



COMMONWEALTH of VIRGINIA

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Secretary of Finance

February 13, 2018

P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: January Revenue Report

January is a significant month for revenue collections. Besides the normal monthly payroll withholding and sales tax collections, estimated payments from individuals are due in January and insurance company's refunds are issued.

Total general fund revenue collections rose 5.1 percent in January, driven by an extra deposit day in payroll withholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.8 percent through January, well ahead of the annual forecast of 3.4 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 2.6 percent in the fourth quarter of 2017, following 3.2 percent growth in the third quarter.
- Payroll employment rose by 200,000 jobs in January. The unemployment rate was unchanged at 4.1 percent.
- Initial claims for unemployment fell by 9,000 to 221,000 during the week ending February 3. The four-week moving average fell by 10,000 to 224,500.

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- The Conference Board's index of leading indicators rose 0.6 percent in December following a 0.5 percent increase in November, suggesting the economic expansion remains on solid footing.
- The Conference Board's index of consumer confidence rose from 123.1 to 125.4 in January. The gain was driven by the expectations component while the present conditions component slightly declined for the month.
- Conditions in the manufacturing sector were somewhat better than expected in January. The Institute of Supply Management index fell from 59.3 to 59.1, but remains solidly in expansionary territory.
- The CPI rose 0.1 percent in December after a 0.4 percent increase in November. The index stands 2.1 percent above December 2016. Core inflation (excluding food and energy prices) rose by 0.3 percent and is 1.8 percent above a year ago.
- At its January meeting, the Federal Reserve left the federal funds target rate unchanged at 1.25 to 1.50 percent.

Virginia Economy

In Virginia, payroll employment grew 0.9 percent in December from a year ago. Northern Virginia posted growth of 1.4 percent; Hampton Roads declined 0.9 percent; and Richmond-Petersburg rose 1.7 percent. The seasonally adjusted unemployment rate was unchanged at 3.7 percent and stands 0.4 percentage point below December of 2016.

The Virginia Leading Index rose 0.4 percent in December after increasing 0.3 percent in November. Auto registrations, initial claims, and the U.S. Leading Index improved in December while future employment was unchanged. The Bristol index declined in December while the Harrisonburg, Roanoke, and Blacksburg indexes were unchanged; the remaining seven regional indexes increased in December.

January Revenue Collections

Total general fund revenue collections rose 5.1 percent in January, driven by an extra deposit day in payroll withholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.8 percent through January, well ahead of the annual forecast of 3.4 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through January, collections of net individual income tax rose 6.8 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 more deposit day than January of last year, collections of payroll withholding taxes rose 14.0

percent for the month. Year-to-date, collections rose 4.7 percent, well ahead of the annual estimate of 3.5 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in nonwithholding were \$448.7 million compared with \$442.5 million in January of last year, an increase of 1.4 percent.

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 so the two months must be considered together to assess growth. Receipts of nonwithholding for the two-month period rose 40.3 percent from last year. Year-to-date, collections rose by 20.2 percent, ahead of the annual estimate of a 4.3 percent increase.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$43.5 million in refunds compared with \$31.0 million in the same period last year. The main income tax filing season begins in February.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 0.8 percent in January. The combined December and January receipts, representing the bulk of the holiday shopping season, was 0.4 percent above the same period last year. On a year-to-date basis, collections have risen 3.2 percent, close to the annual estimate of 3.0 percent growth.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income taxes were \$35.4 million in January, compared with receipts of \$49.0 million in January of last year. Year-to-date collections have increased 15.5 percent from the same period last year, ahead of the annual estimate of 5.7 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$27.8 million in January, compared with \$25.5 million in January of last year, an increase of 8.9 percent. On a year-to-date basis, collections are down 1.9 percent, trailing the annual forecast of 3.3 percent growth.

Insurance Premiums (2% of general fund revenues): 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.

January was a negative month in this source as refunds were issued to insurance companies. Several large prior year refunds related to the Historic Rehabilitation Tax Credit drove the increase in refunds this month. Year-to-date collections through January were \$42.0 million compared with \$68.2 million in the same period last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	21.9%	21.9%
ABC Taxes (1% GF revenues)	3.7%	4.3%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 0.4 percent in January, \$40.8 million compared with \$40.9 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 5.7 percent from the same period last year, compared to the annual estimate of a 2.2 percent decline.

Summary

January is a significant month for revenue collections. Besides the normal monthly payroll withholding and sales tax collections, estimated payments from individuals are due in January. Total general fund revenue collections rose 5.1 percent in January, driven by an extra deposit day in payroll withholding payments. On a fiscal year-to-date basis, total revenue collections rose 5.8 percent through January, well ahead of the annual forecast of 3.4 percent growth.