

May 17, 2000

**MEMORANDUM**

TO: The Honorable James S. Gilmore, III

THROUGH: The Honorable M. Boyd Marcus, Jr.

FROM: Ronald L. Tillett

SUBJECT: **April Revenue Data**

This month's revenue report displays the mid-session forecast in column one and the revised growth rates in column nine. Revenue collections in April rose 0.8 percent over last year's level, dropping annual growth to 8.5 percent. This is 1.7 percentage points below the annual estimate of 10.2 percent (House Bill 29 raised the annual estimate to 10.4 percent). The weakness in April collections can be partially attributed to the two less deposit days in this month compared to April last year. Partially offsetting the calendar effect were a few very large one-time corporate payments resulting from capital gains realizations. Normally, fewer deposit days in a particular month only affect withholding collections, as it has this month. However, with individual estimated and tax due payments both due on May 1, two less deposit days distort monthly and year-to-date growth in this source. The year-to-date collections are lagging the official estimate, which will require solid collections for May and June to attain the revenue forecast for Fiscal Year 2000.

The national economy continues to thrive -- GDP increased 5.4 percent in the first quarter of this year. In April, the unemployment rate fell to 3.9 percent, dipping below 4.0 percent for the first time since 1970, and 340,000 new jobs were added to U.S. payrolls. In March, the Index of Leading Economic Indicators rose 0.1 percent after falling in February, signaling that economic growth should continue for at least the next two quarters. Personal income growth was solid in March while consumption growth moderated. The index of consumer confidence fell again in April, not surprising considering the recent turbulence in the stock market. With another large increase in energy prices, the Consumer Price Index (CPI) rose 0.7 percent in March. Although fuel price increases are driving the surge in the CPI, core inflation also experienced an unexpectedly large jump.

The Virginia economy continued to expand, with payroll employment increasing by 2.2 percent in March from last year. The unemployment rate dropped to 2.5 percent -- the lowest March unemployment rate in 31 years.

**Individual Income Taxes**

Net individual income tax collections in April dropped by 9.2 percent below last year. Year-to-date growth through April is 9.4 percent, 3.3 percentage points below the mid-session forecast of 12.7 percent. It is likely that the timing of receipts had a particularly detrimental effect on monthly collections in this source.

Withholding: Withholding collections in April grew by 0.6 percent over last year. Year-to-date growth of 10.1 percent is below the annual estimate of 11.2 percent growth. The sluggish growth in April can be attributed to two factors: the two less deposit days this month compared to last April and the volatility associated with the stock options owned by the employees of a few Virginia companies.

Nonwithholding: Nonwithholding receipts slumped in April, declining by 23.2 percent over last year. Year-to-date growth of 2.6 percent is 12.6 percentage points behind the annual forecast of 15.2 percent growth. Most of the activity this month is the early receipt of 1999 individual income tax returns and the first estimated payment for 2000 tax liabilities due May 1. April's tax due payments fell by 29.4 percent and estimated payments were down 8.6 percent for the month.

April's dramatic decline is suspected to be caused by a calendar effect distorting collection patterns. Two less deposit days and the May 1 deadline for both taxes due and estimated payments clearly had an impact on receipts, although the magnitude of this effect is impossible to determine at this time. The number of checks received in April was down 5 percent compared to last year, however, that only partially accounts for receipts falling by 23.2 percent. A clearer

picture will be available at the end of May when all payments are processed. To date, over 56 percent of the fiscal year estimate has been received, leaving about \$745.2 million to be collected in the next two months (compared with \$544.4 million collected over the same period last year).

**Refunds:** As the Department of Taxation (TAX) moves through the high cycle of refund season, income tax refunds in April were 9.3 percent behind last year. On a year-to-date basis, refunds issued are up 4.0 percent, tracking close to the annual estimate of 6.9 percent growth. Through April, about 1.8 million refund returns have been processed -- about the same amount as compared to last year.

Through April, TAX has processed more than 425,000 electronically filed income tax returns -- an increase of 125,000 from last year. Also, TAX processed 58,000 returns through the telefile pilot program that will go statewide next year.

### **Sales and Use Tax**

Sales tax collections rebounded in April, growing by 10.3 percent, after two consecutive weak months. On a year-to-date basis, sales tax growth is at 7.0 percent -- tracking slightly ahead of the forecast of 6.8 percent.

### **Corporate Income Tax**

In April, corporations made their first estimated payment for tax year 2000 along with either a final or extension return for tax year 1999. Corporate income tax collections grew by a tremendous 69.7 percent in April compared with last year. However, a few one-time payments resulting from tax liability attributed to capital gains realizations made by several large Virginia companies distorts the corporate collections picture. Year-to-date growth of 34.7 percent is well ahead of the annual estimate of 14.0 percent growth. Even after adjusting revenue growth for these large one-time payments, annual corporate receipts are still up a robust 17.9 percent.

### **Public Service Corporations**

Public service corporations made their third estimated payment of the fiscal year. April collections fell by 8.4 percent. Year-to-date receipts are down 5.3 percent -- 13.7 percentage points behind the annual estimate of 8.4 percent growth.

### **Insurance Company Premiums**

This month's receipts, which represent the first estimated payment on calendar year 2000 premium sales, were 3.4 percent above last April's collections. Year-to-date growth of 3.9 percent is tracking 2.0 percentage points above the annual estimate of 1.9 percent growth.

### **Interest**

The usual third quarter transfer of money to nongeneral fund accounts occurred in April, resulting in a net outflow of \$11.5 million this month compared to \$6.9 million last April. Year-to-date growth is down 5.3 percent, well behind the annual forecast of 6.8 percent growth.

### **ABC Taxes**

ABC tax collections (Beer and Beverage only) were up 8.4 percent in April from a year ago. On a year-to-date basis, collections are up 5.5 percent over fiscal year 1999, 3.2 percentage points ahead of the mid-session forecast of 2.3 percent growth.

### **Lottery Revenues**

Lottery net income for the month increased 5.5 percent and raised year-to-date growth to 1.4 percent -- well ahead of the annual estimate of a 2.1 percent decline. Although sales declined 12.5 percent in April, low prize payouts were the contributing factor for the higher net income this month.

### **All Other Revenue**

Monthly revenue from all other sources fell by 36.4 percent in April. On a year-to-date basis, collections are down 6.5 percent ----- well behind the mid-session estimate of a 0.2 percent decline.

The volatile estate taxes accounted for the drop in April receipts. Collections in this source totaled \$9.3 million this month, while last April, several exceptionally large estate payments caused collections to surge by \$27.4 million.

### **Summary**

The revenue picture will become clearer when all of the individual income tax payments have been processed in May. Once that data is analyzed, it will be possible to determine if the two fewer deposit days in April explain the performance in the nonwithholding tax collections in April. While the underlying economic fundamentals have remained robust, revenue growth has subsided considerably. After growing 13.7 percent the first six months of the fiscal year, total general fund revenues have grown only 1.5 percent over the last four months. The turbulence on Wall Street, which has significantly reduced the value of employee exercisable stock options, has quite possibly affected withholding collections over the last several months.

Attachment