

# REVENUE FORECAST



The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral funds. About half of state revenues are "nongeneral funds," or funds earmarked by law for specific purposes. For example: motor vehicle sales and motor fuel taxes are earmarked by law for transportation programs; students' tuition and other fees support higher education, and federal grants are designated for specific activities.

General fund revenues are derived from general taxes paid by citizens and businesses in Virginia. Since general fund revenue is not dedicated to any particular purpose and can be used for a variety of government programs, these are the funds that the Governor and the General Assembly have the most discretion to spend.

General fund revenues can primarily be attributed to five major revenue sources. The two largest sources are the individual income tax and the sales and use tax. Other major revenue sources are corporate income taxes, wills, suits, deeds, and contract fees, and taxes on insurance company premiums. Miscellaneous taxes and other revenues also contribute to the general fund.

## **FY 2025 in Review**

In FY25, total General Fund revenues grew 6.1% to \$31.2 billion, substantially above the Official Forecast of 4.1% growth. Individual income tax drove the growth contributing \$1.6 billion in revenue over FY24. Of the major sources, only corporate income tax and interest income declined; both of which were expected in the Official Forecast

The Official Forecast was based on the "slow growth" baseline forecast this body recommended during November of 2024. The 2025 Appropriations Act, Chapter 725, 2025 Acts of Assembly, added to that forecast approximately \$150 million.

## Composition of General Fund Revenues

General fund revenues totaled \$31.2 billion in FY25, with 70 percent derived from individual income taxes. The general fund portion of the state sales and use tax accounted for 15 percent, corporate income taxes accounted for six percent. Other major sources include the insurance premiums license tax (two percent) and taxes on wills, suits, and deeds, predominantly recordation taxes (two percent).

## **Individual Income Taxes**

The Virginia Individual Income Tax applies to the entire income of Virginia residents and to income from Virginia sources received by nonresident individuals. Generally, all residents and nonresidents with Virginia taxable income are required to file a return. Individual income tax rates are as follows:

Income	Tax Rate
\$0 to \$3,000	2.00%
\$3,001 to \$5,000	3.00%
\$5,001 to \$17,000	5.00%
\$17,001 and over	5.75%

**Withholding:** In FY25, withholding receipts (56 percent of GF revenues) increased 5.0 percent to \$17,561.2 million, narrowly missing the forecasted value of \$17,580.8 million. The original forecast presented to GACRE in November of 2024 was \$17,364.9 million. The additional \$215 million in the official budget was based on high collection between GACRE and the time the budget was passed. Without the additional \$215 million, revenues would have exceeded forecast by 1.1 percent.

**Non-withholding:** Collections of individual non-withholding (24 percent of GF revenues) increased 14.5 percent to \$7,518.7 million, significantly outperforming the projected estimate of \$6,788.9 million. Of the \$730 million overperformance, approximately \$615 million occurred in the final three months of the fiscal year when final payments were due.

**Refunds:** FY25 refunds amounted to \$3,187.4 million. This represents a 7.3 percent increase from FY24. The increase over the year was primarily attributable to two factors: the retroactive PTET credit available for Tax Year 2021 and the increase in the standard deduction from \$8,000/\$16,000 to \$8,500/\$17,500 for single and married filers.

## **Retail Sales and Use Taxes**

In general, all sales, leases, and rentals of tangible personal property in or for use in Virginia, as well as accommodations and certain taxable services, are subject to Virginia sales and use tax, unless an exemption or exception is established. The sales tax rate for most locations in Virginia is 5.3 percent which includes both general fund and non-general fund revenues, and the local option 1.0 percent tax. Several areas have an additional regional or local tax. In all of Virginia, food for home consumption (e.g., grocery items) and certain essential personal hygiene items are exempt from the state sales tax but are subject to the 1.0 percent local option sales tax.

Collections of retail sales and use taxes (15% of GF revenues) totaled \$4,812.7 million, \$14.8 million over the forecast. This represented a year-over-year increase of 2.2 percent.

