



# **GOVERNOR YOUNGKIN'S PROPOSED AMENDMENTS TO THE 2024-2026 BUDGET**

Economic Outlook and Revenue Forecast

A BRIEFING FOR THE SENATE FINANCE & APPROPRIATIONS,  
HOUSE APPROPRIATIONS, AND HOUSE FINANCE COMMITTEES

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December 18, 2024

# TOPICS FOR DISCUSSION

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FISCAL YEAR 2024 YEAR-IN-REVIEW

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FISCAL YEAR 2025 YEAR-TO-DATE REVENUE COLLECTIONS

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CURRENT ECONOMIC CONDITIONS AND DECEMBER REVENUE FORECAST

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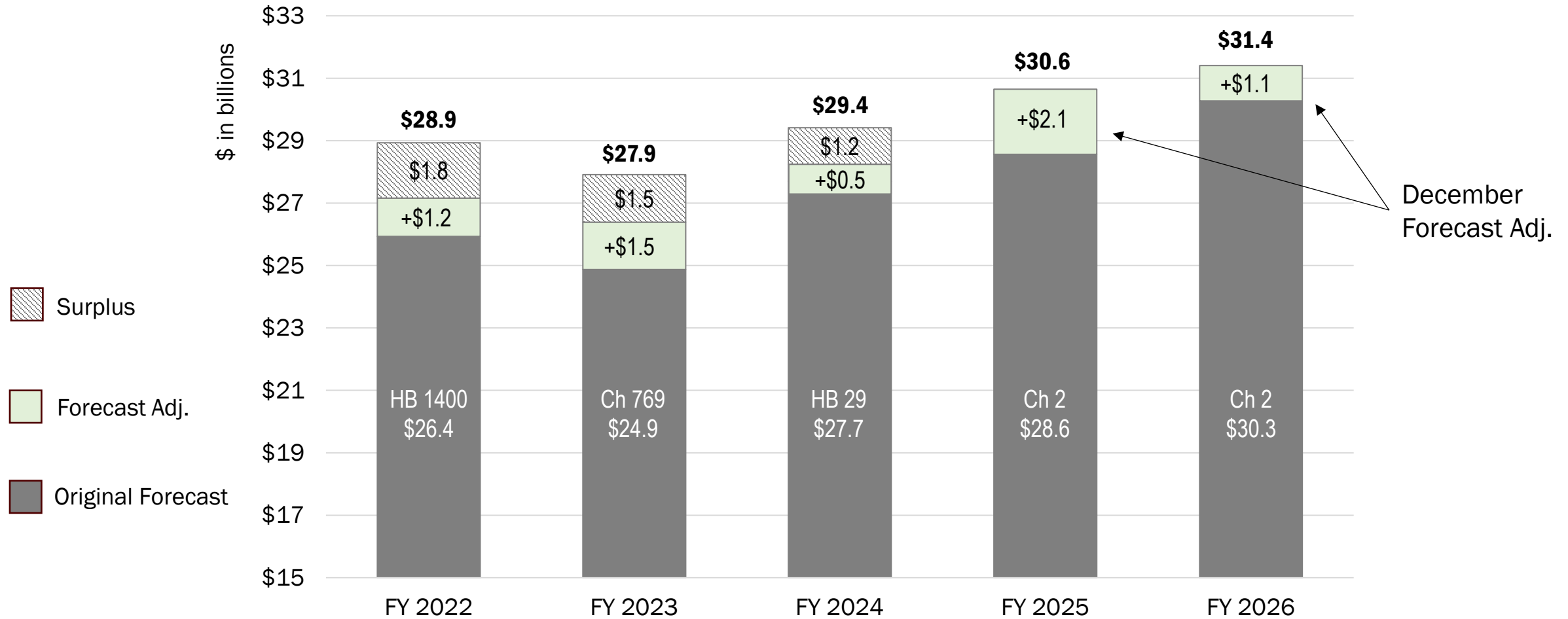
LONGER-TERM OUTLOOK

# SUMMARY

- FY 24 closed \$1.7 billion ahead of the December 2023 forecast resulting in a surplus of \$1.2 billion above the official forecast.
- Current year-to-date FY 25 trends continue to show strength as Virginia's economy continues growing. Withholding (58% of total GF revenues) grew by 4.8% in FY 24 and 6.9% through November (FY25), as job and wage growth continues exceeding expectations.
- Preliminary data suggest that a decade-long trend of net out-migration reversed in 2024, with more people moving to Virginia than leaving.
- Total revenues through November are \$763 million higher (7.3%) than prior year, led by strong withholding revenues.
- After consultation with JABE and GACRE, the proposed FY 2025-26 budget amendments reflect a revenue outlook that is modestly higher than the baseline presented at GACRE, which anticipated somewhat slower growth.
- The Fed has signaled further rate cuts over the coming year, and markets expect 75 bps of reduction over the next 12 months, providing some relief to interest sensitive sectors such as housing.
- Given the strength in year-to-date revenues versus the current Chapter 2, revenues for the remainder of the fiscal year could decline by 8.7% and still meet the Chapter 2 forecast, supporting the need for a significant reforecast.
- The December revenue forecast adds \$3.2 billion (\$2.1 billion in FY 25 and \$1.1 billion in FY 26) to the Chapter 2 forecast.
- Through November, revenues are exceeding the December forecast by \$153 million, primarily due to strong withholding revenues.
- Given year-to-date revenue growth of 7.3%, and the assumption of 4.1% growth in the December forecast, GF revenues need only grow 2.3% the remainder of the year.

# GF REVENUES HAVE EXCEEDED REVISED FORECASTS

## DECEMBER FORECAST CONSISTENT WITH RECENT TRENDS



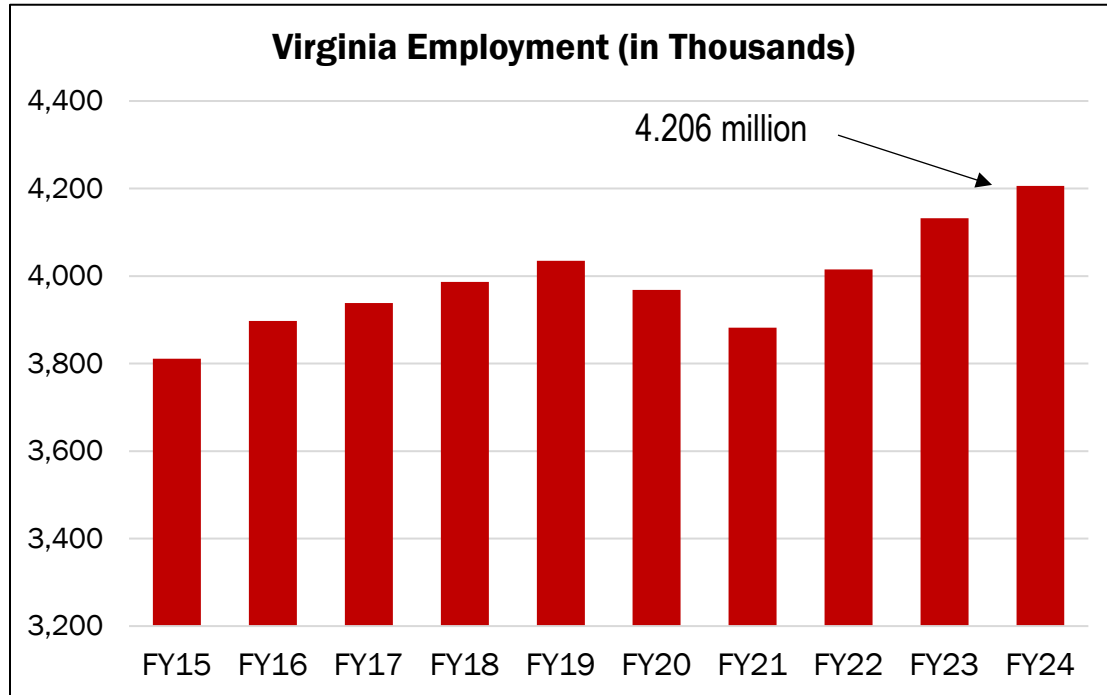
**\*Revenue totals reflect approximately \$5 billion in reductions from tax cuts and/or rebates FY 2022-24.**

# FISCAL YEAR 2024 GENERAL FUND REVENUES TOTALED \$29.4 BILLION, A RECORD HIGH

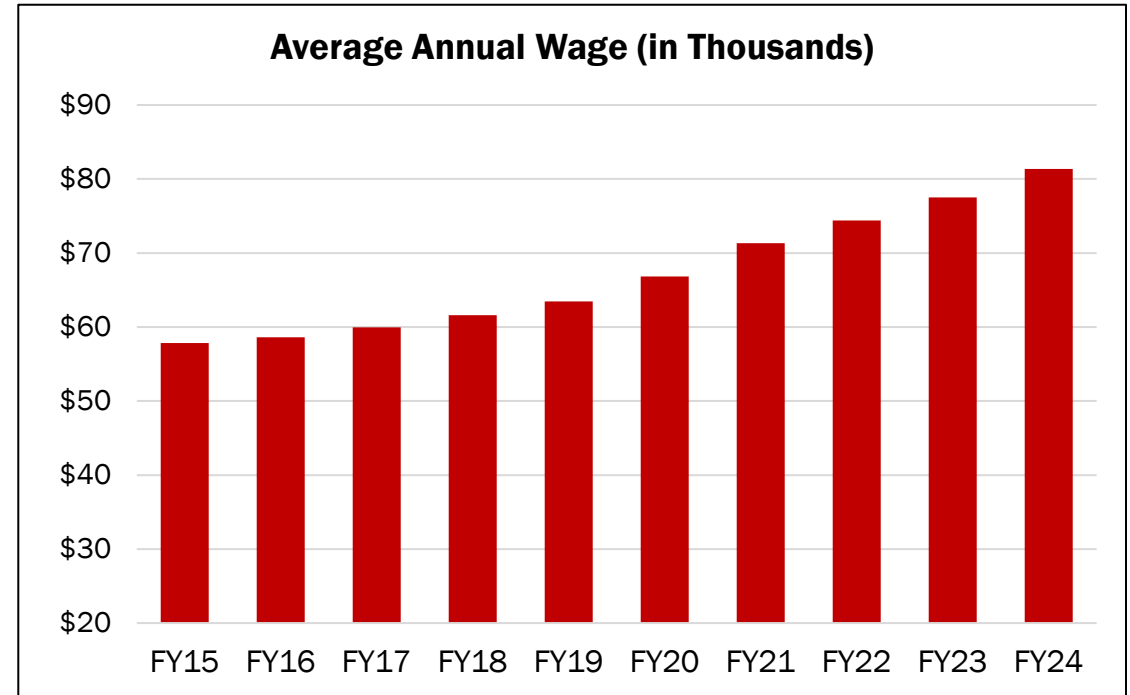
Source, \$ Mil	Actuals				Official Forecast		
	FY 2023	FY 2024	Change	% Change	Ch. 1 Fcst	% Change	Variance
Individual Income Tax	\$18,983.6	\$20,310.4	\$1,326.9	7.0%	\$19,062.9	0.4%	\$1,247.5
Withholding	15,957.2	16,718.2	761.1	4.8%	16,563.5	3.8%	154.7
Nonwithholding	6,629.2	6,563.7	(65.5)	-1.0%	5,813.8	-12.3%	749.9
Refunds	(3,602.8)	(2,971.5)	631.3	-17.5%	(3,314.4)	-8.0%	342.9
Sales and Use Tax	4,734.5	4,709.7	(24.9)	-0.5%	4,515.8	-4.6%	193.9
Corporate Income Tax	2,031.1	1,907.1	(124.1)	-6.1%	2,213.5	9.0%	(306.4)
All Other	2,160.7	2,521.1	360.4	16.7%	2,487.3	15.1%	33.8
<b>Total GF Revenues</b>	<b>\$27,909.9</b>	<b>\$29,448.2</b>	<b>\$1,538.3</b>	<b>5.5%</b>	<b>\$28,279.5</b>	<b>1.3%</b>	<b>\$1,168.7</b>
<i>Total, Excl. Nonwithholding &amp; Refunds</i>	<i>\$24,883.5</i>	<i>\$25,856.0</i>	<i>\$972.5</i>	<i>3.9%</i>	<i>\$25,780.1</i>	<i>3.6%</i>	<i>\$75.9</i>

- FY 2024 general fund revenues were \$1.5 billion higher (5.5%) than FY 2023 and ended with a surplus of \$1.2 billion.
- Payroll withholding accounted for one-half (\$761 million) of the year-over-year increase and grew 4.8 percent over FY 2023.

