



# **REVIEW OF FISCAL YEAR 2024 REVENUES AND THE FISCAL CONDITION OF THE COMMONWEALTH**

**A PRESENTATION TO THE SENATE FINANCE & APPROPRIATIONS, HOUSE  
APPROPRIATIONS, AND HOUSE FINANCE COMMITTEES**

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August 14, 2024

# TOPICS FOR DISCUSSION

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FISCAL YEAR 2024 IN REVIEW

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FISCAL CONDITION OF THE COMMONWEALTH

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LOOKING AHEAD

# FISCAL YEAR 2024 IN REVIEW

- FY 2024 general fund revenues were \$1.5 billion higher (5.5%) than FY 2023.
- Payroll withholding accounted for one-half (\$761 million) of the year-over-year increase and grew 4.8 percent over FY 2023.
- Lower individual income tax refunds added \$631 million to the year-over-year increase in net collections. Refunds were lower in FY 2024 due to policy actions: FY 2023 refunds included \$1.05 billion in tax rebates whereas the FY 2024 tax rebate of \$906.8 million is reflected in general fund transfers.
- Corporate income tax, nonwithholding, sales and use tax, and recordation tax collections were all lower year-over-year, but were offset by increases in other revenue sources, mainly interest income.
- Revenues exceeded the December forecast by \$1.72 billion and surpassed the revised forecast assumed in the amended FY 2024 budget (Ch 1) by \$1.17 billion.
- Nonwithholding and refunds accounted for 94 percent (\$1.1 billion) of unplanned revenues, while other revenue sources combined were within 3 percent of the forecast.
- Adjusting for the effects of PTET-related refunds and the timing of enacted policy actions, revenue collections were up 8.5 percent over FY 2023. Adjusted nonwithholding and refunds accounted for \$890 million of the year-over-year increase in adjusted revenues. Excluding nonwithholding and refunds, adjusted revenues grew 6.3 percent.

# FISCAL YEAR 2024 GENERAL FUND REVENUES EXCEEDED THE DECEMBER FORECAST BY \$1.72 BILLION

Source, \$ Mil	Actuals				December Forecast		
	FY 2023	FY 2024	Change	% Change	HB 29 Fcst	% Change	Variance
Individual Income Tax	\$18,983.6	\$20,310.4	\$1,326.9	7.0%	\$18,516.1	-2.5%	\$1,794.3
Withholding	15,957.2	16,718.2	761.1	4.8%	16,038.5	0.5%	679.7
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%	(3,336.2)	-7.4%	364.7
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>\$27,732.7</b>	<b>-0.6%</b>	<b>\$1,715.5</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>\$25,255.1</i>	<i>1.5%</i>	<i>\$600.9</i>
Transfers	\$815.6	\$12.8	(\$802.8)	-98%	(\$50.4)	-106%	\$63.2
<b>Total General Fund</b>	<b>\$28,725.5</b>	<b>\$29,461.0</b>	<b>\$735.4</b>	<b>2.6%</b>	<b>\$27,682.3</b>	<b>-3.6%</b>	<b>\$1,778.7</b>

- December forecast assumed a mild recession would result in GF revenues declining by 0.6 percent and payroll withholding collections growing by 0.5 percent. Sustained job growth resulted in withholding growth of 4.8 percent, a variance of \$679.7 million compared to the original forecast.
- Corporate income tax collections surprised to the downside as above-trend growth in corporate profits began to slow in FY 2024. Additionally, a backlog of corporate refunds had accumulated from prior years. This backlog was cleared this fiscal year resulting in large outflows which dragged down net corporate income tax revenues.

# FISCAL YEAR 2024 GENERAL FUND REVENUES EXCEEDED THE REVISED FORECAST BY \$1.17 BILLION

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>
Transfers	\$815.6	\$12.8	(\$802.8)	-98%	(\$24.6)	-103%	\$37.4
<b>Total General Fund</b>	<b>\$28,725.5</b>	<b>\$29,461.0</b>	<b>\$735.4</b>	<b>2.6%</b>	<b>\$28,254.9</b>	<b>-1.6%</b>	<b>\$1,206.1</b>

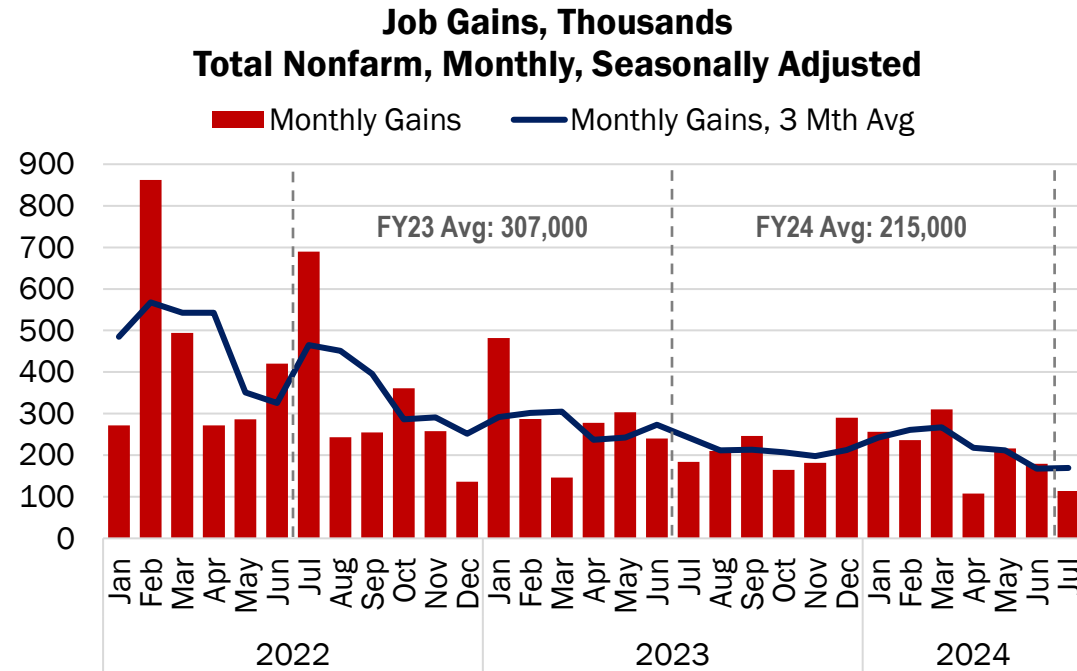
- In May, the General Assembly and Governor’s Office recognized the overperformance and allocated an additional \$546.8 million in revenues for the fiscal year. After accounting for additional revenues, fiscal year 2024 still ended with a surplus of \$1,168.7 million. Including transfers, total general fund revenues exceeded the forecast by \$1,206.1 million.
- Nonwithholding and refunds were impacted by PTET activity and better than projected market returns. Excluding nonwithholding and refunds, revenues were \$75.9 million over forecast.

# WITH RECESSION CONCERNS UNREALIZED, ECONOMIC GROWTH IN FY 2024 EXCEEDED EXPECTATIONS

- In the fall of 2023, there was uncertainty regarding near-term economic growth as indicated by the Wall Street Journal Economic Forecasting Survey of economists, and a majority of GACRE participants, which indicated that a mild recession was more likely than not over the next twelve months. Therefore, a prudent outlook including the possibility of a recession was adopted.
- At the time, the U.S. economy was experiencing high inflation and interest rates, reduced credit access, a potential federal government shutdown, and rising geopolitical tensions. The recession in our forecast was projected to start in the second quarter of calendar year 2024 and last three quarters.
- Over the course of FY 2024, consumption and employment data remained stronger than forecast despite higher inflation and interest rates. Labor market and consumer spending data showed an economy that was slowing but not into recession.

