



COMMONWEALTH of VIRGINIA
Office of the Governor

Abigail D. Spanberger
Governor

June 1, 2026

The Honorable L. Louise Lucas
Chair, Finance & Appropriations Committee
Senate of Virginia
General Assembly Building, Room 1404
201 North 9th Street
Richmond, Virginia 23219

The Honorable Luke E. Torian
Chair, Appropriations Committee
Virginia House of Delegates
General Assembly Building, Room 1223
201 North 9th Street
Richmond, Virginia 23219

Dear Senator Lucas and Delegate Torian:

With just one month remaining in Fiscal Year 2026, revenue collections are ahead of expectations. On a fiscal year-to-date basis, General Fund revenues have grown 7.3 percent and are ahead of our projections by 3.3 percent. While current year collections are likely to result in a year-end surplus, evolving economic conditions and increased national uncertainty warrant a reassessment of whether current revenue strength can be sustained in the out-years. Accordingly, I recently directed state finance officials to conduct an updated revenue forecast to include updated projections through the 2026-2028 biennium and beyond.

A review of the economic data indicates reason to increase projected General Fund revenues by \$1.5 billion for Fiscal Years 2026-2028 relative to Chapter 7 assumptions. Specifically, the reforecast projects that Fiscal Year 2026 revenues will exceed the official forecast by \$585.5 million. For Fiscal Years 2027 and 2028, the revised outlook projects an additional \$922.6

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million in General Fund revenues, of which \$582.4 million is identified for Fiscal Year 2027 and \$340.2 million for Fiscal Year 2028.

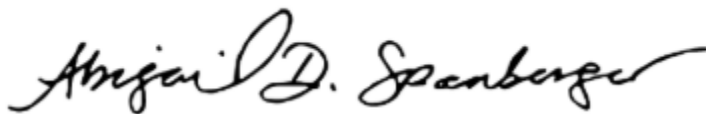
The revised baseline reflects a balanced blend of current performance, recent economic shifts, and a conservative approach to national market volatility:

- **Individual Income Tax Nonwithholding and Refunds:** The majority of the revenue expansion comes from nonwithholding collections and lower-than-anticipated individual refunds.
- **Individual Income Tax Withholding:** Conversely, withholding projections have been lowered by approximately \$182.1 million for the biennium relative to the Chapter 7 forecast. This adjustment accounts for job losses observed over the past year, though stronger-than-expected wage growth will partially mitigate this decline.
- **Corporate Income Tax:** Corporate tax collections are also projected to be weaker than previously assumed, reflecting a more cautious forecast.

Sources of this additional revenue are detailed in the attachment titled *Revised Economic Outlook and General Fund Revenue Forecast*.

Consistent with Virginia's longstanding commitment to structural balance and fiscal stability, this revised outlook incorporates updated assessments of economic conditions, revenue trends, and forecast risks to inform ongoing budget deliberations, and it is my sincere hope that we continue working collaboratively in the weeks ahead to finalize a fiscally sound budget.

Sincerely,



Abigail D. Spanberger

Cc: April Kees, Staff Director, Senate Finance & Appropriations Committee
Anne Oman, Staff Director, House Appropriations Committee
The Honorable Mark D. Sickles, Secretary of Finance

Revised Economic Outlook and General Fund Revenue Forecast

Prepared at the Request of the
Governor's Office

May 22, 2026

Abigail D. Spanberger, Governor

Mark D. Sickles, Secretary of Finance

Kristin Collins, Tax Commissioner



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Preface

At the request of the Governor's Office, the Department of Taxation conducted an updated review of the Commonwealth's economic outlook and General Fund revenue forecast to support ongoing negotiations on Virginia's next biennial budget.

This report presents revised economic assumptions and recommended General Fund revenue forecast adjustments through Fiscal Year 2028, along with updated projections extending through Fiscal Year 2031 consistent with standard forecasting practice. The revised outlook reflects current revenue performance, recent economic developments, and increased uncertainty in the national economic environment.

While General Fund revenues have remained ahead of forecast fiscal year-to-date, evolving economic conditions warrant a reassessment of future growth expectations and underlying forecast assumptions. The updated forecast is intended to provide policymakers with the most current information available as budget deliberations continue and long-term fiscal commitments are considered.

This review is limited to the Commonwealth's General Fund revenue outlook and does not revise assumptions related to Nongeneral Fund revenue sources, including Commonwealth Transportation Fund revenues, Lottery Proceeds Fund revenues, or Alcoholic Beverage Control profits transfers.

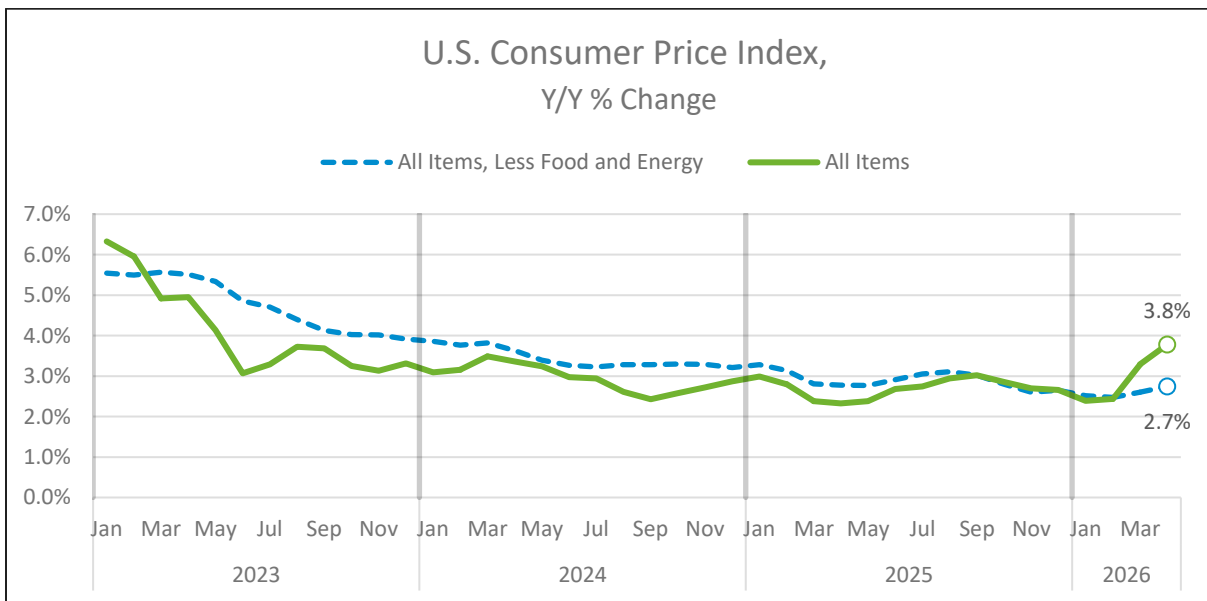
Virginia's forecasting process is designed to support prudent financial management and maintain the Commonwealth's longstanding commitment to structural balance and fiscal stability. This revised outlook is offered in that spirit and is intended to inform budget negotiations with a current assessment of economic conditions, revenue trends, and associated risks to the forecast.

