

May 14, 2001

**MEMORANDUM**

**TO:** The Honorable James S. Gilmore, III  
**THROUGH:** The Honorable M. Boyd Marcus, Jr.  
**FROM:** Ronald L. Tillett  
**SUBJECT:** April Revenue Data

April revenue collections rose 0.3 percent over last year's level, even though the expected decline in corporate income tax collections has begun to materialize. Year-to-date revenue growth of 3.6 percent is slightly below the required annual growth rate of 3.8 percent.

The national economy continued on its slowing trend in April although its resilience has surprised many analysts. Real GDP growth rose 2.0 percent in the first quarter, nearly double the consensus forecast. Consumer spending also rose a solid 3.1 percent. The labor market, however, deteriorated significantly in April as the nation's payrolls declined by 373,000. The nation's unemployment rate jumped to 4.5 percent. In March, the Index of Leading Economic Indicators fell 0.3 percent, signaling that economic growth should continue, however, at a below "trend" pace. Citing softening capital investment and an uncertain business outlook, the Federal Reserve Board lowered short-term interest rates by another 50 basis points on April 18, the second such intra-meeting rate cut in the last four months. Only time will tell if the recent aggressive rate cutting by the Fed has given the economy the needed boost to turn around economic growth.

In stark contrast with the national economy, the Virginia economy continued to expand at a solid pace as payroll employment increased by 2.2 percent in March from last year. The unemployment rate remained unchanged at 2.4 percent in March.

**Individual Income Taxes**

Net individual income tax collections in April increased by 14.7 percent. Year-to-date growth through April is 6.9 percent, slightly exceeding the forecast of 6.3 percent. Much of this strong performance can be attributed to the additional deposit day this month as compared to last April.

**Withholding:** Withholding collections in April grew by 13.8 percent over last year. Year-to-date growth of 7.3 percent is behind the annual estimate of 8.1 percent growth. Some of this strong growth in April can also be attributed to the additional deposit day.

**Nonwithholding:** Nonwithholding receipts grew solidly in April, increasing by 9.6 percent over last year. Year-to-date growth of 8.8 percent is tracking closely to the annual forecast of 9.1 percent growth. Most of the activity this month is the early receipt of 2000 individual income tax returns and the first estimated payment for 2001 tax liabilities due May 1. April's tax due payments increased by 18.1 percent and estimated payments were down 5.9 percent.

Virginia's unique May 1 due date for both tax due and estimated payments makes any analysis at this time premature. A clearer picture will be available at the end of May when all payments are processed. To date, close to fifty-eight percent of the fiscal year estimate has been received, leaving about \$767.6 million to be collected in the next two months.

**Refunds:** As the Department of Taxation (TAX) moves through the high cycle of the refund season, income tax refunds in April were 4.4 percent ahead of last year. On a year-to-date basis, TAX has issued 13.3 percent more refunds this year than the department issued last year. Through April, the average check size has been 9.5 percent larger than during the same period last year.

**Sales and Use Tax**

Sales tax collections were again sluggish in April, increasing by only 4.0 percent. On a year-to-date basis, sales tax growth is at 3.9 percent -- tracking slightly behind the forecast of 4.4 percent.

## **Corporate Income Tax**

In April, corporations made their first estimated payment for tax year 2001 along with either a final or extension return for tax year 2001. The results were not encouraging as corporate income tax collections fell by 43.7 percent in April compared with last year. However, a few large anomalous payments received last April does distort the corporate collections picture. Notwithstanding this distortion, April's collections still fell by 16.9 percent. The year-to-date decline of 36.3 percent is well behind the annual estimate of a 15.8 percent decrease.

## **Public Service Corporations**

Ordinarily, public service corporations would have made their third estimated payment of the fiscal year this month. However, with the advent of deregulation of electricity and natural gas on January 1, 2001, public service corporations remit monthly consumption tax collections and corporate income tax payments, where applicable, in lieu of quarterly gross receipts payments. April collections, therefore, fell by 68.3 percent. Year-to-date receipts are down 10.5 percent, slightly ahead of the annual estimate of a 16.1 percent decline.

## **Insurance Company Premiums**

This month's receipts, which represent the first estimated payment on calendar year 2001 premium sales, were a strong 10.2 percent above last April's collections. Year-to-date growth of 5.7 percent is tracking 2.3 percentage points above the annual estimate of 3.4 percent growth.

## **Interest**

The usual third quarter transfer of money to nongeneral fund accounts occurred in April, resulting in a net outflow of \$18.7 million this month compared to \$11.5 million last April. Year-to-date growth of 13.1 percent is well ahead of the annual forecast of 6.1 percent growth.

## **ABC Taxes**

ABC tax collections (Beer and Beverage only) fell 5.5 percent in April from a year ago. On a year-to-date basis, collections are up 3.5 percent over fiscal year 2000, slightly trailing the forecast of 4.2 percent growth.

## **Lottery Revenues**

Lottery net income for the month decreased 15.9 percent as prize payouts for all games were higher than average. For example, Pick 3 had one payout that exceeded \$3.4 million when 333 was drawn on April 27. On a year-to-date basis, Lottery net income is 1.8 percent ahead of last year's level and well ahead of the required annual growth rate of -2.9 percent.

## **All Other Revenue**

Monthly revenue from all other sources increased by 27.8 percent in April mainly due to stronger receipts in wills, suits, deeds, and contracts (recordation taxes) as home sales and refinancing activity remains robust in Virginia. On a year-to-date basis, collections are up 2.6 percent well ahead of the estimate of a 6.2 percent decline.

## **Summary**

The revenue picture will become clearer when all of the individual income tax payments have been processed in May. However, Virginia's two largest revenue sources -- payroll withholding and sales tax receipts -- are currently tracking behind their respective estimates. The significant decline in corporate income tax has had an impact on April revenues.

Year-to-date revenue growth of 3.6 percent is 0.2 percent behind the annual forecast of 3.8 percent. Over the next two months, close to \$2.5 billion, a 4.5 percent increase over fiscal year 2000, must be collected to attain the fiscal year 2001 revenue forecast.

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