Review of General Fund Revenues and the Virginia Economy for Fiscal Year 2018

A presentation to the Senate Finance, House Appropriations and House Finance Committees

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Overview

Fiscal Year 2018 Year-in-Review

- Economic Performance
- Actual General Fund Collections
- Actual Commonwealth Transportation Fund Collections
- Financial Results Balance Sheet
- Revenue Stabilization Fund Balance

Looking Forward

- July 2018 General Fund Collections
- Fall Forecasting Process
- Tax Conformity for 2018
- Internet Sales Tax

Fiscal Year 2018 - U.S. Economy Performed Near Expectations, While Virginia's Economic Performance Was Slightly Below Projections

- As measured on a fiscal year basis (July through June), estimated real GDP increased 2.7 percent, slightly above the forecast, while nationally, personal income and wages and salaries were close to expectations.

- In Virginia, growth in employment, personal income, and wages and salaries were below the forecast based on available data.

Summary of Key U.S. and Virginia Economic Indicators

Percent Change Over the Prior Fiscal Year

	FY17 Actual	FY18 Forecast	FY18 Actual
U.S.			
Real GDP	1.9	2.4	2.7
Consumer Spending	2.8	2.5	2.6
Employment	1.7	1.4	1.5
Personal Income	2.5	3.5	3.6
Wages & Salaries	2.7	4.1	4.2
Virginia			
Employment	1.0	1.3	0.9
Professional/Business	1.6	2.6	1.7
Construction/Mining	1.7	1.9	3.4
Education/Health	1.1	2.0	1.1
Government	0.5	0.4	0.0
Personal Income*	2.4	3.3	2.9
Wages & Salaries*	2.7	3.6	3.0

* FY17 Actual data is based on the first 3 quarters of the fiscal year. Fourth quarter data will be released in the fall and expectations are for continuing improvement based on withholding receipts.

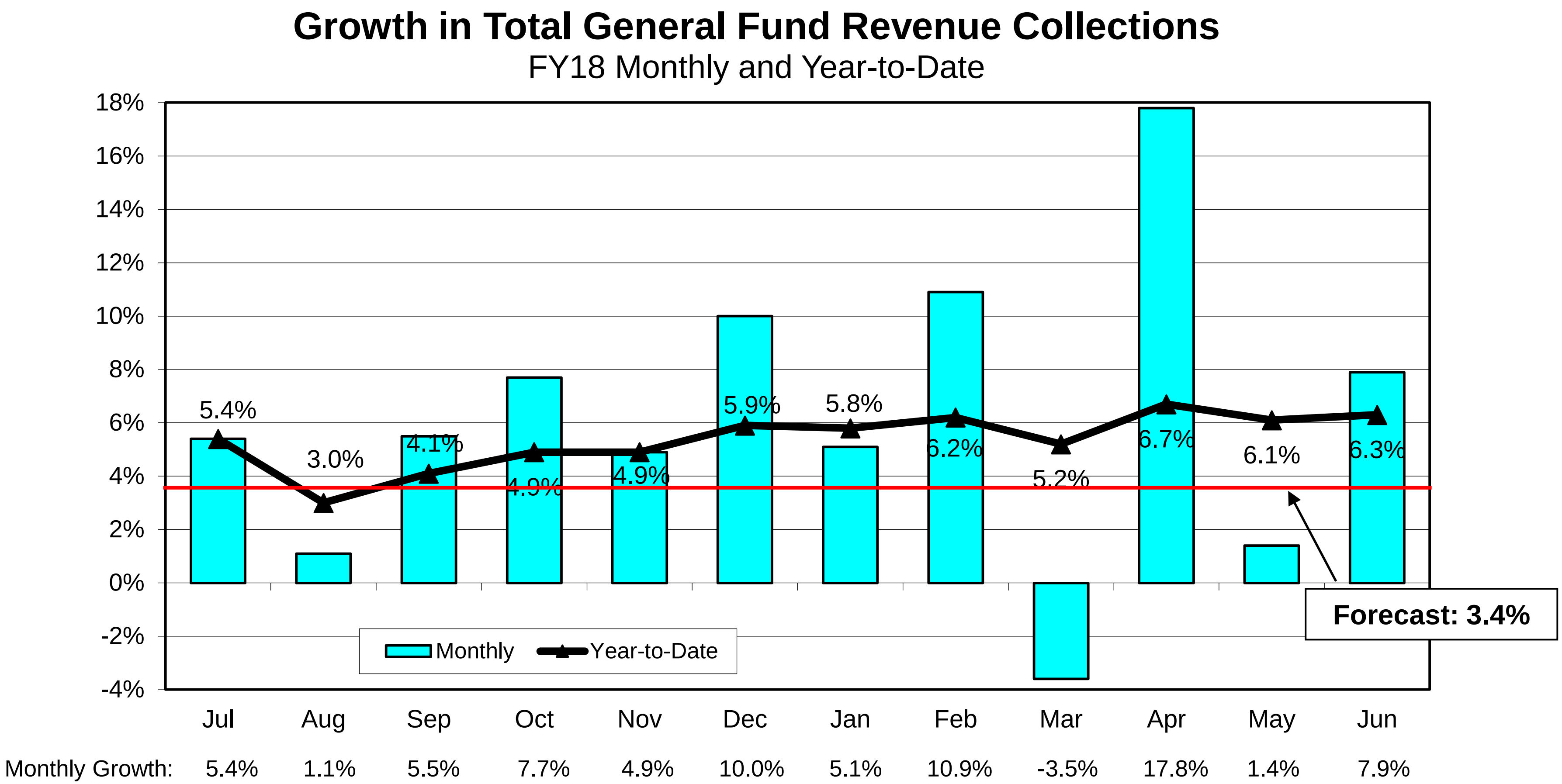
Including Transfers, Fiscal Year 2018 General Fund Resources Grew 6.0 Percent and Finished $555.5 Million (2.8 Percent) Above Forecast

Summary of Fiscal Year 2018 Revenue Collections
(millions of dollars)

Major Sources	As a % of Total General Fund	Official	Actual	Change	% Growth Over FY 17 Official	% Growth Over FY 17 Actual
Withholding	61.5%	$12,313.3	$12,540.5	$227.2	3.5 %	5.4 %
Nonwithholding	15.6	3,147.3	3,472.9	325.6	4.3	15.1
Refunds	(9.6)	(1,968.7)	(1,907.6)	61.1	5.8	2.5
Net Individual	67.5%	$13,491.9	$14,105.8	$613.9	3.4 %	8.1 %
Sales	17.4%	$3,458.2	$3,461.8	$3.6	3.0 %	3.1 %
Corporate	4.3	874.0	861.9	(12.1)	5.7	4.2
Wills (Recordation)	2.0	407.2	394.9	(12.3)	3.3	0.1
Insurance	1.8	362.1	337.9	(24.2)	6.2	(0.9)
All Other Revenue	3.7	734.8	718.5	(16.3)	1.6	(0.6)
Total Revenue	96.6%	**$19,328.2**	**$19,880.8**	**$552.6**	**3.4 %**	**6.3** %
A.B.C. Profits	0.6	$104.1	$109.5	$5.4	(5.8) %	(0.9) %
Sales Tax (0.375%)	1.9	379.1	376.6	(2.5)	3.6	2.9
Transfers	0.9	142.1	142.2	0.1	(19.7)	(19.6)
Total Transfers	3.4%	**$625.3**	**$628.3**	**$3.0**	**(4.3) %**	**(3.8) %**
TOTAL GENERAL FUND	100.0%	**$19,953.5**	**$20,509.0**	**$555.5**	**3.1 %**	**6.0 %**

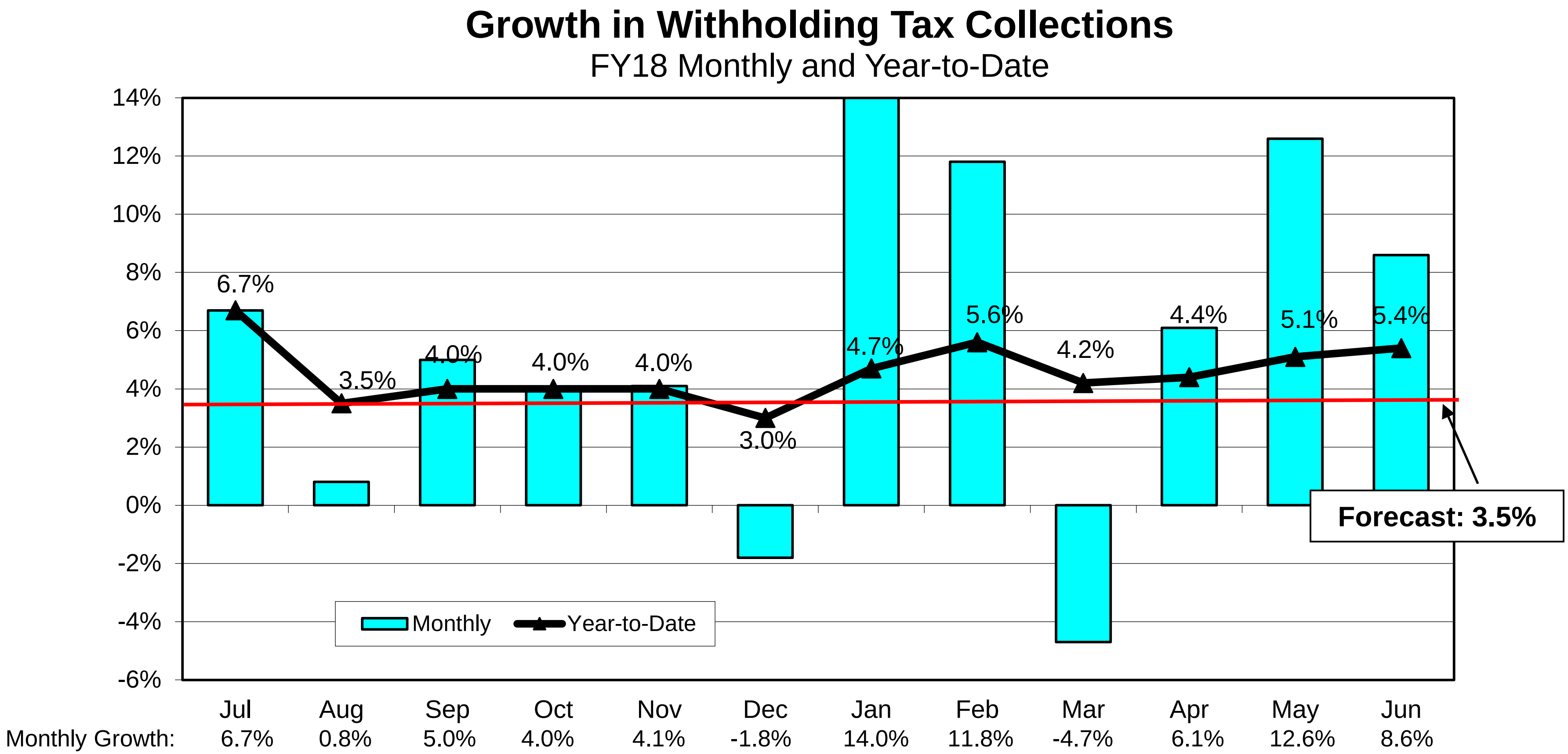
- The gain in net individual income tax and sales tax, about $618 million, was somewhat offset by shortfalls in all other revenue sources.

Fiscal Year 2018 General Fund Revenue Grew at an Average Pace of 6.3 Percent



- Total general fund revenue collections exceeded the forecast by $552.6 million, excluding transfers in fiscal year 2018, a forecast variance of 2.9 percent.
- Total general fund revenues rose 6.3 percent, ahead of the annual forecast of 3.4 percent.

Payroll Withholding Tax Collections Exceeded the Annual Estimate by $227.2 Million (1.8 percent) in Fiscal Year 2018



- Collections of payroll withholding taxes, 63 percent of total general fund revenues, grew 5.4 percent, above the annual estimate of 3.5 percent. However, payments in June were inflated due to timing of year-end payments from some employers.
  - About $120 million.

- Both employment and wage and salary gains are the drivers of this source.

Acceleration in Withholding Was Broad-based and Included Strong Growth in Large and Small Businesses

Withholding Tax Collections
Fiscal Years 2016 - 2018
millions of dollars

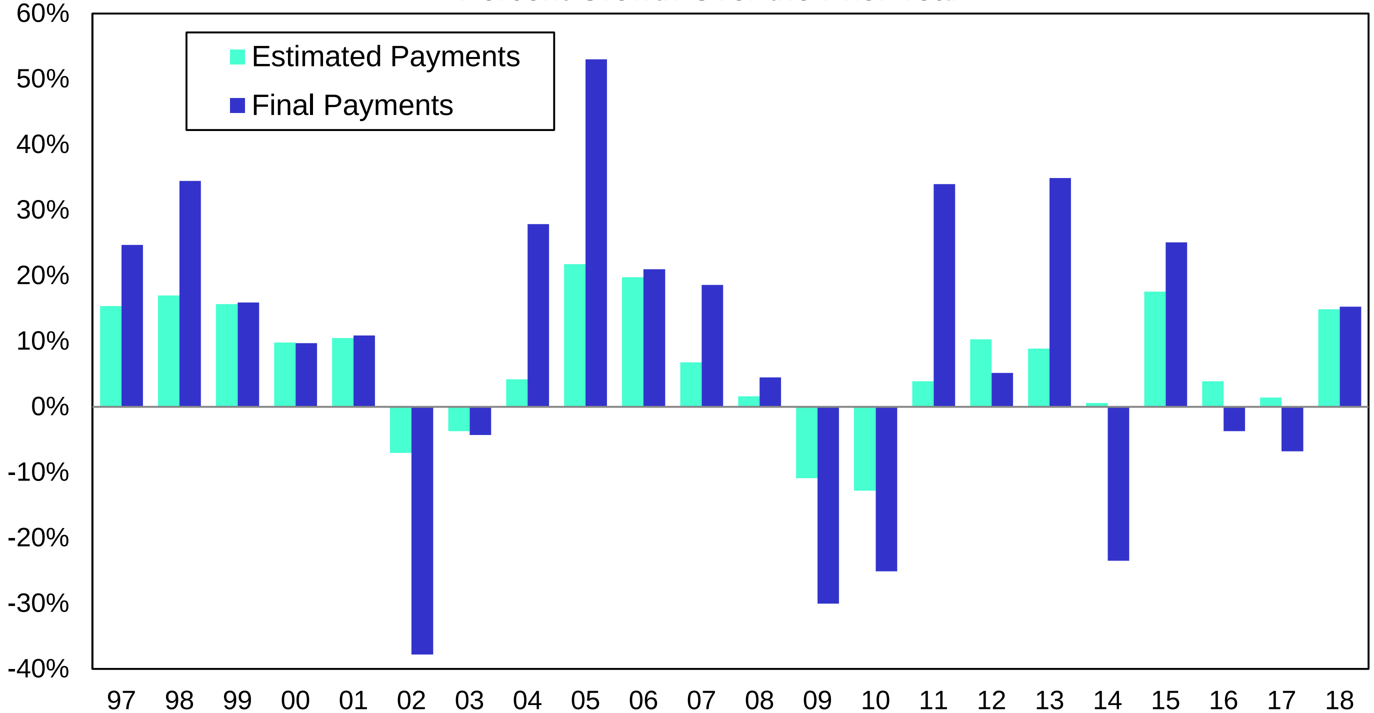
	# of Firms	Millions of Dollars		Percent Change		
Industry (% of Total $ Amount)	**in FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
Public Sector (17%)	100	$2,095.5	$2,178.4	2.9%	3.0%	4.0%
Education and Health Services (8%)	300	$965.9	$1,011.8	6.1%	7.5%	4.8%
Federal Contractors (4%)	244	$467.3	$478.3	-1.9%	-2.0%	2.4%
Finance (3%)	170	$379.7	$412.9	6.7%	6.3%	8.7%
Professional and Business Services (3%)	719	$390.9	$403.1	5.9%	5.5%	3.1%
Investment (2%)	224	$270.6	$297.1	7.1%	9.7%	9.8%
Manufacturing (1%)	232	$164.1	$182.4	0.5%	-6.7%	11.2%
Transportation (1%)	59	$137.1	$144.2	2.5%	7.0%	5.2%
Housing (1%)	188	$106.7	$122.4	14.7%	2.4%	14.7%
Other (4%)	681	$504.3	$529.0	-9.4%	2.6%	4.9%
Total Large Payers (46%)	2,917	$5,482.0	$5,759.8	2.5%	3.7%	5.1%
Total Small Payers (54%)	221,588	$6,413.4	$6,780.7	2.3%	6.5%	5.7%
Total All	224,505	$11,895.4	$12,540.5	2.4%	5.2%	5.4%

Large Payers Include Payments in Excess of $100,000

Individual Income Tax Nonwithholding Collections Were $325.6 Million (10.3 Percent) Ahead of the Annual Estimate in Fiscal Year 2018

Growth in Estimated and Final Payments, FY97 - FY18

Percent Growth Over the Prior Year



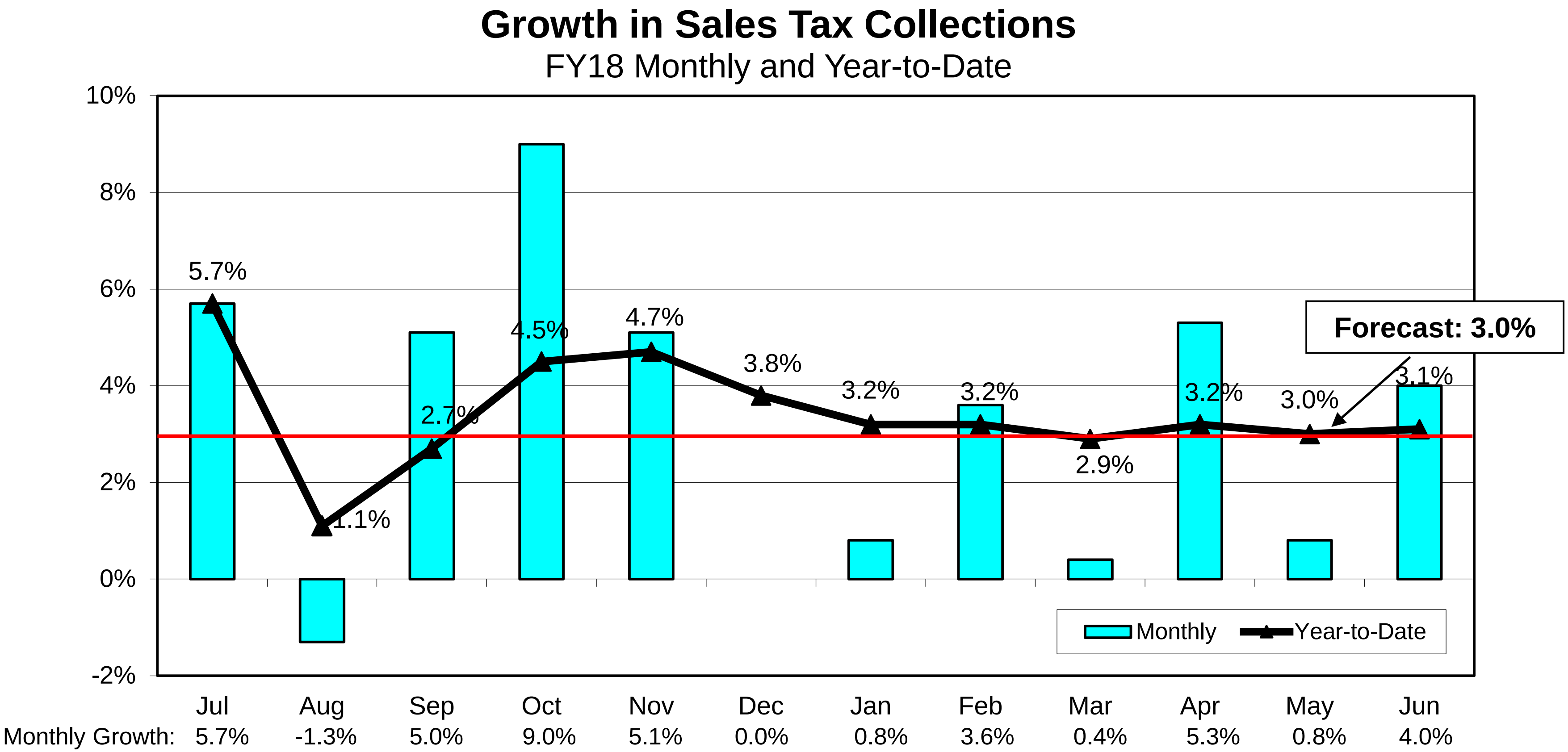
- Collections of nonwithholding, 16 percent of total revenues and one of the most volatile revenue sources, were significantly ahead of expectations, due predominately to the timing of payments related to federal tax changes.
- Total nonwithholding collections grew 15.1 percent in fiscal year 2018 compared with the annual estimate of a 4.3 percent increase.
- The estimate included reducing forecasted collections by $193 million for the nonwithholding collar. The nonwithholding collar is the 10 year average of nonwithholding payments as a percent of total revenues (16.15%), limited to 1 percent of general fund revenues.

Analysis of High-Net-Worth Individuals

- **In December and January:**
  - 781 high-income taxpayers (more than $1.7 million in taxable income) submitted $297 million in payments
  - This compares to the average of the last three years where 423 high-income taxpayers submitted $162 million.
    - Previous peaks in payments were in FY07 and FY08 where an average of 478 high-income taxpayers submitted $177 million.

- **From April 1 through July 31:**
  - 54 have filed returns and requested $2.9 million in refunds
  - 59 have filed returns and applied $2.4 million to tax year 2018
  - 45 have filed returns and paid an additional $2.0 million in taxes
  - <u>203 have paid $41.8 million via extension returns</u> and have until November 1 to file returns
  - <u>The remaining 420 have had no additional activity</u> and have a six-month automatic extension to file their returns by November 1, 2018.

Total Sales Tax Collections Slightly Exceeded the Annual Estimate Advancing 3.1 Percent – Above the Estimate by $3.6 Million (0.1 Percent) in Fiscal Year 2018



- On a year-to-date basis, collections increased 3.1 percent, ahead of the annual estimate of 3.0 percent growth.
- Sales tax collections posted the strongest growth in the last 3 years -- with growth below 2 percent in each of the last two fiscal years.

Other Revenue Sources Were Slightly Below Their Respective Forecasts in Fiscal Year 2018

Corporate Income Tax

- Corporate income tax collections fell short of its forecast by $12.1 million (1.4 percent), advancing 4.2 percent.

Wills, Suits, Deeds, and Contracts (Recordation Tax)

- Wills, Suits, Deeds, and Contracts (primarily recordation tax collections) finished $12.3 million behind the annual forecast (3.0 percent), advancing only 0.1 percent.

Insurance Premiums Tax

- Insurance premiums tax collections fell short of the annual estimate by $24.2 million (6.7 percent), falling 0.9 percent.
  - Prior year Historic Rehab Tax Credits resulted in over $20 million in refunds.

