



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

January 11, 2018

P.O. Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2018. The report incorporates the revised general fund revenue forecast included in the budget bill (HB29/SB29) introduced on December 18, 2017. With the technical revisions in December, total general fund revenues are now projected to grow by 3.4 percent in fiscal year 2018.

Total general fund revenue collections rose 10.0 percent in December, primarily driven by collections in nonwithholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.9 percent through the first half of the fiscal year, well ahead of the annual forecast of 3.4 percent growth. Because the timing of payments at this time of year can distort growth in several sources, December and January collections should be viewed together to accurately assess growth. This is especially true for nonwithholding receipts where the filing for the fourth quarter estimated payments for the calendar year by taxpayers are normally split between December and January.

National Economic Indicators

Recent national indicators continue to depict a healthy economy.

- According to the final estimate, real GDP rose at an annualized rate of 3.2 percent in the third quarter of 2017, following 3.1 percent growth in the second quarter.
- Payroll employment rose by a disappointing 148,000 jobs in December. The unemployment rate was unchanged at 4.1 percent.

- Initial claims for unemployment rose by 3,000 to 250,000 during the week ending December 30. The four-week moving average rose by 3,500 to 241,750.
- The Conference Board's index of leading indicators rose 0.4 percent in November following a 1.2 percent increase in October, suggesting the economic expansion should continue.
- The Conference Board's index of consumer confidence dropped from 128.6 to 122.1 in December. The present conditions component increased while the expectations component declined for the month.
- Conditions in the manufacturing sector were somewhat weaker than expected in November. The Institute of Supply Management index fell from 58.7 to 58.2, but remains solidly in expansionary territory.
- The CPI rose 0.4 percent in November after a 0.1 percent increase in October. The index stands 2.2 percent above November 2016. Core inflation (excluding food and energy prices) rose by 0.1 percent and is 1.7 percent above a year ago.
- At its December meeting, the Federal Reserve raised the federal funds target rate by 25 basis points to 1.25 to 1.50 percent.

Virginia Economy

In Virginia, payroll employment grew 0.9 percent in November from a year ago. Northern Virginia posted growth of 1.1 percent; Hampton Roads declined 0.8 percent; and Richmond-Petersburg rose 1.4 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 3.7 and stands 0.4 percentage point below November of 2016.

The Virginia Leading Index rose 0.3 percent in November after increasing 0.1 percent in October. Auto registrations, initial claims, and the U.S. Leading Index improved in November while future employment decreased. The Bristol and Staunton indexes declined in November while the Harrisonburg index was unchanged; the remaining eight regional indexes increased in November.

December Revenue Collections

Total general fund revenue collections rose 10.0 percent in December, primarily driven by collections in nonwithholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.9 percent through the first half of the fiscal year, well ahead of the annual forecast of 3.4 percent growth. Because the timing of payments at this time of year can distort growth in several sources, December and January collections should be viewed together to accurately assess growth.

Net Individual Income Tax (70% of general fund revenues): Through December, collections of net individual income tax rose 6.1 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With one less deposit day than December of last year, collections of payroll withholding taxes fell 1.8 percent for the month. Year-to-date, collections rose 3.0 percent, trailing the annual estimate of 3.5 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in nonwithholding were \$403.8 million compared with \$165.0 million in December of last year, an increase of 144.7 percent. Year-to-date, collections for the first half of the fiscal year rose by 30.6 percent and are well ahead of the annual estimate of 4.3 percent growth.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 16 to submit their fourth estimated payment for tax year 2017 and some of these payments are received in December. It appears some payments normally received in January were received in December this year. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received and December and January collections can be considered together.

Individual Income Tax Refunds: December is not a significant month for refund activity, as it concludes tax year 2016 refund processing. Through December, the Department of Taxation issued \$289.0 million in refunds compared to the forecast of \$287.3 million for the first six months of the fiscal year.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting November sales, were flat in December. November represents the beginning of the holiday shopping season and a clearer assessment of the season will be possible after receiving December sales tax payments due in January. On a year-to-date basis, collections have risen 3.8 percent, above the annual estimate of 3.0 percent growth.

Corporate Income Tax (5% 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 were due in November this year rather than October.

December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations. With the main refunding season completed and the first two estimated payments received, collections of corporate income taxes grew 22.1 percent on a year-to-date basis.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$32.4 million in December, compared with \$35.1 million in December of last year, a decline of 7.6 percent. On a year-to-date basis, collections are down 3.3 percent, trailing the annual forecast of 3.3 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$94.7 million in December, compared with \$90.2 million in December 2016. Chapter 896 of the 2007 Acts of the Assembly required that \$168.0 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2018 before making any deposits to the general fund. The required transfer was completed in December.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	39.2%	21.9%
ABC Taxes (1% GF revenues)	4.1%	4.3%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 16.5 percent in December, \$23.3 million compared with \$27.9 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 6.9 percent from the same period last year compared to the annual estimate of a 2.2 percent decline.

Summary

Total general fund revenue collections rose 10.0 percent in December, primarily driven by collections in nonwithholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.9 percent through the first half of the fiscal year, well ahead of the annual forecast of 3.4 percent growth.

Because a number of factors can influence the flow of payments and monthly growth rates at this time of year, December and January receipts must be considered together to get a clear picture of revenue growth. This is especially true for nonwithholding receipts where the filing of fourth quarter estimated payments for the calendar year by taxpayers are normally split between December and January.