



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: May Revenue Data

May is a significant month for revenue collections. In addition to normal monthly collections in withholding, sales and other sources, estimated and final payments for individual income taxes are due May 1. And, final payments for corporations which have a fiscal year which ends other than on December 31— mainly retailers — are also due in May.

Total general fund revenue collections grew 23.0 percent in May. Much of the revenue growth was due to very strong collections in individual nonwithholding payments. Healthy gains in sales, corporate income, and recordation taxes also contributed to the increase. Collections in individual income tax withholding were also strong — partly as the result of an additional deposit day in May. Adjusting for the rate increase in sales and recordation taxes enacted in HB 5018, underlying revenue growth in May was 19.2 percent.

Through May, revenues have grown 15.2 percent above the same period last year--substantially ahead of the forecast of 10.3 percent.

National Economic Indicators

National economic indicators continue to depict an expanding economy, although job growth remains uneven.

- After posting a payroll gain of 274,000 in April, employers added only 78,000 jobs in May. Most of the May growth was in health care and construction, with little change in other sectors. Job growth for April and May averaged 176,000 a month. In a separate report, the unemployment rate fell to 5.1 percent.

- Initial claims for unemployment rose to 350,000 during the last week in May. The four-week moving average rose to 335,000, consistent with a moderately expanding labor market.

- First quarter GDP growth was revised upward to 3.5 percent from the first estimate of 3.1 percent, but still lower than the 3.8 percent reported for the fourth quarter of 2004.

- The Conference Board's index of consumer confidence rebounded in May to 102.2, with increases in both the present

situation and expectations components.

- The Conference Board's index of leading indicators fell 0.2 percent in April. The index has declined for four consecutive months and is lower than it was a year ago. Five of its ten components fell in April, with the largest negative contribution made by a drop in consumer confidence.

- Activity in the manufacturing sector continues to slow. The Institute of Supply Management index fell almost 2 points to 51.4 in May -- its sixth consecutive monthly decline.

Virginia Economy

In Virginia, payroll employment grew by 1.7 percent in April compared with the same month last year. Northern Virginia payrolls grew by 4.3 percent, followed by the western MSAs with 2.5 percent, Richmond-Petersburg with 2.0 percent, and Hampton Roads with 0.9 percent growth. The unemployment rate was unchanged in April at 3.4 percent.

Following a sharp drop in March, the Virginia Leading Economic Index rebounded in April. The index grew 0.9 percent -- the second increase in the last six months. Positive growth in auto registrations and building permits offset negative contributions from rising unemployment claims and the U.S. Leading Index. Regional leading indexes grew in all of Virginia's metropolitan areas.

May Revenue Collections

Total general fund revenue collections grew 23.0 percent in May. Much of the revenue growth was due to very strong collections in individual nonwithholding payments. Healthy gains in sales, corporate, and recordation taxes also contributed to the increase. Collections in individual income tax withholding were also strong -- partly as the result of an additional deposit day in May. Adjusting for the rate increase in sales and recordation taxes enacted in HB 5018, underlying revenue growth in May was 19.2 percent.

Through May, revenues have grown 15.2 percent above the same period last year -- substantially ahead of the mid-session estimate of 10.3 percent.

Individual Income Tax Withholding (57% of general fund revenues): Collections of payroll withholding taxes grew 9.8 percent in May. The strength was partially due to one more deposit day than May of last year, and partially due to comparison to a weak May of 2004. Year-to-date withholding growth is 7.2 percent, slightly ahead of the 6.4 percent growth required to meet the annual estimate. June will have one less deposit day than June of 2004.

Individual Income Tax Nonwithholding (14% of general fund revenues): May is a key month in individual nonwithholding collections because final payments for tax year 2004 and the first estimated payment for tax year 2005 are both due May 1.

The exceptional nonwithholding growth that occurred in April continued in May, with collections growth of 43.3 percent above May of last year. About 17 percent more payments were received in May, and average check sizes were up about 22 percent. Together, nonwithholding collections in April and May were 38.0 percent ahead of the same period last year.

Year-to-date collections in this source are up 33.5 percent from the same period last year -- significantly ahead of the forecast of 15.8 percent growth.

Many states have experienced extra-ordinary growth in final and estimated payments this year. The table below summarizes results for states which have reported collections to date. Among these states, final payments for tax year 2004 grew an average of 36 percent. For these states, the first estimated payment for tax year 2005 grew an average of 21 percent. The federal government also reported unusually strong increases in nonwithholding payments for April.