Recent Economic Developments and Revenue Performance

Economic Developments Since the Official Forecast

Inflationary Pressures Accelerate Amid Global Oil Shock

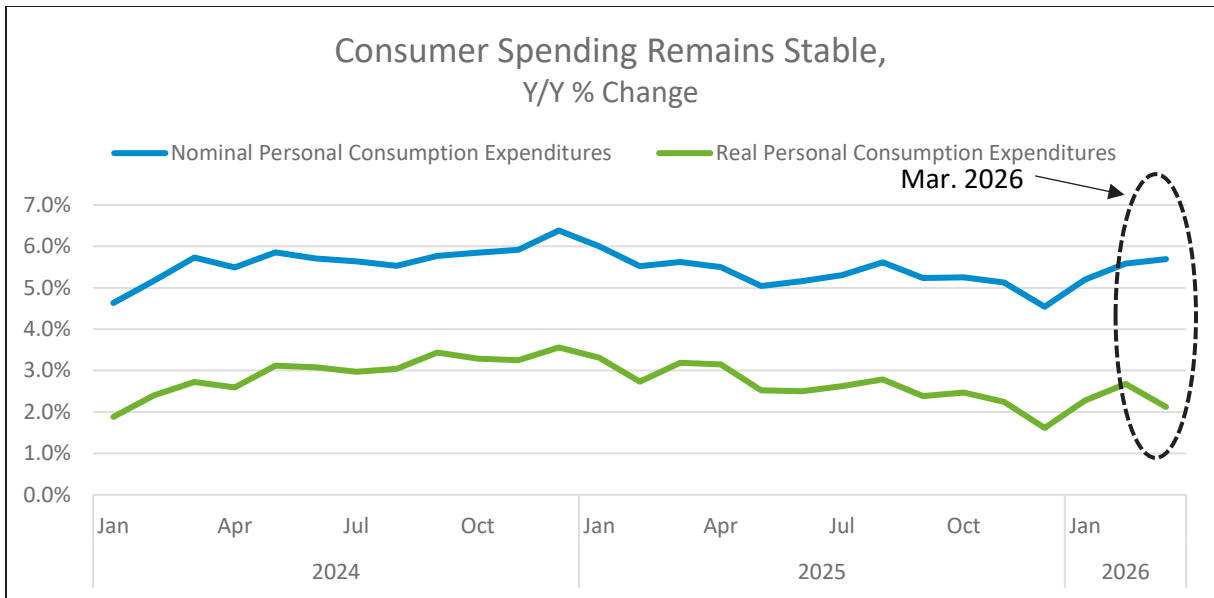
General inflation during the opening half of Fiscal Year 2026 was elevated but was starting to slowly trend down towards the Federal Reserve’s target rate of 2 percent. During the forecasting season, signs were pointing towards inflation moderating to within 2 to 3 percent. However, the closure and subsequent blockade of oil shipments from the Strait of Hormuz beginning in March 2026 has reintroduced inflationary pressures into the global economy. The headline Consumer Price Index crossed 3.1 percent year-over-year growth during March 2026 and continued upwards to 3.8 percent during April largely due to increased energy prices. While core CPI remains lower now, prolonged petroleum shortages can risk potential inflationary passthrough to other goods and kick off a new round of accelerated inflation. Without resolution, the situation could impact future consumer demand decisions and monetary policy positions adopted by the Federal Reserve as it tries to balance its dual mandate.



Source: Bureau of Labor Statistics

Consumer Spending Remains Stable

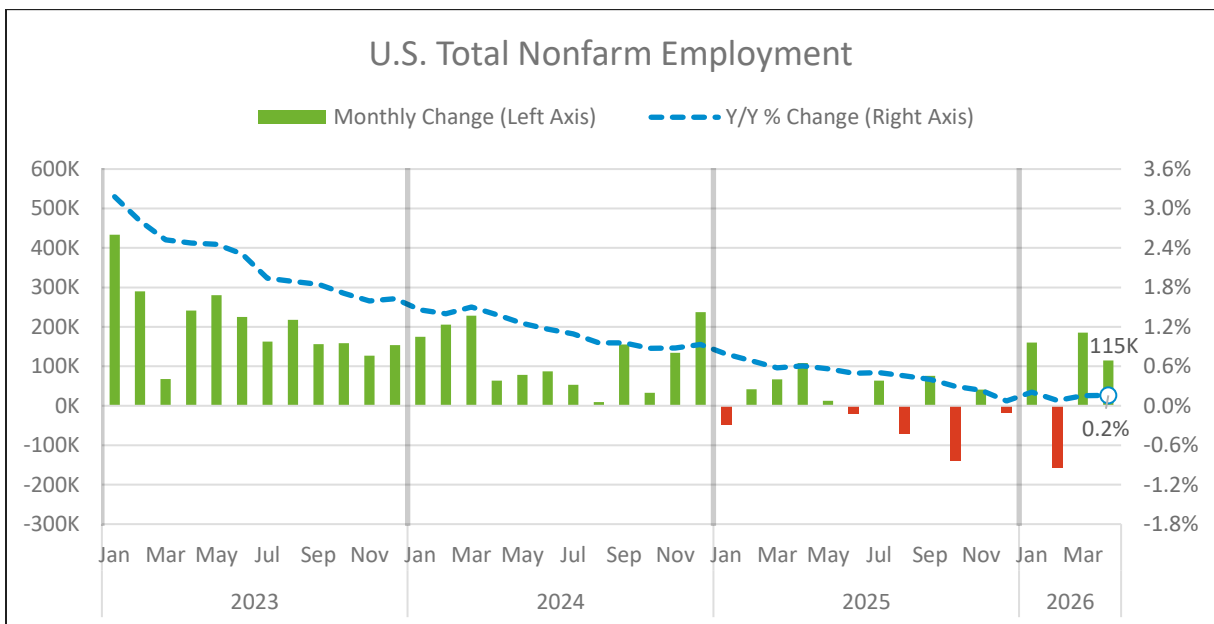
Consumer spending since November has shown signs of stability, performing at a growth level similar to recent years with little signs of significant movements from the trend. During March 2026, nominal consumer expenditures increased at a slightly faster rate, while real consumption expenditures slowed their growth during the month. While the consumer has remained resilient, a protracted Iranian conflict may risk straining discretionary spending as essential fuel and petrochemical prices rise.



Source: Bureau of Economic Analysis

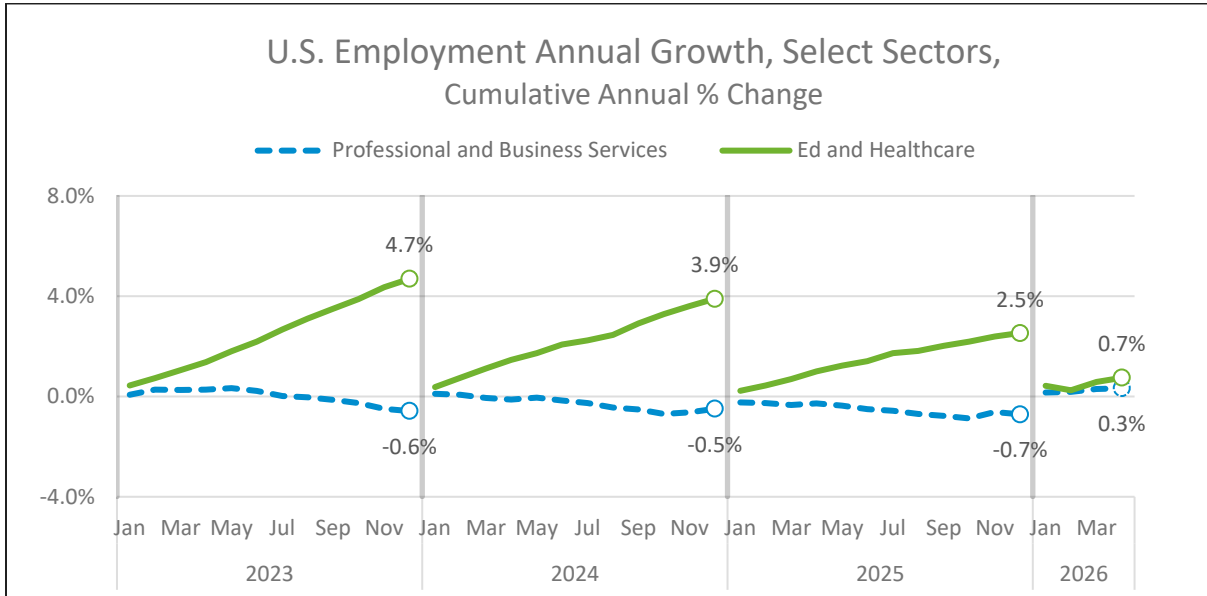
Employment Showing Mixed Performance

Employment growth has slowed over the past few years as post-pandemic labor shortages have eased and hiring rates have declined amid tighter monetary policy and the introduction of frontier artificial intelligence large-language models. The national labor market in 2025 exhibited uneven performance, characterized by persistently low growth rates and several periods marked by substantial job losses. After adoption of the forecast presented to the Governor’s Advisory Council on Revenue Estimates (GACRE) in November, employment growth showed some positive signs, with three of the first four months of 2026 adding over 100,000 jobs each, outperforming 2025’s best month. These should be taken with caution as recent jobs reports have often featured large revisions.



