



COMMONWEALTH of VIRGINIA

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PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown 

SUBJECT: January Revenue Data

January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income taxes from large retailers are due in January.

Total general fund revenue collections fell 1.1 percent in January. Several factors contributed to the drop. As expected, payroll withholding dropped in January after a 15.1 percent gain in December; individual refunds increased in January as the date for accepting returns was earlier this year than last year; and refunds were issued to insurance companies in January, while last year they were issued in February.

On a fiscal year-to-date basis, total revenue collections rose 5.3 percent, well ahead of the annual forecast of 3.1 percent growth. 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 5.4 percent through January, ahead of the adjusted forecast of 3.0 percent growth.

National Economic Indicators

Most recent national indicators suggest that growth in the U.S. economy is accelerating.

- According to the preliminary estimate, real GDP grew by an annualized rate of 2.6 percent in the fourth quarter of 2014, following 5.0 percent growth in the third quarter and 4.6 percent in the second quarter.
- The labor market continued to improve in January. Payroll employment rose by 257,000 jobs in January, while the December gain was revised up from 252,000 to 329,000 and

November was revised up from 353,000 to 423,000. The three-month average job gain was 336,000. In a separate report, the unemployment rate rose from 5.6 percent to 5.7 percent in January as more workers entered the labor force.

- Initial claims for unemployment increased by 11,000 to 278,000 during the week ending January 31. This was the second consecutive week that initial claims were below 300,000. The four-week moving average fell from 299,250 to 292,750. The low level of claims is consistent with an improving job market.
- With eight of the ten components increasing, the Conference Board's index of leading indicators rose 0.5 percent in December following a 0.4 percent increase in November. The index has increased in fifteen of the last seventeen months and is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence jumped 9.8 points to 102.9 in January, its highest reading since August 2007. Both the present situation and the expectations components increased.
- Activity in the manufacturing sector slowed in January, with the Institute of Supply Management index falling from 55.1 to 53.5, the third consecutive decline. Still, the index remains well above the expansionary threshold of 50.0.
- Driven by falling oil prices, the CPI fell 0.4 percent in December and stands 0.7 percent above December 2013. Core inflation (excluding food and energy prices) increased 1.6 percent from a year ago.
- The Federal Reserve announced at its January meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, noting that it will be "patient in beginning to normalize the stance of monetary policy."

Virginia Economy

In Virginia, payroll employment grew 0.8 percent in December from December of last year. Northern Virginia posted growth of 0.9 percent, Richmond-Petersburg grew 2.4 percent, and Hampton Roads employment growth was 1.1 percent. The seasonally adjusted unemployment rate in the Commonwealth fell 0.2 percentage point to 4.8 percent in December and was 0.4 percent below last December. This was the third consecutive monthly decline and the lowest rate since October 2008.

The Virginia Leading Index fell 0.3 percent in December after advancing 0.5 percent in November. The U.S. leading index and building permits increased in December, while initial claims for unemployment and auto registrations contributed negatively to the index. Future employment was unchanged. The indexes for Roanoke, Richmond, Hampton Roads, Charlottesville, and Blacksburg advanced, while the indexes for Lynchburg, Danville, Bristol, Harrisonburg, and Winchester declined in December. The index for Northern Virginia was unchanged.

January Revenue Collections

Total general fund revenue collections fell 1.1 percent in January. On a fiscal year-to-date basis, total revenue collections rose 5.3 percent, well ahead of the annual forecast of 3.1 percent growth. 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 5.4 percent through January, ahead of the adjusted forecast of 3.0 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through January, collections of net individual income tax rose 6.0 percent from the same period last year, ahead of the annual estimate of 3.5 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): As expected, collections of payroll withholding taxes fell 5.3 percent in January following a surge of 15.1 percent in December. Year-to-date, withholding collections are 4.2 percent ahead of the same period last year, leading the revised annual estimate of 2.9 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in this source were \$405.5 million in January compared with \$317.1 million in January of last year.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2014 and some of these payments are received in December, so the two months must be considered together to assess growth. Receipts of estimated payments for the two-month period rose 31 percent from last year. Year-to-date collections through January rose by 22.1 percent, ahead of the estimate of a 6.3 percent increase.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$86.3 million in refunds compared with \$23.0 million last year. This is the first month of the filing season and the date for accepting returns was more than a week earlier this year than last year. Year-to-date, refunds have risen 22.8 percent, ahead of the annual estimate of 4.1 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 11.2 percent in January. On a year-to-date basis, collections have risen 4.4 percent, close to the annual estimate of 4.3 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 4.6 percent year-to-date, ahead of the economic-base forecast of 3.4 percent growth.

Corporate Income Tax (4% of general fund revenues): Collections of corporate income taxes were flat at \$39.7 million in January, compared with receipts of \$39.9 million a year ago. Year-to-date collections have grown 18.3 percent from the same period last year, far ahead of the annual estimate of a 0.1 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$23.1 million in January, compared with \$20.9 million in January of last year for growth of 10.8 percent. After 13 consecutive months of negative growth, collections in this source have increased in four of the last five months. On a year-to-date basis, collections are up 0.6 percent, trailing the annual forecast of 2.4 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$150.4 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2015 before making any deposits to the general fund. The required transfer was completed during December.

Year-to-date collections through January are \$55.9 million, compared with \$92.4 million in the same period last year. Refunds were issued in January this year, while last year they were issued in February.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	-30.2%	-14.4%
<i>ABC Taxes (1% GF revenues)</i>	2.9%	2.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 1.6 percent in January, \$41.5 million compared with \$40.9 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 4.3 percent from the same period last year, ahead of the annual estimate of a 5.5 percent decline.

Summary

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On a fiscal year-to-date basis, total revenue collections rose 5.3 percent, well ahead of the annual forecast of 3.1 percent growth. 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 5.4 percent through January, ahead of the adjusted forecast of 3.0 percent growth.