



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2011 and the first estimated payment for tax year 2012 were due from corporations on April 17. Also, a large portion of estimated and final payments from individuals, which are due May 1, are typically received in April.

Total general fund revenue collections rose 10.6 percent in April, driven by strong individual nonwithholding receipts with all major sources contributing to the growth. On a year-to-date basis, total revenue collections rose 5.9 percent through April, ahead of the annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.6 percent through April, ahead of the adjusted forecast of 4.7 percent growth.

National Economic Indicators

Most national economic indicators suggest the modest expansion will continue, although tensions in the Mideast and uncertainty in Europe continue to dampen growth.

- According to the advance estimate, real GDP grew at an annualized rate of 2.2 percent in the first quarter of 2012, slowing from 3.0 percent growth in the fourth quarter of 2011.
- Labor market growth slowed in April, as employers added only 115,000 jobs. Figures for February and March, however, were revised up by a combined 53,000 jobs. In a separate

report, the unemployment rate fell from 8.2 percent to 8.1 percent in April, due to a contraction in the labor force.

- Following three weeks of increases, initial claims for unemployment fell sharply during the week ending April 28. Claims fell by 27,000 to 365,000, while the four-week moving average rose slightly from 382,750 to 383,500. The level of claims is again returning to levels consistent with a recovering labor market.
- The Conference Board's index of leading indicators rose 0.3 percent in March, its sixth consecutive monthly gain. The rise in the index suggests growth will continue through the first half of 2012.
- The Conference Board's index of consumer confidence fell by 0.3 point to 69.2 in April. Although the present situation component continued to improve, the expectations component declined.
- The manufacturing sector continued to expand in April, as the Institute of Supply Management index rose from 53.4 to 54.8, its 33rd monthly increase.
- The CPI rose 0.3 percent in March and stands 2.7 percent above March 2011, with most of the increase due to rising gas prices. Core inflation (excluding food and energy prices) rose 0.2 percent, and has increased 2.3 percent from March 2011.
- The Federal Reserve announced at its April meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, stating that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014."

Virginia Economy

In Virginia, employment rose 1.3 percent in March from March of last year. Northern Virginia posted growth of 1.6 percent; Hampton Roads rose 0.8 percent; and Richmond-Petersburg rose 1.9 percent. The unemployment rate in the Commonwealth fell 0.4 of a percentage point to 5.7 percent in March.

The Virginia Leading Index was unchanged in March after increasing 0.8 percent in February. Auto registrations, the U.S. Leading Index, and future employment improved in March, while building permits fell and initial claims rose. The Leading Index rose in eight of the 11 major metro areas in the Commonwealth in March. The indexes for Danville and Roanoke fell, while the Bristol index was little changed from February.

April Revenue Collections

Total general fund revenue collections rose 10.6 percent in April, driven by strong individual nonwithholding receipts with all major sources contributing to the growth. On a year-to-date basis, total revenue collections rose 5.9 percent through April, ahead of the annual forecast of 4.6

percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.6 percent through April, ahead of the adjusted forecast of 4.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through April, collections of net individual income tax rose 7.1 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 2.4 percent in April. Year-to-date, withholding collections grew 3.3 percent compared with the same period last year, trailing the projected annual growth rate of 3.8 percent.

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

April collections were \$616.9 million, compared with \$525.1 million in April of last year, a 17.5 percent increase. To date, about 68 percent of the nonwithholding forecast has been collected, and collections during this fiscal year are 13.6 percent ahead of the same period last year, ahead of the annual estimate of 12.6 percent growth.

Typically, a large portion of final payments 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 this fiscal year is due June 15.

Individual Income Tax Refunds: TAX issued \$473.3 million in refunds in April compared with \$497.7 million last year. Year-to-date, refunds have fallen 5.7 percent, compared with the annual estimate of a 3.0 percent increase.

Since the filing season began in January, TAX has issued roughly 2.4 million refunds, approximately the same number as last year. However, the average size of these refunds is 7.0 percent lower than last year.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 1.4 percent in April. On a year-to-date basis, collections have risen 5.2 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 3.7 percent year-to-date, ahead of the economic-base forecast of 2.5 percent growth.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2012, and made either a final or extension payment for tax year 2011. Collections of corporate income taxes were \$162.3 million in April, compared with

\$160.7 million in April of last year. Year-to-date collections in this source have risen 3.8 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 \$27.2 million in April, compared with \$21.7 million in April of last year, a 25.1 percent increase. On a year-to-date basis, collections are up 8.8 percent, approaching the annual forecast of 10.8 percent growth.

Insurance Premiums (2% of general fund revenues): In April, insurance companies made their first estimated payment for tax year 2012. Collections in this source were \$108.2 million in April compared with \$105.3 million in April of last year. For the fiscal year-to-date, net insurance premiums tax collections are \$149.4 million compared with \$176.4 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 April collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)*	-6.8%	1.1%
ABC Taxes (1% GF revenues)	4.4%	1.0%

**Interest was allocated in accordance with Section 3-3.03 of Chapter 890, 2011 Virginia Acts of the Assembly.*

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 5.2 percent in April – \$30.9 million compared with \$29.4 million last April. On a year-to-date basis, collections of All Other Revenue fell 0.3 percent, matching the annual estimate.

Summary

Total general fund revenue collections rose 10.6 percent in April, driven by strong individual nonwithholding receipts. On a year-to-date basis, total revenue collections rose 5.9 percent through April, ahead of the annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.6 percent through April, ahead of the adjusted forecast of 4.7 percent growth.

May and June are also very important collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations, and insurance companies are due June 15. Collections in May and June must total \$3.4 billion to attain the forecast, the same amount collected in those two months in fiscal year 2011.