



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

June 12, 2017

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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 4.6 percent in May. Most of the increase was due to individual income and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 3.7 percent through May, 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 second estimate, real GDP rose at an annualized rate of 1.2 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.
- The labor market was somewhat weaker than expected in May. Payroll employment rose by only 138,000 jobs and the two prior monthly gains were revised downward. As a result, the three-month moving average of monthly growth slipped to 121,000 jobs. The unemployment rate declined from 4.4 to 4.3 percent in May due to a drop in the labor force.

- Initial claims for unemployment fell by 10,000 to 245,000 during the week ending June 3. The four-week moving average rose by 2,250 to 242,000. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators rose 0.3 percent in April, with eight of the ten components contributing positively to the index.
- The Conference Board's index of consumer confidence dropped from 119.4 to 117.9 in May. The present conditions improved but the expectations components decreased for the month.
- Activity in the manufacturing sector was essentially flat in May. The Institute of Supply Management index rose from 54.8 to 54.9 and remains well above the expansionary threshold of 50.0.
- The CPI rose 0.2 percent in April after falling 0.3 percent in March and stands 2.2 percent above April 2016. Core inflation (excluding food and energy prices) rose by 0.1 percent and is 1.9 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, job growth slowed in April. Payroll employment rose 0.9 percent from April of last year. Northern Virginia posted growth of 1.4 percent; Hampton Roads declined 0.5 percent; and Richmond-Petersburg rose 0.7 percent. The seasonally adjusted unemployment was unchanged at 3.8 percent in April and stands 0.2 percentage points below April of 2016.

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

May Revenue Collections

Total general fund revenue collections rose 4.6 percent in May. Most of the increase was due to individual income and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 3.7 percent through May, ahead of the annual forecast of 2.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through May, collections of net individual income tax rose 3.9 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 additional deposit day, collections of payroll withholding taxes grew 8.2 percent for the month. Year-to-date, withholding collections are 5.1 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): May 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 \$588.8 million in May compared with \$556.6 million in May of last year, an increase of 5.8 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 7.8 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 2.2 percent below the same period last year, trailing the annual estimate of a 0.7 percent decline. The final estimated payment for this fiscal year is due in June. To make the estimate, collections must reach \$348.1 million in June. Last year, \$308.6 million was received in June.

Individual Income Tax Refunds: The Department of Taxation issued \$179.0 million in refunds in May compared with \$125.3 million last year. Since the start of the filing period beginning January 1, TAX has issued about 49,000 fewer refunds than the same period last year. The average refund size is up about 7 percent. Year-to-date, refunds have risen 1.1 percent, trailing the annual estimate of 1.5 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose 4.1 percent in May. On a year-to-date basis, collections have risen 1.6 percent, trailing the annual estimate of 2.8 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have increased 1.6 percent year-to-date, lagging 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 \$25.7 million in May, compared with receipts of \$20.2 million in May of last year. Year-to-date collections have increased 7.5 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 \$38.4 million in May, compared with \$34.3 million in May of last year for an increase of 12.0 percent. On a year-to-date basis, collections are up 8.3 percent, close to the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections were negative in May due to a few large refunds. Year-to-date collections through May were \$219.5 million, compared with \$220.9 million in the same period last year, a decline of 0.6 percent, trailing the annual estimate of 1.5 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)	8.6%	17.5%
ABC Taxes (1% GF revenues)	1.8%	3.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue grew 35.0 percent in May, \$53.6 million compared with \$39.7 million a year ago. Most of the growth is attributable to bank franchise tax payments received prior to the June 1 deadline. On a year-to-date basis, collections of All Other Revenue rose 5.7 percent from the same period last year compared to the annual estimate of a 2.0 percent decline.

Summary

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 4.6 percent in May. Most of the increase was due to individual income and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 3.7 percent through May, ahead of the annual forecast of 2.9 percent growth.

Collections in June must total \$2.1 billion to attain the forecast as compared to the \$2.2 billion collected last June.