



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Glenn Youngkin
THROUGH: The Honorable John Littel
FROM: Stephen E. Cummings
SUBJECT: December Revenue Report

This month's revenue report incorporates the revised revenue forecast assumed in the Governor's proposed amendments to the 2024-26 biennial budget (HB 1600 / SB 800). The forecast reflects the recommendations of both the Joint Advisory Board of Economists and Governor's Advisory Council on Revenue Estimates. With the revisions, general fund revenues are projected to grow 4.1 percent (\$1.2 billion) for Fiscal Year 2025.

For the month of December, total general fund revenues grew by 4.4 percent (\$128.9 million) versus the same period last year. All major revenue sources were higher year-over-year.

Year-to-date, general fund revenues are up 6.7 percent (\$892.1 million) year-over-year through the first six 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; insurance premiums license tax; and interest income 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 0.3 percent (\$43.1 million). For the month, revenues were behind forecast by 3.7 percent (\$115.9 million). The variance in December revenues compared to the forecast is primarily attributable to lower than forecasted corporate income tax collections and higher-than-projected individual income tax refunds. Through the first six months of the fiscal year, collections are up 6.7 percent (\$892.1 million), and general fund collections need only grow by 1.9 percent over the second half of the fiscal year to meet the forecast assumed in HB 1600 / SB 800. Based upon the continued strength in withholding and sales and use taxes collected to

date and the expected collections for corporate and refunds relative to a conservative forecast for the remainder of the year we remain confident in our forecast.

Among the major revenue sources, withholding was up 5.2 percent (\$75.3 million) year-over-year for the month and is up 6.6 percent (\$526.6 million) year-to-date. Nonwithholding increased 1.7 percent (\$10.7 million) in December versus last year and is up 15.0 percent (\$304.4 million) year-to-date. Corporate income tax collections were higher year-over-year in December by 5.6 percent (\$18.6 million). On a year-to-date basis, corporate income tax revenues are lower by 16.2 percent (\$158.8 million). Sales tax revenues, reflecting November sales, were up 0.8 percent in December (\$3.2 million) and are up 1.6 percent (\$38.9 million) year-to-date. The majority of sales tax collections from the holiday shopping season will be received in January.

December includes monthly collections of payroll withholding, sales and use taxes, and most minor sources. December collections also include estimated payments for corporate filers and payments for the elective Pass-Through Entity Tax (PTET). 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 3.1 percent in the third quarter of 2024 following an increase of 3.0 percent in the second quarter, according to the "third" estimate released by the U.S. Bureau of Economic Analysis.
- U.S. employment grew more than expected in December, adding 256,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose 223,000, while government increased 33,000.
- In November, Virginia employment, from the monthly establishment survey increased by 5,300 and was 1.7 percent higher than in November 2023. Virginia's labor force participation rate remains unchanged at 66.0 percent for the fourth consecutive month.
- Unemployment remains stable. Nationally the U.S. unemployment rate ticked down to 4.1 percent in December (-0.1), and in Virginia the unemployment rate increased slightly ticked up to 3.0 percent (+0.1) in November.
- Inflation held steady in November. The Consumer Price Index (CPI) increased slightly to 2.7 percent year-over-year growth, up from the 2.6 percent reported in October, but lower than the 3.1 percent reading in November 2023. The twelve-month change in "core" CPI, which excludes food and energy, remained steady at 3.3 percent year-over-year growth for the third consecutive month. The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures price index rose slightly from 2.3 percent to 2.4 percent in November, while the "core" PCE index, remained at 2.8 percent.
- At its December meeting, the Federal Reserve cut the target for the federal funds rate by 25 basis points to a range of 4.25 percent to 4.50 percent. Over its last three meetings the Fed has reduced the fed funds rate by one full percentage point. The Fed has signaled its intent to leave the federal funds rate unchanged at its January 30-31 meeting.

- Retail sales grew at a stronger-than-expected pace in November according to the U.S. Census Bureau. Growth rose from an upwardly revised gain of 2.9 percent in October to 3.8 percent in November.
- The University of Michigan consumer sentiment index retreated slightly to 73.2, according to the preliminary January reading, after five straight gains. Despite the small decline, sentiment has trended higher over the past two and half years.
- The National Federation of Independent Business (NFIB) Small Business Optimism Index increased 3.4 points to 105.1 in December, its highest since October 2018. Improvement across the index's 10 components was broad-based. Expectations that the economy will improve over the next six months made the greatest stride forward, rising 16 points to 52. This is the highest in more than two decades.

