COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable Jeff Goettman

FROM: Stephen E. Cummings

SUBJECT: April Revenue Report

As was anticipated and discussed in our March revenue letter, general fund revenues were very strong in April, rising by 45.7 percent over April of 2021, due in large part to a return to pre-pandemic filing deadlines. On a fiscal year-to-date basis, total revenue collections have risen 19.0 percent through April, which is well ahead of the revised annual forecast of 9.2 percent growth.

The year-over-year gain is primarily attributable to individual nonwithholding, which was up 139.6 percent for the month versus last April. Since last year's filing deadline was delayed until May 17, the majority of final payments received last fiscal year were collected in May, making April over April comparisons misleading. For a fuller understanding of full-year nonwithholding collections, April and May should be considered jointly.

Payroll withholding collections, which are unaffected by the aforementioned change in filing date, grew 4.8 percent in April. Fiscal year-to-date, withholding revenues are up 9.5 percent, ahead of the full-year forecast growth rate of 9.0 percent. This April figure was understated due to there being one less deposit day than April 2021, which will add a day of collections to the month of May.

Growth in payroll withholding is supported by a steady economy as well as recent improved job growth which will support future growth in a steady environment. From January to March, the number of employed Virginians increased 42,000, ranking Virginia 14th among the states for employment growth during that time. The labor participation rate in Virginia is showing signs of improvement, increasing 0.7 percentage points since December 2021, after having fallen much more than the nation as a whole during COVID. Despite recent strong performance, more work is needed in this area since Virginia has yet to recover more than 170,000 jobs that were lost during the pandemic and ranks 47th in jobs recovered since the pandemic.

Sales tax collections also reflect continued economic strength, increasing by 8.4 percent for the month of March. Sales tax collections were broad based in the retail environment as more businesses were open this year as compared to last year when many pandemic-related restrictions were still in place. Fiscal year-to-date growth of 14.4 percent remains comfortably ahead of the annual 11.4 percent forecast.

Corporate taxes receipts were 13.4 percent above April of 2021 and also running comfortably ahead of the forecast, increasing by 37.5 percent year-to-date compared with a forecast of 32.6 percent.

Looking ahead to the remainder of the current fiscal year, Finance staff are confident that the revenue projections contained in the February Mid-Session forecast will be met or exceeded. While we will need to see May results in order to put April into proper context, the current trends in the most important sources of revenues – withholding and sales taxes – remain strong and we are optimistic that the revenues for May and June will support the achievement of our forecast at a minimum.

We are watching the issues that may impact our future revenue streams extremely closely. On the positive side with respect to withholding revenues, the ongoing labor shortage impacting our country is expected to persist given low unemployment and the significant number of job openings that exist. People that have been sitting on the sidelines are beginning to return to the workforce. These factors are leading to both wage and job growth. Also, consumer spending continues to grow given the liquidity and impact of inflation. To the extent that inflation outstrips wage growth over a longer period of time, it should be expected to result in lower spending. Regarding non-withholding tax revenues, to the extent there is a significant and persistent downturn in the market, these revenues will inevitably decline. We have provided for some of that in our outlook and we are doing more work in this area to understand the impact in previous, similar environments. Lastly, as you will recall, the potential for a slowdown in revenue collections in the upcoming biennium was the primary reason for the decision not to adjust fiscal year 2023 and 2024 revenue projections when the mid-session revised forecast was completed in February. Given recent events, Finance staff are more confident in that decision to hold 2022-24 biennium revenue assumptions unchanged and look forward to revisiting that topic in the planning and budgeting cycle in the Fall.

National Economic Indicators

Over the last month, financial conditions have tightened sharply, as the Fed hiked interest rates by 50 basis points for the first time in over 20 years in an effort to stem inflation. However, the national economy continues to show strength with strong demand and a tight labor supply driving employment and wage growth.

- Supply side constraints continue to hinder the economy's capacity to meet strong demand, reflecting supply chain fallout from COVID-19, geopolitical instability, and labor shortages. As a result, trade deficits are increasing as we look to imports to meet consumer demand.

- The CPI rose 1.2 percent in March and stands 8.6 percent above March of last year. Core inflation (excluding food and energy prices) rose 0.3 percent and stands 6.4 percent above a year ago.

- Real GDP fell at an annual rate of 1.4 percent in the first quarter of 2022, but the decrease was driven by temporary factors, mainly a surge in imports, while "core" components of GDP – personal consumption, business investment and homebuilding – all grew.

- National unemployment remains low at 3.6 percent, and the job market remains strong. The shortage of workers to fill jobs is impacting large and small employers across the country and continued job and wage growth is expected.

- The labor market added 428,000 jobs to payrolls in April. The gains were widespread, bringing the three-month average to 523,000.

- Initial claims for unemployment rose by 19,000 to 200,000 during the week ending April 30. The four-week moving average rose by 8,000 to 188,000. In a healthy economy, new filings are typically below 250,000.