Commonwealth Transportation Fund (CTF) Revenues Finished Fiscal Year 2018 $12.3 Million Below the Official Forecast

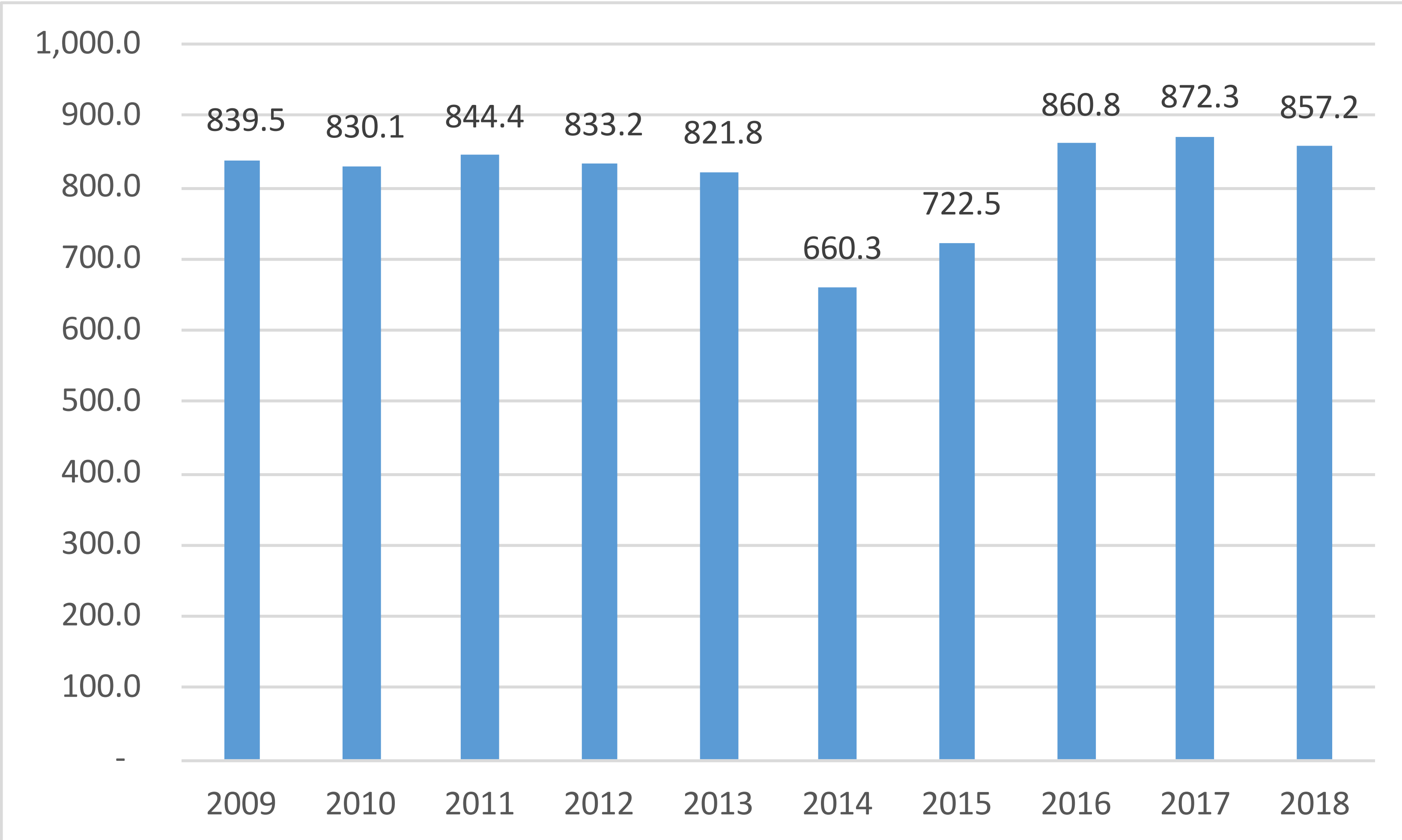
Actual Collections Compared to the Official Forecast for Fiscal Year 2018
(Millions of Dollars)

Revenue Sources	FY2017 Actual	FY2018 Actual	FY2018 Forecast	Percent Change 2017-2018 Actual	Percent Change 2017-2018 Forecast	Forecast Variance Amount	Forecast Variance Percent
Motor Fuels Tax	857.9	843.5	886.3	-1.7%	3.3%	(42.8)	-4.8%
Road Use Tax	12.3	11.7	10.5	(4.9)	(14.6)	1.2	11.4
Vehicle Sales Tax	957.7	943.6	922.4	(1.5)	(3.7)	21.2	2.3
Vehicle Licenses	260.2	258.8	259.2	(0.5)	(0.4)	(0.4)	(0.2)
State Sales Tax	1,020.4	1,043.8	1,047.0	2.3	2.6	(3.2)	(0.3)
Recordation Tax	48.1	47.8	48.3	(0.6)	0.4	(0.5)	(1.0)
Insurance Premiums Tax	163.1	168.0	168.0	3.0	3.0	0.0	0.0
Int'l Registration Plan	66.2	69.2	64.4	4.5	(2.7)	4.8	7.5
Interest Earnings	6.4	8.9	3.3	39.1	(48.4)	5.6	169.7
Rental Tax	39.5	40.2	40.9	1.8	3.5	(0.7)	(1.7)
Aviation Fuels Tax	2.0	2.0	1.9	0.0	(5.0)	0.1	5.3
Miscellaneous	18.4	19.6	17.2	6.5	(6.5)	2.4	14.0
TOTAL	**$3,452.2**	**$3,457.1**	**$3,469.4**	**0.1%**	**0.5%**	**($12.3)**	**-0.4%**

- Total revenue growth was below target with a 0.4 percent forecast variance.
  - The forecast variance was due to slower than expected growth in motor fuels tax collections.

Total Virginia Motor Fuels Tax Collections

million of dollars



FY 2018 Revenue Surplus Is Allocated to the Revenue Stabilization, Water Quality A, and the Revenue Reserve

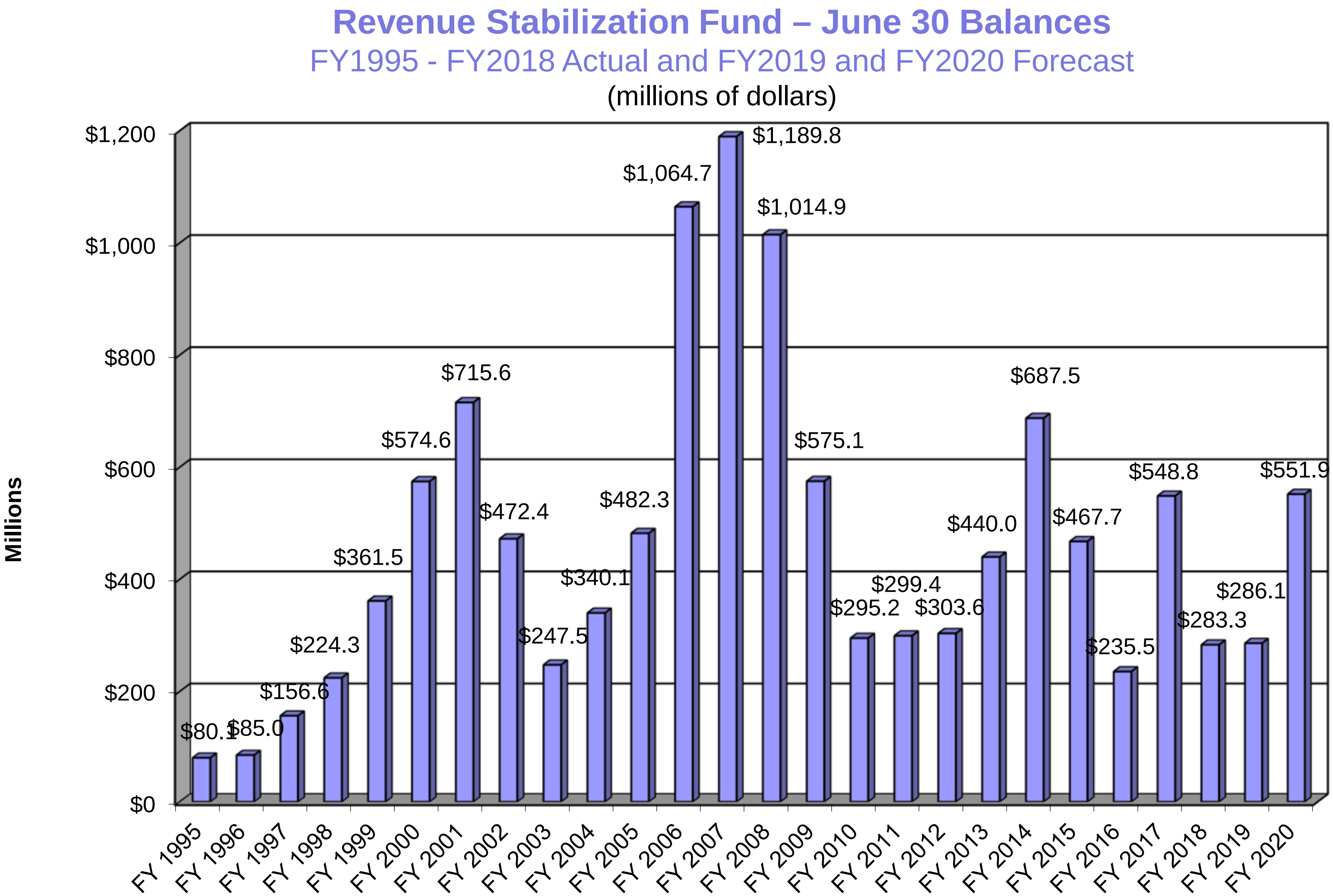
Preliminary Balance Sheet
General Fund - Cash Basis (Unaudited)
June 30, 2018
(Dollars in Thousands)

Assets		
Cash, Cash Equivalents, and Investments	$ 1,890,814	
Cash and Travel Advances	483	
Other Assets	180	
Due From Other Funds	75	
Total Assets		$ 1,891,552
Liabilities and Fund Equity		
Liabilities:		
Payments Awaiting Disbursement	92,931	
Deposits Pending Distribution	4,765	
Due To Other Funds	6,892	
Total Liabilities		$ 104,588
Fund Equity:		
Restricted Fund Balance:		
Revenue Stabilization Fund as of June 30, 2018	283,275	
Revenue Stabilization Fund Deposit in FY 2020 from FY 2018 Surplus	262,941	
Lottery Proceeds Fund	7,675	
Water Supply Assistance Grant Fund	3,132	
Total Restricted Fund Balance	557,023	
Committed and Assigned Fund Balance:		
Reappropriation of FY 2018 Unexpended Balances for Capital Outlay	7,274	
Virginia Health Care Fund	30,217	
Central Capital Planning Fund	2,773	
Communication Sales and Use Tax	34,002	
Commonwealth's Development Opportunity Fund	27,384	
Natural Disaster Sum Sufficient	17,070	
Amount Required for Mandatory Reappropriation	76,959	
Virginia Water Quality Improvement Fund	19,251	
Virginia Water Quality Improvement Fund - Part A	55,259	
Virginia Water Quality Improvement Fund - Part B	18,499	
Revenue Cash Reserve Fund	156,439	
Revenue Cash Reserve FY 2019 Deposit from FY 2018 Surplus	234,392	
Local Government Fiscal Distress	500	
Transportation Trust Fund	1,671	
Nonrecurring Expenditures	836	
Amount Required by Chapter 2	212,161	
Amount Required for Discretionary Reappropriations	163,980	
Nongeneral Fund Balances Reported in General Fund	171,274	
Total Committed and Assigned Fund Balance	1,229,941	
Total Fund Equity		$ 1,786,964
Total Liabilities and Fund Balance		$ 1,891,552

Disposition of Revenue Surplus
$552.6 million

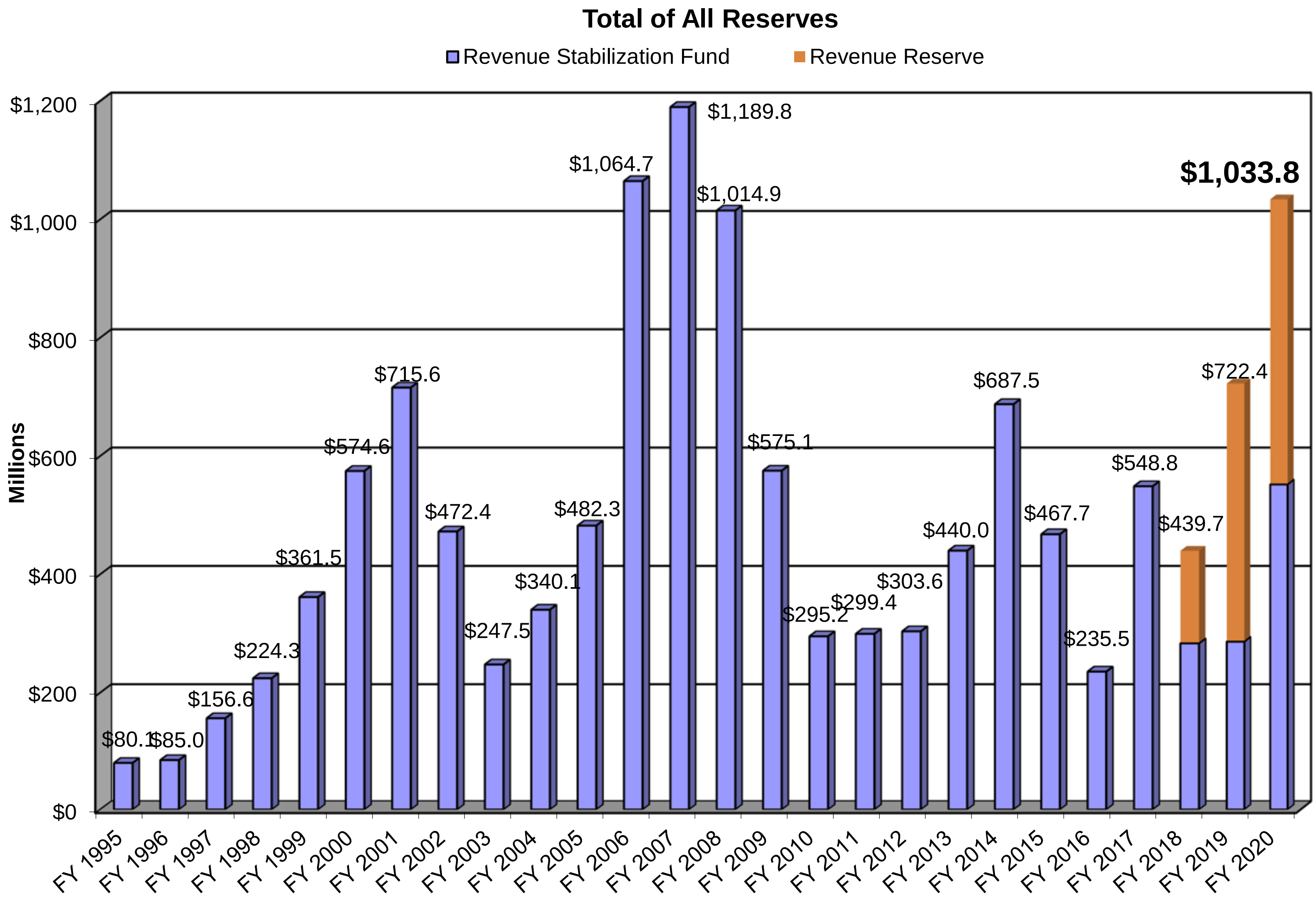
Total Funds Restricted or Committed to Reserves as of June 30, 2018 = $937.0 million

The Revenue Stabilization Fund Is Estimated To Be $551.9 million as of June 30, 2020.



- A mandatory deposit of $262.9 million will be made to the Revenue Stabilization Fund in FY 2020 due to the FY 2018 surplus.
- No withdrawals are anticipated in FY 2019 or FY 2020.

By the Close of FY 2020, Total Reserves Are Estimated to Exceed $1.0 Billion, the Third Largest Total Since 1995.



Official Fiscal Year 2019 Total General Fund Revenue and Transfers Forecast Calls for a 1.4 Percent Increase Compared to Actual Collections for Fiscal Year 2018

Summary of General Fund Revenue Collections FY2018 and FY2019
(millions of dollars)

Revenue Source	Official Estimate FY2018	% Annual Growth Req By Estimate	Actual Collections FY2018	% Actual Growth	Amount Variance	Official Estimate FY2019	% Change From Actual
Individual Income Tax:							
Withholding	$ 12,313.3	3.5%	$ 12,540.5	5.4%	$ 227.2	$ 12,870.2	2.6%
Nonwithholding	3,147.3	4.3	3,472.9	15.1	$ 325.6	3,368.3	(3.0)
Refunds	(1,968.7)	5.8	(1,907.6)	2.5	61.1	(2,054.7)	7.7
Net Individual Income Tax	13,491.9	3.4	14,105.8	8.1	613.9	14,183.8	0.6
Sales and Use	3,458.2	3.0	3,461.8	3.1	3.6	3,547.3	2.5
Corporate Income	874.0	5.7	861.9	4.2	(12.1)	912.0	5.8
Insurance Premiums	362.1	6.2	337.9	(0.9)	(24.2)	376.6	11.5
Wills, Suits, Deeds, Contracts	407.2	3.3	394.9	0.1	(12.3)	407.2	3.1
Interest	67.8	21.9	61.4	10.4	(6.4)	66.2	7.8
Other Revenue	667.0	0.6	657.1	(0.9)	(9.9)	680.6	3.6
Total General Fund Revenue	19,328.2	3.4	19,880.8	6.3	552.6	20,173.7	1.5
Transfers	625.3	-4.3	628.3	(3.8)	3.0	621.0	(1.2)
Total General Fund Resources	$ 19,953.5	3.1%	$ 20,509.0	6.0%	$ 555.5	$ 20,794.7	1.4%

- FY2018 withholding growth was 4.4 percent when discounting for early July payments made on last day of June, 2018. Implies growth of 3.6% for FY2019 as compared to 2.6% listed on table.

Current *IHS Markit* Outlook for Fiscal Year 2019 Shows Improved Growth

- Supported by robust gains in employment and household wealth, real GDP is forecast to advance at a 3.0 percent rate.
  - 2018 Q2 increased by 4.1% driven by consumer spending, business investments, and purchases made ahead of a possible trade war (soybeans).

- Increases in federal deficit continue to be a concern. Federal FY19 deficit now projected to be $1.1 trillion, up from FY18's $666 billion – bringing the total national debt to over $21 trillion.

Summary of Key U.S. and Virginia Economic Indicators

Percent Change Over the Prior Fiscal Year

	FY18	FY19	
	Actual	Official	July
U.S.			
Real GDP	2.7	2.3	3.0
Consumer Spending	2.6	2.4	2.4
Employment	1.5	1.2	1.6
Personal Income	3.6	4.5	4.8
Wages & Salaries	4.2	4.9	4.9
Virginia			
Employment	1.3	1.0	tbd
Professional/Business	2.6	2.8	tbd
Construction/Mining	1.9	3.5	tbd
Personal Income*	3.3	4.3	tbd
Wages & Salaries*	3.6	4.4	tbd

* FY18 Actual data is based on the first 3 quarters of the fiscal year.

July's Revenue Collections Were Down 1.2 Percent

Summary of July FY19 Revenue Collections

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance
		Percent Growth over Prior Year		
Withholding	63.8 %	(5.5) %	2.6 %	(8.1) %
Nonwithholding	16.7	14.2	(3.0)	17.2
Refunds	(10.2)	2.9	7.7	(4.8)
Net Individual	70.3	(4.9)	0.6	(5.5)
Sales	17.6	7.5	2.5	5.0
Corporate	4.5	83.2	5.8	77.4
Wills (Recordation)	2.0	(10.5)	3.1	(13.6)
Insurance	1.9	na	11.4	na
All Other Revenue	3.7	18.8	3.9	14.9
Total	**100.0 %**	**(1.2) %**	**1.5 %**	**(2.7) %**

- July is not a significant month, representing only 6 percent of the FY19 forecast.
- The July decrease was largely due to timing of payroll withholding.
  - June included about $120 million normally received in July.

Fall Forecasting Process Will Begin in September

- Trends in revenue collections over the next few months will be incorporated into the fall forecasting process.
  - **September:**
    - Individual, corporate, and insurance estimated payments are due
  - **October:**
    - Retailer's corporate estimated payments are due
    - Joint Advisory Board of Economists (JABE) reviews economic projections for current and next biennium.
  - **November:**
    - Corporate refunds from extension returns peak
    - Individual income tax extension returns due November 1
    - Governor's Advisory Council on Revenue Estimates (GACRE) reviews revenue forecast for fiscal year 2019, 2020, and the 2021 - 2022 biennium.
  - **December:**
    - General fund revenue forecast finalized
    - Governor Northam's amendments to the 2018 - 2020 budget are presented to the Joint Money Committee.

Tax Policy (Conformity): Certainty for 2018 Filing Season Is Critical

- Conformity means that Virginia generally adopts the federal definitions of income, such as any *above-the-line* modifications.
- Virginia does not currently conform to any Tax Cuts and Jobs Act ("TCJA") provisions to the extent they are effective for Taxable Years 2018 and after.
- Virginia needs to advance the date of conformity to December 31, 2018 so that the 2019 filing season can begin.
- Once the date of conformity is advanced, other policy adjustments *(if any)* to Virginia law can be discussed to adjust for changes in federal law.
- Taxpayers, tax practitioners, and software vendors have historically assumed that Virginia will advance its date of conformity each year. Taxpayers will begin filing their 2018 income tax returns in January 2019.
- Failure to enact timely conformity legislation would negatively impact many constituents, including hundreds of thousands of individual taxpayers.
- In addition, if Virginia fails to advance the date of conformity:
  - ➢ Individuals would be required to complete additional forms to make up to 20 complex modifications on their Taxable Year 2018 returns.
  - ➢ Businesses would be required to make up to 30 additional modifications.

Tax Policy (Model): Certainty for 2018 Filing Season Is Critical

- Chainbridge model work is finished and the full report is available on the Finance web site – *www.finance.virginia.gov*.
  - Various assumptions have to be made regarding the choices taxpayers make in preparing their federal and Virginia returns and, to a certain extent, how their behavior may change in reaction to the TCJA. *These choices had to be made even before the enactment of TCJA.*
  - Very little federal guidance has been issued regarding the TCJA provisions. It is possible such guidance, when issued, could affect the assumptions made in developing these estimates and tax choices made by Virginia taxpayers.
  - State revenue estimates as a result of the TCJA are greater than the tax liability impact to Virginia taxpayers because of nonresident filers.
  - Many provisions related to TCJA are interrelated. Individual provisions will impact taxpayers on a case by case basis, depending on income level and other circumstances.

Total Federal Relief in Tax Year 2018
Almost $4 Billion to Virginia

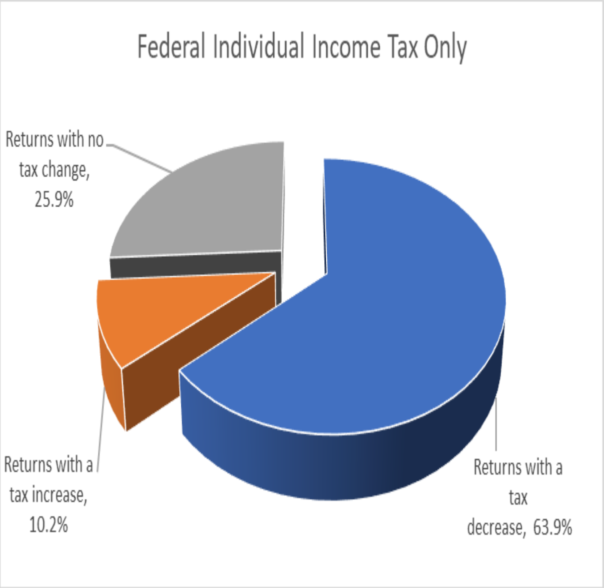
Estimated Federal Individual Income Tax Impact on the Provisions of the TCJA

Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income	Tax Liability Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below	240.0	211.1	(28.9)	-12.1%
25,000 - 50,000	1,510.5	1,259.1	(251.3)	-16.6%
50,000 - 75,000	2,559.0	2,131.0	(428.0)	-16.7%
75,000 - 100,000	3,073.6	2,551.8	(521.8)	-17.0%
100,000 - 125,000	3,246.0	2,675.1	(570.9)	-17.6%
125,000 - 150,000	3,064.8	2,655.8	(409.0)	-13.3%
150,000 - 175,000	2,731.3	2,500.8	(230.6)	-8.4%
175,000 - 200,000	2,347.5	2,219.8	(127.6)	-5.4%
200,000 - 250,000	3,763.6	3,620.5	(143.1)	-3.8%
250,000 - 500,000	7,691.1	7,180.7	(510.4)	-6.6%
500,000 - 1,000,000	4,326.3	3,952.9	(373.3)	-8.6%
$1,000,000 and above	8,392.4	8,007.3	(385.1)	-4.6%
Totals	42,946.1	38,966.0	(3,980.1)	-9.3%

Source: Virginia Individual Income Tax Microsimulation Model
* Percent Change = (Tax Change / Baseline) * 100



- About 90% of all Virginians will see no change or reduced federal tax liability.
- About 48.5% of the federal tax relief will flow to middle income taxpayers ($50,000 - $150,000).
- Approximately 7% of the federal tax relief will flow to taxpayers with income of $50,000 or less.

Source: Chainbridge Software, LLC

Projected Tax Year 2018 Virginia Revenue Increase of $333 million

Estimated Virginia Individual Income Tax Impact on the Provisions of the TCJA

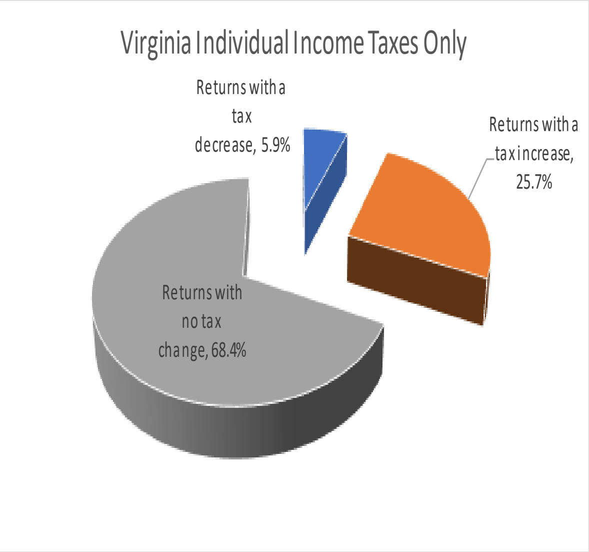
Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income			Tax Liability Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below			165.5	178.6	13.2	8.0%
25,000	-	50,000	866.9	899.9	33.0	3.8%
50,000	-	75,000	1,109.3	1,149.7	40.4	3.6%
75,000	-	100,000	1,188.9	1,228.9	40.0	3.4%
100,000	-	125,000	1,153.4	1,193.1	39.7	3.4%
125,000	-	150,000	1,001.8	1,030.3	28.4	2.8%
150,000	-	175,000	844.7	865.8	21.1	2.5%
175,000	-	200,000	697.2	713.1	15.9	2.3%
200,000	-	250,000	1,065.0	1,088.2	23.2	2.2%
250,000	-	500,000	1,897.9	1,927.8	29.8	1.6%
500,000	-	1,000,000	821.9	829.3	7.5	0.9%
$1,000,000 and above			1,371.6	1,413.1	41.5	3.0%
Totals			12,184.0	12,517.7	333.7	2.7%

Source: Virginia Individual Income Tax Microsimulation Model

* Percent Change = (Tax Change / Baseline) * 100



About 26% of Virginians will see increased state tax liability, with the highest percentage increases for taxpayers with less than $50,000 in income.

