



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: September Revenue Report

September completes the first quarter of fiscal year 2025 and is a significant month for revenue collections. Estimated payments from individuals, corporations, and insurance companies are all due in September, along with regular monthly collections in withholding, sales taxes, and other sources.

Year-to-date general fund revenues are ahead of last year by 9.9 percent (\$656.4 million), driven by a year-over-increase of net individual income taxes of 15.1 percent (\$661.9 million). Other revenue sources had a minimal net impact on total revenues. For the month of September, revenues increased 12.4 percent (\$353.1 million) compared to the same month last year. Almost all of which was due to net individual income taxes.

September is the first significant nonwithholding payment month of the year and 80 percent of the increase in the month was accounted for by these payments. Nonwithholding collections for the month increased 35.6 percent (\$277.4 million) year-over-year and 34.7 percent (\$346.9 million) year-to-date. Among the other major revenue sources, payroll withholding collections increased 4.2 percent (\$51.9 million) for the month compared to last year. Year-to-date, withholding revenue is up 5.5 percent (\$210.3 million) versus last year. Net corporate income tax collections were down 10.3 percent (\$42.1 million) for the month of September. On a year-to-date basis, corporate income tax revenues are 21.2 percent below last year (\$109.3 million). Sales and use taxes for the month, reflecting August sales, increased 0.1 percent (\$0.2 million) year-over-year and 1.5 percent (\$17.6 million) year-to-date.

Compared to the official forecast assumed in the current appropriations act and accounting for monthly variations in tax collections, revenues exceeded projections for the month by 14.1 percent (\$395.8 million) and are ahead of forecast by 9.0 percent (\$601.4 million) year-to-date. Compared to the year-to-date forecast, nonwithholding revenues are 56.4 percent (\$485.7 million) ahead. Withholding revenues are 6.4 percent (\$243.3 million) ahead, and sales and use taxes are 2.0 percent (\$23.2 million) ahead. Corporate tax collections were below forecast for the month of September by \$45.6 million and are \$89.5 million below projections year-to-date.

Collections from other sources of revenues 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 3.0 percent in the second quarter of 2024 according to the ‘third’ estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP increased 1.6 percent. The increase in the second quarter primarily reflected increases in consumer spending, inventory investment, and business investment.
- The Federal Reserve cut interest rates for first time in four years at its most recent September 17-18 meeting, lowering the target range for the federal funds rate by 0.5 percentage point to 4.75 to 5.0 percent. The Committee has gained greater confidence that inflation is moving sustainably toward the target of 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance.
- Inflation progress showed signs of stalling in September. The Consumer Price Index (CPI) rose 0.2 percent month-over-month in September, higher than the expected 0.1 percent increase. The twelve-month change fell slightly from 2.5 percent to 2.4 percent. Core CPI, the index for all items less food and energy, increased 0.3 percent in September, up 3.3 percent over the year. The twelve-month change in the Core Personal Consumption Expenditure Price Index (Core PCE) edged up slightly to 2.7 percent in August, in line with expectations.
- U.S. employment growth improved in September. U.S. nonfarm payroll employment, from the monthly establishment survey, increased by 254,000 in September, higher than the average monthly gain of 203,000 over the prior 12 months. The change in total nonfarm payroll employment for July was also revised up by 55,000, and the change for August was revised up by 17,000.
- In August, the most recent month for which data are available, Virginia’s nonagricultural employment, from the monthly establishment survey decreased by 5,800. Private sector employment decreased by 5,700 while government employment decreased by 100. July’s preliminary estimate of month-over-month employment growth was also revised down from +4,800 to -4,500.
- In September, the U.S. unemployment rate changed little at 4.1 percent, a 0.1 percentage points decline from August. Virginia’s unemployment rate in August increased by 0.1 percentage points to 2.8 percent.

- Virginia housing market stalled in August. There were 9,408 homes sold statewide in August, 48 fewer than a year ago, a 0.5 percent decrease. Total volume increased 2.4 percent year-over-year reflecting an overall increase in home prices. The statewide median sales price was \$415,000, a 3.8 percent increase from August of last year.
- Consumer confidence is weakening, driven mostly by concerns about the job market. The Conference Board Consumer Confidence Index fell in September to 98.7 (1985=100), from an upwardly revised 105.6 in August. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—fell by 10.3 points to 124.3, near the lowest level in two years.

