



# **COMMONWEALTH of VIRGINIA**

November 13, 2013

PO Box 1475  
Richmond, VA. 23218

## **MEMORANDUM**

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: October Revenue Data

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Corporate and individual income tax extension return processing begins in October as corporate extension returns are due October 15 and individual extension returns are due November 1. Most extension returns result in refunds.

Total general fund revenue collections fell 5.4 percent in October, driven by declines in corporate, sales, and recordation taxes, along with an increase in individual refunds. Weak growth in individual withholding and a solid gain in nonwithholding payments offset some of the decline. On a year-to-date basis, total revenue collections rose 0.6 percent through October, trailing the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 1.6 percent through October, trailing the adjusted forecast of 2.7 percent growth.

### **National Economic Indicators**

Most national indicators depict an improving economy, although uncertainty related to federal policy continues to dampen growth.

- According to the advance estimate, real GDP grew at an annualized rate of 2.8 percent in the third quarter of 2013, up from a 2.5 percent increase in the second quarter and well above expectations.

- Labor market conditions significantly improved in October, with broad-based gains. Payroll employment increased by 204,000 jobs in October, far above consensus expectations. In addition, September and August payrolls were revised upward by 60,000 jobs. In a separate report, the unemployment rate increased slightly from 7.2 to 7.3 percent.
- Initial claims for unemployment fell by 9,000 to 336,000 during the week ending November 2, the fourth consecutive weekly decline. The four-week moving average fell by 9,250 to 348,250.
- The Conference Board's index of leading indicators rose 0.7 percent in September, its fifth gain in six months. The behavior of the leading indicator is consistent with modest but steady gains in economic growth.
- The Conference Board's index of consumer confidence fell 9.0 points to 71.2 in October, its lowest reading since April. Although both components declined, the expectations component drove the decline as the partial government shutdown increased the uncertainty concerning future policy.
- Activity in the manufacturing sector further improved in October, with the Institute of Supply Management index rising from 56.2 to 56.4, its fifth consecutive increase.
- Inflation remains contained. The CPI rose 0.2 percent in September, and stands 1.2 percent above September 2012. Core inflation (excluding food and energy prices) rose 0.1 percent in September, and has increased 1.7 percent from September of last year.
- The Federal Reserve announced at its October 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**

The federal government shutdown has delayed the release of September employment data. According to the Virginia Employment Commission, statewide employment and unemployment data for both September and October will be released on November 22<sup>nd</sup>.

## **October Revenue Collections**

Total general fund revenue collections fell 5.4 percent in October, driven by declines in corporate, sales, and recordation taxes, along with an increase in individual refunds. Weak growth in individual withholding and a solid gain in nonwithholding payments offset some of the decline. On a year-to-date basis, total revenue collections rose 0.6 percent through October, trailing the annual forecast of 1.5 percent growth.

***Net Individual Income Tax (69% of general fund revenues)***: Through October, collections of net individual income tax rose 2.7 percent from the same period last year, close to the annual estimate of 2.5 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (64% of general fund revenues):*** Collections of payroll withholding taxes rose only 0.5 percent in October, with some of the weakness probably attributable to the federal government shutdown. Although federal employees were paid, the impact on federal contractors may have dampened growth in this source. Year-to-date, withholding collections rose 3.6 percent compared with the same period last year, behind the projected annual growth rate of 5.4 percent.

***Individual Income Tax Nonwithholding (16% of general fund revenues):*** October is usually not a significant month for collections in nonwithholding. Collections were \$111.7 million in October compared with \$90.1 million in October of last year. Year-to-date collections were \$484.5 million compared with \$452.5 million in the same period last year, rising by 7.1 percent and ahead of the annual estimate of a 5.9 percent decline.

***Individual Income Tax Refunds:*** October saw a significant increase in the number of taxpayers filing their extension returns normally due November 1<sup>st</sup>. TAX processed 33.3 percent more refund returns in October with the average refund size up 24 percent. Through October, TAX issued \$205.0 million in refunds compared with \$152.2 million during the same period last year. Year-to-date, refunds have risen 34.7 percent, ahead of the annual estimate of 6.3 percent growth.

***Sales Tax (19% of general fund revenues):*** Collections of sales and use taxes, reflecting September sales, fell 1.7 percent in October. On a year-to-date basis, collections have fallen 3.7 percent through October, trailing the annual estimate of a 1.0 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, sales tax collections increased 3.5 percent and have risen by 1.5 percent year-to-date, lagging the economic-base forecast of 5.2 percent growth.

***Corporate Income Tax (5% of general fund revenues):*** October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. Collections of corporate income taxes were negative \$17.2 million in October, compared with receipts of \$42.8 million in October of last year as a large number of corporate extension returns due October 15 were processed. This October, TAX issued \$48 million in refunds, compared with only \$15 million last year. November and December are also typically significant refunding months in this source. Year-to-date collections in this source have fallen 12.9 percent from the same period last year, lagging the annual estimate of 5.4 percent growth.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$26.4 million in October, compared with \$29.3 million in October of last year, a 9.9 percent decline. This was the third consecutive monthly decline in this source. On a year-to-date basis, collections are down 0.3 percent, ahead of the annual forecast of a 10.9 percent decline.

## Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums Tax (2% GF revenues)	NA%	7.0%
Interest Income (0.5% GF revenues)	-23.0%	-4.2%
ABC Taxes (1% GF revenues)	-3.7%	-0.6%

*Note: Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly until the required amount of \$130.8 million has been deposited.*

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 2.0 percent in October, \$30.5 million compared with \$31.1 million last year. On a year-to-date basis, collections of All Other Revenue rose 5.6 percent from the same period last year, ahead if the annual estimate of a 2.7 percent decline.

## Summary

Total general fund revenue collections fell 5.4 percent in October, driven by declines in corporate, sales, and recordation taxes, along with an increase in individual refunds. Weak growth in individual withholding and a solid gain in nonwithholding payments offset some of the decline. On a year-to-date basis, total revenue collections rose 0.6 percent through October, trailing the annual forecast of 1.5 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 1.6 percent through October, ahead of the adjusted forecast of 2.7 percent growth.

The Joint Advisory Board of Economists (JABE) met October 16 to assess recent economic developments and the outlook for the current and next biennia. The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 25 to evaluate both the JABE economic recommendations and revenue collections through October. GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released as part of the Governor's proposed amendments to the 2013 Appropriation Act and the proposed budget for the 2014-16 biennium on December 16, 2013.