## **Corporate Income Taxes**

Corporations that are subject to the state corporate income tax are required to pay an income tax equal to 6.0 percent of the corporation's Virginia taxable income. In FY25, corporate income tax collections totaled

\$1,878.6 million, \$87.1 million over the forecast. Corporate income tax receipts decreased 3.0 percent to \$2,235.0 million and refunds decreased 10.4 percent to \$356.4 million.

### Wills, Suits, Deeds, and Contract Fees

Virginia imposes a state tax on the recordation of deeds, deeds of trusts, mortgages, leases, and contracts relating to real estate. This category is comprised predominantly of state recordation taxes. Revenues from wills, suits, deeds, and contract fees came in at \$471.2 million, a 15.9 percent year-over-year increase and \$13.6 million greater than the forecast had predicted.

### Insurance Premiums License Taxes

Any insurance company with premiums allocated to Virginia on its annual statement is subject to an annual tax on its direct gross premiums income, which includes all premiums, assessments, dues, and fees collected, received, or derived, or obligations taken from business in the Commonwealth during the calendar year, decreased by returns for cancellation and all amounts returned to subscribers or credited to their accounts as savings.

One-third of the revenue from the Insurance Premiums License Tax from the prior year is deposited into the Priority Transportation Fund (a sub-fund of the Commonwealth Transportation Fund) and the remaining revenue from the Insurance Premiums License Tax goes to the General Fund. General Fund revenues from the Insurance Premiums License Tax were \$541.5 million, exceeding the forecast by \$55.7 million. Collections grew 15.6 percent year-over-year.

### **The general fund forecast for fiscal years 2026 through 2028**

	Actual 2025	Forecast 2026	Forecast 2027	Forecast 2028
Corporate income	\$1,878.6	\$1,811.7	\$1,825.2	\$1,888.3
Individual income	21,892.4	22,869.9	23,688.9	24,450.1
Insurance premiums	541.5	536.9	549.1	570.7
State sales & uses	4,812.7	4,967.6	5,079.0	5,209.3
Wills, suits, deeds & contract Fees	471.2	474.1	528.2	609.2
Miscellaneous (interest, bev. and excise, other)	1,636.6	1,522.6	1,485.5	1,497.4
<b>Total revenues</b>	<b>\$31,233.0</b>	<b>\$32,182.8</b>	<b>\$33,155.9</b>	<b>\$34,225.1</b>
ABC profits	\$170.9	\$160.9	\$146.3	133.3
Sales Tax (0.375%)	587.9	606.9	620.5	636.4
Transfers per the Appropriations Act (DPB)	742.5	1,167.9	124.3	124.8
<b>Total transfers</b>	<b>\$1,501.3</b>	<b>\$1,935.7</b>	<b>\$891.2</b>	<b>\$894.5</b>
<b>Total general fund</b>	<b>\$32,734.3</b>	<b>\$34,118.6</b>	<b>\$34,047.1</b>	<b>35,119.5</b>

\*Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding. Source: Virginia Department of Taxation

## **Around 63 percent of state revenue is nongeneral fund**

Although most public attention is focused on general fund revenue, almost two-thirds of all revenue in the state budget consists of nongeneral funds that are earmarked by law for specific purposes.

Nongeneral fund revenue collections increased by 4.9 percent in 2025, and are expected to increase by 23.6 percent in 2026, and 5.0 percent in 2027. Nongeneral funds are around 62.6 percent of total state revenue during the 2026-2028 biennium.

### **Federal grants and other contracts**

Federal grants and other contracts are the largest single source of nongeneral fund revenue, about 48.7 percent of the total. Frequently grants do not come to the state as simple cash transfers. The federal government mandates many program requirements as conditions of the grants, and often states must provide matching funds. The Medicaid program for indigent health care is an example of a federal entitlement program that requires a state contribution.

In 2025, federal grants and other contracts increased to \$22.3 billion. This source is projected to increase by 15.1 percent in 2026, increase by 2.4 percent in 2026, and increase by 3.3 percent in 2028, resulting in projections of \$25.6 billion in 2026, \$26.3 billion in 2027 and \$27.1 billion in 2028.

