



COMMONWEALTH of VIRGINIA

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PO Box 1475
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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: October Revenue Data

October is typically not a significant month for revenue collections. Normal monthly collections are due in withholding, sales taxes, and most minor sources. Estimated payments are also filed in October for corporations, mainly retailers, that use a February through January fiscal year.

Total general fund revenue collections rose 15.7 percent in October, mainly driven by strong growth in individual withholding, nonwithholding, and corporate income tax payments. Two additional deposit days in October 2012 compared to October 2011 also contributed to the growth. On a year-to-date basis, total revenue collections rose 4.8 percent through October, ahead of the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.0 percent through October, ahead of the adjusted forecast of 2.7 percent growth.

National Economic Indicators

Most national indicators suggest the economy is slowly improving; however, a deeper European recession, lower growth in China, and the U.S. fiscal cliff remain significant risks.

- According to the advance estimate, real GDP grew at an annualized rate of 2.0 percent in the third quarter of 2012, up from 1.3 percent in the second quarter.
- Labor market conditions improved in October -- payroll employment added 171,000 jobs. In addition, figures for August and September were revised upwards by a combined

84,000 jobs. In a separate report, the unemployment rate rose from 7.8 percent to 7.9 percent in October, as more workers entered the labor force.

- Initial claims for unemployment fell by 8,000 to 355,000 during the week ending November 3rd, but Hurricane Sandy most likely distorted the data. The four-week moving average increased from 367,250 to 370,500. Although the level of claims has been volatile over the last few months, the underlying trend is consistent with a slowly improving labor market.
- Following a decrease of 0.4 percent in August, the Conference Board's index of leading indicators rose 0.6 percent in September, driven by strong gains in the interest rate spread (between short-term and long-term rates) and building permits. Rising stock prices also contributed to the increase. The index has alternated up and down each month since April.
- The Conference Board's index of consumer confidence increased from 68.4 to 72.2 in October, as a result of improvement in both the present situation component and the expectations component.
- Conditions in the manufacturing sector slightly improved in October. The Institute of Supply Management index increased from 51.5 to 51.7, remaining above the expansionary threshold of 50.0 for the second consecutive month.
- The CPI rose 0.6 percent in September, and stands 2.0 percent above September 2011. This second increase in five months was again driven by rising gas prices. Core inflation (excluding food and energy prices) rose 0.1 percent in September, and has increased 2.0 percent from September 2011.
- The Federal Reserve launched a third round of quantitative easing, and announced at its October meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, employment rose 0.9 percent in September from September of last year. Northern Virginia posted growth of 2.1 percent; Hampton Roads grew 0.8 percent; and Richmond-Petersburg rose 0.7 percent. The unemployment rate in the Commonwealth fell 0.2 percentage point to 5.6 percent in September and was 0.7 percentage point below the September 2011 rate.

The Virginia Leading Index rose 0.3 percent in September after falling 0.1 percent in August. All components except building permits improved in September. The Leading Index increased in nine of the eleven major metro areas in the Commonwealth in September, while the index for Blacksburg was unchanged and the index in Harrisonburg contracted.

October Revenue Collections

Total general fund revenue collections rose 15.7 percent in October, mainly driven by strong growth in individual withholding, nonwithholding, and corporate income tax payments. Two additional deposit days in October 2012 also contributed to the growth. On a year-to-date basis, total revenue collections rose 4.8 percent through October, ahead of the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.0 percent through October, ahead of the adjusted forecast of 2.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through October, collections of net individual income tax rose 4.4 percent from the same period last year, well ahead of the annual estimate of 2.8 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 13.8 percent in October. Two additional deposit days compared with October of last year boosted growth. Year-to-date, withholding collections rose 3.1 percent compared with the same period last year, slightly trailing the projected annual growth rate of 3.5 percent.

Individual Income Tax Nonwithholding (15% of general fund revenues): October is usually not a significant month for nonwithholding collections. Collections were \$90.1 million in October compared with \$63.0 million in October of last year. The strength in this source was due to significant amounts of late September payments being delivered in October. Collections for the fiscal year were \$452.5 million compared with \$410.9 million in the same period last year, rising by 10.1 percent and well ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Refunds: Through October, the Department of Taxation has issued \$152.2 million in refunds compared with \$163.5 million last year. Year-to-date, refunds have fallen 6.9 percent, lagging the annual estimate of 7.8 percent growth.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 1.1 percent in October. On a year-to-date basis, collections have risen 7.6 percent, compared with the annual estimate of 2.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program. Adjusting for this legislation, sales tax collections have grown by 3.4 percent year-to-date, ahead of the economic-base forecast of 1.7 percent growth.

Corporate Income Tax (5% of general fund revenues): October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. Collections in corporate income tax were \$42.8 million in October, compared with \$17.6 million in October of last year. As with nonwithholding, some of the growth is due to late September payments being delivered in October. Year-to-date, collections in this source have risen 1.3 percent from the same period last year, lagging the estimate of a 3.0 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$29.3 million in October, compared with \$25.6 million in October of last year, a 14.3 percent increase. Receipts in this source have grown at double-digit rates in eight of the last nine months. On a year-to-date basis, collections are up 14.8 percent, far ahead of the annual forecast of 0.3 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums Tax (2% GF revenues)	NA	16.1%
Interest Income (0.5% GF revenues)	4.5%	0.3%
ABC Taxes (1% GF revenues)	8.0%	-0.8%

Note: Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly until the required amount of \$130.1 million has been deposited.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 8.6 percent in October, \$31.1 million compared with \$28.6 million last year. On a year-to-date basis, collections of All Other Revenue fell 8.5 percent from the same period last year, trailing the annual estimate of 3.7 percent growth.

Summary

Total general fund revenue collections rose 15.7 percent in October, mainly driven by strong growth in individual withholding, nonwithholding, corporate income tax payments, and two additional deposit days. On a year-to-date basis, total revenue collections rose 4.8 percent through October, ahead of the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 4.0 percent through October, ahead of the adjusted forecast of 2.7 percent growth.

The Joint Advisory Board of Economists (JABE) met on October 10th to assess recent economic developments and the outlook for the current and next biennia. The Governor's Advisory Council on Revenue Estimates (GACRE) meets on November 19th to evaluate both the JABE economic recommendations and revenue collections through October. GACRE's recommendations will be incorporated into the general fund revenue forecast to be released as part of the Governor's proposed amendments to the 2012-14 Appropriations Act on December 17, 2012.