(% change)	FY 2024 Forecast	FY 2024 Actual	Actual Minus Forecast
U.S. Real GDP	1.5	3.0	1.4
U.S. Real Consumer Spending	1.5	2.5	1.0
U.S. Employment Growth	(0.2)	1.9	2.1
Virginia Employment Growth	0.1	1.8	1.7

# U.S. ECONOMY CONTINUED TO ADD JOBS IN FY 2024 BUT AT A SLOWER PACE THAN THE PREVIOUS FISCAL YEAR

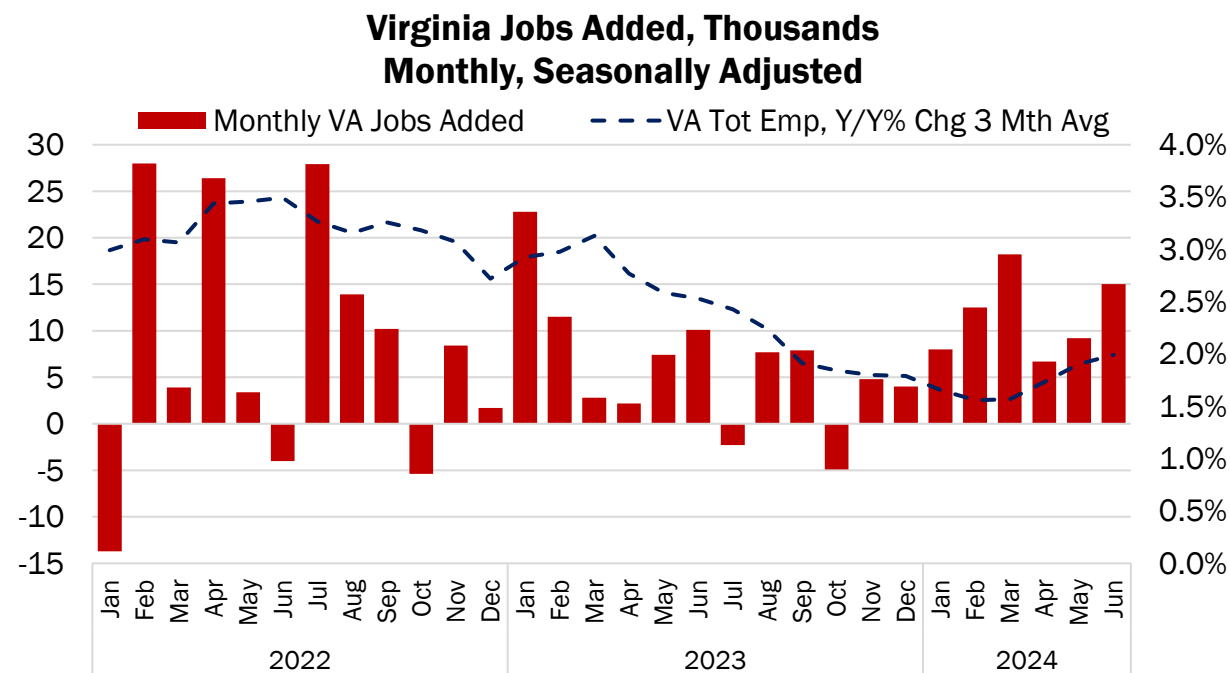


Source: US Bureau of Labor Statistics (BLS).

- Our outlook called for a year-over-year decline in U.S. employment of 0.2% in FY 2024 due to projected job losses in the fourth quarter of the fiscal year.
- The most recent employment report from the Bureau of Labor Statistics indicated that U.S. nonfarm payroll employment increased by 114,000 in July, below the average monthly gain of 215,000 over the prior 12 months.
- In addition, the change in employment for May was revised down by 2,000, from 218,000 to 216,000, and the change for June was revised down by 27,000, from 206,000 to 179,000.
- The unemployment rate rose to 4.3 percent in July.

# WITH NO RECESSION IN FY 2024, VIRGINIA JOB GROWTH EXCEEDED EXPECTATIONS

- Payroll employment growth surpassed expectations in FY 2024. The official forecast projected a 0.1% increase in total nonagricultural employment in Virginia, but actual growth was 1.8%.
- In June, Virginia’s nonagricultural employment, from the monthly establishment survey, increased by 15,000 to 4,260,900, a 2.1 percent year over year rise.
- Virginia’s seasonally adjusted unemployment rate in June was 2.7%, which is 0.1 percentage points above the rate from a year ago.

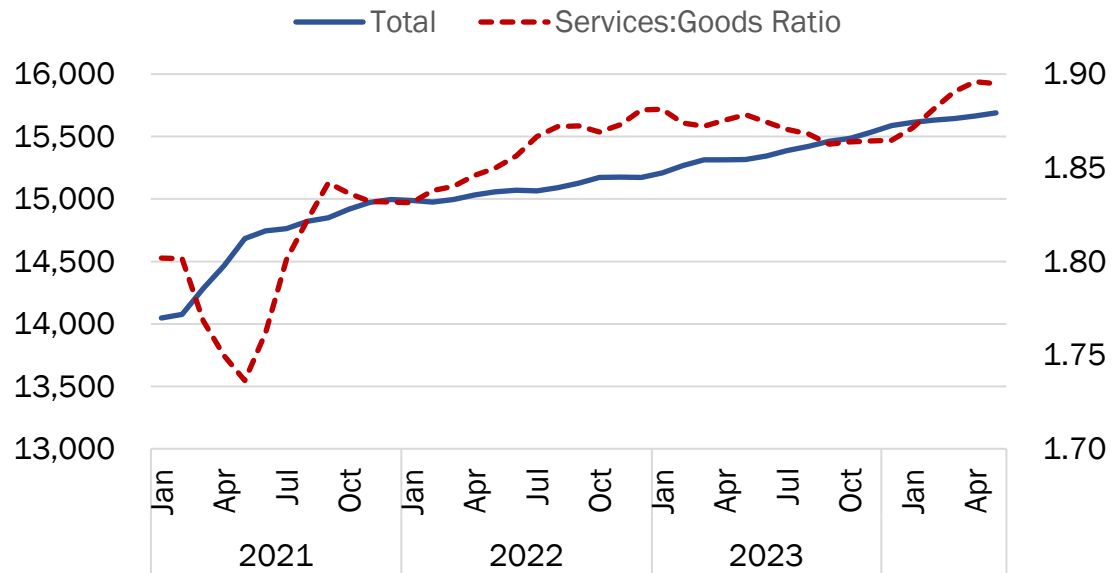


Source: Current Population Survey, US Bureau of Labor Statistics.