# VIRGINIA EMPLOYMENT GREW 1.8 PERCENT IN FY 2024, REACHING A RECORD HIGH; WAGES GREW 5.0 PERCENT

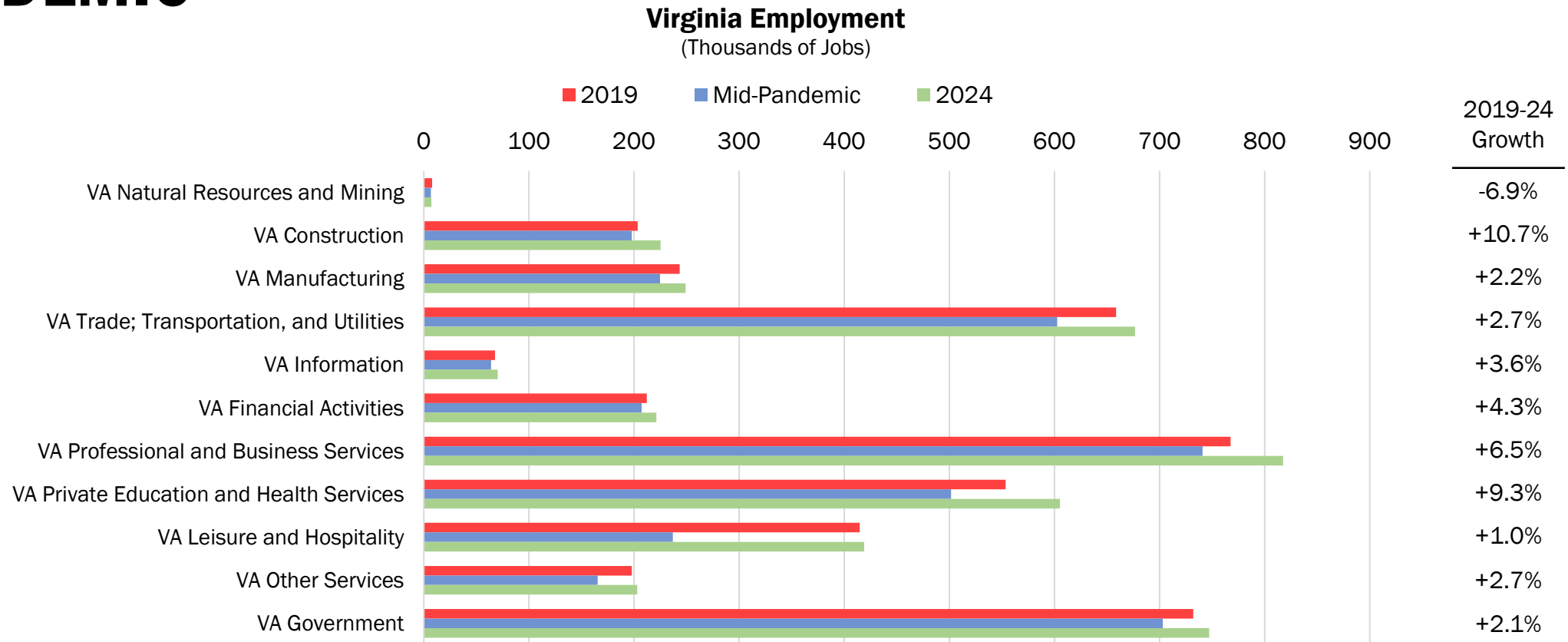


Source: Federal Reserve Bank of St. Louis, All Employees: Total Nonfarm in Virginia, Thousands of Persons, Average of Quarters, Seasonally Adjusted



Source: Moody's Analytics (total wages and salaries per worker, average of quarterly values).

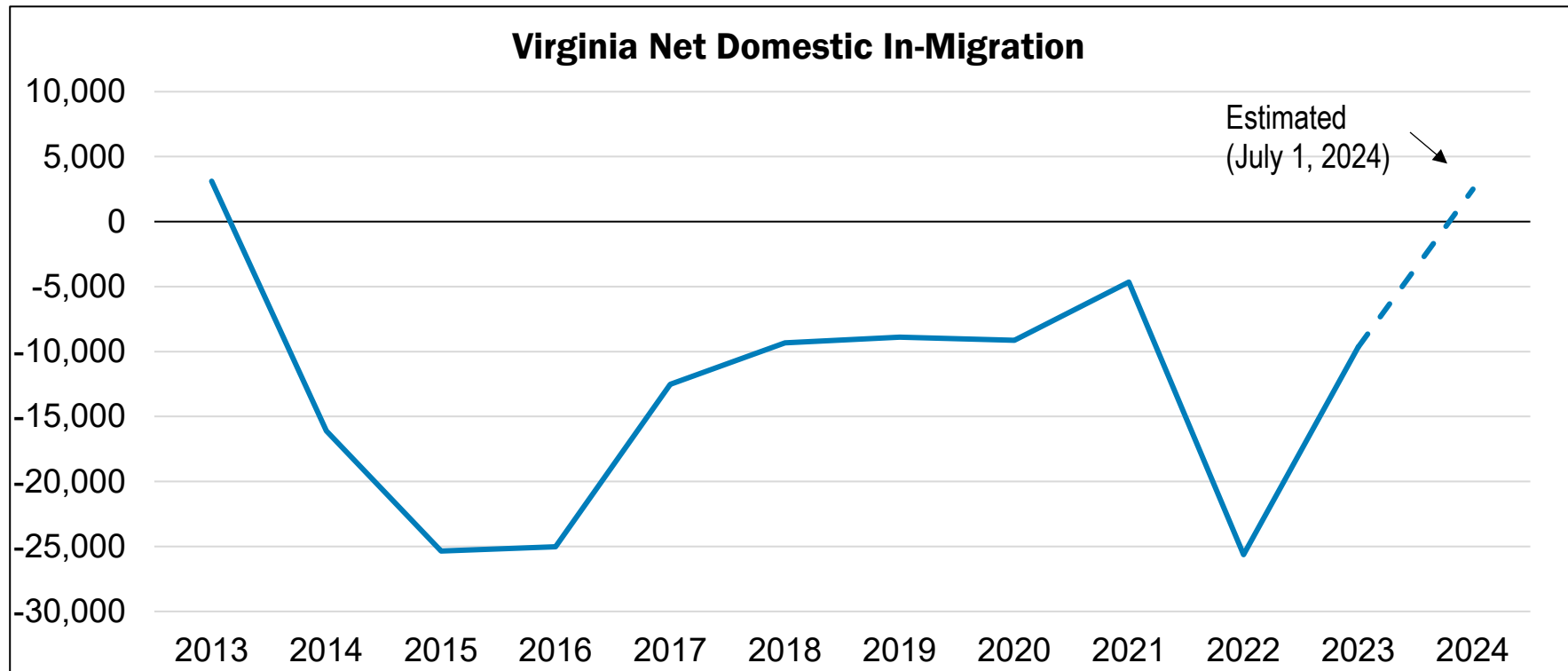
# JOB AND WAGES HAVE GROWN STEADILY OUT OF THE PANDEMIC



- Virginia wages and salaries increased 34.5 percent from 2019. This growth in wages has gone along with broad based growth in employment across industries.
- Total private employment is up 5 percent since 2019.

# VIRGINIA NET DOMESTIC MIGRATION TURNED POSITIVE IN 2024, REVERSING A DECADE-LONG TREND

- Analyses of recent U.S. Census data, including American Community Survey data, suggest official population estimates will show positive net domestic in-migration for 2024. Official data to be released on December 19.



Source: Census Bureau, Population Estimates Program (PEP) actuals and estimated; VEDP.



