



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Abigail D. Spanberger

THROUGH: The Honorable Bonnie Krenz-Schnurman

FROM: Mark D. Sickles

SUBJECT: January Revenue Report

January is a significant revenue month, including regular payroll withholding, sales tax collections, and major quarterly payments for nonwithholding income taxes.

Total general fund revenues declined 1.4 percent (\$38.5 million) compared to January 2025, largely due to lower nonwithholding and lower corporate income tax payments. Year-to-date, general fund revenues are up 6.9 percent (\$1.2 billion) over Fiscal Year 2025. Compared to the official forecast assumed in HB30, revenues exceeded projections by 4.7 percent in January and are ahead by 2.9 percent (\$521.4 million) year-to-date.

Economic Review

Recent economic data are mixed. The Bureau of Economic Analysis estimates U.S. and Virginia real GDP expanded at a solid pace in the third quarter of 2025. Unemployment has been stable in recent months. The U.S. unemployment rate sits at 4.3 percent as of January while Virginia's was 3.6 percent as of December. On the other hand, the job market has been lackluster. The rate of job growth has declined at both the national and state level. Wednesday's jobs report showed the U.S. year-over-year growth was just 0.2 percent. In December, the most recent month available, Virginia's year-over-year job growth turned negative at -0.3 percent. Many of the job losses in the Commonwealth have come from the Federal government, which is a high wage employer. At the same time, Virginia's largest sector, Professional and Business Services, has stagnated. This is another high wage sector and job gains have been just 3,200 since the start of Fiscal Year 2026. The Consumer Sentiment Index remains subdued at 56.4.

January Revenue Collections

General fund revenues decreased 1.4 percent year-over-year for the month of January. Fiscal year-to-date through January 31, general fund revenues are up 6.9 percent over the same period last year.

Net Individual Income Tax (71% of general fund revenues): Revenues increased 0.3 percent (\$6.4 million) for the month compared to last year. Year-to-date net individual income tax collections are up 10.4 percent (\$1.2 billion). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 4.4 percent (\$557.8 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 3.0 percent (\$48.3 million) higher for the month compared to last January. Performance was above projections for the month by 12.7 percent (\$188.6 million). Year-to-date withholding collections are up 6.2 percent (\$633.2 million) and ahead of projections by \$26.6 million year-to-date.

Individual Income Tax Nonwithholding (24% of general fund revenues): Quarterly estimated payments are due in January and so both December and January are significant months for nonwithholding collections as taxpayers remit their last estimated payment for Tax Year 2025. Collections decreased 8.5 percent (\$61.0 million) year-over-year but are up 8.7 percent (\$265.1 million) year-to-date. January revenues fell short of the forecast by 5.3 percent (\$36.5 million). Year-to-date nonwithholding revenue is 10.4 percent (\$312.7 million) ahead of forecast.

Individual Income Tax Refunds (-10% of general fund revenues): During the month of January, refunds totaled \$110.7 million versus \$129.7 million last January, a decrease of 14.7 percent. Year-to-date, the Department of Taxation has issued \$889.0 million in refunds compared with \$1,230.6 million over the same period last year, a decrease of 27.8 percent. Year-to-date refunds issued are 19.7% (\$218.5 million) lower than forecasted.

Sales Tax (15% of general fund revenues): Collections of sales and use taxes, reflecting December sales, increased 6.9 percent (\$32.5 million) in January and are up 5.8 percent (\$167.4 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 1.5 percent (\$43.7 million) above projections.

Corporate Income Tax (6% of general fund revenues): January is not a significant month for corporate income tax payments. Collections totaled \$82.8 million in January. On a year-to-date basis, corporate income tax revenues are 17.6 percent (\$168.7 million) below last year and \$75.9 million below the forecast.

Wills, Suits, Deeds, Contracts (1% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 6.6 percent (\$2.2 million) higher in January compared to the previous year. On a fiscal-year-to-date basis, collections are up 12.3

percent (\$33.4 million). Compared to the forecast, collections in this source are ahead of projections by 8.8 percent (\$24.6 million) year-to-date.

Insurance Premiums (2% of general fund revenues): For the month of January collections declined 114.0 percent (\$12.1 million) compared to this month last year. Year-to-date collections have declined 14.8 percent (\$19.9 million) compared to the same period last year. Compared to the forecast, collections have fallen short by 14.1 percent (\$14.1 million) year-to-date.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (2% of GF revenues)	(9.9%)	(8.9%)
ABC Taxes (1% of GF revenues)	(9.7%)	(0.9%)

General fund interest income totaled \$383.4 million through January compared to \$425.4 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 5.4 percent to \$344.7 million this fiscal year compared with \$364.5 million a year ago.