# CONSUMERS CONTINUED TO SPEND

**Real Personal Consumption Expenditures, Billions  
Services to Goods Ratio**

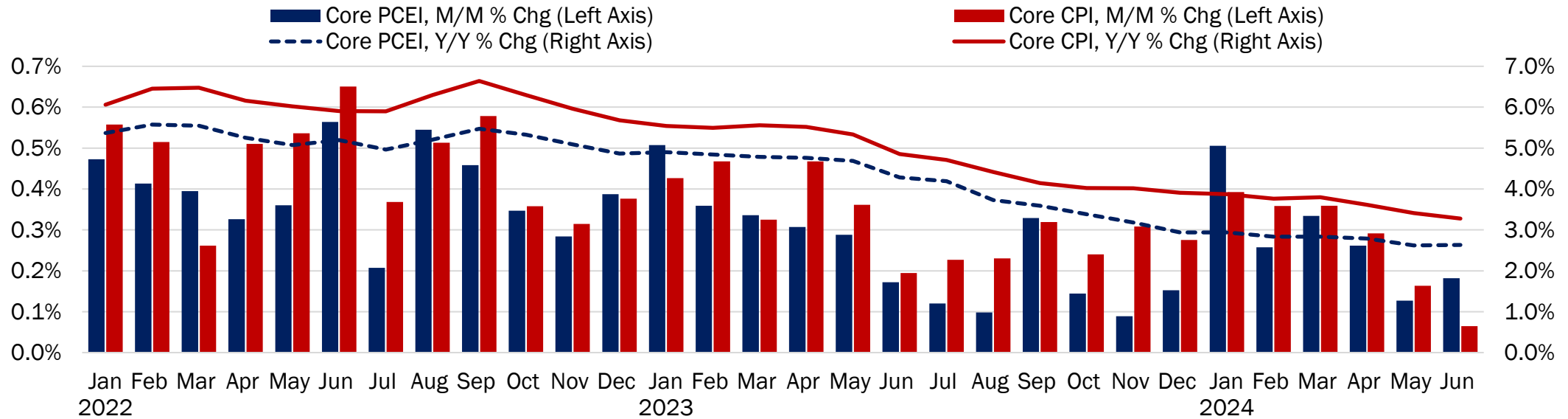


Source: Federal Reserve Bank of St. Louis.

- Growth in U.S. real consumer spending maintained a healthy trend throughout fiscal year 2024 and continued to drive economic growth despite high interest rates and still high inflation.
- For the fiscal year, real consumer spending grew at a 2.5% rate, higher than the 1.5% growth anticipated in our forecast.
- Spending has shifted back toward services as consumers adjust spending patterns following pandemic lockdowns.
- Looking forward, headwinds are expected to put downward pressure on consumer spending growth. The biggest of these are continuing inflation, and high interest rates that increase the cost of new debt and squeeze household budgets, particularly for those of lower incomes.

# INFLATION MODERATED MORE SLOWLY THAN EXPECTED

**Core Inflation: Consumer Price Index and Personal Consumption Expenditures Index, Excluding Food and Energy**



Source: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis.

- The gradual moderation in inflation stalled in late-2023 before resuming a slow downward path in recent months. Overall inflation improved, but the improvement was less than expected in our outlook for fiscal year 2024, contributing to the Fed’s “higher for longer” position.
- In June, the twelve-month change in “core” CPI, which excludes food and energy, fell from 3.4% to 3.3%.
- The twelve-month change in Core Personal Consumption Expenditure Price Index (Core PCE), the Federal Reserve’s preferred inflation measure, remained unchanged at 2.6 percent in June, still well above the Fed’s two-percent target.

# EXCESS GENERAL FUND COLLECTIONS ARE SUFFICIENT TO MEET ALL IDENTIFIED INVESTMENT PRIORITIES

(\$ Millions)

<b>General Fund Revenues, FY 2024 Actual</b>	<b>\$29,448.2</b>
Less I-81 Improvement (Ch 1 487.50 C1 / Ch 2, 470 K1)	(175.0)
Less WQIF (Ch 1 487.50 C2 / Ch 2, 470 K2)	<u>(400.0)</u>
Net GF Revenues	\$28,873.2
Less Official Forecast (Ch 1)	<u>(28,279.5)</u>
Net GF Revenue Surplus	\$593.7
Less WQIF Part A Deposit	(59.4)
Less Revenue Reserve Fund Deposit	(288.7)
Less VMSDEP	<u>(90.0)</u>
<b>Remaining Unrestricted and Uncommitted GF Revenue Surplus</b>	<b>\$155.6</b>

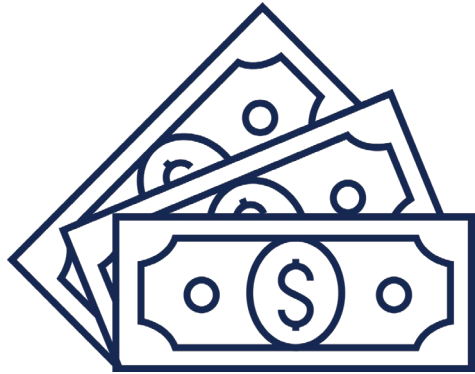
- After set-asides for contingent appropriations and mandatory commitments, the remaining unrestricted and uncommitted revenue surplus totals \$155.6 million.

# SUMMARY OF PRELIMINARY FY 2024 GF BALANCE SHEET

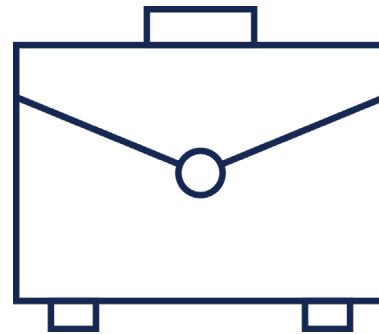
(\$ Thousands)

<b>Assets Less Liabilities</b>	<b>15,561,899</b>	
<b>Restricted Fund Balance</b>		
Revenue Stabilization Fund Ending Balance	2,767,048	
Lottery Proceeds Fund	24,304	
Water Supply Assistance Grant Fund	13,105	
<b>Total Restricted Fund Balance</b>	<b>2,804,457</b>	
<b>Committed Fund Balance:</b>		
Reappropriation of Capital Outlay	2,433,408	
Operating Mandatory Reappropriation	1,018,046	
I-81 Corridor Improvement Program	175,000	} ← \$575 million. Commitments required by Item 470, CH 2.
Water Quality Improvement Fund Matching Grants	400,000	
WQIF Ending Balance	763,711	
WQIF Part A Calculation	59,372	} ← \$93.7 million. WQIF deposits, parts A and B, based on FY 2024 revenues and balances.
WQIF Part B Calculation	34,315	
Revenue Reserve Fund Ending Balance	1,926,068	
Revenue Reserve Calculation	288,732	← \$288.7 million. Revenue Reserve Fund deposit based on FY 2024 revenues.
VMSDEP	90,000	← \$90 million. Commitment required by CH 3/CH 4 for VMSDEP.
Other Commitments	1,882,815	
<b>Total Committed Fund Balance</b>	<b>9,071,466</b>	
<b>Assigned Fund Balance:</b>		
Starting Balance Required by Chapter 2	2,989,627	
Discretionary GF Balances	308,838	
Amount to support additional Medicaid Contingency	88,500	← \$294.4 million. Additional assignments for anticipated needs.
Amount for Additional Taxpayer Relief and Other Budgetary Priorities	205,880	
Other Assignments	93,131	
<b>Total Assigned</b>	<b>3,685,976</b>	