December Revenue Collections

General fund revenues increased 4.4 percent (\$128.9 million) year-over-year for the month of December. Fiscal year-to-date through December 31, general fund revenues are up 6.7 percent (\$892.1 million) over the prior year.

Net Individual Income Tax (70% of general fund revenues): Revenues increased by 0.8 percent (\$15.5 million) for the month compared to last year. Year-to-date net individual income tax collections are up 9.6 percent (\$855.2 million). Compared to the forecast assumed in the proposed budget, year-to-date net individual income tax collections are ahead of projections by 0.4 percent (\$35.1 million), driven by higher-than-expected withholding and non-withholding receipts.

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 5.2 percent (\$75.3 million) higher for the month compared to last December. Fiscal-year-to-date collections are 6.6 percent (\$526.6 million) higher than the same period last year. Compared to the forecast assumed in the proposed budget, withholding revenues are up 0.5 percent (\$46.1 million) year-to-date.

Individual Income Tax Non-withholding (22% of general fund revenues): December collections increased by 1.7 percent (\$10.7 million) and are up 15.0 percent (\$304.4 million) on a year-to-date basis. Through December, non-withholding receipts are 1.5 percent (\$35.5 million) ahead of forecast. December and January are significant months for collections in this source. The deadline to submit quarterly PTET payments is in December, while the deadline to submit quarterly individual income estimated payments is in January. Due to payment timing, January results will provide a clearer picture of collections for this source.

Individual Income Tax Refunds (-9% of general fund revenues): Through December, the total amount of refunds issued has decreased a modest 2.2 percent (\$24.2 million) compared to the same period last year.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting November sales, grew 0.8 percent (\$3.2 million) in December and are up 1.6 percent (\$38.9 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 0.1 percent (\$3.1 million)

short of projections. As November represents the beginning of the holiday shopping season, a clearer assessment of the season will be possible after receiving December sales tax payments due in January.

Corporate Income Tax (6% of general fund revenues): Collections for December grew by 5.6 percent (\$18.6 million) year-over-year. Year-to-date, collections are down 16.2 percent (\$158.8 million). Compared to forecast, net corporate income tax collections are 9.8 percent (\$89.7 million) behind 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 24.5 percent (\$8.4 million) higher in December compared to the previous year. On a fiscal-year-to-date basis, collections are up 20.0 percent (\$39.5 million). Compared to the forecast, collections in this source are ahead by 11.6 percent (\$24.7 million) year-to-date.

Insurance Premiums (2% of general fund revenues): General fund receipts totaled \$123.9 million. December marks 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 short 4.1 percent (\$5.4 million) compared to the forecast.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (2% GF revenues)	3.8%	-11.8%
ABC Taxes (1% GF revenues)	-6.4%	0.1%

Interest income earnings totaled \$513.6 million in the first six months of the year compared to \$494.8 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. Based on the forecast and anticipated nongeneral fund allocations, interest income through December is generally on plan.

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 37.0 percent (\$84.4 million) to \$312.4 million fiscal year-to-date compared with \$228.0 million for the same period last year.

Summary

Through the first six months of the fiscal year, collections are up 6.7 percent (\$892.1 million) compared to last year and are running ahead of projections assumed in the Governor’s proposed Fiscal Year 2025 budget by 0.3 percent (\$43.1 million). Net individual income tax collections are

ahead of projections by 0.4 percent (\$35.1 million). Sales tax is closely aligned with expectations year-to-date. Interest income and recordation tax collections are outperforming expectations while net corporate income tax collections are running below projections. As a result of overall strong revenue growth year-to-date, general fund collections need only grow by 1.9 percent over the second half of the fiscal year to meet the forecast assumed in HB 1600 / SB 800.

The U.S. and Virginia economies remain on a growth trajectory, supported by continued growth in the labor market, and strong consumer spending. These indicators support a positive near-term outlook for revenues and provide confidence in our forecast for the fiscal year.