



COMMONWEALTH of VIRGINIA

January 11, 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: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2013. The report incorporates the revised general fund revenue forecast included in the budget (HB1500/SB800) introduced on December 17. With the upward revision in December, total general fund revenues are now projected to grow by 3.6 percent in fiscal year 2013.

Total general fund revenue collections rose 4.9 percent in December, with strong collections in corporate income tax payments accounting for much of the growth. On a year-to-date basis, total revenue collections rose 3.5 percent through the first half of the fiscal year, close to the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.0 percent through December, trailing the adjusted forecast of 3.4 percent growth.

National Economic Indicators

Most national indicators suggest the economy is slowly improving; however, growth remains uneven.

- According to the final estimate, real GDP grew at an annualized rate of 3.1 percent in the third quarter of 2012, up from 1.3 percent in the second quarter.
- Labor market conditions are improving, but job growth remains tepid -- payroll employment added 155,000 jobs in December and the November gain was revised up from 146,000 to 161,000. In a separate report, the unemployment rate remained at 7.8 percent.

- Initial claims for unemployment rose by 10,000 to 372,000 during the week ending December 29. The four-week moving average rose slightly, from 359,750 to 360,000. Although the level of claims has been volatile over the last few months, the underlying trend is consistent with slow employment growth.
- Following an increase of 0.3 percent in October, the Conference Board's index of leading indicators fell 0.2 percent in November. After two monthly gains, the index has resumed alternating up and down each month as it has done since April.
- The Conference Board's index of consumer confidence dropped from 71.5 to 65.1 in December, driven by deteriorating expectations which was likely due to concerns over the fiscal cliff.
- Conditions in the manufacturing sector slightly improved in December. The Institute of Supply Management index increased from 49.5 to 50.7. The index has risen above the expansionary threshold of 50 in only three of the last seven months.
- Driven by falling energy prices, the CPI fell 0.3 percent in November, and stands 1.8 percent above November 2011. Core inflation (excluding food and energy prices) rose 0.1 percent in November, and has increased 1.9 percent from November 2011.
- The Federal Reserve announced at its December meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and rolled Operation Twist into open-ended quantitative easing.

Virginia Economy

In Virginia, employment rose 1.1 percent in November from November of last year. Northern Virginia posted growth of 2.3 percent; Hampton Roads grew 1.1 percent; and Richmond-Petersburg rose 0.8 percent. The unemployment rate in the Commonwealth fell 0.1 percentage point to 5.3 percent in November and was 0.5 percentage point below the November 2011 rate.

The Virginia Leading Index rose 0.1 percent in November after increasing 0.2 percent in October. Building permits and auto registrations rose in November, but were partially offset by a decline in the U.S. leading index and an increase in initial unemployment claims. The Leading Index increased in Northern Virginia, Hampton Roads, Charlottesville, Blacksburg, and Winchester, while the indexes for Richmond, Lynchburg, and Danville contracted. The indexes for Roanoke, Bristol, and Harrisonburg were little changed.

December Revenue Collections

Total general fund revenue collections rose 4.9 percent in December, with strong collections in corporate income tax payments accounting for much of the growth. On a year-to-date basis, total revenue collections rose 3.5 percent through the first half of the fiscal year, close to the annual

forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.0 percent through December, trailing the adjusted forecast of 3.4 percent growth.

Net Individual Income Tax (68% of general fund revenues): Through December, collections of net individual income tax rose 2.0 percent from the same period last year, lagging 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 2.5 percent in December. Year-to-date, withholding collections rose 1.6 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): Collections in this source were \$76.2 million in December, compared with \$115.4 million in December of last year. Year-to-date, collections through the first half of the fiscal year fell 1.2 percent over the same period last year, trailing the annual estimate of 6.8 percent growth.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2012. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: In December, the Department of Taxation issued \$23.1 million in refunds compared with \$36.6 million last year. Year-to-date, refunds have fallen 12.9 percent, lagging the annual estimate of 0.4 percent growth.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting November sales, rose 2.8 percent in December. On a year-to-date basis, collections have risen 5.0 percent, compared with the annual estimate of 4.1 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program. Adjusting for this legislation, sales tax collections have grown by 2.5 percent year-to-date, behind the economic-base forecast of 3.2 percent growth.

Corporate Income Tax (5% of general fund revenues): December is a significant month for collections in this source as quarterly estimated payments are due from most corporations. Collections of corporate income tax were \$175.1 in December, compared with \$131.7 million a year ago. Year-to-date collections have risen 12.6 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 \$32.1 million in December, compared with \$29.0 million in December of last year, a 10.5 percent increase. On a year-to-date basis, collections are up 15.2 percent, far ahead of the annual forecast of 4.5 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$79.9 million, compared with \$56.4 million in December of last year. 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.

Other Revenue Sources

The following list provides data on December 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)	5.2%	2.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 1.9 percent in December, \$24.6 million compared with \$24.2 million last year. On a year-to-date basis, collections of All Other Revenue fell 0.9 percent from the same period last year, ahead of the annual estimate of a 2.5 percent decline.

Summary

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Because a number of factors can influence the flow of payments and monthly growth rates this time of year, December and January receipts must be considered together to get a clear picture of revenue growth.