



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: January Revenue Report

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

Total general fund revenues fell 2.4 percent in January, mainly due to one less deposit day for payroll withholding. The decline was less than expected due to strong growth in individual nonwithholding payments, corporate estimated payments, sales tax collections, and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 6.0 percent through January, well ahead of the annual forecast of a 1.2 percent increase.

National Economic Indicators

The economy's prospects remain closely tied to COVID-19. As expected, growth appears to be weakening as a second wave of infections and restrictions continues.

- According to the advance estimate, real GDP rose at an annualized rate of 4.0 percent in the fourth quarter of 2020, following 33.4 percent in the third quarter. The annual decline of 2.5 percent in 2020 matched the worst in postwar history set in 2009.
- After contracting by 227,000 jobs in December, the labor market added 49,000 to payrolls in January. The retail and leisure/hospitality sectors lost 100,000 jobs. In a separate report, the unemployment rate fell from 6.7 to 6.3 percent driven by stronger employment along with workers leaving the labor force. In January, the economy had 9.9 million fewer jobs than February 2020. Since April, 56 percent of the total job loss has been recovered.

February 11, 2021

Page 2 of 4

- Initial claims for unemployment fell by 33,000 during the week ending January 30. Although this was the third consecutive drop in claims, the level remains extremely high at 779,000.
- The Conference Board's index of leading indicators rose 0.3 percent in December to 109.5 following increases of 0.7 percent in November and 0.9 percent in October. The decelerating pace of growth in the index suggests the recovery is slowing.
- The Conference Board's index of consumer confidence rose from 87.1 to 89.3 in January. The current conditions component declined while the expectations component increased for the month.
- The Institute of Supply Management index fell from 60.5 to 58.7 in January. The index has remained above the neutral threshold of 50.0 every month since June.
- The CPI rose 0.4 percent in December and stands 1.4 percent above a year ago. Core inflation (excluding food and energy prices) rose 0.1 percent and stands 1.6 percent above a year ago.
- At its January 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 December from December of last year. Employment in Northern Virginia fell by 4.4 percent; Hampton Roads fell 3.4 percent; and Richmond-Petersburg fell 4.5 percent. The seasonally adjusted unemployment rate rose 0.1 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 December after rising 0.8 percent in November. All four components -- the U.S. Leading index, future employment, initial claims for unemployment, and auto registrations -- improved for the month. The indexes for all eleven metro areas increased in December.

January Revenue Collections

Total general fund revenues fell 2.4 percent in January, mainly due to one less deposit day for payroll withholding. The decline was less than expected due to strong growth in individual nonwithholding payments, corporate estimated payments, sales tax collections, and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 6.0 percent through January, well ahead of the annual forecast of a 1.2 percent increase.

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, 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 less deposit day than January of last year, collections of payroll withholding taxes fell 12.6 percent for the month. Year-to-date, collections have risen 0.3 percent from the same period last year, behind the annual estimate of 2.7 percent growth.

Individual Income Tax Nonwithholding (18% of general fund revenues): Collections in nonwithholding were \$576.2 million compared with \$514.8 million in January of last year, an increase of 11.9 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 15 to submit their fourth estimated payment for tax year 2020 and some of these payments are typically received in December so the two months must be considered together to assess growth. Receipts of nonwithholding for the two-month period of January-December increased 14.7 percent from last year.

Year-to-date, collections grew by 28.5 percent, well ahead of the annual estimate of a 4.4 percent increase.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$37.1 million in refunds compared with \$44.4 million in January of last year, a 16.3 percent decrease. The main income tax filing season begins in February.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 5.6 percent in January. The combined December and January receipts, representing the bulk of the holiday shopping season, were 5.4 percent above the same period last year. On a year-to-date basis, collections of sales and use taxes have risen 6.5 percent, ahead of the annual estimate of a 2.6 percent decline.

Corporate Income Tax (6% of general fund revenues): Collections of corporate income taxes were \$49.3 million in January, compared with receipts of \$29.8 million in January of last year. On a year-to-date basis, collections have increased 39.3 percent 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 \$46.9 million in January, compared with \$36.7 million in January of last year, an increase of 27.8 percent. On a year-to-date basis, collections are up 37.5 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.

January was a negative month in this source as refunds were issued to insurance companies. Year-to-date collections of taxes on insurance premiums were \$46.1 million through January, compared with \$53.6 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)	- 32.5%	-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 12.3 percent in January, \$38.4 million compared with \$43.8 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 6.5 percent from the same period last year, trailing the annual estimate of a 4.1 percent decline.

Summary

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