



## ***COMMONWEALTH of VIRGINIA***

Richard D. Brown  
Secretary of Finance

January 14, 2016

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### **MEMORANDUM**

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2016. The report incorporates the revised general fund revenue forecast included in the budget bill (HB29/SB29) introduced on December 17, 2015. With the technical revisions in December, total general fund revenues are now projected to grow by 3.2 percent in fiscal year 2016.

Total general fund revenue collections rose 2.4 percent in December. The growth was largely due to payroll withholding and sales taxes, with recordation taxes and insurance company premiums also contributing to the growth. On a fiscal year-to-date basis, total revenue collections rose 1.6 percent through December, below the revised annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.2 percent through December, lagging the forecast. Because the timing of payments at this time of year can distort growth in several sources, December and January collections should be viewed together to accurately assess growth.

### **National Economic Indicators**

Most recent national indicators continue to depict a solid foundation in the U.S. economy and suggest the expansion should continue.

- According to the third estimate, real GDP rose at an annualized rate of 2.0 percent in the third quarter of 2015, following 3.9 percent growth in the second quarter.

- Conditions in the labor market improved in December. Payroll employment rose by 292,000 jobs, exceeding expectations. Further, the October gain was revised from 298,000 to 307,000 and the November gain was revised from 211,000 to 252,000. In a separate report, the unemployment rate remained unchanged at 5.0 percent as more workers entered the labor force.
- Initial claims for unemployment fell by 10,000 to 277,000 during the week ending January 2. The four-week moving average fell by 1,250 to 275,750. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators rose 0.4 percent in November, above expectations. Five of the ten components increased.
- The Conference Board's index of consumer confidence rose from 92.6 to 96.5 in December. Both the present conditions and expectations components increased for the month.
- Activity in the manufacturing sector slipped in December, with the Institute of Supply Management index falling from 48.6 to 48.2.
- The CPI was unchanged in November after rising 0.2 percent in October and stands 0.4 percent above November 2014. Core inflation (excluding food and energy prices) increased 0.2 percent in November and is 2.0 percent above a year ago.
- At its December meeting, the Federal Reserve announced that it is increasing the federal funds target rate by 25 basis points to the range of 0.25 to 0.5 percent, the first rate hike in nine years.

### **Virginia Economy**

In Virginia, payroll employment rose 1.3 percent in November from November of last year. Northern Virginia posted growth of 1.7 percent, Hampton Roads grew 0.7 percent, and Richmond-Petersburg was unchanged from last year. The seasonally adjusted unemployment rate was unchanged at 4.2 percent in November, after declining the previous four months. The unemployment rate is down 0.6 percentage point from November of last year.

The Virginia Leading Index rose 0.4 percent in November after rising 0.2 percent in October. Auto registrations and the U.S. leading indexes improved in November while initial claims increased. Future employment was little changed. The indexes increased in all eleven metropolitan regions in November.

## **December Revenue Collections**

Total general fund revenue collections rose 2.4 percent in December. The growth was largely due to payroll withholding and sales taxes, with recordation taxes and insurance company premiums also contributing to the growth. On a fiscal year-to-date basis, total revenue collections rose 1.6 percent through December, below the revised annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.2 percent through December, lagging the forecast.

***Net Individual Income Tax (70% of general fund revenues)***: Through December, collections of net individual income tax rose 2.5 percent from the same period last year, trailing the revised annual estimate of 3.6 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (63% of general fund revenues)***: Collections of payroll withholding taxes grew 3.5 percent for the month, topping last December's record as the largest collections month ever. Year-to-date, withholding collections are 2.3 percent ahead of the same period last year, trailing the revised annual estimate of 4.1 percent growth. The timing of year end withholding submissions and bonus-related withholding payments can distort monthly growth, so December and January must be considered together for an accurate assessment of growth in this source.

***Individual Income Tax Nonwithholding (17% of general fund revenues)***: Collections in this source were \$157.5 million in December compared with \$158.4 million in December of last year. Year-to-date, collections for the first half of the fiscal year rose by 4.4 percent, ahead of the annual estimate of 1.9 percent growth.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 19 to submit their fourth estimated payment for tax year 2015 and some of these payments are received in December. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received.

***Individual Income Tax Refunds***: December is not a significant month for refund activity, as it concludes tax year 2014 refund processing. Through December, the Department of Taxation issued \$288.7 million in refunds compared with the first-half estimate of \$301.1 million.

***Sales Tax (19% of general fund revenues)***: Collections of sales and use taxes, reflecting November sales, rose 4.1 percent in December. November represents the beginning of the holiday shopping season and a clearer assessment of the season will be possible after receiving December sales tax payments due in January. On a year-to-date basis, collections have risen 1.2 percent, trailing the annual estimate of 5.0 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 4.5 percent year-to-date, lagging the forecast.

***Corporate Income Tax (4% of general fund revenues)***: December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations.

Collections of corporate income taxes were \$149.4 million in December, compared with receipts of \$166.4 million in December of last year, a 10.2 percent decline. Year-to-date collections have fallen 21.0 percent from the same period last year, trailing the revised annual estimate of a 9.5 percent decline.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$33.3 million in December, compared with \$28.8 million in December of last year for growth of 15.6 percent. On a year-to-date basis, collections are up 10.7 percent, ahead of the annual forecast of 7.7 percent growth.

**Insurance Premiums (2% of general fund revenues):** Collections of taxes on insurance premiums were \$87.4 million in December, compared with \$75.5 million in December 2014. Chapter 896 of the 2007 Acts of the Assembly required that \$150.3 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2016 before making any deposits to the general fund. The required transfer was completed in December.

**Other Revenue Sources**

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	1.5%	-5.5%
ABC Taxes (1% GF revenues)	4.2%	0.0%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 7.1 percent in December, \$28.2 million compared with \$30.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.5 percent from the same period last year, ahead of the annual estimate of a 0.1 percent decline.

**Summary**

Total general fund revenue collections rose 2.4 percent in December. The growth was largely due to payroll withholding and sales taxes, with recordation taxes and insurance company premiums also contributing to the growth. On a fiscal year-to-date basis, total revenue collections rose 1.6 percent through December, below the revised annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.2 percent through December, lagging the forecast.

Because a number of factors can influence the flow of payments and monthly growth rates at this time of year, December and January receipts must be considered together to get a clear picture of revenue growth.