



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

November 14, 2017

PO Box 1475
Richmond, VA. 23218

MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown

SUBJECT: October Revenue Data

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Individual income tax extension return processing begins in October as they are due November 1. Due to recent federal legislation and administrative action by the IRS, corporations now have a seven-month filing extension for Virginia income tax purposes. Therefore, corporate extension returns are due in November this year rather than October.

Total general fund revenue collections rose 7.7 percent in October, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total revenue collections rose 4.9 percent through October, well ahead of the annual forecast of 2.7 percent growth.

National Economic Indicators

Recent national indicators continue to depict a healthy economy.

- According to the advance estimate, real GDP rose at an annualized rate of 3.0 percent in the third quarter of 2017, following 3.1 percent growth in the second quarter.
- Following the hurricane disruptions in September, payroll employment rose by 261,000 jobs in October. The September number was revised from a loss of 33,000 jobs to a gain of 18,000. The leisure and hospitality sector accounted for much of the fluctuation – the loss of 102,000 jobs in September was reversed by a 106,000 gain in October. The

unemployment rate declined slightly, from 4.2 to 4.1 percent in October, primarily due to a large decline in the labor force.

- Initial claims for unemployment rose by 10,000 to 239,000 during the week ending November 4. The four-week moving average fell by 1,250 to 231,250, the lowest level since March 31, 1973.
- The Conference Board's index of leading indicators fell 0.2 percent in September following a 0.4 percent increase in August, the first decline in the index since August 2016. The index was likely impacted by the effects of the hurricanes.
- The Conference Board's index of consumer confidence rose from 120.6 to 125.9 in October, its highest level since December 2000. Both the present conditions and the expectations components increased for the month.
- Conditions in the manufacturing sector were somewhat weaker than expected in October. The Institute of Supply Management index fell from 60.8 to 58.7, but continues to suggest manufacturing activity is expanding.
- The CPI rose 0.5 percent in September after a 0.4 percent increase in August. The index stands 2.2 percent above September 2016. Core inflation (excluding food and energy prices) rose by 0.1 percent and is 1.7 percent above a year ago.
- At its September meeting, the Federal Reserve maintained the federal funds target rate at 1.00 to 1.25 percent, and announced it will begin normalizing its balance sheet in October.

Virginia Economy

In Virginia, employment growth slowed in September. Total payroll employment rose 0.9 percent in September from a year ago. Northern Virginia posted growth of 0.7 percent; Hampton Roads declined 1.2 percent; and Richmond-Petersburg rose 1.6 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.7 percent and stands 0.4 percentage point below September of 2016.

The Virginia Leading Index rose 0.1 percent in September after increasing 0.7 percent in August. Future employment and initial claims for unemployment improved in September while auto registrations and the U.S. Leading Index fell. The indexes for Roanoke, Richmond, Hampton Roads, Charlottesville, Bristol, and Winchester increased while the indexes in Northern Virginia, Lynchburg, Harrisonburg, Blacksburg, and Staunton decreased.

October Revenue Collections

Total general fund revenue collections rose 7.7 percent in October, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total

revenue collections rose 4.9 percent through October, well ahead of the annual forecast of 2.7 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through October, collections of net individual income tax rose 3.3 percent from the same period last year, ahead of the annual estimate of 2.6 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 4.0 percent for the month. Year-to-date, withholding collections are also 4.0 percent ahead of the same period last year, well ahead of the annual estimate of 1.8 percent growth.
- **Individual Income Tax Nonwithholding (17% of general fund revenues):** October is not typically a significant month for collections in this source. Collections of \$110.5 million were above \$109.7 million in October of last year. Year-to-date collections were \$574.2 million compared with \$580.5 million in the same period last year, falling by 1.1 percent and trailing the annual estimate of 7.0 percent growth.
- **Individual Income Tax Refunds:** Through October, the Department of Taxation issued \$207.6 million in refunds compared with \$200.0 million in the same period last year, a 3.8 percent increase.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 9.0 percent in October. On a year-to-date basis, collections have risen 4.5 percent, above the annual estimate of 2.8 percent growth.

Corporate Income Tax (4% of general fund revenues): As the result of recent federal legislation and administrative action by the IRS, corporations now have a seven-month filing extension for Virginia income tax purposes. With the seven-month filing extension, corporate extension returns are due in November this year rather than October. Thus, refunds are lagging last year's pace and corporate receipts are somewhat overstated.

On a year-to-date basis, collections of corporate income taxes were \$269.0 million compared with \$177.3 million in the same period last year, a 51.7 percent increase compared with the annual forecast of 1.6 percent. November collections will provide a clearer picture in this source as extension returns are processed.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$34.0 million in October, compared with \$33.0 million in October of last year, an increase of 3.1 percent. On a year-to-date basis, collections are down 1.0 percent, trailing the annual forecast of 3.4 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	NA	7.0%
Interest Income (0.3% GF revenues)	15.7%	10.2%
ABC Taxes (1% GF revenues)	4.1%	5.1%

Note: Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly until the required amount of \$168.0 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 21.6 percent in October, \$23.0 million compared with \$29.4 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 1.5 percent from the same period last year compared to the annual estimate of a 0.1 percent decline.

Summary

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Individual income tax extension return processing begins in October as they are due November 1. Corporate extension returns are due in November this year rather than October due to recent federal legislation and administrative action by the IRS.

Total general fund revenue collections rose 7.7 percent in October, driven by strength in payroll withholding, sales taxes, and corporate income tax payments. On a fiscal year-to-date basis, total revenue collections rose 4.9 percent through October, well ahead of the annual forecast of 2.7 percent growth.

The Joint Advisory Board of Economists (JABE) met on October 11 to assess recent economic developments and the economic outlook for the current and next biennium. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 20 to evaluate both the JABE economic recommendations and revenue collections through October.

GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released on December 18 when the Governor introduces his budget recommendations to the General Assembly for fiscal year 2018 and introduced budget for fiscal years 2019-2020.