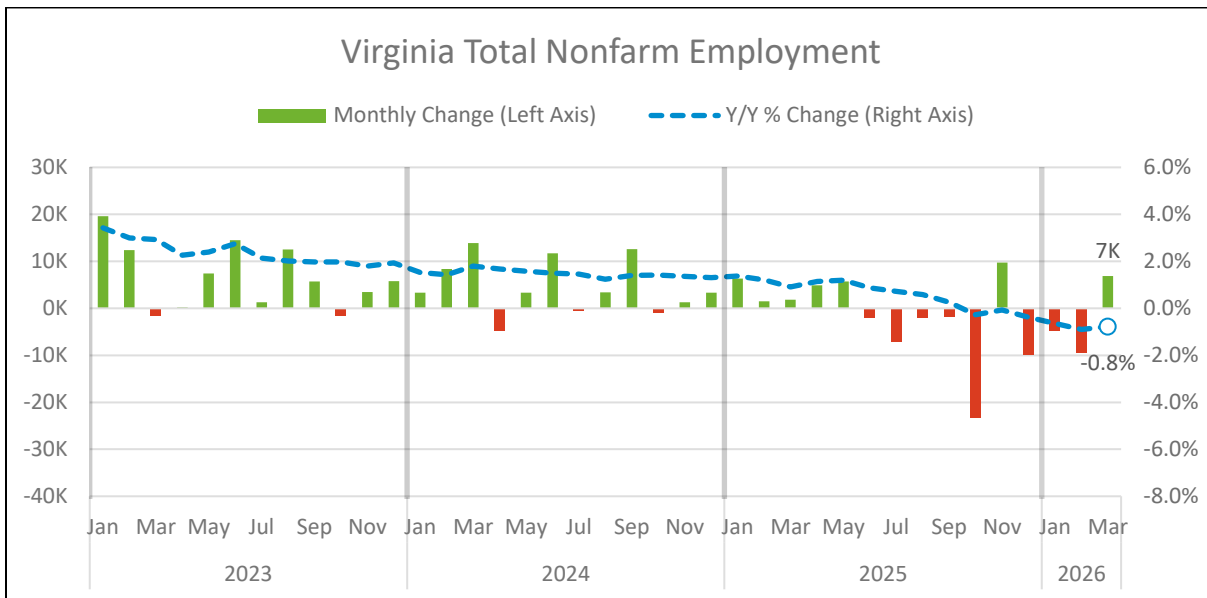
Source: Bureau of Labor Statistics

Two of the largest employment sectors within the United States have seen two different outcomes. Private Education and Health Services has maintained a strong degree of job growth since the pandemic while Professional and Business Services (PBS) began to reverse strong post-pandemic growth in the latter half of 2022 after the Federal Reserve adopted more restrictive monetary policy, coupled with growing AI exposure with the public introduction of large-language AI models. While the two sectors had diverging trajectories over the last three years, PBS has experienced some degree of job growth after three years of finishing the year underwater.



Source: Bureau of Labor Statistics

While labor market performance at the national level has been mixed, year-over-year job growth for the U.S. remains positive. In Virginia however, the employment situation has been much less favorable. Three of the four months following the 2025 GACRE meeting experienced negative Virginia job growth with further losses seen in the Federal Government and Professional and Business Services sectors. In the first three months of 2026, Professional and Business Services were net negative -8,900 jobs while Federal Government jobs were net negative at -3,000 jobs.



Source: Bureau of Labor Statistics

Fiscal Year-to-Date Revenue Trends

Revenues have generally exceeded expectations. The table below outlines year-over-year growth and year-to-date fiscal variance as of April 30th, 2026. Revenues have grown \$1.84 billion (7.3%) over last year and are ahead of forecast by \$851.0 million (3.3%). This section analyzes fiscal year-to-date trends across five major revenue sources: Withholding, Nonwithholding, Individual Refunds, Sales & Use Tax, and Corporate Income Tax.

SOURCE, \$ Mil	Year-Over-Year Growth FYTD				Forecast Variance FYTD			
	FY 25	FY 26	Change \$	Change %	Actuals	Projected	Variance \$	Variance %
Withholding	\$14,743.4	\$15,771.7	\$1,028.3	7.0%	\$15,771.7	\$15,537.6	234.1	1.5%
Non-withholding	5,807.1	6,171.3	364.2	6.3%	6,171.3	5,853.6	317.8	5.4%
IIT Refunds	(2,898.9)	(2,646.6)	252.3	-8.7%	(2,646.6)	(2,907.4)	260.8	-9.0%
Net Individual Income	\$17,651.7	\$19,296.4	\$1,644.8	9.3%	\$19,296.4	\$18,483.7	\$812.7	4.4%
Sales & Use Tax	3,973.0	4,222.9	249.9	6.3%	4,222.9	4,121.1	101.8	2.5%
Corporate Income Tax	1,478.9	1,459.8	(19.1)	-1.3%	1,459.8	1,544.3	(84.5)	-5.5%
Insurance	370.0	344.9	(25.1)	-6.8%	344.9	346.0	(1.2)	-0.3%
Wills, Suits, Deeds	380.0	436.5	56.5	14.9%	436.5	389.4	47.1	12.1%
Interest Income	555.9	501.6	(54.3)	-9.8%	501.6	539.4	(37.7)	-7.0%
All Other	670.4	657.5	(12.9)	-1.9%	657.5	644.6	12.8	2.0%
Total GF Revenues	\$25,079.8	\$26,919.7	\$1,839.9	7.3%	\$26,919.7	\$26,068.7	\$851.0	3.3%

Withholding

Year-over-year growth: \$1,028.3 million (7.0%)

Year-to-date variance: \$234.1 million (1.5%)

The Chapter 7 forecast assumed a fairly standard Withholding revenue growth rate for Fiscal Year 2026 of 5.1%. Job growth was expected to be slightly positive and wage growth was expected to be moderate. In reality, jobs *declined* slightly while wages climbed faster than expected. Prediction and reality will never perfectly align. The predicted vs actual paths of employment and wages were reasonably close and so revenue numbers were quite close to forecast. The one stand out came in April when Withholding revenues exceeded forecast by \$178.0 million. Today, that one month of variance accounts for 76% of the year-to-date \$234.1 million. The cause of this spike was a timing artifact related to the number of major deposit days in a business month. Because this overperformance is transitory and will quickly reverse, year-end Withholding revenues should finish much closer to the original forecast than the current variance indicates.

Nonwithholding

Year-over-year growth: \$364.2 million (6.3%)

Year-to-date variance: \$317.8 million (5.4%)

The Chapter 7 forecast assumed minimal growth in Nonwithholding for two reasons:

1. The prior year had a large bump in Nonwithholding revenues from retroactive Tax Year 2021 Pass Through Entity Tax (PTET) payments. These revenues were excluded to avoid artificially inflating the base Nonwithholding revenue which the revenue models would then grow based on macroeconomic assumptions.
2. Nonwithholding is highly correlated with the stock market and thus the S&P 500 is used as the main covariate in fitting a revenue model. Given the impossibility of predicting stock market growth, the Chapter 7 forecast assumed a return to long-run average growth. In the time between GACRE and today, the market continued to grow at above-average rates.

These two factors (a decrease to starting revenue base, and modest S&P 500 growth) were expected to offset each other and result in minimal year-over-year growth. Because equity prices grew so much, we now have both substantial year-over-year growth and year-to-date variance.

Individual Refunds

Year-over-year growth: \$252.3 million (-8.7%)

Year-to-date variance: \$260.8 million (-9.0%)

**Refunds are negative revenue; therefore positive dollar variance indicates fewer dollars refunded.*

Changes in refunds are driven almost entirely by policy changes though they also loosely scale with lagged total withholding. Much like Nonwithholding, there were some counteracting assumptions made for Fiscal Year 2026.

