



COMMONWEALTH of VIRGINIA

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P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: April Revenue Report

This report continues to use the introduced budget revenue estimates released in December 2018.

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2018 and the first estimated payment for tax year 2019 were due from corporations on April 15. A portion of estimated and final payments from individuals, which are due May 1, are typically received in April, but the amount received in April versus May can vary from year to year. Therefore, the timing of these receipts between April and May can distort monthly growth rates.

Total general fund revenues rose 27.4 percent in April. Receipts of individual nonwithholding payments before the May due date drove the growth, although withholding, sales, and recordation tax collections all posted solid growth for the month. Growth was expected to pick up substantially in the fourth quarter of the fiscal year as conformity with the federal *Tax Cuts and Jobs Act* took effect. On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through April, ahead of the annual forecast of 5.9 percent growth.

National Economic Indicators

Recent national indicators suggest the economy continues to moderately expand.

- According to the initial estimate, real GDP rose at an annualized rate of 3.2 percent in the first quarter of 2019, following 2.2 percent growth in the fourth quarter.

- Payroll employment rose by 263,000 jobs in April, following the March gain of 189,000. In a separate report, the unemployment rate fell to 3.6 percent in April, the lowest rate since the 1960s. However, a large contraction in the labor force drove the decline.
- Initial claims for unemployment fell by 2,000 to 228,000 during the week ending May 4. The four-week moving average rose by 7,750 to 220,250. The level of claims is consistent with a tightening labor market.
- The Conference Board's index of leading indicators rose 0.4 percent in March following a 0.1 percent increase in February and no change in January. The index suggests that moderate economic growth should continue.
- The Conference Board's index of consumer confidence rose from 124.2 to 129.2 in April, with both the expectations and present conditions components contributing to the increase.
- Conditions in the manufacturing sector weakened in April. The Institute of Supply Management index fell from 55.3 to 52.8. The index remains above the neutral threshold of 50.0 and is consistent with continued growth.
- The CPI rose 0.4 percent in March following a 0.2 percent increase in February. The index stands 1.9 percent above March of 2018. Core inflation (excluding food and energy prices) rose by 0.1 percent, and is 2.0 percent above a year ago.
- At its May meeting, the Federal Reserve left the federal funds target rate range unchanged at 2.25 to 2.5 percent.
- Total U.S. tariffs implemented since January 2018 total \$311 billion, mostly against China, and an additional \$278 billion was recently proposed. Retaliatory tariff actions taken are \$134 billion with an additional \$20 billion proposed, mostly by China.
- The federal debt ceiling was reached on March 2; extraordinary measures can last until early September.

Virginia Economy

In Virginia, payroll employment rose 0.9 percent in March compared with last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads employment was unchanged; and Richmond-Petersburg rose 0.6 percent from March of last year. The seasonally adjusted unemployment rate was unchanged at 2.9 percent in March, but was 0.3 percent below last year.

The Virginia Leading Index rose 0.1 percent in March after rising 0.6 percent in February. The U.S. Leading Index and future employment improved in March while auto registrations declined and initial claims increased. The indexes for Roanoke, Richmond, Northern Virginia, Hampton Roads, and Harrisonburg increased in March while the indexes for Lynchburg, Charlottesville, and

Blacksburg decreased. The Bristol, Winchester, and Staunton indexes were little changed.

April Revenue Collections

Total general fund revenues rose 27.4 percent in April. Receipts of individual nonwithholding payments before the May due date drove the growth, although withholding, sales, and recordation tax collections all posted solid growth for the month. On a fiscal year-to-date basis, total revenue collections rose 6.2 percent through April, ahead of the annual forecast of 5.9 percent growth.

Net Individual Income Tax (71% of general fund revenues): Through April, collections of net individual income tax rose 6.4 percent from the same period last year, behind the annual estimate of 6.7 percent growth. As stated earlier, growth is expected to pick up in the last quarter of the fiscal year due to effects of the federal *Tax Cuts and Jobs Act*. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): With one more deposit day than April of last year, collections of payroll withholding taxes rose 7.4 percent for the month. Year-to-date, collections have grown 3.7 percent, close to the annual estimate of 3.8 percent growth.

Individual Income Tax Nonwithholding (19% of general fund revenues): April is a significant month for collections in this source. Final payments for tax year 2018 and the first estimated payment for tax year 2019 are both due at the beginning of May.

Collections in nonwithholding were \$1.2 billion compared with \$876.9 million in April of last year, an increase of 40.3 percent. Collections in this source includes payments due to the federal *Tax Cuts and Jobs Act*. To date, about 70 percent of the nonwithholding forecast has been collected, and year-to-date collections are 6.7 percent above the same period last year, trailing the annual estimate of 15.2 percent growth.

Typically, a portion of final payments for calendar year 2018 which were due May 1 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for the fiscal year (second calendar year payment for 2019) is due June 15.

Individual Income Tax Refunds: The Department of Taxation issued \$454.3 million in refunds in April, compared with \$499.8 million in the same period last year, a decrease of 9.1 percent. About 2.2 million refunds have been issued so far this filing season, about 130,000 fewer than the same period last year. Part of the decline is due to the *Tax Cuts and Jobs Act*. Year-to-date, refunds have declined by 10.0 percent as compared to the annual estimate of 3.3 percent growth. Significant uncertainty remains, as the adoption of state conformity to federal tax law changes delayed the beginning of the filing season this year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 2.9 percent in April. On a year-to-date basis, collections have risen 3.4 percent, close to the annual estimate of 3.7 percent growth.

Corporate Income Tax (4% of general fund revenues): In April, corporations made their first estimated payment for tax year 2019 and made either a final or extension payment for tax year 2018. Collections of corporate income taxes were \$272.3 million in April, compared with receipts of \$181.0 million in April of last year, an increase of 50.4 percent. As with nonwithholding, part of the increase was due to the federal *Tax Cuts and Jobs Act*. Year-to-date collections have increased 13.8 percent from the same period last year, ahead of the forecast of 5.6 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$33.8 million in April, compared with \$33.2 million in April of last year. On a year-to-date basis, collections are down 3.9 percent as compared to the annual forecast of a 6.7 percent decline.

Insurance Premiums (2% of general fund revenues): Insurance companies also made their first estimated payment for tax year 2019 in April. Collections were \$136.6 million compared with \$128.5 million last year. Year-to-date collections through April were \$247.9 million, compared with \$212.2 million in the same period last year, an increase of 16.8 percent. Estimated payments for insurance companies are again due in June.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.3% GF revenues)	39.0%	11.5%
ABC Taxes (1% GF revenues)	2.5%	3.5%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 0.7 percent in April, \$33.1 million compared with \$32.9 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 8.0 percent from the same period last year, compared to the annual estimate of 1.5 percent growth.

Summary

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amount received in April versus May can vary from year to year. Therefore, the timing of these receipts between April and May can distort monthly growth rates.

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May and June are also significant collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for corporations, individuals, and insurance companies are due in June.