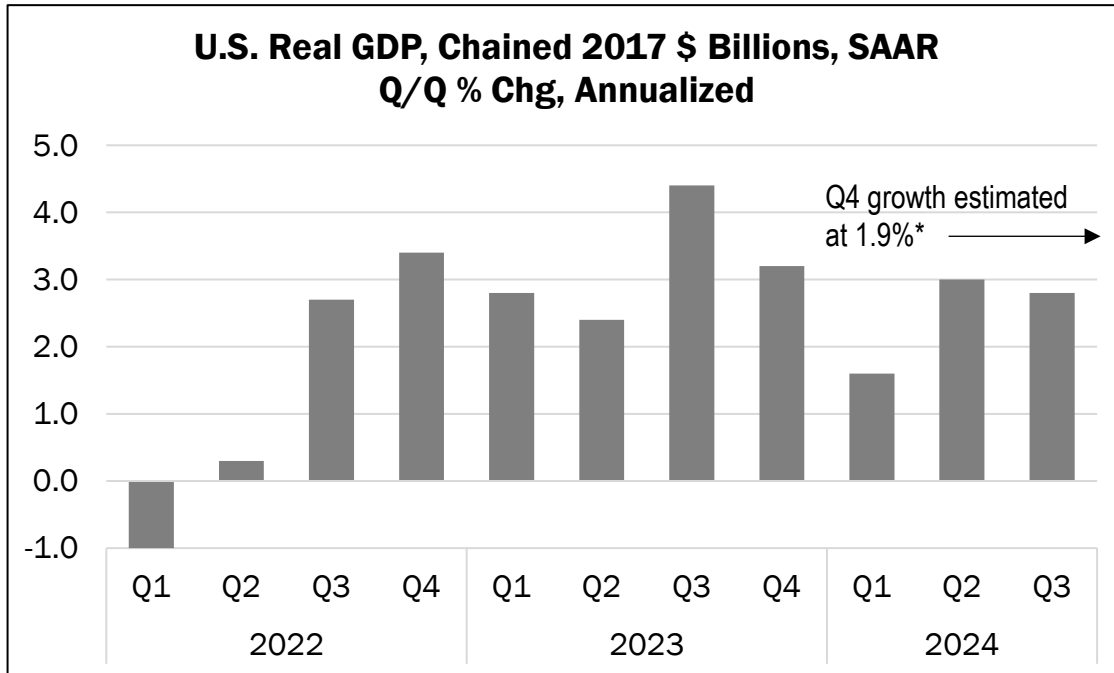
# MOMENTUM HAS CONTINUED INTO FY 2025

## REVENUES ARE UP 7.3 PERCENT YEAR-OVER-YEAR THROUGH NOVEMBER

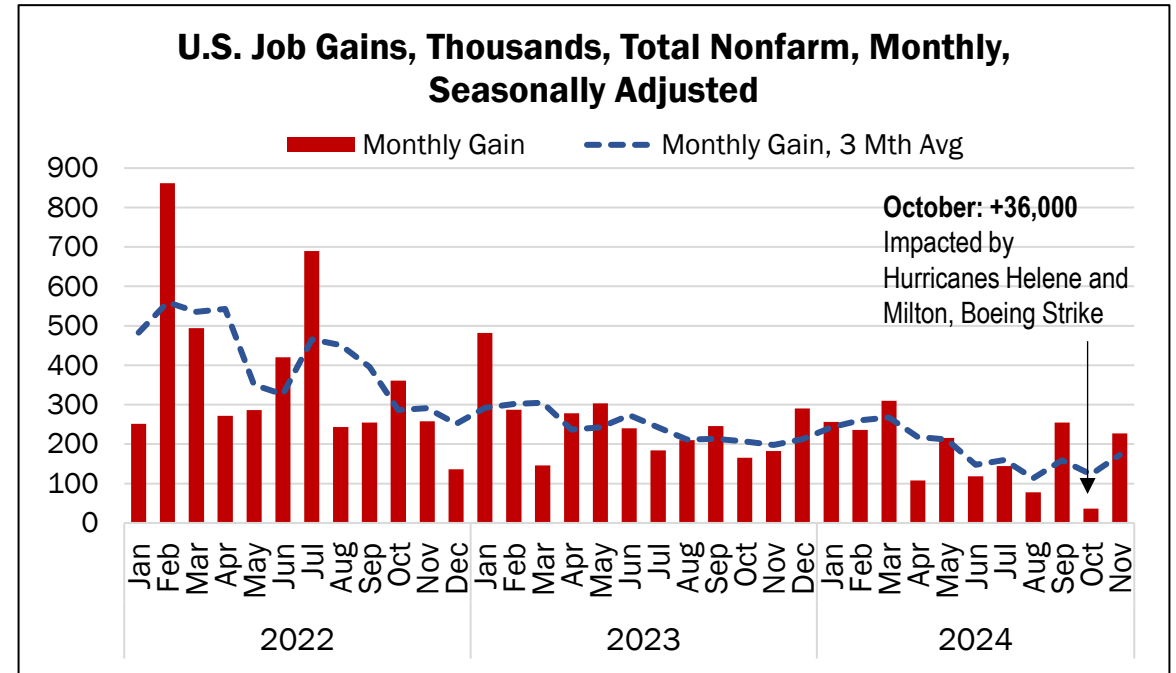
SOURCE, \$ Mil	November				FYTD			
	FY 24	FY 25	Change \$	Change %	FY 24	FY 25	Change \$	Change %
Withholding	\$1,415.2	\$1,432.4	\$17.1	1.2%	\$6,555.8	\$7,007.2	\$451.4	6.9%
Non-withholding	115.3	121.0	5.7	4.9%	1,406.3	1,700.0	293.7	20.9%
IIT Refunds	(250.0)	(242.8)	7.1	-2.9%	(988.8)	(894.1)	94.6	-9.6%
Net Individual Income	\$1,280.6	\$1,310.5	\$29.9	2.3%	\$6,973.4	\$7,813.1	\$839.7	12.0%
Sales & Use Tax	385.8	415.0	29.2	7.6%	1,975.2	2,010.9	35.7	1.8%
Net Corporate Income Tax	35.7	6.2	(29.5)	-82.6%	647.3	469.9	(177.4)	-27.4%
Insurance	-	-	-	-	-	-	-	-
Wills, Suits, Deeds	28.0	37.9	9.9	35.4%	164.0	195.2	31.2	19.0%
Interest Income	116.7	110.4	(6.3)	-5.4%	401.9	385.8	(16.1)	-4.0%
All Other	111.5	107.0	(4.5)	-4.1%	281.3	331.5	50.2	17.8%
<b>Total GF Revenues</b>	<b>\$1,958.2</b>	<b>\$1,989.6</b>	<b>\$31.4</b>	<b>1.6%</b>	<b>\$10,443.0</b>	<b>\$11,206.3</b>	<b>\$763.2</b>	<b>7.3%</b>

- Fiscal year-to-date general fund revenues are \$763.2 million higher than the same period last year (+7.3 percent).
- Withholding, driven by strength in wages and employment, has added \$451.4 million of that growth.
- Nonwithholding, contributed an additional \$293.7 million.
- Volatility in corporate income tax presents a concern, and the forecast presented here today has accounted for such volatility.

# U.S. ECONOMY CONTINUES GROWING AT A HEALTHY PACE



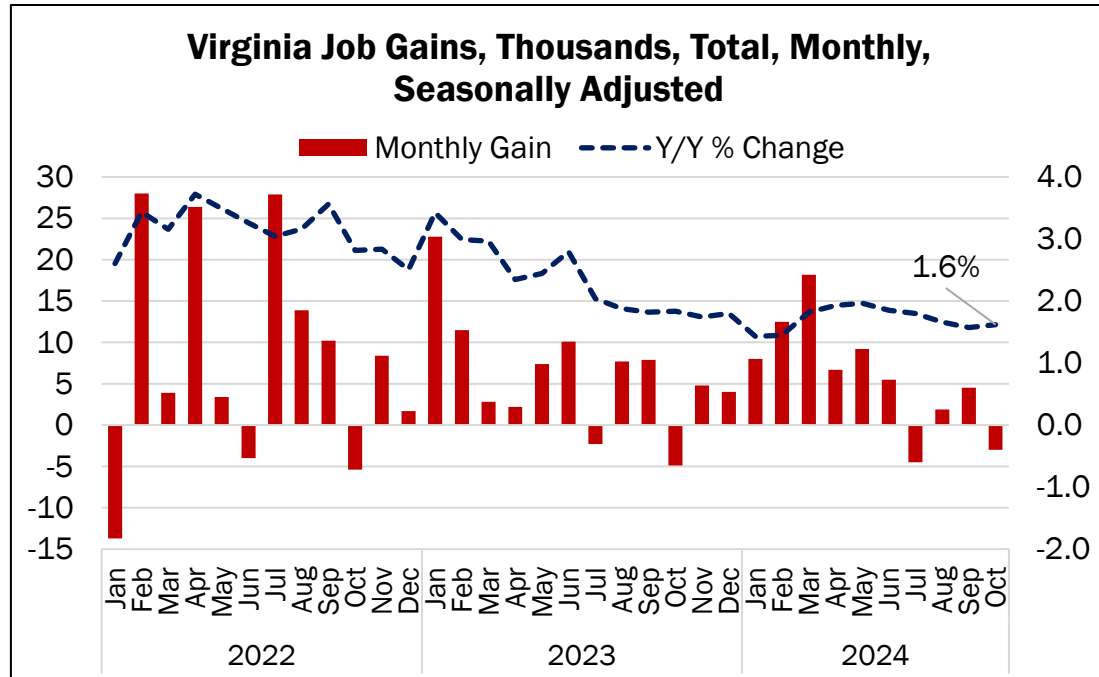
Source: U.S. Bureau of Economic Analysis. \*NY Fed Nowcast Estimates.



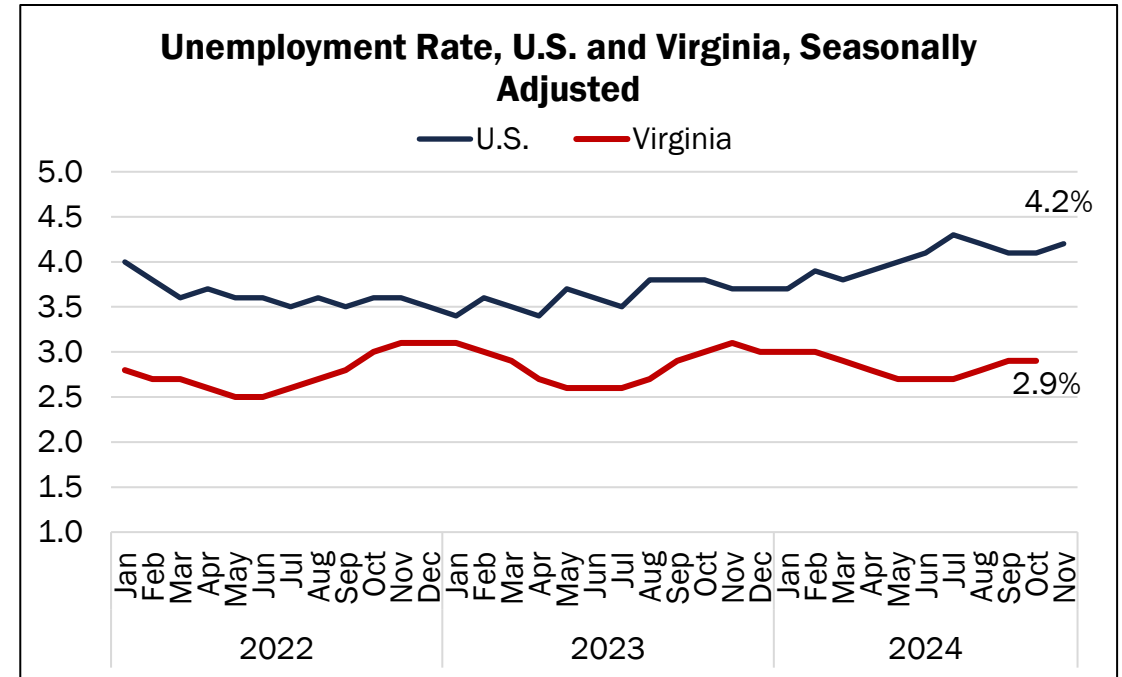
Source: US Bureau of Labor Statistics (Establishment Survey).

- Real GDP growth remains strong, increasing at an annual rate of 2.8 percent in Q3 of 2024 and 3.0 percent in Q2 of 2024. The largest positive contribution to real GDP growth in Q3 came from personal consumption.
- The November jobs report was stronger than expected, adding 227,000 jobs for the month. Payroll gains for September and October were also revised up by a total of 56,000. Private sector payrolls rose 194,000 in November and were revised up by 56,000 in prior months.

