



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: May Revenue Data

May is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are due May 1, and corporations with a fiscal year ending other than December 31 – primarily retailers – have final payments due in May.

Total general fund revenue collections rose 17.9 percent in May. The growth was mainly due to nonwithholding receipts (individual final payments based on 2010 tax year liabilities). On the other hand, growth in two large sources, payroll withholding and sales tax, slowed. Withholding collections grew at 3.0 percent during May but the growth rate was influenced upward by an extra deposit day. Sales tax collections increased by 3.8 percent for the month but that was modest considering Easter fell in April which typically adds to growth.

On a year-to-date basis, total revenue collections rose 5.8 percent, ahead of the revised annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 7.3 percent through May, ahead of the economic-base forecast of 5.5 percent growth.

National Economic Indicators

Current national indicators exhibit weakness and suggest economic growth has slowed somewhat. Beginning early in the year, rising oil prices, harsh winter weather, Japan's tsunami, and unrest in the Middle East have been a drag on growth. The consensus of economic advisors is that the expansion will continue at a modest, uneven pace.

- According to the second estimate, real GDP grew 1.8 percent at an annualized rate in the first quarter of 2011, unchanged from the advance estimate. Although this marked the seventh consecutive quarter of growth, this is down from 3.1 percent in the fourth quarter of 2010.
- Labor market conditions weakened in May. Payroll employment rose by only 54,000 jobs in May and the prior two months were revised down by 39,000 jobs. Despite the weak growth, May marked the eight consecutive monthly job gain. In a separate report, the unemployment rate rose for the second month in a row from 9.0 to 9.1 percent in May.
- Initial claims for unemployment rose by 1,000 to 427,000 during the week ending June 4, while the four-week moving average fell from 427,000 to 424,000.
- The Conference Board's index of leading indicators unexpectedly fell 0.3 percent in May, following nine consecutive monthly increases.
- The Conference Board's index of consumer confidence fell from 66.0 to 60.8 in May. Both components contributed to the decrease, with the expectations component leading the decline. Events in the Middle East and Japan, along with higher energy prices and a weaker labor market, continue to dampen confidence in the outlook.
- The manufacturing sector further slowed in May as the Institute of Supply Management index fell from 60.4 to 53.5. The index had remained above 60 for four consecutive months before the May decline. A reading above 50 indicates that manufacturing activity is expanding, but the drop in the index suggests the rate of growth has slowed.
- The consumer price index (CPI) increased 0.4 percent in April from the previous month and stands 3.2 percent above April of last year. Core inflation (excluding food and energy prices) rose 0.2 percent in April, and has increased 1.3 percent from April 2010.

Virginia Economy

In Virginia, employers have added jobs in nine of the last ten months. In April, payroll employment rose 0.7 percent from April of last year. Northern Virginia posted growth of 1.1 percent, Hampton Roads fell 0.2 percent, and Richmond-Petersburg fell 1.0 percent. The unemployment rate in the Commonwealth fell from 6.3 percent to 5.8 percent in April, and is 0.9 percentage point below April 2010.

The Virginia Leading Index remained unchanged in April, following five consecutive monthly increases. Auto registrations and future employment improved in April, while building permits and the U.S. Leading Index fell and initial claims for unemployment increased. The Leading Index rose in April in nine of eleven Virginia metro areas, while the indexes in Charlottesville and Danville fell.

May Revenue Collections

Total general fund revenue collections rose 17.9 percent in May. The growth was mainly due to individual final payments based on 2010 tax year liabilities. On a year-to-date basis, total revenue collections rose 5.8 percent, ahead of the revised annual forecast of 3.5 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through May, collections of net individual income tax rose 9.3 percent from the same period last year, ahead of the annual estimate of 7.2 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (65% of general fund revenues): Despite an extra deposit day compared with May of last year, collections of payroll withholding taxes grew a modest 3.0 percent in May. Year-to-date, withholding collections grew 5.0 percent compared with the same period last year, ahead of the projected annual growth rate of 4.3 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): May is a significant month for nonwithholding collections since final payments for tax year 2010 and the first estimated payment for tax year 2011 are both due May 1.

May collections were \$457.7 million compared with \$307.2 million in May 2010, a 49.0 percent increase. Since a large portion of final payments due May 1 are received in April, the two months must be analyzed together to accurately assess growth in this source. Taken together, nonwithholding collections in April and May were up 26.0 percent over the same period last year.

Through May, about 93 percent of the nonwithholding forecast has been collected, and collections during this period are 13.9 percent ahead of the same period last year, ahead of the estimate of 8.5 percent. The final estimated payment for this fiscal year is due in June and \$152.4 million is needed to meet the annual estimate. Last year, \$224.9 million was received in June.

Individual Income Tax Refunds: Through May, TAX issued \$1.8 billion in refunds compared with \$1.9 billion last year, a 5.4 percent decline, compared with the revised annual estimate of a 4.9 percent decline.

For the filing season beginning January 1, TAX has issued 2.5 million refunds, about 36,000 more than the same period last year, with the average check size down 6.0 percent. TAX can issue another \$90.7 million in refunds and meet the annual estimate. Last year, \$85.2 million in refunds was issued in June.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose a modest 3.8 percent in May. The Easter holiday typically boosts growth in this source. On a year-to-date basis, collections have fallen 2.0 percent, trending toward the revised annual estimate of a 3.7 percent decline. The year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July 2010 payments in June 2010. Adjusting for this and other policy initiatives, including amnesty and the modified dealer discount, sales tax collections have grown by 4.5 percent year-to-date, close to the economic-base forecast of 4.8 percent.

Corporate Income Tax (5% of general fund revenues): May is typically not a significant month in corporate income tax collections, with final or extension payments due mainly from retailers who typically have a January 31 close to their fiscal year. Such payments vary significantly from year-to-year.

Collections of corporate income tax were \$16.2 million in May, compared with \$20.8 million last May. Year-to-date collections in this source have declined 0.9 percent over the same period last year, ahead of the revised annual estimate of a 4.9 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 6.3 percent in May. On a year-to-date basis, collections are up 0.9 percent, ahead of the revised forecast of a 5.6 percent decline.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	11.1%	6.0%
Interest Income (1% GF revenues)	-12.3%	-20.7%
ABC Taxes (1% GF revenues)	2.3%	1.2%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 17.4 percent in May – \$46.2 million compared with \$55.9 million last May. For the fiscal year, collections of All Other Revenue grew 2.9 percent, matching the annual estimate.

Summary

Total general fund revenue collections rose 17.9 percent in May. The growth was mainly due to individual final payments based on 2010 tax year liabilities. Growth in collections of payroll withholding and sales tax slowed despite an extra deposit day and the Easter holiday which typically boosts growth.

On a year-to-date basis, total revenue collections rose 5.8 percent, ahead of the revised annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 7.3 percent through May, ahead of the economic-base forecast of 5.5 percent growth.

June is another very important month for collections, and typically accounts for 11 to 12 percent of total general fund revenue for the year. June collections include receipts of individual and corporate estimated payments, estimated payments for insurance premiums, and corporate franchise fees, along with regular monthly collections in other sources.

Collections in June must total about \$1.6 billion to attain the forecast for the fiscal year. For comparison purposes, receipts in June 2010 were \$1.8 billion.