



COMMONWEALTH of VIRGINIA

Aubrey L. Layne, Jr., MBA, CPA
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

January 13, 2021

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 2021. The report incorporates the revised general fund revenue forecast included in the budget bill introduced on December 16, 2020 which projects total general fund revenues to increase by 1.2 percent in fiscal year 2021.

Total general fund revenues grew 15.1 percent in December, as strong withholding, corporate, recordation, and sales tax payments were received. On a fiscal year-to-date basis, total revenue collections rose 7.8 percent through December, well ahead of the annual forecast of a 1.2 percent increase.

National Economic Indicators

The March-April recession was the shortest but the most severe on record. This retraction was followed by a record-breaking gain in the third quarter. As expected, growth appears to be weakening as a second wave of COVID-19 infections and restrictions occur.

- According to the third estimate, real GDP rose at an annualized rate of 33.4 percent in the third quarter of 2020, the largest gain on record and reversing about 75 percent of the second quarter decline. Prior to this, the largest gain in real GDP was 16.7 percent in the first quarter of 1950.
- As expected, the labor market contracted in December. Payroll employment fell by 140,000 jobs in December, as increasing COVID-19 restrictions and winter weather drove a decline of 498,000 in the leisure and hospitality sector. In a separate report, the unemployment rate was unchanged at 6.7 percent.

January 13, 2021

Page 2 of 4

- Initial claims for unemployment fell by 3,000 during the week ending January 2, but remain extremely high at 787,000.
- The Conference Board's index of leading indicators rose 0.6 percent in November to 109.1 following increases of 0.8 percent in October and 0.7 percent in September. Although this was the seventh consecutive increase in the index, the decelerating pace suggests the recovery is slowing.
- The Conference Board's index of consumer confidence fell from 92.9 to 88.6 in December. The current conditions component declined with increasing COVID-19 infections and restrictions. The expectations component increased for the month.
- The Institute of Supply Management index rose from 57.5 to 60.7 in December. The index has remained above the neutral threshold of 50.0 every month since June.
- The CPI rose 0.2 percent in November and stands 1.2 percent above a year ago. Core inflation (excluding food and energy prices) also rose 0.2 percent and stands 1.7 percent above a year ago.
- At its December meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.

Virginia Economy

In Virginia, payroll employment fell 4.4 percent in November from November of last year. Employment in Northern Virginia fell by 4.8 percent; Hampton Roads fell 3.2 percent; and Richmond-Petersburg fell 4.4 percent. The seasonally adjusted unemployment rate fell 0.3 percentage point to 4.9 percent and stands 2.2 percentage points above a year ago.

The Virginia Leading Index rose 0.8 percent in November after rising 2.3 percent in October. The U.S. Leading index, future employment, and initial claims for unemployment improved in November while auto registrations declined. The indexes for all eleven metro areas increased for the month.

December Revenue Collections

Total general fund revenues grew 15.1 percent in December, as strong withholding, corporate, recordation, and sales tax payments were received. On a fiscal year-to-date basis, total revenue collections rose 7.8 percent through December, well ahead of the annual forecast of a 1.2 percent increase.

Net Individual Income Tax (70% of general fund revenues): Through December, collections of net individual income tax rose 6.0 percent from the same period last year, ahead of the annual estimate of 1.0 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): With one more deposit day than December of last year, collections of payroll withholding taxes rose 10.6 percent for the month. Year-to-date, collections have risen 2.9 percent from the same period last year, ahead of the annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (18% 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 15th to submit their fourth estimated payment for tax year 2020 and some of these payments are typically received in December. Collections of \$140.2 million were above the \$109.9 million collected in December of last year.

Year-to-date, collections were \$1.3 billion compared with \$976.6 million in the same period last year, growing by 37.2 percent and well ahead of the annual estimate of 4.4 percent growth. A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received and January collections can be considered together with those from December.

Individual Income Tax Refunds: December is not a significant month for refund activity, as it concludes tax year 2019 refund processing. Through December, the Department of Taxation has issued \$471.5 million in refunds compared with \$350.4 million in the same period last year, a 34.5 percent increase.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting November sales, rose 5.2 percent in December. As November represents the beginning of the holiday shopping season, 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 6.7 percent, ahead of the annual estimate of a 2.6 percent decline.

Corporate Income Tax (6% 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 37.7 percent on a year-to-date basis, compared with the forecast of 19.9 percent growth.

Wills, Suits, Deeds, Contracts (3% of general fund revenues): As refinancing and low interest rates continue to spur the housing market, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$63.6 million in December, compared with \$40.4 million in December of last year, an increase of 57.3 percent. On a year-to-date basis, collections are up 38.9 percent, ahead of the annual forecast of 13.6 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 986, 2007 Acts of the Assembly required that \$181.4 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2021 before making any deposits to the general fund. The required transfer was completed in December. Collections of taxes on insurance premiums were \$102.2 million in December, compared with \$94.0 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)	-38.7%	-19.7%
ABC Taxes (1% GF revenues)	10.5%	2.7%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 12.4 percent in December, \$27.0 million compared with \$30.8 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 5.1 percent from the same period last year, ahead of the annual estimate of a 4.1 percent decline.

Summary

Total general fund revenues grew 15.1 percent in December, as strong withholding, corporate, recordation, and sales tax payments were received. On a fiscal year-to-date basis, total revenue collections rose 7.8 percent through December, well ahead of the annual forecast of a 1.2 percent increase.

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