



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

January 12, 2017

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

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 2017. The report incorporates the revised general fund revenue forecast included in the budget bill (HB1500/SB900) introduced on December 16, 2016. With the technical revisions in December, total general fund revenues are now projected to grow by 2.9 percent in fiscal year 2017.

Total general fund revenue collections fell 1.0 percent in December. The decline was largely due to one fewer deposit day for payroll withholding. On a positive note, sales taxes, recordation taxes and insurance company premiums had positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.0 percent through December, ahead of the revised annual forecast of 2.9 percent growth for fiscal year 2017. Because the timing of payments at this time of year can distort growth in several sources, December and January collections should be viewed together to accurately assess growth.

National Economic Indicators

Most recent national indicators continue to depict a solid foundation in the U.S. economy and suggest the expansion should continue.

- According to the third estimate, real GDP rose at an annualized rate of 3.5 percent in the third quarter of 2016, following three weak quarters.
- Payroll employment rose by 156,000 jobs in December and caps an unprecedented seven years of steady job gains. Further, the November gain was revised from 178,000 to

204,000. In a separate report, the unemployment rate edged higher to 4.7 percent as more workers entered the labor force.

- Initial claims for unemployment fell by 28,000 to 235,000 during the week ending December 31. The four-week moving average fell by 5,750 to 256,750. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators remained unchanged in November, following a 0.1 percent increase in October.
- The Conference Board's index of consumer confidence rose 4.3 points to 113.7 in December, it is at the highest level since 2001. The present conditions component fell, while the expectations component increased for the month.
- Activity in the manufacturing sector advanced in December, with the Institute of Supply Management index increasing from 53.2 to 54.7.
- The CPI rose 0.2 percent in November after rising 0.4 percent in October and stands 1.7 percent above November 2015. Core inflation (excluding food and energy prices) increased 0.2 percent in November and is 2.1 percent above a year ago.
- At its December meeting, the Federal Reserve announced that there is no sense of urgency to raise rates again; the consensus is that the risks to the economic outlook remain roughly balanced.

Virginia Economy

In Virginia, payroll employment rose 1.0 percent in November from November of last year. Northern Virginia posted growth of 2.2 percent, Hampton Roads fell 1.6 percent, and Richmond-Petersburg was up 0.9 percent from last year. The seasonally adjusted unemployment rate was up 0.1 percentage points to 4.2 percent in November. The unemployment rate is the same as in November of last year.

The Virginia Leading Index rose 0.4 percent in November after rising 0.1 percent in October. Initial unemployment claims improved, while auto registrations fell and the U.S. leading indexes remained unchanged in November. The indexes for Lynchburg, Harrisonburg, and Staunton decreased, the indexes for Charlottesville and Bristol were unchanged, and the indexes for the remaining MSAs increased in November.

December Revenue Collections

Total general fund revenue collections fell 1.0 percent in December. The decline was largely due to one fewer deposit day for payroll withholding. On a positive note, sales taxes, recordation taxes and insurance company premiums had positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.0 percent through December, ahead of the revised annual forecast of 2.9 percent growth. Because the timing of payments at this time of year can distort growth in

several sources, December and January collections should be viewed together to accurately assess growth.

Net Individual Income Tax (70% of general fund revenues): Through December, collections of net individual income tax rose 4.8 percent from the same period last year, ahead of the revised 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 declined 5.8 percent for the month mainly due to one less deposit day. Year-to-date, withholding collections are 4.5 percent ahead of the same period last year, ahead of the revised annual estimate of 3.6 percent growth. The timing of year end withholding submissions and bonus-related withholding payments can distort monthly growth, so December and January must be considered together for an accurate assessment of growth in this source.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in this source were \$165.0 million in December compared with \$157.5 million in December of last year. Year-to-date, collections for the first half of the fiscal year rose by 1.5 percent, ahead of the annual estimate of a 0.7 percent decline.

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 17 to submit their fourth estimated payment for tax year 2016 and some of these payments are received in December. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: December is not a significant month for refund activity, as it concludes tax year 2015 refund processing. Through December, the Department of Taxation issued \$257.9 million in refunds compared to last December's \$288.7 million.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting November sales and fewer refunds issued to numerous companies than last November, rose 10.4 percent in December. November represents the beginning of the holiday shopping season and a clearer assessment of the season will be possible after receiving December sales tax payments due in January. On a year-to-date basis, collections have declined 0.2 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have declined by 0.1 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations. Collections of corporate income taxes were \$144.9 million in December, compared with receipts of \$149.4 million in December of last year, a 3.0 percent decline. Year-to-date collections have increased 9.5 percent from the same period last year, ahead of the revised annual estimate of a 3.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$35.1 million in December, compared with \$33.3 million in December of last year for growth of 5.6 percent. On a year-to-date basis, collections are up 11.6 percent, ahead of the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$90.2 million in December, compared with \$87.4 million in December 2015. Chapter 896 of the 2007 Acts of the Assembly required that \$163.1 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2017 before making any deposits to the general fund. The required transfer was completed in 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 (0.4% GF revenues)	8.7%	17.5%
ABC Taxes (1% GF revenues)	1.5%	2.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 1.1 percent in December, \$27.9 million compared with \$28.2 million a year ago. On a year-to-date basis, collections of All Other Revenue declined 5.2 percent from the same period last year as compared to the annual estimate of a 2.2 percent decline.

Summary

Total general fund revenue collections fell 1.0 percent in December. The decline was largely due to one fewer deposit day for payroll withholding. On a positive note, sales taxes, recordation taxes and insurance company premiums had positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.0 percent through December, ahead of the revised annual forecast of 2.9 percent growth for fiscal year 2017. Because the timing of payments at this time of year can distort growth in several sources, December and January collections should be viewed together to accurately assess growth.

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