



## ***COMMONWEALTH of VIRGINIA***

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Secretary of Finance

September 11, 2019

P.O. Box 1475  
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### **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: August Revenue Report

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues rose 0.3 percent in August. With one less deposit day than last year, payroll withholding fell for the month, but was largely offset by a jump in sales tax collections. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through August, well ahead of the annual forecast of 1.2 percent growth.

### **National Economic Indicators**

Recent national indicators suggest the economy continues to moderately expand.

- According to the second estimate, real GDP rose at an annualized rate of 2.0 percent in the second quarter of 2019, slowing from 3.1 percent growth in the first quarter.
- Payroll employment rose by a disappointing 130,000 jobs in August, following the July gain of 159,000 and the June gain of 178,000. In a separate report, the unemployment rate remained unchanged at 3.7 percent.
- Initial claims for unemployment increased by 1,000 to 217,000 during the week ending August 31. The four-week moving average inched up to 216,250. The level of claims is consistent with a healthy labor market.

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- The Conference Board's index of leading indicators rose 0.5 percent in July following a 0.1 percent decrease in June. The index suggests that moderate economic growth should continue in the coming months.
- The Conference Board's index of consumer confidence fell from 135.8 to 135.1 in August, with the expectations component decreasing and the present conditions component rising.
- The manufacturing sector contracted in August. The Institute of Supply Management index fell from 51.2 to 49.1 for the month, the fifth consecutive decline and the lowest reading since January 2016. Although a reading below 50 indicates that the manufacturing sector is contracting, this is still above the recession threshold of 42.9.
- The CPI rose 0.3 percent in July following a 0.1 percent increase in June. The index stands 1.8 percent above July of 2018. Core inflation (excluding food and energy prices) also rose by 0.3 percent, and is 2.2 percent above a year ago.
- At its August meeting, the Federal Reserve lowered the federal funds target rate range by 25 basis points to 2.00 to 2.25 percent.

## **Virginia Economy**

In Virginia, payroll employment rose 0.8 percent in July compared with last year. Northern Virginia posted growth of 0.9 percent; Hampton Roads employment increased 1.2 percent; and Richmond-Petersburg rose 1.6 percent from July of last year. The seasonally adjusted unemployment rate was unchanged at 2.9 percent in July, and matches July of last year.

The Virginia Leading Index rose 0.2 percent in July after falling 0.3 percent in June. Auto registrations, future employment, and the U.S. leading index improved in July while initial claims increased. The index for Blacksburg decreased in July and the index for Winchester was flat; the indexes for the remaining Virginia metro areas rose last month.

## **August Revenue Collections**

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues rose 0.3 percent in August. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through August, well ahead of the annual forecast of 1.2 percent growth.

***Net Individual Income Tax (71% of general fund revenues)***: Through the first two months of the fiscal year, collections of net individual income tax rose 6.9 percent from the same period last year, ahead of the annual estimate of 0.2 percent growth. Performance in each component of individual income tax is as follows:

**Individual Income Tax Withholding (63% of general fund revenues):** With one less deposit day than August of last year, collections of payroll withholding taxes fell 3.2 percent in August. Year-to-date, collections have grown 7.0 percent, ahead of the annual estimate of 4.2 percent growth.

**Individual Income Tax Nonwithholding (18% of general fund revenues):** August is not a significant month for collections in this source since the first estimated payment for fiscal year 2020 is due in September. Through the first two months of the fiscal year, collections were \$134.3 million compared with \$117.8 million in the same period last year.

**Individual Income Tax Refunds:** August is not a significant month for refunds. The Department of Taxation issued \$60.6 million in refunds compared with \$45.5 million in August of last year.

**Sales Tax (17% of general fund revenues):** Collections of sales and use taxes, reflecting July sales, rose 12.9 percent in August. Most of the gain in sales tax collections can be attributed to a 44 percent increase in use tax receipts as numerous Internet companies registered as sales and use tax dealers. This is directly related to the anticipated increase in Wayfair-related revenues contained in Chapter 854. On a year-to-date basis, collections have risen 7.0 percent, ahead of the annual estimate of 4.2 percent growth.

**Corporate Income Tax (5% of general fund revenues):** As with nonwithholding, August is not typically a significant month for collections in this source, as the first estimated payment for the fiscal year is due in September. Through August, collections of corporate income taxes were \$33.1 million compared with \$38.5 million in the same period last year.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$41.5 million in August, compared with \$36.0 million in August of last year. On a year-to-date basis, collections are up 21.7 percent, far ahead of the annual forecast of a 4.6 percent decline.

**Insurance Premiums (2% of general fund revenues):** Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$183.6 million has been deposited.

#### **Other Revenue Sources**

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	47.6%	-14.3%
ABC Taxes (1% GF revenues)	35.9%	3.2%

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***All Other Revenue (2% of general fund revenues)***: Receipts in All Other Revenue rose 0.9 percent in August, \$32.1 million compared with \$31.8 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 4.4 percent from the same period last year, compared to the annual estimate of a 6.3 percent decline.

### **Summary**

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues rose 0.3 percent in August. With one less deposit day than last year, payroll withholding fell for the month, but was largely offset by a jump in sales tax collections. On a fiscal year-to-date basis, total revenue collections rose 7.3 percent through August, well ahead of the annual forecast of 1.2 percent growth.

September collections will complete the first quarter of fiscal year 2020 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.