# THE COMMONWEALTH HAS NEVER BEEN IN A STRONGER POSITION



Historic Revenue Growth &  
Unprecedented  
Investments in Mutual  
Priorities



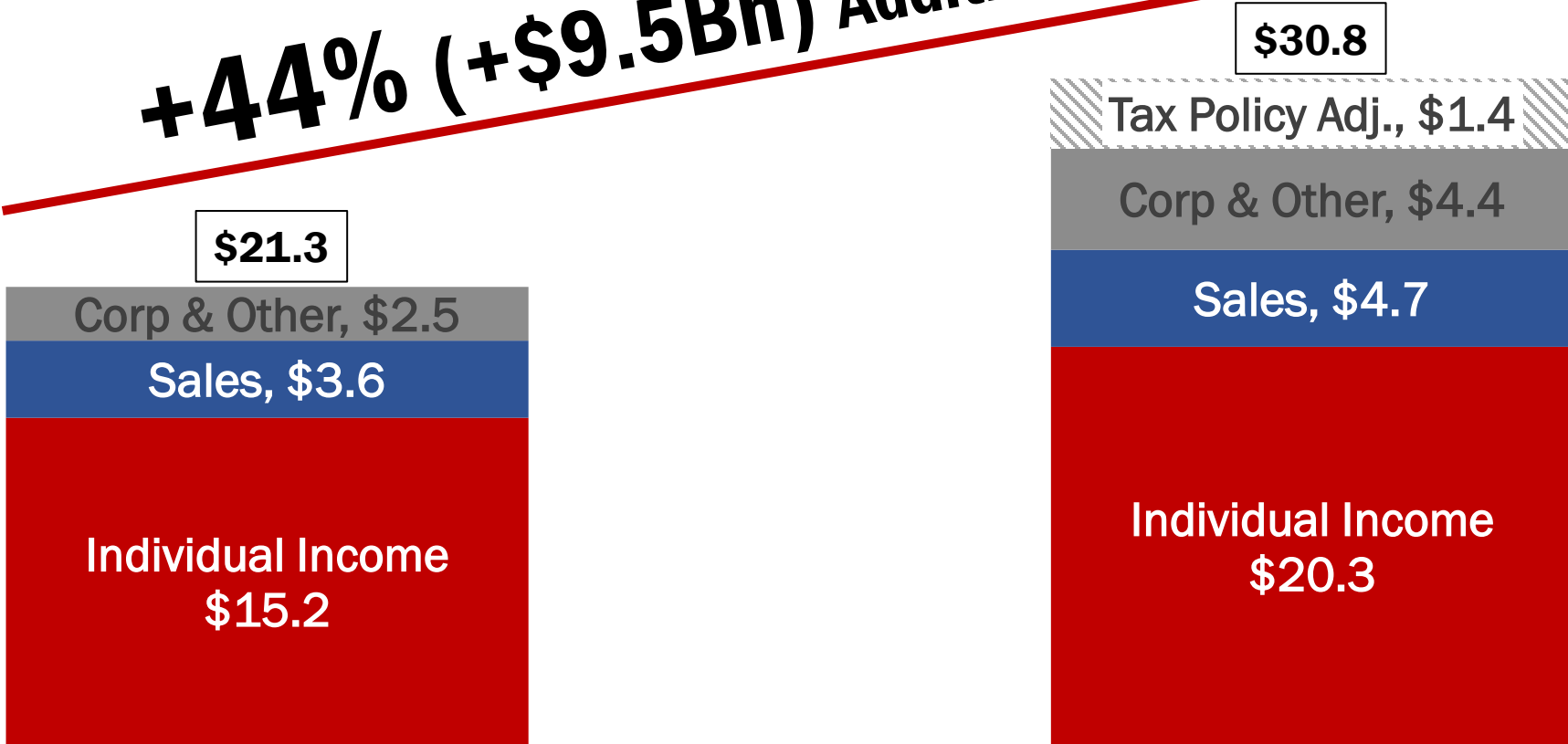
Record Job Growth &  
Highest Number of  
Virginians Working



AAA Rating,  
Record Reserves &  
Conservative Balance Sheet

# UNPRECEDENTED REVENUE GROWTH SINCE FY 2019

**+44% (+\$9.5Bn) Additional Resources**



FY 2019

*\*GF dollars in billions (excluding transfers)*

FY 2024

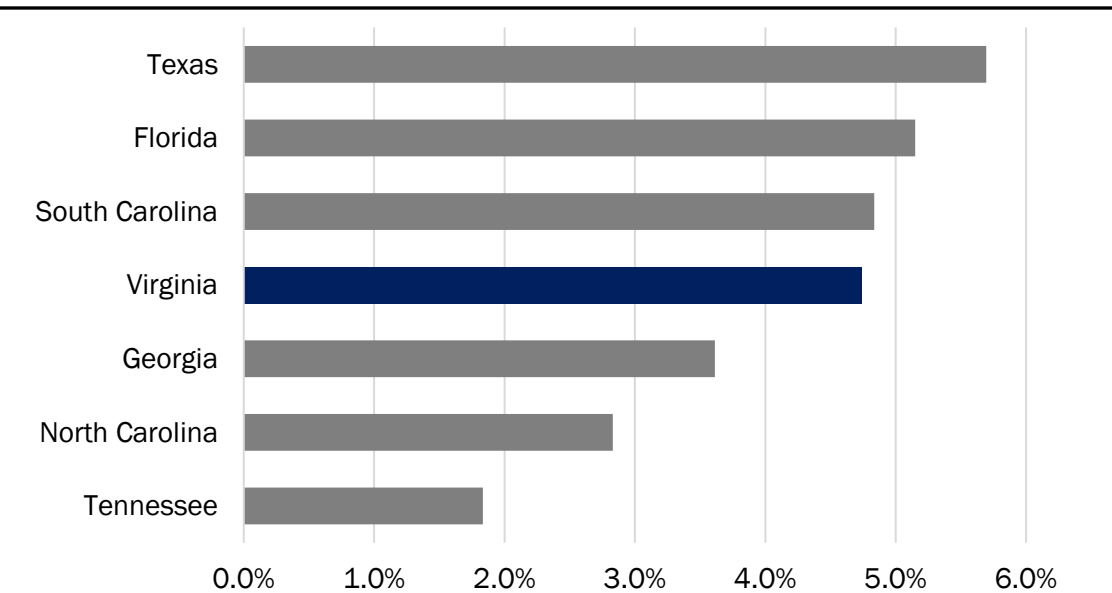
# VIRGINIA JOB GROWTH:

From Bottom-Third in FY 2021 to Top-10 Since January 2022

## Highest Employment in Virginia's History

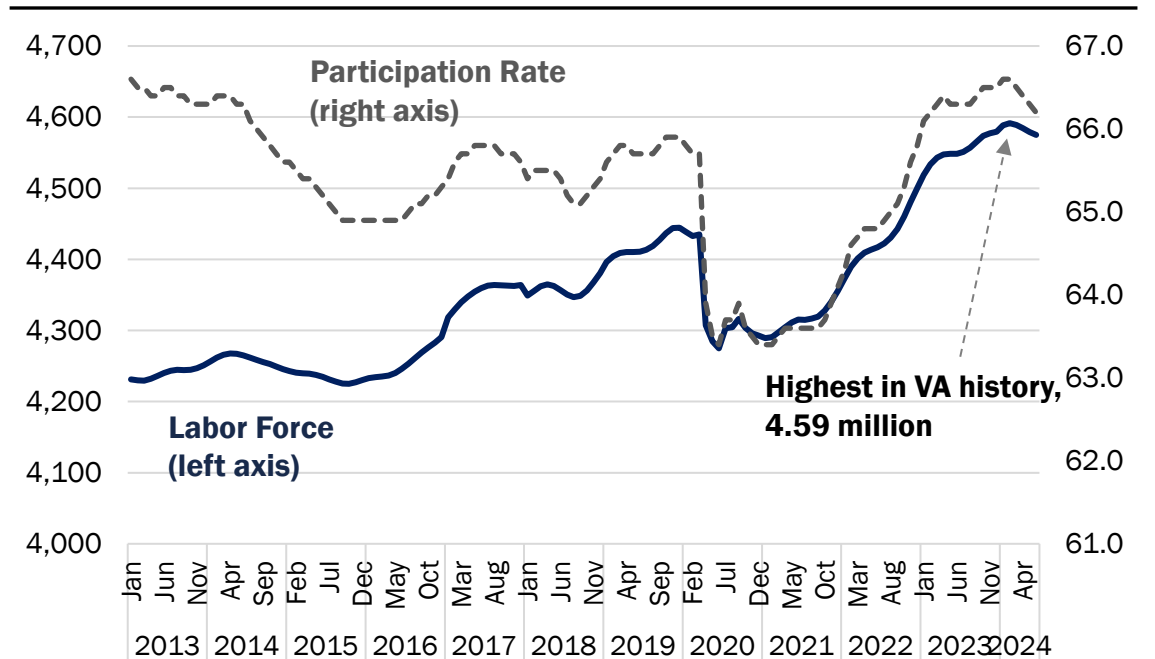
### January 2022 to-date employment change

