



## ***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 revenues include typical large sources like payroll withholding and sales tax collections and quarterly payments for corporate income and individual nonwithholding taxes.

Total general fund revenues increased 2.7 percent (\$87.6 million) for the month versus September last year. The year-over-year increase was driven primarily by higher individual income tax withholding payments and sales and use tax collections. The positive year-over-year variance was partially offset by higher refunds and lower nonwithholding tax collections. On a year-to-date basis, general fund revenues increased 5.1 percent (\$374.4 million) through the first three months of Fiscal Year 2026.

Among the major revenue sources, payroll withholding collections increased 10.2 percent (\$130.6 million) for the month compared to last year. Year-to-date, withholding revenue is up 10.6 percent (\$427.1 million) versus last year. This is a revenue source that is subject to some volatility driven by large taxpayer payment timing that can impact month to month performance. Sales and use tax revenues were up 5.8 percent (\$22.8 million) versus last September. Year-to-date, sales and use taxes are up 5.4 percent (\$65.6 million), indicating the ongoing strength of the consumer.

Nonwithholding collections decreased by 6.3 percent (\$66.5 million) compared to September last year, while refunds issued were up 22.4 percent (\$28.1 million). Net corporate income tax collections increased 2.5 percent (\$9.4 million) for the month of September. General fund interest income grew 2.9 percent (\$4.1 million) for the month.

Compared to the official forecast assumed in Chapter 725 and accounting for monthly variations in tax collections, revenues exceeded projections for the month by 9.8 percent (\$294.4 million) and are ahead of forecast by 7.9 percent (\$560.9 million) year-to-date.

Withholding revenues exceeded projections by 5.8 percent (\$77.6 million) in September and are ahead of the official forecast by 7.6 percent (\$315.5 million) year-to-date. Sales tax revenues, reflecting August sales, were higher than projections by 1.0 percent (\$4.1 million) and are ahead of forecast by 1.4 percent (\$17.5 million) on a year-to-date basis. Corporate tax collections were below forecast for the month of September by \$14.4 million and are \$82.5 million below projections year-to-date. Wills, Suits, and Deeds (mainly recordation) revenues increased 24.3 percent (\$8.3 million) compared to last September and are below projections for the year by 5.5 percent (\$7.5 million).

Collections from other sources of revenues are discussed in more detail in the following sections.

## **Economic Review**

- U.S. real GDP growth for the second quarter of 2025 was revised upward from an annual rate of 3.3 percent to 3.8 percent according to the ‘third’ estimate released by the Bureau of Economic Analysis in September. In the first quarter, real GDP decreased by 0.6 percent, revised from a 0.5 percent reduction in the second estimate. The increase in the second quarter primarily reflected increases in consumer spending and decreased imports.
- The University of Michigan’s U.S. Consumer Sentiment Index remained essentially unchanged, falling 0.1 points to 55.2. Compared to the same period last year, the index was down 22.0 percent.
- The twelve-month percentage increase in the Consumer Price Index (CPI) for all items increased to 2.9 percent (+0.2 percentage points) in August. The year-over-year percentage increase in “core” CPI, which excludes food and energy, increased slightly to 3.1 percent (+0.1 percentage point). The twelve-month percentage change in the “core” Personal Consumption Expenditure Price Index, the Fed’s preferred inflation measure, remained steady at 2.9 percent in the most recent reading for August.
- During the September meeting of the Federal Open Market Committee (FOMC) members voted to decrease the federal funds rate by 25 basis points to between 4.0 and 4.25. The Fed is expected to cut the funds rate again before year end.
- Due to the government shutdown, updated jobs data will not be available until funding returns. The most recent releases for U.S. nonfarm payroll employment showed an increase of 22,000 in August, and the unemployment rate increased slightly from 4.2 percent to 4.3 percent, the highest reading since October 2021. Employment growth in August was far below the average monthly gain of 122,000 over the prior 12 months. The largest gains were in Education & Health Services (+46,000), Leisure & Hospitality (+28,000), and Other Services (+12,000). The largest declines were in Professional & Business Services (-17,000), Total Government (-16,000), and Manufacturing (-12,000).

