



COMMONWEALTH of VIRGINIA

Richard D. Brown
Secretary of Finance

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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul Reagan

FROM: Richard D. Brown

SUBJECT: January Revenue Report

January is a significant month for revenue collections. Besides the normal monthly payroll withholding and sales tax collections, individual estimated payments from individuals are due in January.

Total general fund revenue collections rose 7.4 percent in January as an additional deposit day for payroll withholding boosted growth. All major sources posted positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.6 percent through January, ahead of the annual forecast of 2.9 percent growth.

National Economic Indicators

Most recent national indicators continue to depict a solid foundation in the U.S. economy and suggest the expansion should continue.

- According to the preliminary estimate, real GDP rose at an annualized rate of 1.9 percent in the fourth quarter of 2016, following 3.5 percent growth in the third quarter.
- Payroll employment rose by 227,000 jobs in January. In a separate report, the unemployment rate edged higher to 4.8 percent as more workers entered the labor force.
- Initial claims for unemployment fell by 14,000 to 246,000 during the week ending January 28. The four-week moving average rose by 2,250 to 248,000. Although initial claims tend to be volatile during this time of year, the low level of claims is consistent with a healthy job market.

- The Conference Board's index of leading indicators rose 0.5 percent in December, the fastest pace since July.
- The Conference Board's index of consumer confidence dropped 1.5 points to 111.8 in January. The present conditions component rose, while the expectations component decreased for the month.
- Activity in the manufacturing sector advanced in January, with the Institute of Supply Management index increasing from 54.5 to 56.0, the highest since 2014.
- The CPI rose 0.3 percent in December after rising 0.2 percent in November and stands 2.1 percent above December 2015. Core inflation (excluding food and energy prices) increased 0.2 percent in December and is 2.2 percent above a year ago.
- At its February meeting, the Federal Reserve announced that there is no sense of urgency to raise rates again; the consensus is that the risks to the economic outlook remain roughly balanced.

Virginia Economy

In Virginia, payroll employment rose 1.0 percent in December from December of last year. Northern Virginia posted growth of 2.1 percent, Hampton Roads fell 0.4 percent, and Richmond-Petersburg was up 0.7 percent from last year. The seasonally adjusted unemployment rate fell 0.1 percentage point to 4.1 percent in December.

The Virginia Leading Index rose 0.4 percent in December after rising 0.4 percent in November. All four components -- initial unemployment claims, auto registrations, future employment, and the U.S. leading index -- all improved in December. The indexes for Lynchburg and Staunton decreased in December, while the indexes for the remaining MSAs increased.

January Revenue Collections

Total general fund revenue collections rose 7.4 percent in January as an additional deposit day for payroll withholding boosted growth. All major sources posted positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.6 percent through January, ahead of the annual forecast of 2.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through January, collections of net individual income tax rose 5.2 percent from the same period last year, ahead of the revised annual estimate of 2.9 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 8.0 percent for the month mainly due to one additional deposit day compared with January of last year. Year-to-date, withholding collections are 5.0 percent ahead of the same period last year, ahead of the annual estimate of 3.6 percent growth.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in this source were \$442.5 million in January compared with \$439.3 million in January of last year for growth of 0.7 percent.

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 17 to submit their fourth estimated payment for tax year 2016 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 1.8 percent from last year. Year-to-date, collections rose by 1.2 percent, ahead of the annual estimate of a 0.7 percent decline.

Individual Income Tax Refunds: In January, the first month of the filing season, the Department of Taxation issued \$31.0 million in refunds compared with \$42.6 million last year. Year-to-date, refunds have fallen 12.8 percent, lagging the annual estimate of 1.5 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 6.3 percent in January. On a year-to-date basis, collections have risen 0.9 percent, trailing the annual estimate of 2.7 percent growth. Adjusting for the accelerated sales tax program, sales tax collections have increased 1.0 percent year-to-date, lagging the forecast.

Corporate Income Tax (4% of general fund revenues): Collections of corporate income taxes were \$49.0 million in January, compared with receipts of \$40.6 million in January of last year, a 20.7 percent increase. Year-to-date collections have increased 10.9 percent from the same period last year, ahead of the revised annual estimate of 3.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$25.5 million in January, compared with \$22.1 million in January of last year for growth of 15.5 percent. On a year-to-date basis, collections are up 12.0 percent, ahead of the annual forecast of 8.0 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$163.1 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2017 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 \$68.2 million, compared with \$63.6 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)	6.0%	17.5%
ABC Taxes (1% GF revenues)	0.9%	2.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 16.1 percent in January, \$40.9 million compared with \$35.3 million a year ago. On a year-to-date basis, collections of All Other Revenue declined 1.7 percent from the same period last year as compared to the annual estimate of a 2.2 percent decline.

Summary

January is a significant month for revenue collections. Besides the normal monthly payroll withholding and sales tax collections, individual estimated payments from individuals are due in January.

Total general fund revenue collections rose 7.4 percent in January with an additional deposit day for payroll withholding boosting growth. All major sources posted positive growth. On a fiscal year-to-date basis, total revenue collections rose 4.6 percent through January, ahead of the annual forecast of 2.9 percent growth.