



COMMONWEALTH of VIRGINIA

Aubrey L. Layne, Jr., MBA, CPA
Secretary of Finance

June 12, 2019

P.O. Box 1475
Richmond, Virginia 23218

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: May Revenue Report

This month's revenue report incorporates the Chapter 854 forecast (enacted budget) signed May 2. Total general fund revenue is budgeted to grow 3.3 percent in fiscal year 2019. Approximately \$450 million of additional revenue is needed to fund the Taxpayer Relief Fund. 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.

Total general fund revenues rose 22.5 percent in May. Most of the increase is due to individual nonwithholding payments received for the May 1 filing date. In addition, withholding, sales, and recordation tax collections all posted solid growth for the month while refunds fell. 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 7.9 percent through May, ahead of the annual forecast of 3.3 percent growth.

National Economic Indicators

Recent national indicators suggest the economy continues to expand moderately.

- According to the second estimate, real GDP rose at an annualized rate of 3.1 percent in the first quarter of 2019, following 2.2 percent growth in the fourth quarter.
- Payroll employment rose by a disappointing 75,000 jobs in May, following the April gain of 224,000 and the March gain of 153,000. In a separate report, the unemployment rate remained unchanged at 3.6 percent, the lowest rate since the 1960s.

- Initial claims for unemployment were unchanged at 218,000 during the week ending June 1. The four-week moving average fell by 2,500 to 215,000. The level of claims is consistent with a healthy labor market.
- The Conference Board's index of leading indicators rose 0.2 percent in April following a 0.3 percent increase in March. The index suggests that moderate economic growth should continue in the coming months.
- The Conference Board's index of consumer confidence rose from 129.2 to 134.1 in May, with both the expectations and present conditions components contributing to the increase.
- With escalating tensions between the U.S. and its major trading partners, conditions in the manufacturing sector weakened further in May. The Institute of Supply Management index fell from 52.8 to 52.1 for the month. The index remains above the neutral threshold of 50.0 and is consistent with continued growth.
- The CPI rose 0.3 percent in April following a 0.4 percent increase in March. The index stands 2.0 percent above April of 2018. Core inflation (excluding food and energy prices) rose by 0.1 percent, and is 2.1 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.

Virginia Economy

In Virginia, payroll employment rose 1.0 percent in April compared with last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads employment increased 0.2 percent; and Richmond-Petersburg rose 1.5 percent from April of last year. The seasonally adjusted unemployment rate was unchanged at 2.9 percent in May, and was 0.2 percent below last year.

The Virginia Leading Index jumped 1.0 percent in April after rising 0.1 percent in March. All components – the U.S. Leading Index, future employment, auto registrations, and initial claims -- improved in April. The index for Lynchburg decreased in April while the index for Staunton was flat; the indexes for the remaining Virginia metro areas rose last month.

May Revenue Collections

Total general fund revenues rose 22.5 percent in May. Most of the increase is due to individual nonwithholding payments received for the May 1 filing date. In addition, withholding, sales, and recordation tax collections all posted solid growth for the month while refunds fell. On a fiscal year-to-date basis, total revenue collections rose 7.9 percent through May, ahead of the annual forecast of 3.3 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through May, collections of net individual income tax rose 8.5 percent from the same period last year, ahead of the annual estimate of 2.2 percent growth. As stated earlier, growth was 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 (63% of general fund revenues): Collections of payroll withholding taxes rose 5.7 percent in May. Year-to-date, collections have grown 3.9 percent, close to the annual estimate of 3.8 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): May is a significant month for collections in this source. Final payments for tax year 2018 and the first estimated payment for tax year 2019 were both due at the beginning of May.

Collections in nonwithholding were \$764.9 million compared with \$493.3 million in May of last year, an increase of 55.1 percent. Since a portion of final payments for calendar year 2018 which were due May 1 are typically 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 45.6 percent from the same period last year. Collections in this source includes payments due to the federal *Tax Cuts and Jobs Act*.

Individual Income Tax Refunds: The Department of Taxation issued \$144.6 million in refunds in May, compared with \$168.2 million in the same period last year, a decrease of 14.0 percent. About 2.3 million refunds have been issued so far this filing season, about 152,000 fewer than the same period last year. Part of the decline in refunds is due to the *Tax Cuts and Jobs Act*. Year-to-date, refunds have declined by 10.3 percent, trailing the annual estimate of 5.4 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 April sales, rose 9.7 percent in May as seasonal factors impacted results. On a year-to-date basis, collections have risen 4.0 percent, ahead of the annual estimate of 3.7 percent growth.

Corporate Income Tax (5% of general fund revenues): May is not typically a significant month for collections in this source, as final or extension payments are mainly due only 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 \$2.6 million in May, compared with receipts of \$11.0 million in May of last year. Year-to-date collections have increased 12.3 percent from the same period last year, trailing the forecast of 17.4 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$42.0 million in May, compared with

\$36.9 million in May of last year. On a year-to-date basis, collections are down 2.1 percent, slightly ahead of the annual forecast of a 6.7 percent decline.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections were \$5.7 million in May, as refunds were paid to insurance companies. Year-to-date collections through May were \$253.6 million compared with \$217.6 million in the same period last year, an increase of 16.5 percent and close to the annual estimate of 17.0 percent growth. Estimated payments for insurance companies are again due in June.

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 (0.3% GF revenues)	51.0%	11.5%
ABC Taxes (1% GF revenues)	2.8%	3.5%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 28.3 percent in May, \$59.4 million compared with \$46.3 million a year ago. An increase in bank franchise tax collections drove the growth. On a year-to-date basis, collections of All Other Revenue rose 10.7 percent from the same period last year, compared to the annual estimate of 1.5 percent growth.

Summary

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.

Total general fund revenues rose 22.5 percent in May. Most of the increase is due to individual nonwithholding payments received for the May 1 filing date. In addition, withholding, sales, and recordation tax collections all posted solid growth for the month while refunds fell. 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 7.9 percent through May, ahead of the annual forecast of 3.3 percent growth. Total general fund revenues rose 22.5 percent in May. Most of the increase is due to individual individual nonwithholding payments received for the May 1 filing date. In addition, withholding, sales, and recordation tax collections all posted solid growth for the month while refunds fell. 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.

Collections in June must total \$1.7 billion to attain the forecast compared with the \$2.4 billion collected last June.