



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: May Revenue Report

May is typically a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are typically due May 1. Total general fund revenue collections rose 66.2 percent in May compared with May of last year, mainly due to the shift in the individual income tax due date from June 1 last year to May 17 this year. Payroll withholding, sales, and recordation taxes also posted solid gains as the economy continues to open up.

On a fiscal year-to-date basis, total revenue collections rose 17.8 percent through May, ahead of the annual forecast of 2.7 percent growth. Because of the shifting due dates, the entire quarter of April through June will be required to accurately assess growth.

National Economic Indicators

Recent data indicate the U.S. economy is gaining strength.

- According to the second estimate, real GDP rose at an annualized rate of 6.4 percent in the first quarter of 2021, following 4.3 percent in the fourth quarter of 2020.
- The labor market added 559,000 jobs to payrolls in May, with the leisure and hospitality sector contributing the largest gain. In a separate report, the unemployment rate fell 0.3 point to 5.8 percent.

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- Initial claims for unemployment fell from 405,000 to 385,000 during the week ending May 29, the lowest level since the pandemic began, although still above the pre-pandemic average. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 1.6 percent in April, above expectations, and follows a rise of 1.3 percent in March.
- The Conference Board's index of consumer confidence fell from 117.5 to 117.2 in May. The current conditions component improved and the expectations component declined for the month.
- The Institute of Supply Management index rose from 60.7 to 61.2 in May. The index has remained above the neutral threshold of 50.0 every month since June of last year.
- The CPI rose 0.8 percent in April and stands 4.2 percent above April of last year. Core inflation (excluding food and energy prices) rose 0.9 percent and stands 3.0 percent above a year ago.
- At its April meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.

Virginia Economy

In Virginia, payroll employment rose 7.7 percent in April from April of last year. Employment in Northern Virginia rose by 8.2 percent; Hampton Roads rose 8.8 percent; and Richmond-Petersburg rose 5.7 percent. The seasonally adjusted unemployment rate fell 0.4 percentage point to 4.7 percent and stands 6.6 percentage points below a year ago.

The Virginia Leading Index rose 0.8 percent in April after falling 0.5 percent in March. All four components: auto registrations, future employment, initial unemployment claims, and the U.S. leading index improved in April, and the indexes for all metro areas increased for the month.

May Revenue Collections

Total general fund revenue collections rose 66.2 percent in May compared with May of last year, mainly due to the shift in the individual income tax due date from June 1 last year to May 17 this year. Payroll withholding, sales, and recordation taxes also posted solid gains as the economy continues to open up. On a fiscal year-to-date basis, total revenue collections rose 17.8 percent through May, ahead of the annual forecast of 2.7 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through May, collections of net individual income tax rose 17.5 percent from the same period last year, ahead of the annual estimate of 0.6 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 13.8 percent for the month. Year-to-date, collections have risen 4.4 percent from the same period last year, ahead of the annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (18% of general fund revenues): May is typically a significant month for collections in this source, with final payments for tax year 2020 and the first estimated payment for tax year 2021 both due at the beginning of May. Last year the filing date was extended to June 1 for both payments, and this year to May 17 for only the final payment, so the effect on the timing of collections is unclear.

Collections in nonwithholding were \$1.5 billion compared with \$500.1 million in May of last year, an increase of 199.9 percent. Year-to-date, collections grew by 69.2 percent, ahead of the annual estimate of a 4.4 percent increase. Because of the due date changing between years, June receipts are necessary to assess growth in this source.

Individual Income Tax Refunds: The Department of Taxation issued \$319.1 million in refunds in May, compared with \$182.0 million in May of last year, an increase of 75.3 percent. For the filing season, TAX has issued 2.3 million refunds, about the same number as last year. On a fiscal year basis, TAX has issued \$1.8 billion in refunds through May compared with \$1.7 billion through the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose 37.5 percent in May. Last April, many non-essential businesses were closed. On a year-to-date basis, collections of sales and use taxes have risen 11.1 percent, ahead of the annual estimate of 4.7 percent growth.

Corporate Income Tax (6% of general fund revenues): May is not typically a significant month for collections in this source, as final or extension payments are mainly due only from retailers who usually have a January 31 close to their fiscal year. Such payments vary significantly from year to year. Last year, the filing date was extended to June 1, while this year it returned to normal. Collections of corporate income taxes were \$82.3 million in May, compared with receipts of \$47.2 million in May of last year. On a year-to-date basis, collections have increased 60.1 percent compared with the forecast of 27.4 percent growth.

Wills, Suits, Deeds, Contracts (3% of general fund revenues): As refinancing and low interest rates continue to spur the housing market, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$57.9 million in May, compared with \$39.6 million in May of last year, an increase of 46.2 percent. On a year-to-date basis, collections are up 41.1 percent, ahead of the annual forecast of 24.4 percent growth.

Insurance Premiums (1% of general fund revenues): May is not a significant month for collections in this source. Collections were \$20.7 million compared with \$5.9 million last year. Year-to-date collections were \$242.0 million through May, compared with \$229.7 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 May collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (<i>0.4% GF revenues</i>)	-36.4%	-19.7%
ABC Taxes (<i>1% GF revenues</i>)	10.9%	2.7%

All Other Revenue (*2% of general fund revenues*): Receipts in All Other Revenue rose 11.6 percent in May, \$48.7 million compared with \$43.6 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 1.9 percent from the same period last year, above the annual estimate of a 4.1 percent decline.

Summary

May is typically a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are typically due May 1. Total general fund revenue collections rose 66.2 percent in May compared with May of last year, mainly due to the shift in the individual income tax due date from June 1 last year to May 17 this year. Payroll withholding, sales, and recordation taxes also posted solid gains as the economy continues to open up.

On a fiscal year-to-date basis, total revenue collections rose 17.8 percent through May, ahead of the annual forecast of 2.7 percent growth. Estimated payments from corporations and individuals are again due in June. To attain the annual revenue forecast, June collections must be \$351.0 million, compared with \$3.1 billion collected in June of last year.