



COMMONWEALTH of VIRGINIA

Stephen E. Cummings
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

September 10, 2025

MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: August Revenue Report

August consists mainly of payroll withholding and sales tax collections and generally is not a significant month for other sources such as corporate income, nonwithholding taxes, and refunds. The first quarterly estimated payments from individuals and corporations are due in September which will provide a better indicator of general fund revenue trends.

Total general fund revenues increased 6.8 percent (\$132.7 million) for the month versus August last year. The year-over-year increase was driven primarily by higher individual income tax withholding payments and lower individual income tax refunds. The positive year-over-year variance was partially offset by lower net corporate income tax collections and lower nonwithholding tax collections. On a year-to-date basis, general fund revenues increased 7.0 percent (\$286.9 million) through the first two months of Fiscal Year 2026.

Among the major revenue sources, payroll withholding collections increased 10.3 percent (\$137.4 million) for the month compared to last year. Year-to-date, withholding revenue is up 10.8 percent (\$296.5 million) versus last year. This strong start in withholding indicates the ongoing strength in jobs and wages in Virginia. 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 8.0 percent (\$31.8 million) versus last August. Year-to-date, sales and use taxes are up 5.3%, indicating the ongoing strength of the consumer.

For those sources that are not significant contributors at this point in the year, nonwithholding collections decreased by 35.9 percent (\$64.9 million) compared to August last year, and refunds

issued were down 30.6 percent (\$36.1 million). Net corporate income tax collections were negative \$58.7 million for the month of August. general fund interest income grew 35.7 percent (\$34.6 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 6.2 percent (\$122.0 million) and are ahead of forecast by 6.5 percent (\$266.5 million) year-to-date.

Withholding revenues exceeded projections by 10.3 percent (\$137.8 million) in August and are ahead of the official forecast by 8.5 percent (\$237.9 million) year-to-date. Sales tax revenues, reflecting July sales, were higher than projections by 4.0 percent (\$16.7 million) and are ahead of forecast by 1.6 percent (\$13.4 million) on a year-to-date basis. Corporate tax collections were below forecast for the month of August by \$61.7 million and are \$68.0 million below projections year-to-date. Wills, Suits, and Deeds (mainly recordation) revenues decreased 8.6 percent (\$3.3 million) compared to last August and are below projections for the year by 8.4 percent (\$7.9 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 3.0 percent to 3.3 percent according to the ‘second’ estimate released by the Bureau of Economic Analysis in August. In the first quarter, real GDP decreased 0.5 percent. The increase in the second quarter primarily reflected increases in consumer spending and decreased imports.
- In August, the University of Michigan’s U.S. Consumer Sentiment Index fell by 3.5 points to 58.2, a 5.7 percent month-over-month decline. Compared to the same period last year, the index was down 14.3 percent.
- The twelve-month percentage increase in the Consumer Price Index (CPI) for all items remained steady at 2.7 percent in July. The year-over-year percentage increase in “core” CPI, which excludes food and energy, increased slightly to 3.0 percent (+0.1 percentage point). The twelve-month percentage change in the “core” Personal Consumption Expenditure Price Index, the Fed’s preferred inflation measure, ticked up to 2.9 percent in the most recent reading for July.
- In September, the Bureau of Labor Statistics (BLS) announced preliminary benchmark revisions to nonfarm employment. The BLS estimates that total nonfarm employment for March 2025 was lower than previously reported by -911,000 (-0.6%) for the U.S. and -6,900 (-0.2%) for Virginia. Final benchmark revisions will be incorporated into official employment estimates with the publication of the January 2026 reports from BLS.
- The Fed is widely expected to lower rates at the September 17 meeting. In recent remarks, Federal Reserve Chair Jerome Powell expressed that while the dual mandate of full

employment and stable prices are in tension at the moment, runaway price dynamics are unlikely.

