



## ***COMMONWEALTH of VIRGINIA***

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Secretary of Finance

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### **MEMORANDUM**

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: April Revenue Report

Year-to-date, general fund revenues are up 6.3 percent (\$1,485.9 million) year-over-year through the tenth month of Fiscal Year 2025. The strength in year-over-year growth is driven primarily by individual income tax receipts. For the month of April, total general fund revenues grew by 8.8 percent (\$322.4 million) versus the same period last year. April is a significant month for revenue collections, including regular payroll withholding, final and estimated nonwithholding payments, and is the peak month of refund season.

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 0.8 percent (\$211.1 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 (+0.5 percent to forecast). The positive variance in year-to-date revenues versus projections is primarily attributable to increased nonwithholding collections, which increased net individual income tax collections, and higher collections. Based upon the fiscal year-to-date measures, revenues can decline by up to 4.7% over the remainder of the fiscal year and still meet the Fiscal Year 2025 forecast.

Withholding collections grew 4.5 percent (\$62.0 million) for the month and are up 6.3 percent (\$880.0 million) year-to-date. Nonwithholding, the strongest driver of growth for the month, increased 21.9 percent (\$389.4 million) in April versus last year and is up 15.0 percent (\$758.0 million) year-to-date. Net corporate income tax collections were lower year-over-year in April by 9.5 percent (\$46.6 million). On a year-to-date basis, net corporate income tax revenues are lower

by 7.4 percent (\$118.7 million). Sales tax revenues, reflecting March sales, were up 4.2 percent in April (\$17.0 million) and are up 1.7 percent (\$66.7 million) year-to-date.

## **Economic Review**

- Real GDP growth dropped sharply in the first quarter of 2025. When decomposed into primary components, it is evident that a surge in imports drove this decline. Consumers sought to preempt tariffs and imports grew at a 9.0 percent annual rate. Meanwhile, the remainder of GDP components grew at a weighted average of 2.0 percent annualized.
- U.S. employment continued to grow in April, adding 177,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose in most industries, led by Education & Health Services (+70,000), Trade, Transportation & Utilities (+32,000), and Leisure & Hospitality (+24,000). Federal government employment declined by 9,000.
- In March, the most recent month with available data, Virginia employment, from the monthly establishment survey, increased by 5,900 and was 1.1 percent higher than in March 2024. The largest job gains were led by Construction (+7,200), Education and Health Services (+2,200), and Trade, Transportation, and Utilities (+1,600). These gains were constrained by losses in Professional and Business Services (-4,400), and Total Government (-2,400). Federal employment in Virginia declined by 4,100 in March according to the preliminary reading.
- The U.S. unemployment rate remained steady at 4.2 percent in April, and in Virginia, the unemployment rate ticked up to 3.2 percent (+0.1 percentage point) in March up from 3.1 percent in February.
- Inflation eased slightly in April. The Consumer Price Index (CPI) decreased to 2.3 percent year-over-year growth, down from 2.4 percent reported in March, and lower than the 3.3 percent reading from April of last year. The twelve-month change in “core” CPI, which excludes food and energy, remained unchanged at 2.8 percent. This discrepancy between the two measures of CPI is primarily attributable to a drop in energy prices. The Federal Reserve’s preferred inflation measure, the Personal Consumption Expenditures price index decreased to 2.3 percent in March (-0.4 percentage point), while the “core” PCE index, decreased to 2.6 percent from the upwardly adjusted 3.0 percent measured in February.
- At its May 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 June 18<sup>th</sup> where the federal funds target is currently expected to remain unchanged.
- The University of Michigan consumer sentiment index retreated to 50.8, according to the May reading.

## April Revenue Collections

General fund revenues increased 6.3 percent (\$1,485.9 million) year-to-date through April 30<sup>th</sup>. For the month of April, general fund revenues increased 8.8 percent (\$322.4 million) over the prior year.

***Net Individual Income Tax (70% of general fund revenues)***: Revenues increased by 15.7 percent (\$400.7 million) for the month compared to last year. Year-to-date net individual income tax collections are up 9.0 percent (\$1,455.4 million). Compared to the forecast assumed in the proposed budget, year-to-date net individual income tax collections are close to projections; ahead by 0.5 percent (\$91.2 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 4.5 percent (\$62.0 million) higher for the month compared to last April. Fiscal-year-to-date collections are 6.3 percent (\$880.0 million) higher than the same period last year. Compared to the forecast assumed in the proposed budget, withholding revenues are just under projections by 0.3 percent (\$46.6 million) year-to-date. Payroll withholding revenue remains the main driver of general fund growth year-to-date.

***Individual Income Tax Nonwithholding (22% of general fund revenues)***: April is a significant collections month for this source. Collections increased by 21.9 percent (\$389.4 million) for the month and are up 15.0 percent (\$758.0 million) on a year-to-date basis. Through April, nonwithholding receipts are 9.9 percent (\$525.1 million) ahead of forecast.

***Individual Income Tax Refunds (-9% of general fund revenues)***: Refunds issued grew 8.3 percent (\$50.7 million) year-over-year for the month. Through April, the total amount of refunds issued has increased 6.7 percent (\$182.5 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 March sales, have grown 1.7 percent (\$66.7 million) year-to-date and were up 4.2 percent (\$17.0 million) for the month. Fiscal-year-to-date, sales and use tax revenues are very close to estimates, behind by 0.1 percent (\$5.7 million). The recent growth in sales tax is likely driven by consumers accelerating their purchases to avoid tariffs.

***Corporate Income Tax (6% of general fund revenues)***: April is a significant month for this source with a quarterly payment deadline. Net revenues decreased 9.5 percent (\$46.6 million), while year-to-date collections are down 7.4 percent (\$118.7 million). Compared to the forecast, net corporate income tax collections are 1.4 percent (\$20.0 million) ahead of 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 4.6 percent (\$1.8 million) higher in April compared to the previous year. On a fiscal-year-to-date basis, collections are up 17.0 percent (\$55.1 million). Compared to the forecast, collections in this source are ahead by 4.5 percent (\$16.5 million) year-to-date.

***Insurance Premiums (2% of general fund revenues):*** Year-to-date through April, general fund receipts total \$370.0 million. Year-to-date collections are ahead by 19.6 percent (\$60.5 million) compared to the forecast.

### **Other Revenue Sources**

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

|                                  | <b><u>Year-to-Date</u></b> | <b><u>Annual Estimate</u></b> |
|----------------------------------|----------------------------|-------------------------------|
| Interest Income (2% GF revenues) | -13.8%                     | -11.8%                        |
| ABC Taxes (1% GF revenues)       | -2.2%                      | 0.1%                          |

Interest income earnings totaled \$555.9 million through April compared to \$645.1 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. Year-to-date, interest income has declined 13.8 percent compared to last year and is behind projections by 1.7 percent (\$9.8 million).

***All Other Revenue (2% of general fund revenues):*** On a year-to-date basis, collections of All Other Revenue increased by 13.8 percent (\$60.3 million) to \$497.4 million fiscal year-to-date compared with \$437.1 million for the same period last year.

### **Summary**

Through April, collections are up 6.3 percent (\$1,485.9 million) compared to last year; withholding and nonwithholding receipts were the main drivers of this growth. General fund revenues are 0.8 percent (\$211.1 million) ahead of projections. Net individual income, corporate income, and sales and use tax collections are closely aligned with expectations year-to-date, while 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 have performed well to date. The recent decline in GDP is not indicative of softness but instead is a result of accelerated imports. Virginia returned to job growth after two months of modest declines. Inflation continues to ease. There remain potential headwinds in the form of federal employment reductions, and trade uncertainty.