# VIRGINIA EMPLOYMENT CONSISTENTLY GROWING AT 1.5 TO 2.0 PERCENT YEAR-OVER-YEAR, UNEMPLOYMENT WELL BELOW THE U.S.



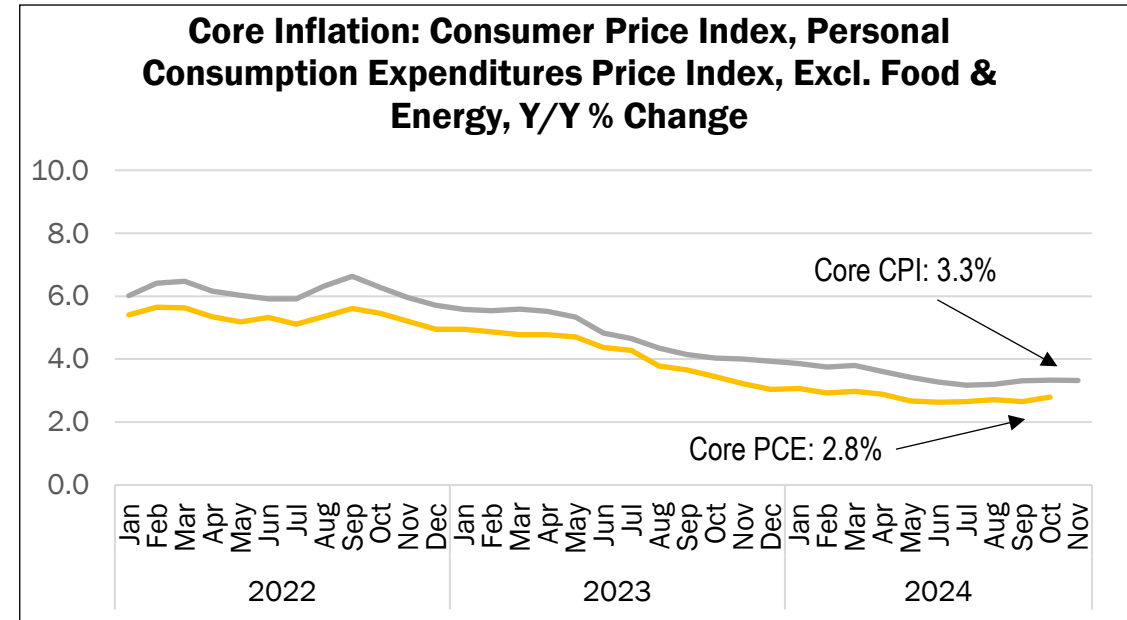
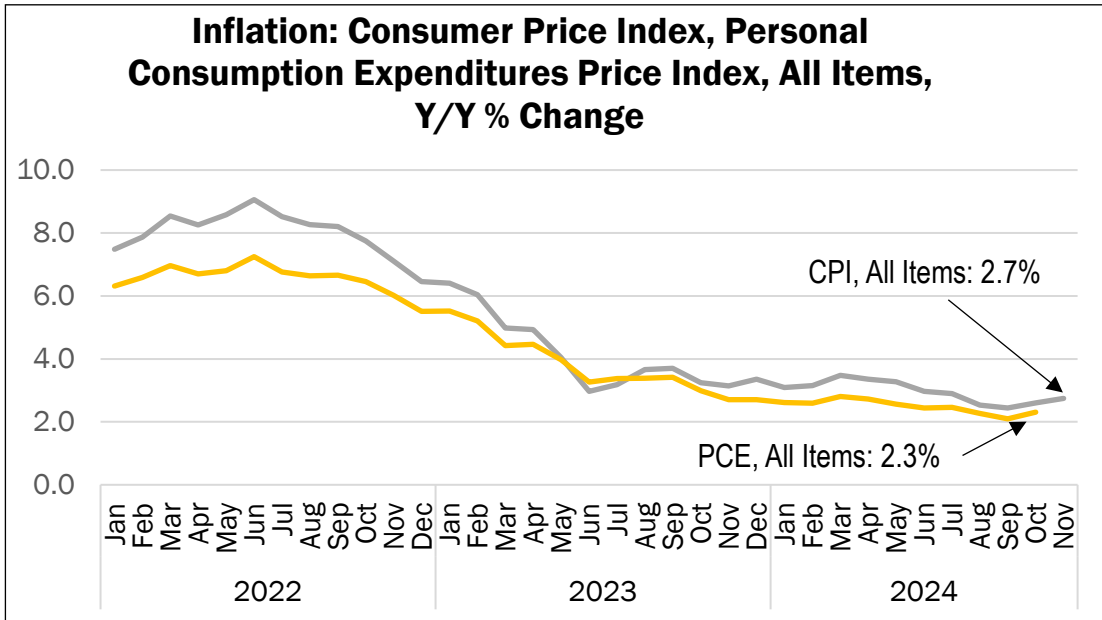
Source: US Bureau of Labor Statistics



Source: US Bureau of Labor Statistics

- In October, payroll employment in Virginia was 1.6 percent higher than prior year. Total nonagricultural employment, from the monthly establishment survey decreased month-over-month by 3,000 to 4.25 million. Private sector employment decreased by 3,700 while government employment increased by 700. September's estimate, after revision, increased by 2,400.
- Virginia's unemployment rate was unchanged at 2.9 percent in October, while the nationwide rate increased slightly in November to 4.2 percent.

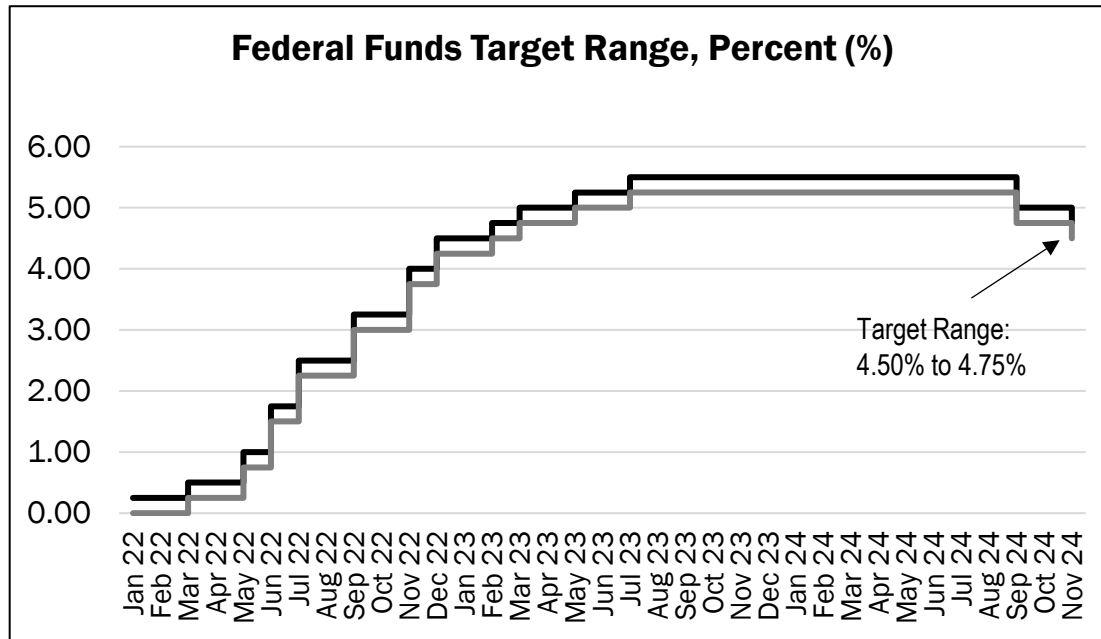
# CORE INFLATION MEASURES CONTINUE TO MODERATE



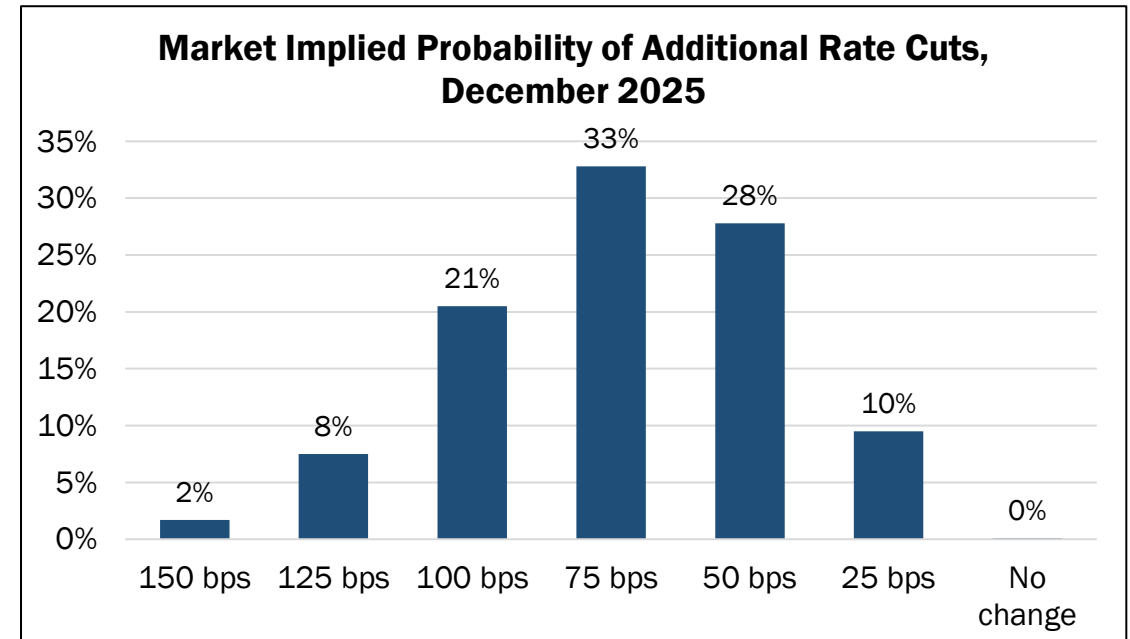
Sources: Federal Reserve Bank of St. Louis; US Bureau of Labor Statistics; US Bureau of Economic Analysis (CPI is not seasonally adjusted; PCE is seasonally adjusted).

- The Federal Reserve’s preferred inflation measure, the year-over-year change in the personal consumption expenditure (PCE) price index increased slightly in October to 2.3 percent, versus the Fed’s 2-percent target. The 12-month change in the Core PCE was at 2.8 percent.
- The 12-month change in the Consumer Price Index (CPI) for November was 2.7 percent, 0.1 percentage points higher than the previous month, while the Core CPI was unchanged at 3.3 percent.

# FED CUTS INTEREST RATES BY 50 BPS IN SEPTEMBER AND 25 BPS IN NOVEMBER; FURTHER CUTS EXPECTED



Source: Federal Reserve of St. Louis, Federal Reserve Board.



Source: CME Group, FedWatch Tool, Dec 16, 2024.

- Following September's half-point cut, the Federal Reserve lowered the federal funds rate by a further 25 basis points, as expected. The Fed sees risks to inflation and employment as roughly in balance and is expected to continue loosening policy.
- Fed Funds futures contracts prices indicate that the market is pricing in a 60 percent likelihood of rate cuts totaling at least 75 bps by the end of 2025. Markets anticipate a 25 bps reduction at the December 18, 2024, meeting.

# BUSINESS AND CONSUMER CONFIDENCE IS STRENGTHENING

- The National Federation of Independent Businesses (NFIB) **Small Business Optimism Index** rose by 8 points in November to 101.7, after 34 months of remaining below the 50-year average of 98. This is the highest reading since June 2021.
- The University of Michigan **Index of Consumer Sentiment** increased to a reading of 74.0 in December, up from 71.8 in November. This is a month-over-month increase of 3.1 percent and up 6.2 percent year-over-year.
- The Conference Board **Consumer Confidence Index** rose in November to its highest level in more than a year, driven by improved sentiment about both the current economic situation and future expectations. The consumer confidence index rose to 111.7 from an upwardly revised 109.6 in October.
- The **Richmond Federal Reserve's CFO Survey**, focused on large businesses in the region, reported a rise in its economic optimism index of 5.3 points in November, or 8.7 percent month-over-month, also reaching its highest level since June 2021.

