



## **COMMONWEALTH of VIRGINIA**

Richard D. Brown  
Secretary of Finance

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PO Box 1475  
Richmond, VA. 23218

### **MEMORANDUM**

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: May Revenue Data

May is a significant month for revenue collections. In addition to collections of withholding and sales taxes, estimated and final payments for individuals are due May 1.

Total general fund revenue collections rose 5.8 percent in May. Receipts of individual nonwithholding taxes drove the gain. Collections of individual withholding, sales and recordation taxes also contributed to growth. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through May, ahead of the annual forecast of 4.7 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 7.3 percent through May, ahead of the forecast of 4.5 percent growth.

### **National Economic Indicators**

Although growth slowed over the winter months, most recent national indicators suggest that strong underlying fundamentals in the U.S. economy will lead to accelerating growth over the coming year.

- According to the second estimate, real GDP fell at an annualized rate of 0.7 percent in the first quarter of 2015, following 2.2 percent growth in the fourth quarter. The negative growth was due to harsh winter weather, West Coast strikes, and declines in energy-related investments due to lower oil prices.
- Conditions in the labor market improved in May. Payroll employment rose by 280,000 jobs, far above expectations. In a separate report, the unemployment rate rose from 5.4 percent to 5.5 percent in May as new workers entered the labor force.

- Initial claims for unemployment fell by 8,000 to 276,000 during the week ending May 30, the second decline in the last four weeks. The four-week moving average rose from 272,000 to 274,750, but remains among the lowest since 2000.
- With nine of the ten components increasing, the Conference Board's index of leading indicators rose 0.7 percent in April following a 0.4 percent increase in March. The rise in the index is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose by 1.1 point to 95.4 in May. The present conditions component drove the increase, while the expectations component declined.
- Activity in the manufacturing sector improved in May, with the Institute of Supply Management index rising from 51.5 to 52.8. It has remained above the expansionary threshold of 50.0 for 29 consecutive months.
- Inflation, as measured by the CPI, rose 0.1 percent in April and stands 0.1 percent below April 2014, marking the third negative year-over-year reading in the last four months. Core inflation (excluding food and energy prices) increased 0.3 percent in April and stands 1.8 percent above a year ago.
- The Federal Reserve announced at its April meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, noting that economic conditions may for some time "warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."

### **Virginia Economy**

In Virginia, payroll employment rose 0.9 percent in April from April of last year. Northern Virginia posted growth of 1.7 percent, Hampton Roads grew 0.5 percent, and Richmond-Petersburg rose 1.0 percent. The seasonally adjusted unemployment rate was unchanged at 4.8 percent in April.

The Virginia Leading Index rose 0.2 percent in April after rising 0.5 percent in March. The U.S. leading index, auto registrations, and building permits improved in April, while initial claims increased. Future employment was unchanged. The indexes for Northern Virginia, Richmond, Hampton Roads, Charlottesville, Bristol, Blacksburg, and Winchester advanced, while the indexes for Roanoke, Lynchburg, Harrisonburg, and Staunton declined.

### **May Revenue Collections**

Total general fund revenue collections rose 5.8 percent in May. Receipts of individual nonwithholding taxes drove the gain. Collections of individual withholding, sales and recordation taxes also contributed to growth. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through May, ahead of the annual forecast of 4.7 percent growth. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to

transportation required by the provisions of HB 2313, total revenues rose 7.3 percent through May, ahead of the forecast of 4.5 percent growth.

***Net Individual Income Tax (69% of general fund revenues)***: Through May, collections of net individual income tax rose 8.7 percent from the same period last year, ahead of the revised annual estimate of 5.0 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (63% of general fund revenues)*** Although there was one less deposit day than last year, collections of payroll withholding taxes rose 3.5 percent in May. Year-to-date, withholding collections are 4.6 percent ahead of the same period last year, leading the revised annual estimate of 4.0 percent growth.

***Individual Income Tax Nonwithholding (16% of general fund revenues)***: May is a significant month for collections in this source. Final payments for tax year 2014 and the first estimated payment for tax year 2015 are both due May 1.

A total of \$513.8 million in nonwithholding was collected in May compared with \$433.2 million in May of last year, an increase of 18.6 percent. Since a portion of final payments due May 1 are received in April, the two months must be analyzed together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were up 19.0 percent from the same period last year, as final payments increased by 26.0 percent.

To date, about 99 percent of the nonwithholding forecast has been collected, and year-to-date collections are 19.6 percent above the same period last year, far ahead of the annual estimate of 7.9 percent growth. The final estimated payment for this fiscal year is due in June. To make the estimate, collections must reach \$15.7 million in June. Last year, \$258.5 million was received in June.

***Individual Income Tax Refunds***: The Department of Taxation issued \$146.6 million in refunds in May compared with \$125.1 million last year, a 17.2 percent increase.

Since the filing season began on January 1, TAX issued about 2.7 million refunds, the same amount as last January-May. The average refund size for the filing season is close to last year. Fiscal year-to-date, refunds have grown 0.1 percent, trailing the annual estimate of 3.2 percent growth.

***Sales Tax (19% of general fund revenues)***: Collections of sales and use taxes, reflecting April sales, rose 1.2 percent in May. On a year-to-date basis, collections have risen 3.9 percent, trailing the annual estimate of 4.9 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by HB 2313, sales tax collections have grown by 4.0 percent year-to-date, close to the economic-base forecast of 3.9 percent.

***Corporate Income Tax (5% of general fund revenues)***: May is not typically a significant month for collections in this source, as final or extension payments are mainly due only from retailers

who usually have a January 31 close to their fiscal year. Such payments vary significantly from year to year.

Collections of corporate income taxes were \$6.2 million in May, compared with receipts of \$14.2 million a year ago. Year-to-date collections have grown 12.7 percent from the same period last year, ahead of the annual estimate of an 11.0 percent increase.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues)***: Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$32.6 million in May, compared with \$25.7 million in May of last year for growth of 26.6 percent. Collections in this source have increased by double-digit growth over the last six months. On a year-to-date basis, collections are up 9.9 percent, ahead of the annual forecast of 2.4 percent growth.

***Insurance Premiums (2% of general fund revenues)***: May is not a significant month for collections in this source. Collections were \$1.5 million compared with \$4.2 million in May of last year. Year-to-date collections through May are \$196.7 million, compared with \$211.7 million in the same period last year, a 7.1 percent decline.

**Other Revenue Sources**

The following list provides data on May collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-32.2%	-16.3%
<i>ABC Taxes (1% GF revenues)</i>	4.0%	2.6%

***All Other Revenue (2% of general fund revenues)***: Receipts in All Other Revenue fell 2.6 percent in May, \$35.7 million compared with \$36.6 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.1 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

**Summary**

May is a significant month for revenue collections. In addition to collections of withholding and sales taxes, estimated and final payments for individuals are due May 1.

Total general fund revenue collections rose 5.8 percent in May. Receipts of individual nonwithholding taxes drove the gain. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through May, ahead of the annual forecast of 4.7 percent growth.

Collections in June must total \$1.6 billion to attain the forecast, total revenue collections for the last four June’s were about \$1.9 billion each year – which includes the sequestration years.