



COMMONWEALTH of VIRGINIA

June 13, 2012

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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 House Bill 1300 (*Acts of Assembly 2012 Special Session I, Chapter 2*), which was approved on May 25, 2012. The approved forecast estimates an increase of 4.5 percent for fiscal year 2012, compared with 4.6 percent in the forecast used with the proposed budget (HB/SB 29) introduced on December 19, 2011.

May is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals were due May 1, and corporations with a fiscal year ending other than December 31 – primarily retailers – had final payments due in May.

Total general fund revenue collections rose 8.3 percent in May, driven by strong individual withholding receipts partially due to an extra deposit day compared with May of last year. On a year-to-date basis, total revenue collections rose 6.2 percent through May, ahead of the revised annual forecast of 4.5 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.9 percent through May, ahead of the adjusted forecast of 4.7 percent growth.

National Economic Indicators

Current national indicators suggest the modest economic expansion may be slowing.

- According to the second estimate, real GDP grew at an annualized rate of 1.9 percent in the first quarter of 2012, slowing from 3.0 percent growth in the fourth quarter of 2011.

- Labor market growth further slowed in May, as employers added only 69,000 jobs. In addition, figures for March and April were revised down by a combined 49,000 jobs. In a separate report, the unemployment rate rose from 8.1 percent to 8.2 percent in May, as more people entered the labor force.
- Following four weekly increases, initial claims for unemployment fell by 12,000 to 377,000 during the week ending June 2. The four-week moving average rose slightly from 376,000 to 377,750. The recent uptick in jobless claims followed by the decline last week reflects the uneven recovery in the labor market.
- The Conference Board's index of leading indicators fell 0.1 percent in April, following six consecutive monthly gains. Falling housing permits, rising jobless claims, and lower consumer expectations offset small gains in the remaining components. The recent behavior of the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence fell 3.8 points to 64.9 in May, its third consecutive decline. Both the present situation and expectations components fell to their lowest levels since January.
- Activity in the manufacturing sector expanded in May for the 34th consecutive month. Growth slowed, however, as the Institute of Supply Management index fell from 54.8 to 53.5.
- The CPI was unchanged in April and stands 2.3 percent above April 2011. Core inflation (excluding food and energy prices) rose 0.2 percent, and has also increased 2.3 percent from April 2011.

Virginia Economy

In Virginia, employment rose 0.8 percent in April from April of last year. Northern Virginia posted growth of 1.3 percent; Hampton Roads remained unchanged; and Richmond-Petersburg rose 0.8 percent. The unemployment rate in the Commonwealth fell 0.3 percentage point to 5.4 percent in April.

The Virginia Leading Index fell 0.3 percent in April after remaining unchanged in March. Auto registrations, the U.S. Leading Index, and building permits declined in April, while future employment increased and initial claims fell. The Leading Index fell in seven of the 11 major metro areas in the Commonwealth in April. The indexes for Roanoke, Bristol, Blacksburg and Winchester rose.

May Revenue Collections

Total general fund revenue collections rose 8.3 percent in May, driven by strong individual withholding receipts due to an extra deposit day compared with May of last year. On a year-to-date basis, total revenue collections rose 6.2 percent through May, ahead of the revised annual

forecast of 4.5 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.9 percent through May, ahead of the adjusted forecast of 4.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through May, collections of net individual income tax rose 7.4 percent from the same period last year, ahead of the annual estimate of 5.9 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 16.8 percent in May, due to an extra deposit day compared with May 2011. Year-to-date, withholding collections grew 4.4 percent compared with the same period last year, ahead of the projected annual growth rate of 3.8 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): May is a significant month for collections in this source. Final payments for tax year 2011 and the first estimated payment for tax year 2012 were both due May 1.

May collections were \$444.2 million, compared with \$457.7 million in May of last year, a 3.0 percent decline. Since a large 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 8.0 percent over the same period last year.

To date, about 86 percent of the nonwithholding forecast has been collected, and collections during this fiscal year are 9.6 percent ahead of the same period last year, trailing the annual estimate of 12.6 percent growth. The final estimated payment for this fiscal year is due in June and \$351.5 million is needed to meet the annual estimate. Last year, \$262.6 million was received in June.

Individual Income Tax Refunds: To date, TAX has issued \$1.7 billion in refunds compared with \$1.8 billion last year. Through May, refunds have fallen 4.9 percent, compared with the revised annual estimate of a 3.3 percent increase.

Since the filing season began in January, TAX has issued roughly 2.6 million refunds, approximately the same number as last year. However, the average size of these refunds is 8.0 percent smaller than last year.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting April sales, rose 2.0 percent in May. On a year-to-date basis, collections have risen 4.9 percent, compared with the annual estimate of 1.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 3.5 percent year-to-date, ahead of the economic-base forecast of 2.5 percent growth.

Corporate Income Tax (5% of general fund revenues): May is typically not 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 taxes were \$25.0 million in May, compared with \$16.2 million in May of last year. Year-to-date collections in this source have risen 5.1 percent, ahead of the annual estimate of a 0.7 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$31.0 million in May, compared with \$24.9 million in May of last year, a 24.4 percent increase. This was the fourth consecutive month of growth exceeding 20 percent. On a year-to-date basis, collections are up 10.3 percent, close to the annual forecast of 10.8 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. For the fiscal year-to-date, net insurance premiums tax collections are \$156.0 million compared with \$180.2 million during the same period last year. The difference is a result of smaller estimated payments received in September and December. The slow commercial real estate market and lower business and housing valuations are likely dampening premium 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 (1% GF revenues)	-7.9%	1.1%
ABC Taxes (1% GF revenues)	5.1%	1.0%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 15.0 percent in May – \$39.2 million compared with \$46.2 million last May. On a year-to-date basis, collections of All Other Revenue fell 2.3 percent, trailing the annual estimate of 0.5 percent growth.

Summary

May is a significant month for revenue collections since estimated and final payments for individuals were due May 1, and corporations with a fiscal year ending other than December 31 – primarily retailers – had final payments due in May.

Total general fund revenue collections rose 8.3 percent in May, driven by strong individual withholding receipts partially due to an extra deposit day compared with May of last year. On a year-to-date basis, total revenue collections rose 6.2 percent through May, ahead of the revised

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annual forecast of 4.5 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.9 percent through May, ahead of the adjusted forecast of 4.7 percent growth.

Collections in June must total about \$1.8 billion to attain the forecast for the fiscal year. Last year, \$1.9 billion in general fund revenue was collected in June. This year, legislation reducing the number of businesses required to pay accelerated sales tax will result in \$50 million less in this source than what was received last June.