



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2015 and the first estimated payment for tax year 2016 were due from corporations on April 15. Also, a portion of estimated and final payments from individuals, which are due May 2 this year, are typically received in April, but the amount received in April versus May can vary from year to year. Therefore, the timing of these receipts can distort monthly growth rates. Finally, there was one less deposit day for payroll withholding that will be gained back in May.

Total general fund revenue collections fell 6.7 percent in April. Receipts in all major sources except sales taxes declined from April of last year. On a fiscal year-to-date basis, total revenue collections rose 1.3 percent in April, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 1.5 percent through April, lagging the forecast.

National Economic Indicators

Although economic growth slowed in the first quarter, most current national indicators suggest the economic expansion should continue.

- According to the advance estimate, real GDP rose at an annualized rate of 0.5 percent in the first quarter of 2016, following a 1.4 percent increase in the fourth quarter of 2015.

- Payroll employment rose by 160,000 jobs in April, below expectations. In a separate report, the unemployment rate was unchanged at 5.0 percent in April.
- Initial claims for unemployment increased by 17,000 to 274,000 during the week ending April 30. The four-week moving average increased by 2,000 to 258,000. The level of claims is consistent with an improving labor market.
- The Conference Board's index of leading indicators rose 0.2 percent in March, after falling for three consecutive months. Six of the ten components increased in March.
- The Conference Board's index of consumer confidence fell from 96.1 to 94.2 in April. A sharp drop in the expectations component offset a modest increase in the present conditions component.
- Activity in the manufacturing sector remains sluggish. The Institute of Supply Management index fell from 51.8 to 50.8 in April, barely above the expansionary threshold of 50.0.
- The CPI rose 0.1 percent in March and stands 0.9 percent above March 2015. Core inflation (excluding food and energy prices) also increased 0.1 percent in March and is 2.2 percent above a year ago.
- At its April meeting, the Federal Reserve announced that it is maintaining the federal funds target rate at the range of 0.25 to 0.5 percent.

Virginia Economy

In Virginia, payroll employment rose 2.9 percent in March from March of last year. Northern Virginia posted growth of 3.1 percent; Hampton Roads grew 1.4 percent; and Richmond-Petersburg rose 4.5 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 4.0 percent in March, the lowest rate since June 2008.

The Virginia Leading Index rose 0.5 percent in March after declining 0.4 percent in February. Future employment, auto registrations, the U.S. leading index, and initial claims for unemployment all improved in March. On a regional basis, the indexes for Bristol, Blacksburg, Harrisonburg, and Staunton decreased in March while the indexes for the remaining seven MSAs increased.

April Revenue Collections

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Net Individual Income Tax (70% of general fund revenues): Through April, collections of net individual income taxes increased 1.6 percent from the same period last year, below the annual estimate of 4.0 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): With one less deposit day compared with April of last year, collections of payroll withholding taxes fell 3.5 percent for the month. Year-to-date, withholding collections are 2.6 percent ahead of the same period last year, trailing the estimate of 4.1 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): April is a significant month for collections in this source. Final payments for tax year 2015 and the first estimated payment for tax year 2016 are both due the beginning of May.

A total of \$763.2 million in nonwithholding was collected in April compared with \$838.3 million in April of last year – a decline of 9.0 percent. To date, about 71 percent of the nonwithholding forecast has been collected, and year-to-date collections are 0.4 percent ahead of the same period last year, trailing the annual estimate of 1.9 percent growth.

Typically, a portion of final payments due May 2, 2016, for calendar year 2015 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for the fiscal year (second calendar year payment for 2016) is due June 15.

Individual Income Tax Refunds: The Department of Taxation issued \$499.0 million in refunds in April compared with \$473.4 million last year, a 5.4 percent increase. Since the filing season began on January 1, TAX has issued about 80,000 more refunds than the same period last year. The average refund size is up 1.0 percent. Year-to-date, refunds have risen 5.7 percent, ahead of the annual estimate of 1.2 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 4.2 percent in April. On a year-to-date basis, collections have risen 1.9 percent, trailing the annual estimate of 4.1 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 2.8 percent year-to-date, trailing the forecast.

Corporate Income Tax (4% of general fund revenues): In April, corporations made their first estimated payment for tax year 2016, and made either a final or extension payment for tax year 2015. Collections of corporate income taxes were \$133.5 million in April, compared with receipts of \$145.5 million in April of last year, an 8.2 percent decrease.

Year-to-date collections have fallen 10.6 percent from the same period last year, compared with the annual estimate of a 13.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation taxes – were \$30.3 million in April, compared with \$31.1

million in April of last year, a decline of 2.5 percent. On a year-to-date basis, collections are up 7.2 percent, trailing the annual forecast of 10.6 percent growth.

Insurance Premiums (2% of general fund revenues): Insurance companies also made their first estimated payment for tax year 2016 in April. Collections in this source were \$119.9 million compared with \$114.4 million in April of last year. Year-to-date collections through April are \$215.4 million, compared with \$195.2 million last year, an increase of 10.4 percent compared with the forecast of 7.3 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	12.7%	-5.5%
ABC Taxes (1% GF revenues)	4.3%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 7.7 percent in April, \$31.0 million compared with \$33.6 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 0.7 percent from the same period last year, behind the annual estimate of a 0.1 percent decline.

Summary

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May and June are also significant collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations and insurance companies are due June 15.