% Jan 2022 to June 2024, seasonally adjusted



### Virginia Labor Force and Labor Participation Rate

Labor Force in thousands, Participation Rate in %, seasonally adjusted



Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (seasonally adjusted).

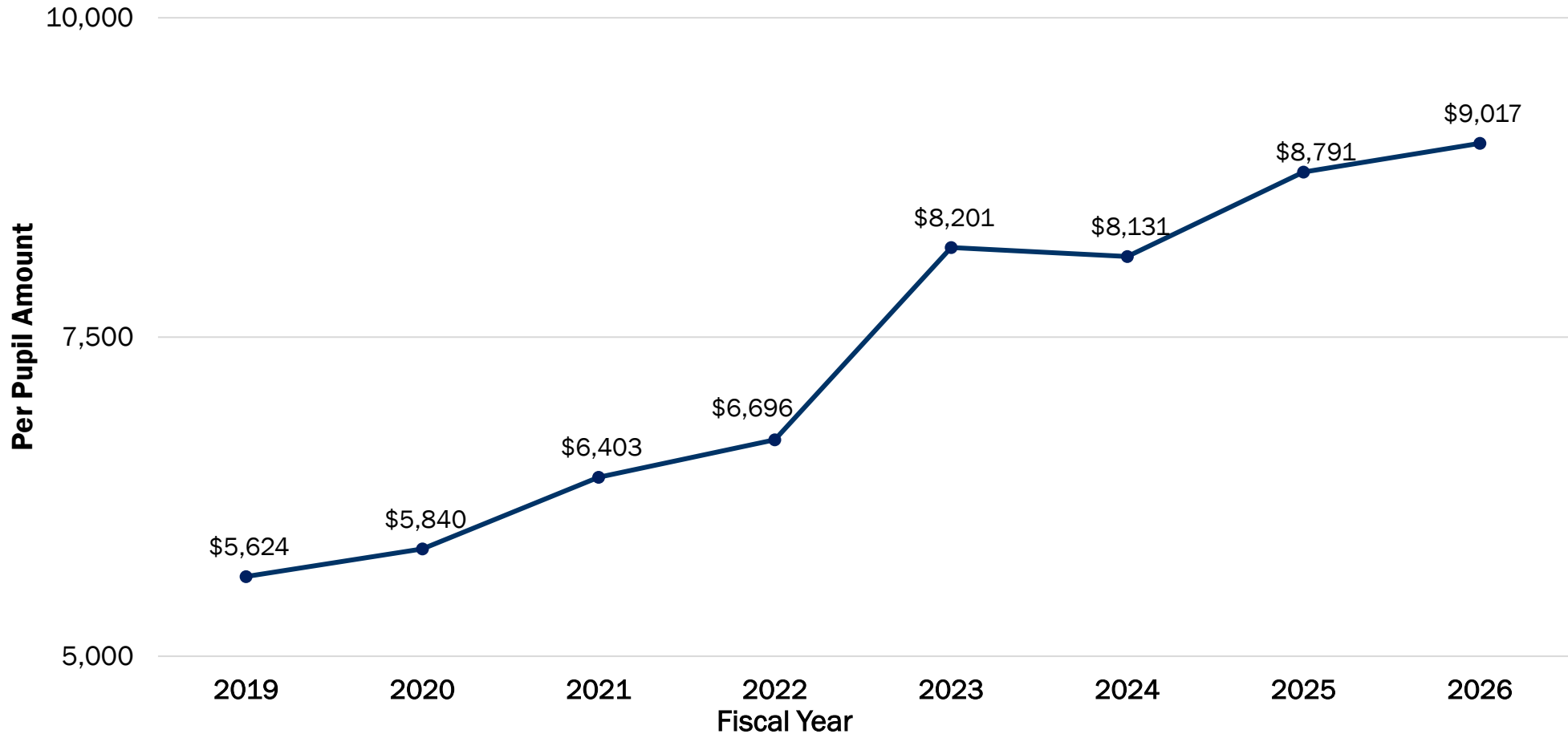
# UNPRECEDENTED INVESTMENTS IN SHARED PRIORITIES: 48 PERCENT GROWTH (\$10.3 BN) SINCE FY 2019

## GF Operating Appropriation Dollars in Millions

	<b>FY 2019</b>	<b>FY 2025</b>	<b>FY 25 % of Total</b>	<b>FY 19 to 25 \$ Growth</b>	<b>FY 19 to 25 % Growth</b>
K-12 Education	\$6,331.4	\$9,779.7	30.8%	\$3,448.2	54.5%
Medical Assistance Services	\$5,008.2	\$6,880.6	21.6%	\$1,872.5	37.4%
Higher Education	\$1,988.9	\$3,557.9	11.2%	\$1,569.1	78.9%
Behavioral Health/Dev Svcs	\$823.3	\$1,576.7	5.0%	\$753.4	91.5%
Corrections	\$1,202.4	\$1,503.7	4.7%	\$301.3	25.1%
Other Public Safety	\$809.0	\$1,144.8	3.6%	\$335.8	41.5%
Other Health and Human Resources	\$686.3	\$983.4	3.1%	\$297.2	43.3%
Agriculture, Forestry, and Natural Resources	\$216.1	\$701.9	2.2%	\$485.7	224.7%
<b>Subtotal, Above Categories</b>	<b>\$17,065.6</b>	<b>\$26,128.7</b>	<b>82.2%</b>	<b>\$9,063.1</b>	<b>53.1%</b>
<i>All Others</i>	\$4,377.4	\$5,656.0	17.8%	\$1,278.6	29.2%
<b>Total GF Operating</b>	<b>\$21,443.0</b>	<b>\$31,784.7</b>	<b>100.0%</b>	<b>\$10,341.7</b>	<b>48.2%</b>