1. The retroactive Tax Year 2021 PTET payments mentioned earlier resulted in a nearly equal amount of individual refunds being issued in the fall of 2024. Those refunds were not an ongoing policy and thus needed to be removed from the base year before forecasting Fiscal Year 2026.
2. Several new policies like federal conformity, increased EITC refundability, and the increased state standard deduction increased expected refunds.

The refund season is mostly completed, and we can see that refunds are well ahead of forecast. Much of the variance came during the extension season in November and December of 2025. At that time, complex taxpayers like PTEs tend to receive their refunds. Even accounting for the decline in those types of refunds from the lack of any retroactive provisions this fiscal year, that population still took fewer refunds than anticipated. Since the introduction of PTET, the policy has created significant forecasting difficulties related to taxpayer behavior. It appears that, as of this year, the large volume of refunds from this population is becoming less of an issue. Refunds in the regular filing season have been roughly in line with expectations.

Sales & Use Tax

Year-over-year growth: \$249.9 million (6.3%)

Year-to-date variance: \$101.8 million (2.5%)

Sales & Use Tax has exceeded forecast by \$101.8 million so far, though approximately one-third of the \$101.8 million variance occurred just last month. Such volatility is somewhat common, often driven by sudden growth among large retailers or differences in the number of weekends in a month. Still, prior to April, Sales & Use Tax was generally above expectations. The main driver of overperformance has been inflation. Real consumption, that is consumption adjusted for inflation, is slightly below target for the Chapter 7 macroeconomic forecast. But nominal consumption, or consumption without adjusting for inflation, is above target. Higher prices have translated into increased tax revenue.

Corporate Income Tax

Year-over-year growth: -\$19.1 million (-1.3%)

Year-to-date variance: -\$84.5 million (-5.5%)

Corporate Income Tax revenues have underperformed this year driven by a slight underperformance in U.S. corporate profits. The source has been analyzed by decomposing inflows (payments) and outflows (refunds). The refund component is highly accurate, but payments have been consistently below expectations. Considering the volatility of payments, and the top-heavy nature of the tax base, this source is expected to be less accurate. Still, the underperformance warrants a slightly more cautious forecasting approach.

Revised Economic Outlook and Revenue Forecast

Summary

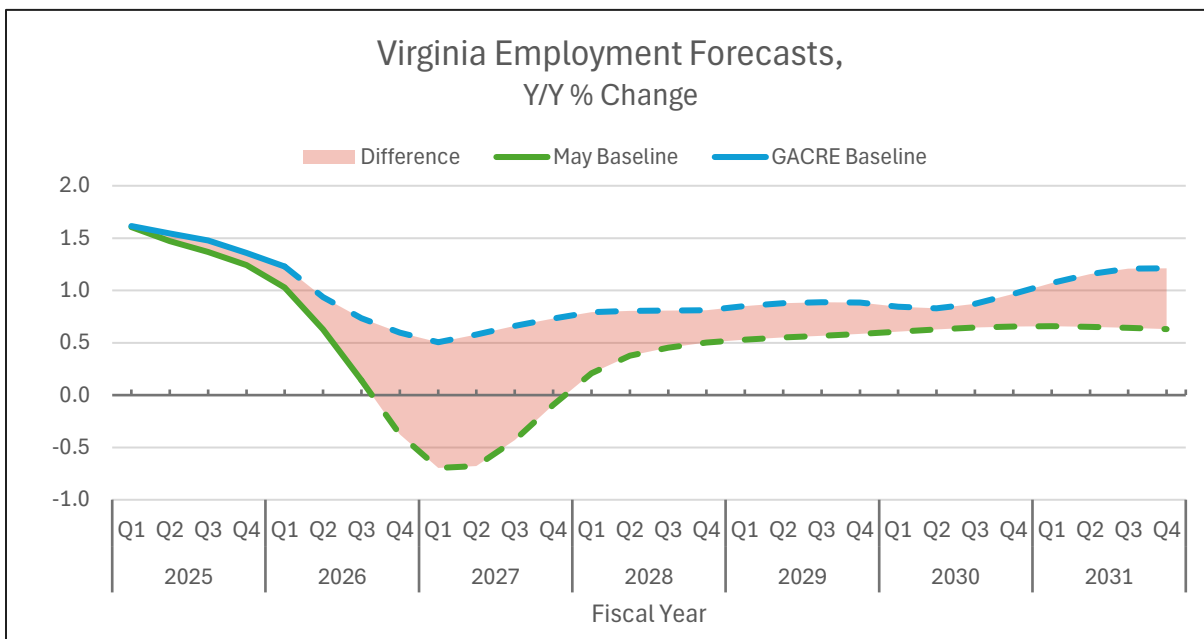
The economic outlook adopted in the 2025 GACRE forecast assumed a continued moderation in economic growth, with both U.S. and Virginia employment growth slowing but remaining positive on a year-over-year basis. The forecast further assumed that inflationary pressures associated with tariff policy would be temporary and that households and businesses would adapt to modest increases in costs without materially affecting broader economic activity. In addition, it anticipated that elevated uncertainty surrounding federal economic policy would gradually subside. Since that forecast was developed, economic conditions have evolved less favorably than expected. Virginia employment has shifted into year-over-year decline, while inflation and measures of economic uncertainty have increased meaningfully, reflecting in part heightened geopolitical tensions and associated cost pressures.

The first section compares the GACRE macroeconomic forecast's performance to recent data and to the new path plotted by the May 2026 reforecast. The second section details the General Fund revenue forecast accounting for the new macroeconomic assumptions and changes to tax law which will impact General Fund revenues.

U.S. and Virginia Economic Outlook

Job Growth

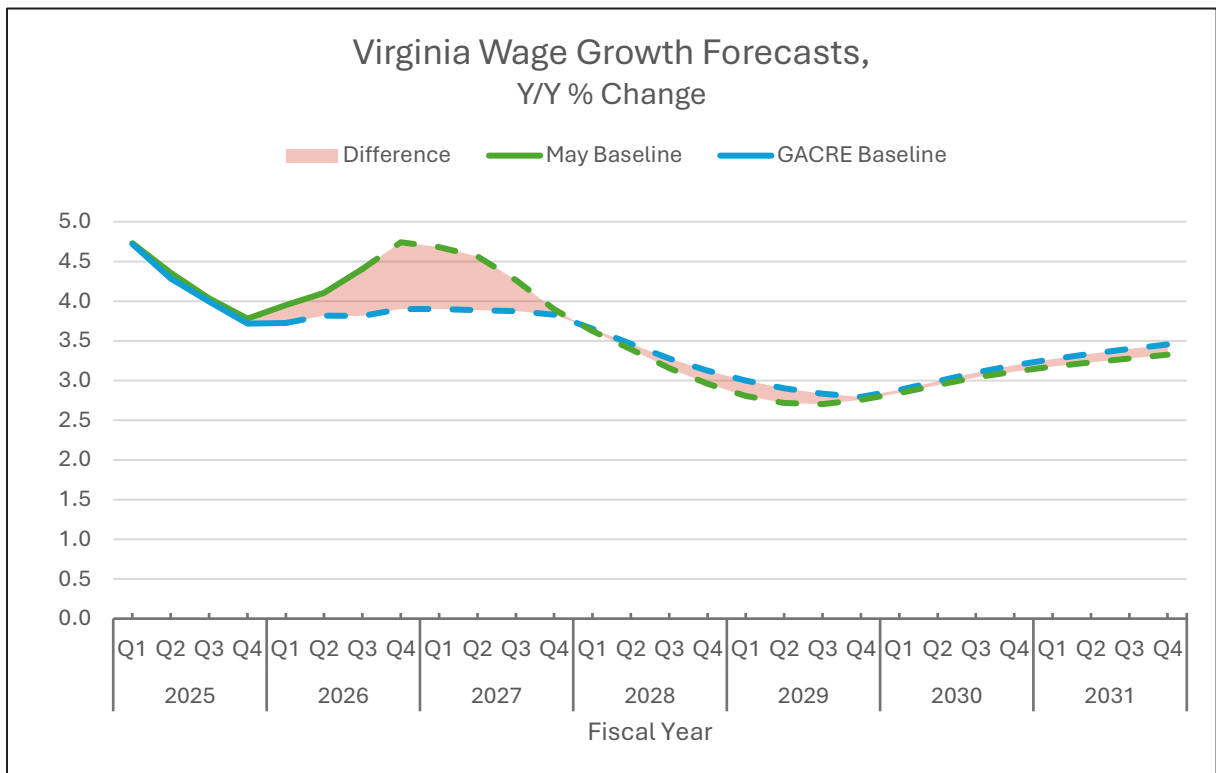
The 2025 GACRE forecast predicted that labor market growth for Virginia would slow over the next few years due to several headwinds including low hire rates, corporations downsizing workforces for AI automation, and federal workforce reductions. These headwinds were expected to slow Virginia employment growth further but still maintain a positive, albeit small, growth rate. Actual Virginia employment growth performance has been more pessimistic in the early months of the GACRE forecast. The May forecast calls for a decrease in Virginia jobs during the last quarter of Fiscal Year 2026 and throughout Fiscal Year 2027 due to further AI job displacement and potential recessionary concerns stemming from demand disruption from persistent high energy costs due to the closure of the Strait of Hormuz.



