



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

May 11, 2017

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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 2016 and the first estimated payment for tax year 2017 were due from corporations on April 15. Also, a portion of estimated and final payments from individuals, which are due May 1, 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 between April and May can distort monthly growth rates.

Total general fund revenue collections fell 3.4 percent in April. Most of the weakness was due to a drop in nonwithholding taxes compared with April of last year. However, the month also had one less deposit day for payroll withholding tax collections versus April a year ago which contributed to the overall result. On a fiscal year-to-date basis, total revenue collections rose 3.6 percent through April, ahead of the annual forecast of 2.9 percent growth.

National Economic Indicators

Most recent national indicators continue to depict a modestly expanding economy.

- According to the advance estimate, real GDP rose at an annualized rate of 0.7 percent in the first quarter of 2017, following 3.5 percent growth in the third quarter and 2.1 percent in the fourth quarter of 2016.

- After showing signs of weakness in March, the labor market improved in April as payroll employment rose by 211,000 jobs. The unemployment rate declined from 4.5 to 4.4 percent in April.
- Initial claims for unemployment fell by 19,000 to 238,000 during the week ending April 29. The four-week moving average grew by 750 to 243,000. 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 March, with eight of the ten components contributing positively to the index.
- The Conference Board's index of consumer confidence dropped from 124.9 to 120.3 in April. Both the present conditions and expectations components decreased for the month, but both remain elevated relative to the past year.
- The manufacturing sector weakened in April. Although the Institute of Supply Management index fell from 57.2 to 54.8, it remains well above the expansionary threshold of 50.0.
- The CPI fell 0.3 percent in March after rising 0.1 percent in February and stands 2.4 percent above March 2016. Core inflation (excluding food and energy prices) declined by 0.1 percent and is 2.0 percent above a year ago.
- At its May meeting, the Federal Reserve kept the federal funds target rate at 0.75 to 1.0 percent.

Virginia Economy

In Virginia, payroll employment rose 1.3 percent from March of last year. Northern Virginia posted growth of 2.0 percent; Hampton Roads grew 0.3 percent; and Richmond-Petersburg rose 1.1 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.8 percent in March and stands 0.2 percentage point below March of 2016 and is the lowest rate since May 2008.

The Virginia Leading Index fell 0.1 percent in March after rising 0.3 percent in February. The U.S. leading index and future employment improved in March while initial claims for unemployment and auto registrations contributed negatively to the index. The indexes for Northern Virginia, Roanoke, Lynchburg, Harrisonburg, and Staunton rose in March while the Richmond, Charlottesville, Blacksburg, and Winchester indexes declined. The indexes for Hampton Roads and Bristol were unchanged in March.

April Revenue Collections

Total general fund revenue collections fell 3.4 percent in April. Most of the weakness was due to a drop in nonwithholding taxes compared with April of last year. On a fiscal year-to-date basis, total revenue collections rose 3.6 percent through April, ahead of the annual forecast of 2.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through April, collections of net individual income tax rose 4.0 percent from the same period last year, ahead of the revised annual estimate of 2.9 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, collections of payroll withholding taxes grew 0.7 percent for the month. Year-to-date, withholding collections are 4.8 percent ahead of the same period last year, ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): April is a significant month for collections in this source. Final payments for tax year 2016 and the first estimated payment for tax year 2017 are both due at the beginning of May.

Nonwithholding receipts were \$628.2 million in April compared with \$763.2 million in April of last year, a decline of 17.7 percent. To date, about 69 percent of the nonwithholding forecast has been collected, and year-to-date collections are 4.2 percent below the same period last year, trailing the annual estimate of a 0.7 percent decline.

Typically, a portion of final payments for calendar year 2016 which were due May 1, 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 2017) is due June 15.

Individual Income Tax Refunds: The Department of Taxation issued \$469.1 million in refunds in April compared with \$499.0 million last year, a 6.0 percent decline. Since the start of the filing period beginning January 1, TAX has issued about 100,000 fewer refunds than the same period last year. The average refund size is up about 6 percent. Year-to-date, refunds have fallen 2.1 percent, trailing the annual estimate of 1.5 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 0.3 percent in April. On a year-to-date basis, collections have risen 1.3 percent, trailing the annual estimate of 2.8 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have increased 1.4 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): In April, corporations make their first estimated payment for tax year 2017 and made either a final or extension payment for tax year 2016. Collections of corporate income taxes were \$162.5 million in April, compared with receipts of \$133.5 million in April of last year. Year-to-date collections have increased 6.8 percent from the same period last year, ahead of the revised annual estimate of 3.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$30.1 million in April, compared with \$30.3 million in April of last year for a decline of 0.6 percent. On a year-to-date basis, collections are up 7.8 percent, close to the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): Insurance companies also made their first estimated payment for tax year 2017 in April. Collections were \$126.1 million compared with \$119.9 million in April of last year. Year-to-date collections through April were \$223.3 million, compared with \$215.4 million in the same period last year, and increase of 3.6 percent and ahead of the annual estimate of 1.5 percent.

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)	3.0%	17.5%
ABC Taxes (1% GF revenues)	1.7%	3.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue grew 21.9 percent in April, \$37.8 million compared with \$31.0 million a year ago. Most of the growth is attributable to inheritance, gift, and estate taxes as payments are still received for estates prior to the 2007 repeal. On a year-to-date basis, collections of All Other Revenue rose 1.9 percent from the same period last year compared to the annual estimate of a 2.0 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.