



COMMONWEALTH of VIRGINIA

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June 13, 2025

MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: May Revenue Report

Year-to-date, general fund revenues are up 5.9 percent (\$1,572.2 million) year-over-year through the eleventh month of Fiscal Year 2025. The strength in year-over-year growth is driven primarily by individual income tax receipts. For the month of May, total general fund revenues grew by 3.0 percent (\$86.3 million) versus the same period last year. May includes the end of the filing season for Tax Year 2024, thus it is a significant month in nonwithholding and individual refunds.

Compared to the revenue forecast assumed in the 2025 Appropriation Act (Chapter 725, 2025 Acts of Assembly) and accounting for monthly variations in tax collections, year-to-date total general fund revenues are ahead of projections by 1.8 percent (\$488.3 million). The positive variance in year-to-date revenues versus projections is primarily attributable to increased individual income tax collections. Based upon the fiscal year-to-date measures, revenues are likely to exceed the Fiscal Year 2025 forecast.

Withholding collections declined 3.8 percent (\$57.9 million) for the month, reflecting one fewer deposit day compared to May of last year. Fiscal year-to-date, withholding collections are up 5.3 percent (\$822.0 million). Nonwithholding collections, the strongest driver of May's year-over-year growth, increased 10.5 percent (\$84.7 million) and is up 14.4 percent (\$842.6 million) year-to-date. Sales tax revenues, reflecting April sales, were up 5.8 percent in May (\$22.5 million) and are up 2.1 percent (\$89.1 million) year-to-date.

Economic Review

- U.S. employment continued to grow in May, adding 139,000 jobs according to the Bureau of Labor Statistics. Private sector payrolls rose across many industries, led by Education & Health Services (+87,000), Leisure & Hospitality (+48,000), and Financial Activities (+13,000). Federal government employment declined by 22,000.
- In April, the most recent month with available data, Virginia employment, from the monthly establishment survey, increased by 500 and was 1.1 percent higher than in April 2024. The job gains were concentrated to Construction (+4,300) and Leisure and Hospitality (+700). These gains were constrained by losses in Professional and Business Services (-1,300), Manufacturing (-1,300), and Education and Health Services (-1,100). Federal employment in Virginia declined by 900 in April according to the preliminary reading.
- The U.S. unemployment rate remained steady for the third month at 4.2 percent in May, and in Virginia, the unemployment rate ticked up to 3.3 percent (+0.1 percentage point) in April up from 3.2 percent in March.
- The U.S. labor force participation rate ticked down 0.2 percentage points in May to 62.4 percent. The most recent reading for Virginia is April when it declined 0.1 percentage points to 65.4 percent.
- The Consumer Price Index (CPI) increased 0.1 percent in May, a 2.4 percent year-over-year increase. Core CPI, which excludes food and energy also increased 0.1 percent, a 2.8 percent year-over-year increase.
- 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 18th where the federal funds target is currently expected to remain unchanged.
- The University of Michigan consumer sentiment index remained at 52.2, according to the revised May reading – approximately 25 percent lower than this time last year.

May Revenue Collections

General fund revenues have increased 5.9 percent (\$1,572.2 million) year-to-date through May 31st. For the month of May, general fund revenues increased 3.0 percent (\$86.3 million) over the prior year.

Net Individual Income Tax (70% of general fund revenues): Revenues increased by 0.7 percent (\$15.6 million) for the month compared to last year. Year-to-date net individual income tax collections are up 8.0 percent (\$1,471.1 million). Compared to the forecast assumed in the enacted budget, year-to-date net individual income tax collections are ahead by 1.4 percent (\$281.2 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 3.8 percent (\$57.9 million) lower for the month compared to last May. Fiscal-year-to-date collections are 5.3 percent (\$822.0 million) higher than the same period last year. Compared to the forecast assumed in the budget, withholding revenues are just over projections by 0.2 percent (\$31.3 million) year-to-date. Payroll withholding revenue remains one of the two main drivers of general fund growth year-to-date.

Individual Income Tax Nonwithholding (22% of general fund revenues): May is a significant collections month for this source, with the final deadline for state returns falling on May 1st. Collections increased by 10.5 percent (\$84.7 million) for the month and are up 14.4 percent (\$842.6 million) on a year-to-date basis. Through May, nonwithholding receipts are 10.1 percent (\$614.2 million) ahead of forecast.

Individual Income Tax Refunds (-9% of general fund revenues): Refunds issued grew 6.8 percent (\$11.1 million) year-over-year for the month. Through May, the total amount of refunds issued has increased 6.7 percent (\$193.6 million) compared to the same period last year.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting April sales, have grown 2.1 percent (\$89.1 million) year-to-date and were up 5.8 percent (\$22.5 million) for the month. Fiscal-year-to-date, sales and use tax revenues are close to estimates, ahead by 0.2 percent (\$9.0 million).

Corporate Income Tax (6% of general fund revenues): May is not a significant month for this source and thus is subject to extreme volatility. Net revenues increased 1,773.1 percent (\$77.8 million) through a mix of lower refunds and higher gross payments in May. Year-to-date net corporate income tax collections are 2.6 percent (\$40.9 million) lower than this point last fiscal year. Compared to the forecast, net corporate income tax collections are 5.5 percent (\$80.9 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 flat in May compared to the previous year. On a fiscal-year-to-date basis, collections are up 15.0 percent (\$55.1 million). Compared to the forecast, collections in this source are ahead by 3.5 percent (\$14.4 million) year-to-date.

Insurance Premiums (2% of general fund revenues): Year-to-date through May, general fund receipts total \$384.8 million. Year-to-date collections are ahead by 19.7 percent (\$63.3 million) compared to the forecast.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (2% GF revenues)	-15.1%	-11.8%
ABC Taxes (1% GF revenues)	-2.3%	0.1%

Interest income earnings totaled \$653.6 million through May compared to \$769.9 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 15.1 percent compared to last year and is behind projections by 2.2 percent (\$15.0 million).

All Other Revenue (2% of general fund revenues): On a year-to-date basis, collections of All Other Revenue increased by 12.3 percent (\$62.7 million) to \$574.4 million fiscal year-to-date compared with \$511.7 million for the same period last year.

Summary

The U.S. labor market continues to grow at a steady pace. Virginia's labor market has shown a slowdown in job growth. There remain potential headwinds in the form of federal employment reductions and trade uncertainty. However, Virginia has a significantly stronger starting position relative to national averages. The Commonwealth's unemployment rate is approximately one percentage point lower than the nation as a whole and the labor force participation rate is three points above the national average.

Through May, collections are up 5.9 percent (\$1,572.2 million) compared to last year; withholding and nonwithholding receipts were the main drivers of this growth. General fund revenues are 1.8 percent (\$488.3 million) ahead of projections. Payroll withholding and sales and use tax collections are closely aligned with expectations year-to-date, while nonwithholding, corporate income, insurance premiums license taxes are outperforming projections. Individual income tax refunds have exceeded forecast this year, however their negative variance is more than offset by higher than projected nonwithholding revenues. With a single month remaining in the fiscal year, we are confident that general fund revenues will exceed forecast.