# WITH REVENUES WELL AHEAD OF CHAPTER 2, A SUBSTANTIAL UPWARD ADJUSTMENT TO FY 2025 REVENUES IS APPROPRIATE

November Year-to-Date Collections and FY25 Chapter 2 Forecast

SOURCE, \$ Mil	FY24 Thru November	FY25 Thru November	Actuals FY24 Remaining	Chapter 2 FY25 Remaining	YTD Nov Growth	Dec-Jun Rev Growth Needed	Dec-Jun FY24 Growth
Withholding	\$6,555.8	\$7,007.2	\$10,162.4	\$9,622.2	6.9%	-5.3%	6.8%
Non-withholding	1,406.3	1,700.0	5,157.4	3,931.1	20.9%	-23.8%	-3.0%
IIT Refunds	(988.8)	(894.1)	(1,982.7)	(2,121.6)	-9.6%	7.0%	-13.4%
Net Individual Income	\$6,973.4	\$7,813.1	\$13,337.1	\$11,431.7	12.0%	-14.3%	6.4%
Sales & Use Tax	1,975.2	2,010.9	2,734.5	2,681.5	1.8%	-1.9%	-0.5%
Corporate Income Tax	647.3	469.9	1,259.8	1,595.6	-27.4%	26.7%	-17.1%
Insurance	-	-	468.2	439.3		-6.2%	3.8%
Wills, Suits, Deeds	164.0	195.2	242.5	261.5	19.0%	7.9%	7.6%
Interest Income	401.9	385.8	297.8	338.5	-4.0%	13.7%	23.3%
All Other	281.3	331.5	665.4	609.5	17.8%	-8.4%	7.4%
<b>Total GF Revenues</b>	<b>\$10,443.0</b>	<b>\$11,206.3</b>	<b>\$19,005.2</b>	<b>\$17,357.5</b>	<b>7.3%</b>	<b>-8.7%</b>	<b>3.6%</b>

- Because revenue collections are ahead of last year by 7.3 percent, revenues could decline 8.7 percent year-over-year the rest of the fiscal year and still meet the forecast assumed in Chapter 2.
- In that same period last year, revenues grew 3.6 percent.

# THE DECEMBER FORECAST REFLECTS THE FEEDBACK OF THE GOVERNOR’S ADVISORY COUNCIL ON REVENUE ESTIMATES

- The **Joint Advisory Board of Economists** (“JABE”) met on October 8 and reviewed underlying economic assumptions.
- JABE members were generally in agreement with a slow-growth “Baseline” outlook.
- One member endorsed the “Above Baseline” scenario.
- The **Governor’s Advisory Council on Revenue Estimates** (“GACRE”) met on November 25 and reviewed economic assumptions and the preliminary baseline and alternative revenue forecasts.

Key Virginia Economic Indicators					
(annual percent change)					
	Long Run	FY24	FY25 To	Dec Forecast	
	Average	Actual	Date	FY25	FY26
<b>GSP</b>	2.2%	3.1%	3.0%	1.5%	1.7%
<b>VA Average Wage</b>	3.8%	5.0%	4.8%	3.5%	2.5%
<b>VA Employment</b>	1.2%	1.8%	1.4%	1.2%	1.0%

- GACRE members were generally more optimistic. Multiple members endorsed the “Above Baseline” forecast or suggested “Baseline Plus” with the remainder of members supporting the Baseline.
- Accordingly, the December forecast includes modest upward adjustments to the forecast relative to the forecast presented at GACRE.
- In addition, the December forecast includes adjustments to timing assumptions which mainly affect monthly projections for nonwithholding and individual income tax refunds, and further adjustments are included which are based on year-to-date collections through November.

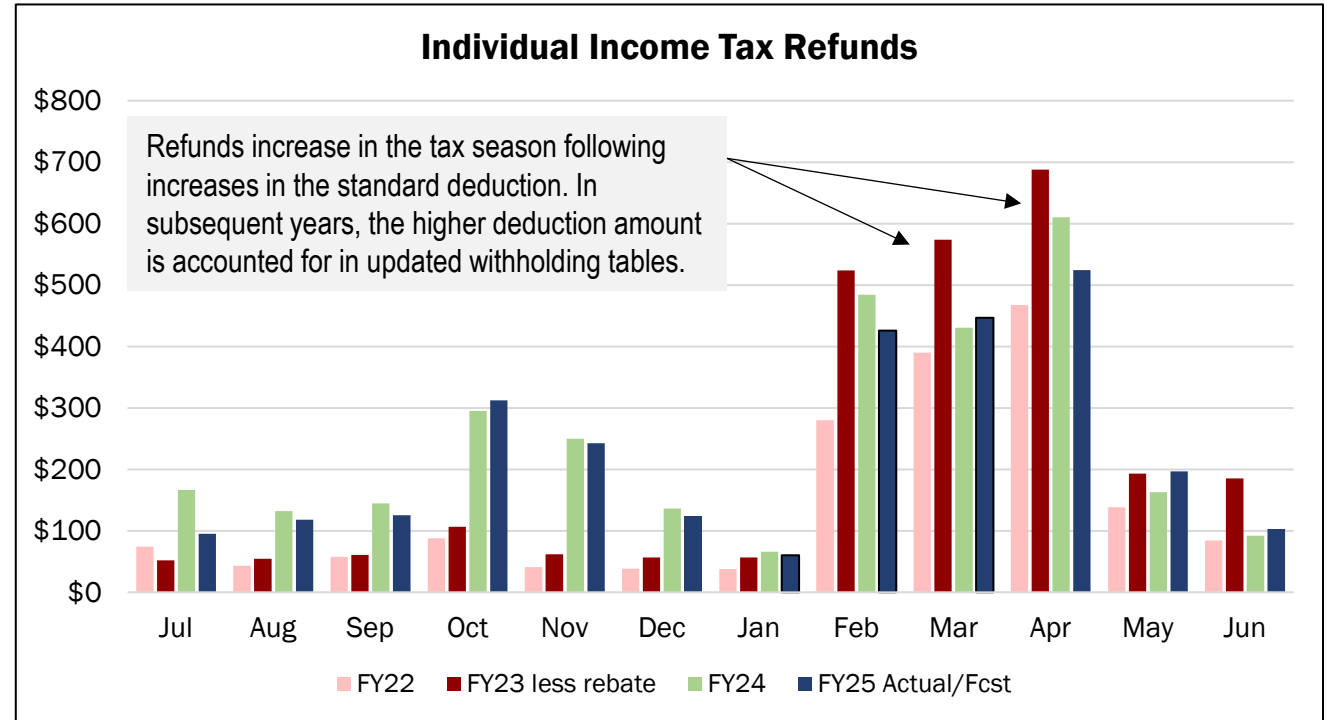
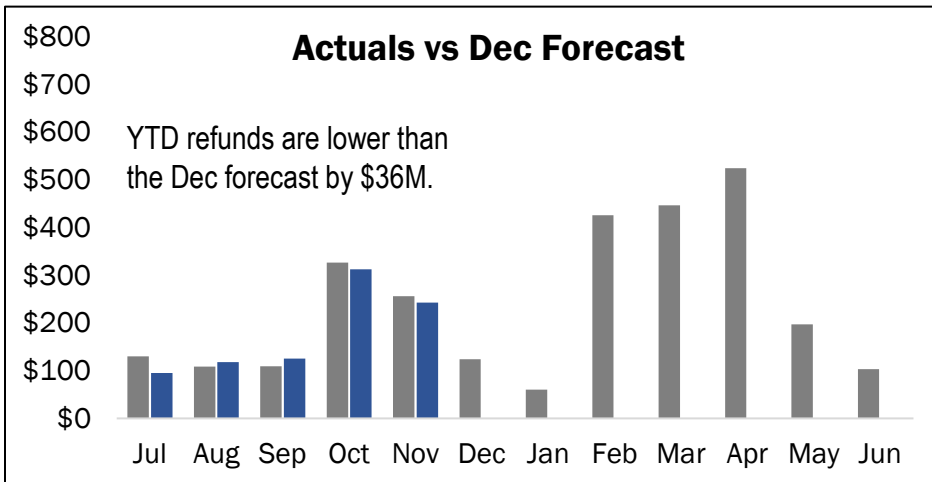
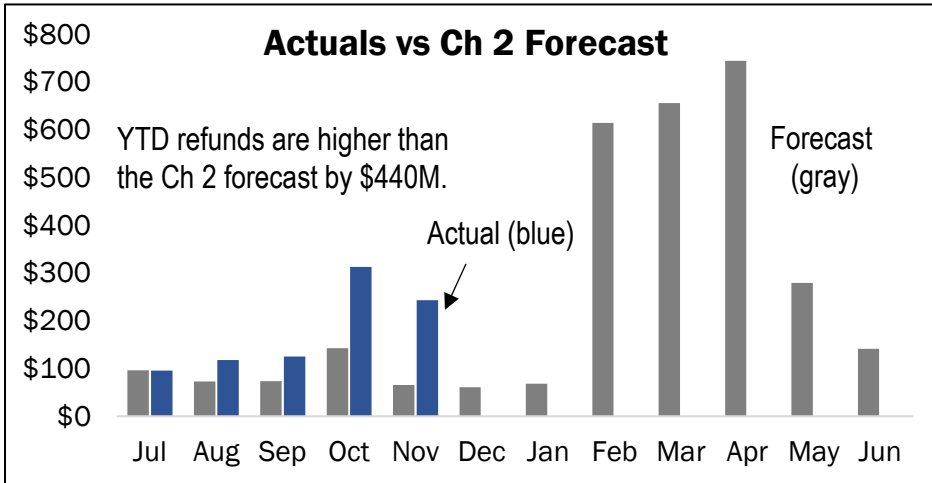


# THE DECEMBER FORECAST ADDS \$2.1 BILLION IN GF REVENUES IN FY 2025 AND \$1.1 BILLION IN FY 2026

Revenue (\$ mil.)	Fiscal Year 2024	Fiscal Year 2025			Fiscal Year 2026			Total
	Actuals	Ch. 2 Forecast	December Forecast	Change	Ch. 2 Forecast	December Forecast	Change	Change
Withholding	\$16,718.2	\$16,629.4	\$17,580.8	\$951.5	\$17,739.9	\$17,905.3	\$165.4	\$1,116.9
Nonwithholding	6,563.7	5,631.1	6,778.5	1,147.4	5,699.1	6,382.7	683.6	1,831.0
Refunds	(2,971.5)	(3,015.8)	(2,811.6)	204.2	(2,743.4)	(2,494.1)	249.2	453.4
Net Individual Income	\$20,310.4	\$19,244.7	\$21,547.7	\$2,303.0	\$20,695.7	\$21,793.9	\$1,098.3	\$3,401.3
Sales & Use Tax	4,709.7	4,692.3	4,797.9	105.6	4,889.3	4,987.4	98.0	203.7
Corporate Income	1,907.1	2,065.5	1,791.5	(274.0)	2,164.7	1,995.4	(169.3)	(443.3)
All Other Sources	2,520.9	2,561.3	2,511.3	(50.0)	2,525.8	2,629.8	104.0	54.0
<b>Total GF Revenues</b>	<b>\$29,448.2</b>	<b>\$28,563.8</b>	<b>\$30,648.4</b>	<b>\$2,084.7</b>	<b>\$30,275.5</b>	<b>\$31,406.5</b>	<b>\$1,131.0</b>	<b>\$3,215.6</b>
Total Transfers	12.7	1,128.1	1,354.7	226.6	1,714.8	1,541.0	(173.7)	52.9
<b>Total General Fund</b>	<b>\$29,460.8</b>	<b>\$29,691.9</b>	<b>\$32,003.1</b>	<b>\$2,311.2</b>	<b>\$31,990.5</b>	<b>\$32,947.6</b>	<b>\$957.0</b>	<b>\$3,268.3</b>

