



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: December Revenue Report

December is a significant month for revenue collections. Revenues include typical large sources like payroll withholding and sales tax collections and major quarterly payments for corporate income tax and nonwithholding.

Total general fund revenues increased 21.0 percent (\$641.9 million) for the month versus December last year. The year-over-year increase was driven primarily by higher individual income tax withholding and nonwithholding payments and lower individual income tax refunds. The positive year-over-year variance was partially offset by lower interest revenue and minor revenue sources. On a year-to-date basis, general fund revenues increased 8.6 percent (\$1.2 billion) through the first six months of Fiscal Year 2026.

Among the major revenue sources, payroll withholding collections increased 11.3 percent (\$170.9 million) for the month compared to last year. Year-to-date, withholding revenue is up 6.9 percent (\$584.9 million) versus last year. Sales and use tax revenues were up 4.4 percent (\$17.7 million) versus last December. Year-to-date, sales and use taxes are up 5.6 percent (\$135.0 million).

Individual income tax nonwithholding collections increased by 62.7 percent (\$399.6 million) compared to December last year, while refunds issued were down 53.6 percent (\$110.8 million). Net corporate income tax collections decreased 5.1 percent (\$17.8 million) for the month of December. General fund interest income declined 16.4 percent (\$20.9 million) for the month.

Compared to the official forecast assumed in the Governor's proposed budget, which increased the FY 2026 revenue forecast versus Chapter 725 by \$822.5 million, and the total resources forecast by \$1.19 billion, revenues exceeded projections for the month by 10.7 percent (\$358.4 million) and are ahead of forecast by 2.6 percent (\$395.4 million) year-to-date.

Withholding revenues fell short of projections by 4.4 percent (\$76.9 million) in December and are behind the official forecast by 1.7 percent (\$162.0 million) year-to-date. Sales tax revenues, reflecting November sales, were higher than projections by 0.3 percent (\$1.2 million) and are ahead of forecast by 0.5 percent (\$13.5 million) on a year-to-date basis. Corporate tax collections were below forecast for the month of December by \$53.3 million and are \$77.0 million below projections year-to-date. Wills, Suits, and Deeds (mainly recordation) revenues exceeded the forecast by 26.3 percent (\$10.2 million) and are ahead of projections for the year by 9.0 percent (\$22.3 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 third quarter of 2025 grew 4.3 percent according to the initial estimate released by the Bureau of Economic Analysis in December compared to an upwardly revised 3.8 percent growth in the second quarter. The increase in GDP can be attributed to an increase in consumer spending, exports and government spending and a decrease in imports.
- U.S. nonfarm payroll employment increased by 50,000 in December, a year-over-year increase of 0.4 percent. This growth was led by gains in Leisure & Hospitality (+47,000), Education & Health Services (+41,000), and Total Government (+13,000). These gains were tempered by losses in Trade, Transportation, & Utilities (-33,000) and Construction (-11,000).
- Virginia nonagricultural employment increased by 8,600 in November, a year-over-year increase of 0.2 percent. Gains were led by Professional & Business Services (+4,400), Total Government (+1,400), and Construction (+1,300). These gains were slightly offset by a combined total of 500 job losses across four sectors: Mining & Logging, Manufacturing, Information Services, and Leisure & Hospitality.
- U.S. unemployment measured 4.4 percent in December, down from 4.5 measured in November. Virginia unemployment remained at 3.5 percent in November from September's reading. The Bureau of Labor Statistics was unable to provide unemployment estimates for October due to disruptions caused by the government shutdown.
- At its December 10 meeting, the Federal Open Market Committee (FOMC) voted to reduce the target range for the federal funds rate to 3.5 percent to 3.75 percent. Members of the FOMC seem to disagree on the necessity for additional cuts, and the market-implied probability suggests that there will not be an additional cut during the January meeting.
- In November, the most recent available month of data, the Consumer Price Index (CPI) for all items increased by 2.6 percent over November 2024, while Core CPI, which excludes

volatile food and energy costs, increased 2.7 percent year-over-year. October inflation numbers are unavailable due to disruptions caused by the government shutdown, but both of these values have decreased since September when both indices had grown 3.0 percent year-over-year.

- The University of Michigan consumer sentiment index increased from November's 51.0 reading to 52.9 in December. This marks a 7.1 percent increase from November, but a 25.5 decrease from December 2024.
- According to Virginia Realtors, home sales activity in Virginia decreased by 4.6 percent (-361 sales) in November, the most recent month with available data, but increased by 0.7 percent (+632) in the period from January 2025 to November 2025. The median sales price of a house increased 2.4 percent year-over-year in November to \$425,000.