### **Institutional revenue**

The second largest class of nongeneral fund revenue is institutional revenue. The principal sources of this revenue are patient fees at teaching hospitals and mental health institutions as well as tuition and fees paid by students at institutions of higher education. Institutional revenue collections are expected to be \$11.4 billion in 2026, \$12.3 billion in 2027 and \$12.9 billion in 2028.

### **Master Tobacco Settlement Agreement Funds**

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 45 states, the District of Columbia, and five United States' territories on November 23, 1998. The settlement agreement releases participating manufacturers from past, present, and future smoking-related claims of the states in return for an annual cash payment to the states in perpetuity. These payments are to be adjusted over time for several factors, including inflation and changes in volume of domestic cigarette shipments.

The Commonwealth's plan for the use of MSA funds has three elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1999 Acts of Assembly) earmarked the state's MSA allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund receives 50 percent of the MSA allocation. This share is used to compensate tobacco growers and tobacco quota holders for the economic loss resulting from quota loss or elimination and to promote economic growth and development in tobacco-dependent communities in the Southside and Southwest regions of the state. The annual amount received by this Fund was securitized and turned into an endowment. Thus, the Fund now receives earnings on this endowment. The Virginia Tobacco Settlement Fund receives the next 8.5 percent of the MSA allocation for the purposes of restricting tobacco use by minors, reducing childhood obesity, and preventing substance use by youth. Programs targeted at minors include but are not limited to educational and awareness programs. The final portion of the allocation (41.5 percent) goes to the Virginia Health Care Fund. Appropriation Act language requires that this Fund only be used to cover the state share of Medicaid costs.

For 2027 and 2028, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund may expend up to 10.0 percent of the endowment, an amount estimated at \$30 million each year. Over the 2026-2028 biennium, the Virginia Tobacco Settlement Fund is expected to receive \$9.4 million each year, and the Virginia Health Care Fund is estimated to take in \$45.7 million annually.

### Nongeneral fund forecast for the 2026-2028 biennium\*

	<b>Actual FY 2025</b>	<b>Forecast FY 2026</b>	<b>Forecast FY 2027</b>	<b>Forecast FY 2028</b>
Motor vehicle fuel tax	\$1,519.9	\$1,607.1	\$1,607.3	\$1,607.5
Unemployment compensation payroll tax	\$187.1	\$494.9	\$471.8	\$452.1
Special highway tax from sales tax	\$1,412.4	\$1,457.4	\$1,490.1	\$1,528.3
Motor vehicle sales tax and use tax	\$1,283.9	\$1,308.4	\$1,361.2	\$1,377.4
Other taxes	\$2,591.8	\$2,807.8	\$2,916.0	\$2,987.4
Rights and privileges	\$1,631.4	\$1,572.3	\$1,565.8	\$1,585.4
Sale of property and commodities	\$3,127.0	\$2,450.1	\$2,478.9	\$2,475.1
Assessment & receipts for special Services	\$3,461.9	\$4,054.0	\$4,392.8	\$4,542.6
Institutional revenue**	\$3,284.0	\$11,353.6	\$12,319.9	\$12,908.2
Interest dividends and rents	\$1,013.5	\$562.5	\$544.8	\$560.7
Federal grants and contracts	\$22,275.4	\$25,634.5	\$26,262.0	\$27,132.8
Master Tobacco Settlement Agreement Funds	\$58.1	\$73.5	\$72.5	\$72.5
Other Revenue	\$3,850.1	\$3,110.2	\$3,830.4	\$2,968.3
<b>Total</b>	<b>\$45,696.6</b>	<b>\$56,486.4</b>	<b>\$59,313.8</b>	<b>\$60,198.3</b>

\*Based on December 2025 forecast. Dollars in millions. Figures may not add due to rounding. Total excludes balances and bond proceeds available for appropriation, as well as Literary Fund transactions, and internal service funds.

Source: Department of Planning and Budget, based on data submitted by agencies.

\*\*Per the Management Agreement between the tier 3 schools and the Commonwealth as set forth in Chapters 933 and 943 of the 2006 Acts of Assembly, the tier 3 schools are not required to report actual revenue collections in the Cardinal financial system. However, these institutions participate in the nongeneral fund revenue estimation process.