- In August, the most recent month for which data are available, Virginia's nonagricultural employment, from the monthly establishment survey, increased by 7,200. Compared to August of last year, Virginia total nonagricultural employment increased 1.1 percent. Virginia's unemployment rate in August remained steady for the month at 3.6 percent.
- Virginia's housing market improved modestly in August. There were 9,423 homes sold statewide in August 2025, 15 more than a year ago, a 0.2 percent increase. The statewide median sales price was \$430,000, a 3.6 percent increase from August of last year.

## September Revenue Collections

General fund revenues increased 2.7 percent year-over-year for the month of September. Fiscal year-to-date through September 30, general fund revenues are up 5.1 percent over the same period last year.

***Net Individual Income Tax (69% of general fund revenues):*** Revenues increased 1.6 percent (\$36.1 million) for the month compared to last year. Year-to-date net individual income tax collections are up 6.5 percent (\$327.3 million). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 11.6 percent (\$559.5 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 (57% of general fund revenues):*** Collections of payroll withholding taxes were 10.2 percent (\$130.6 million) higher for the month compared to last September, and ahead of projections by 5.8 percent (\$77.6 million). Withholding collections are up 10.6 percent (\$427.1 million) year-to-date and ahead of projections by \$315.5 million year-to-date. The strength in payroll withholding is exceptional and grounded in better-than-expected labor market outcomes over the previous year. However, this source is subject to swings from large employers and the level of growth is not expected to remain this high.

***Individual Income Tax Nonwithholding (20% of general fund revenues):*** September collections decreased 6.3 percent (\$66.5 million) year-over-year and are down 7.7 percent (\$103.1 million) year-to-date. September is a significant month for this source and exceeded the forecast by 30.9 percent (\$233.5 million). Year-to-date nonwithholding revenue is 28.1 percent (\$272.7 million) ahead of forecast. The forecast had assumed a decline in September payments as last year included retroactive Tax Year 2021 payments for the Pass Through Entity Tax. However, regular nonwithholding payments largely counteracted that decline.

***Individual Income Tax Refunds (-8% of general fund revenues):*** During the month of September, refunds totaled \$153.5 million versus \$125.4 million last September, an increase of 22.4 percent. September is not a significant month for individual income tax refunds. Year-to-date, the Department of Taxation has issued \$335.5 million in refunds compared with \$338.8 million over the same period last year, a decrease of 1.0 percent.

***Sales Tax (16% of general fund revenues)***: Collections of sales and use taxes, reflecting August sales, increased 5.8 percent (\$22.8 million) in August and are up 5.4 percent (\$65.6 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 1.4 percent (\$17.5 million) above projections.

***Corporate Income Tax (6% of general fund revenues)***: Net corporate income tax collections totaled \$377.5 million in September. On a year-to-date basis, corporate income tax revenues are 16.9 percent (\$85.4 million) below last year and \$82.5 million below the forecast assumed in the current appropriations act.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues)***: Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 24.3 percent (\$8.3 million) higher in September compared to the previous year. On a fiscal-year-to-date basis, collections are up 12.2 percent (\$14.0 million). Compared to the forecast, collections in this source are behind projections by 5.5 percent (\$7.5 million) year-to-date.

***Insurance Premiums (2% of 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 \$256.7 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 (2% of GF revenues) | 9.3%                | 6.7%                   |
| ABC Taxes (1% of GF revenues)       | (13.4%)             | 2.9%                   |

General fund interest income totaled \$381.9 million through September compared to \$349.5 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 decreased by 14.6 percent to \$135.7 million this fiscal year compared with \$158.9 million a year ago.

## Summary

Through the first three months of Fiscal Year 2026, general fund revenues are up 5.1 percent year-over-year, driven mainly by growth in individual income tax. Relative to the official forecast developed in the Fall of 2024 revenues to date are \$560.9 million higher than projected.

New economic data is sparse as the Bureau of Labor Statistics is not publishing during the government shutdown. However, the data available paint a picture of a cautious economy with some higher than expected growth. The most recent data on job growth in the Commonwealth and the nation as a whole indicate a cooling but still positive labor market. Inflation remains at levels similar to January and February of this year. Total output as measured by GDP was revised up for Q2 of 2025. Payroll withholding, the best indicator of economic performance and largest component of General Fund revenue, is performing well above expectations. There is no expectation for such exceptional growth to continue at this level, but the first three months of Fiscal Year 2026 has already built up a considerable surplus over forecast and provides cushion against any future headwinds.