# K-12 PER PUPIL DIRECT AID APPROPRIATION HAS INCREASED BY ALMOST 60%

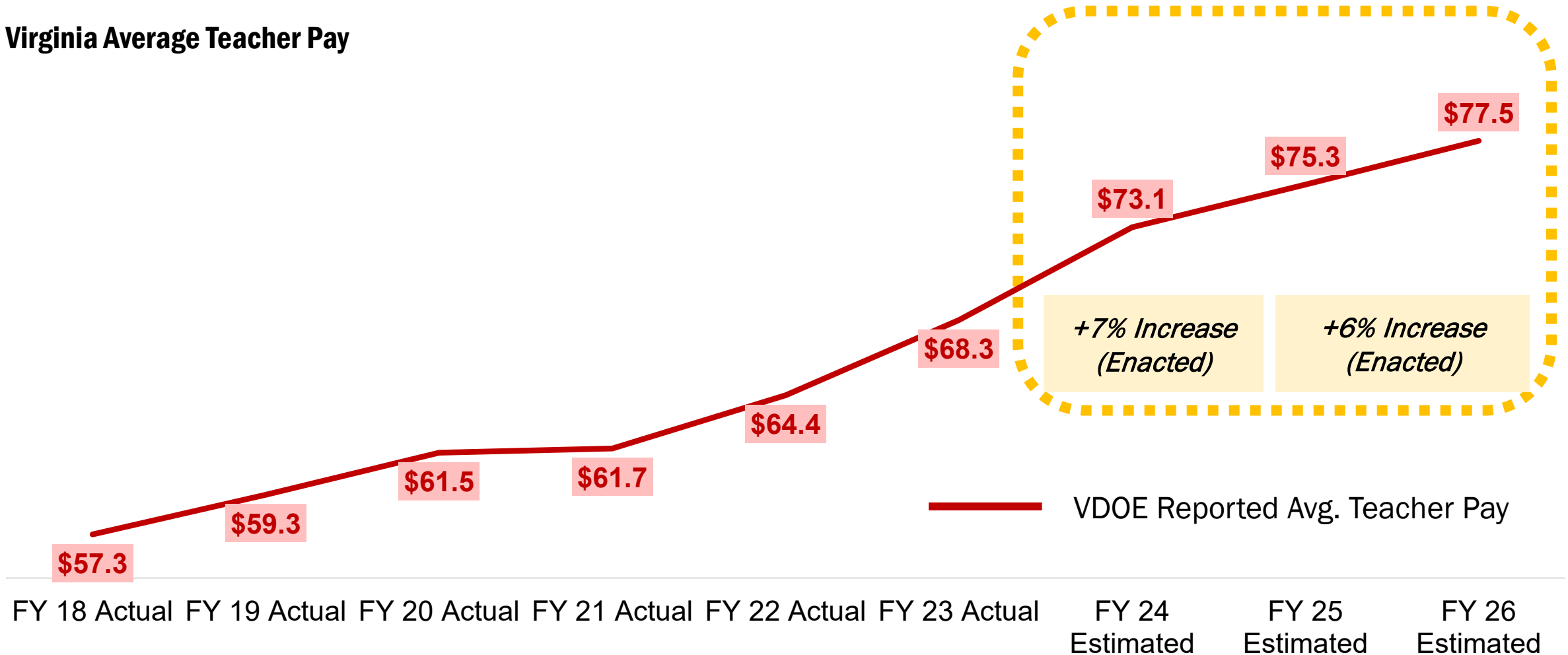


Includes state funding for Early Childhood Care and Education. Direct Aid to Public Education Appropriation per pupil general and State nongeneral funds.

# ACCELERATED INVESTMENTS FOR TEACHERS

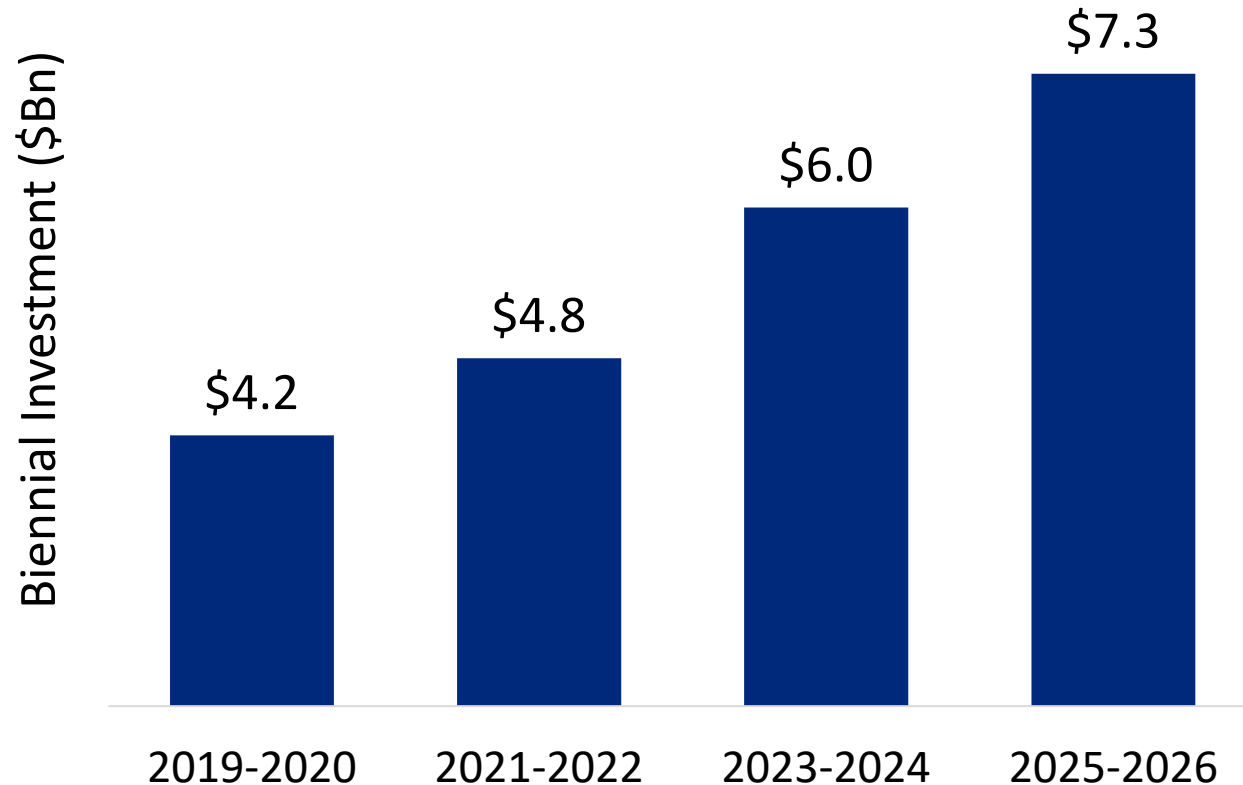
## Recent State Investments Will Increase Teacher Compensation by 35%