Source: Moody's Analytics; Virginia Department of Taxation

Wages

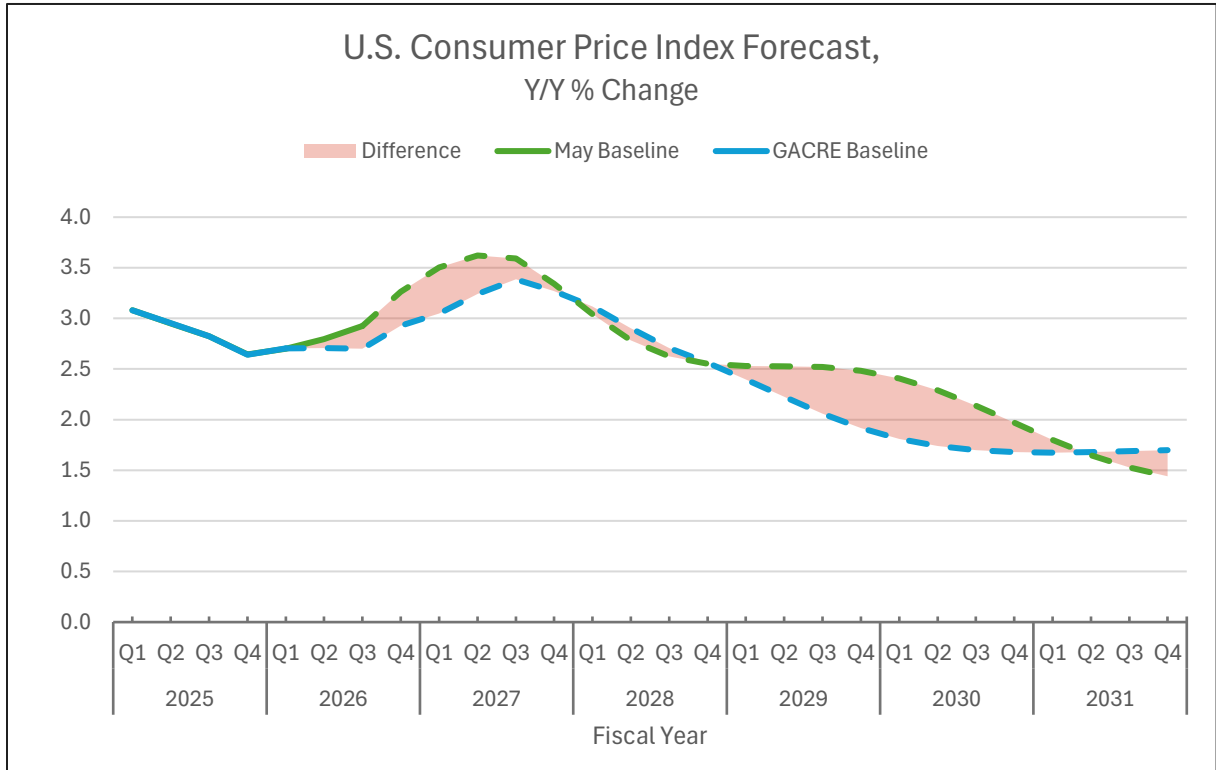
Over the past several years, wage rate growth has experienced large increases on the heels of the pandemic. After a few years above normal wage growth, growth rates have begun to slow recently due to a cooling labor market and more restrictive Federal Reserve monetary policy. The November GACRE forecast assumed this slowing trend would persist, holding wage rate increases at a steady state through the end of Fiscal Year 2027. Recent wage rate data has already outperformed the GACRE forecast during Fiscal Year 2026. The May forecast projects to carry that increase forward through Fiscal Year 2027. The two forecasts reconverge in Fiscal Year 2028.



Source: Moody's Analytics; Virginia Department of Taxation

Prices

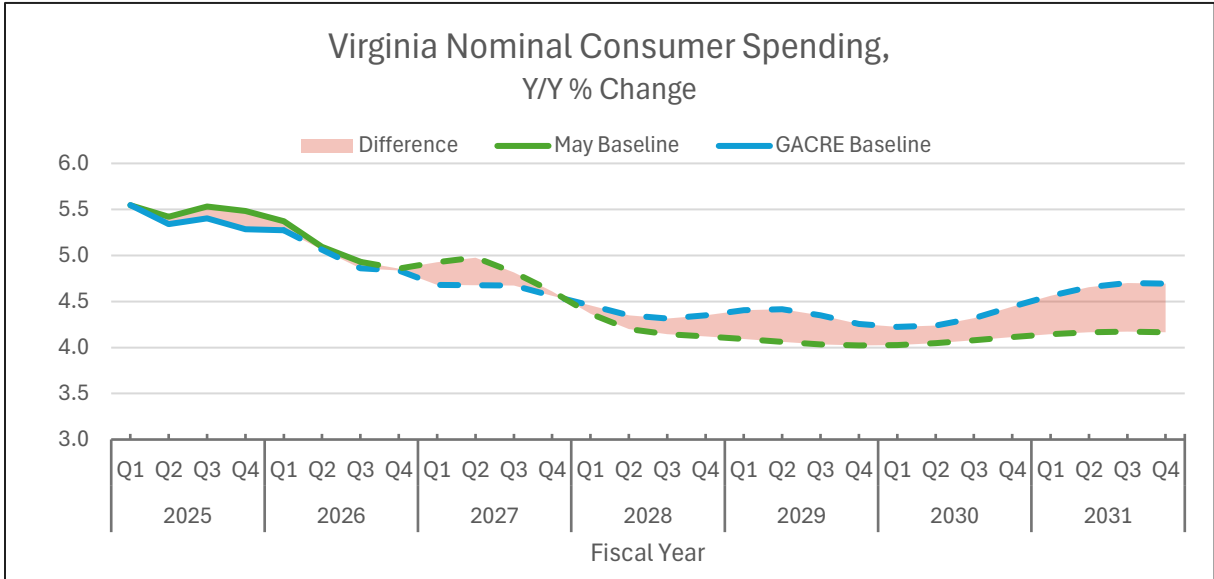
While the May forecast predicts higher near-term wage growth and lower employment growth for Virginia, the forecast projects an acceleration of the Consumer Price Index in the second half of Fiscal Year 2026 and throughout Fiscal Year 2027 due to the closure of the Strait of Hormuz. The forecast projects that as prices rise in the near-term, wage rates will also increase, which may help offset the price increases. This will likely take months for prices to come down and for the global oil supply shock to be corrected after the Strait of Hormuz reopens, the timeline for which remains unclear.



