



COMMONWEALTH of VIRGINIA

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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: April Revenue Report

This revenue report is the first monthly report containing significant impacts due to the coronavirus (COVID-19). Normally, April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for the previous tax year 2019 and the first estimated payment for the current tax year 2020 would be due from corporations on April 15. A portion of estimated and final income tax payments from individuals, due May 1, are also typically received in April.

This year, the Governor deferred income tax payments due during the time period of April 1, 2020 to June 1, 2020, until June 1, 2020. This includes individual and corporate income taxes. The extension applies to taxable year 2019 final payments and extension payments, and the first estimated payment for taxable year 2020. Therefore, April through June receipts must be considered together to properly assess growth, as April revenues do not reflect tax payments deferred until June 1.

As a result, total general fund revenue collections fell 26.2 percent in April. This decrease is consistent with our anticipated revenue loss of approximately \$1 billion for the last quarter of fiscal year 2020 related to the impacts from COVID-19. On a fiscal year-to-date basis, total revenue collections have increased 1.4 percent through April, trailing the annual forecast of 3.1 percent growth.

National Economic Indicators

The U.S. slid into recession in March as economic fallout from COVID-19 began to take effect.

- According to the initial report, real GDP fell at an annualized rate of 4.8 percent in the first quarter of 2020, following 2.1 percent increase in the previous two quarters.
- Payroll employment plummeted by 20.5 million jobs in April, with losses across all industries. In a separate report, the unemployment rate rose to 14.7 percent.
- Initial claims for unemployment declined by 677,000 to 3.2 million during the week ending May 2, while the four-week moving average fell from 5.0 million to 4.2 million.
- The Conference Board's index of leading indicators fell 6.7 percent in March, the steepest decline in the 60-year history of the index. The deterioration of the components was broad-based, with stock prices and initial claims contributing the largest negative impacts.
- The Conference Board's index of consumer confidence fell from 118.8 to 86.9 in April. The present conditions component declined from 166.7 to 76.4, offsetting an increase in the expectations component.
- The Institute of Supply Management index fell from 49.1 to 41.5 in April, due to a wave of COVID-19 disruptions, including closings, the focus on medical supplies, employees staying home and supply chain shocks.
- With a large decline in energy prices, the CPI fell 0.4 percent in March following a 0.1 percent increase in February. The index stands 1.5 percent above March 2019. Core inflation (excluding food and energy prices) fell 0.1 percent and stands 2.1 percent above a year ago.
- At its April meeting, the Federal Reserve left the federal funds target rate unchanged in the range of 0.0 to 0.25 percent. Quantitative easing remains open-ended.

Virginia Economy

In Virginia, payroll employment rose by 0.6 percent in March compared with last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads fell 0.2 percent; and Richmond-Petersburg rose 1.0 percent. The seasonally adjusted unemployment rate increased 0.7 percentage point to 3.3 percent in March, 0.4 percentage point above a year ago. The unemployment rate is expected to rise significantly in the future as the full impact of business closings related to COVID-19 is realized.

The Virginia Leading Index tumbled 6.8 percent in March after rising 0.1 percent in February. All components: auto registrations, the U.S. Leading index, initial claims, and future employment deteriorated in March. The index for Staunton rose modestly while the indexes for remaining ten metro areas declined sharply for the month.

April Revenue Collections

As anticipated, total general fund revenue collections fell 26.2 percent in April. On a fiscal year-to-date basis, total revenue collections have increased 1.4 percent through April, trailing the annual forecast of 3.1 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through April, collections of net individual income tax fell 0.4 percent from the same period last year, trailing the annual estimate of 1.3 percent growth. 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 4.2 percent in April. Calendar effects are probably overstating growth, as two more deposit days were incurred in April. Year-to-date, collections have grown 4.7 percent, matching the annual estimate.

Individual Income Tax Nonwithholding (18% of general fund revenues): April is typically a significant month for collections in this source, with final payments for tax year 2019 and the first estimated payment for tax year 2020 both due at the beginning of May. This year the filing date has been extended to June 1, so it is unclear as to how many payments are delayed.

Collections in nonwithholding were \$470.1 million compared with \$1.2 billion in April of last year, a decline of 61.8 percent. Year-to-date, collections fell by 19.3 percent, trailing the annual estimate of a 4.3 percent decline.

Individual Income Tax Refunds: The main income tax filing season began in February. In April, the Department of Taxation (TAX) issued about 490,000 refunds as compared to last year's 730,000 due to this year's extended filing date. On a fiscal year basis, TAX has issued \$1,513.8 million in refunds through April compared with \$1,498.8 million through the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 0.4 percent in April. On a year-to-date basis, collections of sales and use taxes have risen 7.4 percent, matching the annual estimate.

Corporate Income Tax (5% of general fund revenues): In April, corporations typically make their first estimated payment for the current tax year and make either a final or an extension payment for the previous tax year 2019. Since the filing date has been extended until June 1, it is unclear how many payments have been delayed. Collections of corporate income taxes were \$149.9 million in April, compared with receipts of \$272.3 million in April of last year, a decline of 45.0 percent.

On a year-to-date basis, collections have decreased 4.2 percent compared with the forecast of 9.3 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$42.3 million in April, compared with \$33.8 million in April of last year. On a year-to-date basis, collections are up 29.8 percent, ahead of the annual forecast of 21.3 percent growth.

Insurance Premiums (2% of general fund revenues): Insurance companies made their first estimated payment for tax year 2019 in April. Collections in this source were \$141.7 million compared with \$136.6 million last year. Year-to-date collections were \$223.8 million through April, compared with \$247.9 million in the same period last year. Estimated payments for insurance companies are again due in June.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	38.6%	48.4%
ABC Taxes (1% GF revenues)	9.8%	4.5%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 20.6 percent in April, \$26.3 million compared with \$33.1 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 2.3 percent from the same period last year, ahead of the annual estimate of a 6.1 percent decline.

Summary

This revenue report is the first monthly report containing significant impacts due to COVID-19. April is typically a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for the previous tax year 2019 and the first estimated payment for the current tax year 2020 would usually be due from corporations on April 15. A portion of estimated and final payments from individuals, due May 1, are also typically received in April.

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Typically, the last three months of the fiscal year are significant collections months. In addition to estimated and final payments from both corporations and individuals due in April and May (*now due June 1*), estimated payments are again due in June. Thus, April revenue collections only begin to reveal the effects of COVID-19 since the filing date for corporate and individual returns has been extended. The April revenue decrease is consistent with our anticipated revenue loss of approximately \$1 billion for the last quarter of fiscal year 2020.