



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: January Revenue Data

January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income taxes from large retailers are due in January. This month's revenue report compares current revenue collections to the revenue estimates included in the budget (HB1500/SB800) introduced to the 2013 General Assembly.

Total general fund revenue collections rose 19.5 percent in January, with several factors affecting the timing of payments which distorted growth. An additional deposit day boosted growth in individual withholding and the delay in the federal electronic filing program postponed refund activity. On a year-to-date basis, total revenue collections rose 6.2 percent through January, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.8 percent through January, ahead of the adjusted forecast of 3.4 percent growth.

National Economic Indicators

Most national indicators suggest the economy is slowly improving; however, political uncertainty, a weak global economy, and eroding consumer confidence remain threats.

- According to the advance estimate, real GDP fell at an annualized rate of 0.1 percent in the fourth quarter of 2012, down from a 3.1 percent increase in the third quarter. The first real GDP decline since the second quarter of 2009 was driven by cuts in defense spending and the effects of Hurricane Sandy.
- Annual benchmark revisions depict labor market conditions as somewhat stronger than previously reported. Payroll employment added 157,000 jobs in January. The most significant point in the January jobs report was that November and December gains were

revised upward by a combined 127,000 jobs. With the revisions, 247,000 jobs were gained in November and 196,000 in December. Before the revisions, the data indicated that the economy added about 150,000 jobs per month during 2012. The revised data show that payroll employment averaged gains of 181,000 jobs per month over the last year. In a separate report, the unemployment rate ticked up slightly, from 7.8 to 7.9 percent rebenchmarking in the household survey.

- Initial claims for unemployment fell by 5,000 to 366,000 during the week ending February 2. The four-week moving average fell 2,250 to 350,500. Although the level of claims has been volatile over the last few months, the underlying trend is consistent with slow employment growth.
- After remaining unchanged in November, the Conference Board's index of leading indicators rose 0.5 percent in December. An improvement in initial claims for unemployment was the largest contributor to the increase. The index has risen in three of the previous four months.
- The Conference Board's index of consumer confidence dropped from 66.7 to 58.6 in January, its third consecutive decline. Both the current conditions and expectations components declined in January.
- The manufacturing sector continued its modest expansion in January, with the Institute of Supply Management index increasing from 50.2 to 53.1.
- The CPI was unchanged in December, and stands 1.7 percent above December 2011. Core inflation (excluding food and energy prices) rose 0.1 percent in December, and has increased 1.9 percent from December 2011.
- The Federal Reserve announced at its January meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and continued its quantitative easing program.

Virginia Economy

In Virginia, payroll employment rose 0.8 percent in December from December 2011. Northern Virginia and Hampton Roads posted growth of 1.5 percent, while employment in Richmond-Petersburg fell 0.8 percent. The unemployment rate in the Commonwealth rose 0.1 percentage point to 5.4 percent in November and was 0.5 percentage point below the December 2011 rate.

The Virginia Leading Index rose 0.5 percent in December after increasing 0.2 percent in November. Building permits, auto registrations, the U.S. leading index and initial unemployment claims improved in December while future employment remained essentially unchanged. The Leading Index increased in Northern Virginia, Hampton Roads, Richmond, Lynchburg, Charlottesville, Harrisonburg, and Blacksburg, while the index for Winchester contracted. The indexes for Roanoke, Bristol, and Danville were little changed in December.

January Revenue Collections

Total general fund revenue collections rose 19.5 percent in January, with several factors distorting growth. An additional deposit day boosted growth in individual withholding and the delay in the federal electronic filing program postponed refund activity. On a year-to-date basis, total revenue collections rose 6.2 percent through January, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.8 percent through January, ahead of the adjusted forecast of 3.4 percent growth.

Net Individual Income Tax (68% of general fund revenues): Through January, collections of net individual income tax rose 7.2 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes rose 17.5 percent in January, driven by an extra deposit day and the timing of payments. January had one more Wednesday than January of last year, and Wednesday is a significant day for receipts in this source. Year-to-date, withholding collections rose 4.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.3 percent. Adjusting for the extra deposit day, growth is closer to 2.5 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): Collections in this source rose 42.7 percent in January. The average estimated payment increased by 25 percent and more checks were received than January of last year.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. The fourth estimated payment for tax year 2012 was due January 15, and some of these payments were received in December, so the two months must be considered together to assess growth. Receipts of estimated payments for the two-month period rose 21.3 percent from last year. Year-to-date, nonwithholding collections rose 13.8 percent over the same period last year, ahead of the annual estimate of 6.8 percent growth.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$29.9 million in refunds compared with \$97.1 million last year. The delay in opening the Federal electronic filing program accounts for most of the decline. This is the first month of the filing season and refund activity should pick up in February. Year-to-date, refunds have fallen 29.2 percent, lagging the annual estimate of 0.4 percent growth.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 0.2 percent in January. Collections for the main holiday season (December and January) rose 1.4 percent, trailing expectations of a 3.0 percent increase. On a year-to-date basis, collections have risen 4.1 percent through January, matching the annual estimate. Adjusting for the partial repeal of the accelerated sales tax program, sales tax collections have grown by 2.1 percent year-to-date, behind the economic-base forecast of 3.2 percent growth.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income tax were \$35.2 million in January, compared with \$51.5 million a year ago. Year-to-date collections in this source have risen 6.5 percent from the same period last year, well ahead of the estimate of a 4.5 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$31.3 million in January, compared with \$23.0 million in January of last year, a 36.1 percent increase. On a year-to-date basis, collections are up 17.8 percent, far ahead of the annual forecast of 4.5 percent growth. Through January, collections in this source are at their highest level since January 2008.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$130.1 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2013 before making any deposits to the general fund. The required transfer was completed during December.

Monthly collections are negative because the State Corporation Commission issued refunds for insurance companies in January this year, while the last two year's refunds were issued in February. Year-to-date collections through January are \$33.4 million, compared with \$56.8 million in the same period last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-9.6%	-12.5%
ABC Taxes (1% GF revenues)	4.7%	2.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 6.3 percent in January, \$46.0 million compared with \$43.2 million last year. On a year-to-date basis, collections of All Other Revenue rose 0.6 percent from the same period last year, ahead of the annual estimate of a 2.5 percent decline.

Summary

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