



# **COMMONWEALTH of VIRGINIA**

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## **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: December Revenue Report

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2020. The report incorporates the revised general fund revenue forecast included in the budget bill (SB29/HB29) introduced on December 17, 2019. With these post-GACRE (*Governor's Advisory Council on Revenue Estimates*) policy revisions in December, total general fund revenues are now projected to grow by 1.9 percent in fiscal year 2020.

Total general fund revenues rose 7.6 percent in December, driven by solid growth in payroll withholding, sales and use taxes, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.3 percent through December, well ahead of the annual forecast of 1.9 percent growth.

### **National Economic Indicators**

Recent national indicators suggest the economy continues to moderately expand, although growth has slowed.

- According to the third report, real GDP rose at an annualized rate of 2.1 percent in the third quarter of 2019, following 2.0 percent in the second quarter.
- Payroll employment rose by 145,000 jobs in December, following the November gain of 256,000 and the October gain of 152,000. In a separate report, the unemployment rate was unchanged at 3.5 percent.

- Initial claims for unemployment fell by 9,000 to 214,000 during the week ending January 4. The four-week moving average fell by 9,500 to 224,000. The level of claims is still at a historically low level and consistent with a healthy labor market.
- The Conference Board's index of leading indicators was unchanged in November following declines of 0.2 percent in the previous three months, suggesting a weakened outlook for the economy.
- The Conference Board's index of consumer confidence fell from 126.8 to 126.5 in December, as an increase in the present situation component was offset by a decline in the expectations component. Given its recent volatility, the drop is not necessarily a signal that the economy is weakening.
- The Institute of Supply Management index unexpectedly dropped from 48.1 to 47.2 in December. The index has been below its neutral threshold of 50 for five consecutive months. Although the readings below 50 indicate the manufacturing sector is contracting, the index remains well above the recession threshold of 42.9.
- The CPI rose 0.3 percent in November following a 0.4 percent increase in October and stands 2.0 percent above November 2018. Core inflation (excluding food and energy prices) rose 0.2 percent and stands 2.3 percent above a year ago.
- At its October meeting, the Federal Reserve lowered the federal funds rate target by 25 basis points to the range of 1.5 to 1.75 percent, the third rate cut this year. In November the target rate remained unchanged.

### **Virginia Economy**

In Virginia, payroll employment rose 1.0 percent in November compared with last year. Northern Virginia posted growth of 1.7 percent; Hampton Roads employment increased 0.9 percent; and Richmond-Petersburg rose 1.8 percent from November of last year. The seasonally adjusted unemployment rate was unchanged at 2.6 percent in November, and is 0.2 percentage point below a year ago.

The Virginia Leading Index fell 0.4 percent in November after declining 0.5 percent in October. Future employment and auto registrations declined and initial claims rose, while the U.S. Leading index was unchanged. The index for Bristol was unchanged in November; the indexes for the remaining ten metro areas declined.

### **December Revenue Collections**

Total general fund revenues rose 7.6 percent in December, driven by solid growth in payroll withholding, sales and use taxes, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.3 percent through December, well ahead of the annual forecast of 1.9 percent growth.

***Net Individual Income Tax (70% of general fund revenues)***: Through December, collections of net individual income tax rose 6.9 percent from the same period last year, ahead of the annual estimate of 0.4 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (63% of general fund revenues)***: With an additional deposit day compared with last year, collections of payroll withholding taxes rose 9.2 percent in December. Year-to-date, collections have grown 5.8 percent, well ahead of the annual estimate of 4.7 percent growth.

***Individual Income Tax Nonwithholding (17% of general fund revenues)***: 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<sup>th</sup> to submit their fourth estimated payment for tax year 2019 and some of these payments are typically received in December. Collections of \$109.9 million were above the \$108.0 million collected in December of last year.

Year-to-date, collections were \$976.6 million compared with \$828.2 million in the same period last year, growing by 17.9 percent and well ahead of the annual estimate of a 7.7 percent decline. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received and December and January collections can be considered together.

***Individual Income Tax Refunds***: December is not a significant month for refund activity, as it concludes tax year 2018 refund processing. Through December, the Department of Taxation has issued \$350.4 million in refunds compared with \$305.2 million in the same period last year, a 14.8 percent increase.

***Sales Tax (17% of general fund revenues)***: Collections of sales and use taxes, reflecting November sales, rose 5.1 percent in December. November represents the beginning of the holiday shopping season and this year had fewer shopping days after Thanksgiving than last year. A clearer assessment of the season will be possible after receiving December sales tax payments due in January. On a year-to-date basis, collections of sales and use taxes have risen 8.1 percent, ahead of the annual estimate of 6.0 percent growth.

***Corporate Income Tax (4% of general fund revenues)***: December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations and refunds from extension returns are processed. With the main refunding season completed and the first two estimated payments received, collections of corporate income taxes grew 19.2 percent on a year-to-date basis, compared with the forecast of 2.2 percent growth.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues)***: Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$40.4 million in December, compared with \$32.0 million in December of last year. On a year-to-date basis, collections are up 29.0 percent, far ahead of the annual forecast of 13.2 percent growth.

**Insurance Premiums (2% of general fund revenues):** Chapter 986, 2007 Acts of the Assembly required that \$183.6 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2020 before making any deposits to the general fund. The required transfer was completed in December. Collections of taxes on insurance premiums were \$94.0 million in December, compared with \$93.2 million in December of last year.

### **Other Revenue Sources**

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	59.6%	48.4%
ABC Taxes (1% GF revenues)	9.7%	4.5%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue rose 20.2 percent in December, \$30.8 million compared with \$25.6 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.1 percent from the same period last year, ahead of the annual estimate of a 6.1 percent decline.

### **Summary**

Total general fund revenues rose 7.6 percent in December, driven by solid growth in payroll withholding, sales and use taxes, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.3 percent through December, well ahead of the annual forecast of 1.9 percent growth.

January receipts will give us a clearer picture of sales and use taxes, along with individual nonwithholding.