Approximately 13.8% of Virginia residents' tax liability resulting from TCJA will be paid by taxpayers with income of $50,000 or less.

Source: Chainbridge Software, LLC

Tax Year 2018 Net Federal and State Tax Relief Over $3.6 Billion

Estimated Combined Individual Income Tax Impact on the Provisions of the TCJA

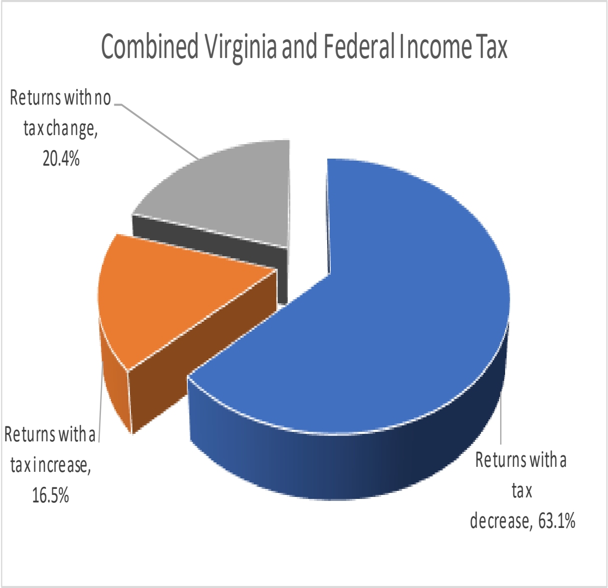
Residents Only

Taxable Year 2018

Virginia Adjusted Gross Income			Tax Liability Baseline ($Millions)	New Law ($Millions)	Tax Change ($Millions)	Percent Change*
$25,000 and below			405.5	389.7	(15.8)	-3.9%
25,000	-	50,000	2,377.4	2,159.1	(218.3)	-9.2%
50,000	-	75,000	3,668.3	3,280.7	(387.6)	-10.6%
75,000	-	100,000	4,262.5	3,780.7	(481.8)	-11.3%
100,000	-	125,000	4,399.4	3,868.2	(531.2)	-12.1%
125,000	-	150,000	4,066.7	3,686.1	(380.6)	-9.4%
150,000	-	175,000	3,576.0	3,366.5	(209.5)	-5.9%
175,000	-	200,000	3,044.7	2,932.9	(111.8)	-3.7%
200,000	-	250,000	4,828.7	4,708.8	(119.9)	-2.5%
250,000	-	500,000	9,589.0	9,108.4	(480.6)	-5.0%
500,000	-	1,000,000	5,148.1	4,782.3	(365.8)	-7.1%
$1,000,000 and above			9,763.9	9,420.4	(343.6)	-3.5%
Totals			55,130.2	51,483.7	(3,646.5)	-6.6%

Source: Virginia Individual Income Tax Microsimulation Model

* Percent Change = (Tax Change / Baseline) * 100



- About 83% of all Virginians will see a net decrease or no change from Federal/Virginia tax liability.
- Only 7% of the tax relief will flow to income earners of less than $50,000.

Source: Chainbridge Software, LLC

Fiscal Year Cash Flow of Almost $600 Million per Year However, Significant Amount Is Not Permanent and Comes with Unknowns

Estimated Virginia Revenue Impact of the TCJA

Fiscal Years 2019 to 2024 (Includes Residents and Nonresidents)

($Millions)

By Source	2019	2020	2021	2022	2023	2024
Individual Provisions	532.1	443.8	466.7	492.5	520.0	546.1
Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2
International Provisions	32.6	52.7	5.5	5.8	6.0	6.3
Total, All Provisions	594.2	611.1	653.7	798.7	943.2	950.6

($Millions)

By Provisions	2019	2020	2021	2022	2023	2024
Temporary Provisions (Expiring after 2025)	517.3	433.6	455.7	480.4	506.8	532.5
Permanent Provisions	76.9	177.5	198.0	318.3	436.4	418.1
Total, All Provisions	**594.2**	**611.1**	**653.7**	**798.7**	**943.2**	**950.6**

- Most of the individual provisions are temporary and expire after 2025; the only substantial individual provision that is permanent is related to alternative inflation measures.
- Due to the likely timing of Virginia's conformity to the federal provisions, the full impact for Taxable Year 2018 is recognized in fiscal year 2019.
- Nonresidents account for approximately 11% of revenues.

Source: Chainbridge Software, LLC

Details of the Revenue Impacts from Individual Income Tax Provisions

Estimated Virginia Tax Impact of Individual Provisions of the TCJA

Residents and Nonresidents

Fiscal Year 2019 to 2024

	($Millions)						
	2019*	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Simulation 1: Standard deduction modification	147.8	100.5	99.7	99.2	99.0	99.0	645.2
Simulation 2: Alternative inflation measure	14.2	9.4	9.8	9.8	10.3	10.8	64.4
Simulation 3: Loss limitation for noncorporate taxpayers	125.9	103.6	102.8	101.5	100.5	100.0	634.3
Simulation 4: Repeal and limitation of certain itemized deductions**	366.9	283.0	303.2	324.4	346.8	370.9	1,995.2
Simulation 5: Increase limit for cash charitable contributions	(0.9)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)	(4.9)
Simulation 6: Repeal of overall limitation on itemized deductions	(96.7)	(72.2)	(74.9)	(77.7)	(80.7)	(84.1)	(486.3)
Simulation 7: Changes to moving expense deduction and exclusion	6.2	4.3	4.4	4.6	4.8	4.9	29.1
Simulation 8: Medical expense deduction restoration for 2018	(45.6)	-	-	-	-	-	(45.6)
Simulation 9: Repeal deduction for alimony payments	0.8	1.1	1.6	2.2	2.9	3.7	12.2
Off-Model Estimate 1: Repeal itemized deduction for interest on mortgage debt & home equity debt	13.7	15.1	21.2	29.0	37.3	42.7	158.9
Off-Model Estimate 2: Repeal special rule permitting recharacterization of Roth conversions	-	-	-	0.6	1.0	1.0	2.5
Off-Model Estimate 3: Length of service awards for public safety volunteers	-	(0.3)	(0.4)	(0.4)	(0.4)	(0.8)	(2.2)
Off-Model Estimate 4: Allow 529 withdrawals up to $10,000 for primary & secondary education	-	-	-	-	(0.6)	(1.1)	(1.7)
Total, All Provisions	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019

** Limitation for state and local taxes and repeal of non-disaster casualty loss deduction; and deduction for certain miscellaneous expenses

- About two-thirds of the revenues are from the repeal and limitation of certain itemized deductions.

Source: Chainbridge Software, LLC

Details on the Individual Income Tax Provisions

Comparison of Certain Itemized Deduction Changes to Repeal of Pease Limitation

Residents Only, Taxable Year 2018

Virginia Adjusted Gross Income	Repeal and Limitation of Certain Itemized Deductions ($Millions)	Repeal of Pease Limitation ($Millions)	Net ($Millions)
$25,000 and below	2.6	(0.0)	2.6
25,000 - 50,000	22.9	(0.0)	22.9
50,000 - 75,000	23.8	(0.0)	23.8
75,000 - 100,000	21.6	(0.0)	21.6
100,000 - 125,000	19.7	(0.0)	19.7
125,000 - 150,000	17.8	(0.0)	17.8
150,000 - 175,000	16.2	(0.0)	16.2
175,000 - 200,000	14.0	(0.0)	14.0
200,000 - 250,000	21.9	(0.1)	21.8
250,000 - 500,000	35.4	(7.4)	27.9
500,000 - 1,000,000	17.7	(16.2)	1.5
$1,000,000 and above	25.6	(36.5)	(10.8)
Totals	239.2	(60.2)	179.0

Source: Virginia Individual Income Tax Microsimulation Model

* Percent Change = (Tax Change / Simulation 5) * 100

- Each provision cannot be considered without taking into account other related provisions. For example, those with income of $250,000 or more will pay an additional $78.7 million in Virginia taxes as a result of changes to the state and local tax and miscellaneous itemized deductions.
- However, that will be offset in $60.2 million in tax savings from the federal repeal of the Pease limitation on itemized deductions, resulting in a net impact of $18.5 million. Those in the highest income range will actually realize a net benefit of $10.8 million from these two provisions.

Source: Chainbridge Software, LLC

Details on the Individual Income Tax Provisions

Impact on the Decision to Either Itemize or Take the Standard Deduction

Residents Only, Taxable Year 2018

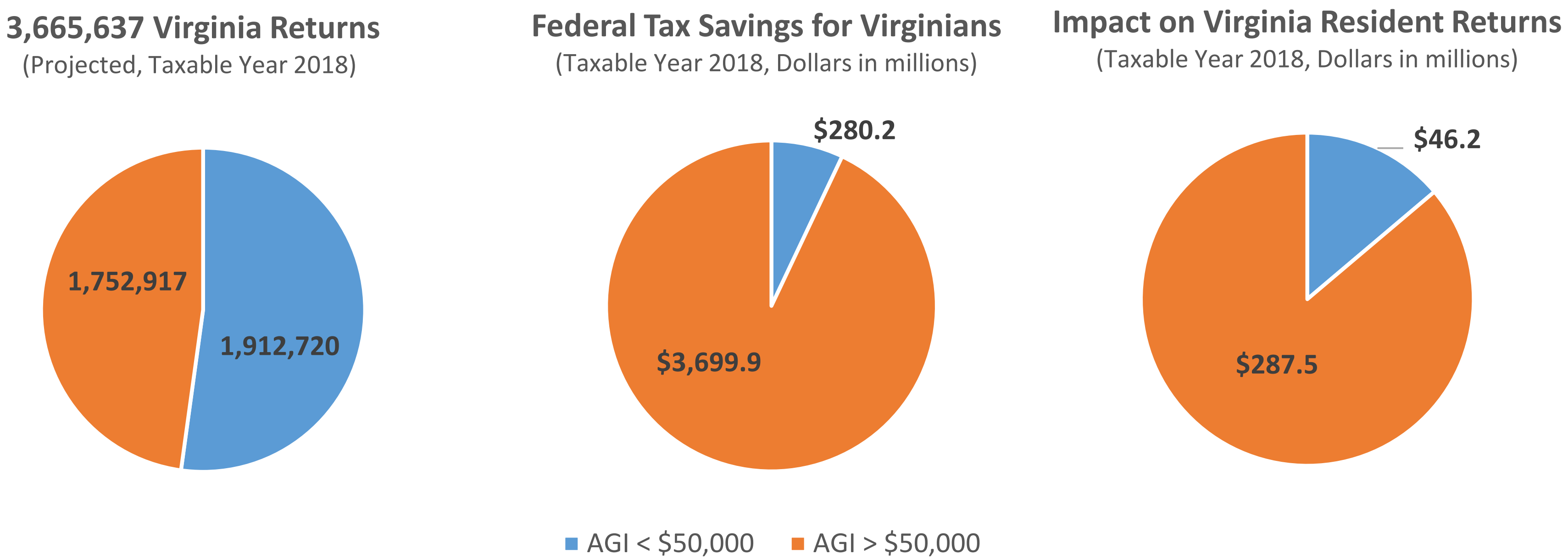
Virginia Adjusted Gross Income	Itemized Deduction Number of Returns (Prior Law)	Itemized Deduction Number of Returns (New Law)	Standard Deduction Number of Returns (Prior Law)	Standard Deduction Number of Returns (New Law)	Number Switching from Itemized to Standard
$25,000 and below	36,628	16,621	1,084,910	1,104,917	20,007
25,000 - 50,000	167,870	94,367	623,312	696,815	73,503
50,000 - 75,000	210,411	127,687	291,987	374,711	82,724
75,000 - 100,000	204,658	125,969	153,029	231,718	78,689
100,000 - 125,000	182,721	105,197	71,295	148,819	77,524
125,000 - 150,000	143,545	89,223	27,964	82,285	54,322
150,000 - 175,000	106,729	71,457	12,243	47,515	35,272
175,000 - 200,000	77,615	54,667	5,826	28,773	22,947
200,000 - 250,000	100,752	74,070	4,296	30,978	26,682
250,000 - 500,000	121,447	94,123	1,601	28,925	27,324
500,000 - 1,000,000	25,458	21,178	379	4,659	4,280
1,000,000 - and above	10,668	9,582	296	1,382	1,086
Totals	1,388,501	884,140	2,277,136	2,781,497	504,361

Source: Virginia Individual Income Tax Microsimulation Model

- An estimated 504,361 Virginians are projected to switch from itemizing to claiming the standard deduction.
- This is the combined result of (1) an increase in the federal standard deduction and (2) changes to itemized deductions, including the $10,000 SALT deduction cap and repeal of certain deductions.
- 16.7% of households with income between $50,000 and $150,000 will be impacted by the repeal and limitation of itemized deductions on the Virginia return; these account for only 5.86% of all Virginia resident returns.

Source: Chainbridge Software, LLC

Tax Year 2018 Impact on Households with Income of Less than $50,000



- 52.2% of Virginia resident returns (3.67 million total projected for Taxable Year 2018) are filed by households with income of less than $50,000.
- 93% of federal tax cuts benefit households with income over $50,000; only 7% of federal tax cuts will flow to income earners of less than $50,000.
- However, 13.8% of the Virginia revenues resulting from the TCJA will be paid by those with income of less than $50,000.

Source: Chainbridge Software, LLC

Governor's Proposals to Provide Additional Investment in Main Street and Working Families, and Tax Relief to Income Earners of $50,000 or Less

- **Invest in Main Street and working families**
  - Governor's priorities to be included in budget amendments:
    - Increase broadband access – one-time infrastructure spending
    - Invest in workforce development and education
    - Make health care more affordable

- **Return about one-half of the windfall to income earners of $50,000 or less by making Virginia's *Earned Income Tax Credit for Low-income Taxpayers*** *(20% of the federal credit)* **refundable**
  - Current credit only applies to a positive tax liability
  - Approximate cost of $250 million dollars and would allow 600,000 taxpayers to take full tax benefit for which they qualify
  - Proposal would apply to tax year 2018 requiring an emergency clause in the legislation proposed for the 2019 General Assembly.
  - The credit will mirror the federal individual provision.

Internet Sales *(Wayfair)*

Estimated Revenue Impact by Fund

(millions of dollars)

State Sales and Use Tax (5.3% net of Dealer Discount)	5.280%	$ 233.7
GF - Unrestricted (1)	2.015%	$ 89.2
GF - Restricted 1% Education (2)	0.990%	$ 43.8
Education School Age 1/8%- (GF transfer from Restricted)	0.125%	$ 5.5
Education SOQ- 1/4%(GF transfer from Unrestricted)	0.250%	$ 11.1
Transportation (3)	0.800%	$ 35.4
HMOF (GF transfer)	0.100%	$ 4.4
Local Option	1.000%	$ 44.3
Regional Trans. Funds (0.7%) (4)	0.367%	$ 16.3
Hampton Roads (TPO)	0.127%	$ 5.6
Northern Virginia (NVTA)	0.240%	$ 10.6
Total Sales and Use Tax (4)	5.647%	$ 250.0

Notes:

1) Includes: 2.025% General Fund Unrestricted, -0.01% Dealer Discount.
2) Includes: 1% Education based on school age population, -0.01% Dealer Discount.
3) Includes 0.5% TTF, 0.175% HMOF, 0.050% IPROCF, and 0.075% Mass Transit Fund.
4) The assumed state, local and regional sales and use blended tax rate is 5.65%, after dealer discount.

Source: GAO Study, November 2017

“Interstate Sales-Tax Compliance Is Killing My Business”

The Supreme Court has spoken. Now Congress should step in to impose uniform nationwide rules.

American commerce has never stood still, and for more than 200 years the U.S. legal system has struggled to keep up with evolving sales trends. The Supreme Court’s ruling in Gibbons v. Ogden (1824) affirmed the federal government’s power to regulate steamboats crossing state lines. Now, the court’s June decision in South Dakota v. Wayfair has allowed states to tax sales of goods and services delivered to their residents, even when vendors aren’t based there.

In Wayfair’s wake, courts may soon be forced to rule on the regulation of transactions made via blockchain. If automated delivery vehicles are found to establish “nexus”—or physical presence—for their owners, sellers may be forced to remit taxes in states where they deliver goods. There currently are few limits on the sales rules states can impose, allowing legislatures to lay claim to all kinds of interstate commerce. These new layers of taxes and regulation could raise prices for vendors and consumers.

Congress must act to simplify the rules of commerce after the Wayfair decision. Though Justice Anthony Kennedy and Chief Justice John Roberts issued differing opinions on the case, both affirmed the federal government’s power to mandate open commerce. Alexander Hamilton wrote in Federalist No. 11 that unrestrained commerce between the states would “advance the trade of each.” Without a new law to limit state regulation of internet sales, interstate trade will soon be stifled.

As a business owner, my main problem isn’t the money my company pays in state taxes. Rather, it’s the compliance and paperwork we’re forced to undertake to make sure we don’t violate the law unintentionally. My employees and I must figure out what is taxable and what isn’t in all 50 states and countless localities. Is a bolt taxable? In some states that depends on whether the bolt is used to repair office equipment, which is taxable, or to fix manufacturing equipment, which isn’t.

Taxes on services can be equally challenging. Texas taxes different kinds of services at different rates and requires vendors to fill out their own payment permits. For my supply-chain-management company, that means deciding which of three information-technology categories describes our services. To ensure accuracy, my employees and I have to determine whether each customer will use our products for wholesale purposes or whether they are the final user. Texas also allows its 254 counties and more than 1,000 municipalities to impose their own sales levies, which must be calculated individually.

Then come the audits. Our company has been audited as many as five times in a year each year. One audit from Illinois demanded rental-car and hotel receipts in an attempt to apply the nexus standard to services we delivered to a customer. So each time we do a custom installation or on-site maintenance, we need to check with our accountant to determine if we’re establishing nexus.

Congress should step in to untangle this convoluted mess of burdensome state rules. In its place, lawmakers should impose clear nationwide standards for interstate vendors. House Republicans will have an opportunity to do so in their coming plan for “Tax Reform 2.0,” announced last month by the Ways and Means Committee. The current outline doesn’t mention state sales taxes. But encouraging economic growth by simplifying taxes is the stated purpose of the reform and was the key to the success of the first iteration.

Previous attempts to establish fairness in state sales taxes, like Rep. Bob Goodlatte’s 2016 bill, have failed to gain steam. How about reframing sales-tax reform as a way to unleash economic activity and reduce prices for consumers?

The Council on State Taxation, an association of corporate taxpayers, issued a dense report in April that takes 66 pages to summarize the nation’s sales-tax regime. Among the best practices identified by the council are exemptions for small businesses, which are critical to boost startup activity, and centralized remittance to one state-revenue authority, which reduces accounting costs.

Making provisions like these into uniform rules for interstate vendors would help companies like mine expand our operations and reduce excessive record-keeping and pricey meetings with lawyers and accountants. If Congress chooses to enact sales-tax reform, interstate commerce will expand and everyone will win.

by Jay Steinmetz – The Wall Street Journal, Aug. 8, 2018

Known Funding Commitments / Risks

- **Major Employment and Investment** (MEI) **Project Approval Commission Obligations**

- **Virginia Retirement System** (VRS) **Investment Earnings**

- **Federal Actions**
  - Grants Funding
  - Budget

- **Agency Projects**
  - VITA – Northrop Grumman Settlement / Transition
  - DOA / DHRM – Human Resource System Replacement
  - Virginia State Police Communications – *Statewide Agencies Radio System* (STARS)

- **Transportation Funding**

- **Capital Allocation**
  - Priority
  - Deferred Maintenance

Appendix

- Fiscal Year 2018 General Fund Collections: Actual and Official Forecast
- Official General Fund Forecast for Fiscal Years 2019 and 2020
- Official Commonwealth Transportation Fund Forecast for Fiscal Years 2019 & 2020
- Growth in Total General Fund Revenues, Fiscal Years 1961 to 2020
- June 2018 Revenue Report
- July 2018 Revenue Report
- Chainbridge Summary Report

Note:

The General Fund Preliminary Annual Report, August, 2018 is available at the Department of Accounts web site (www.doa.virginia.gov).

This presentation is available at the Secretary of Finance web site (www.finance.virginia.gov).

Fiscal Year 2018 General Fund Collections: Actual and Official Forecast
(Dollars in Millions)

	Fiscal Year 2017		Fiscal Year 2018					
			Official		Forecast Variance		% Growth Over FY 17	
	Actual	% Growth	Forecast	Actual	Dollars	Percent	Official	Actual
MAJOR TAX SOURCES								
Corporate Income	$ 827.0	8.1 %	$ 874.0	$ 861.9	$ (12.1)	(1.4) %	5.7 %	4.2 %
Individual Income Tax:								
Gross	14,913.9	3.7	15,460.6	16,013.4	552.8	3.6	3.7	7.4
Withholding	11,895.4	5.2	12,313.3	12,540.5	227.2	1.8	3.5	5.4
Nonwithholding	3,018.5	(1.7)	3,147.3	3,472.9	325.6	10.3	4.3	15.1
Refunds	(1,861.0)	2.2	(1,968.7)	(1,907.6)	61.1	(3.1)	5.8	2.5
Net	13,052.9	4.0	13,491.9	14,105.8	613.9	4.5	3.4	8.1
Insurance Company Premiums	340.9	0.5	362.1	337.9	(24.2)	(6.7)	6.2	(0.9)
State Sales & Use Tax	3,357.1	1.9	3,458.2	3,461.8	3.6	0.1	3.0	3.1
Wills, Suits, Deeds, & Contract Fees	394.4	6.9	407.2	394.9	(12.3)	(3.0)	3.3	0.1
Total Major Tax Sources	$ 17,972.2	3.7 %	$ 18,593.4	$ 19,162.3	$ 568.9	3.1 %	3.5 %	6.6 %
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	$ 180.7	3.1 %	$ 189.7	$ 191.0	$ 1.3	0.7 %	5.0 %	5.7 %
Bank Franchise Tax	22.0	23.9	22.0	24.0	2.0	8.9	(0.2)	8.7
Beer & Beverage Excise Tax	41.7	(1.4)	42.3	40.9	(1.4)	(3.4)	1.5	(2.0)
Corporate Franchise & Charter Fees	53.4	(0.5)	51.2	53.6	2.4	4.7	(4.0)	0.5
Excess & Other Fees from Officers	(7.9)	(7.9)	(7.9)	(7.7)	0.2	(3.1)	0.4	3.5
Estate & Gifts	8.2	na	0.8	0.9	0.1	n/a	n/a	n/a
Institutional Revenues	2.3	(57.0)	2.1	2.8	0.7	31.3	(7.0)	22.1
Interest & Rents	56.0	6.4	68.1	61.7	(6.4)	(9.3)	21.7	10.3
Licenses & Permits	4.2	0.9	4.2	4.0	(0.2)	(4.6)	0.9	(3.7)
Miscellaneous Taxes and Penalties	237.3	(1.3)	231.5	229.2	(2.3)	(1.0)	(2.4)	(3.4)
Other Miscellaneous Revenues	30.1	(22.3)	32.8	19.4	(13.4)	(40.7)	8.9	(35.4)
Public Service GR / Consumption Tax	95.1	2.7	98.0	98.7	0.7	0.7	3.1	3.8
Total Misc. Taxes and Other Revenues	$ 722.9	1.0 %	$ 734.8	$ 718.5	$ (16.3)	(2.2) %	1.6 %	(0.6) %
TOTAL GF REVENUES	**$ 18,695.1**	**3.6 %**	**$ 19,328.2**	**$ 19,880.8**	**$ 552.6**	**2.9 %**	**3.4 %**	**6.3 %**
TRANSFERS								
A.B.C. Profits	$ 110.5	27.7 %	$ 104.1	$ 109.5	$ 5.4	5.1 %	(5.8) %	(0.9) %
Sales Tax (0.25%)	365.9	2.9	379.1	376.6	(2.5)	(0.7)	3.6	2.9
Transfers Per Appropriations Act	176.9	47.9	142.1	142.2	0.1	0.1	(19.7)	(19.6)
Total Transfers	$ 653.3	16.3 %	$ 625.3	$ 628.3	$ 3.0	0.5 %	(4.3) %	(3.8) %
TOTAL GENERAL FUND	**$ 19,348.4**	**4.0 %**	**$ 19,953.5**	**$ 20,509.0**	**$ 555.5**	**2.8 %**	**3.1 %**	**6.0 %**

The Official forecast is based on the October 2017 IHS Markit US Standard outlook and the corresponding Virginia economic outlook developed by the Department of Taxation with recommendations from GACRE. It includes actions of the 2018 General Assembly - Chapters 1 and 2.

