



COMMONWEALTH of VIRGINIA

May 14, 2013

PO Box 1475
Richmond, VA. 23218

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 2012 and the first estimated payment for tax year 2013 were due from corporations on April 15. 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 2.2 percent in April. On a year-to-date basis, total revenue collections rose 4.1 percent through April, ahead of the annual forecast of 3.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.8 percent through April, ahead of the adjusted forecast of 3.4 percent growth. Over the next two months \$3.6 billion is needed to be collected to meet the fiscal year estimate. Last year \$3.5 billion was collected in the May to June timeframe.

National Economic Indicators

Most national indicators suggest the economy continues to expand at a slow pace. It is expected that sequestration will continue to dampen growth over the rest of the fiscal year.

- According to the advance estimate, real GDP grew at an annualized rate of 2.5 percent in the first quarter of 2013, up from a 0.4 percent increase in the fourth quarter, but below expectations.
- Payroll employment grew by 165,000 jobs in April, while February growth was revised up from 268,000 to 332,000 and March was revised up from 88,000 to 138,000. The job gain in April was driven by business and professional services. In a separate report, the

unemployment fell slightly from 7.6 to 7.5 percent as the labor force participation rate remained steady.

- Initial claims for unemployment fell by 4,000 to 323,000 during the week ending May 4, the lowest level since the recession began in late 2007. The four-week moving average fell by 6,250 to 337,000.
- The Conference Board's index of leading indicators fell 0.1 percent in March, only the second decline in seven months. The drop was driven by declining consumer expectations and building permits. The leading indicator is consistent with continued slow economic growth.
- The Conference Board's index of consumer confidence jumped from 61.9 to 68.1 in April, exceeding expectations. Both components increased in April, but views of future conditions drove the gain. The index has been volatile recently, probably due to the uncertainty of government policy, including sequestration.
- Activity in the manufacturing sector further slowed in April, with the Institute of Supply Management index decreasing from 51.3 to 50.7, barely remaining in expansionary territory.
- The CPI fell 0.2 percent in March, and stands 1.5 percent above March 2012. Core inflation (excluding food and energy prices) rose 0.1 percent in March, and has increased 1.9 percent from March 2012.
- The Federal Reserve announced at its April meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and continued its quantitative easing program.

Virginia Economy

In Virginia, payroll employment rose 0.9 percent in March from March of last year. Northern Virginia posted job growth of 1.3 percent; Hampton Roads rose 1.7 percent; and Richmond-Petersburg rose 1.4 percent. The unemployment rate in the Commonwealth fell 0.5 percentage point to 5.2 percent in March and is 0.8 percentage point below March 2012, and the lowest level since December 2008.

The Virginia Leading Index rose 0.5 percent in March after increasing 0.2 percent in February. Increasing auto registrations and future employment were partially offset by a decline in building permits and the U.S. leading index and a modest increase in initial claims. The Leading Indexes increased in nine of the eleven metro areas, but contracted in Charlottesville and Harrisonburg.

April Revenue Collections

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Net Individual Income Tax (68% of general fund revenues): Through April, collections of net individual income tax rose 5.0 percent from the same period last year, ahead of the annual estimate of 4.5 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 rose 7.0 percent in April, with a small portion of the growth due to one additional deposit day as compared to April of last year. Year-to-date, withholding collections rose 3.1 percent compared with the same period last year, close to the projected annual growth rate of 3.3 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): April is a significant month in collections of this source. Final payments for tax year 2012 and the first estimated payment for tax year 2013 are both due May 1.

A total of \$611.1 million in nonwithholding was collected in April, compared with \$616.9 million in April of last year, a decline of 0.9 percent. To date, about 70 percent of the nonwithholding forecast has been collected, and year-to-date collections are 5.7 percent ahead of the same period last year, trailing the annual estimate of 6.8 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 \$472.3 million in refunds in April compared with \$473.3 million last year. Year-to-date, refunds have fallen 4.2 percent, lagging the annual estimate of 0.4 percent growth.

Since the filing season began on January 1, TAX has issued 2.3 million refunds compared with 2.4 million in the same period last year. The average size of refunds is 0.9 percent lower than last year.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting March sales, were flat in April. On a year-to-date basis, collections have risen 3.6 percent through April, slightly trailing the annual estimate. Adjusting for the partial repeal of the accelerated sales tax program, sales tax collections have grown by 2.2 percent year-to-date, lagging the economic-base forecast of 3.2 percent growth.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2013, and made either a final or extension payment for tax year 2012. Collections of corporate income tax were \$145.9 million in April, compared with \$162.3 million in April of last year. Year-to-date collections in this source have fallen 8.2 percent from the same period last year, lagging the estimate of a 4.5 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$30.8 million in April, compared with \$27.2 million in April of last year, a 13.3 percent increase. On a year-to-date basis, collections are up 17.5 percent, far ahead of the annual forecast of 4.5 percent growth.

Insurance Premiums (2% of general fund revenues): In April, insurance companies made their first estimated payment for tax year 2013. Collections in this source were \$102.5 million compared with \$108.2 million in April of last year. Year-to-date collections are \$161.5 million through April compared with \$149.4 million through April of last year –an 8.1 percent increase compared with the forecast of 1.1 percent 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 (0.5% GF revenues)	-8.7%	-12.5%
ABC Taxes (1% GF revenues)	4.5%	2.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue rose 12.7 percent in April, \$34.8 million compared with \$30.9 million last year. On a year-to-date basis, collections of All Other Revenue fell 1.2 percent from the same period last year, close to the annual estimate of a 2.5 percent decline.

Summary

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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 \$3.6 billion, or 1.8 percent growth to attain the forecast. Adjusting for the accelerated sales tax program, total general fund revenues need to grow by 2.0 percent over May and June to make the official estimate. Last year, total general fund revenues grew by 4.7 percent during the last two months of fiscal year 2012.