



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: March Revenue Report

This revenue report will be the last monthly report that will not include significant impacts due to the coronavirus (COVID-19). Payroll withholding and individual income tax payments began to see a slowdown in the number of firms or individuals reporting late in the month. An option to request a one-month waiver for remittance of February 2020 sales taxes due March 2020 resulted in an unknown number of dealers take advantage of this extension. April revenues will begin to reveal the impact of COVID-19 on general fund revenue collections.

March revenue collections consist mainly of withholding and sales tax receipts, as well as the normal collections for other sources. Final payments from insurance companies for tax year 2019 are also due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals, which are due April 15 and May 1, respectively. Therefore, the timing of these final payments, along with the timing of refunds in both sources, can distort monthly growth rates aside from the disruptions expected from the COVID-19 outbreak. In addition, the Governor has authorized income tax payments due during the period of April 1, 2020, to June 1, 2020, and are now due on 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.

Total general fund revenue collections grew 10.8 percent in March. Most of the increase is due to fewer refunds being issued due to normal processing this year as compared to last year's delayed processing of the filing season. On a fiscal year-to-date basis, total revenue collections rose 6.6 percent through March, ahead of the annual forecast of 3.2 percent growth.

National Economic Indicators

Recent national indicators are mixed as many releases predate the COVID-19 outbreak.

- According to the third report, the latest official release, real GDP rose at an annualized rate of 2.1 percent in the fourth quarter of 2019, following 2.1 percent in the third quarter. Since the outbreak of the coronavirus, IHS Markit estimates real GDP declined by 3.5 percent in the first quarter of 2020, and is expected to drop 26.5 percent in the second quarter in their April monthly forecast update released last week.
- Payroll employment plummeted by 701,000 jobs in March, with the leisure and hospitality sector falling by 459,000 jobs. In a separate report, the unemployment rate rose from 3.5 percent to 4.4 percent.
- Initial claims for unemployment rose from 3.3 million to 6.9 million during the week ending March 28, while the four-week moving average rose to 2.7 million. During the week ending April 4, claims fell by 261,000 to 6.6 million and the four-week moving average rose to 4.3 million.
- Prior to the full onset of the COVID-19, the Conference Board's index of leading indicators rose 0.1 percent in February following a 0.7 percent increase in January.
- The Conference Board's index of consumer confidence fell from 132.6 to 120.0 in March. Both components contributed to the decline.
- The Institute of Supply Management index fell from 50.1 to 49.1 in March, largely due to supply chain disruptions.
- The CPI rose 0.1 percent in February following a 0.1 percent increase in January and stands 2.3 percent above February 2019. Core inflation (excluding food and energy prices) rose 0.2 percent and stands 2.4 percent above a year ago.
- Convening ahead of their regularly scheduled meeting, the Federal Reserve lowered the federal funds target rate by 100 basis points to the range of 0.0 to 0.25 percent in March and began another round of quantitative easing.

Virginia Economy

In Virginia, payroll employment rose by 1.6 percent in February compared with last year. Northern Virginia posted growth of 2.0 percent; Hampton Roads rose 0.5 percent; and Richmond-Petersburg rose 1.9 percent. The seasonally adjusted unemployment rate fell from 2.7 to 2.6 percent in February.

The February Virginia Leading Index was not published as the pandemic has affected data availability. The index increased 1.4 percent in January after declining 0.5 percent in December.

All components: auto registrations, the U.S. Leading index, initial claims, and future employment improved in January. The indexes for all metro areas increased for the month.

March Revenue Collections

Total general fund revenue collections grew 10.8 percent in March. Most of the increase is due to fewer refunds being issued due to normal processing this year as compared to last year's delayed processing of the filing season. On a fiscal year-to-date basis, total revenue collections rose 6.6 percent through March, ahead of the annual forecast of 3.2 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through March, collections of net individual income tax rose 5.3 percent from the same period last year, ahead of the annual estimate of 1.4 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 fell 0.4 percent in March as effects of COVID-19 began to shut down businesses. Year-to-date, collections have grown 4.8 percent, close to the annual estimate of 4.7 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): March is not a significant month for collections in this source. Collections in nonwithholding were \$224.1 million compared with \$225.9 million in March of last year, decline of 0.8 percent. Year-to-date, collections grew by 14.3 percent, ahead of the annual estimate of a 3.9 percent decline.

Individual Income Tax Refunds: The main income tax filing season began in February and the processing started on time this year, while last year refund processing was delayed due to tax conformity. During the first two months of the main filing season, TAX issued about 1.6 million refunds as compared to last year's 1.4 million. Through March, TAX has issued \$1,189.3 million in refunds compared with \$1,044.5 million through the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 7.9 percent in March. All of the growth is due to new Wayfair related use tax dealers. On a year-to-date basis, collections of sales and use taxes have risen 8.4 percent, ahead of the annual estimate of 7.4 percent growth.

Corporate Income Tax (5% of general fund revenues): March is not a significant month for collections in this source. Most of the activity in March is from companies making final tax year 2019 payments ahead of the April 15 due date. Collections of corporate income taxes were \$69.2 million in March, compared with receipts of \$51.2 million in March of last year.

On a year-to-date basis, collections have increased 18.3 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 \$40.3 million in March, compared with \$29.7 million in March of last year. On a year-to-date basis, collections are up 30.4 percent, ahead of the annual forecast of 21.3 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments in this source were due March 1. Collections in this source were \$24.5 million compared with \$35.1 million last year. Year-to-date collections were \$82.0 million through March, compared with \$111.3 million in the same period last year. Estimated payments for insurance companies are due in April and June.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	23.8%	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 10.4 percent in March, \$29.9 million compared with \$33.3 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 0.2 percent from the same period last year, ahead of the annual estimate of a 6.1 percent decline.

Summary

March revenue collections consist mainly of withholding and sales tax receipts, as well as the normal collections for other sources. Final payments from insurance companies for tax year 2019 are also due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals, which are due April 15 and May 1, respectively. Therefore, the timing of these final payments, along with the timing of refunds in both sources, can distort monthly growth rates aside from the disruptions expected from the COVID-19 outbreak. In addition, the Governor has authorized any income tax payments due during the time period of April 1, 2020, to June 1, 2020, will now be due on 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.

Total general fund revenue collections grew 10.8 percent in March. Most of the increase is due to fewer refunds being issued due to normal processing this year as compared to last year's delayed opening of the filing season. On a fiscal year-to-date basis, total revenue collections rose 6.6 percent through March, ahead of the annual forecast of 3.2 percent growth.

This revenue report will be the last monthly report that will not contain any significant impacts due to COVID-19. Payroll withholding and individual income tax payments began to see a

slowdown in the number of firms or individuals reporting late in the month. An option to request a one-month waiver for remittance of February 2020 sales taxes due March 2020 could have also had an unknown number of dealers take advantage of this extension.

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. April revenues will begin to reveal the effects of COVID-19 on general fund revenue collections.