The December and Official General Fund Forecast for Fiscal Year 2019

(Dollars in Millions)

June 7, 2018

	Fiscal Year 2019				
	December Forecast	Official Forecast	Change	% Growth Over FY 18 December	% Growth Over FY 18 Official
MAJOR TAX SOURCES					
Corporate Income	$ 912.0	$ 912.0	$ 0.0	4.3 %	4.3 %
Individual Income Tax:					
Gross	16,171.7	16,238.5	66.8	4.6	5.0
Withholding	12,810.2	12,870.2	60.0	4.0	4.5
Nonwithholding	3,361.5	3,368.3	6.8	6.8	7.0
Refunds	(2,061.3)	(2,054.7)	6.6	4.7	4.4
Net	14,110.4	14,183.8	73.4	4.6	5.1
Insurance Company Premiums	376.6	376.6	0.0	4.0	4.0
State Sales & Use Tax	3,547.1	3,547.3	0.2	2.6	2.6
Wills, Suits, Deeds, & Contract Fees	407.2	407.2	0.0	0.0	0.0
Total Major Tax Sources	$ 19,353.3	$ 19,426.9	$ 73.6	4.1 %	4.5 %
MISCELLANEOUS TAXES AND OTHER REVENUES					
Alcoholic Beverage State Tax	$ 197.5	$ 197.5	$ 0.0	4.1 %	4.1 %
Bank Franchise Tax	22.0	22.0	0.0	0.0	0.0
Beer & Beverage Excise Tax	42.3	42.3	0.0	0.0	0.0
Corporate Franchise & Charter Fees	51.2	51.2	0.0	0.0	0.0
Excess & Other Fees from Officers	(7.9)	(7.9)	0.0	0.0	0.0
Estate & Gifts	0.0	0.0	0.0	n/a	n/a
Institutional Revenues	2.1	2.1	0.0	0.0	0.0
Interest & Rents	66.5	66.5	0.0	(2.3) %	(2.3)
Licenses & Permits	4.2	4.2	0.0	0.0 %	0.0
Miscellaneous Taxes and Penalties	234.8	234.9	0.1	1.4 %	1.5
Other Miscellaneous Revenues	32.5	36.0	3.5	(0.9) %	9.8
Public Service GR / Consumption Tax	98.0	98.0	0.0	0.0 %	0.0
Total Misc. Taxes and Other Revenues	$ 743.2	$ 746.8	$ 3.6	1.1 %	1.6 %
TOTAL GF REVENUES	**$ 20,096.5**	**$ 20,173.7**	**$ 77.2**	**4.0 %**	**4.4 %**
TRANSFERS					
A.B.C. Profits	$ 109.8	$ 109.8	$ 0.0	5.5 %	5.5 %
Sales Tax (0.375%)	386.7	386.7	0.0	2.0	2.0
Transfers Per Appropriations Act	119.2	124.5	5.3	(14.6)	(12.4)
Total Transfers	$ 615.7	$ 621.0	$ 5.3	(1.1) %	(0.7) %
TOTAL GENERAL FUND	**$ 20,712.2**	**$ 20,794.7**	**$ 82.5**	**3.8 %**	**4.2 %**

The Official forecast is based on the October 2017 IHS Markit Standard Outlook and the corresponding Virginia state forecast developed by the Department of Taxation with recommendations from GACRE. It includes actions of the 2018 General Assembly Session. Chapters 1 and 2.

The December forecast is based on the October 2017 IHS Markit Standard Outlook and the corresponding Virginia state forecast developed by the Department of Taxation with recommendations from JABE and GACRE and contains the same policy assumptions in Chapter 836.

The December and Official General Fund Forecast for Fiscal Year 2020

(Dollars in Millions)

June 7, 2018

	Fiscal Year 2020					2018-2020 Biennium		
	December Forecast	Official Forecast	Change	% Growth Over FY 19 December	% Growth Over FY 19 Official	December Forecast	Official Forecast	Change
MAJOR TAX SOURCES								
Corporate Income	$ 926.4	$ 926.4	$ 0.0	1.6 %	1.6 %	$ 1,838.4	$ 1,838.4	$ 0.0
Individual Income Tax:								
Gross	16,939.5	17,003.5	64.0	4.7	4.7	33,111.2	33,242.0	130.8
Withholding	13,308.5	13,368.5	60.0	3.9	3.9	26,118.7	26,238.7	120.0
Nonwithholding	3,631.0	3,635.0	4.0	8.0	7.9	6,992.5	7,003.3	10.8
Refunds	(2,153.9)	(2,147.3)	6.6	4.5	4.5	(4,215.2)	(4,202.0)	13.2
Net	14,785.6	14,856.2	70.6	4.8	4.7	28,896.0	29,040.0	144.0
Insurance Company Premiums	384.6	397.6	13.0	2.1	5.6	761.2	774.2	13.0
State Sales & Use Tax	3,625.0	3,625.2	0.2	2.2	2.2	7,172.1	7,172.5	0.4
Wills, Suits, Deeds, & Contract Fees	407.2	407.2	0.0	0.0	0.0	814.4	814.4	0.0
Total Major Tax Sources	$ 20,128.8	$ 20,212.6	$ 83.8	4.0 %	4.0 %	$ 39,482.1	$ 39,639.5	$ 157.4
MISCELLANEOUS TAXES AND OTHER REVENUES								
Alcoholic Beverage State Tax	$ 205.9	$ 205.9	$ 0.0	4.3 %	4.3 %	$ 403.4	$ 403.4	$ 0.0
Bank Franchise Tax	22.0	22.0	0.0	0.0	0.0	44.0	44.0	0.0
Beer & Beverage Excise Tax	42.3	42.3	0.0	0.0	0.0	84.6	84.6	0.0
Corporate Franchise & Charter Fees	51.2	51.2	0.0	0.0	0.0	102.4	102.4	0.0
Excess & Other Fees from Officers	(7.9)	(7.9)	0.0	0.0	0.0	(15.8)	(15.8)	0.0
Estate & Gifts	0.0	0.0	0.0	n/a	n/a	0.0	0.0	n/a
Institutional Revenues	2.1	2.1	0.0	0.0	0.0	4.2	4.2	0.0
Interest & Rents	73.0	73.0	0.0	9.8	9.8	139.5	139.5	0.0
Licenses & Permits	4.2	4.2	0.0	0.0	0.0	8.4	8.4	0.0
Miscellaneous Taxes and Penalties	240.2	240.3	0.1	2.3	2.3	475.0	475.2	0.2
Other Miscellaneous Revenues	32.5	32.5	0.0	0.0	(9.7)	65.0	68.5	3.5
Public Service GR / Consumption Tax	98.0	98.0	0.0	0.0	0.0	196.0	196.0	0.0
Total Misc. Taxes and Other Revenues	$ 763.5	$ 763.6	$ 0.1	2.7 %	2.2 %	$ 1,506.7	$ 1,510.4	$ 3.7
TOTAL GF REVENUES	**$ 20,892.3**	**$ 20,976.2**	**$ 83.9**	**4.0 %**	**4.0 %**	**$ 40,988.8**	**$ 41,149.9**	**$ 161.1**
TRANSFERS								
A.B.C. Profits	$ 115.5	$ 115.5	$ 0.0	5.2 %	5.2 %	$ 225.3	$ 225.3	$ 0.0
Sales Tax (0.375%)	395.2	395.2	0.0	2.2	2.2	781.9	781.9	0.0
Transfers Per Appropriations Act	115.0	120.3	5.3	(3.5)	(3.4)	234.2	244.8	10.6
Total Transfers	$ 625.7	$ 631.0	$ 5.3	1.6 %	1.6 %	$ 1,241.4	$ 1,252.0	$ 10.6
TOTAL GENERAL FUND	**$ 21,518.0**	**$ 21,607.2**	**$ 89.2**	**3.9 %**	**3.9 %**	**$ 42,230.2**	**$ 42,401.9**	**$ 171.7**

The Official forecast is based on the October 2017 IHS Markit Standard Outlook and the corresponding Virginia state forecast developed by the Department of Taxation with recommendations from GACRE. It includes actions of the 2018 General Assembly Session. Chapters 1 and 2.

The December forecast is based on the October 2017 IHS Markit Standard Outlook and the corresponding Virginia state forecast developed by the Department of Taxation with recommendations from JABE and GACRE and contains the same policy assumptions in Chapter 836.

The Official and August Commonwealth Transportation Fund Update for Fiscal Year 2019
(Dollars in Millions)

August 17, 2018

	Fiscal Year 2018		Fiscal Year 2019				
			Official	August		% Growth over FY 18	
	Actual	% Growth	Forecast	Forecast	Change	Official	August
Highway Maintenance & Operating Fund							
Motor Fuels Tax	$ 683.4	(1.7) %	$ 724.4	$ 691.2	$ (33.2)	6.0 %	1.1 %
Road Tax	3.6	(14.3)	1.7	3.1	1.4	(52.8)	(15.0)
Motor Vehicle Sales And Use Tax	711.0	(1.5)	715.7	734.5	18.8	0.7	3.3
Motor Vehicle License Fees	237.2	(0.3)	236.7	237.3	0.6	(0.2)	0.0
Retail Sales and Use Tax	292.5	5.6	292.7	298.3	5.6	0.1	2.0
International Registration Plan	69.2	4.5	64.2	69.0	4.8	(7.2)	(0.3)
Miscellaneous	19.6	6.5	17.2	19.6	2.4	(12.2)	0.0
Total State Taxes and Fees	$ 2,016.5	(0.2) %	$ 2,052.6	$ 2,053.0	$ 0.4	1.8 %	1.8 %
Transportation Trust Fund							
Motor Fuels Tax	$ 160.1	(1.7) %	$ 172.1	$ 162.0	$ (10.1)	7.5 %	1.2 %
Insurance Premiums Tax (1/3)	168.0	3.0	176.7	168.7	(8.0)	5.2	0.4
Road Tax	8.0	(1.2)	8.6	8.1	(0.5)	7.5	1.2
Motor Vehicle Sales And Use Tax	232.7	(1.4)	236.9	240.1	3.2	1.8	3.2
Motor Vehicle License Fees	21.6	(2.7)	22.5	21.5	(1.0)	4.2	(0.4)
Retail Sales and Use Tax	751.3	1.1	775.1	766.2	(8.9)	3.2	2.0
Recordation Tax	47.8	(0.6)	48.3	47.8	(0.5)	1.0	0.0
Interest Earnings	8.9	39.1	4.2	11.3	7.1	(52.8)	27.3
Rental Tax	40.2	1.8	42.4	41.7	(0.7)	5.5	3.7
Aviation Fuels Tax	2.0	0.0	1.9	2.0	0.1	(5.0)	0.0
Total State Taxes and Fees	$ 1,440.6	0.6 %	$ 1,488.7	$ 1,469.4	$ (19.3)	3.3 %	2.0 %
Total HMOF And TTF							
Motor Fuels Tax	$ 843.5	(1.7) %	$ 896.5	$ 853.2	$ (43.3)	6.3 %	1.2 %
Insurance Premiums Tax (1/3)	168.0	3.0	176.7	168.7	(8.0)	5.2	0.4
Road Tax	11.6	(5.7)	10.3	11.2	0.9	(11.2)	(3.8)
Motor Vehicle Sales and Use Tax	943.7	(1.5)	952.6	974.6	22.0	0.9	3.3
Motor Vehicle License Fees	258.8	(0.5)	259.2	258.8	(0.4)	0.2	0.0
International Registration Plan	69.2	4.5	64.2	69.0	4.8	(7.2)	(0.3)
Retail Sales and Use Tax	1,043.8	2.3	1,067.8	1,064.5	(3.3)	2.3	2.0
Recordation Tax (3 cents)	47.8	(0.6)	48.3	47.8	(0.5)	1.0	0.0
Interest Earnings	8.9	39.1	4.2	11.3	7.1	(52.8)	27.3
Rental Tax	40.2	1.8	42.4	41.7	(0.7)	5.5	3.7
Aviation Fuels Tax	2.0	0.0	1.9	2.0	0.1	(5.0)	0.0
Miscellaneous	19.6	6.5	17.2	19.6	2.4	(12.2)	0.0
Total State Taxes and Fees	**$ 3,457.1**	**0.1 %**	**$ 3,541.3**	**$ 3,522.4**	**$ (18.9)**	**2.4 %**	**1.9 %**
Transfers per the Appropriations Act							
Retail Sales Tax - AST (TTF)	0.0	n/a	0.0	0.0	0.0	n/a	n/a
Total Transfers	$ 0.0	n/a	$ 0.0	$ 0.0	$ 0.0	n/a	n/a %
Total Transportation Fund	**$ 3,457.1**	**0.1**	**$ 3,541.3**	**$ 3,522.4**	**$ (18.9)**	**2.4 %**	**1.9 %**

The Official forecast is based on the October 2017 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.
The August forecast is based on FY18 actual collectons.

The Official and August Commonwealth Transportation Fund Update for Fiscal Year 2020
(Dollars in Millions)

August 17, 2018

	Fiscal Year 2020 Official Forecast	August Forecast	Change	% Growth over FY 19 Official	August
Highway Maintenance & Operating Fund					
Motor Fuels Tax	$ 730.1	$ 696.7	$ (33.4)	0.8 %	0.8 %
Road Tax	1.4	2.5	1.1	(17.6)	(17.6)
Motor Vehicle Sales And Use Tax	723.2	742.2	19.0	1.0	1.0
Motor Vehicle License Fees	239.1	239.7	0.6	1.0	1.0
Retail Sales and Use Tax	299.2	304.9	5.7	2.2	2.2
International Registration Plan	65.0	69.8	4.8	1.2	1.2
Miscellaneous	17.2	20.0	2.8	0.0	2.2
Total State Taxes and Fees (HMOF)	$ 2,075.2	$ 2,075.9	$ 0.7	1.1 %	1.1 %
Transportation Trust Fund					
Motor Fuels Tax	$ 173.4	$ 163.3	$ (10.1)	0.8 %	0.8 %
Insurance Premiums Tax (1/3)	184.4	176.1	(8.3)	4.4	4.4
Road Tax	8.6	8.1	(0.5)	0.0	0.0
Motor Vehicle Sales And Use Tax	239.3	242.5	3.2	1.0	1.0
Motor Vehicle License Fees	22.9	21.9	(1.0)	1.8	1.8
Retail Sales and Use Tax	792.2	783.1	(9.1)	2.2	2.2
Recordation Tax	48.3	47.8	(0.5)	0.0	0.0
Interest Earnings	4.5	12.1	7.6	7.1	7.1
Rental Tax	43.2	42.5	(0.7)	1.9	1.9
Aviation Fuels Tax	1.9	2.0	0.1	0.0	0.0
Total State Taxes and Fees (TTF)	$ 1,518.7	$ 1,499.4	$ (19.3)	2.0 %	2.0 %
Total HMOF And TTF					
Motor Fuels Tax	$ 903.5	$ 860.0	$ (43.5)	0.8 %	0.8 %
Insurance Premiums Tax (1/3)	184.4	176.1	(8.3)	4.4	4.4
Road Tax	10.0	10.6	0.6	(2.9)	(4.8)
Motor Vehicle Sales and Use Tax	962.5	984.7	22.2	1.0	1.0
Motor Vehicle License Fees	262.0	261.6	(0.4)	1.1	1.1
International Registration Plan	65.0	69.8	4.8	1.2	1.2
Retail Sales and Use Tax	1,091.4	1,088.1	(3.3)	2.2	2.2
Recordation Tax (3 cents)	48.3	47.8	(0.5)	0.0	0.0
Interest Earnings	4.5	12.1	7.6	7.1	7.1
Rental Tax	43.2	42.5	(0.7)	1.9	1.9
Aviation Fuels Tax	1.9	2.0	0.1	0.0	0.0
Miscellaneous	17.2	20.0	2.8	0.0	2.2
Total State Taxes and Fees	**$ 3,593.9**	**$ 3,575.3**	**$ (18.6)**	**1.5 %**	**1.5 %**
Transfers per the Appropriations Act					
Retail Sales Tax - AST (TTF)	0.0	0.0	0.0	n/a	n/a
Total Transfers	$ 0.0	$ 0.0	$ 0.0	n/a %	n/a %
Total Transportation Fund	**$ 3,593.9**	**$ 3,575.3**	**$ (18.6)**	**1.5 %**	**1.5 %**

The Official forecast is based on the October 2017 Global Insight Standard outlook and the corresponding Virginia state forecast developed by the Department of Taxation.
The August forecast is based on FY18 actual collectons.

Growth in Total General Fund Revenues

Fiscal Year 1961 - Fiscal Year 2020

(Nominal - Actual Dollars)

FY	Total Revenues	Growth	FY	Total Revenues	Growth
61	230,998,887	-	91	5,471,879,000	-0.4%
62	242,144,567	4.8%	92	5,623,213,000	2.8%
63	286,304,265	18.2%	93	6,133,637,000	9.1%
64	298,033,919	4.1%	94	6,503,368,000	6.0%
65	323,213,412	8.4%	95	6,881,145,000	5.8%
66	365,129,776	13.0%	96	7,356,110,000	6.9%
67	414,755,644	13.6%	97	7,949,327,000	8.1%
68	533,597,744	28.7%	98	8,773,520,000	10.4%
69	706,254,374	32.4%	99	9,702,747,000	10.6%
70	743,721,322	5.3%	00	10,788,482,000	11.2%
71	807,954,651	8.6%	01	11,105,275,000	2.9%
72	922,653,686	14.2%	02	10,678,954,000	-3.8%
73	1,054,469,443	14.3%	03	10,867,149,000	1.8%
74	1,168,562,871	10.8%	04	11,917,867,000	9.7%
75	1,303,178,893	11.5%	05	13,687,252,000	14.8%
76	1,428,421,157	9.6%	06	14,834,298,000	8.4%
77	1,636,301,819	14.6%	07	15,565,827,000	4.9%
78	1,923,085,084	17.5%	08	15,766,951,000	1.3%
79	2,115,211,522	10.0%	09	14,315,060,000	-9.2%
80	2,344,928,934	10.9%	10	14,219,477,000	-0.7%
81	2,579,663,941	10.0%	11	15,040,200,000	5.8%
82	2,796,458,741	8.4%	12	15,846,665,000	5.4%
83	2,975,687,935	6.4%	13	16,684,600,000	5.3%
84	3,397,710,261	14.2%	14	16,411,400,000	-1.6%
85	3,790,816,000	11.6%	15	17,735,600,000	8.1%
86	4,131,778,000	9.0%	16	18,040,100,000	1.7%
87	4,590,434,000	11.1%	17	18,695,100,000	3.6%
88	5,054,382,000	10.1%	18	19,880,800,000	6.3%
89	5,478,912,000	8.4%	19*	20,173,700,000	1.5%
90	5,494,884,000	0.3%	20*	20,976,200,000	4.0%

* Chapter 2

FY 2018 Revised Estimate
Per Chapter 1

Commonwealth of Virginia/Department of Accounts
Summary Report on General Fund Revenue Collections
For the Fiscal Years 2017 and 2018
(Dollars in Thousands)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			June			Year-To-Date			% Annual Growth
Revenue	FY 2018 Estimate	As a % of Gen Fund Rev	FY 2018	FY 2017	% Change	FY 2018	FY 2017	% Change	Req By Est
Individual Income Tax:									
Withholding	$12,313,300	63.71	$1,124,022	$1,034,918	8.6	$12,540,508	$11,895,374	5.4	3.5
Tax Dues/Estimated Payments	$3,147,300	16.28	368,768	318,110	15.9	3,472,858	3,018,487	15.1	4.3
Gross Individual Income Tax	$15,460,600	79.99	$1,492,790	$1,353,028	10.3	$16,013,366	$14,913,861	7.4	3.7
Individual and Fiduciary Income (Refunds)	(1,968,700)	(10.19)	(74,489)	(83,618)	(10.9)	(1,907,600)	(1,860,973)	2.5	5.8
Net Individual Income Tax	$13,491,900	69.80	$1,418,301	$1,269,410	11.7	$14,105,766	$13,052,888	8.1	3.4
Sales and Use Tax	$3,458,200	17.89	$517,641	$497,621	4.0	$3,461,772	$3,357,064	3.1	3.0
Corporations Income Tax	874,000	4.52	177,822	173,592	2.4	861,897	826,961	4.2	5.7
Wills, Suits, Deeds, Contracts	407,200	2.11	40,456	37,367	8.3	394,917	394,369	0.1	3.3
Insurance Premiums	362,100	1.87	120,354	121,435	(0.9)	337,947	340,910	(0.9)	6.2
Interest Income (a)	67,800	0.36	(6,651)	(921)	(622.1)	61,418	55,624	10.4	21.9
Alcoholic Beverage Sales (b)	232,000	1.20	47,644	45,360	5.0	231,836	222,353	4.3	4.3
All Other Revenues	435,000	2.25	83,130	78,500	5.9	425,222	444,906	(4.4)	(2.2)
Total General Fund Revenues	$19,328,200	100.00	$2,398,697	$2,222,364	7.9	$19,880,775	$18,695,075	6.3	3.4

Percentage is greater than or equal to 1,000%.

(a) Interest Income for the April - June quarter attributable to nongeneral funds was transferred this month resulting in negative Interest Income for the month of June.
(b) Includes Beer and Beverage Excise Tax and Alcoholic Beverage State Tax.

FY 2018 Revised Estimate
Per Chapter 1

Commonwealth of Virginia/Department of Accounts
General Fund Statement of Revenue Collections and Estimates
For the Fiscal Years 2017 and 2018
(Dollars in Thousands)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		As a %	June			Year-To-Date			% Annual
	FY 2018	of Total			%			%	Growth
Revenue	Estimate	Gen Fund Rev	FY 2018	FY 2017	Change	FY 2018	FY 2017	Change	Req By Est
Taxes:									
Individual Income Tax - Withholding	$12,313,300	63.71	$1,124,022	$1,034,918	8.6	$12,540,508	$11,895,374	5.4	3.5
Tax Dues/Estimated Payments	3,147,300	16.28	368,768	318,110	15.9	3,472,858	3,018,487	15.1	4.3
Gross Individual Income Tax	$15,460,600	79.99	$1,492,790	$1,353,028	10.3	$16,013,366	$14,913,861	7.4	3.7
Individ and Fiduc Income (Refunds)	(1,968,700)	(10.19)	(74,489)	(83,618)	(10.9)	(1,907,600)	(1,860,973)	2.5	5.8
Net Individual Income Tax	$13,491,900	69.80	$1,418,301	$1,269,410	11.7	$14,105,766	$13,052,888	8.1	3.4
Sales and Use Tax	3,458,200	17.89	517,641	497,621	4.0	3,461,772	3,357,064	3.1	3.0
Corporations Income	874,000	4.52	177,822	173,592	2.4	861,897	826,961	4.2	5.7
Public Service Corporations	98,000	0.52	8,796	8,433	4.3	98,672	95,084	3.8	3.1
Insurance Premiums	362,100	1.87	120,354	121,435	(0.9)	337,947	340,910	(0.9)	6.2
Alcoholic Beverage Excise	189,700	0.98	43,550	41,350	5.3	190,974	180,668	5.7	5.0
Beer and Beverage Excise	42,300	0.22	4,094	4,010	2.1	40,862	41,685	(2.0)	1.5
Wills, Suits, Deeds, Contracts	407,200	2.11	40,456	37,367	8.3	394,917	394,369	0.1	3.3
Inheritance, Gift, and Estate	800	0.00	0	0	-	932	8,202	(88.6)	(90.2)
Bank Franchise	22,000	0.11	11,629	2,456	373.5	23,954	22,045	8.7	(0.2)
Other Taxes	12,400	0.06	2,057	1,049	96.1	15,439	9,204	67.7	34.7
Total Taxes	$18,958,600	98.08	$2,344,700	$2,156,723	8.7	$19,533,132	$18,329,080	6.6	3.4
Rights and Privileges:									
Licenses and Permits	$4,200	0.02	$405	$525	(22.9)	$4,006	$4,162	(3.7)	0.9
Corp. Franchise and Charters	51,200	0.27	36,734	36,180	1.5	53,629	53,361	0.5	(4.0)
Fees for Misc. Privileges & Services	11,600	0.06	2,036	2,424	(16.0)	12,280	11,745	4.6	(1.2)
Total Rights and Privileges	$67,000	0.35	$39,175	$39,129	0.1	$69,915	$69,268	0.9	(3.3)
Other Revenues:									
Sales of Property & Commodities	$300	0.00	$0	($11)	100.0	$5,383	$0	-	-
Assessmts & Rcpts for Support of Special Svcs	400	0.00	156	25	524.0	583	182	220.3	119.8
Institutional Revenue	2,100	0.01	46	75	(38.7)	2,758	2,259	22.1	(7.0)
Interest (a)	67,800	0.36	(6,651)	(921)	(622.1)	61,418	55,624	10.4	21.9
Dividends and Rent	300	0.00	(130)	63	(306.3)	324	355	(8.7)	(15.5)
Fines, Forfeitures & Fees	219,100	1.13	19,491	18,869	3.3	213,719	228,059	(6.3)	(3.9)
Other Revenue	13,100	0.07	1,877	8,366	(77.6)	(6,084)	10,765	(156.5)	21.7
Excess Fees	(7,900)	(0.04)	(678)	(679)	0.1	(7,658)	(7,935)	3.5	0.4
Private Donations, Gifts & Cont.	0	0.00	0	0	-	11	9	22.2	(100.0)
Cities, Counties, and Towns	7,400	0.04	711	725	(1.9)	7,274	7,409	(1.8)	(0.1)
Total Other Revenues	$302,600	1.57	$14,822	$26,512	(44.1)	$277,728	$296,727	(6.4)	2.0
Total General Fund Revenues	$19,328,200	100.00	$2,398,697	$2,222,364	7.9	$19,880,775	$18,695,075	6.3	3.4

Percentage is greater than or equal to 1,000%.

