



COMMONWEALTH of VIRGINIA

May 15, 2014

PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2013 and the first estimated payment for tax year 2014 were due from corporations on April 15. Also, a portion of estimated and final payments from individuals, which are due May 1, are typically received in April. The timing of these payments can distort monthly growth rates.

In April, total general fund revenue collections rose 10.0 percent, with individual withholding and nonwithholding accounting for most of the gain. On a fiscal year-to-date basis, total revenue collections grew 1.3 percent in April compared with the same period last year, slightly ahead of the annual forecast of 1.0 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 2.2 percent through April, slightly ahead of the adjusted forecast of 2.1 percent growth.

National Economic Indicators

Most recent national indicators suggest that, although harsh winter weather dampened growth in the first quarter, economic fundamentals remain strong and should support a more robust expansion over the coming year.

- According to the preliminary estimate, real GDP grew at an annualized rate of 0.1 percent in the first quarter of 2014, below expectations and the slowest rate since the last quarter of 2012. The weak growth follows a 2.6 percent increase in the fourth quarter of 2013 and 4.1 percent in the third quarter.

- Conditions in the labor market improved in April. Payroll employment rose by 288,000 jobs, while the gains for the previous two months were revised up, from 197,000 to 222,000 in February and from 192,000 to 203,000 in March. In a separate report, the unemployment rate fell 0.4 percentage point to 6.3 percent, however, the drop was caused by a large number of workers leaving the labor force.
- Initial claims for unemployment fell by 26,000 to 319,000 during the week ending May 3rd. The four-week moving average rose by 4,500 to 324,750. The claims data is consistent with slow improvement in the pace of job growth.
- The Conference Board's index of leading indicators rose 0.8 percent in March after a 0.5 percent increase in February, its seventh gain in the last eight months. The behavior of the leading indicators is consistent with continued economic growth.
- The Conference Board's index of consumer confidence fell from 83.9 to 82.3 in April. Weakness in the present situation component led the decline.
- Activity in the manufacturing sector improved in April, with the Institute of Supply Management index rising from 53.7 to 54.9, its third consecutive gain.
- Inflation remains contained as the CPI rose 0.2 percent in March and stands 1.5 percent above March 2013. Core inflation (excluding food and energy prices) also rose 0.2 percent in March, and has increased 1.7 percent from a year ago.
- The Federal Reserve announced at its April meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and will continue winding down its quantitative easing program.

Virginia Economy

In Virginia, employment was flat with March of last year. Northern Virginia posted growth of 0.1 percent and Richmond-Petersburg grew 1.8 percent. In Hampton Roads, employment fell by 0.3 percent in March. The seasonally adjusted unemployment rate in the Commonwealth increased 0.1 percentage point to 5.0 percent in March and is 0.6 percentage point below March of last year.

The Virginia Leading Index increased 0.6 percent in March after declining 0.4 percent in February. The U.S. leading index, initial claims, auto registrations, and future employment improved in March, while building permits declined. The indexes for Charlottesville and Danville declined while all other regions posted expansions in their indexes in March.

April Revenue Collections

Total general fund revenue collections rose 10.0 percent in April, with individual withholding and nonwithholding accounting for most of the gain. On a year-to-date basis, total revenue collections grew 1.3 percent compared with the same period last year, slightly ahead of the annual forecast of 1.0 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 2.2 percent through April, slightly ahead of the adjusted forecast of 2.1 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through April, collections of net individual income tax rose 3.5 percent from the same period last year, ahead of the annual estimate of 2.9 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 grew 8.0 percent in April, due to an extra deposit day compared with April 2013. Year-to-date, withholding collections rose 3.3 percent compared with the same period last year, slightly ahead of the annual estimate of 2.9 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): April is a significant month for collections in this source. Final payments for tax year 2013 and the first estimated payment for tax year 2014 are both due May 1.

A total of \$703.1 million in nonwithholding was collected in April, compared with \$611.1 million in April of last year – an increase of 15.0 percent. To date, about 63 percent of the nonwithholding forecast has been collected, and year-to-date collections are 4.7 percent ahead of the same period last year, close to the annual estimate of 4.2 percent growth.

Typically, a portion of final payments due May 1 for calendar year 2013 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for the fiscal year (second calendar year payment for 2014) is due June 15.

Individual Income Tax Refunds: TAX issued \$467.9 million in refunds in April compared with \$472.3 million last year, a 0.9 percent decline. Year-to-date, refunds have risen 3.7 percent, trailing the annual estimate of 5.1 percent growth.

Since the filing season began on January 1, TAX has issued 2.3 million refunds, the same amount as in this period last year. The average size of refunds is 2 percent lower than last year.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 5.0 percent in April. On a year-to-date basis, collections have fallen 4.8 percent through April, trailing the annual estimate of a 4.4 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer required by HB 2313, sales tax collections have increased by 0.2 percent year-to-date, below the economic-base forecast of 1.6 percent growth.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2014, and made either a final or extension payment for tax year 2013. Collections of corporate income taxes were \$146.5 million in April, compared with \$145.9 million a year ago – a 0.4 percent increase. Year-to-date collections in this source have

fallen 3.8 percent from the same period last year, trailing the annual estimate of a 3.4 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$24.7 million in April, compared with \$30.8 million in April of last year. Receipts of recordation taxes have fallen by 20 percent or more for six consecutive months. On a year-to-date basis, collections are down 16.5 percent, trailing the annual forecast of 0.0 percent growth.

Insurance Premiums (2% of general fund revenues): Insurance companies also made their first estimated payment for tax year 2014 in April. Collections in this source were \$113.8 million compared with \$102.5 million in April of last year. Year-to-date collections are \$207.5 million, compared with \$161.5 million in the same period last year, a 28.5 percent increase compared with the forecast of 10.4 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	7.4%	-25.9%
ABC Taxes (1% GF revenues)	1.6%	0.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 3.8 percent in April, \$33.5 million compared with \$34.8 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.1 percent from the same period last year, ahead of the annual estimate of a 2.0 percent decline.

Summary

April is a significant month for revenue collections and total general fund revenue collections rose 10.0 percent in April, with individual withholding and nonwithholding accounting for most of the gain. On a year-to-date basis, total revenue collections grew 1.3 percent in April compared with the same period last year, slightly ahead of the annual forecast of 1.0 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 2.2 percent through April, slightly ahead of the adjusted forecast of 2.1 percent growth.

May and June are also significant revenue collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations, and insurance companies are due June 15. Collections in May and June 2014 must total \$3.8 billion – about the same amount collected in the same period last year -- to attain the forecast. Total general fund revenues need to grow by 0.1 percent over May and June to make the official estimate.