



COMMONWEALTH of VIRGINIA

January 10, 2014

PO Box 1475
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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2014. The report incorporates the revised general fund revenue forecast included in the budget (HB29/SB30) introduced on December 16. With the upward revision in December, total general fund revenues are now projected to grow by 1.7 percent in fiscal year 2014.

Total general fund revenue collections rose 0.8 percent in December, with solid growth in collections of individual withholding and nonwithholding partially offset by an increase in refunds and declines in sales, corporate income tax, and recordation taxes. On a year-to-date basis, total revenue collections rose 0.7 percent through the first half of the fiscal year, lagging the annual forecast of 1.7 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 1.7 percent through December, trailing the adjusted forecast of 2.9 percent growth.

National Economic Indicators

While most recent national indicators suggest underlying economic conditions are gradually improving; the latest report on the condition of the labor market does not support the otherwise optimistic outlook.

- According to the final estimate, real GDP grew at an annualized rate of 4.1 percent in the third quarter of 2013, up from a 2.5 percent increase in the second quarter and 1.2 percent in the first quarter.

- After four months of solid job gains averaging 213,000 per month, the labor market stalled in December. Payroll employment rose by only 74,000 jobs, far below consensus expectations of 197,000. The weakness was broad-based, however, severe winter weather explains some of the anomalous report as 314,000 did not go to work, the highest number for December in decades. In a separate report, the unemployment rate fell from 7.0 percent to a post-recession low of 6.7 percent as workers left the labor force.
- Initial claims for unemployment fell by 15,000 to 330,000 during the week ending January 4. The four-week moving average fell by 9,750 to 349,000.
- The Conference Board's index of leading indicators rose 0.8 percent in November after increasing 0.1 percent in October, its fifth consecutive monthly gain. The behavior of the leading indicator is consistent with continued economic growth.
- The Conference Board's index of consumer confidence rose from 72.0 to 78.1 in December. Although both components contributed positively to the index, the expectations component drove the increase.
- Activity in the manufacturing sector slipped in December, with the Institute of Supply Management index falling from 57.3 to 57.0. Following six consecutive months of increases, December's decline was much smaller than expected.
- Inflation remains contained. The CPI was unchanged in November, and stands 1.2 percent above November 2012. Core inflation (excluding food and energy prices) rose 0.2 percent in November, and has increased 1.7 percent from November 2012.
- The Federal Reserve announced at its December meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and will begin winding down its quantitative easing program this month.

Virginia Economy

In Virginia, payroll employment rose 0.7 percent in November from November 2012. Northern Virginia posted job growth of 0.8 percent; Hampton Roads rose 1.4 percent; and Richmond-Petersburg rose 1.5 percent. The seasonally adjusted unemployment rate in the Commonwealth fell 0.2 percentage point to 5.4 percent in November and is 0.3 percentage point below a year ago.

The Virginia Leading Index rose 0.4 percent in November after decreasing 0.4 percent in October. The U.S. leading index, auto registrations, building permits, and initial claims improved in November, while future employment was little changed. The Leading Indexes increased in nine of the eleven metro areas, while the indexes for Hampton Roads and Roanoke contracted.

December Revenue Collections

Total general fund revenue collections rose 0.8 percent in December, with solid growth in collections of individual withholding and nonwithholding offset by an increase in refunds and declines in sales, corporate income tax, and recordation taxes. On a year-to-date basis, total revenue collections rose 0.7 percent through the first half of the fiscal year, lagging the annual forecast of 1.7 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through December, collections of net individual income tax rose 3.2 percent from the same period last year, behind the annual estimate of 3.7 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes rose 3.1 percent in December. Year-to-date, withholding collections rose 3.4 percent compared with the same period last year, close to the projected annual growth rate of 3.3 percent.

Individual Income Tax Nonwithholding (18% of general fund revenues): Collections in this source were \$113.5 million in December, compared with \$76.2 million in December of last year. Year-to-date collections through the first half of the fiscal year rose by 12.4 percent, well ahead of the annual estimate of a 6.3 percent increase.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2013 and some of these payments are received in December. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: December is not a significant month for refund activity, as it concludes tax year 2012 refund processing. Through December, TAX has issued \$275.5 million in individual refunds compared with the first half estimate of \$270.7 million.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting November sales, fell 4.3 percent in December. On a year-to-date basis, collections have fallen 2.9 percent through December, ahead of the annual estimate of a 4.4 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer as set forth in HB 2313, sales tax collections have risen by 2.3 percent year-to-date, ahead of the economic-base forecast of 1.6 percent growth.

Corporate Income Tax (5% of general fund revenues): December is a significant month in corporate income tax collections as quarterly estimated payments are due for most corporations. Collections of corporate income tax were \$135.4 million in December, compared with \$175.1 million a year ago, a 22.7 percent decline. Year-to-date collections in this source have fallen 17.2 percent from the same period last year, trailing the estimate of 0.4 percent growth. Gross

payments have declined by 6.1 percent, while refunds have increased 25.0 percent due to extension returns and carry back loss provisions.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$25.7 million in December, compared with \$32.1 million in December of last year, a 20.0 percent decline. This was the fifth consecutive monthly decline in this source. On a year-to-date basis, collections are down 7.4 percent, trailing of the annual forecast of 0.0 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$90.3 million in December, compared with \$79.9 million in December 2012. Chapter 896 of the 2007 Acts of the Assembly required that \$130.8 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2014 before making any deposits to the general fund. The required transfer was completed during December.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-2.1%	-25.9%
ABC Taxes (1% GF revenues)	1.1%	0.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 2.7 percent in December, \$24.0 million compared with \$24.6 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 1.2 percent from the same period last year, ahead if the annual estimate of a 2.4 percent decline.

Summary

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Because a number of factors can influence the flow of payments and monthly growth rates this time of year, December and January receipts must be considered together to get a clear picture of revenue growth.