(a) Interest Income for the April - June quarter attributable to nongeneral funds was transferred this month resulting in negative Interest Income for the month of June.

Commonwealth of Virginia/Department of Lottery
Summary Report on Lottery Collections
For the Fiscal Years 2017 and 2018
(Dollars in Thousands)

		June			Year-To-Date			% Annual Growth
	FY 2018 Estimate (a)	FY 2018 (b)	FY 2017	% Change	FY 2018 (b)	FY 2017	% Change	Required By Estimate
Lottery Collections								
Total Lottery Sales	$2,100,196	$172,398	$171,809	0.3	$2,139,820	$1,989,872	7.5	5.5
Other Income	541	(43)	(140)	69.3	950	1,044	(9.0)	(48.2)
Total Income	$2,100,737	$172,355	$171,669	0.4	$2,140,770	$1,990,916	7.5	5.5
Less:								
Prize Expenses	$1,276,258	$119,474	$107,622	11.0	$1,317,832	$1,214,303	8.5	5.1
Retailer Commissions	117,844	9,498	10,030	(5.3)	120,725	111,956	7.8	5.3
Operating Expenses	109,975	9,987	16,171	(38.2)	105,553	106,342	(0.7)	3.4
Total Expenses	$1,504,077	$138,959	$133,823	3.8	$1,544,110	$1,432,601	7.8	5.0
Net Proceeds from Operations								
Net Lottery Ticket Profits	$596,660	$33,396	$37,846	(11.8)	$596,660	$558,315	6.9	9.2
Prior Year Residual Profit Transfer	11,819	0	0	-	11,819	53,486	(77.9)	-
Available to Lottery Proceeds Fund	$608,479	$33,396	$37,846	(11.8)	$608,479	$611,801	(0.5)	1.4

Percentage is greater than or equal to 1,000%.

(a) Estimate established by Chapter 1, 2018 Virginia Acts of Assembly Special Session I, Section 3.1-01, Item G.1. The Prior Year Residual Profit Transfer of $11,819,169 was made on August 15, 2017, and is included in the total revenue estimate.

(b) Amounts reported are accrual-based estimates (unaudited closing).

Commonwealth of Virginia/Department of Accounts

Highway Maintenance and Operating Fund and Transportation Trust Fund Revenues

Summary Statement of Selected Revenue Estimates & Collections

For the Fiscal Years 2017 and 2018

(Dollars in Thousands)

Revenue	FY 2018 Estimate	As a % of Total Fund	June FY 2018	June FY 2017	June % Change	Year-To-Date FY 2018	Year-To-Date FY 2017	Year-To-Date % Change	% Annual Growth Required By Estimate
Motor Fuel Taxes	$898,700	18.51	$111,226	$129,873	(14.4)	$857,217	$872,247	(1.7)	3.0
Priority Transportation Fund (PTF)	168,018	3.46	0	0	-	168,018	163,142	3.0	3.0
Motor Vehicle Sales and Use Tax	963,300	19.85	88,357	91,411	(3.3)	983,809	997,150	(1.3)	(3.4)
State Sales and Use Tax	1,047,000	21.57	149,648	148,677	0.7	1,043,805	1,020,359	2.3	2.6
Motor Vehicle License Fees	259,200	5.35	23,090	24,583	(6.1)	258,821	260,173	(0.5)	(0.4)
International Registration Plan	64,400	1.33	3,640	5,089	(28.5)	69,202	66,202	4.5	(2.7)
Recordation Tax	48,300	1.00	4,894	4,630	5.7	47,758	48,109	(0.7)	0.4
Interest Earnings	3,300	0.07	2,694	1,338	101.3	8,880	6,376	39.3	(48.2)
Misc. Taxes, Fees, and Revenues	17,200	0.35	1,848	1,539	20.1	19,610	18,401	6.6	(6.5)
Total State Taxes and Fees	$3,469,418	71.49	$385,397	$407,140	(5.3)	$3,457,120	$3,452,159	0.1	0.5

 # Percentage is greater than or equal to 1,000%.

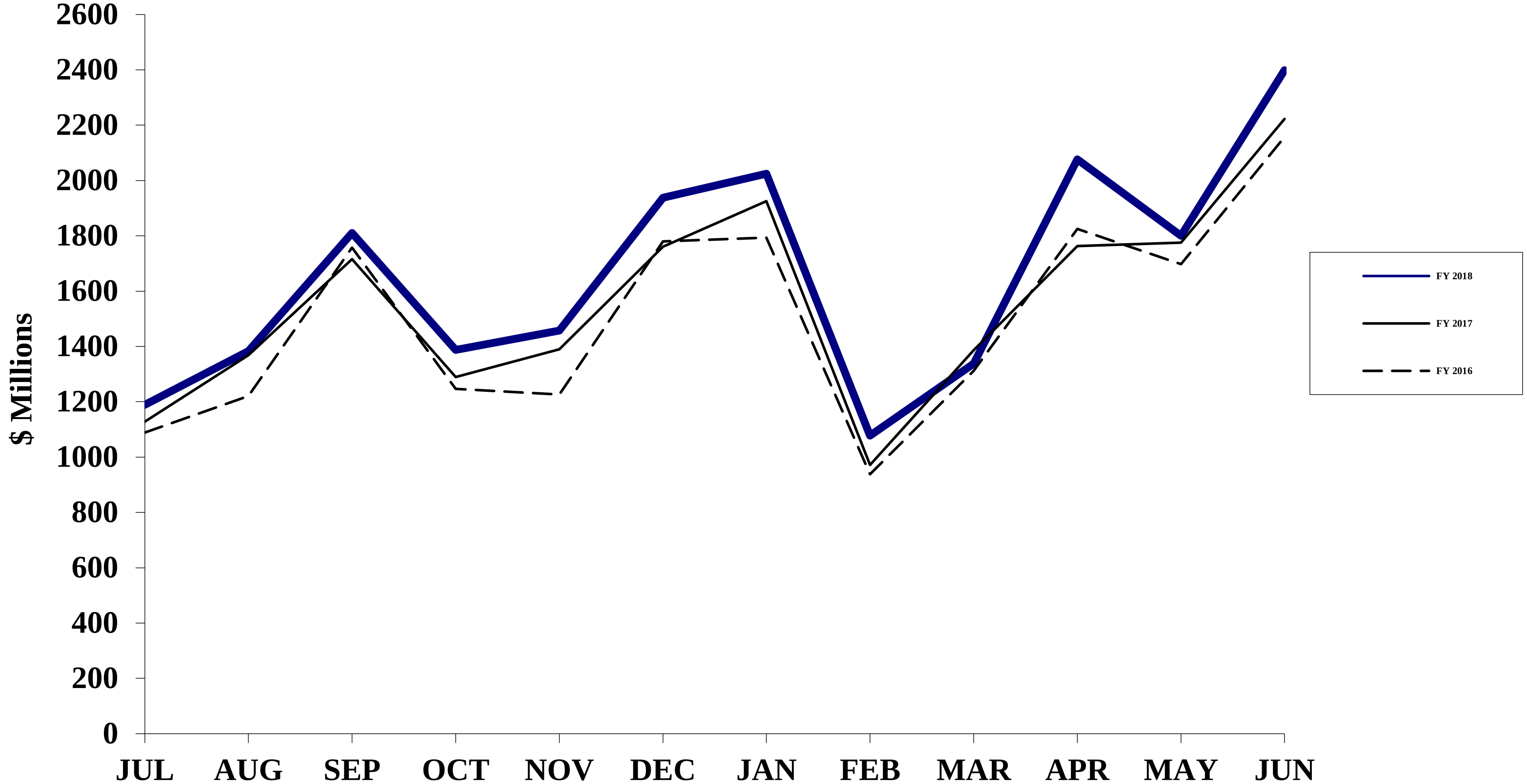
Commonwealth of Virginia/Department of Accounts
Highway Maintenance and Operating Fund and Transportation Trust Fund Revenues
Statement of Revenue Estimates & Collections
For the Fiscal Years 2017 and 2018
(Dollars in Thousands)

Revenue	FY 2018 Estimate	As a % of Total Fund	June FY 2018	June FY 2017	June % Change	Year-To-Date FY 2018	Year-To-Date FY 2017	Year-To-Date % Change	% Annual Growth Required By Est
HIGHWAY MAINTENANCE AND OPERATING FUND:									
Motor Fuel Taxes (Includes Road Tax)	$718,200	14.80	$84,988	$100,540	(15.5)	$687,044	$699,337	(1.8)	2.7
Motor Vehicle Sales and Use Tax	692,800	14.28	63,581	68,853	(7.7)	710,973	721,795	(1.5)	(4.0)
State Sales and Use Tax	287,000	5.91	42,064	38,891	8.2	292,518	277,061	5.6	3.6
Motor Vehicle License Fees	236,600	4.88	22,046	22,805	(3.3)	237,197	237,920	(0.3)	(0.6)
International Registration Plan	64,400	1.33	3,640	5,089	(28.5)	69,202	66,202	4.5	(2.7)
Misc. Taxes, Fees, and Revenues	17,200	0.35	1,848	1,539	20.1	19,610	18,401	6.6	(6.5)
Total State Taxes and Fees	$2,016,200	41.55	$218,167	$237,717	(8.2)	$2,016,544	$2,020,716	(0.2)	(0.2)
Other Revenues:									
Federal Grants and Contracts	$0	0.00	$2,465	$6,025	(59.1)	$40,001	$58,611	(31.8)	(100.0)
Miscellaneous Revenues (a)	18,061	0.38	266,885	3,052	#	298,598	23,475	#	(23.1)
Transfer (to) / from Transportation Trust Fund	121,031	2.49	29,539	27,896	5.9	141,923	90,748	56.4	33.4
Total Highway Maintenance and Operating Fund	$2,155,292	44.42	$517,056	$274,690	88.2	$2,497,066	$2,193,550	13.8	(1.7)
TRANSPORTATION TRUST FUND:									
Motor Fuel Taxes (Includes Aviation & Road Taxes)	$180,500	3.71	$26,238	$29,333	(10.6)	$170,173	$172,910	(1.6)	4.4
PTF Insurance Premiums Tax	168,018	3.46	0	0	-	168,018	163,142	3.0	3.0
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	270,500	5.57	24,776	22,558	9.8	272,836	275,355	(0.9)	(1.8)
State Sales and Use Tax	760,000	15.66	107,584	109,786	(2.0)	751,287	743,298	1.1	2.2
Motor Vehicle License Fees	22,600	0.47	1,044	1,778	(41.3)	21,624	22,253	(2.8)	1.6
Recordation Tax	48,300	1.00	4,894	4,630	5.7	47,758	48,109	(0.7)	0.4
Interest Earnings	3,300	0.07	2,694	1,338	101.3	8,880	6,376	39.3	(48.2)
Total State Taxes and Fees	$1,453,218	29.94	$167,230	$169,423	(1.3)	$1,440,576	$1,431,443	0.6	1.5
Other Revenues:									
Federal Grants and Contracts	$1,191,025	24.55	$39,052	$104,051	(62.5)	$1,002,523	$1,116,934	(10.2)	6.6
Receipts from Cities/Counties	150,867	3.11	25,721	27,123	(5.2)	246,089	211,143	16.6	(28.5)
Toll Revenues (Includes Route 28)	17,000	0.35	3,592	1,154	211.3	32,844	19,058	72.3	(10.8)
Miscellaneous Revenues (a)	5,893	0.12	296,729	(116)	#	356,062	33,635	958.6	(82.5)
Total Other Revenues	$1,364,785	28.13	$365,094	$132,212	176.1	$1,637,518	$1,380,770	18.6	(1.2)
Transfer (to) / from Highway Maintenance and Operating Fund	($121,031)	(2.49)	($29,539)	($27,896)	(5.9)	($141,923)	($90,748)	(56.4)	(33.4)
Total Transportation Trust Fund	$2,696,972	55.58	$502,785	$273,739	83.7	$2,936,171	$2,721,465	7.9	(0.9)
TOTAL HIGHWAY MAINTENANCE AND OPERATING AND TRANSPORTATION TRUST FUND	$4,852,264	100.00	$1,019,841	$548,429	86.0	$5,433,237	$4,915,015	10.5	(1.3)

Percentage is greater than or equal to 1,000%.

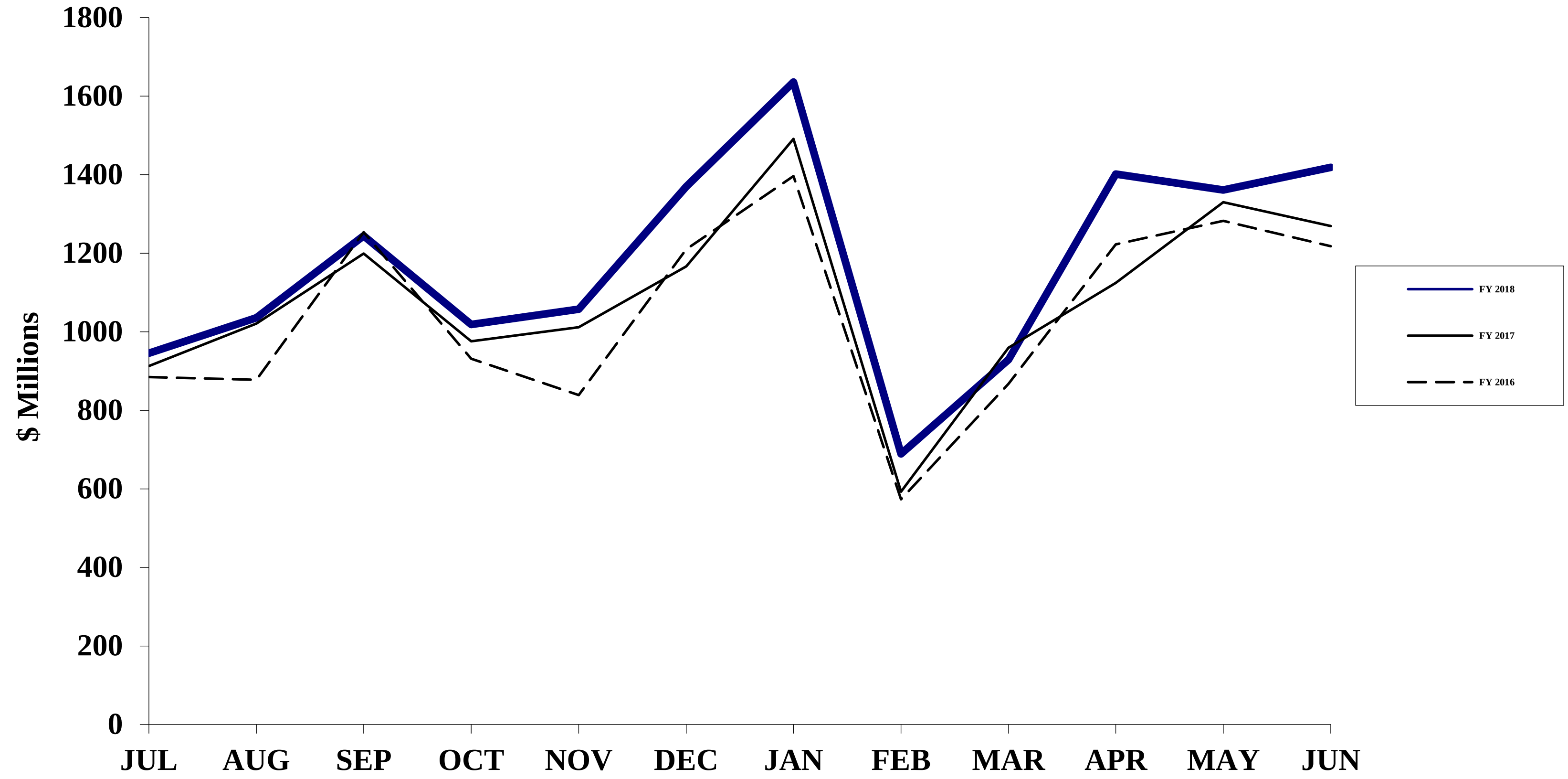
(a) The FY 2018 amounts include federal reimbursements of prior year expenditures.

Total General Fund Revenues



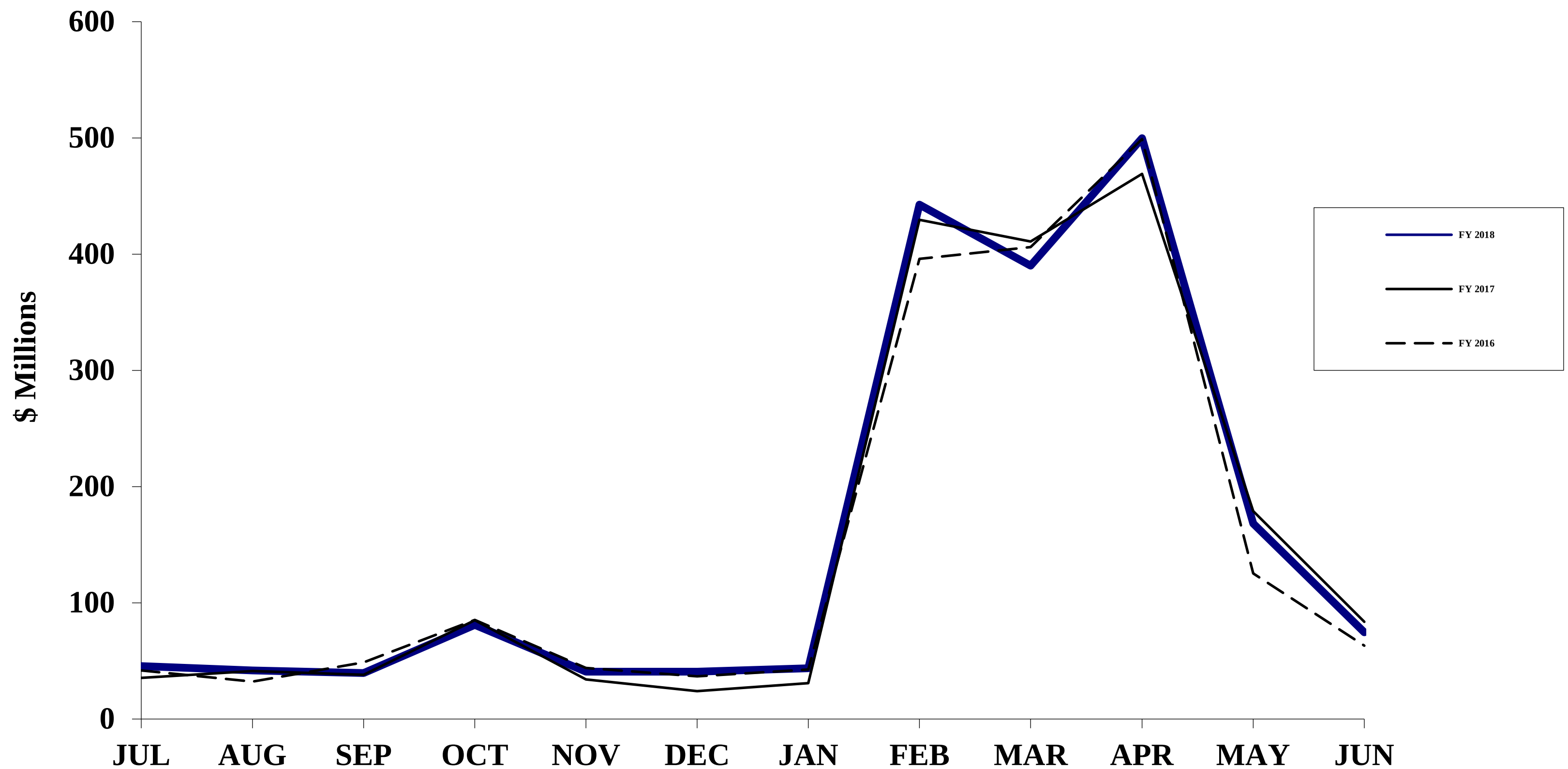
FY 2016 Actual = $18,040.1 Million
FY 2017 Actual = $18,695.1 Million
FY 2018 Actual = $19,880.8 Million

Net Individual Income Tax



FY 2016 Actual = $12,555.6 Million
FY 2017 Actual = $13,052.9 Million
FY 2018 Actual = $14,105.8 Million

Individual and Fiduciary Income Tax Refunds



FY 2016 Actual = $1,820.7 Million
FY 2017 Actual = $1,861.0 Million
FY 2018 Actual = $1,907.6 Million

DEPARTMENT OF THE TREASURY

General Account Investment Portfolio
Monthly Average Balances and Rates
For the Fiscal Year 2018
(Dollars in Millions)

MONTH	PRIMARY LIQUIDITY		EXTERNAL MANAGEMENT EXTENDED DURATION		COMPOSITE		TREASURY 1 YR. CONSTANT MATURITY[1]
	Avg. Balance	Yield	Avg. Balance	Annualized Total Return	Avg. Balance	Rate	Yield
July, 2017	$4,568.1	1.15%	$1,270.7	4.94%	$5,838.8	1.97%	1.22%
August	$3,985.7	1.17%	$1,277.1	7.52%	$5,262.8	2.71%	1.23%
September	$4,286.7	1.21%	$1,278.7	-4.36%	$5,565.4	-0.07%	1.28%
October	$4,625.0	1.23%	$1,276.7	0.58%	$5,901.7	1.09%	1.40%
November	$4,843.5	1.27%	$1,275.6	-2.24%	$6,119.1	0.54%	1.56%
December	$4,795.5	1.32%	$1,275.7	3.04%	$6,071.2	1.68%	1.70%
January, 2018	$5,763.2	1.45%	$1,272.1	-9.79%	$7,035.3	-0.58%	1.80%
February	$5,739.1	1.55%	$1,263.3	-6.40%	$7,002.4	0.12%	1.96%
March	$5,300.8	1.60%	$1,262.1	4.63%	$6,562.9	2.18%	2.06%
April	$5,464.1	1.78%	$1,261.7	-5.55%	$6,725.8	0.40%	2.15%
May	$5,813.4	1.87%	$1,262.1	6.69%	$7,075.5	2.73%	2.27%
June	$5,657.3	2.01%	$1,265.0	-0.70%	$6,922.3	1.51%	2.33%
Year-to-Date Average	$5,070.2	1.49%	$1,270.1	-0.05%	$6,340.3	1.18%	1.75%

▪ Performance on the extended duration portion of the General Account is reported on an annualized total return basis. Total return includes unrealized gains and losses, which in the short term can make returns more volatile. Over an extended time period the fluctuations average out and total return approaches the portfolio yield.

▪ Unaudited.

[1] Federal Reserve Bank H.15 Release.

Commonwealth of Virginia/Department of Accounts
Report on the Revenue Stabilization Fund
For the Fiscal Year 2018

Month	Beginning Balance	Deposits	Withdrawals	Interest Allocated (A)	Ending Balance
July	$548,820,198	$0	$0	$0	$548,820,198
August	$548,820,198	$0	$0	$0	$548,820,198
September	$548,820,198	$0	$0	$0	$548,820,198
October	$548,820,198	$0	$0	$1,724,295	$550,544,493
November	$550,544,493	$0	$0	$0	$550,544,493
December	$550,544,493	$0	$0	$0	$550,544,493
January	$550,544,493	$0	$0	$1,671,849	$552,216,342
February	$552,216,342	$0	$0	$0	$552,216,342
March	$552,216,342	$0	$0	$0	$552,216,342
April	$552,216,342	$0	$0	$1,475,945	$553,692,287
May	$553,692,287	$0	$0	$0	$553,692,287
June	$553,692,287	$0	($272,542,500) (B)	$2,124,884	$283,274,671

Notes: (A) Interest is earned monthly but credited to the Revenue Stabilization Fund on a quarterly basis.

