



COMMONWEALTH of VIRGINIA

June 13, 2013

PO Box 1475
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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: May Revenue Data

This month's revenue report contains the official general fund revenue forecast included in the recently revised Appropriation Act (Chapter 806, 2013 Acts of Assembly). The approved forecast estimates an increase of 3.6 percent for fiscal year 2013, the same as in the forecast included in the proposed budget (HB1500) introduced on December 17, 2012.

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. Also, corporations with a fiscal year ending other than December 31 – primarily retailers – had final payments in May.

Total general fund revenue collections rose 20.5 percent in May, driven by a surge in individual nonwithholding payments. On a year-to-date basis, total revenue collections rose 6.0 percent through May, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.7 percent through May, ahead of the adjusted forecast of 3.4 percent growth. In June, collections of \$1.7 billion are needed to meet the forecast. Last June, \$1.9 billion was collected in June.

National Economic Indicators

Most national indicators suggest the economy continues to expand at a slow pace.

- According to the second estimate, real GDP grew at an annualized rate of 2.4 percent in the first quarter of 2013, up from a 0.4 percent increase in the fourth quarter.

- Payroll employment grew by 175,000 jobs in May, while April growth was revised down from 165,000 to 149,000 and March was revised up by 4,000 to 142,000. In a separate report, the unemployment rate increased slightly from 7.5 to 7.6 percent as more people entered the labor force.
- Initial claims for unemployment fell by 11,000 to 346,000 during the week ending June 1. The four-week moving average grew from 348,000 to 352,500.
- The Conference Board's index of leading indicators rose 0.6 percent in April, the sixth rise in eight months. The leading indicator is consistent with continued slow economic growth.
- The Conference Board's index of consumer confidence jumped from 69.0 to 76.2 in May, exceeding expectations. Both current and future components increased in May, but views of future conditions drove the gain.
- Activity in the manufacturing sector further slowed in May, with the Institute of Supply Management index decreasing from 50.7 to 49.0, below expansionary territory for the first time since November 2012.
- The CPI fell 0.4 percent in April, and stands 1.1 percent above April 2012. Core inflation (excluding food and energy prices) rose 0.1 percent in April, and has increased 1.7 percent from March 2012.
- The Federal Reserve announced at its May 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 1.1 percent in April from April of last year. Northern Virginia posted job growth of 1.7 percent; Hampton Roads rose 1.9 percent; and Richmond-Petersburg rose 1.4 percent. The unemployment rate in the Commonwealth fell 0.2 percentage point to 5.0 percent in April and is 0.5 percentage point below April 2012.

The Virginia Leading Index rose 0.2 percent in April after increasing 0.5 percent in March. Building permits, the U.S. leading index, future employment, and initial claims improved in April while auto registrations declined. Richmond, Northern Virginia, Lynchburg, Hampton Roads, Harrisonburg, and Winchester posted expansions in their indexes in April while the indexes for Roanoke, Charlottesville, Danville, Bristol, and Blacksburg contracted.

May Revenue Collections

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Total general fund revenue collections rose 20.5 percent in May, driven by a surge in individual nonwithholding payments. On a year-to-date basis, total revenue collections rose 6.0 percent through May, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.7 percent through May, ahead of the adjusted forecast of 3.4 percent growth.

Net Individual Income Tax (68% of general fund revenues): Through May, collections of net individual income tax rose 7.7 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 fell 1.8 percent in May. Year-to-date, withholding collections rose 2.6 percent compared with the same period last year, trailing the projected annual growth rate of 3.3 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): May is a significant month in collections of this source. Final payments for tax year 2012 and the first estimated payment for tax year 2013 are both due May 1.

A total of \$776.1 million in nonwithholding was collected in May, compared with \$444.2 million in May of last year, an increase of 74.7 percent. Since a 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 30.7 percent over the same period last year.

To date, collections of nonwithholding have exceeded the annual forecast by \$9.1 million, and year-to-date collections are 20.3 percent ahead of the same period last year, far exceeding the annual estimate of 6.8 percent growth. The final estimated payment for this fiscal year is due in June. Last year, \$257.2 million was received in June.

Individual Income Tax Refunds: TAX issued \$144.5 million in refunds in May compared with \$143.5 million last year. Year-to-date, refunds have fallen 3.8 percent, lagging the annual estimate of 0.4 percent growth.

Since the filing season began on January 1, TAX has issued 2.5 million refunds compared with 2.6 million in the same period last year. The average size of refunds is 0.9 percent lower than last year.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting April sales, grew 2.7 in May. On a year-to-date basis, collections have risen 3.5 percent through May, slightly trailing the annual estimate of 4.1 percent. Adjusting for the partial repeal of the accelerated sales tax program, sales tax collections have grown by 2.2 percent year-to-date, lagging the economic-base forecast of 3.2 percent growth.

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

Collections of corporate income tax were \$21.2 million in May, compared with \$25.0 million in May of last year. Year-to-date collections in this source have fallen 8.5 percent from the same period last year, lagging 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 \$35.4 million in May, compared with \$31.0 million in May of last year, a 14.3 percent increase. This source has had double-digit increases in 15 of the last 16 months. On a year-to-date basis, collections are up 17.2 percent, far ahead of the annual forecast of 4.5 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections in this source were \$3.8 million compared with \$6.7 million in May of last year. Year-to-date collections are \$165.3 million through May compared with \$156.0 million through May of last year – a 5.9 percent increase compared with the forecast of 1.1 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-10.2%	-12.5%
ABC Taxes (1% GF revenues)	4.4%	2.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 8.8 percent in May, \$42.7 million compared with \$39.2 million last year. On a year-to-date basis, collections of All Other Revenue were flat with the same period last year, ahead of the annual estimate of a 1.5 percent decline.

Summary

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Total general fund revenue collections rose 20.5 percent in May, driven by a surge in individual nonwithholding payments. On a year-to-date basis, total revenue collections rose 6.0 percent through May, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated

June 13, 2013

Page 5 of 5

sales tax program, total revenues grew 5.7 percent through May, ahead of the adjusted forecast of 3.4 percent growth.

Collections in June must total \$1.7 billion, or a 13.3 percent decline from last June to attain the forecast. Adjusting for the accelerated sales tax program, total general fund revenues can decline by 14.3 percent from June of last year and make the official estimate. Last year, adjusting for the accelerated sales tax program, total general fund revenues increased 1.7 percent in June.