) over the prior year.

Net Individual Income Tax (70% of general fund revenues): Revenues increased by 2.3 percent ($50.6 million) for the month compared to last year. Year-to-date net individual income tax collections are up 8.2 percent ($905.8 million). Compared to the forecast assumed in the proposed budget, year-to-date net individual income tax collections are behind projections by 0.1 percent ($6.9 million).

Performance in each component of individual income tax is as follows:

> ***Individual Income Tax Withholding (57% of general fund revenues)***: Collections of payroll withholding taxes were 3.5 percent ($54.8 million) higher for the month compared to last January. Fiscal-year-to-date collections are 6.1 percent ($581.4 million) higher than the same period last year. Compared to the forecast assumed in the proposed budget, withholding revenues are up 0.1 percent ($6.5 million) year-to-date.
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> ***Individual Income Tax Nonwithholding (22% of general fund revenues)***: January collections increased by 9.0 percent ($54.8 million) and are up 13.5 percent ($363.7 million) on a year-to-date basis. Through January, nonwithholding receipts are 3.5 percent ($102.7 million) ahead of forecast. December and January are significant months for collections in this source. The deadline to submit quarterly Pass-Through Entity Tax (PTET) payments is in December, while the deadline to submit quarterly individual income estimated payments is in January. Data from these months indicate that many of those who elected to make PTET payments have opted to redeem their credits for refunds, rather than to lower their nonwithholding payments.
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> ***Individual Income Tax Refunds (-9% of general fund revenues)***: Through January, the total amount of refunds issued has increased 3.3 percent ($39.3 million) compared to the same period last year, largely due to an increase in PTET credits being redeemed as refunds.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting sales during December and the holiday shopping season, grew 4.0 percent ($3.2 million) in January and are up 2.0 percent ($57.2 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 0.2 percent ($6.2 million) ahead of projections.

Corporate Income Tax (6% of general fund revenues): Collections for January grew by 62.8 percent ($52.8 million) year-over-year. Year-to-date, collections are down 10.0 percent ($106.0 million). Compared to the forecast, net corporate income tax collections are 0.1 percent ($1.1 million) ahead of projections year-to-date.

Wills, Suits, Deeds, Contracts (1% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 34.9 percent ($8.8 million) higher in January compared to the previous year. On a fiscal-year-to-date basis, collections are up 21.6 percent ($48.3 million). Compared to the forecast, collections in this source are ahead by 9.4 percent ($23.4 million) year-to-date.

Insurance Premiums (2% of general fund revenues): Year-to-date through January, general fund receipts total $134.5 million. December marked the first month in Fiscal Year 2025 that collections of insurance company premiums license taxes are retained in the general fund after satisfying the requirement that $228.7 million be transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly. Year-to-date collections are ahead 51.7 percent ($45.9 million) compared to the forecast. This variance is expected to diminish in the coming months as refunds begin to be issued from this source.

Other Revenue Sources

The following provides growth data on collections through December for other revenue sources:

	Year-to-Date	**Annual Estimate**
Interest Income (2% GF revenues)	-4.3%	-11.8%
ABC Taxes (1% GF revenues)	-3.5%	0.1%

Interest income earnings totaled $425.4 million through January compared to $444.7 million for the same period of the prior fiscal year. Interest is earned monthly in the general fund and credited to nongeneral funds on a quarterly basis in October, January, April, and June. Despite the year-to-date decline of 4.3 percent compared to last year, interest income is higher than projected by 3.4 percent ($14.0 million).

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 13.8 percent ($44.2 million) to $364.5 million fiscal year-to-date compared with $320.3 million for the same period last year.

Summary

Through January, collections are up 5.9 percent ($958.1 million) compared to last year and are running slightly ahead of projections assumed in the Governor's proposed Fiscal Year 2025 budget. Net individual income, sales and corporate income tax collections are all closely aligned with expectations year-to-date, while interest income, insurance premiums license tax, and recordation tax collections are outperforming projections. Individual income tax refunds and nonwithholding collections are both higher than expected through January, partially driven by PTET payments and refunds.

The U.S. and Virginia economies continue to grow at a pace consistent with our forecast, supported by continued growth in the labor market, and strong consumer spending. Overall economic conditions and revenue collections to date are generally in line with expectations, providing confidence in our forecast for the fiscal year. Accordingly, we will retain our current forecast for budgeting purposes at this time.