Source: Moody’s Analytics; Virginia Department of Taxation

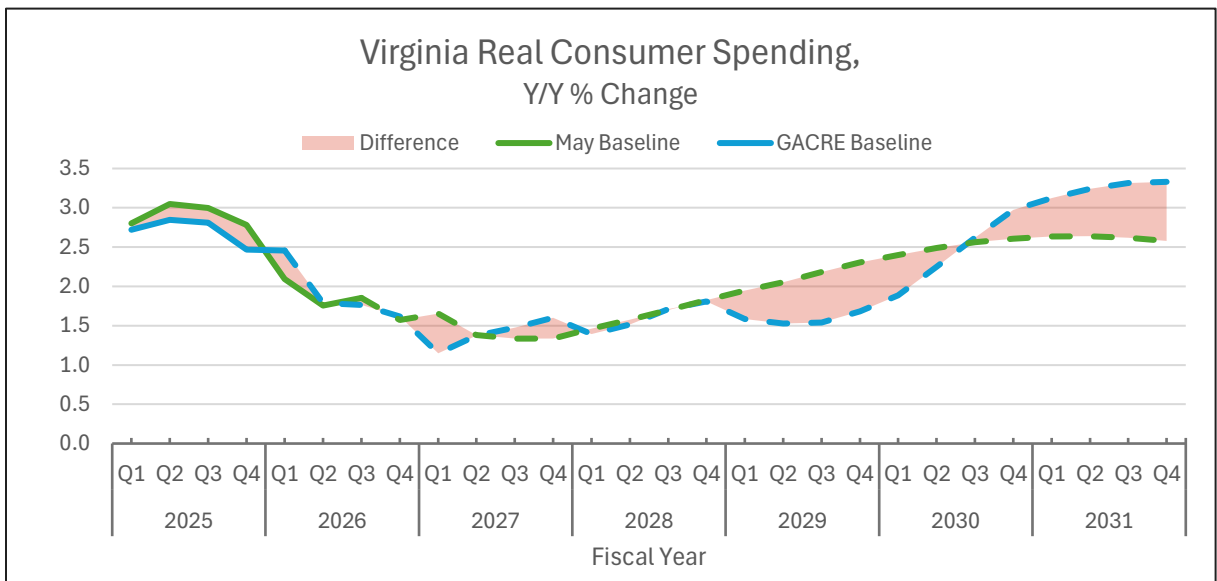
Consumer Spending

In recent history, consumer spending has remained stable and persistent in the face of many economic and policy uncertainties. The GACRE forecast projected that real consumer spending would continue to soften until the end of Fiscal Year 2027 as job growth slowed and more consumers began to pull back on discretionary spending. In light of recent robust consumer spending and wage growth data, the forecast assumes that the inevitable softening of real consumer expenditures will be delayed by a year, beginning in the second half of Fiscal Year 2027 as job growth declines and cyclical energy inflation begins to make its impact on consumers.



Source: Moody's Analytics; Virginia Department of Taxation

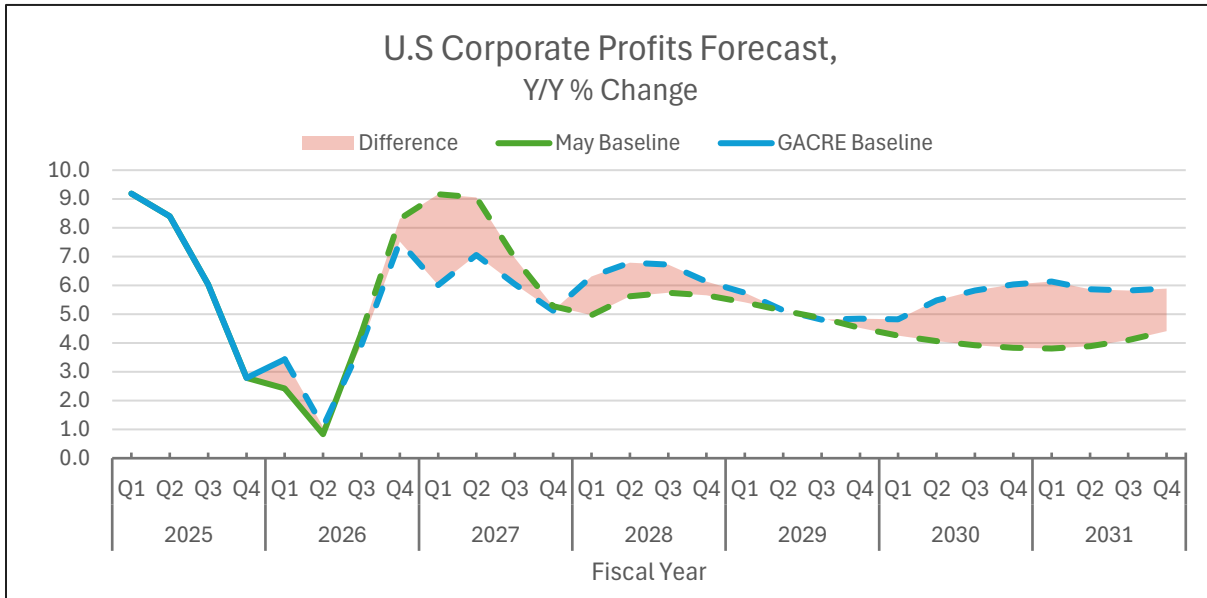
Virginia nominal consumer spending is now expected to grow faster than the previous GACRE assumption - driven by the aforementioned CPI acceleration. The inflation rate is projected to equalize with the GACRE forecast in Fiscal Year 2028 as energy supply shock ripples fully play out. Both forecasts for Virginia real consumer spending are expected to fluctuate relative to one another as consumers adjust real spending to account for higher prices.



Source: Moody's Analytics; Virginia Department of Taxation

Corporate Profits

While the labor market has gone through a period of softening, corporate profit growth is expected to accelerate in the near-term. The GACRE forecast projected a rebound from the recent sluggish growth seen in corporate profits by the end of Fiscal Year 2026. With many large corporations recently reporting strong earnings, the U.S. tariff regime becoming more solidified by the Supreme Court’s ruling on the use of IEEPA tariffs, and an AI buildout, corporate profits are projected to advance even further to close out Fiscal Year 2026 and begin Fiscal Year 2027.



Source: Moody’s Analytics; Virginia Department of Taxation

Forecast Key Assumptions and Risks

Key Assumptions

- Near-term GDP growth is dampened by the rise in oil prices and localized shortages of petroleum products because of the conflict in the Middle East.
- Increased short-run inflation restricts the Federal Reserve's FOMC to perform only one 25 basis point federal funds rate cut by the December 2026 meeting, deviating from the three projected rate cuts during 2026 in the GACRE forecast.
- The labor market will slow throughout the year after a strong start due to the potential drag that the Iran conflict will have on the global economy which could impact hiring and retention decisions. The unemployment rate will increase throughout the year, reaching a high of 4.6% in the fourth quarter.
- The labor market is near full employment but is slowly drifting away from the mark.
- The Strait of Hormuz reopens starting in June and will slowly begin to reintroduce oil capacity to the global market.
- Tariffs are lower than the GACRE forecast in the near term after the Supreme Court struck down the IEEPA tariffs. The IEEPA tariffs were temporarily replaced by Section 122 tariffs, which will also expire on July 24, 2026. It is possible that other trade powers may be invoked to fill in the gap later in the year

Key Risks

- A protracted and more severe oil market disruption slows GDP to a higher degree.
- Persistently high oil prices could spark a new round of inflation, leading to the Federal Reserve raising rates, therefore slowing spending and can move the economy into recession.
- If tariffs increase or trade wars ignite, new inflationary pressures could be introduced into the economy.
- Increased prices either from the Middle East conflict or tariffs, especially if the Federal Reserve moves to cut rates, may introduce a wage-price spiral, which could introduce higher costs of living which puts strain on consumption and saving.
- A severe stock market correction could lead to destruction of wealth and spending, reversing the good fortunes of recent years' stock equities returns
- Upside risks would include removal of tariffs or reversal of oil price increases could lead to faster economic growth
- Another upside risk is that the U.S. experiences productivity gains from AI and labor markets continue their early 2026 trend of growth, which could help moderate inflationary pressures.