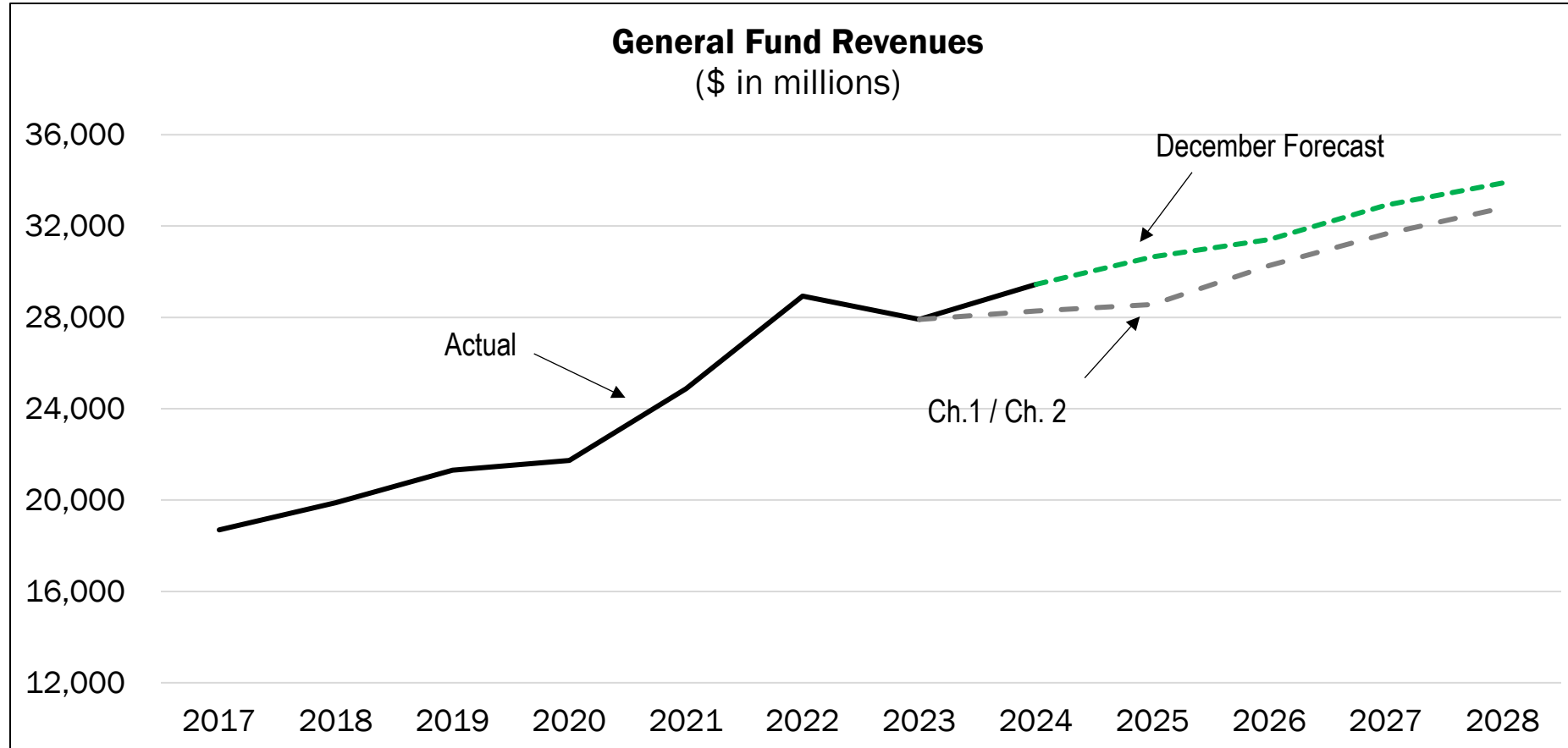
- Individual income tax is predicted to come in \$2.3 and \$1.1 billion higher than Chapter 2. Nonwithholding accounts for \$1.8 billion of the \$3.4 billion increase in individual income tax revenues.
  - In FY 2025, the December forecast anticipates a modest, 3.3 percent increase in nonwithholding versus the Chapter 2 assumption of a 14.2 percent decline.
- Chapter 2 predicted sales & use tax to decline in Fiscal Year 2025, while the new forecast expects modest growth.
- The forecast is more cautious in corporate income tax which has been more volatile.

# INDIVIDUAL INCOME TAX REFUNDS



- The forecast for individual income tax refunds is adjusted for economic assumptions and for timing.
- For the full year, refunds are forecasted to decline 5.5 percent in FY 2025.
- Ch 2 projected an increase in filing season refunds, similar to the increase in FY 2023. The December forecast anticipates a more normal pattern and accounts for retroactive PTET.

# THIS DECEMBER FORECAST RELATIVE TO CHAPTER 2 ASSUMPTIONS



# DECEMBER GENERAL FUND FORECAST FOR FISCAL YEARS 2025-26

## Composition of the December Revenue Forecast (GF dollars in millions)

	FY 2025	FY 2026	2024-26 Biennium
General Fund Revenues: GACRE	\$30,515.5	\$31,340.9	\$61,856.4
<i>Y/Y Growth</i>	3.6%	2.7%	
Post-GACRE Adjustments:			
Economic Outlook Adjustments	<u>\$147.4</u>	<u>\$111.4</u>	<u>\$258.8</u>
General Fund Revenues After Economic Adjustments	\$30,662.8	\$31,452.3	\$62,115.2
Policy Adjustments	<u>(\$14.4)</u>	<u>(\$45.8)</u>	<u>(\$60.2)</u>
<b>General Fund Revenues: December</b>	<b>\$30,648.4</b>	<b>\$31,406.5</b>	<b>\$62,054.9</b>
<i>Y/Y Growth</i>	4.1%	2.5%	
<b>Increase over Chapter 2: December</b>	<b>\$2,084.6</b>	<b>\$1,131.0</b>	<b>\$3,215.6</b>

*Excludes GF transfers. Totals may not sum due to rounding.*

# FISCAL YTD THROUGH NOVEMBER, GF REVENUES ARE \$153 MILLION AHEAD OF THIS DECEMBER FORECAST

SOURCE, \$ Mil	November				FYTD			
	Actuals	Projected	Variance \$	Variance %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,432.4	\$1,306.0	\$126.4	9.7%	\$7,007.2	\$6,927.3	\$79.9	1.2%
Non-withholding	121.0	113.9	7.0	6.2%	1,700.0	1,682.6	17.4	1.0%
IIT Refunds	(242.8)	(256.1)	13.2	-5.2%	(894.1)	(930.0)	35.9	-3.9%
Net Individual Income	\$1,310.5	\$1,163.8	\$146.7	12.6%	\$7,813.1	\$7,679.8	\$133.2	1.7%
Sales & Use Tax	415.0	392.6	22.4	5.7%	2,010.9	2,010.2	0.7	0.0%
Corporate Income Tax	8.8	19.9	(11.1)	-55.9%	469.9	503.2	(33.3)	-6.6%
Insurance	-	-	-	0.0%	-	-	-	0.0%
Wills, Suits, Deeds	37.9	31.9	6.0	18.9%	195.2	176.6	18.6	10.5%
Interest Income	110.4	102.9	7.5	7.3%	385.8	360.0	25.8	7.2%
All Other	331.5	106.1	0.9	0.8%	331.5	323.3	8.2	2.5%
<b>Total GF Revenues</b>	<b>\$1,989.6</b>	<b>\$1,817.2</b>	<b>\$172.3</b>	<b>9.5%</b>	<b>\$11,206.3</b>	<b>\$11,053.1</b>	<b>\$153.2</b>	<b>1.4%</b>
<b>Total, Excl. NWH and Refunds</b>	<b>\$2,111.4</b>	<b>\$1,959.4</b>	<b>\$152.1</b>	<b>7.8%</b>	<b>\$10,400.4</b>	<b>\$10,300.5</b>	<b>\$99.9</b>	<b>1.0%</b>

- Revenues are \$153.2 million ahead of the December forecast driven by a significant positive variance in withholding collections for the month of November. Minor positive variances in nonwithholding and refunds are mainly due to timing adjustments reflected in the December forecast relative to Chapter 2.
- The December forecast includes updated understanding of Tax Year 2021 PTET utilization and timing (reflected in nonwithholding and refunds) vs. the Chapter 2 forecast.

# REVENUES NEED ONLY GROW 2.3 PERCENT OVER THE REST OF THE YEAR

November Year-to-Date Collections and FY25 December Forecast

SOURCE, \$ Mil	FY24 Thru November	FY25 Thru November	FY24 Remaining	FY25 Remaining	YTD Nov Growth	Dec-Jun	Dec-Jun
						Rev Growth Needed	FY24 Growth
Withholding	\$6,555.8	\$7,007.2	\$10,162.4	\$10,573.6	6.9%	4.0%	6.8%
Non-withholding	1,406.3	1,700.0	5,157.4	5,078.5	20.9%	-1.5%	-3.0%
IIT Refunds	(988.8)	(894.1)	(1,982.7)	(1,917.4)	-9.6%	-3.3%	-13.4%
Net Individual Income	\$6,973.4	\$7,813.1	\$13,337.1	\$13,734.7	12.0%	3.0%	6.4%
Sales & Use Tax	1,975.2	2,010.9	2,734.5	2,787.1	1.8%	1.9%	-0.5%
Corporate Income Tax	647.3	469.9	1,259.8	1,321.6	-27.4%	4.9%	-17.1%
Insurance	-	-	468.2	485.7		3.7%	3.8%
Wills, Suits, Deeds	164.0	195.2	242.5	262.4	19.0%	8.2%	7.6%
Interest Income	401.9	385.8	297.8	231.3	-4.0%	-22.3%	23.3%
All Other	281.3	331.5	665.4	619.3	17.8%	-6.9%	7.4%
<b>Total GF Revenues</b>	<b>\$10,443.0</b>	<b>\$11,206.3</b>	<b>\$19,005.2</b>	<b>\$19,442.2</b>	<b>7.3%</b>	<b>2.3%</b>	<b>3.6%</b>

- For the remainder of FY 2025, net individual income tax revenues (approximately 70 percent of GF revenues) need to grow by only 3 percent versus 12 percent year-to-date and 6.4 percent in the same period in FY 2024.
- Corporate income tax collections are down year-over-year mainly due to refund activity. On a year-over-year basis, net corporate tax collections are projected to increase over the December to June period.

# POLICY ACTIONS SUPPORT THE WORKING CLASS, MAKE VIRGINIA MORE COMPETITIVE, AND MODERNIZE THE TAX CODE

## Policy Adjustments (GF dollars in millions)

	Pre-Funded FY 2025	Revenue Adjustments		
		FY 2025	FY 2026	2024-26 Biennium
Working-Class Car Tax Credit (3 years pre-funded)*	(\$1,103.0)			
Make Existing Virginia Standard Deduction Permanent		\$0	\$0	\$0
Eliminate Tax on Tips**		\$0	(\$35.0)	(\$35.0)
Provide for Full Utilization of Educ. Improvement Scholarship Tax Credit		(\$4.0)	(\$4.0)	(\$8.0)
Implement Market Based Sourcing		\$0	\$0	\$0
Modernize Requirement for Estimated Tax Payments		(\$10.4)	(\$1.1)	(\$11.5)
Make Tax Due/Refund Interest Rate Equal to Federal		\$0	(\$10.0)	(\$10.0)
Reduction of Interest Payments Due to Refund Acceleration		\$0	\$4.3	\$4.3
<b>Total</b>	<b>(\$1,103.0)</b>	<b>(\$14.4)</b>	<b>(\$45.8)</b>	<b>(\$60.2)</b>

Totals may not sum due to rounding. \* Three years pre-funded. See Item 255. Revenue reductions assumed beginning in FY 2029.

\*\* FY 26 reflects partial taxable year impact; impact in FY 27 and thereafter is approx. \$70m.

# CAR TAX CREDIT (-\$1.1 BILLION GF IN FY25)

## REFUNDABLE INCOME TAX CREDIT BEGINNING IN 2025

### Credit Amount

- Permanent, refundable, income tax credit equal to amount of local property tax paid on personal-use vehicles, up to \$150 (\$300 if married filing jointly).
- If itemized deductions are elected, taxpayers must add back property tax deducted for personal-use vehicles.

