



## ***COMMONWEALTH of VIRGINIA***

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Secretary of Finance

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October 14, 2022

### **MEMORANDUM**

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable Jeff Goettman

FROM: Stephen E. Cummings

SUBJECT: September Revenue Report

September completes the first quarter of fiscal year (FY) 2023. Adjusting for policy actions taken earlier in the year that affect the timing of tax collections, first quarter general fund revenues were up 7.6 percent. On an unadjusted basis, general fund revenues declined 5.0 percent versus the 14.0 percent decline assumed in the current budget.

The conservative decision to assume a 14.0 percent year-over-year decline from record 2022 revenues is now providing the Commonwealth an important cushion in the face of economic data that offer a mixed outlook for the remainder of the fiscal year. Budgeted revenues also include the impacts of tax relief measures enacted during the 2022 General Assembly, including \$1 billion in taxpayer rebates issued beginning in late September and approximately \$1 billion resulting from the increase in the standard deduction.

Given this prudent approach taken with respect to budgeted revenues, and with actual revenue collections in the first quarter exceeding projected levels by more than \$500 million, revenue collections for the remaining nine months of fiscal year 2023 can decline 16.4 percent year-over-year, or \$3.8 billion, and still meet projections assumed in the current appropriation act.

In the month of September, adjusting for fewer deposit days and the taxpayer rebates issued in September, total general fund revenue increased 10.7 percent for the month compared to a year ago. Unadjusted, total general fund revenues fell by 28.4 percent year-over-year primarily due to the issuance of taxpayer rebates. September included one less payroll withholding deposit day that offset the incremental impact of one additional deposit day in the month of August, as explained

in last month's report. With one less deposit day in September, unadjusted withholding collections grew 0.3 percent in September compared to last year.

Wage growth and a stable labor market contributed to a year-over-year adjusted growth rate of 11.0 percent in payroll withholding when accounting for the impact of the shift in timing of deposit days. Year-to-date, withholding collections have increased 9.6 percent compared with the same period last year, compared to the projected annual decline of 0.1 percent

Individual nonwithholding collections grew 13.6 percent year-over-year in September. September is a significant month for this revenue source, as the first quarterly estimated tax payments for fiscal year 2023 were due on the 15<sup>th</sup> of the month. Through the first quarter, collections were \$928.0 million compared with \$862.8 million a year ago, an increase of 7.6 percent.

Sales and use tax collections were up 8.7 percent in September compared to last year, and are up 5.7 percent year-to-date adjusted for AST. Corporate income tax collections increased 2.4 percent for the month but are down 5.2 percent on a year-to-date basis through September.

## **Economic Review**

Recent economic data are mixed with continued job growth but continued high inflation and rising interest rates have undermined consumer confidence.

- The U.S. labor market added 263,000 jobs to payrolls in September. August gains were unrevised at 315,000. In a separate report, the unemployment rate fell from 3.7 percent to 3.5 percent as more workers left the labor force.
- Initial claims for unemployment increased by 29,000 to 219,000 during the week ending October 1. Initial claims are going to be choppy over the next several weeks as Hurricanes Fiona and Ian will leave their mark.
- The Conference Board's index of leading indicators fell 0.3 percent in August to 116.2, and followed a revised 0.5 percent decrease in July.
- The University of Michigan consumer sentiment index increased to 59.5 in September, its highest level since April. Consumer sentiment had fallen to a record low of 50 in June when gas prices hit historic highs.
- The Institute of Supply Management index dropped from 52.8 to 50.9 in September, but remains above the neutral threshold of 50.0.
- The CPI was up in August and stands 8.2 percent above August of last year. Core inflation (excluding food and energy prices) rose 0.6 percent and stands 6.3 percent above a year ago.
- At its September meeting, the Federal Reserve raised the federal funds target rate by another 75 basis points to the range of 3.00 to 3.25 percent and indicated it will keep hiking well above the current level. This is the third consecutive 75-basis point increase.

- In Virginia, payroll employment rose 3.0 percent in August from August of last year. Employment in Northern Virginia rose by 2.4 percent; Hampton Roads rose 2.0 percent, and Richmond-Petersburg rose 1.1 percent. The seasonally adjusted unemployment rate declined 0.1 percentage point to 2.6 percent and stands 1.0 percentage points below a year ago.