Virginia Average Teacher Pay








# \$3.1 BILLION IN ADDITIONAL HIGHER EDUCATION INVESTMENTS

## State Operating Funds – Higher Education Biennial Investments



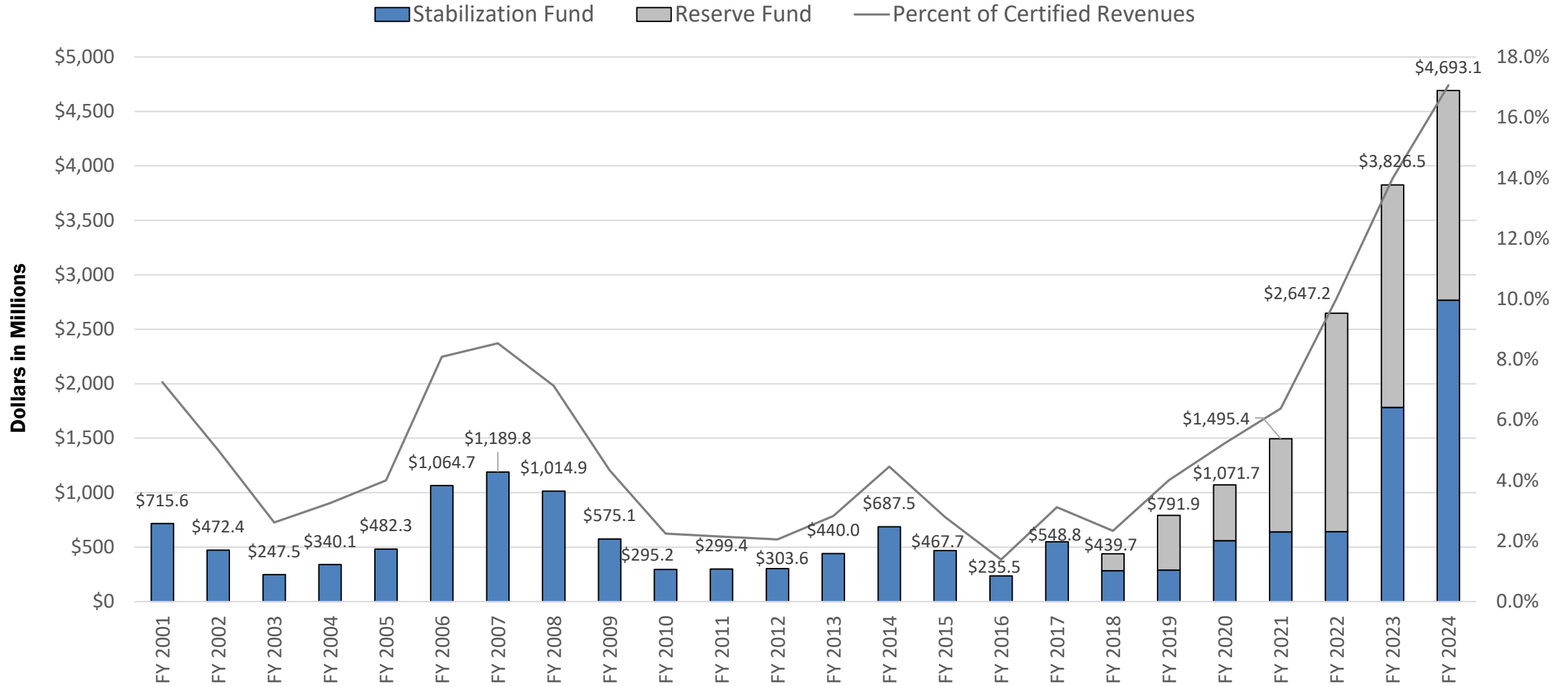
## 2025 - 2026 Priorities:

-  +\$205M in tuition increase mitigation
-  \$75M for low-income student recruitment and retention (PELL)
-  +\$42M in undergraduate and graduate financial aid
-  +\$130M tuition waiver cost offsets & stipends for Veterans and their families
-  Increases to Tuition Assistance Grant (TAG)

# LONG TERM ECONOMIC DEVELOPMENT TRANSFORMED THROUGH INVESTMENTS IN INFRASTRUCTURE AND BUSINESS READY SITES

Name	FY22	FY23	FY24	FY25	FY26	Interest	Total
Virginia Business Ready Sites Program (VBRSP)	\$5.6	\$109.0	\$125.0	\$20.0	\$20.0	\$4.0	\$283.6
Virginia Business Ready Sites Acquisition Program (VBR SAP)			75.0				75.0
Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (VBAF)	2.3	2.3	2.3	2.3	2.3		11.3
Port of Virginia Economic and Infrastructure Development Grant Program				4.0	4.0		8.0
GO Virginia Sites Grants (GOVA)		11.3					11.3
<b>Subtotal Sites</b>							<b>\$389.2</b>
Transportation Partnership Opportunity Fund (TPOF)	3.5		70.9	35.0	35.0		144.4
Rail and Economic Development Access Programs		8.1		5.5	5.5		19.1
<b>Subtotal Infrastructure</b>							<b>\$163.5</b>
<b>Total (\$M)</b>	<b>\$19.4</b>	<b>\$122.5</b>	<b>\$273.2</b>	<b>\$66.8</b>	<b>\$66.8</b>	<b>\$4.0</b>	<b>\$552.6</b>

# RESERVE FUND BALANCES OF \$4.7 BILLION (17.4 PERCENT) EXCEED 15 PERCENT STATUTORY CAP



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

## Rainy Day Funds as Percent of GF Expenditures

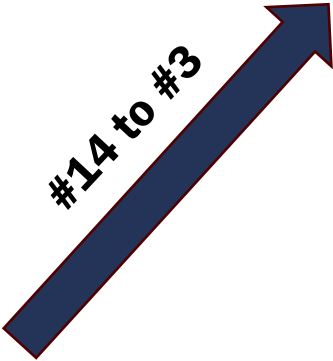
### AAA States, FY 2019

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

Currently 17.4%



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

# ALMOST \$8 BILLION WILL BE RETURNED TO TAXPAYERS, SAVING THE TYPICAL VIRGINIA FAMILY \$4,100+

## Annual Value of Tax Relief Measures

Tax Relief Measures	2022 Relief*	2023 Relief*	2024 Relief*	2025 Relief*	2026 Relief*	Total Per Family
Increase standard deduction to \$8,000/\$16,000	\$399	\$400	\$400	\$400	\$401	\$1,999
Increase standard deduction to \$8,500/\$17,000	\$0	\$0	\$57	\$57	\$57	\$171
Eliminate State Tax on Groceries	\$209	\$221	\$222	\$227	\$233	\$1,112
Individual Income Tax Rebates	\$500	\$400	\$0	\$0	\$0	\$900
<b>Total</b>	<b>\$1,108</b>	<b>\$1,020</b>	<b>\$679</b>	<b>\$684</b>	<b>\$691</b>	<b>\$4,182</b>
Military Retirement Income Tax Subtraction**	\$575	\$1,150	\$1,725	\$1,725	\$1,725	\$8,050
<b>Total, Including Military**</b>	<b>\$1,683</b>	<b>\$2,831</b>	<b>\$2,404</b>	<b>\$2,984</b>	<b>\$2,991</b>	<b>\$12,232</b>

\*2022 Session Tax Relief reflects estimated tax savings in 2022 for income tax changes and 2023 for food tax relief and tax rebate.

Typical Virginia Family is a family of four earning \$75,000 per year.

\*\*Assumes subtraction of \$10,000 in Taxable Year 2022, \$20,000 in Taxable Year 2023, \$30,000 in Taxable Year 2024 and \$40,000 in Taxable Year 2025.

# REVENUE IMPACT FROM MAJOR TAX POLICY ACTIONS

Tax Action (\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026
Individual: Increase Standard Deduction \$8,000/\$16,000 *	(1,015.8)	(707.4)	(719.4)	(730.8)
Individual: Increase Standard Deduction \$8,500/\$17,000 (TY24)	0.0	(48.1)	(101.7)	(102.6)
Sales and Use: Eliminate State Portion on Groceries (1.5 percent) *	(115.0)	(267.2)	(272.5)	(273.6)
Individual: Refundable Earned Income Tax Credit to 15.0 percent of Federal Credit	(159.0)	(156.0)	(159.6)	(155.0)
Individual: Military Retirement Subtraction for Age 55 or Older	(145.0)	(156.0)	(182.0)	(194.4)
Individual: Military Retirement Subtraction Eliminate Age Limitation (TY24)	0.0	(37.8)	(33.4)	(34.7)
Individual/Corporate: Increase Business Interest Deduction Disallowed from 20% to 30%	(15.3)	(10.9)	(11.3)	(11.8)
Individual/Corporate: Increase Business Interest Deduction Disallowed from 30% to 50% (TY24)	<u>0.0</u>	<u>(10.3)</u>	<u>(22.6)</u>	<u>(23.5)</u>
<b>Total Permanent Tax Cuts</b>	<b>(\$1,450.1)</b>	<b>(\$1,393.7)</b>	<b>(\$1,502.5)</b>	<b>(\$1,526.4)</b>
Individual: 2022 Tax Rebate (\$250/\$500)	(\$1,048.6)	0.0	0.0	0.0
Individual: 2023 Tax Rebate (\$200/\$400) (Paid from Special Fund)	<u>0.0</u>	<u>(906.8)</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Permanent + One-Time Tax Cuts</b>	<b>(\$2,498.7)</b>	<b>(\$2,300.5)</b>	<b>(\$1,502.5)</b>	<b>(\$1,526.4)</b>

Source: Virginia Department of Tax, Revenue Impacts. \* Estimates updated in July 2023 to reflect wage and inflation growth since fall 2021 estimates.