### Working Class

- Limited to taxpayers making less than \$50,000 (\$100,000 if married filing jointly).
- Taxpayers are paying more in car taxes due to inflation/increases in vehicle valuation and ownership of more cars.
- Average car tax bill is ~\$290; credit could eliminate car tax burden for one car owned by a working-class family.

### Car Tax Increases

- Restricts credit to residents living in jurisdictions where the governing body does not increase the personal property tax rate levied by more than 2.5 percent annually.

### Budget Impact

- Prefunded for first three years, with an appropriation of FY 2025 surplus revenues.
- Revenue reduction assumed in forecast after first three years.



# NO TAX ON TIPS (-\$35M IN FY 26)

## Federal Elimination of the Tip Tax

There is wide-spread support for eliminating income taxes on tip income

- Congress is currently considering legislation (S.4621/H.R.8941) that would exempt tip income from federal income taxation.
- Both the Harris and the Trump campaigns proposed plans to eliminate federal income taxes on tip income.
- Even if Congress were to pass legislation, state-level legislation still required because revenue impact is greater than conformity threshold.

## Virginia Elimination of the Tip Tax

Would increase the progressivity of Virginia's income tax

- Reducing the tax burden on >250,000 working-class Virginians who receive tip income.
- Primarily benefits workers in the food service, personal service, and hospitality industries.
- Applies to "cash tips," which includes both cash payments and electronically paid tips (i.e., credit/debit cards).
- Estimated full-year annualized revenue loss of approximately \$70 million is assumed in the official revenue forecast beginning in FY27.

# FEDERAL TAX CUTS AND JOBS ACT (TCJA) RENEWAL IN 2025

## – ACTION NEEDED BY VIRGINIA

- Leaders of the next Congress and federal administration are widely discussing how and when to renew the TCJA in 2025, including the higher standard deduction, limitation on itemized deductions, and lower rates.
- Expiration of the TCJA, which is set to occur at the end of 2025, unless renewed, would cause the largest tax increase in US history.
- **Virginia will need to act.**
- The Governor and General Assembly increased the standard deduction from \$3,000 (\$6,000 for married couples) to its current thresholds of \$8,500/\$17,000.
- Unless extended, the increased standard deduction will expire at the end of 2025 – causing one of the largest tax increases in Virginia history, which would disproportionately impact lower- and middle-income taxpayers.
- Action to ensure the standard deduction increase continues is needed before 2026 to prevent this major tax increase, reduce payment errors, and provide clarity to employers making individual withholding payments in 2026.
- In addition, extending now would provide economic certainty for taxpayers.

# MAKING THE EXISTING VIRGINIA STANDARD DEDUCTION PERMANENT

Virginia's Standard Deduction Amounts					
	TY 2018 & Prior	TY 2019 – 2021	TY 2022 & 2023	TY 2024 & 2025	TY 2026 & After
Single	\$3,000	\$4,500	\$8,000	\$8,500	\$3,000
Married Filing Jointly	\$6,000	\$9,000	\$16,000	\$17,000	\$6,000

*If current standard deduction amounts are not extended, Virginia will fall back to 2017 (pre-TCJA) levels.*



- Revenue impact is already assumed in the forecast.
- **Failure to pass prior to January 1, 2026, would result in tax increases of \$557.2 million in FY 2026 and \$1.16 billion in FY 2027.**

# VIRGINIA'S TAX SYSTEM MUST EVOLVE TO COMPETE

- To retain our competitiveness and reduce complexity, Virginia should:
  - Adopt Market Based Sourcing to attract and retain higher growth services businesses.
  - Simplify compliance by modernizing requirements for individual income tax estimated payments.
  - Equalize Virginia's interest rates with the federal rates.

# MODERNIZING THE TAX CODE: MARKET-BASED SOURCING

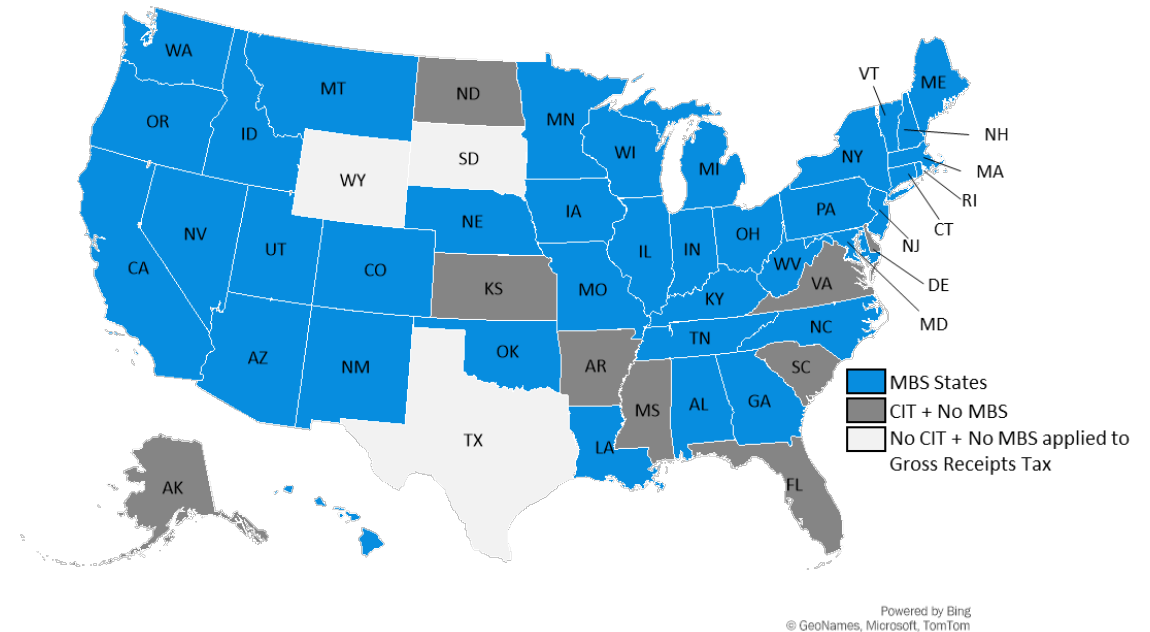
- Under market-based sourcing, for purposes of the corporate income tax, all sales (not just sales of tangible personal property) are sourced to where the corporation’s market or customers are located.

Method	Sales of ...		
	Tangible Personal Property	Intangible Property	Services
Cost of Performance	Where property is delivered	Where the greater proportion of cost of performance are	Where greater proportion of cost of performance are located
Market-Based Sourcing	Where property is delivered	Where intangible property is used	Where benefit of the service received by customer and/or where service is delivered

- The Cost of Performance method penalizes Virginia-based multi-state service providers.
- MBS ensures that out-of-state businesses are paying their fair share and prevents them from benefiting from “nowhere income.” It protects in-state businesses from double taxation from other MBS states.
- It is estimated that Virginia would potentially lose revenue in the first two years of implementation (no more than \$25m in FY27-28 combined) but that there would be a small net revenue increase over time as out-of-state businesses comply.

# MODERNIZING THE TAX CODE: MARKET-BASED SOURCING

- Critical strategic priority for VEDP Innovative Framework restructuring.
- Knowledge work is projected to account for 62% of job growth in the US over the next decade. Virginia must win in this sector to deliver relative job growth.
- Knowledge Work includes:
  - Aerospace & defense innovation
  - Business & financial services
  - Software & cybersecurity
- Corporate income taxes (CIT) are levied in 44 states. NV, OH, TX, and WA impose gross receipts taxes instead of CIT.
- VA is one of eight CIT states without Market-Based Sourcing.



Cluster	Employment (2024)	Empl. CAGR (2024-34)	Share of Tradeable Sectors
Knowledge Work	776,910	0.9%	62.3%
Manufacturing	161,894	0.3%	3.8%
Logistics	227,551	0.4%	7.2%
Total Core Sectors	1,166,355	0.7%	73.3%

Source: VEDP, Tax Foundation.

# MODERNIZING THE THRESHOLD FOR ESTIMATED TAX PAYMENTS

- Individual taxpayers are required to make estimated tax payments if their liability exceeds \$150 for the year—increasing the threshold from \$150 to \$1,000 would exempt an estimated 59,000 taxpayers from the time, cost, and potential penalties of meeting the estimated tax payment requirement.

## Competitors Have Higher Thresholds

- \$500 threshold for Maryland and Kentucky
- \$1,000 threshold for Federal and North Carolina

## Virginia's Threshold is Outdated

- Threshold has been \$150 for over 40 years
- Has not been updated since before 1987

## Virginia's Threshold is Burdensome

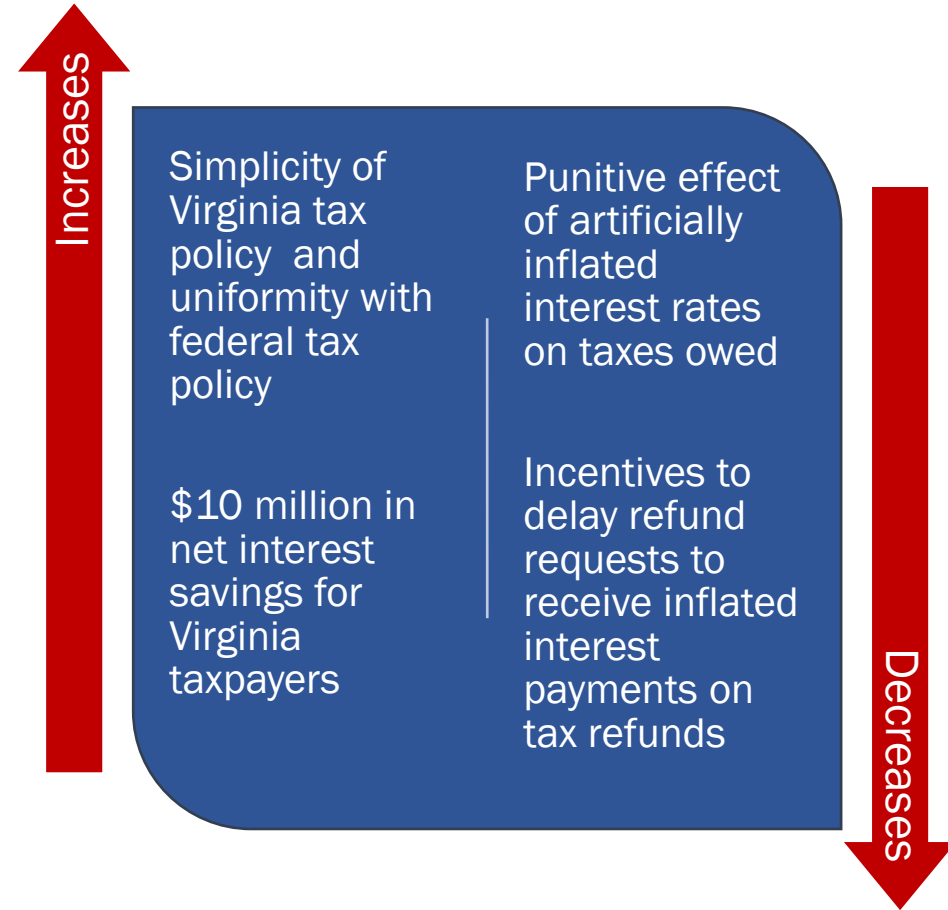
- Results in a high volume of low value penalty cases for the Department and is burdensome to taxpayers.