### **September Revenue Collections**

September completes the first quarter of fiscal year 2023 and is a significant month for revenue collections. Estimated payments from individuals, corporations, and insurance companies were all due in September, along with regular monthly collections in withholding, sales taxes, and other sources.

In September, total general fund revenues fell by 28.4 percent year-over-year, largely due to the issuance of \$895.9 million of taxpayer rebates and the effects of one less deposit day for payroll withholding. Adjusting for those timing differences, total general fund revenue increased 10.7 percent for the month compared to a year ago.

On a fiscal year-to-date basis, general fund collections for the first quarter declined 5.0 percent versus the budgeted revenue decline of 14.0 percent and were approximately \$500 million ahead of plan.

***Net Individual Income Tax (67% of general fund revenues)***: Through September, collections of net individual income tax, fell 11.4 percent from the same period last year, ahead of the annual estimate of an 18.0 percent decline. Year-to-date, net individual income tax collections are ahead of plan by approximately \$425 million when accounting for the timing of policy changes, including taxpayer rebates and the standard deduction increase, the impact of which will be recognized primarily in the second half of the fiscal year. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (62% of general fund revenues)***: Collections of payroll withholding taxes rose 0.3 percent for the month and adjusting for one less deposit day in September, withholding increased 11.0 percent. Year-to-date, collections have risen 9.6 percent from the same period last year.

***Individual Income Tax Nonwithholding (21% of general fund revenues)***: September is a significant month for collections in this source since the first estimated payment for fiscal year 2023 is due. Collections in nonwithholding were \$704.5 million compared with \$619.9 million in September of last year, an increase of 13.6 percent. Year-to-date, collections were \$928.0 million compared with \$862.8 million in the same period last year, a 7.6 percent increase, compared with the forecast of a 23.4 percent decline.

***Individual Income Tax Refunds***: Through September, the Department of Taxation has issued \$1,049.0 million in refunds compared with \$175.2 million in the same period last year, a 498.8 percent increase. September included the planned issuance of \$895.9 million in taxpayer rebates. Adjusting for these rebates, income tax refunds fell 12.6 percent.

***Sales Tax (18% of general fund revenues):*** Collections of sales and use taxes, reflecting August sales, rose 8.7 percent in September. On a year-to-date basis, collections of sales and use taxes have risen 20.3 percent, ahead of the annual estimate of a 1.3 percent decline; while adjusting for AST, fiscal-year-to-date sales tax grew 5.7 percent. Year-to-date, sales and use tax collections are approximately \$55 million ahead of plan.

***Corporate Income Tax (7% of general fund revenues):*** As with nonwithholding, September is a significant month for collections in this source, as the first estimated payment for the fiscal year is due. Corporate collections increased 2.4 percent for the month. On a year-to-date basis, collections of corporate income taxes were \$434.8 million compared with \$458.5 million in the first quarter of last year, a 5.2 percent decrease compared with the annual forecast of a 12.2 percent decline. Year-to-date, corporate income tax collections are approximately \$10 million ahead of plan.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$37.7 million in September, compared with \$60.1 million in September of last year, a decrease of 37.4 percent. On a year-to-date basis, collections are down 25.1 percent, behind the annual forecast of a 9.2 percent decline.

***Insurance Premiums (2% of general fund revenues):*** Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$202.5 million has been deposited.

### **Other Revenue Sources**

The following list provides growth data on collections through September for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	101.9%	28.1%
ABC Taxes (1% GF revenues)	-22.1%	1.1%

***All Other Revenue (2% of general fund revenues):*** Receipts in All Other Revenue rose 29.1 percent in September, \$44.0 million compared with \$34.1 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 9.4 percent from the same period last year, above the annual estimate of a 5.3 percent decline.

### **Summary**

Due primarily to the planned issuance of \$895.9 million in taxpayer rebates in September first quarter general fund revenue collections declined 5.0 percent year-over-year. Adjusting for taxpayer rebates and the repeal of AST, total general fund revenues were up 7.6 percent in the first quarter of fiscal year 2023 compared to the same period last year.

October 14, 2022

Page 5 of 5

The fall revenue forecasting process began in earnest when the Joint Advisory Board of Economists (JABE) met on October 12 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 21 to evaluate both the JABE economic recommendations and revenue collections through October. Official revenue estimates for fiscal years 2023 and 2024 will be released on December 15 when the Governor's budget recommendations are presented to the General Assembly.