



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: May Revenue Data

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

Total general fund revenue collections rose 6.4 percent in May. Although receipts in all major sources grew from May of last year, growth was relatively weak in individual withholding and sales tax collections. On a fiscal year-to-date basis, total revenue collections rose 1.9 percent in May, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.0 percent through May, lagging the forecast.

National Economic Indicators

Most current national indicators suggest the economic expansion should continue, although recent weakness in job growth and consumer confidence dampens the pace.

- According to the second estimate, real GDP rose at an annualized rate of 0.8 percent in the first quarter of 2016, following a 1.4 percent increase in the fourth quarter of 2015.
- Payroll employment rose by 38,000 jobs in May, far below expectations. Although the Verizon strike was expected to impact employment growth, it brought employment down by only 34,000 jobs. In a separate report, the unemployment rate dropped 0.3 percentage point to 4.7 percent in May as the labor force sharply contracted.

- Initial claims for unemployment fell by 4,000 to 264,000 during the week ending June 4. The four-week moving average fell by 7,500 to 269,500. Contrary to the payroll employment report, the level of claims is consistent with an improving labor market.
- The Conference Board's index of leading indicators rose 0.6 percent in April, after remaining unchanged in March. Nine of the ten components increased in April. The increase suggests the economy will advance at a healthy pace in the near term.
- The Conference Board's index of consumer confidence fell from 94.7 to 92.6 in May. Both the expectations and present conditions components dropped for the month. This is the lowest level of consumer confidence since November.
- Activity in the manufacturing sector remains sluggish. The Institute of Supply Management index rose from 50.8 to 51.3 in May.
- The CPI rose 0.4 percent in April and stands 1.1 percent above April 2015. Core inflation (excluding food and energy prices) increased 0.2 percent in April and is 2.1 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 2.1 percent in April from April of last year. Northern Virginia posted growth of 2.3 percent; Hampton Roads grew 0.6 percent; and Richmond-Petersburg rose 3.7 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.9 percent in April, the lowest rate since June 2008.

The Virginia Leading Index fell 1.1 percent in April after increasing 0.5 percent in March. The U.S. leading index component increased, while rising initial claims for unemployment and falling auto registrations contributed negatively to the index. The future employment component was flat in April. On a regional basis, the index for Harrisonburg increased in April while the indexes for the remaining ten MSAs declined.

May Revenue Collections

Total general fund revenue collections rose 6.4 percent in May. Although receipts in all major sources grew from May of last year, growth was relatively weak in individual withholding and sales tax collections. On a fiscal year-to-date basis, total revenue collections rose 1.9 percent in May, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.0 percent through May, lagging the forecast.

Net Individual Income Tax (70% of general fund revenues): Through May, collections of net individual income taxes increased 2.1 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): Collections of payroll withholding taxes rose 1.4 percent for the month even with an additional deposit day. Year-to-date, withholding collections are 2.5 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): May 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 May 1.

A total of \$556.6 million in nonwithholding was collected in May compared with \$513.8 million in May of last year – an increase of 8.3 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 down 2.4 percent from the same period last year.

To date, about 89 percent of the nonwithholding forecast has been collected, and year-to-date collections are 1.9 percent ahead of the same period last year, matching the annual estimate. The final estimated payment for this fiscal year is due in June. To make the estimate, collections must reach \$337.5 million in June. Last year, \$332.1 million was received in June.

Individual Income Tax Refunds: The Department of Taxation issued \$125.3 million in refunds in May compared with \$146.6 million last year, a 14.6 percent decrease. Since the filing season began on January 1, TAX has issued about 2.6 million refunds, 62,000 more than last January-May. The average refund size is up 0.5 percent. Year-to-date, refunds have risen 4.0 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 April sales, rose 1.1 percent in May. On a year-to-date basis, collections have risen 1.8 percent, trailing the annual estimate of 4.1 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 2.4 percent year-to-date, trailing the forecast.

Corporate Income Tax (4% 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 \$20.2 million in May, compared with receipts of \$6.2 million in May of last year.

Year-to-date collections have fallen 8.3 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 \$34.3 million in May, compared with \$32.6 million in May of last year, a 5.3 percent increase. On a year-to-date basis, collections are up 7.0 percent, trailing the annual forecast of 10.6 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections in this source were \$5.5 million compared with \$1.5 million in May of last year. Year-to-date collections through May are \$220.9 million, compared with \$196.7 million last year, an increase of 12.3 percent compared with the forecast of 7.3 percent growth.

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 (0.4% GF revenues)	4.3%	-5.5%
ABC Taxes (1% GF revenues)	4.3%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 11.3 percent in May, \$39.7 million compared with \$35.7 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.5 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 6.4 percent in May. Although receipts in all major sources grew from May of last year, growth was relatively weak in individual withholding and sales tax collections. On a fiscal year-to-date basis, total revenue collections rose 1.9 percent in May, trailing the annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.0 percent through May, lagging the forecast. Collections in June must total \$2.4 billion to attain the forecast as compared to the \$2.1 billion collected last June.