Recent Policy Changes Affecting the Revenue Forecast

Policy changes impacting the revenue forecast are primarily from 2025 H.R. 1, the federal Budget Reconciliation Act (P.L. 119-21). Certain provisions of H.R. 1, such as the increased SALT deduction cap, indirectly affect Virginia revenues by changing taxpayer behavior. These effects occur regardless of Virginia’s conformity decisions and are therefore incorporated into the Commonwealth’s revenue forecast. Other provisions of H.R. 1 may also flow through to Virginia revenues, but their impact depends on conformity and other policy decisions enacted by the General Assembly.

Conformity with 2025 H.R. 1

The thirteenth enactment clause of the 2026 Amendments to the 2025 Appropriation Act (House Bill 29, Chapter 7) replaces rolling conformity with a fixed conformity date of December 31, 2025, while retaining automatic conformity for federal extenders of current or prior Virginia-conforming provisions. As a result, Virginia generally conforms to the provisions of 2025 H.R. 1 that affect the computation of federal adjusted gross income or federal itemized deductions for individuals, and federal taxable income for corporations, with certain exceptions.

Virginia deconforms from certain business tax provisions enacted in 2025 H.R. 1, including immediate expensing for qualified production property and domestic research and experimental expenditures, as well as increased expensing limits for certain depreciable business assets. Virginia will continue to conform to the federal limitation on business interest deductions, but beginning in Taxable Year 2025, the Virginia subtraction for federally disallowed business interest will be reduced from 50% to 20% of the disallowed amount. For individual taxpayers, Virginia continues to apply the Pease limitation on itemized deductions and does not conform to the federal repeal of that limitation.

The table below summarizes the major policy changes reflected in the revised revenue forecast.

Recent Policy Changes Affecting the Forecast (Millions, USD)			
	FY 26	FY 27	FY 28
Chapter 7 Policies	99.3	156.1	118.3
0.5% floor on charitable contributions	15.8	40.4	42.5
1% floor on charitable contributions	4.3	7.7	9.2
Conform to IRC section 163(j) and reduce Virginia deduction from 50% to 20%	65.3	72.4	72.9
Miscellaneous business and international provisions	3.9	15.1	23.9
Miscellaneous individual provisions	(0.9)	(2.4)	(3.2)
Restructure of opportunity zones program	10.9	22.9	(27.0)

Recommended Forecast Revisions

This year-to-date forecast variance sits at \$851.0 million (3.3%). This warrants an upward adjustment to projected Fiscal Year 2026 revenues. This upward adjustment will ripple through the out years. The combination of this year's projected surplus and updated macroeconomic assumptions results in approximately \$1.53 billion in incremental revenue through Fiscal Year 2028. The table below outlines the recommended changes by source.

SOURCE	Fiscal Year 2026				Fiscal Years 2027 & 2028 Biennium			Total
	Chapter 7	Current Variance	Additional Resources	May 2026 Reforecast	Chapter 7	May 2026 Reforecast	Change	Change
Withholding	18,450.3	234.1	84.9	18,535.2	39,652.3	39,470.3	(182.1)	(97.1)
Nonwithholding	7,681.5	317.8	197.4	7,878.9	15,393.1	16,000.2	607.0	804.4
Refunds	(3,223.7)	260.8	299.0	(2,924.7)	(6,523.1)	(6,077.5)	445.6	744.5
Net IIT	22,908.2	812.7	581.3	23,489.4	48,522.4	49,392.9	870.5	1,451.8
Sales and Use Tax	4,967.6	101.8	59.3	5,026.9	10,288.3	10,418.5	130.2	189.5
Corporate Income	1,974.3	(84.5)	(106.2)	1,868.2	4,237.3	4,046.0	(191.3)	(297.4)
Insurance Company Premiums	536.9	(1.2)	-	536.9	1,119.9	1,141.9	22.0	22.0
Wills, Suits, Deeds	474.1	47.1	45.7	519.8	1,137.4	1,168.0	30.7	76.4
Interest Income	540.7	(37.7)	0.5	541.2	962.4	1,021.3	58.9	59.4
Alcohol	305.7	(3.6)	-	305.7	603.3	603.3	-	-
All Other	676.2	16.4	4.9	681.1	1,417.2	1,418.7	1.5	6.4
Total General Fund Revenues	32,383.7	851.0	585.5	32,969.2	68,288.1	69,210.7	922.6	1,508.1
Transfers	1,935.7		7.2	1,943.0	1,785.6	1,801.5	15.9	23.2
Total General Fund	34,319.5	851.0	592.7	34,912.2	70,073.7	71,012.2	938.5	1,531.3

Of the \$851.0 million in positive variance in Fiscal Year 2026, the reforecast assumes the Commonwealth keeps a year-end revenue surplus of \$592.7 million. In Fiscal Years 2027 and 2028, the forecast picks up \$938.5 million in additional resources to bring the total Fiscal Year 2026-2028 increase to \$1.53 billion over Chapter 7 assumptions.

There are two revenue sources receiving a downward adjustment. Withholding is expected to come in approximately \$182.1 million lower than the Chapter 7 forecast. This reflects the job losses seen over the past year. Wage growth has been stronger than previously assumed and will counteract some of that deterioration. Corporate Income Tax is also predicted to be weaker than previously assumed based primarily on a more cautious forecasting approach.

The majority of the revenue increase comes in the form of increased Nonwithholding and lower Individual Refunds. To be clear, the forecast *does not* predict large growth in these sources. The additional revenues are mainly a result of carrying forward a new base. In fact, the out-year growth rates are quite conservative. Nonwithholding is forecasted to grow 0.4% in Fiscal Year 2027 and decline 0.5% in Fiscal Year 2028.

This revised outlook incorporates up-to-date macroeconomic realities and recent revenue collection results. It maintains Virginia's longstanding ethos of prudent financial management and supports ongoing structural balance.

Detailed Revenue Tables

Reforecasted General Fund Revenues							
Friday, May 22, 2026							
(Revenues in Millions)							
	Actuals	Forecast					
	2025	2026	2027	2028	2029	2030	2031
MAJOR TAX SOURCES							
Corporate Income	\$ 1,878.6	1,868.2	1,964.2	2,081.8	2,199.4	2,288.3	2,362.7
Individual Income							
Gross	25,079.8	26,414.1	27,365.2	28,105.2	29,105.0	30,259.6	31,485.0
Withholding	17,561.2	18,535.2	19,330.7	20,139.6	20,970.7	21,909.9	22,924.0
Nonwithholding	7,518.7	7,878.9	8,034.5	7,965.6	8,134.3	8,349.7	8,560.9
Refunds	(3,187.4)	(2,924.7)	(2,983.7)	(3,093.9)	(3,186.6)	(3,289.4)	(3,399.8)
Net	21,892.4	23,489.4	24,381.5	25,011.4	25,918.4	26,970.3	28,085.2
Insurance Company Premiums	541.5	536.9	563.9	578.0	603.7	632.7	660.6
State Sales & Use Tax	4,812.7	5,026.9	5,151.3	5,267.2	5,402.2	5,554.5	5,720.7
Wills, Suits, Deeds	471.2	519.8	549.9	618.1	691.7	750.8	798.5
Total Major Tax Sources	\$ 29,596.4	31,441.3	32,610.9	33,556.5	34,815.4	36,196.7	37,627.7
MISCELLANEOUS TAXES AND OTHER REVENUES							
Alcoholic Beverage State Tax	\$ 272.2	269.7	267.3	265.0	265.0	265.0	265.0
Bank Franchise Tax	38.1	33.2	35.9	36.5	36.5	36.5	36.5
Beer & Beverage Excise Tax	36.3	36.0	35.6	35.3	35.3	35.3	35.3
Corporate Franchise & Charter Fees	88.2	93.7	98.2	102.9	107.8	113.0	118.4
Interest & Rents	593.9	541.4	522.0	499.6	498.4	488.6	483.8
Miscellaneous Taxes and Penalties	237.1	258.6	263.3	270.7	277.5	287.3	291.6
Other Miscellaneous Revenues	155.6	61.0	62.3	65.0	65.7	67.5	69.2
Public Service GR / Consumption Tax	114.5	119.4	121.4	122.3	122.7	123.3	124.2
Sports Betting Taxes	100.8	115.0	120.0	120.0	120.0	120.0	120.0
Total Misc. Taxes and Other Revenues	1,636.6	1,528.0	1,526.0	1,517.3	1,529.0	1,536.4	1,544.1
Total General Fund Revenues	\$ 31,233.0	32,969.2	34,136.9	35,073.8	36,344.4	37,733.1	39,171.8
TRANSFERS							
A.B.C. Profits	\$ 170.9	160.9	146.3	133.3	123.6	114.9	107.0
Sales Tax (0.375%)	587.9	614.1	629.3	643.5	660.0	678.6	698.9
Transfers Per Appropriations	742.5	1,167.9	124.3	124.8	124.8	124.8	124.8
Total Transfers	\$ 1,501.3	1,943.0	900.0	901.6	908.3	918.3	930.7
TOTAL GENERAL FUND	\$ 32,734.3	34,912.2	35,036.9	35,975.4	37,252.7	38,651.3	40,102.4

Sums may not compute due to rounding.