(B) A withdrawal of $272,542,500 was made as required by Item 267 D.6. of Chapter 1, 2018 Virginia Acts of Assembly Special Session I.

FY 2019 Estimate
Per Chapter 2

Commonwealth of Virginia/Department of Accounts
Summary Report on General Fund Revenue Collections
For the Fiscal Years 2018 and 2019
(Dollars in Thousands)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			July			Year-To-Date			% Annual Growth
Revenue	FY 2019 Estimate	As a % of Gen Fund Rev	FY 2019	FY 2018	% Change	FY 2019	FY 2018	% Change	Req By Est
Individual Income Tax:									
Withholding	$12,870,200	63.79	$891,367	$943,231	(5.5)	$891,367	$943,231	(5.5)	2.6
Tax Dues/Estimated Payments	$3,368,300	16.70	54,072	47,339	14.2	54,072	47,339	14.2	(3.0)
Gross Individual Income Tax	$16,238,500	80.49	$945,439	$990,570	(4.6)	$945,439	$990,570	(4.6)	1.4
Individual and Fiduciary Income (Refunds)	(2,054,700)	(10.18)	(46,760)	(45,448)	2.9	(46,760)	(45,448)	2.9	7.7
Net Individual Income Tax	$14,183,800	70.31	$898,679	$945,122	(4.9)	$898,679	$945,122	(4.9)	0.6
Sales and Use Tax	$3,547,300	17.58	$150,612	$140,074	7.5	$150,612	$140,074	7.5	2.5
Corporations Income Tax	912,000	4.52	39,050	21,319	83.2	39,050	21,319	83.2	5.8
Wills, Suits, Deeds, Contracts	407,200	2.02	34,224	38,247	(10.5)	34,224	38,247	(10.5)	3.1
Insurance Premiums	376,600	1.87	0	0	-	0	0	-	11.4
Interest Income (a)	66,200	0.33	18,723	10,221	83.2	18,723	10,221	83.2	7.8
Alcoholic Beverage Sales (b)	239,800	1.19	3,829	4,132	(7.3)	3,829	4,132	(7.3)	3.4
All Other Revenues	440,800	2.18	29,580	29,527	0.2	29,580	29,527	0.2	3.7
Total General Fund Revenues	$20,173,700	100.00	$1,174,697	$1,188,642	(1.2)	$1,174,697	$1,188,642	(1.2)	1.5

Percentage is greater than or equal to 1,000%.

(a) Interest is earned monthly in the General Fund and credited to nongeneral funds on a quarterly basis. This will occur in the months of October, January, April and June.

(b) Includes Beer and Beverage Excise Tax and Alcoholic Beverage State Tax.

FY 2019 Estimate
Per Chapter 2

Commonwealth of Virginia/Department of Accounts
General Fund Statement of Revenue Collections and Estimates
For the Fiscal Years 2018 and 2019
(Dollars in Thousands)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		As a %	July			Year-To-Date			% Annual
	FY 2019	of Total			%			%	Growth
Revenue	Estimate	Gen Fund Rev	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change	Req By Est
Taxes:									
Individual Income Tax - Withholding	$12,870,200	63.79	$891,367	$943,231	(5.5)	$891,367	$943,231	(5.5)	2.6
Tax Dues/Estimated Payments	3,368,300	16.70	54,072	47,339	14.2	54,072	47,339	14.2	(3.0)
Gross Individual Income Tax	$16,238,500	80.49	$945,439	$990,570	(4.6)	$945,439	$990,570	(4.6)	1.4
Individ and Fiduc Income (Refunds)	(2,054,700)	(10.18)	(46,760)	(45,448)	2.9	(46,760)	(45,448)	2.9	7.7
Net Individual Income Tax	$14,183,800	70.31	$898,679	$945,122	(4.9)	$898,679	$945,122	(4.9)	0.6
Sales and Use Tax	3,547,300	17.58	150,612	140,074	7.5	150,612	140,074	7.5	2.5
Corporations Income	912,000	4.52	39,050	21,319	83.2	39,050	21,319	83.2	5.8
Public Service Corporations	98,000	0.49	6,951	6,311	10.1	6,951	6,311	10.1	(0.7)
Insurance Premiums	376,600	1.87	0	0	-	0	0	-	11.4
Alcoholic Beverage Excise	197,500	0.98	0	0	-	0	0	-	3.4
Beer and Beverage Excise	42,300	0.21	3,829	4,132	(7.3)	3,829	4,132	(7.3)	3.5
Wills, Suits, Deeds, Contracts	407,200	2.02	34,224	38,247	(10.5)	34,224	38,247	(10.5)	3.1
Inheritance, Gift, and Estate	0	0.00	0	0	-	0	0	-	(100.0)
Bank Franchise	22,000	0.11	0	225	(100.0)	0	225	(100.0)	(8.2)
Other Taxes	13,100	0.06	2,169	3,516	(38.3)	2,169	3,516	(38.3)	(15.1)
Total Taxes	$19,799,800	98.15	$1,135,514	$1,158,946	(2.0)	$1,135,514	$1,158,946	(2.0)	1.4
Rights and Privileges:									
Licenses and Permits	$4,200	0.02	$202	$196	3.1	$202	$196	3.1	4.8
Corp. Franchise and Charters	51,200	0.25	539	493	9.3	539	493	9.3	(4.5)
Fees for Misc. Privileges & Services	11,600	0.06	626	604	3.6	626	604	3.6	(5.5)
Total Rights and Privileges	$67,000	0.33	$1,367	$1,293	5.7	$1,367	$1,293	5.7	(4.2)
Other Revenues:									
Sales of Property & Commodities	$0	0.00	$0	$239	(100.0)	$0	$239	(100.0)	(100.0)
Assessmts & Rcpts for Support of Special Svcs	400	0.00	25	164	(84.8)	25	164	(84.8)	(31.4)
Institutional Revenue	2,100	0.01	167	185	(9.7)	167	185	(9.7)	(23.9)
Interest (a)	66,200	0.33	18,723	10,221	83.2	18,723	10,221	83.2	7.8
Dividends and Rent	300	0.00	13	34	(61.8)	13	34	(61.8)	(7.4)
Fines, Forfeitures & Fees	221,800	1.10	17,915	18,394	(2.6)	17,915	18,394	(2.6)	3.8
Other Revenue	16,600	0.08	1,132	(498)	327.3	1,132	(498)	327.3	372.8
Excess Fees	(7,900)	(0.04)	(669)	(779)	14.1	(669)	(779)	14.1	(3.2)
Private Donations, Gifts & Cont.	0	0.00	0	0	-	0	0	-	(100.0)
Cities, Counties, and Towns	7,400	0.04	510	443	15.1	510	443	15.1	1.7
Total Other Revenues	$306,900	1.52	$37,816	$28,403	33.1	$37,816	$28,403	33.1	10.5
Total General Fund Revenues	$20,173,700	100.00	$1,174,697	$1,188,642	(1.2)	$1,174,697	$1,188,642	(1.2)	1.5

Percentage is greater than or equal to 1,000%.

(a) Interest is earned monthly in the General Fund and credited to nongeneral funds on a quarterly basis. This will occur in the months of October, January, April and June.

Commonwealth of Virginia/Department of Lottery
Summary Report on Lottery Collections
For the Fiscal Years 2018 and 2019
(Dollars in Thousands)

	FY 2019 Estimate (a)	July FY 2019 (b)	July FY 2018	July % Change	Year-To-Date FY 2019 (b)	Year-To-Date FY 2018	Year-To-Date % Change (c)	% Annual Growth Required By Estimate
Lottery Collections								
Total Lottery Sales	$2,134,426	$180,447	$162,542	11.0	$180,447	$162,542	11.0	(0.3)
Other Income	541	50	(254)	119.7	50	(254)	119.7	(43.1)
Total Income	$2,134,967	$180,497	$162,288	11.2	$180,497	$162,288	11.2	(0.3)
Less:								
Prize Expenses	$1,311,464	$113,643	$93,842	21.1	$113,643	$93,842	21.1	0.3
Retailer Commissions	120,080	10,041	9,927	1.1	10,041	9,927	1.1	(1.0)
Operating Expenses	110,890	8,081	8,014	0.8	8,081	8,014	0.8	5.1
Total Expenses	$1,542,434	$131,765	$111,783	17.9	$131,765	$111,783	17.9	0.5
Net Proceeds from Operations								
Net Lottery Ticket Profits	$592,533	$48,732	$50,505	(3.5)	$48,732	$50,505	(3.5)	(0.7)
Prior Year Residual Profit Transfer	0	0	0	-	0	0	-	-
Available to Lottery Proceeds Fund	$592,533	$48,732	$50,505	(3.5)	$48,732	$50,505	(3.5)	(2.6)

Percentage is greater than or equal to 1,000%.

(a) Estimate established by Chapter 2, 2018 Virginia Acts of Assembly Special Session I. The Prior Year Residual Profit Transfer will be reflected after the final APA audit is complete and the transfer is made in August. The FY 2019 estimate will be revisited as part of the state revenue forecast process and will include an updated estimate of FY 2019 sales and profits, as well as the residual transfer from FY 2018.

(b) Amounts reported are accrual-based estimates (unaudited closing).

(c) The current year figures on this chart, including growth percentages, are not an indicator of the probable outcome for the fiscal year. Lottery revenues can have dramatic swings up and down month to month depending on the lotto jackpots, prize expense, and game related administrative expenses.

Commonwealth of Virginia/Department of Accounts

Highway Maintenance and Operating Fund and Transportation Trust Fund Revenues

Summary Statement of Selected Revenue Estimates & Collections

For the Fiscal Years 2018 and 2019

(Dollars in Thousands)

			July			Year-To-Date			% Annual Growth
Revenue	FY 2019 Estimate	As a % of Total Fund	FY 2019	FY 2018	% Change	FY 2019	FY 2018	% Change	Required By Estimate
Motor Fuel Taxes	$908,700	17.93	$41,901	$22,761	84.1	$41,901	$22,761	84.1	6.0
Priority Transportation Fund (PTF)	168,655	3.33	5,093	4,303	18.4	5,093	4,303	18.4	0.4
Motor Vehicle Sales and Use Tax	995,000	19.63	90,728	82,971	9.3	90,728	82,971	9.3	1.1
State Sales and Use Tax	1,067,800	21.08	45,815	39,360	16.4	45,815	39,360	16.4	2.3
Motor Vehicle License Fees	259,200	5.12	23,904	19,857	20.4	23,904	19,857	20.4	0.1
International Registration Plan	64,200	1.26	6,681	5,286	26.4	6,681	5,286	26.4	(7.2)
Recordation Tax	48,300	0.95	4,521	4,571	(1.1)	4,521	4,571	(1.1)	1.1
Interest Earnings	4,200	0.08	0	0	-	0	0	-	(52.7)
Misc. Taxes, Fees, and Revenues	17,200	0.34	1,732	1,357	27.6	1,732	1,357	27.6	(12.3)
Total State Taxes and Fees	$3,533,255	69.72	$220,375	$180,466	22.1	$220,375	$180,466	22.1	2.2

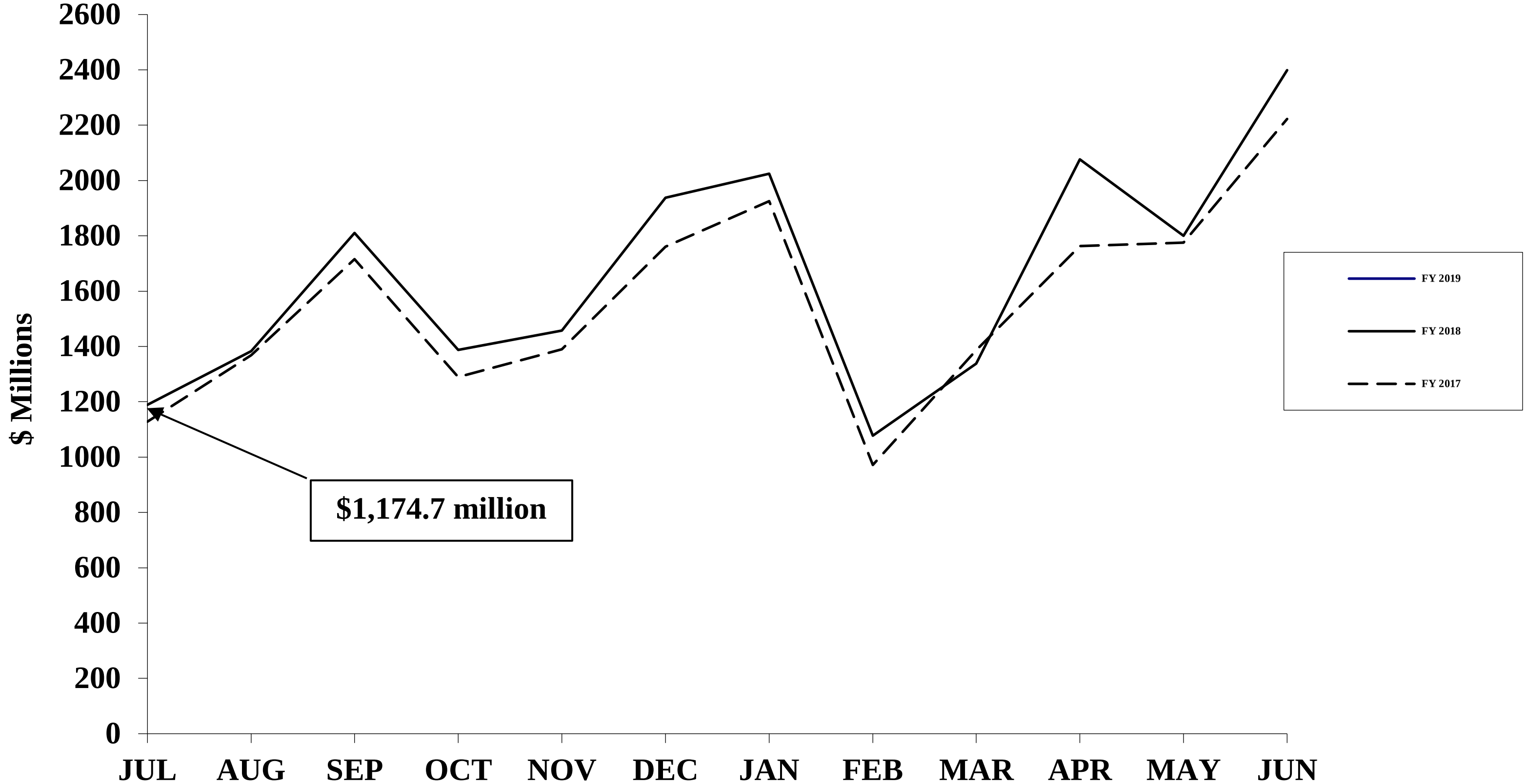
Percentage is greater than or equal to 1,000%.

Commonwealth of Virginia/Department of Accounts
Highway Maintenance and Operating Fund and Transportation Trust Fund Revenues
Statement of Revenue Estimates & Collections
For the Fiscal Years 2018 and 2019
(Dollars in Thousands)

Revenue	FY 2019 Estimate	As a % of Total Fund	July FY 2019	July FY 2018	July % Change	Year-To-Date FY 2019	Year-To-Date FY 2018	Year-To-Date % Change	% Annual Growth Required By Est
HIGHWAY MAINTENANCE AND OPERATING FUND:									
Motor Fuel Taxes (Includes Road Tax)	$726,100	14.33	$37,868	$17,606	115.1	$37,868	$17,606	115.1	5.7
Motor Vehicle Sales and Use Tax	715,700	14.12	66,434	60,487	9.8	66,434	60,487	9.8	0.7
State Sales and Use Tax	292,700	5.78	13,193	11,487	14.9	13,193	11,487	14.9	0.1
Motor Vehicle License Fees	236,700	4.67	21,904	18,216	20.2	21,904	18,216	20.2	(0.2)
International Registration Plan	64,200	1.26	6,681	5,286	26.4	6,681	5,286	26.4	(7.2)
Misc. Taxes, Fees, and Revenues	17,200	0.34	1,732	1,357	27.6	1,732	1,357	27.6	(12.3)
Total State Taxes and Fees	$2,052,600	40.50	$147,812	$114,439	29.2	$147,812	$114,439	29.2	1.8
Other Revenues:									
Federal Grants and Contracts	$0	0.00	$1,761	$1,521	15.8	$1,761	$1,521	15.8	(100.0)
Miscellaneous Revenues	275,947	5.44	91,516	1,080	#	91,516	1,080	#	(7.6)
Transfer (to) / from Transportation Trust Fund	181,785	3.59	0	0	-	0	0	-	28.1
Total Highway Maintenance and Operating Fund	$2,510,332	49.53	$241,089	$117,040	106.0	$241,089	$117,040	106.0	0.5
TRANSPORTATION TRUST FUND:									
Motor Fuel Taxes (Includes Aviation & Road Taxes)	$182,600	3.60	$4,033	$5,155	(21.8)	$4,033	$5,155	(21.8)	7.3
PTF Insurance Premiums Tax	168,655	3.33	5,093	4,303	18.4	5,093	4,303	18.4	0.4
Motor Vehicle Sales and Use Tax (Includes Rental Tax)	279,300	5.51	24,294	22,484	8.1	24,294	22,484	8.1	2.4
State Sales and Use Tax	775,100	15.30	32,622	27,873	17.0	32,622	27,873	17.0	3.2
Motor Vehicle License Fees	22,500	0.45	2,000	1,641	21.9	2,000	1,641	21.9	4.1
Recordation Tax	48,300	0.95	4,521	4,571	(1.1)	4,521	4,571	(1.1)	1.1
Interest Earnings	4,200	0.08	0	0	-	0	0	-	(52.7)
Total State Taxes and Fees	$1,480,655	29.22	$72,563	$66,027	9.9	$72,563	$66,027	9.9	2.8
Other Revenues:									
Federal Grants and Contracts	$1,044,332	20.61	$126,229	$300,928	(58.1)	$126,229	$300,928	(58.1)	4.2
Receipts from Cities/Counties	150,600	2.97	(2,507)	(2,755)	9.0	(2,507)	(2,755)	9.0	(38.8)
Toll Revenues (Includes Route 28)	44,727	0.88	2,844	879	223.5	2,844	879	223.5	36.2
Miscellaneous Revenues	19,229	0.38	979	1,741	(43.8)	979	1,741	(43.8)	(94.6)
Total Other Revenues	$1,258,888	24.84	$127,545	$300,793	(57.6)	$127,545	$300,793	(57.6)	(23.1)
Transfer (to) / from Highway Maintenance and Operating Fund	($181,785)	(3.59)	$0	$0	-	$0	$0	-	(28.1)
Total Transportation Trust Fund	$2,557,758	50.47	$200,108	$366,820	(45.4)	$200,108	$366,820	(45.4)	(12.9)
TOTAL HIGHWAY MAINTENANCE AND OPERATING AND TRANSPORTATION TRUST FUND	$5,068,090	100.00	$441,197	$483,860	(8.8)	$441,197	$483,860	(8.8)	(6.7)

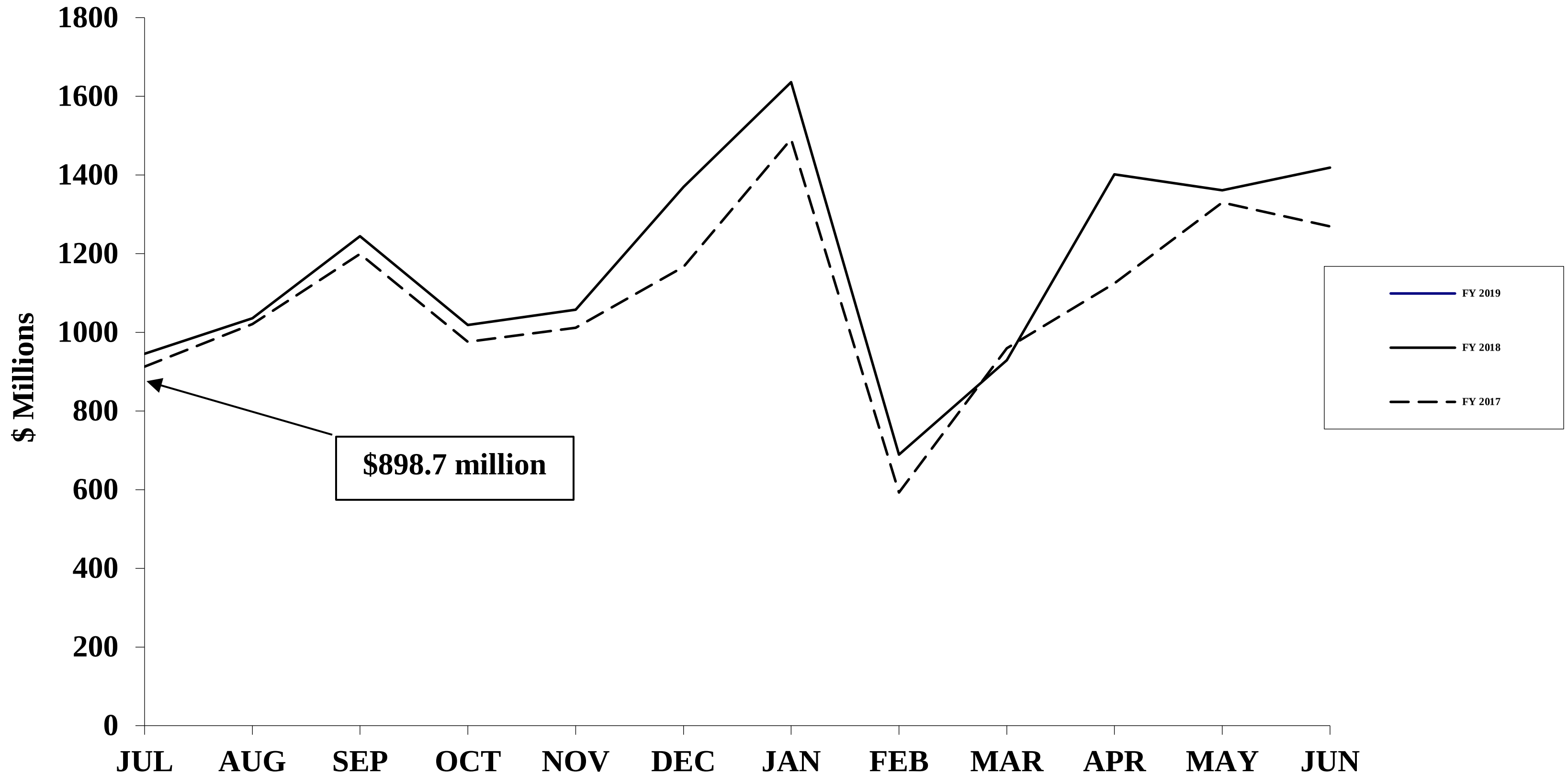
Percentage is greater than or equal to 1,000%.