- At its May meeting, the Federal Reserve raised the federal funds target rate by 50 basis points to the range of 0.75 to 1.0 percent.

Virginia Economy

In Virginia, similar dynamics are at play, as it pertains to employment gains and wage growth. Continued gains in leisure and hospitality, other services, education, and local government are needed to reverse some of the losses during the pandemic.

- In Virginia, payroll employment rose 2.8 percent in March from March of last year. Employment in Northern Virginia rose by 3.1 percent; Hampton Roads rose 1.4 percent, Richmond-Petersburg rose 2.2 percent; and the balance of the state increased 3.7 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 3.0 percent and stands 1.5 percentage points below a year ago.

- In a separate survey of households, the Bureau of Labor Statistics reported that 4.18 million Virginians were employed in the month of March, up 100,600 compared to March 2021 and up 42,010 since January.

- Job openings increased 50 percent year-over-year in January, the latest period for which data are available, from 206,000 to 310,000 on a seasonally adjusted basis.

- Official wage statistics from the Bureau of Labor Statistics are lagged, but the latest data available from the third quarter of 2021 reflect a 5.3 percent increase in average weekly wages compared to the same period a year earlier.

- The Virginia Leading Index jumped 2.0 percent in March after rising 3.4 percent in February. Auto registrations, initial claims, and future employment improved in March while the U.S. Leading index edged down. The indexes for all metro areas increased in March.

April Revenue Collections

April general fund revenues were very strong, rising by 45.7 percent over April of 2021. On a fiscal year-to-date basis, total revenue collections have risen 19.0 percent through April, which is well ahead of the revised annual forecast of 9.2 percent growth. However, last year's federal filing deadline was delayed until May 17 which shifted the timing of final tax payments making April year-over-year comparisons misleading. Adjusting for the pandemic-related changes in tax return due dates, total collections are up 12.1 percent year-to-date.

Net Individual Income Tax (68% of general fund revenues): Through April, collections of net individual income tax rose 67.2 percent from the same period last year, ahead of the annual estimate of 7.3 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (56% of general fund revenues): Collections of payroll withholding taxes, unaffected by the shift in last year's filing date, rose by 4.8 percent for the month. Year-to-date, collections have risen 9.5 percent from the same period last year, ahead of the annual estimate of 9.0 percent growth.

Individual Income Tax Nonwithholding (20% of general fund revenues): April is typically a significant month for collections in this source, with final payments for tax year 2021 and the first estimated payment for tax year 2022 both due at the beginning of May. Collections in nonwithholding were $2.2 billion compared with $907 million in April of last year, an increase of 139.6 percent. This is the first year in three years that the federal due date is back to the normal April time frame and many taxpayers file returns on this date with payments or refund requests.

Year-to-date, collections in nonwithholding grew by 49.9 percent, ahead of the annual estimate of 2.5 percent growth.

Individual Income Tax Refunds: The main income tax filing season began in February. During the first three months of the main filing season, TAX issued 2.1 million refunds, compared with 1.9 million in the same period last year. Through April, TAX has issued $1,518.0 million in individual refunds compared with $1,496.6 million in the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 8.4 percent in April. On a year-to-date basis, collections of sales and use taxes have risen 14.4 percent, ahead of the annual estimate of 11.4 percent growth.

Corporate Income Tax (7% 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 2021. Collections of corporate income taxes were $439.3 million in April, compared with receipts of $387.3 million in April of last year, an increase of 13.4 percent. On a year-to-date basis, collections have increased 37.5 percent compared with the forecast of 32.6 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were $54.2 million in April, compared with $59.8 million in April of last year, falling by 9.3 percent. Higher interest rates and lower supplies of housing available for purchase are contributing to this decline. On a year-to-date basis, collections have fallen 2.7 percent, ahead of the annual forecast of a 4.3 percent decline.

Insurance Premiums (2% of general fund revenues). Estimated payments were due also in this source in April. Collections for the month were $142.1 million as compared to last April's $144.5 million. Year-to-date collections were $268.6 million through March, compared with $221.3 million in the same period last year, an increase of 21.4 percent.

Other Revenue Sources

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

	Year-to-Date	**Annual Estimate**
Interest Income (0.4% GF revenues)	4.7%	6.7%
ABC Taxes (1% GF revenues)	1.3%	1.4%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 6.4 percent in April, $32.2 million compared with $34.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 11.6 percent from the same period last year, above the annual estimate of 3.1 percent growth.

Summary

Total general fund revenues rose by 45.7 percent in April. This extraordinary growth is primarily driven by the change in filing date back to April versus May in 2021, thereby shifting final payments back to April which drives a significant change in the non-withholding line item. As a result, we will need to look at the combined results of April and May versus last year to determine overall trends. However, in the key revenue categories that are unaffected by that timing difference, payroll withholding and retail sales tax, there was continued strength indicating continued strength in our economy.

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, estimated payments are again due in June. There are risks to the forecast, but Finance remains confident in achieving our forecast.