- This results in a one-time GF revenue reduction of \$10.4 million in FY26, as well as an ongoing reduction of \$1.1 million annually in FY27 and after.

# REDUCE VIRGINIA'S INTEREST RATE TO THE FEDERAL LEVEL

## Virginia's Current Interest Rates

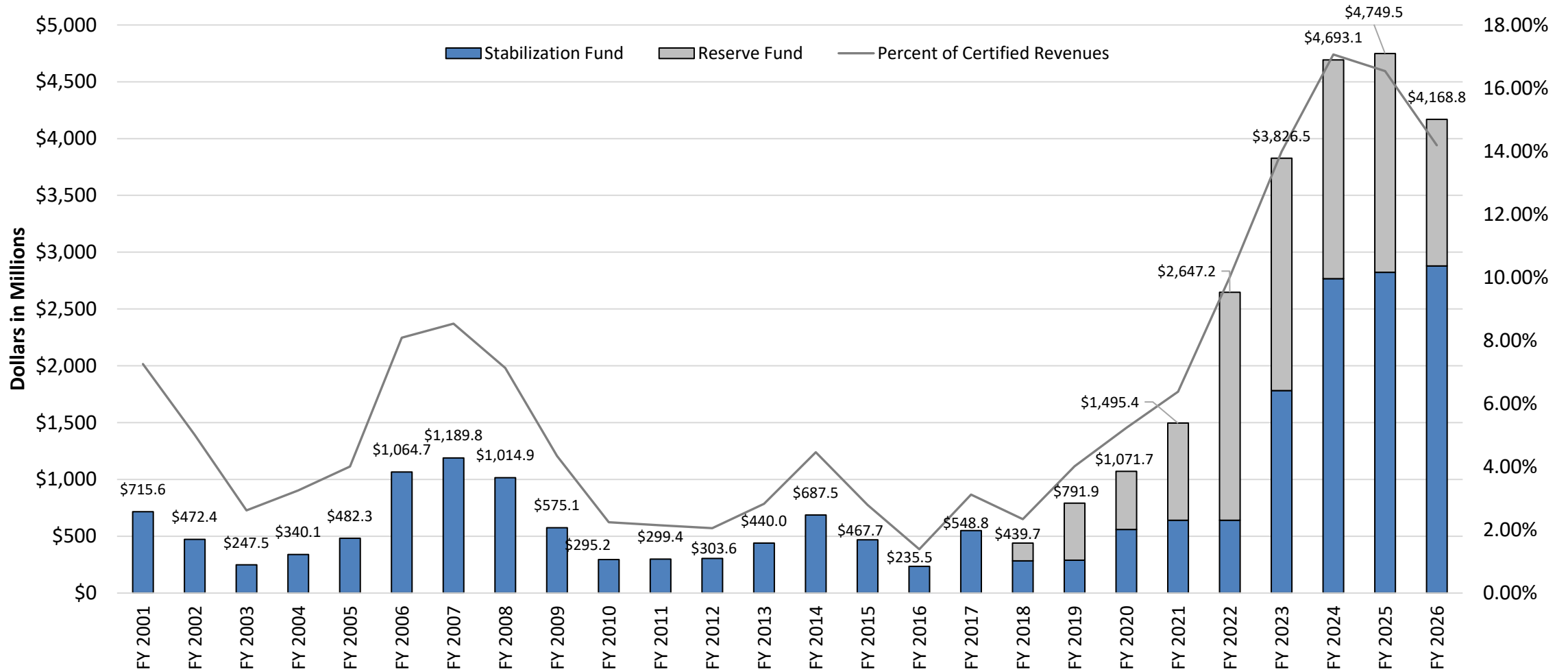
- Virginia's interest rate on omitted taxes and assessments ("underpayment rate") and interest rate on refunds ("overpayment rate") are equal to the IRS's underpayment rate and overpayment rate for noncorporate taxpayers plus an additional two percent.
- Virginia added the additional two percent to the underpayment rate in 1991, prior to this Virginia's rates were equal to the equivalent IRS rates.
- Interest rates are currently 8% at the federal level and 10% for Virginia purposes; scheduled to reduce to 7% and 9% in January 2025.





# COMBINED RESERVE FUND BALANCES MEET THE 15 PERCENT STATUTORY REQUIREMENT

Total of All Reserves



# AMONG TRIPLE-AAA RATED STATES, VIRGINIA HAS PRIORITIZED RESERVE FUND GROWTH

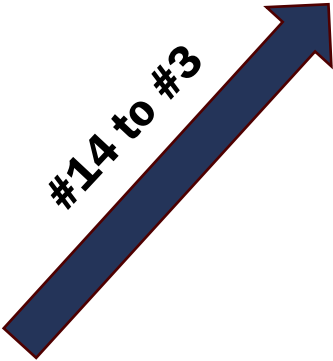
## Rainy Day Funds as Percent of GF Expenditures

### AAA States, FY 2019

Texas	21%
Georgia	10%
South Dakota	10%
Iowa	9%
Indiana	9%
Minnesota	9%
North Carolina	8%
Utah	7%
South Carolina	7%
Tennessee	6%
Delaware	5%
Maryland	5%
Florida	5%
Virginia	4%
Missouri	3%

### AAA States, FY 2024

Texas	22%
North Carolina	16%
Virginia*	15%
South Dakota	15%
Iowa	11%
Ohio	11%
Maryland	9%
Indiana	9%
Minnesota	9%
Utah	8%
Tennessee	8%
Florida	7%
Missouri	6%
Delaware	6%
Georgia	N/A



Source: National Association of State Budget Officers "The Fiscal Survey of States"

# LONGER-TERM OUTLOOK CONFIRMS STRUCTURAL BALANCE

- *Va. Code* §§ 2.2-1503 and 2.2-1503.1 require the Governor to annually prepare a long-term revenue forecast and six-year financial plan.
- The Governor asked the Department of Planning and Budget (DPB) to update the six-year plan to take into account the December Post-GACRE forecast and proposed spending and tax policies in HB 1600 / SB 800.
- Among other things, the spending projections include the continuation of Chapter 2, 2024 Special Session I amounts, ongoing costs of the Right Help Right Now initiative, increases in Medicaid, Children's Services Act, and other forecast items, including previously planned increases for public school teachers, state employees, and other state supported local employees.
- Results indicate continued structural balance through FY 2030.

# LONGER-TERM OUTLOOK CONFIRMS STRUCTURAL BALANCE

GENERAL FUND RESOURCES	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Prior Year Balance</b>	<b>\$2,989.6</b>	<b>\$7.1</b>	<b>\$14.8</b>	<b>\$14.3</b>	<b>\$153.5</b>	<b>\$700.1</b>
<b>Revenue</b>						
Net Individual Income Tax	21,547.7	21,781.6	22,803.3	23,543.0	24,235.0	24,941.9
Sales and Use Tax	4,797.9	4,985.4	\$5,224.0	\$5,359.0	\$5,660.3	\$5,877.9
Corporate Income Tax	1,791.5	2,005.4	\$2,105.1	\$2,232.5	\$2,341.4	\$2,483.5
All Other Sources	2,511.3	2,634.1	\$2,782.5	\$2,753.6	\$2,878.1	\$2,921.7
<b>Total Revenue</b>	<b>\$30,648.4</b>	<b>\$31,406.5</b>	<b>\$32,914.8</b>	<b>\$33,888.1</b>	<b>\$35,114.8</b>	<b>\$36,225.1</b>
<b>Adjustments to Balance</b>	<b>\$1,510.1</b>	<b>(\$0.5)</b>	<b>(\$0.5)</b>	<b>(\$0.5)</b>	<b>(\$0.5)</b>	<b>(\$0.5)</b>
<b>Transfers</b>	<b>\$1,354.7</b>	<b>\$1,541.0</b>	<b>\$898.0</b>	<b>\$916.4</b>	<b>\$957.8</b>	<b>\$990.9</b>
<b>Total General Fund Resources</b>	<b>\$36,502.8</b>	<b>\$32,954.1</b>	<b>\$33,827.0</b>	<b>\$34,818.4</b>	<b>\$36,225.6</b>	<b>\$37,915.5</b>
GENERAL FUND APPROPRIATION	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Chapter 2, Operating Legislative Appropriation	\$31,784.7	\$31,964.2	\$32,673.0	\$33,404.4	\$34,170.8	\$34,996.1
Introduced Operating Amendments	\$2,652.2	\$715.2	\$939.7	\$1,060.5	\$1,154.7	\$1,225.5
<b>Total Operating</b>	<b>\$34,436.9</b>	<b>\$32,679.4</b>	<b>\$33,612.7</b>	<b>\$34,464.9</b>	<b>\$35,325.5</b>	<b>\$36,221.6</b>
Chapter 2, Capital Outlay Legislative Appropriation	691.7	260.0	200.0	200.0	200.0	200.0
Introduced Capital Outlay Amendments	1,367.2	0.0	0.0	0.0	0.0	0.0
<b>Total Capital Outlay</b>	<b>2,058.9</b>	<b>260.0</b>	<b>200.0</b>	<b>200.0</b>	<b>200.0</b>	<b>200.0</b>
<b>Total GF Appropriation</b>	<b>\$36,495.8</b>	<b>\$32,939.4</b>	<b>\$33,812.7</b>	<b>\$34,664.9</b>	<b>\$35,525.5</b>	<b>\$36,421.5</b>
GF BALANCE (RESOURCES LESS APPROPRIATION)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Resources Less Approp - Annual Balance</b>	<b>\$7.1</b>	<b>\$7.7</b>	<b>\$14.3</b>	<b>\$139.2</b>	<b>\$700.1</b>	<b>\$793.9</b>
<b>Resources Less Approp - Cumulative/Biennium</b>		<b>\$14.8</b>		<b>\$153.5</b>		<b>\$1,494.0</b>

Source: VA Department of Planning and Budget.

# CONCLUSION

- **Virginia economic performance continues to be strong:**
  - Virginia is winning the competition for investment and jobs through economic development activities and the reversal of a decade-long trend of net negative domestic migration as more workers and families move into Virginia than are leaving.
  - Workforce in Virginia reached the highest level in history, unemployment is 2.9% versus 4.2% nationally.
- **Revenues:** Significantly exceeded the Chapter 2 forecast, supporting the need for a meaningful reforecast.
- **A revised forecast:** After discussions with JABE and GACRE, a revised forecast is recommended generating incremental revenues of \$3.2 billion over the biennium.
- **Capital Expenditures of \$1 billion in FY25:** After the provision for one-time uses identified in the Chapter 1 budget process (I-81, Revenue Reserve Deposit, WQIF, VMSDEP, etc.), \$1 billion capital expenditures in FY 2025 are provided to supplement existing projects, upgrade/repair existing facilities, and build new facilities primarily for higher ed and public safety.
- **Tax Relief for Working Class Virginians:** \$1.1 billion allocated to the Working Class Car Tax Relief Fund, fully funding three years of relief for the average car tax of \$290 for a typical family filing jointly earning \$100,000 per year or less. Ongoing relief is assumed in FY 2028 and beyond. Additionally, elimination of the tip tax (\$35 million FY 2026, \$70 million thereafter).
- **Incremental ongoing second year spending of approximately \$715 million:** Largely consumed by required funding for Medicaid and education, leaving limited resources for programs that are shared priorities of the Governor and General Assembly.
- **Budget is structurally balanced through FY 2030:** Using prudent economic assumptions and includes permanent funding of the Working Class Car Tax Credit beyond FY 2027.