Total General Fund Revenues



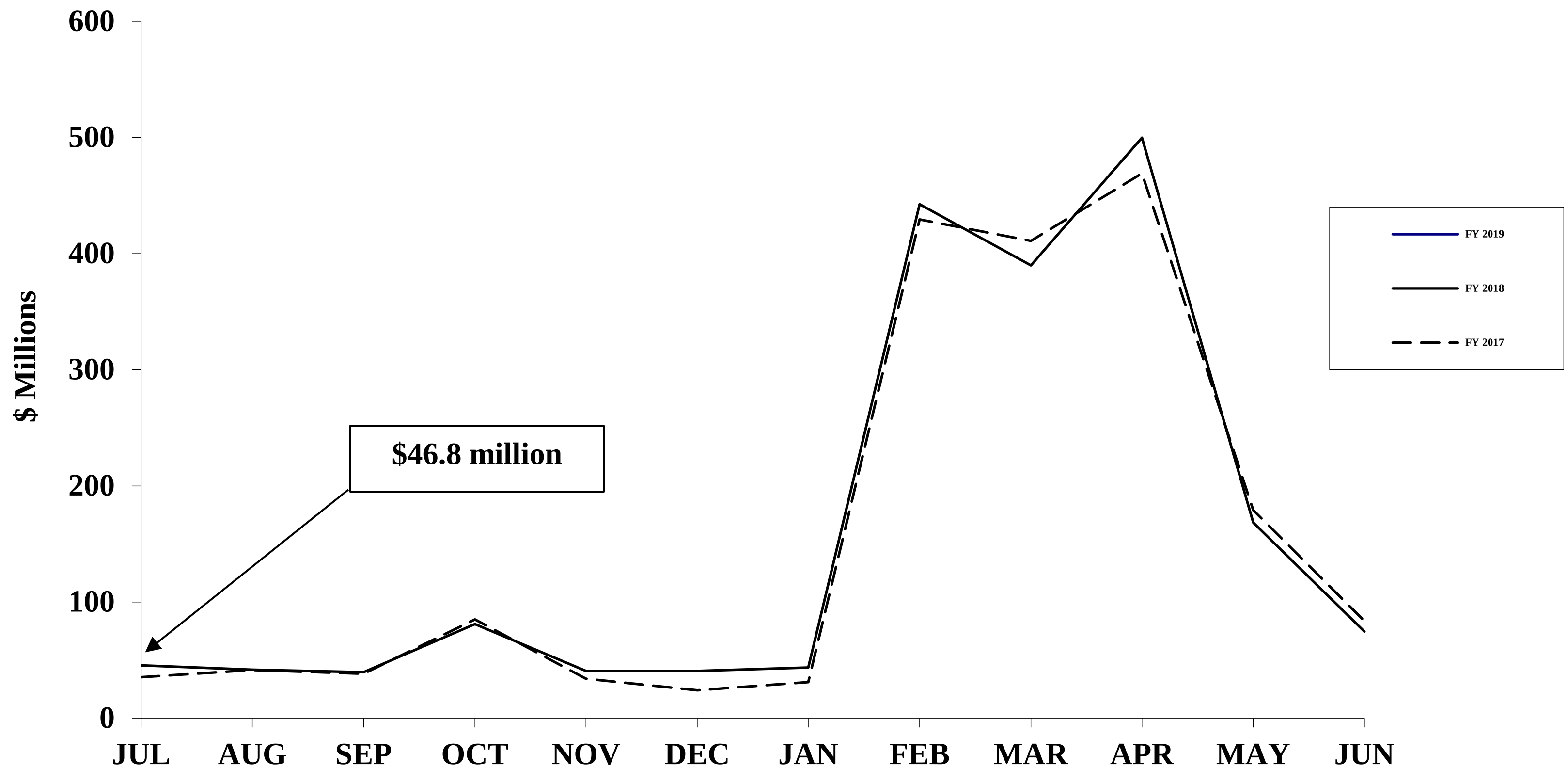
FY 2017 Actual = $18,695.1 Million
FY 2018 Actual = $19,880.8 Million
FY 2019 Estimate = $20,173.7 Million

Net Individual Income Tax



FY 2017 Actual = $13,052.9 Million
FY 2018 Actual = $14,105.8 Million
FY 2019 Estimate = $14,183.8 Million

Individual and Fiduciary Income Tax Refunds



FY 2017 Actual = $1,861.0 Million
FY 2018 Actual = $1,907.6 Million
FY 2019 Estimate = $2,054.7 Million

DEPARTMENT OF THE TREASURY

General Account Investment Portfolio
Monthly Average Balances and Rates
For the Fiscal Year 2019
(Dollars in Millions)

MONTH	PRIMARY LIQUIDITY		EXTERNAL MANAGEMENT EXTENDED DURATION		COMPOSITE		TREASURY 1 YR. CONSTANT MATURITY[1]
	Avg. Balance	Yield	Avg. Balance	Annualized Total Return	Avg. Balance	Rate	Yield
July, 2018	$5,881.1	2.12%	$1,264.1	0.55%	$7,145.2	1.84%	2.39%
August							
September							
October							
November							
December							
January, 2019							
February							
March							
April							
May							
June							
Year-to-Date Average	$5,881.1	2.12%	$1,264.1	0.55%	$7,145.2	1.84%	2.39%

▪ Performance on the extended duration portion of the General Account is reported on an annualized total return basis. Total return includes unrealized gains and losses, which in the short term can make returns more volatile. Over an extended time period the fluctuations average out and total return approaches the portfolio yield.

▪ Unaudited.

[1] Federal Reserve Bank H.15 Release.

Commonwealth of Virginia/Department of Accounts
Report on the Revenue Stabilization Fund
For the Fiscal Year 2019

Month	Beginning Balance	Deposits	Withdrawals	Interest Allocated (A)	Ending Balance
July	$283,274,671	$0	$0	$0	$283,274,671
August					
September					
October					
November					
December					
January					
February					
March					
April					
May					
June					

Notes: (A) Interest is earned monthly but credited to the Revenue Stabilization Fund on a quarterly basis.

Estimated Impact of The Tax Cuts and Jobs Act on Virginia

for:

Commonwealth of Virginia
Department of Taxation

Prepared by:

Chainbridge Software, LLC
Fairfax, VA

August 9, 2018

Table of Contents

Executive Summary

On December 22, 2017, Congress enacted the Tax Cuts and Jobs Act (TCJA). This is the most comprehensive tax reform legislation that has been enacted since the Tax Reform Act of 1986. The TCJA affects the amount of individual income tax and corporation income tax paid by the Commonwealth's taxpayers. In December of 2017, the Department of Taxation (Virginia Tax) contracted with Chainbridge Software, LLC (Chainbridge) to develop two modules (individual income tax and corporation income tax) of the PolicyLinks system to assist in their evaluation of the revenue impact of the TCJA on the Commonwealth.

Chainbridge has been involved in the development and delivery of tax policy analysis tools for its state government clients for nearly two decades, including the States of Alabama, California, Connecticut, Mississippi, Minnesota, Maine, Rhode Island, and Vermont. Chainbridge's CEO, Eric Cook, PhD, was involved in developing revenue estimates for the US Congressional Joint Committee on Taxation (JCT) during federal tax reform efforts that culminated in the Tax Reform Act of 1986. He directed development of tax modeling projects for state government clients for both Price Waterhouse and KPMG, and left KPMG to form Chainbridge in 2000.

Virginia Tax staff identified the provisions of the TCJA affecting Virginia taxpayers and determined which provisions would have "no impact", a "minimal impact", a "positive impact" or a "negative impact" on Virginia revenue. Chainbridge worked with Virginia Tax to determine the provisions that would be evaluated using the microsimulation models. These models match federal and Virginia income tax returns for Taxable Year 2015, then make adjustments to the returns to reflect each relevant TCJA provision. The databases are extrapolated to future Taxable Years and provisions are simulated to assess the resulting change in Virginia tax revenues. Some provisions were scored using "off-model" approaches because relevant data were not available. The off-model approach generally involves using ratios that convert the federal revenue estimates produced by the JCT to Virginia estimates.

While every effort has been made to make these estimates as granular and accurate as possible, they must be used with caution because:

- Various assumptions had to be made regarding the choices taxpayers would make in preparing their federal and Virginia returns and, to a certain extent, how their tax filing behavior may change in reaction to the TCJA.

- Very little federal guidance has been issued regarding the TCJA provisions. It is possible that such guidance, when issued, could affect the assumptions made in developing these estimates.

Table 1 presents the estimated Virginia revenue impact of the individual, business, and international provisions of the TCJA for Fiscal Years 2019 to 2024.

Table 1
Estimated Virginia Revenue Impact of the TCJA
Fiscal Years 2019 to 2024

	($Millions)						
	2019*	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Individual Provisions	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3
Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3
International Provisions	32.6	52.7	5.5	5.8	6.0	6.3	108.8
Total, All Provisions	594.2	611.1	653.7	798.7	943.2	950.6	4,551.4

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019.

We find that the *individual provisions* of the TCJA affect Virginia residents as follows:

- There is an overall federal revenue loss
- There is an overall Virginia revenue increase

The individual provisions of the TCJA having the most significant revenue effects on Virginia include:

- Modifications to the standard deduction
- Loss limitation for noncorporate taxpayers
- Changes in itemized deductions

We find that the *business provisions* of the TCJA will result in a Virginia revenue increase that grows over time. The business provisions with the most significant Virginia revenue impact include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

We find that the *international provisions* of the TCJA will result in a Virginia revenue increase having the largest effects in Fiscal Years 2019 and 2020. This increase is attributable to an indirect individual income tax effect of the repatriation of deferred foreign earnings and the direct corporation income tax effect of the Global Intangible Low-taxed Income (GILTI) provision.

Following we provide details regarding the estimated Virginia impact of the individual, business and international provisions of the TCJA on Virginia.

Estimated Impact of the Individual Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia impact of the individual provisions of the TCJA.

The base year for the individual income tax database is Taxable Year 2015. The database includes the population of Virginia Taxable Year 2015 returns matched with federal returns, extrapolated to Taxable Years 2018 through 2024. This model allows tax liability to be recalculated for alternative scenarios using federal data and federal law (including indexing provisions), and to minimize taxpayers' combined Virginia and federal taxes.

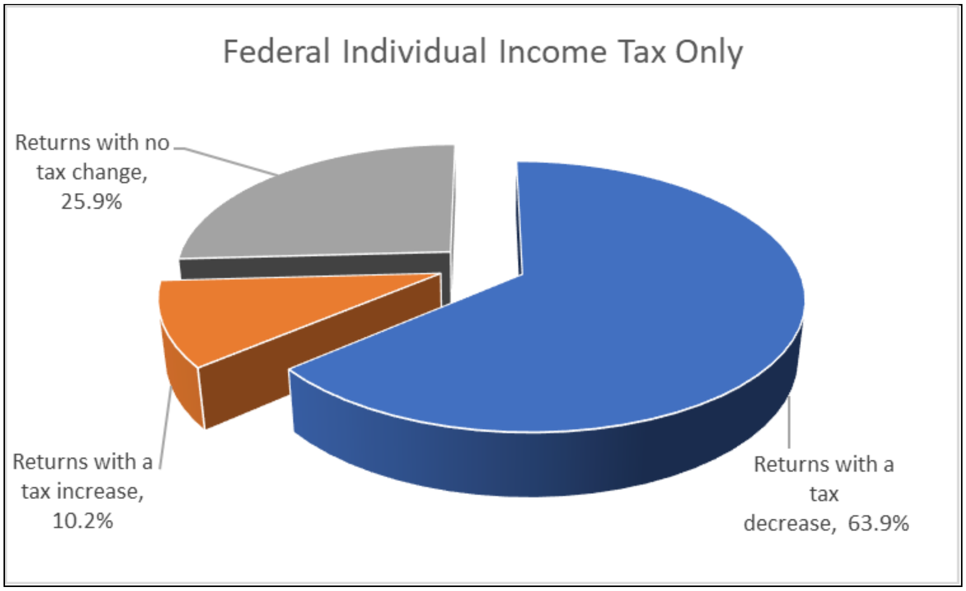
To summarize, we find that the individual provisions of the TCJA affect Virginia as follows:

- There is an overall Virginia revenue increase from the individual provisions

- Because the model assumed that taxpayers would seek to minimize their combined federal and Virginia tax liabilities, many taxpayers who would otherwise "switch" from itemizing to claiming the standard deduction for federal tax minimization purposes alone would continue to itemize in order to achieve a lower combined tax liability.

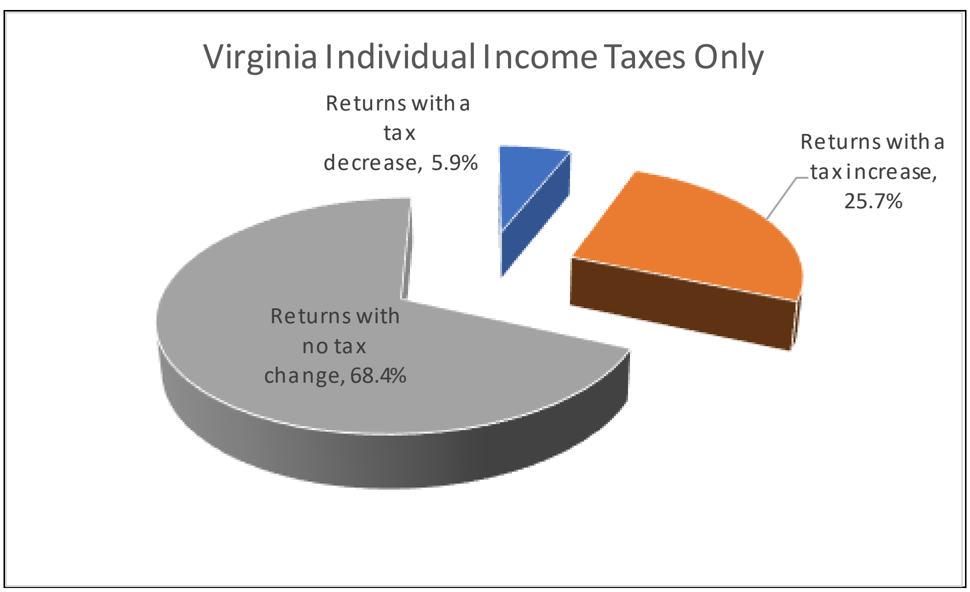
Estimated Federal Individual Income Tax Impact

The following chart presents the estimated federal individual income tax impact of the TCJA's individual provisions on residents for Taxable Year 2018. As shown in this chart, an estimated 25.9 percent of all returns will experience no federal individual income tax change; an estimated 10.2 percent will experience a federal individual income tax increase; and an estimated 63.9 percent will experience a federal individual income tax decrease.



Estimated Virginia Tax Impact -- Overall

The following chart presents the estimated Virginia individual income tax impact of the TCJA's individual provisions on residents for Taxable Year 2018. As shown in this chart, for Taxable Year 2018, an estimated 68.4 percent of all returns will experience no change in Virginia individual income tax; an estimated 5.9 percent of all returns will experience a Virginia individual income tax decrease; and an estimated 25.7 percent of all returns will experience a tax increase in Virginia individual income taxes.



As shown in Table 2, we estimate that the TCJA results in a significant increase in Virginia individual income tax revenue, resulting in a $532.1 million positive revenue impact in Fiscal Year 2019 and a $443.8 million positive revenue impact in Fiscal Year 2020.

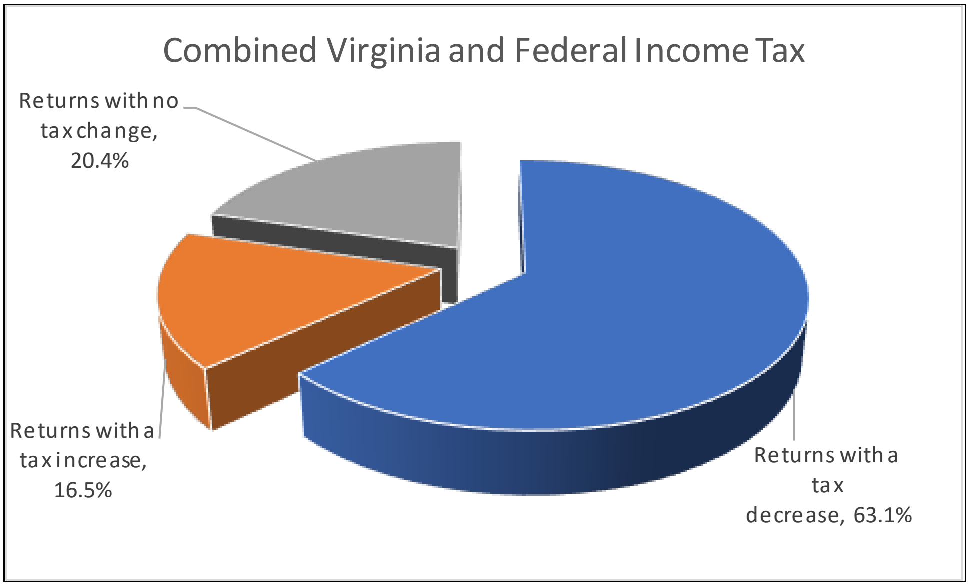
Table 2
Estimated Tax Impact of All Individual Provisions of the TCJA
Virginia Tax Only
Residents and Nonresidents
Fiscal Years 2019 to 2024

	($Millions)						
	2019*	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Fiscal Year Virginia Only Impact							
Residents and Nonresidents	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019.

Combined Estimated Federal and Virginia Tax Impact

The following chart presents the combined estimated federal and Virginia tax impact of the TCJA's individual provisions on Virginia residents for Taxable Year 2018. As shown in this chart, it is estimated that 63.1 percent of all returns will have a combined federal and Virginia tax decrease under the TCJA for Taxable Year 2018; 16.5 percent of all returns will have a combined federal and Virginia tax increase; and, 20.4 percent of all returns will have no change in combined federal and Virginia income taxes.



Estimated Virginia Tax Impact -- Specific Provisions

As previously mentioned, before the revenue estimating process began, each individual provision in the TCJA was evaluated to determine whether it would affect Virginia revenues, and if so, whether the revenue estimate would be developed using either an "on-model" or an "off-model" approach. Specifically, revenue estimates for nine provisions were developed using an on-model approach and revenue estimates for four provisions were developed using an off-model approach. As explained on Page 1, an off-model approach was used for provisions for which data was not available. Table 3 presents the estimated fiscal year Virginia revenue impact of all the provisions of the TCJA that were determined to affect Virginia individual income taxes.

Table 3
Estimated Virginia Tax Impact of Individual Provisions of the TCJA
Residents and Nonresidents
Fiscal Years 2019 to 2024

	($Millions)						
	2019*	2020	2021	2022	2023	2024	Total
Simulation 1: Standard deduction modification	147.8	100.5	99.7	99.2	99.0	99.0	645.2
Simulation 2: Alternative inflation measure	14.2	9.4	9.8	9.8	10.3	10.8	64.4
Simulation 3: Loss limitation for noncorporate taxpayers	125.9	103.6	102.8	101.5	100.5	100.0	634.3
Simulation 4: Repeal and limitation of certain itemized deductions**	366.9	283.0	303.2	324.4	346.8	370.9	1,995.2
Simulation 5: Increase limit for cash charitable contributions	(0.9)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)	(4.9)
Simulation 6: Repeal of overall limitation on itemized deductions	(96.7)	(72.2)	(74.9)	(77.7)	(80.7)	(84.1)	(486.3)
Simulation 7: Changes to moving expense deduction and exclusion	6.2	4.3	4.4	4.6	4.8	4.9	29.1
Simulation 8: Medical expense deduction restoration for 2018	(45.6)	-	-	-	-	-	(45.6)
Simulation 9: Repeal deduction for alimony payments	0.8	1.1	1.6	2.2	2.9	3.7	12.2
Off-Model Estimate 1: Repeal itemized deduction for interest on mortgage debt & home equity debt	13.7	15.1	21.2	29.0	37.3	42.7	158.9
Off-Model Estimate 2: Repeal special rule permitting recharacterization of Roth conversions	-	-	-	0.6	1.0	1.0	2.5
Off-Model Estimate 3: Length of service awards for public safety volunteers	-	(0.3)	(0.4)	(0.4)	(0.4)	(0.8)	(2.2)
Off-Model Estimate 4: Allow 529 withdrawals up to $10,000 for primary & secondary education	-	-	-	-	(0.6)	(1.1)	(1.7)
Total, All Provisions	532.1	443.8	466.7	492.5	520.0	546.1	3,001.3

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019
** Limitation for state and local taxes and repeal of non-disaster casualty loss deduction; and deduction for certain miscellaneous expenses

Stacking Order for On-Model Estimates. There are several interactions among the individual provisions of the TCJA. As described by the JCT[1],

> "When one proposal would modify two or more provisions within the Internal Revenue Code, the result of the combination of changes often produces a greater or lesser revenue effect than the sum of the revenue effects of each proposal if enacted separately. If this interaction is ignored, the analysis is incomplete; if the interaction is assigned to any one element of a proposal, the revenue estimate for that proposal may be misleading.
>
> The proper interpretation of the revenues attributed to specific proposals and the accompanying interaction are determined by the 'stacking order' of

[1] Joint Committee on Taxation, Methodology and Issues in the Revenue Estimating Process, (JCX-2-95), January 23, 1995. (p. 10)

> the analysis. There are two principal methods of presenting these results in line-by-line revenue tables, and it is important to note that the numbers in each type of presentation may appropriately answer different questions but reflect the same estimated revenue effect.
>
> The first of these methods provides a revenue estimate for each proposal in isolation against present law, assuming none of the other proposals is adopted. … This procedure is usually the most efficient when only a few proposed changes are involved. …
>
> A second method requires that each proposal be estimated as if all other proposals have already been enacted … The Joint Committee staff utilized this second method to analyze the Tax Reform Act of 1986."

The "stacking order" method adopted for purposes of generating the on-model estimates presented in this report is the same as the second method referred to above. It is the same stacking order used by the JCT to estimate the federal revenue impact of the TCJA. Therefore, the first simulation is run against the prior law baseline, the second simulation is run against the first simulation, the third simulation is run against the second, and so on.

Following we provide details regarding each of the Simulations in the stacking order.

Simulation 1 -- Impact of the Standard Deduction Modification. An individual who does not elect to itemize deductions may reduce his or her federal AGI by the amount of the applicable federal standard deduction when computing his or her federal taxable income. The federal standard deduction is equal to the sum of the basic standard deduction and, if applicable, the additional standard deduction for individuals who are elderly or blind. The basic federal standard deduction varies depending upon a taxpayer's filing status. The amount of the federal standard deduction is indexed annually for inflation.

For Taxable Year 2017, the amount of the basic federal standard deduction was $6,350 for single individuals and married individuals filing separate returns, $9,350 for heads of households, and $12,700 for married individuals filing a joint return and surviving spouses.

The TCJA temporarily increases the basic federal standard deduction for individuals across all filing statuses. The federal standard deduction is temporarily increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals. The additional federal standard deduction for the elderly and the blind was not changed. This change is effective for taxable years beginning after December 31, 2017 and does not apply to taxable years beginning after December 31, 2025.

When completing a federal return, individuals may elect to either claim the standard deduction or itemize their deductions. In Virginia, individuals are bound by that choice on the state return. Therefore, if an individual itemizes for federal tax purposes, s/he must also itemize for state tax purposes. Similarly, if an individual claims the standard deduction for federal tax purposes, s/he must also claim the standard deduction for state tax purposes.

For the individual provisions, if federal taxes were the only consideration, the significant increase in the federal standard deduction would cause many taxpayers to “switch” and take the standard deduction. For purposes of this report, the model minimized each taxpayer’s combined federal and Virginia tax liability and found that many who would otherwise “switch” for federal tax purposes would continue to itemize to minimize their combined federal and Virginia tax liability.

Not all Virginia residents will necessarily minimize their combined federal and Virginia tax liability due to lack of understanding or the perception that the potential savings would not justify the extra effort involved in itemizing. Therefore, the actual Virginia revenue increase due to this provision of the TCJA may be higher by an unknown amount.

To simulate a taxpayer minimizing overall federal and Virginia taxes, the model takes into account every federal individual income tax policy change enacted by the TCJA. For each taxpayer in the database:

- The model computes federal tax and then Virginia tax assuming that the taxpayer itemizes for federal tax purposes (tax assuming itemized deductions).
- The model computes federal tax and then Virginia tax assuming that the taxpayer takes the standard deduction for federal tax purposes (tax assuming standard deduction).
- The model compares the tax based upon claiming itemized deductions to the tax based upon claiming the standard deduction and then takes the minimum of the two.

Table 4 presents the estimated impact of the TCJA on Virginia residents' decision to either itemize or claim the standard deduction for Taxable Year 2018.

Table 4
Estimated Impact of the TCJA on the Decision to Either Itemize or Claim the Standard Deduction
Residents Only
Taxable Year 2018

Virginia Adjusted Gross Income	Itemized Deduction Number of Returns (Prior Law)	Itemized Deduction Number of Returns (New Law)	Standard Deduction Number of Returns (Prior Law)	Standard Deduction Number of Returns (New Law)	Number Switching from Itemized to Standard
$25,000 and below	36,628	16,621	1,084,910	1,104,917	20,007
25,000 - 50,000	167,870	94,367	623,312	696,815	73,503
50,000 - 75,000	210,411	127,687	291,987	374,711	82,724
75,000 - 100,000	204,658	125,969	153,029	231,718	78,689
100,000 - 125,000	182,721	105,197	71,295	148,819	77,524
125,000 - 150,000	143,545	89,223	27,964	82,285	54,322
150,000 - 175,000	106,729	71,457	12,243	47,515	35,272
175,000 - 200,000	77,615	54,667	5,826	28,773	22,947
200,000 - 250,000	100,752	74,070	4,296	30,978	26,682
250,000 - 500,000	121,447	94,123	1,601	28,925	27,324
500,000 - 1,000,000	25,458	21,178	379	4,659	4,280
1,000,000 - and above	10,668	9,582	296	1,382	1,086
Totals	1,388,501	884,140	2,277,136	2,781,497	504,361

Source: Virginia Individual Income Tax Microsimulation Model

As shown in Table 4, assuming all taxpayers would minimize their combined federal and Virginia tax liability, we estimate that in Taxable Year 2018, 504,361 returns will switch from itemizing to taking the standard deduction.

Simulation 2 – Alternative Inflation Measure. Many provisions of the federal income tax system are adjusted for inflation to protect taxpayers from the effects of rising prices. Prior to Taxable Year 2018, most of the adjustments were based on annual changes in the level of the Consumer Price Index for All Urban Consumers (CPI–U). The CPI–U is an index that measures prices paid by typical urban consumers on a broad range of products and is developed and published by the Department of Labor. The TCJA requires the use of a different inflation measure, the Chained Consumer Price Index for All Urban Consumers (C–CPI–U) to adjust provisions previously indexed by the CPI–U. The provision requiring C–CPI–U indexing is permanent and applies to taxable years beginning after December 31, 2017.

