



# COMMONWEALTH of VIRGINIA

June 12, 2014

PO Box 1475  
Richmond, VA. 23218

## MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

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

Total general fund revenue collections fell 20.7 percent in May, with individual nonwithholding accounting for most of the loss. Collections fell for the month in all major sources but insurance premiums taxes. On a fiscal year-to-date basis, total revenue collections fell 1.6 percent in May compared with the same period last year, trailing 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 fell 0.6 percent through May, behind the adjusted forecast of 2.1 percent growth.

### **National Economic Indicators**

Most recent national indicators suggest that, although first quarter growth was weak, economic fundamentals remain strong and should support a more robust expansion over the coming year.

- According to the second estimate, real GDP declined by an annualized rate of 1.0 percent in the first quarter of 2014, below expectations and the largest decline since the first quarter of 2011. The weak growth follows a 2.6 percent increase in the fourth quarter of 2013 and 4.1 percent in the third quarter.
- Payroll employment rose by 217,000 jobs May, while the April gain was revised down from 288,000 to 282,000. With the gain in May, employment finally surpassed its prerecession peak. In a separate report, the unemployment rate was unchanged at 6.3 percent.

- Initial claims for unemployment rose by 8,000 to 312,000 during the week ending May 31st. The four-week moving average fell by 3,000 to 310,000, the lowest number since before the recession in 2007. The claims data is consistent with monthly employment growth of about 200,000 jobs.
- The Conference Board's index of leading indicators rose 0.4 percent in April after a 1.0 percent increase in March, its eighth gain in the last nine months. The behavior of the leading indicators is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose 1.3 points to 83.0 in May. Both the present situation and expectations components advanced.
- Activity in the manufacturing sector improved in May, with the Institute of Supply Management index rising from 54.9 to 55.4, its fourth consecutive gain.
- Inflation remains contained as the CPI rose 0.3 percent in April and stands 2.0 percent above April 2013. Core inflation (excluding food and energy prices) rose 0.2 percent in April, and has increased 1.8 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 April of last year. Northern Virginia posted growth of 0.1 percent and Richmond-Petersburg grew 1.7 percent. In Hampton Roads, employment fell by 0.3 percent in April. The seasonally adjusted unemployment rate in the Commonwealth was unchanged at 4.9 percent in April and is 0.7 percentage point below April of last year.

The Virginia Leading Index fell 0.3 percent in April after advancing 0.6 percent in March. The U.S. leading index and initial unemployment claims advanced in April, while building permits and auto registrations declined. Future employment remained unchanged. The indexes for Richmond, Northern Virginia, Lynchburg, Charlottesville, Bristol and Harrisonburg declined while Hampton Roads, Danville, and Winchester posted expansions in their indexes in April. The indexes for Roanoke and Blacksburg were unchanged.

### **May Revenue Collections**

Total general fund revenue collections fell 20.7 percent in May, with individual nonwithholding accounting for most of the loss. Collections fell for the month in all major sources but insurance premiums taxes. On a fiscal year-to-date basis, total revenue collections fell 1.6 percent in May compared with the same period last year, trailing 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 fell 0.6 percent through May, behind the adjusted forecast of 2.1 percent growth.

***Net Individual Income Tax (69% of general fund revenues)***: Through May, collections of net individual income tax fell 0.6 percent from the same period last year, trailing 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 fell 5.4 percent in May, due to one less deposit day compared with May 2013. Year-to-date, withholding collections rose 2.5 percent compared with the same period last year, slightly behind the annual estimate of 2.9 percent.

***Individual Income Tax Nonwithholding (17% of general fund revenues):*** May 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 \$433.2 million in nonwithholding was collected in May, compared with \$776.1 million in May of last year – a decline of 44.2 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 down 18 percent from the same period last year, as final payments fell by 26 percent.

To date, about 80 percent of the nonwithholding forecast has been collected, and year-to-date collections are 10.3 percent below the same period last year, trailing the annual estimate of 4.2 percent growth. The final estimated payment for this fiscal year is due in June. To make the estimate, collections must reach \$659.6 million in June. Last year, \$281.0 million was received in June.

***Individual Income Tax Refunds:*** TAX issued \$125.1 million in refunds in May compared with \$144.5 million last year, a 13.4 percent decline. Year-to-date, refunds have risen 2.2 percent, trailing the annual estimate of 5.1 percent growth.

Since the filing season began on January 1, TAX has issued 2.5 million refunds, about the same amount as in this period last year. The average size of refunds is 2.4 percent lower than last year.

***Sales Tax (18% of general fund revenues):*** Collections of sales and use taxes, reflecting April sales, fell 1.6 percent in May. On a year-to-date basis, collections have fallen 4.5 percent through May, 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 0.6 percent year-to-date, below the economic-base forecast of 1.6 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 due only 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 taxes were \$14.2 million in May, compared with \$21.3 million a year ago – a 33.2 percent decline. Year-to-date collections in this source have fallen 4.8 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 \$25.7 million in May, compared with \$35.4 million in May of last year. Receipts of recordation taxes have fallen by 20 percent or more for seven consecutive months. On a year-to-date basis, collections are down 17.6 percent, trailing the annual forecast of 0.0 percent growth.

***Insurance Premiums (2% of general fund revenues):*** May is not a significant month for collections in this source. Collections were \$4.2 million compared with \$3.8 million in May of last year. Year-to-date collections are \$211.7 million, compared with \$165.3 million in the same period last year, a 28.1 percent increase compared with the forecast of 10.4 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)	8.3%	-25.9%
ABC Taxes (1% GF revenues)	2.1%	0.8%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 14.2 percent in May, \$36.6 million compared with \$42.7 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 1.7 percent from the same period last year, ahead of the annual estimate of a 2.0 percent decline.

### Summary

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Total general fund revenue collections fell 20.7 percent in May, with individual nonwithholding accounting for most of the loss. Collections fell for the month in all major sources but insurance premiums taxes. On a fiscal year-to-date basis, total revenue collections fell 1.6 percent in May compared with the same period last year, trailing 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 fell 0.6 percent through May, behind the adjusted forecast of 2.1 percent growth.

Collections in June must total \$2.3 billion, or 20.5 percent growth from last June to attain the forecast. Last year, collections were \$1.9 billion. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total general fund revenues must grow 25.1 percent from June of last year to make the forecast. Last year, adjusted general fund revenues increased 0.2 percent.