



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

February 11, 2016

PO Box 1475
Richmond, VA. 23218

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 rose 6.6 percent in January. The growth was due to payroll withholding, individual estimated payments and fewer individual refunds being issued. On a fiscal year-to-date basis, total revenue collections rose 2.4 percent through January, lagging the revised annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.9 percent through January, below the 3.2 percent forecast.

National Economic Indicators

Although growth slowed in the fourth quarter, most recent national indicators suggest the expansion should continue.

- Real GDP rose at an annualized rate of 0.7 percent in the fourth quarter of 2015, following 2.0 percent in the third quarter.
- Payroll employment rose by 151,000 jobs in January, below expectations. The December gain was revised down by 30,000 to 262,000, while November was revised up by 28,000 to 280,000. In a separate report, the unemployment rate fell from 5.0 percent to 4.9 percent in January.

- Initial claims for unemployment rose by 8,000 to 285,000 during the week ending January 30. The four-week moving average rose by 2,000 to 284,750. The low level of claims is consistent with a healthy job market.
- The Conference Board's index of leading indicators fell 0.2 percent in December, after rising 0.5 percent in October and November. Four of the ten components increased in December.
- The Conference Board's index of consumer confidence rose from 96.3 to 98.1 in January. The present conditions component was unchanged, with the expectations component increasing for the month.
- Activity in the manufacturing sector remained weak in January. The Institute of Supply Management index rose slightly to 48.2, but has remained below the expansionary threshold of 50.0 for four consecutive months.
- The CPI slipped 0.1 percent in December and stands 0.7 percent above December 2014. Core inflation (excluding food and energy prices) increased 0.1 percent in December and is 2.1 percent above a year ago.
- At its January meeting, the Federal Reserve announced that it is maintaining the federal funds target rate at the range of 0.25 to 0.5 percent.

Virginia Economy

In Virginia, payroll employment rose 1.5 percent in December from December of last year. Northern Virginia posted growth of 1.9 percent, Hampton Roads grew 1.0 percent, and Richmond-Petersburg grew 0.5 percent. The seasonally adjusted unemployment rate rose 0.1 percentage point to 4.2 percent in December, following five months of declines. The unemployment rate is down 0.6 percentage point from December of last year.

The Virginia Leading Index fell 0.1 percent in December after rising 0.4 percent in November. Auto registrations and future employment rose in December while the U.S. leading index fell and initial unemployment claims increased. The indexes increased in Richmond, Harrisonburg, and Winchester while the indexes for Lynchburg, Blacksburg, and Staunton declined. The indexes for Roanoke, Northern Virginia, Hampton Roads, Charlottesville, and Bristol were unchanged in December.

January Revenue Collections

Total general fund revenue collections rose 6.6 percent in January. The growth was due to payroll withholding, individual estimated payments and fewer individual refunds being issued. On a fiscal year-to-date basis, total revenue collections rose 2.4 percent through January, below the revised annual forecast of 3.2 percent growth. Adjusting for the accelerated sales tax program, total revenues rose 2.9 percent through January, lagging the forecast.

Net Individual Income Tax (70% of general fund revenues): Through January, collections of net individual income tax rose 3.8 percent from the same period last year, slightly above the annual estimate of 3.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes grew 4.7 percent for the month, with one less deposit day than January of last year. The timing of year end withholding submissions and bonus-related withholding payments can distort monthly growth, so December and January must be considered together for an accurate assessment of growth in this source. Withholding receipts grew 4.1 percent for the two-month period, matching the forecasted annual growth rate. Year-to-date, withholding collections were 2.6 percent ahead of the same period last year.

Individual Income Tax Nonwithholding (17% of general fund revenues): Collections in this source were \$439.3 million in January compared with \$405.5 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 19 to submit their fourth estimated payment for tax year 2015 and some of these payments are received in December, so the two months must be considered together to assess growth. Receipts of nonwithholding for the two-month period rose 5.8 percent from last year. Year-to-date, collections through January also rose by 5.8 percent, ahead of the annual estimate of 1.9 percent growth.

Individual Income Tax Refunds: In January, the first month of the filing season, the Department of Taxation issued \$42.6 million in refunds compared with \$86.3 million last year. Year-to-date, refunds have fallen 9.6 percent, lagging the annual estimate of 3.7 percent growth.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting December sales, fell 0.9 percent in January. On a year-to-date basis, collections have risen 0.8 percent, trailing the annual estimate of 5.0 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have grown by 3.3 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): Collections of corporate income taxes were \$40.6 million in January, compared with receipts of \$39.7 million in January of last year, a 2.3 percent increase. Year-to-date collections have fallen 18.7 percent from the same period last year, trailing the revised annual estimate of a 9.5 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$22.1 million in January, compared with \$23.1 million in January of last year, a decline of 4.5 percent. On a year-to-date basis, collections are up 8.9 percent, ahead of the annual forecast of 7.7 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$150.3 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2016 before making any deposits to the general fund. The required transfer was completed in December.

January was a negative month in this source as refunds were issued to insurance companies. Year-to-date collections through January were \$63.6 million, compared with \$55.9 million in the same period last year.

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 (0.4% GF revenues)	8.5%	-5.5%
ABC Taxes (1% GF revenues)	4.3%	0.0%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 15.1 percent in January, \$35.3 million compared with \$41.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.7 percent from the same period last year, ahead of the annual estimate of a 0.1 percent decline.

Summary

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