- Employment growth continues to slow. U.S. nonfarm payroll employment increased by 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 July, the most recent month for which data are available, Virginia's nonagricultural employment, from the monthly establishment survey, increased by 600. Compared to July of last year, Virginia total nonagricultural employment increased 0.8 percent. Virginia's unemployment rate in July increased for the seventh consecutive month to 3.6 percent (+0.1 percentage point).
- Virginia's housing market improved modestly in July. There were 10,182 homes sold statewide in July 2025, 235 more than a year ago, a 2.4% increase. The statewide median sales price was \$435,000, a 2.1% increase from July of last year.

August Revenue Collections

General fund revenues increased 6.8 percent year-over-year for the month of August. Fiscal year-to-date through August 31, general fund revenues are up 7.0 percent over the same period last year.

Net Individual Income Tax (69% of general fund revenues): Revenues increased 7.8 percent (\$108.6 million) for the month compared to last year. Year-to-date net individual income tax collections are up 10.3 percent (\$291.2 million). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 10.7 percent (\$301.7 million), driven by higher-than-forecasted withholding and nonwithholding receipts, and lower-than-forecast refunds.

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 10.3 percent (\$137.4 million) higher for the month compared to last August, and ahead of projections by 10.3 percent (\$137.8 million). Withholding collections are up 10.8 percent (\$296.5 million) year-to-date and ahead of projections by \$237.9 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. With only two months of the fiscal year complete, it is prudent to expect the positive variance to come back to a more reasonable level.

Individual Income Tax Nonwithholding (20% of general fund revenues): August collections decreased 35.9 percent (\$64.9 million) year-over-year and are down 12.6 percent

(\$36.6 million) year-to-date. August is not a significant month for this source and typically accounts for less than two percent of full year collections. Through August 31, nonwithholding receipts are 18.3 percent (\$39.2 million) ahead of forecast.

Individual Income Tax Refunds (-8% of general fund revenues): During the month of August, refunds totaled \$81.8 million versus \$117.9 million last August, a decline of 30.6 percent. August is not a significant month for individual income tax refunds. Year-to-date, the Department of Taxation has issued \$182.0 million in refunds compared with \$213.3 million over the same period last year, a decrease of 14.7 percent.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting July sales, increased 8.0 percent (\$31.8 million) in August and are up 5.3 percent (\$42.8 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 1.6 percent (\$13.4 million) above projections.

Corporate Income Tax (6% of general fund revenues): Net corporate income tax collections were negative \$58.7 million in August. On a year-to-date basis, corporate income tax revenues are 128.2 percent (\$49.7 million) below last year and \$61.7 million below the forecast assumed in the current appropriations act. This is not a significant month for corporate income tax collections.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 8.6 percent (\$3.3 million) higher in August compared to the previous year. On a fiscal-year-to-date basis, collections are up 7.0 percent (\$5.7 million). Compared to the forecast, collections in this source are behind projections by 8.4 percent (\$7.9 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 August for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (2% of GF revenues)	13.4%	6.7%
ABC Taxes (1% of GF revenues)	(18.2%)	2.9%

General fund interest income totaled \$239.4 million through August compared to \$211.1 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 26.5 percent to \$84.0 million fiscal year compared with \$114.3 million a year ago.

Summary

July and August are not significant months for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments.

Through the first two months of Fiscal Year 2026, general fund revenues are up 7.0 percent year-over-year, driven mainly by growth in individual income and sales tax receipts. Relative to the official forecast developed in the fall of 2024 revenues to date are \$266.5 million higher than projected.

While unemployment has risen in the Commonwealth, Virginia's labor market started significantly stronger than the nation as a whole. Despite increasing 0.7 percentage points this calendar year Virginia's unemployment rate is still better than the nation. Sales tax revenues indicate consumers remain resilient and consumption has grown. Additionally, the Federal Reserve has indicated confidence that inflation is under control, and the primary focus is shifting to maintaining a healthy labor market where there are signs of weakness. In response, the Fed has signaled that rates may be reduced in their upcoming September meeting.