September Revenue Collections

General fund revenues increased 12.4 percent year-over-year for the month of September. Fiscal year-to-date through September 30, general fund revenues are up 9.9 percent over the prior year.

Net Individual Income Tax (67% of FY 2025 general fund revenues): Revenues increased 18.7 percent (\$348.8 million) for the month compared to last year. Year-to-date net individual income tax collections are up 15.1 percent (\$661.9 million). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 14.4 percent (\$632.9 million), driven by higher-than-forecasted withholding and nonwithholding receipts.

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

Individual Income Tax Withholding (58% of FY 2025 general fund revenues): Collections of payroll withholding taxes were 4.2 percent higher (\$51.9 million) for the month compared to last September and ahead of projections by 7.1 percent (\$85.5 million). Withholding collections are up 5.5 percent year-to-date and ahead of projections by \$243.3 million year-to-date.

Individual Income Tax Nonwithholding (20% of FY 2025 general fund revenues): September collections increased 35.6 percent (\$277.4 million) year-over-year and are up 34.7 percent (\$346.9 million) for the year. Through September 30, nonwithholding receipts are 56.4 percent (\$485.7 million) ahead of forecast.

Individual Income Tax Refunds (-11% of FY 2025 general fund revenues): During the month of September, refunds totaled \$125.4 million versus \$144.9 million last September, a decline of 13.4 percent. September is not a significant month for individual income tax refunds, normally accounting for two to three percent of the full year total. Year-to-date, the Department of Taxation has issued \$443.5 million in refunds compared with \$338.8 million over the same period last year, a decrease of 23.6 percent.

Sales Tax (16% of FY 2025 general fund revenues): Collections of sales and use taxes, reflecting August sales, increased 0.1 percent (\$0.2 million) in September and are up 1.5 percent (\$17.6 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 2.0 percent (\$23.2 million) above projections.

Corporate Income Tax (7% of FY 2025 general fund revenues): Net corporate income tax collections declined 10.3 percent in September. On a year-to-date basis, corporate income tax revenues are 21.2 percent (\$109.3 million) below last year and 18.0 percent (\$89.5 million) below the forecast assumed in the current appropriations act.

Wills, Suits, Deeds, Contracts (2% of FY 2025 general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 12.6 percent higher in September compared to the previous year. On a fiscal-year-to-date basis, collections are up 10.3 percent (\$10.8 million). Compared to the forecast, collections in this source are behind projections by 6.1 percent (\$7.5 million).

Insurance Premiums (2% of FY 2025 general fund revenues): Monthly collections of insurance company premiums license taxes are being transferred to the Commonwealth Transportation Fund per Chapter 986, 2007 Acts of the Assembly, until the required amount of \$228.7 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (3% of FY 2025 GF revenues)	6.7%	3.5%
ABC Taxes (1% of FY 2025 GF revenues)	(20.6%)	7.3%

General fund interest income totaled \$349.5 million through September compared to \$327.7 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.

All Other Revenue (2% of FY 2025 general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 54.6 percent to \$158.9 million fiscal year-to-date compared with \$102.7 million a year ago.

Summary

With one full quarter of collections, general fund revenues are ahead of last year by 9.9 percent (\$656.3 million) driven mainly by a year-over-year increase in net individual income taxes. Relative to the official forecast developed in the fall of 2023, which assumed a modest year-over-year decline in general fund revenues resulting from a mild U.S. recession in Calendar Year 2024 that has not materialized, revenues to date are \$601.4 million higher than projected.

Through the first quarter of the fiscal year, the U.S. and Virginia economies remain on a growth trajectory, supported by continued, but slowing growth in the labor market, strong consumer

spending and better than forecasted nonwithholding revenues. These indicators support a positive near-term outlook for revenues. Inflation has moderated sufficiently to give the Federal Reserve confidence that inflation is under control and on path toward its two-percent target. The focus is shifting to gradually normalizing interest rate policy in order to maintain a healthy labor market which is showing signs of weakening.

While further rate cuts are expected, the timing and magnitude of further cuts are uncertain. Additionally, broader economic risks remain, including the possibility of a weaker than expected job market, escalating geopolitical tensions, and the possibility of protracted fiscal disputes at the federal level that could further weaken consumer and business confidence. These risks and the upcoming elections, which will have a significant impact on the outlook for our economy, will be reflected in the December forecast.