



COMMONWEALTH of VIRGINIA
Office of the Governor

Richard D. Brown
Secretary of Finance

PO Box 1475
Richmond, VA. 23218

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

This month's revenue report contains the official general fund revenue forecast included in House Bill 1500 (Chapter 890), which was approved on May 2, 2011. The approved forecast predicts an increase of 3.5 percent, the same as the forecast used with the proposed budget (HB1500/SB800) introduced on December 17, 2010.

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2010 and the first estimated payment for tax year 2011 are 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 1.5 percent in April. Strength in individual withholding and nonwithholding and sales tax receipts account for the growth, while recordation taxes and corporate income taxes declined for the month. On a year-to-date basis, total revenue collections rose 4.5 percent, ahead of the revised annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.1 percent through April, ahead of the economic-base forecast of 5.5 percent growth.

National Economic Indicators

National indicators suggest the economic expansion will continue.

- According to the advance estimate, real GDP grew 1.8 percent at an annualized rate in the first quarter of 2011, the seventh consecutive quarter of growth. Although this is down from 3.1 percent in the fourth quarter of 2010, first quarter 2011 growth was dampened by harsh winter weather over much of the country.
- Labor market conditions improved again in April. Payroll employment rose by 244,000 jobs in April and the March and February numbers were revised up by 55,000. April marked the seventh consecutive monthly job gain. In a separate report, the unemployment rate rose for the first time in 5 months from 8.8 to 9.0 percent in April as people who had previously exited the job market, started looking for jobs again, boosting the number of people counted as unemployed.
- Initial claims for unemployment increased by 43,000 to 474,000 during the week ending April 30, while the four-week moving average rose from 409,000 to 431,000.
- The Conference Board's index of leading indicators rose 0.4 percent in March, its ninth consecutive monthly increase. Although the recent gains in the index have been modest, they suggest the recovery will continue over the coming months.
- The Conference Board's index of consumer confidence rose from 63.8 to 65.4 in April, reversing only a small portion of its March decline. Both components contributed to the increase, with the present situation component leading the gain. Events in the Middle East and Japan, along with higher energy prices, continue to dampen confidence in the outlook.
- The manufacturing sector slowed in April as the Institute of Supply Management index fell from 61.2 to 60.4. The index has remained above 60 for four consecutive months, and indicates that manufacturing activity is expanding, but at a slower rate.
- Inflation remains contained. The CPI increased 0.5 percent in March from the previous month and stands 2.7 percent above March of last year. Core inflation (excluding food and energy prices) rose 0.1 percent in March, and has increased 1.2 percent from March 2010.
- The Federal Reserve kept monetary policy unchanged at its April meeting, keeping the target federal funds rate between 0.0 and 0.25 percent. They also announced they will complete the second round of quantitative easing by the end of June.

Virginia Economy

In Virginia, employers have added jobs in eight of the last nine months. In March, payroll employment rose 1.1 percent from March of last year. Northern Virginia posted growth of 1.4

percent, Hampton Roads fell 0.1 percent, and Richmond-Petersburg rose 0.4 percent. The unemployment rate in the Commonwealth fell from 6.6 percent to 6.3 percent in March, the lowest rate since January 2009 and 1.1 percentage points below March 2010.

The Virginia Leading Index rose 0.5 percent in March, its fifth consecutive monthly increase. All five components improved in March. The Leading Index rose in ten of eleven Virginia metro areas, while the index in Harrisonburg fell.

April Revenue Collections

Total general fund revenue collections rose 1.5 percent in April. Strength in individual withholding and nonwithholding and sales tax receipts drove the growth, while recordation taxes and corporate income taxes declined for the month. On a year-to-date basis, total revenue collections rose 4.5 percent, ahead of the revised annual forecast of 3.5 percent growth.

Net Individual Income Tax (66% of general fund revenues): Through April, collections of net individual income tax rose 7.6 percent from the same period last year, ahead of the annual estimate of 7.2 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (65% of general fund revenues): Collections of payroll withholding taxes grew 6.5 percent in April. Year-to-date, withholding collections grew 5.2 percent compared with the same period last year, ahead of the projected annual growth rate of 4.3 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): April is a significant month for nonwithholding collections. Final payments for tax year 2010 and the first estimated payment for tax year 2011 are both due May 1.

April collections were \$525.1 million compared with \$472.5 million in April 2010, an 11.1 percent increase. To date, about 70 percent of the nonwithholding forecast has been collected, and collections during this fiscal year are 6.1 percent ahead of the same period last year, behind the revised annual estimate of 8.5 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 \$497.7 million in refunds in April compared with \$464.5 million in April of last year, a 7.1 percent increase. Year-to-date, refunds are 4.3 percent behind the same period last year, below the estimate of a 4.9 percent decline.

For the filing season beginning January 1, TAX has issued 2.4 million refunds, about 50,000 more than the same period last year. The size of the average check is down 5 percent. TAX can issue another \$227.1 million in refunds and meet the annual estimate. Last year, \$249.9 million in refunds was issued in May and June.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 7.0 percent in April. On a year-to-date basis, collections have fallen 2.6 percent, trending toward the revised annual estimate of a 3.7 percent decline. The year-to-date decline is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July 2010 payments in June 2010. Adjusting for this and other policy initiatives, including amnesty and the modified dealer discount, sales tax collections have grown by 4.8 percent year-to-date, right on forecast.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2011, and made either a final or extension payment for tax year 2010.

Collections of corporate income tax were \$160.7 million in April, compared with \$219.4 million last April. Last April's receipts included some large one-time payments related to mergers and acquisitions. On a year-to-date basis, collections in this source have declined 0.2 percent, ahead of the revised annual estimate of a 4.9 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 3.1 percent in April. On a year-to-date basis, collections are up 0.4 percent, ahead of the revised forecast of a 5.6 percent decline.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	11.1%	6.0%
Interest Income (1% GF revenues)	-33.1%	-20.7%
ABC Taxes (1% GF revenues)	2.4%	1.2%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 0.1 percent in April – \$29.4 million compared with \$29.4 million last April. For the fiscal year, collections of All Other Revenue grew 6.8 percent, ahead of the annual estimate of 2.9 percent growth.

Summary

Total general fund revenue collections rose 1.5 percent in April. The growth was driven by strong collections in individual withholding and nonwithholding and sales tax receipts, while recordation taxes and corporate income taxes declined for the month. On a year-to-date basis, total revenue collections rose 4.5 percent, ahead of the revised annual forecast of 3.5 percent growth. Adjusting for the accelerated sales tax program in June 2010, total revenues grew 6.1 percent through April, ahead of the economic-base forecast of 5.5 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 about \$3.1 billion to attain the forecast for the fiscal year. For comparison purposes, receipts in the last two months of fiscal year 2010 were \$3.1 billion.