Percent Growth in Individual Estimated and Final Payments

(Fiscal Year 2005; Received Through May)

State	Final Payment TY 2004	1st Estimated Payment TY 2005
Arizona	52%	37%
California	34	23
Delaware	41	34
Illinois	39	14
Kansas	20	15
Maine	35	10
Massachusetts	33	27
Michigan	35	5
Nebraska	30	16
New Jersey	33	48
New York	38	26
North Carolina	35	19
Ohio	27	16
Pennsylvania	35	21
Vermont	48	19
Virginia	53	12
West Virginia	24	19
Average	36%	21%

Through May, nonwithholding collections have now exceeded the forecast for the year, with one estimated payment still to be received.

Individual Income Tax Refunds: Refunds in May totaled \$108.5 million, compared with \$95.8 million in May of last year. On a year-to-date basis, refunds are only \$9.4 million above the same period last year. Growth of 0.8 percent is well below the annual estimate of 6.5 percent. For the filing season beginning January 1, TAX has processed about the same number of refunds as last year -- 2.3 million. Average check size has grown about two percent.

Sales Tax (22% of general fund revenues): Collections of sales and use taxes, representing April sales, grew 16.2 percent in May. Year-to-date growth of 14.6 percent is very close to the forecast of 14.7 percent. Adjusting for the rate increase which was effective September 1, collections were up 8.5 percent for the month and 8.7 percent year-to-date.

Corporate Income Tax (4% of general fund revenues): May is typically not a significant month in corporate income tax collections, with final or extension payments due mainly from retailers, who typically have a January 31st close to their fiscal year. Such payments vary significantly from year to year. Collections this month totaled \$34.9 million, compared to \$7.2 million received last year. Through May, corporate income tax collections are up 50.4 percent for the year, well ahead of the forecast of 29.0 percent growth.

Other Revenue Sources

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

	Year-to-Date	Required to Meet Estimate
Insurance Premiums Taxes (3% GF revenues)	7.8%	8.5%

ABC Taxes (1.1% GF revenues)	5.0%	0.1%
Public Service Corporations (0.7% GF revenues)	6.6%	0.6%
Interest Income (0.7% GF revenues)	40.4%	12.4%

All Other Revenue: All Other Revenue grew 24.3 percent in May -- \$93.8 million compared with \$75.5 million in May of last year. Substantial growth in the largest component of all other revenue -- wills, suits, deeds, and contract fees -- offset a decline in other revenue. Of the \$61.5 million collected in wills, suits, deeds, and contract fees, \$55.0 million was recordation tax receipts. Adjusting for the rate increase effective September 1, recordation tax collections grew by 24.3 percent. Year-to-date, collections of All Other Revenue are 25.2 percent above the same period last year -- well ahead of the annual estimate of 14.2 percent growth.

Lottery Revenues: In May, Lottery net income was up 11.1 percent -- mainly due to a 22.6 percent increase in scratch ticket sales. Several popular tickets were introduced, and higher sales in these games offset higher prize payouts. With one month remaining in the fiscal year, Lottery net income growth of 5.2 percent is ahead of the projected 3.8 percent annual rate.

Summary

May is a significant month for revenue collections. In addition to normal monthly collections in withholding and sales, estimated and final payments for individual income taxes are due May 1. And, final or extension payments for many retailers are also due in May.

Total general fund revenue collections grew 23.0 percent in May. Much of the revenue growth was due to very strong collections in individual nonwithholding payments. Healthy gains in sales, corporate, and recordation taxes also contributed to the increase. Adjusting for the rate increase in sales and recordation taxes enacted in HB 5018, underlying revenue growth in May was 19.2 percent.

Through May, revenues have grown 15.2 percent above the same period last year -- substantially ahead of the mid-session forecast of 10.3 percent. This extra-ordinary growth continues to be fueled largely by the three most volatile revenue sources -- individual nonwithholding, corporate income, and recordation taxes.

June is another significant month for revenue collections, and typically accounts for about 11 to 12 percent of total general fund revenue for the year. June collections include receipts of individual and corporate estimated payments, estimated payments for insurance premiums, corporate franchise fees, and accelerated sales tax collections, along with regular monthly collections in other sources. June collections must total about \$1.1 billion to meet the forecast for the fiscal year. Receipts last June totaled \$1.5 billion.