



COMMONWEALTH of VIRGINIA

April 10, 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 

SUBJECT: March Revenue Data

This month's revenue report incorporates the actions of the 2014 General Assembly Special Session I, Chapter 1.

March is not generally a significant month for revenue collections. Collections consist mainly of withholding and sales tax revenues, as well as the normal collections for most minor sources. Final payments from insurance companies for tax year 2013 are due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals which are due April 15 and May 1, respectively. Therefore, the timing of these final payments, along with the timing of refunds in both sources, can distort monthly growth rates.

Total general fund revenue collections rose 7.8 percent in March, with individual nonwithholding, corporate income tax and the tax on insurance premiums accounting for most of the gain. On a year-to-date basis, total revenue collections were flat through March compared with the same period last year, lagging 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 1.1 percent through March, trailing 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 are strong and should support a more robust expansion over the coming year.

- According to the final estimate, real GDP grew at an annualized rate of 2.6 percent in the fourth quarter of 2013, following a 4.1 percent increase in the third quarter and 2.5 percent in the second quarter.
- The labor market continued to improve in March. Payroll employment rose by 192,000 jobs, while the February gain was revised up by 22,000 jobs. Employment gains averaged 178,000 jobs per month in the first quarter. In a separate report, the unemployment rate remained unchanged at 6.7 percent, as the number of workers entering the labor force was offset by an increase in employment.
- Initial claims for unemployment rose by 16,000 to 326,000 during the week ending March 29. The four-week moving average rose by only 250 to 319,500. The claims data is consistent with slow improvement in the pace of job growth.
- The Conference Board's index of leading indicators rose 0.5 percent in February after a 0.1 percent increase in January, its sixth gain in the last seven months. The behavior of the leading indicator is consistent with continued economic growth.
- The Conference Board's index of consumer confidence increased from 78.3 to 82.3 in March. A slight decrease in the present situation component was offset by more optimism in future expectations.
- Activity in the manufacturing improved in March, with the Institute of Supply Management index rising from 53.2 to 53.7, its second consecutive gain.
- Inflation remains contained as the CPI rose 0.1 percent in February, and stands 1.1 percent above February 2013. Core inflation (excluding food and energy prices) also rose 0.1 percent in February, and has increased 1.6 percent from a year ago.
- The Federal Reserve announced at its March 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

The Virginia Employment Commission released re-benchmarked employment data for calendar years 2012 and 2013, and the revisions were quite small. Payroll employment growth of 1.0 percent in Virginia in fiscal year 2013 was unchanged with the revision. For the first half of fiscal year 2014, growth of 1.0 percent in the previously reported data was revised down to 0.5 percent. Following are the revised growth rates in the major metro areas over the first six months of the fiscal year, with the previously reported growth in parentheses: Northern Virginia rose 0.6 percent (1.0 percent); Hampton Roads grew 0.7 percent (2.1 percent); and Richmond-Petersburg rose 1.2 percent (1.0 percent).

In February, the most recent month available, Virginia employment fell 0.1 percent from February of last year. In Northern Virginia and Hampton Roads, employment fell by 0.3 percent in February, while Richmond-Petersburg posted a 1.5 percent increase. The unemployment rate

in the Commonwealth fell 0.1 percentage point to 4.9 percent in February and is 0.7 percentage point below February of last year.

The Virginia Leading Index declined 0.4 percent in February after advancing 0.7 percent in January. The U.S. leading index and initial claims improved in February, while auto registrations and building permits declined and future employment remained unchanged. Richmond, Northern Virginia, Lynchburg, Hampton Roads, Charlottesville, Danville, Harrisonburg, Blacksburg, and Winchester posted expansions in their indexes in February, while Roanoke and Bristol were unchanged.

March Revenue Collections

Total general fund revenue collections rose 7.8 percent in March, with individual nonwithholding, corporate income tax and the tax on insurance premiums accounting for most of the gain. On a year-to-date basis, total revenue collections were flat through March compared to the same period last year, lagging 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 1.1 percent through March, trailing the adjusted forecast of 2.1 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through March, collections of net individual income tax rose 1.8 percent from the same period last year, behind 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 0.8 percent in March. Year-to-date, withholding collections rose 2.7 percent compared with the same period last year, close to the annual estimate of 2.9 percent.

Individual Income Tax Nonwithholding (17% of general fund revenues): March is not typically a significant month for collections in this source. Receipts were \$124.3 million compared with \$105.6 million in March 2013. Year-to-date collections through March fell by 0.8 percent, trailing the revised annual estimate of a 4.2 percent increase.

Individual Income Tax Refunds: TAX issued \$336.4 million in refunds in March compared with \$365.6 million last year, an 8.0 percent decline. Year-to-date, refunds have risen 5.9 percent, ahead of the annual estimate of 5.1 percent growth.

Since the filing season began on January 1, TAX has issued 1.6 million refunds, about 15,000 more than the same 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 February sales, fell 4.2 percent in March. On a year-to-date basis, collections have fallen 4.8 percent through March, 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 0.9 percent year-to-date, below the economic-base forecast of 1.6 percent growth.

Corporate Income Tax (5% of general fund revenues): March is generally not a significant month for collections in this source. Collections of corporate income tax were \$75.0 million in March, compared with \$55.5 million a year ago. Most of the activity in March is from companies making final tax year 2013 payments ahead of the April 15 due date. Year-to-date collections in this source have fallen 5.2 percent from the same period last year, trailing the annual estimate of a 3.4 percent decline. April collections will provide a clearer picture of trends in this source as final payments for tax year 2013 are due April 15.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$23.0 million in March, compared with \$32.8 million in March of last year. This was the eighth consecutive monthly decline in this source. On a year-to-date basis, collections are down 16.1 percent, trailing the annual forecast of 0.0 percent growth.

Insurance Premiums (2% of general fund revenues): Final payments from insurance companies for tax year 2013 were due in March. Collections in this source were \$31.6 million compared with \$13.9 million in March of last year. Year-to-date collections are \$93.7 million, compared with \$58.9 million in the same period last year.

Other Revenue Sources

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

| | <u>Year-to-Date</u> | <u>Annual Estimate</u> |
|------------------------------------|---------------------|------------------------|
| Interest Income (0.5% GF revenues) | 1.1% | -25.9% |
| ABC Taxes (1% GF revenues) | 1.6% | 0.8% |

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 24.7 percent in March, \$34.0 million compared with \$27.3 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.6 percent from the same period last year, ahead of the annual estimate of a 2.0 percent decline.

Summary

Total general fund revenue collections rose 7.8 percent in March, with individual nonwithholding, corporate income tax and the tax on insurance premiums accounting for most of the gain. On a year-to-date basis, total revenue collections were flat through March compared to the same period last year, lagging 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

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of HB 2313, total revenues grew 1.1 percent through March, trailing the adjusted forecast of 2.1 percent growth.

The last three months of the fiscal year are significant collections months. In addition to estimated and final payments from both corporations and individuals due in April and May, estimated payments are again due in June. Fiscal year 2014 fourth quarter collections must increase 2.9 percent to attain the forecast. Last year, fourth quarter collections increased 7.2 percent.