COMMONWEALTH of VIRGINIA

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<u>MEMORANDUM</u>

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable John Littel

FROM: Stephen E. Cummings

SUBJECT: October Revenue Report

October is not a significant month for revenue collections. Revenues include typical large sources like payroll withholding and sales tax collections and the first quarterly distribution of interest income to nongeneral fund accounts.

Total general fund revenues increased 7.0 percent ($134.1 million) for the month versus October last year. The year-over-year increase was driven primarily by higher individual income tax withholding and nonwithholding payments, lower refunds, and greater sales and use tax collections. The positive year-over-year variance was partially offset by lower corporate tax collections. On a year-to-date basis, general fund revenues increased 5.5 percent ($508.5 million) through the first four months of Fiscal Year 2026.

Among the major revenue sources, payroll withholding collections increased 3.2 percent ($49.9 million) for the month compared to last year. Year-to-date, withholding revenue is up 8.6 percent ($477.0 million) versus last year. Sales and use tax revenues were up 9.2 percent ($35.8 million) versus last October. Year-to-date, sales and use taxes are up 6.4 percent ($101.4 million), indicating the ongoing strength of the consumer.

Nonwithholding collections increased by 24.6 percent ($57.1 million) compared to October last year, while refunds issued were down 17.2 percent ($53.9 million). Net corporate income tax collections decreased 84.7 percent ($45.8 million) for the month of October. General fund interest income declined 31.2 percent ($23.1 million) for the month.

Compared to the official forecast assumed in Chapter 725 and accounting for monthly variations in tax collections, revenues fell short of projections for the month by 3.0 percent ($63.8 million) but are ahead of forecast by 5.4 percent ($497.0 million) year-to-date.

Withholding revenues exceeded projections by 3.4 percent ($51.7 million) in October and are ahead of the official forecast by 6.5 percent ($367.2 million) year-to-date. Sales tax revenues, reflecting September sales, were higher than projections by 2.8 percent ($11.4 million) and are ahead of forecast by 1.7 percent ($29.0 million) on a year-to-date basis. Corporate tax collections were below forecast for the month of October by $44.9 million and are $127.4 million below projections year-to-date. Wills, Suits, and Deeds (mainly recordation) revenues fell short 1.5 percent ($0.7 million) and are below projections for the year by 4.5 percent ($8.1 million).

Collections from other sources of revenues are discussed in more detail in the following sections.

Economic Review

- The Consumer Price Index (CPI) for all items rose 3.0 percent for the 12 months ending in September, after rising 2.9 percent over the 12 months ending in August. Core CPI, which excludes food and energy, rose 0.2 percent for the month, a modest deceleration from August's 0.4 percent gain. The year-ago rate for Core CPI fell from 3.1 percent to 3.0 percent.

- The Federal Reserve's Federal Open Market Committee (FOMC) lowered the target range of the federal funds rate by a quarter-point to 3.75% to 4.0% at its October meeting. Following the meeting, Fed Chair Jerome Powell commented that an additional cut when the FOMC meets again in December is not a "foregone conclusion."

- With the exception of the Consumer Price Index, official statistics published by federal agencies such as the Bureau of Labor Statistics and the Bureau of Economic Analysis are unavailable due to the ongoing federal government shutdown. Other data sources provide a limited view of economic conditions.

- The Federal Reserve Bank of Chicago estimates that the U.S. unemployment rate was virtually unchanged in October at 4.36 percent.

- The ADP national employment report showed that private sector employers added 42,000 jobs in October, following two consecutive months of decline. Growth was concentrated in education and health services; trade, transportation and warehousing; and finance.

- The Revelio Labs nonfarm employment report, which sources data from online professional profiles, suggests the U.S. economy lost 9,100 jobs in October, largely because of a 22,200 decline in government payrolls. The estimate for September was also revised down from +60,100 to +33,000. The Revelio Labs report also estimates that Virginia employment declined by 6,900 and 2,300 in September and October, respectively.

