



COMMONWEALTH of VIRGINIA

May 12, 2015

PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2014 and the first estimated payment for tax year 2015 were due from corporations on April 15. Also, a portion of estimated and final payments from individuals, which are due May 1, are typically received in April. The timing of these receipts can distort monthly growth rates.

Total general fund revenue collections rose 10.2 percent in April, largely driven by nonwithholding payments received prior to the May 1 due date. On a fiscal year-to-date basis, total revenue collections rose 7.5 percent in April, well ahead of the annual forecast of 4.7 percent growth. Receipts in all major sources other than insurance premiums taxes are ahead of their forecasts. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 7.4 percent through April, ahead of the forecast of 4.5 percent growth.

National Economic Indicators

U. S. economic activity softened in the winter months. The modest gains in the first quarter of 2015 were due in part to harsh winter weather, West Coast port strikes, and declines in energy-related investments.

- According to the advance estimate, real GDP grew at an annualized rate of 0.2 percent in the first quarter of 2015, down from 2.2 percent growth in the fourth quarter of 2014.

- The labor market improved in April. Payroll employment rose by 223,000 jobs, in line with expectations. The March gain, however, was revised downward from 129,000 to 85,000. In a separate report, the unemployment rate fell from 5.5 percent to 5.4 percent in April, even as the labor force grew. This is the lowest rate since May 2008.
- Initial claims for unemployment rose by 3,000 to 265,000 during the week ending May 2. The four-week moving average fell by 4,250 to 279,500, indicating an improving labor market.
- With seven of the ten components increasing, the Conference Board's index of leading indicators rose 0.2 percent in March following a 0.1 percent increase in February. The rise in the index is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence fell by 6.2 points to 95.2 in April, a four-month low. Both the expectations and current conditions components declined.
- Activity in the manufacturing sector stabilized in April, with the Institute of Supply Management index remaining unchanged at 51.5 following five consecutive monthly declines.
- Inflation, as measured by the CPI, rose 0.2 percent in March and is unchanged from March 2014. Core inflation (excluding food and energy prices) also increased 0.2 percent in March and stands 1.8 percent above a year ago.
- The Federal Reserve announced at its April meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, employment rose 0.8 percent in March from March of last year. Northern Virginia posted growth of 1.2 percent, Hampton Roads grew 0.6 percent, and Richmond-Petersburg rose 1.3 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 4.8 percent in March, but stands 0.5 percentage point below March of last year.

The Virginia Leading Index rose 0.4 percent in March after declining 0.4 percent in February. The U.S. leading index, initial claims, and future employment contributed positively to the index while building permits and auto registrations fell. The indexes of all major metropolitan statistical areas except Staunton posted increases in March.

April Revenue Collections

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Net Individual Income Tax (69% of general fund revenues): Through April, collections of net individual income tax rose 8.8 percent from the same period last year, ahead of the revised annual estimate of 5.0 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues) Although April had one less deposit day compared with last year, collections of payroll withholding taxes rose 3.5 percent in April. Year-to-date, withholding collections are 4.7 percent ahead of the same period last year, leading the revised annual estimate of 4.0 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): April is a significant month for collections in this source. Final payments for tax year 2014 and the first estimated payment for tax year 2015 are both due May 1.

A total of \$838.3 million in nonwithholding was collected in April, compared with \$703.1 million in April of last year – an increase of 19.2 percent. To date, about 80 percent of the nonwithholding forecast has been collected, and year-to-date collections are 19.8 percent ahead of the same period last, ahead of the estimate of 7.9 percent growth.

Typically, a portion of final payments due May 1 for calendar year 2014 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for the fiscal year (second calendar year payment for 2015) is due June 15.

Individual Income Tax Refunds: The Department of Taxation issued \$473.4 million in refunds in April compared with \$467.9 million last year, a 1.2 percent increase.

Since the filing season began on January 1, TAX has issued about 2.3 million refunds, the same amount as last January-April. The average refund size for the filing season is down 1.0 percent. Fiscal year-to-date, refunds have declined 1.2 percent, trailing the annual estimate of 3.2 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 5.9 percent in April. On a year-to-date basis, collections have risen 4.2 percent, trailing the annual estimate of 4.9 percent growth. Adjusting for the partial repeal of the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by HB 2313, sales tax collections have grown by 4.2 percent year-to-date, close to the economic-base forecast of 3.9 percent.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2015, and made either a final or extension payment for tax year 2014. Collections of corporate income taxes were \$145.4 million in April, compared with receipts of \$146.5 million a year ago – a 0.7 percent decrease. Year-to-date collections have grown 14.4 percent from the same period last year, well ahead of the annual estimate of an 11.0 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$31.1 million in April, compared with \$24.7 million in April of last year for growth of 25.9 percent. Collections in this source have seen double-digit growth for five consecutive months. On a year-to-date basis, collections are up 8.2 percent, ahead of the annual forecast of 2.4 percent growth.

Insurance Premiums (2% of general fund revenues): Insurance companies also made their first estimated payment for tax year 2015 in April. Collections in this source were \$114.4 million compared with \$113.8 million in April of last year. Year-to-date collections through April are \$195.2 million, compared with \$207.5 million in the same period last year, a 5.9 percent decline compared with the forecast of 0.0 percent growth. This is the only major source trailing its forecast.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income* (0.4% GF revenues)	-35.2%	-16.3%
ABC Taxes (1% GF revenues)	3.5%	2.6%

**Interest was allocated in accordance with Section 3-3.03 of Chapter 665, 2015 Virginia Acts of Assembly.*

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 0.4 percent in April, \$33.6 million compared with \$33.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.6 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

Summary

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Total general fund revenue collections rose 10.2 percent in April, largely driven by nonwithholding payments received prior to the May 1 due date. On a fiscal year-to-date basis, total revenue collections rose 7.5 percent in April, well ahead of the annual forecast of 4.7 percent growth. Receipts in all major sources other than insurance premiums taxes are ahead of their forecasts. Adjusting for the accelerated sales tax program and the 0.1 percent sales tax transfer to transportation required by the provisions of HB 2313, total revenues rose 7.4 percent through April, ahead of the forecast of 4.5 percent growth.

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May and June are also significant revenue collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations, and insurance companies are due June 15. Collections in May and June 2015 must total \$3.2 billion – slightly less than the \$3.4 billion collected in the same period last year – to attain the forecast. Total general fund revenues can decline by 6.0 percent over May and June to make the official estimate.