Reforecasted General Fund Revenues
Friday, May 22, 2026
(Percent Growth over Prior Fiscal Year)

	<u>Actuals</u>	<u>Forecast</u>					
	2025	2026	2027	2028	2029	2030	2031
MAJOR TAX SOURCES							
Corporate Income	(1.5)	(0.6)	5.1	6.0	5.6	4.0	3.2
Individual Income							
Gross	7.7	5.3	3.6	2.7	3.6	4.0	4.0
Withholding	5.0	5.5	4.3	4.2	4.1	4.5	4.6
Nonwithholding	14.5	4.8	2.0	(0.9)	2.1	2.6	2.5
Refunds	7.3	(8.2)	2.0	3.7	3.0	3.2	3.4
Net	7.8	7.3	3.8	2.6	3.6	4.1	4.1
Insurance Company Premiums	15.6	(0.8)	5.0	2.5	4.5	4.8	4.4
State Sales & Use Tax	2.2	4.4	2.5	2.2	2.6	2.8	3.0
Wills, Suits, Deeds	15.9	10.3	5.8	12.4	11.9	8.5	6.4
Total Major Tax Sources	6.5	6.2	3.7	2.9	3.8	4.0	4.0
MISCELLANEOUS TAXES AND OTHER REVENUES							
Alcoholic Beverage State Tax	(1.4)	(0.9)	(0.9)	(0.9)	-	-	-
Bank Franchise Tax	46.5	(12.8)	8.0	1.7	-	-	-
Beer & Beverage Excise Tax	(4.6)	(0.9)	(0.9)	(0.8)	-	-	-
Corporate Franchise & Charter Fees	17.9	6.3	4.8	4.8	4.8	4.8	4.8
Interest & Rents	(15.1)	(8.8)	(3.6)	(4.3)	(0.2)	(2.0)	(1.0)
Miscellaneous Taxes and Penalties	(3.3)	9.1	1.8	2.8	2.5	3.5	1.5
Other Miscellaneous Revenues	53.3	(60.8)	2.1	4.4	1.1	2.7	2.6
Public Service GR / Consumption Tax	7.1	4.3	1.7	0.7	0.3	0.5	0.8
Sports Betting Taxes	28.3	14.1	4.3	-	-	-	-
Total Misc. Taxes and Other Revenues	(0.6)	(6.6)	(0.1)	(0.6)	0.8	0.5	0.5
Total General Fund Revenues	6.1	5.6	3.5	2.7	3.6	3.8	3.8
TRANSFERS							
A.B.C. Profits	0.5	(5.8)	(9.1)	(8.9)	(7.3)	(7.0)	(6.9)
Sales Tax (0.375%)	2.5	4.5	2.5	2.2	2.6	2.8	3.0
Transfers Per Appropriations	***	57.3	(89.4)	0.3	-	-	-
Total Transfers	***	29.4	(53.7)	0.2	0.8	1.1	1.4
TOTAL GENERAL FUND	11.1	6.7	0.4	2.7	3.6	3.8	3.8

*** Growth rate exceeds +/- 100%
Sums may not compute due to rounding.

Detailed Macroeconomic Variables

ANNUAL NATIONAL AND VIRGINIA ECONOMIC VARIABLES							
(Average Year-Over-Year % Change Unless Otherwise Noted)							
	Fiscal Year						
	2025	2026	2027	2028	2029	2030	2031
U.S. Real Gross Domestic Product	2.3	2.3	1.8	1.8	2.3	2.8	2.8
Virginia Real Gross State Product	2.0	1.6	1.6	1.7	2.2	2.6	2.6
Real Consumer Spending	3.1	2.3	1.4	1.8	2.3	2.6	2.7
Before-Tax Corporate Profit	2.8	8.3	5.3	5.7	4.5	3.8	4.4
CPI, All Urban	2.6	2.9	3.3	2.6	1.9	1.7	1.7
Core PCE Price Index	2.8	3.0	2.9	2.4	1.8	1.6	1.6
Federal Funds Rate (Percent)	4.6	3.9	3.4	3.1	3.1	3.0	3.0
U.S. Personal Income	5.2	4.4	4.6	4.3	4.2	4.5	4.6
VA Personal Income	5.0	3.9	4.6	4.3	4.2	4.5	4.6
U.S. Wages and Salaries	5.1	4.6	4.1	3.5	3.4	3.8	4.0
VA Wages and Salaries	5.1	4.3	3.8	3.5	3.4	3.8	4.0
U.S. Wages and Salaries per Person (Thousnds USD)	80.2	83.7	86.9	89.5	91.9	94.8	98.0
VA Wages and Salaries per Person (Thousnds USD)	83.6	87.6	91.0	93.7	96.3	99.3	102.6
VA Dividends, Interest, and Rent	2.6	2.0	3.0	3.7	5.7	5.9	5.7
VA Proprietor's Income	6.3	3.7	6.6	6.7	5.5	4.5	4.3
S&P 500 Stock Market Index	20.4	17.4	1.5	0.4	6.9	8.2	7.3
U.S. Total Nonag. Employment	0.8	0.2	0.2	0.5	0.6	0.7	0.6
Average difference from prev. year (Millions)	1.2	0.3	0.4	0.8	1.0	1.1	1.0
VA Total Nonag. Employment	1.2	(0.4)	(0.1)	0.5	0.6	0.7	0.6
Average difference from prev. year (Thousands)	52.4	(16.1)	(4.0)	21.4	25.0	28.2	27.3
U.S. Unemployment Rate (Percent)	4.2	4.4	4.6	4.5	4.5	4.5	4.5
VA Unemployment Rate (Percent)	3.1	3.6	3.6	3.4	3.4	3.3	3.4
U.S. Labor Force Participation Rate (Percent)	62.5	62.2	62.2	62.2	62.2	62.2	62.2
VA Labor Force Participation Rate (Percent)	64.8	63.8	63.6	63.6	63.7	63.8	63.8
U.S. Population	0.7	0.3	0.3	0.2	0.2	0.2	0.3
VA Population	0.9	0.4	0.3	0.2	0.1	0.2	0.3
U.S. Existing Home Sales (Millions)	3.7	3.7	3.9	4.3	4.6	4.8	4.9
VA Existing Single-Family Home Sales (Thousands)	88.9	87.0	99.3	112.2	121.2	128.1	131.9
PCE, Gas & Energy	(8.8)	2.4	4.4	(1.4)	1.9	2.8	3.1
PCE, Motor Vehicles & Parts	2.9	(0.4)	2.7	2.4	2.3	2.0	2.1
PCE, Goods	3.0	3.0	2.5	2.0	2.5	3.0	3.3
PCE, Services	6.7	5.7	5.6	5.1	4.7	4.6	4.5
PCE, Grocery	3.4	2.0	2.8	3.2	3.4	3.6	3.9
PCE, Financial Services & Insurance	8.3	8.9	4.4	3.1	4.0	4.5	4.5
Mortgage Purchase Originations (Bil. USD)	43.5	49.2	55.4	61.4	65.9	69.9	74.0
Mortgage Refinance Originations (Bil. USD)	18.0	28.0	28.2	41.4	50.3	51.9	51.7