COMMONWEALTH of VIRGINIA

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April 17, 2025

MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: March Revenue Report

Year-to-date, general fund revenues are up 5.8 percent ($1,163.5 million) year-over-year through the first nine months of Fiscal Year 2025. The strength in year-over-year growth is driven primarily by individual income tax receipts. For the month of March, total general fund revenues decreased by 0.1 percent (-$2.8 million) versus the same period last year. March is typically not a significant month for revenue collections, consisting mainly of regular payroll withholding and sales and use taxes.

Compared 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 0.4 percent ($84.7 million). Year-to-date revenues for net individual income, sales and corporate income taxes, which represent 92 percent of year-to-date revenues, are generally on target (-0.4 percent to forecast). The negative variance in year-to-date revenues versus projections is primarily attributable to increased refunds reducing net individual income tax collections, and lower collections in March for corporate income and sales and use taxes. Based upon fiscal year-to-date measures, revenues need only grow 0.4 percent the remainder of the fiscal year to meet the Fiscal Year 2025 forecast.

Withholding collections grew 2.7 percent ($42.0 million) for the month and are up 6.6 percent ($818.0 million) year-to-date. Nonwithholding, the strongest driver of growth for the month, increased 14.2 percent ($54.1 million) in March versus last year and is up 11.3 percent ($368.6 million) year-to-date. Net corporate income tax collections were higher year-over-year in March by 9.9 percent ($8.1 million). On a year-to-date basis, net corporate income tax revenues are lower by 6.5 percent ($72.1 million). Sales tax revenues, reflecting February sales, were down 8.0 percent in March ($27.9 million) but are up 1.4 percent ($49.7 million) year-to-date.

Economic Review

- U.S. employment continued to grow in March, adding 228,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose in most industries, led by Education & Health Services (+77,000), Trade, Transportation & Utilities (+48,000), and Leisure & Hospitality (+43,000). The losses in March came from Mining & Logging (-2,000) and Information Services (-2,000). Federal government employment declined by 4,000.

- The Trump administration is implementing a plan to reduce the size of the federal workforce. Separations have started appearing in national employment data, with federal layoffs and discharges growing 18,000 month-over-month in February.

- In February, the most recent month with available data, Virginia employment, from the monthly establishment survey, decreased by 1,000 but was 1.3 percent higher than in February 2024.

- The U.S. unemployment rate ticked up to 4.2 percent in March (+0.1 percentage point), and the Virginia unemployment rate ticked up to 3.1 percent (+0.1 percentage point) in February from 3.0 percent in January.

- Inflation continued downward in March. The Consumer Price Index (CPI) decreased to 2.4 percent year-over-year growth, down from the 2.8 percent reported in February, and lower than the 3.5 percent reading from March of last year. The twelve-month change in "core" CPI, which excludes food and energy, decreased to 2.8 percent (-0.3 percentage points). The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures price index remained steady at 2.5 percent in February, while the "core" PCE index, ticked up to 2.8 percent from the upwardly adjusted 2.7 percent measured in January.

- At its March meeting, the Federal Reserve left the target for the federal funds rate unchanged at 4.25 to 4.5 percent, as expected. The next meeting is scheduled for May 7th where the federal funds target is expected to remain unchanged.

- Retail sales continued to grow at a healthy pace in February. According to the U.S. Census Bureau, year-over-year growth dipped slightly from a downwardly revised 3.9 percent in January to a gain of 3.1 percent in February.

- The University of Michigan consumer sentiment index retreated to 50.8, according to the April preliminary reading, which marks its lowest point since June 2022.

March Revenue Collections

General fund revenues increased 5.8 percent ($1,163.5 million) year-to-date through March 31st. For the month of March, general fund revenues declined 0.1 percent ($2.8 million) compared to the prior year.