- The University of Michigan consumer sentiment index fell from October's 53.6 reading to 50.3, according to the preliminary report for November. This is the fourth consecutive month-to-month decline in the index.

- The Conference Board's Consumer Confidence Index changed little in October. Consumers' assessments of the present situation increased slightly in October, with the index rising 1.8 points, partially offsetting a 2.9-point decline in the expectations index.
- Home sales activity in Virginia increased in September with the number of sales up 8.9 percent year-over-year and the dollar volume of sales up 13.1 percent. Listings increased as well, up 25.3 percent at the end of September compared to the same month last year.

October Revenue Collections

General fund revenues increased 7.0 percent year-over-year for the month of October. Fiscal year-to-date through October 31, general fund revenues are up 5.5 percent over the same period last year.

Net Individual Income Tax (69% of general fund revenues): Revenues increased 11.0 percent ($160.8 million) for the month compared to last year. Year-to-date net individual income tax collections are up 7.5 percent ($488.1 million). Compared to the forecast, year-to-date net individual income tax collections are ahead of projections by 8.8 percent ($563.4 million), driven by higher-than-forecasted withholding and nonwithholding receipts.

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 3.2 percent ($49.9 million) higher for the month compared to last October, and ahead of projections by 3.4 percent ($51.7 million). Withholding collections are up 8.6 percent ($477.0 million) year-to-date and ahead of projections by $367.2 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 level of growth is not expected to remain so high.
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> ***Individual Income Tax Nonwithholding (20% of general fund revenues)***: October is not a significant month for nonwithholding income tax. Collections increased 24.6 percent ($57.1 million) year-over-year but are down 2.9 percent ($46.0 million) year-to-date. October revenues exceeded the forecast by 2.4 percent ($6.7 million). Year-to-date nonwithholding revenue is 22.3 percent ($279.4 million) ahead of forecast.
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> ***Individual Income Tax Refunds (-8% of general fund revenues)***: During the month of October, refunds totaled $258.7 million versus $312.6 million last October, a decrease of 17.2 percent. Year-to-date, the Department of Taxation has issued $594.2 million in refunds compared with $651.3 million over the same period last year, a decrease of 8.8 percent.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting September sales, increased 9.2 percent ($35.8 million) in October and are up 6.4 percent ($101.4 million) year-to-date. Fiscal-year-to-date, sales and use tax revenues are 1.7 percent ($29.0 million) above projections.

Corporate Income Tax (6% of general fund revenues): October is not a significant month for corporate income tax payments. Collections totaled $8.3 million in October. On a year-to-date basis, corporate income tax revenues are 18.7 percent ($86.2 million) below last year and $127.4 million below the forecast assumed in the current appropriations act.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 4.6 percent ($1.9 million) higher in October compared to the previous year. On a fiscal-year-to-date basis, collections are up 10.1 percent ($15.9 million). Compared to the forecast, collections in this source are behind projections by 4.5 percent ($8.1 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 September for other revenue sources:

	Year-to-Date	Annual Estimate
Interest Income (2% of GF revenues)	3.4%	6.7%
ABC Taxes (1% of GF revenues)	(12.1%)	2.9%

General fund interest income totaled $284.7 million through October compared to $275.4 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 8.9 percent to $204.5 million this fiscal year compared with $224.5 million a year ago.

Summary

Through the first four months of Fiscal Year 2026, general fund revenues are up 5.5 percent year-over-year, driven mainly by growth in individual income tax. Relative to the official forecast developed in the Fall of 2024 revenues to date are $497.0 million higher than projected.

New economic data is sparse as key governmental data sources are not being published during the government shutdown. However, private sector data show a low-growth labor market with stable unemployment. Payroll withholding, the best indicator of economic performance and largest component of General Fund revenue, performed well above expectations in the first three months.

This was not expected to continue at such a strong level, and October collections showed a reversion to more reasonable levels. Sales tax collections, up 6.4 percent through the first four months indicate continued strong consumer demand.