Among the inflation-indexed provisions are the following federal individual income tax amounts: (1) the regular income tax brackets; (2) the basic standard deduction; (3) the additional standard deduction for aged and blind; (4) the phase-in and phaseout thresholds for the earned income credit; and (5) IRA contribution limits and deductible amounts.

Simulation 3 -- Loss Limitation for Noncorporate Taxpayers. Prior to Taxable Year 2018, taxpayers were generally permitted to claim active business losses against non-business income. Under the TCJA, for taxable years beginning after December 31, 2017 and before January 1, 2026, excess business losses of a taxpayer other than a corporation are not allowed for the taxable year. Such "excess business losses" are defined as active business losses in excess of $250,000 ($500,000 for married taxpayers filing jointly). Such losses are carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward in subsequent taxable years.

Simulation 4 -- Repeal and Limitation of Certain Itemized Deductions. The TCJA repeals and limits certain itemized deductions, including those for taxes paid, casualty and theft losses, and some miscellaneous deductions.

Taxes Paid. Under prior law**,** individuals were permitted an itemized deduction for certain taxes paid or accrued, whether or not incurred in a taxpayer's trade or business. Under the TCJA, unless paid or accrued in carrying on a trade or business an individual taxpayer may only claim an itemized deduction of up to $10,000 ($5,000 for married taxpayers filing a separate return) for the aggregate of (i) state and local property taxes and (ii) state and local income, war profits, and excess profits taxes (or sales taxes in lieu of such taxes) paid or accrued in the taxable year. Foreign real property taxes may not be deducted under this exception. The new law applies to taxable years beginning after December 31, 2017 and beginning before January 1, 2026.

Casualty and Theft Losses. Under prior law, a taxpayer could claim a deduction for personal casualty and theft losses. These losses were deductible only if they exceeded $100 per casualty or theft. In addition, aggregate net casualty and theft losses were deductible only to the extent they exceeded ten percent of an individual taxpayer's AGI. Under the TCJA, a taxpayer may claim a personal casualty loss only if such loss was attributable to a disaster declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The new law is effective for losses incurred in taxable years beginning after December 31, 2017 and does not apply to losses incurred after December 31, 2025.

<u>Repeal of Certain Miscellaneous Itemized Deductions</u>. Under prior law, individuals could claim itemized deductions for certain miscellaneous expenses, to the extent they exceeded two percent of the taxpayer's AGI. The TCJA suspends all miscellaneous itemized deductions that were subject to the two-percent floor under prior law, effective for taxable years beginning after December 31, 2017 and ending for taxable years after December 31, 2025.

Simulation 5 – Increase Limit for Cash Charitable Contributions. The Internal Revenue Code (IRC) allows taxpayers to reduce their income tax liability by taking deductions for contributions to certain organizations, including charities, federal, state, local, and Indian tribal governments, and certain other organizations. Special rules limit the deductibility of a taxpayer's charitable contributions in a given year to a percentage of income, and the application of those rules partially depend upon whether the organization receiving the contributions is a public charity or a private foundation.

Under prior law, the percentage of income limit for cash contributions to public charities was 50 percent. The TCJA increased the percentage of income limit from 50 percent to 60 percent for taxable years beginning after December 31, 2017 and before January 1, 2026.

Simulation 6 – Repeal of Overall Limitation on Itemized Deductions. Under prior law, the total amount of most otherwise allowable itemized deductions (other than the deductions for medical expenses, investment interest, and casualty, theft or gambling losses) was limited for certain taxpayers. All other limitations applicable to such deductions (such as separate floors) were first applied and, then, the otherwise allowable total amount of itemized deductions was reduced by three percent of the amount by which the taxpayer's AGI exceeded a threshold amount. For 2017, the threshold amounts were $261,500 for single taxpayers, $287,650 for heads of household, $313,800 for married couples filing jointly, and $156,900 for married taxpayers filing separately. These threshold amounts were indexed for inflation. The otherwise allowable itemized deductions could not be reduced by more than 80 percent by reason of the overall limit on itemized deductions. The TCJA suspended the overall limitation on itemized deductions, effective for taxable years beginning after December 31, 2017 and before January 1, 2026.

Simulation 7 – Changes to Moving Expense Deduction and Exclusion. Under prior law, individuals were permitted an above-the-line deduction for moving expenses paid or incurred during the taxable year in connection with starting at a new principal place of work. The expenses were deductible only if the move met certain conditions related to distance from the taxpayer's previous residence and the taxpayer's status as a full-time employee in the new location. Special rules applied in the case of a member of the Armed Forces of the United States on active duty. The TCJA suspends the deduction for Taxable Years 2018 through 2025 but retains tax benefits for the moving expenses of members of the Armed Forces of the United States.

Under prior law, qualified moving expense reimbursements were excluded from an employee's gross income and amounts that were excludible from gross income for income tax purposes were also excluded from wages for employment tax purposes. The TCJA temporarily repeals the exclusion from gross income and wages for qualified moving expense reimbursements except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order for taxable years beginning after December 31, 2017 and before January 1, 2026.

Simulation 8 – Medical Expense Deduction Restoration. Under prior law, individuals could generally claim an itemized deduction for unreimbursed medical expenses, but only to the extent that such expenses exceed 10 percent of AGI. For taxable years beginning before January 1, 2017, the 10 percent threshold was reduced to 7.5 percent in the case of taxpayers who had attained the age of 65 before the close of the taxable year. In the case of married taxpayers, the 7.5 percent threshold applied if either spouse has obtained the age of 65 before the close of the taxable year. Under prior law, the floor was set to increase to 10 percent for all taxpayers, including those 65 and older, for taxable years beginning after December 31, 2016.

Under the TJCA, for taxable years beginning after December 31, 2016 and before January 1, 2019, the threshold for deducting medical expenses is 7.5 percent for all taxpayers, regardless of age.

Simulation 9 – Repeal Deduction for Alimony Payments. Under prior law, alimony and separate maintenance payments were deductible by the payor spouse and includible in income by the recipient spouse. Child support payments were not treated as alimony. Under the TCJA, alimony and separate maintenance payments are not deductible by the payor spouse. Income used for alimony payments is taxed at the rates applicable to the payor spouse rather than the recipient spouse. The treatment of child support is not changed. The TCJA is generally effective for any divorce or separation instrument executed on or after December 31, 2018.

Off-Model Estimates. Off-model estimates were developed for four individual provisions of the TCJA because relevant Virginia data needed to analyze specific provisions using the on-model approach were not available. The off-model approach generally involves using ratios that convert the federal revenue estimates produced by the JCT to Virginia estimates. To enable this conversion, various ratios are applied to adjust for differences in Virginia income to US income, Virginia individual income tax to

US individual income tax, and the impact of the reduction in federal individual income tax rates stemming from the TCJA.

Three of the off-model estimates had a minimal Virginia revenue impact. These three off-model provisions are:

- Repeal of special rule permitting recharacterization of Roth conversions
- Length of service awards for public safety volunteers
- Allow 529 withdrawals up to $10,000 for primary and secondary education

Estimates for the limitation on mortgage interest and home equity interest deductions were developed using a methodology developed by the Tax Policy Center (TPC)[2] that provides an analysis of a similar tax provision by state and income class. Both the provision analyzed in the TPC paper and the TCJA provision apply only to new loans. The estimated positive revenue impact associated with this provision are $13.7 million for Fiscal Year 2019 and $15.1 million for Fiscal Year 2020, increasing annually to $42.7 million by Fiscal Year 2024.

[2] Chenxi Lu and Eric Toder, "Effects of Reforms of the Home Mortgage Interest Deduction by Income Group and by State," Tax Policy Center, December 6, 2016.

Estimated Tax Impact of the Business Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia impact of the business provisions of the TCJA. Most of the TCJA business provisions affect both corporations and pass-through entities, including partnerships and LLCs; therefore, the Virginia revenue impact includes the impact on both individual and corporation income tax revenues.

The base year for the corporation income tax database is Taxable Year 2015. This database was extrapolated through Taxable Year 2024. The revenue estimates cover Fiscal Years 2019 to 2024. Due to the likely timing of Virginia's conformity to the TCJA, the estimates assume that the full revenue impact for Taxable Year 2018 will be recognized in Fiscal Year 2019.

The JCT estimates that the TCJA will result in significant federal tax cuts for certain business taxpayers[3]. The bulk of the federal tax cut is due to the reduced corporate income tax rate, which has no direct impact on Virginia revenue. Overall, we estimate that the business provisions of the TCJA will result in a Virginia revenue increase that grows over time. The business provisions of the TCJA that result in the most significant Virginia revenue increases include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

The business provisions of the TCJA that result in the most significant Virginia revenue decreases include:

- Increase in IRC section 179 expensing
- Simplified accounting for small business

Following we discuss:

- The overall estimated Virginia tax impact of the business provisions of the TCJA taken together
- The estimated Virginia tax impact of specific business provisions of the TCJA

[3] "Tax Cuts and Jobs Act Conference Report to Accompany H.R. 1, December 15, 2017", pp. 685-688

Estimated Virginia Revenue Impact -- Overall

As shown in Table 5, the business provisions of the TCJA result in an estimated Virginia revenue increase of $29.4 million in Fiscal Year 2019 and $114.6 million in Fiscal Year 2020, increasing to $398.2 million by Fiscal Year 2024. The business provisions do not have a significant revenue impact in Fiscal Year 2019 due to the offsetting negative revenue impact of the simplified accounting rules for small businesses. However, there is a large positive revenue impact beginning in Fiscal Year 2020, with a significant increase in Fiscal Year 2022 when a provision related to the amortization of research and experimental expenditures becomes effective.

Table 5
Estimated Virginia Revenue Impact of All Business Provisions of the TCJA
Fiscal Years 2019 to 2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
Fiscal Year Virginia Only Impact Business Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019

Estimated Virginia Revenue Impact -- Specific Provisions

The Virginia Corporation Income Tax Microsimulation Model was used to generate revenue estimates for four on-model provisions. Twenty-two off-model estimates were generated using JCT estimates as a starting point.

Table 6 presents an overview of the estimated fiscal year revenue impact of the business provisions of the TCJA having an impact on Virginia businesses, including both corporations and pass-through entities (partnerships, limited liability companies, Subchapter S corporations, etc.).

Table 6
Estimated Virginia Revenue Impact of Business Provisions of the TCJA
Fiscal Years 2019 to 2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
Simulation 1: Increase IRC section 179 expensing	(89.9)	(46.2)	(22.6)	(19.2)	(13.8)	(9.9)	(201.6)
Simulation 2: Limit net interest deductions	122.8	90.0	93.4	98.7	105.1	109.3	619.1
Simulation 3: Modification of net operating loss deduction	8.0	23.3	42.2	52.7	51.8	50.8	228.7
Simulation 4: Repeal domestic production activities deduction	52.0	40.8	42.6	44.3	46.2	48.0	273.9
Off-Model Est. 1: Simplified accounting for small business	(107.3)	(33.1)	(16.5)	(14.4)	(11.8)	(12.2)	(195.3)
Off-Model Est. 2: Modify treatment of S corps conversions into C corps	(4.3)	(2.5)	(3.0)	(2.8)	(2.9)	(2.8)	(18.3)
Off-Model Est. 3: Modifications of treatment of farm property	-	-	(0.4)	(1.0)	(1.5)	(1.3)	(4.1)
Off-Model Est. 4: Repeal like-kind exchanges except for real property	6.3	6.5	8.7	11.2	14.7	19.3	66.8
Off-Model Est. 5: Applicable recovery period for real property	(1.0)	(1.2)	(2.2)	(2.5)	(3.5)	(3.5)	(13.9)
Off-Model Est. 6: Amortization of research and experimental expenditures	-	-	-	94.4	195.7	164.2	454.3
Off-Model Est. 7: Meals and entertainment expenses	17.5	11.9	12.2	12.5	12.8	13.0	80.1
Off-Model Est. 8: Repeal deduction for qualified transportation fringes	13.0	9.0	9.3	9.5	9.8	10.1	60.7
Off-Model Est. 9: UBTI increased by amount of certain fringe expenses	- - - -- - - - - - -Estimate Included in Off-Model Estimate 8 - - - - - - - - -						
Off-Model Est. 10: Repeal of rollover of publicly traded securities gain	1.7	1.4	1.3	1.3	0.9	0.5	7.0
Off-Model Est. 11: Rules for taxable year of inclusion in gross income -- general	13.3	9.3	9.2	5.6	1.4	1.0	39.7
Off-Model Est. 12: Rules for taxable year of inclusion in gross income -- OID	1.1	3.6	4.0	3.6	4.0	3.6	19.8
Off-Model Est. 13: Modification of rules relating to employee remuneration	3.6	5.6	5.4	5.4	5.4	5.4	30.8
Off-Model Est. 14: Treatment of qualified equity grants	(1.8)	(1.1)	(1.1)	(0.7)	(0.2)	0.0	(4.9)
Off-Model Est. 15: Expand definition of built-in loss for partnership loss transfers	-	-	0.4	0.6	0.5	0.5	2.0
Off-Model Est. 16: Charitable and foreign taxes in partnership loss limit	0.4	0.6	0.5	0.5	0.5	0.5	3.1
Off-Model Est. 17: Repeal of technical termination of partnerships	1.3	0.7	0.5	0.9	1.1	1.1	5.6
Off Model Est. 18: Unrelated business taxable income separately computed for each trade or activity	2.2	1.6	1.6	2.0	2.2	2.2	11.8
Off Model Est. 19: Charitable deduction not allowed for amounts paid in exchange for college athletic seating	1.8	1.1	1.1	1.1	1.1	1.1	7.2
Off Model Est. 20: Create qualified opportunity zones	(12.9)	(8.9)	(9.0)	(8.9)	(8.3)	(8.1)	(56.0)
Off Model Est. 21: Repeal of deduction for local lobbying expenses	0.4	0.6	0.5	0.5	0.5	0.5	3.1
Off-Model Est. 22: Revision of treatment of contributions to capital	1.3	1.8	3.3	4.9	5.5	5.0	21.8
Total, All Provisions	29.4	114.6	181.5	300.3	417.2	398.2	1,441.3

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019

Following we provide discussions of the four business provision Simulations and the significant off-model estimates.

Simulation 1 -- Increase IRC Section 179 Expensing. A taxpayer generally must capitalize the cost of property used in a trade or business or held to produce income and recover such cost over time through annual deductions for depreciation or amortization. However, a taxpayer may elect under IRC section 179 to deduct (or ‘‘expense’’) the cost of qualifying property, rather than to recover such costs through depreciation deductions, subject to limitation.

Under prior law, the maximum amount a taxpayer could expense was $500,000 of the cost of qualifying property placed in service for the taxable year. The $500,000 amount was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeded $2,000,000. The $500,000 and $2,000,000 amounts were indexed for inflation for taxable years beginning on or after January 1, 2016.

The TCJA increases the maximum amount a taxpayer may expense under IRC section 179 to $1,000,000 and increases the phaseout threshold amount to $2,500,000 for taxable years beginning after December 31, 2017. These amounts are indexed for inflation for taxable years beginning after December 31, 2018.

Simulation 2 – Limit Net Interest Deductions. Interest paid or accrued by a business generally is deductible in the computation of taxable income subject to several limitations. Interest is generally deducted by a taxpayer as it is paid or accrued, depending on the taxpayer’s method of accounting.

Under prior law, in the case of a taxpayer other than a corporation, the deduction for interest on indebtedness that is allocable to property held for investment (investment interest) was limited to the taxpayer’s net investment income for the taxable year. Disallowed investment interest was carried forward to the next taxable year.

Under the TCJA, for taxable years beginning after December 31, 2017, the deduction for business interest is limited to the sum of (1) business interest income; (2) 30 percent of the adjusted taxable income of the taxpayer for the taxable year; and (3) the floor plan financing interest of the taxpayer for the taxable year. Floor plan financing interest is interest on indebtedness used to finance the acquisition of motor vehicles held for sale or lease to retail customers and secured by the inventory so acquired. This limitation applies to both corporations and pass-through entities. In the case of a pass-through entity, the limitation applies at the entity level, rather than the partner or owner level. In the case of a group of affiliated corporations that file a consolidated return, the limitation applies at the consolidated tax return filing level.

Under the TCJA, interest deductions are permitted to be carried forward indefinitely, subject to certain restrictions applicable to partnerships.

Simulation 3 -- Modification of Net Operating Loss Deduction. When the amount of business deductions exceeds gross income during a taxable year, business deductions are first used to reduce gross income to zero. The remaining, unused amount is known as a “net operating loss” (NOL) and can reduce income in other taxable years according to specific rules. Under prior law, an NOL could generally be carried back two years and carried over 20 years to offset taxable income in such years.

The TCJA generally limits the NOL deduction to 80 percent of taxable income for losses arising in taxable years beginning after December 31, 2017. Carryovers to other years are adjusted to take account of this limitation and may be carried forward indefinitely.

In addition, NOLs may no longer be carried back and used in previous taxable years. Exceptions apply to property and casualty insurance companies and certain farm losses.

Simulation 4 – Repeal Domestic Production Activities Deduction. Under prior law, IRC section 199 provided a deduction from taxable income (or, in the case of an individual, AGI) equal to nine percent of the lesser of the taxpayer’s qualified production activities income or taxable income (determined without regard to the IRC section 199 deduction) for the taxable year. The TCJA repeals the deduction for income attributable to domestic production activities and is effective for taxable years beginning after December 31, 2017.

Off-Model Estimates. Off-model estimates were developed for twenty-two business provisions of the TCJA because relevant Virginia data needed to analyze specific provisions using the on-model approach were not available. The off-model estimate that results in the greatest Virginia revenue increase is the amortization of research and experimental expenditures (Off-Model Estimate 6). Business expenses associated with the development or creation of an asset having a useful life extending beyond the current year generally must be capitalized and depreciated over such useful life. However, taxpayers may elect to deduct currently the amount of certain reasonable research or experimentation expenditures paid or incurred in connection with a trade or business. Taxpayers may choose to forgo a current deduction, capitalize their research expenditures, and recover them ratably over the useful life of the research, but in no case over a period of less than 60 months. Alternatively, taxpayers may elect to amortize their research expenditures over a period of 10 years.

Under the TCJA, amounts defined as specified research or experimental expenditures are required to be capitalized and amortized ratably over a five-year period, beginning with the midpoint of the taxable year in which the specified research or experimental expenditures were paid or incurred. Specified research or experimental expenditures attributable to research that is conducted outside of the United States are required to be capitalized and amortized ratably over a period of 15 years, beginning with the midpoint of the taxable year in which such expenditures were paid or incurred.

The provision applies to amounts paid or incurred in taxable years beginning after December 31, 2021. We estimate that the provision will have a positive revenue impact of $94.4 million for Fiscal Year 2022, $195.7 million for Fiscal Year 2023, and $164.2 million for Fiscal Year 2024, for a total of $454.3 million over the period of analysis.

The off-model estimate resulting in the greatest Virginia revenue decrease is the simplified accounting provision for small businesses (Off Model Estimate 1). The TCJA expands the universe of taxpayers that may use the cash method of accounting, retains prior law exceptions from the required use of the accrual method for qualified personal service corporations and taxpayers other than C corporations, and exempts certain taxpayers from the requirement to keep inventories. It also expands the exception for small taxpayers from the uniform capitalization rules and the exception for small construction contracts from the requirement to use the percentage-of-completion method. The provision is generally applicable for taxable years beginning after December 31, 2017.

Conclusion

The JCT estimates that the TCJA will provide business taxpayers with significant federal tax cuts. We estimate that the business provisions of the TCJA will result in a Virginia revenue increase that grows over time.

The business provisions with the most significant Virginia revenue impact include:

- Limit on the net interest deduction
- Amortization of research and experimental expenses
- Repeal of the domestic production activities deduction
- Modification of the net operating loss deduction

Estimated Impact of the International Provisions of the TCJA

The focus of this section of the report is on the estimated Virginia tax impact of the international provisions of the TCJA. Virginia Tax and Chainbridge conducted a review of the international provisions of the TCJA and concluded that most of the provisions would have not have a substantive Virginia revenue impact. The rationale for this conclusion in most cases is that while Virginia generally conforms to federal law, Virginia allows a subtraction for foreign source income, which includes dividends from a foreign corporation.

The "current year inclusion of global intangible low-taxed income" (GILTI) is the only international provision expected to have a direct positive revenue impact on Virginia. While another international provision relating to the repatriation of deferred foreign earnings ("Repatriation") will generally have no direct revenue impact on Virginia, it is expected to result in an indirect positive revenue impact. Such indirect impact will occur because corporations subject to Repatriation at the federal level are expected to use some of their repatriated earnings to make distributions to their individual shareholders. Because such distributions are typically taxable to shareholders under federal law and Virginia conforms to such treatment, the increased corporate distributions will increase the amount of individual income tax collected by Virginia.

Following we provide discussions of:

- The aggregate estimated Virginia revenue impact of all of the international provisions of the TCJA

- The estimated Virginia tax impact of the two specific international provisions of the TCJA

Estimated Virginia Tax Impact -- Overall

As shown in Table 7, we find that the international provisions of the TCJA result in a positive Virginia revenue impact. This revenue gain is the greatest in Fiscal Years 2019 ($32.6 million) and 2020 ($52.7 million).

Table 7
Estimated Virginia Revenue Impact of the International Provisions of the TCJA
Fiscal Years 2019 to 2024
($Millions)

	2019*	2020	2021	2022	2023	2024	Total
GILTI Provision	7.1	5.4	5.5	5.8	6.0	6.3	36.0
Repatriation Provision	25.5	47.3	-	-	-	-	72.8
Total, All Provisions	32.6	52.7	5.5	5.8	6.0	6.3	108.8

* Due to the likely timing of Virginia's conformity to the federal provisions, the full revenue impact for Taxable Year 2018 is recognized in FY 2019

Estimated Virginia Tax Impact -- Specific Provisions

The Virginia tax impact of the Repatriation provision was estimated using an off-model approach. The Virginia Corporation Income Tax Microsimulation Model was used to estimate the Virginia tax impact of the GILTI provision.

Repatriation Provision. For the last taxable year beginning before January 1, 2018, any U.S. shareholder of a specified foreign corporation must include in income its pro rata share of the *accumulated post-1986 deferred foreign income of the corporation*. A portion of that pro rata share of foreign earnings is deductible; the amount of the deductible portion depends upon whether the deferred earnings are held in cash or other assets. The deduction results in a reduced rate of tax with respect to income from the required inclusion of pre-effective date earnings. A corresponding portion of the credit for foreign taxes is disallowed, thus limiting the credit to the taxable portion of the included income. The increased tax liability generally may be paid over an eight-year period. Special rules are provided for S corporations and real estate investment trusts.

Because corporate U.S. shareholders may subtract the net inclusion on their Virginia return, the Repatriation provision has no direct impact on the corporation income tax. However, the Repatriation provision is expected to result in an indirect impact on the individual income tax. As previously stated, such indirect impact will occur because corporations subject to Repatriation at the federal level are expected to use their repatriated earnings in part to make distributions to their shareholders.

Based upon our research of Forms 10-K filed with the US Securities and Exchange Commission (SEC) for publicly-traded companies that are expected to repatriate earnings, we were able to estimate the amount of distributions being made on account of the Repatriation provision and the extent that they would be taxable to individual shareholders as either dividend income or capital gains under federal law. Because Virginia generally conforms to the federal tax treatment of corporate distributions, the increased corporate distributions made on account of the Repatriation provision will increase the amount of individual income tax collected by Virginia. Moreover, because the TCJA left the federal tax treatment of corporate distributions largely unaltered, this provision will result in a positive impact regardless of whether Virginia chooses to conform to the TCJA. There would be a direct impact on individual income taxpayers; however, this impact is expected to be minimal.

Inclusion of Global Intangible Low-taxed Income *(GILTI).* Under the TCJA, U.S. shareholders of controlled foreign corporations must include in gross income their pro rata share of Global Intangible Low-Tax Income ("GILTI"). GILTI is income earned by a foreign corporation that exceeds a "normal" rate of return on its tangible assets and that is not already taxed by the United States in the current year. A 10 percent rate of return on assets is considered normal. However, GILTI is effectively taxed at a low rate for U.S. corporate shareholders because, for taxable years beginning after December 31, 2017, and before January 1, 2026, a domestic corporation can generally claim a deduction in an amount equal to 50 percent of its GILTI. For taxable years beginning after December 31, 2025, the deduction amount is equal to 37.5 percent of its GILTI.

Current Virginia law allows a subtraction for Subpart F income under Va. Code section 58.1-402(C)(7) and a subtraction for foreign source income under Va. Code section 58.1-402(C)(8). However, GILTI would not qualify for either subtraction because Virginia Tax concluded that it is not technically "Subpart F income" as defined in IRC section 952, nor is it "foreign source income" as defined in Va. Code section 58.1-302.

Conclusion

Overall, we estimate that the international provisions of the TCJA will result in a positive revenue impact for Virginia, consisting of an ongoing positive revenue impact from the GILTI provision and a short-term indirect impact in FY 2019 and 2020 from the repatriation provision.