Net Individual Income Tax (70% of general fund revenues): Revenues increased by 1.7 percent ($25.0 million) for the month compared to last year. Year-to-date net individual income tax collections are up 7.7 percent ($1,054.8 million). Compared to the forecast assumed in the proposed budget, year-to-date net individual income tax collections are behind by 0.1 percent ($12.5 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 2.7 percent ($42.0 million) higher for the month compared to last March. Fiscal-year-to-date collections are 6.6 percent ($818.0 million) higher than the same period last year. Compared to the forecast assumed in the proposed budget, withholding revenues are ahead 0.9 percent ($123.6 million) year-to-date. Payroll withholding revenue is the main driver of general fund growth year-to-date.
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> ***Individual Income Tax Nonwithholding (22% of general fund revenues)***: March is not a significant collections month for this source. Collections increased by 14.2 percent ($54.1 million) for the month and are up 11.3 percent ($368.6 million) on a year-to-date basis. Through March, nonwithholding receipts are 3.3 percent ($114.5 million) ahead of forecast.
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> ***Individual Income Tax Refunds (-9% of general fund revenues)***: Refunds issued grew 12.3 percent ($54.8 million) year-over-year for the month. Through March, the total amount of refunds issued has increased 12.6 percent ($250.7 million) compared to the same period last year. The primary driver of the recent increase was a slight increase in the average refund size.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting February sales, have grown 1.4 percent ($49.7 million) year-to-date but were down 8.0 percent ($27.9 million) for the month. Fiscal-year-to-date, sales and use tax revenues are just under target by 0.4 percent ($14.8 million). The decline in sales tax collections is partially attributable to an anomaly in the timing of payments from a small number of taxpayers. In addition, February of 2024 was a leap year and had one additional day of sales. These two factors distort year-over-year comparisons for March collections.

Corporate Income Tax (6% of general fund revenues): March is not a significant month for this source. The month includes refund issuances and few estimated payments due from corporate taxpayers. March net revenues, including refunds, increased 9.9 percent ($8.1 million), while year-to-date collections are down 6.5 percent ($72.1 million). Compared to the forecast, net corporate income tax collections are 2.8 percent ($30.0 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 14.1 percent ($4.8 million) higher in

March compared to the previous year. On a fiscal-year-to-date basis, collections are up 18.6 percent ($53.3 million). Compared to the forecast, collections in this source are ahead by 5.5 percent ($17.8 million) year-to-date.

Insurance Premiums (2% of general fund revenues): Year-to-date through March, general fund receipts total $191.9 million. Year-to-date collections are ahead 44.1 percent ($58.7 million) compared to the forecast due mainly to the timing of refund issuances.

Other Revenue Sources

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

	Year-to-Date	Annual Estimate
Interest Income (2% GF revenues)	-3.6%	-11.8%
ABC Taxes (1% GF revenues)	-2.1%	0.1%

Interest income earnings totaled $644.0 million through March compared to $668.3 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 3.6 percent compared to last year, interest income is higher than projected by 4.4 percent ($26.8 million).

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 15.6 percent ($61.2 million) to $454.0 million fiscal year-to-date compared with $392.8 million for the same period last year.

Summary

Through March, collections are up 5.8 percent ($1,163.5 million) compared to last year; withholding drove 70.3 percent ($818.0 million) of this growth. General fund revenues are running slightly ahead of projections assumed in the Governor's proposed Fiscal Year 2025 budget. Net individual income, and sales and use tax collections are 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 have been greater this season, driven by an increase in the average refund size.

The U.S. and Virginia economies continue to perform well to date, but potential uncertainties are present. Current data show declining consumer sentiment and some weakening in the U.S. and Virginia economies is anticipated as a result of the expected reductions in the federal workforce, federal spending and the pending tariff increases, all of which are yet to be finalized. Virginia is in a very strong position from a financial and job opening standpoint and overall economic conditions and revenue collections to-date are consistent with our forecast. We continue to believe that we will achieve our forecast for FY 2025. However, we are closely monitoring all data to ensure that Virginia is well-prepared to respond to the future economic environment.