December Revenue Collections

General fund revenues increased 21.0 percent year-over-year for the month of December. Fiscal year-to-date through December 31, general fund revenues are up 8.6 percent over the same period last year.

Net Individual Income Tax (71% of general fund revenues): Revenues increased 35.0 percent (\$681.2 million) for the month compared to last year. Year-to-date net individual income tax collections are up 12.6 percent (\$1.2 billion). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 4.2 percent (\$440.8 million), driven by higher-than-forecasted nonwithholding 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 11.3 percent (\$170.9 million) higher for the month compared to last December, driven by an additional major deposit day. Performance was below projections for the month by 4.4 percent (\$76.9 million). Withholding collections are up 6.9 percent (\$584.9 million) year-to-date but behind projections by \$162.0 million year-to-date.

Individual Income Tax Nonwithholding (24% of general fund revenues): December is a significant month for nonwithholding income tax, primarily driven by pass-through entity estimated payments. Collections increased 62.7 percent (\$399.6 million) year-over-year and are up 14.0 percent (\$326.1 million) year-to-date. December revenues exceeded the forecast by 57.2 percent (\$377.1 million). Year-to-date nonwithholding revenue is 15.1 percent (\$349.2 million) ahead of forecast. The marked increase in this source was partially caused by a small number of large pass-through entities on top of generally strong performance from these entities this tax year.

Individual Income Tax Refunds (-10% of general fund revenues): During the month of December, refunds totaled \$95.9 million versus \$206.7 million last December, a decrease of

53.6 percent. Year-to-date, the Department of Taxation has issued \$778.3 million in refunds compared with \$1,100.8 million over the same period last year, a decrease of 29.3 percent.

Sales Tax (15% of general fund revenues): Collections of sales and use taxes, reflecting November sales, increased 4.4 percent (\$17.7 million) in December and are up 5.6 percent (\$135.0 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 0.5 percent (\$13.5 million) above projections.

Corporate Income Tax (6% of general fund revenues): December is a significant month for corporate income tax payments. Collections totaled \$333.0 million in December. On a year-to-date basis, corporate income tax revenues are 14.0 percent (\$114.8 million) below last year and \$77.0 million below the forecast assumed in the governor’s proposed budget.

Wills, Suits, Deeds, Contracts (1% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 16.2 percent (\$6.9 million) higher in December compared to the previous year. On a fiscal-year-to-date basis, collections are up 13.1 percent (\$31.2 million). Compared to the forecast, collections in this source are ahead of projections by 9.0 percent (\$22.3 million) year-to-date.

Insurance Premiums (2% of general fund revenues): December marks the first month wherein insurance premiums have reached their target level of \$256.7 million transferred to the Commonwealth Transportation Fund, and the start of collections on this source being credited to the general fund. For the month of December collections declined 6.3 percent (\$7.8 million) compared to this month last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (2% of GF revenues)	(4.8%)	(8.9%)
ABC Taxes (1% of GF revenues)	(3.4%)	(0.9%)

General fund interest income totaled \$488.7 million through December compared to \$513.6 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 general fund revenues): On a year-to-date basis, collections of All Other Revenue decreased by 9.4 percent to \$283.1 million this fiscal year compared with \$312.4 million a year ago.

Summary

Through the first six months of Fiscal Year 2026, general fund revenue collections have exceeded expectations, driven mainly by growth in individual income tax. Fiscal year-to-date, revenues are \$395.4 million ahead of forecast, reflecting the December reforecast which increased the FY 2026 revenue forecast versus Chapter 725 by \$822.5 million, and the total resources forecast by \$1.19 billion. December's outperformance adds an incremental \$395 million to those numbers, with year-to-date revenues growing 8.6 percent year-over-year, now representing a forecasted \$1.22 billion revenue increase and \$1.58 billion in total resources increase.

Recent macroeconomic data sources are mixed. The Bureau of Economic Analysis estimates Q3 GDP growth of 4.3 percent while the Bureau of Labor Statistics paint a picture of slowing job growth in Virginia and the U.S. at large. Recent CPI data have limited reliability as they adjust for missed data collection during the government shutdown. Asset markets remain optimistic and have fueled strong growth in the nonwithholding portion of individual income tax revenues. The two best indicators of economic health in the commonwealth, withholding and sales tax, remain strong at 6.9 percent and 5.6 percent growth respectively. With the Tax Year 2025 complete, strong nonwithholding collections are expected to continue through the spring filing season, providing significant cushion should headwinds in the labor market start to impact other revenues.