As presented by the Senate Finance & Appropriations Committee, *Overview of Virginia's Revenue & Tax Policy* November 16, 2023



# CONCLUSION

- Revenues exceeded the December forecast by \$1.7 billion and the May forecast by \$1.2 billion.
- The December forecast for a mild recession prudently reflected concerns about the economy due to ongoing inflation pressures, the prospect of higher rates for longer and numerous geopolitical risks.
- The recession did not occur, particularly due to stronger job growth, with Virginia reporting 258,000 more jobs since January 2022.

# CONCLUSION (CONT'D)

- Over the past three years, revenues have significantly exceeded projections and significant investments have been made in shared priorities.
- At the same time, we have built one of the strongest balance sheets in the country, ensuring future fiscal stability and soundness.
- And almost \$8 billion will be returned to taxpayers by the end of the Administration.
- Virginia's economy is growing, we have turned the corner to becoming a winning state:
  - Top 10 in job growth since January 2022;
  - Largest workforce in the history of Virginia;
  - Highest labor force participation rate in more than a decade, and
  - CNBC Top State for Business after unprecedented investments in Business Ready Sites, education and workforce development.

# CONCLUSION (CONT'D)

- Looking ahead, our prudent approach to financial planning will be maintained.
- Early indications are that current year revenues are continuing to grow and will likely meet the revenue forecast assumed in the current appropriations act. July revenues, which included an additional deposit day relative to last July, grew 14.3 percent year-over-year and exceeded projections by \$91.3 million.
- While Virginia is currently in an excellent position, there are critical issues that will be watched closely in the coming months.
- GACRE meeting (July 31) indicated expectations for continued but slower growth in the US and Virginia economy.
- Recent mixed economic data has built a strong consensus that the Fed will begin to lower rates in September. More data will be available in the near term to affirm that view.
- November elections will have a significant impact on economic outlook given the expectations for very different outcomes with the sunset of the Tax Cuts and Jobs Act on December 31, 2025, reverting to prior law.
  - Approximately 15 sunset provisions will have a direct impact on Virginia; with additional provisions having potential indirect impacts.
- Given these uncertainties, and the ongoing geopolitical risks that continue to exist, it was agreed that the November GACRE meeting, after the elections, will be a critical discussion of our outlook for the national and Virginia economies.

# FORECASTING PROCESS CONTINUES THROUGH DECEMBER

ACTUAL REVENUE COLLECTIONS WILL BE INCORPORATED INTO THE FORECAST

## Key Dates

- **September:** Individual, corporate, and insurance estimated payments are due.
- **October:** Joint Advisory Board of Economists reviews economic assumptions.
- **November:**
  - Individual income tax extension returns due November 1<sup>st</sup>.
  - Presidential Election on November 5<sup>th</sup>.
  - Corporate refunds from extension returns peak.
  - Governor's Advisory Council on Revenue Estimates reviews revenue forecast for the 2024 - 26 biennium.
- **December:**
  - General fund revenue forecast is finalized, including post-GACRE adjustments and proposed policy changes.
  - Governor Youngkin's amendments to the 2024 - 26 budget are presented at the December 18<sup>th</sup> Joint Money Committee meeting.

# Appendix

# LOOKING AHEAD: TAX CUTS AND JOBS ACT (“TCJA”) PARTIALLY EXPIRES DECEMBER 31, 2025

- The TCJA is the most substantial federal tax legislation since 1986.
- Most of the individual income tax provisions of TCJA, including lower rates, sunset after December 31, 2025, and revert to prior law, unless action is taken by Congress; most business-oriented provisions do not expire.
- Approximately 15 sunset provisions have a direct impact on Virginia; additional provisions have potential indirect impacts (e.g., Virginia’s standard deduction which is currently \$8,500 for single filers and \$17,000 for joint filers).
- Chainbridge Consulting, LLC is in the process of updating Virginia Tax’s microsimulation model so we can generate more accurate estimates of the potential impact on Virginia.

# TAX CUTS AND JOBS ACT: MAJOR PROVISIONS

Federal Provision	Pre-TCJA	Post TCJA	Expires	Virginia Impact
<b>Individual</b>				
Adjust Individual Rates and Brackets	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	10%, 12%, 22%, 24%, 32%, 35%, 37%	Yes	No
Increase Federal Standard Deduction	\$6,350 single/\$12,700 married	\$12,000 single/\$24,000 married (indexed)	Yes	Yes (indirect)
Repeal/Limit Itemized Deductions	Casualty/wagering/misc. deductions allowed Mortgage interest limited to \$1M	Casualty/wagering/misc. ded. disallowed Mortgage Interest limited to \$750,000	Yes	Yes
SALT Deduction Limitation	No limit	\$10,000	Yes	No
Estate and Gift Tax Exemption	\$5 million	\$10 million	Yes	No
<b>Business</b>				
Adjust Corporate Income Tax Rate	Top rate of 35%	Flat 21%	No	No
Repeal AMT on Corporations	20%	Repealed	No	No
Increase IRC § 179 Expensing	\$500,000 deduction, \$2M phaseout	\$1 million, \$2.5M phase-out	No	Yes
Increase IRC § 168(k) Depreciation	50%	100% (phasing down after 1/1/2023)	No	No
Noncorporate Loss Limitation	No limit	\$250,000, \$500,000	Yes	Yes
Small Business (QBI) Deduction	No deduction	20% income deduction for PTEs	Yes	No
Limit Business Interest Deductions	Net investment income limit	30% total income limit	No	Yes
<b>International</b>				
Modify International Tax Rules	Worldwide taxation	Territorial taxation	No	No

# VIRGINIA'S RESPONSE TO THE TCJA

## Virginia Tax Policy Changes from 2019-2023

### INDIVIDUAL PROVISIONS

Increase Virginia Standard Deduction (Expires)  
*First increase from \$3,000/\$6,000 to \$4,500/\$9,000 in tax year 2019*

Made Virginia's Earned Income Tax Credit Partially Refundable (Expires)

Deconformed from State and Local Tax Deduction Limitation for Real and Personal Property Tax (Permanent)

Deconformed from Overall Limitation on Itemized Deductions Suspension (Permanent)

Individual Income Tax Rebates  
*First tax rebate of \$110/\$220 in 2019*

### BUSINESS PROVISIONS

Partial Deconformity from Business Interest Deduction Limitation (Permanent)

Subtraction for Global Intangible Low-tax Income ("GILTI") Taxed under the TCJA (Permanent)

Created Pass-Through Entity Tax ("PTET") to Workaround the Federal \$10,000 SALT Limitation (Expires)