



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: March Revenue Report

March revenue collections consist mainly of withholding and sales tax receipts, as well as the normal collections for other sources. Final payments from insurance companies for tax year 2020 are also due in March. In addition, March collections typically include the leading edge of payments from corporations and individuals, which are typically due April 15 and May 1, respectively. However, this year the individual final payment date is delayed to match the federal due date of May 17. Therefore, the timing of these final payments, along with the timing of refunds in both sources can distort monthly growth rates.

Total general fund revenue collections grew 18.5 percent in March. Most of the increase is due to an additional deposit day for payroll withholding and strong growth in sales and recordation taxes. On a fiscal year-to-date basis, total revenue collections rose 9.0 percent through March, ahead of the annual forecast of 3.0 percent growth.

National Economic Indicators

Although the U.S. economy remains closely tied to the effects of COVID-19, it has so far proved resilient.

- According to the third estimate, real GDP rose at an annualized rate of 4.3 percent in the fourth quarter of 2020, following 33.4 percent in the third quarter.

- The labor market added 916,000 jobs to payrolls in March. January gains were revised up from 166,000 to 233,000 and February was revised up from 379,000 to 468,000 jobs. In a separate report, the unemployment rate fell from 6.2 to 6.0 percent driven by stronger employment even with gains in the labor force.
- Initial claims for unemployment rose by 16,000 to 744,000 during the week ending April 3. This level remains extremely high relative to any point prior to the pandemic.
- The Conference Board's index of leading indicators rose 0.2 percent in February to 110.5 following increases of 0.5 percent in January and 0.4 percent in December.
- The Conference Board's index of consumer confidence jumped from 90.4 to 109.7 in March. Both the current conditions and expectations components increased for the month.
- The Institute of Supply Management index rose from 60.8 to 64.7 in March. The index has remained above the neutral threshold of 50.0 every month since June.
- The CPI rose 0.4 percent in February and stands 1.7 percent above February of last year. Core inflation (excluding food and energy prices) rose 0.1 percent and stands 1.3 percent above a year ago.
- At its March 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 4.8 percent in February from February of last year. Employment in Northern Virginia fell by 5.2 percent; Hampton Roads fell 4.4 percent; and Richmond-Petersburg fell 6.0 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 5.2 percent and stands 2.7 percentage points above a year ago.

The Virginia Leading Index advanced 0.3 percent in February after rising 0.4 percent in January. 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 metro areas except Harrisonburg increased in February.

March Revenue Collections

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Net Individual Income Tax (69% of general fund revenues): Through March, collections of net individual income tax rose 8.0 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 (61% of general fund revenues): With one more deposit day than March of last year, collections of payroll withholding taxes rose 23.7 percent for the month. Year-to-date, collections have risen 3.7 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): March is not a significant month for collections in this source. Collections in nonwithholding were \$253.3 million compared with \$224.1 million in March of last year, an increase of 13.0 percent. Year-to-date, collections grew by 26.1 percent, ahead of the annual estimate of a 4.4 percent increase.

Individual Income Tax Refunds: The main income tax filing season began in February. During the first two months of the main filing season, TAX issued about 1.4 million refunds as compared to last year's 1.6 million. Through March, TAX has issued \$654.7 million in refunds compared with \$786.4 million through the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting February sales, rose 8.1 percent in March. On a year-to-date basis, collections of sales and use taxes have risen 6.9 percent, ahead of the annual estimate of 4.8 percent growth.

Corporate Income Tax (6% of general fund revenues): March is not a significant month for collections in this source. Collections of corporate income taxes were \$72.3 million in March, compared with receipts of \$69.2 million in March of last year. On a year-to-date basis, collections have increased 33.7 percent compared with the forecast of 27.4 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 \$63.8 million in March, compared with \$40.3 million in March of last year, an increase of 58.3 percent. On a year-to-date basis, collections are up 40.6 percent, ahead of the annual forecast of 24.4 percent growth.

Insurance Premiums (1% of general fund revenues): Final payments in this source were due March 1. Collections were \$17.3 million compared with \$24.5 million last year. Year-to-date collections were \$76.8 million through March, compared with \$82.0 million in the same period last year. Estimated payments for insurance companies are due in April and June.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	- 31.0%	- 19.7%
ABC Taxes (1% GF revenues)	10.8%	2.7%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 27.7 percent in March, \$38.1 million compared with \$29.9 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 2.2 percent from the same period last year, above the annual estimate of a 4.1 percent decline.

Summary

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Typically, the last three months of the fiscal year are significant collections months. In addition to estimated and final payments from both corporations and individuals due in April and May, estimated payments are again due in June.