



COMMONWEALTH of VIRGINIA

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

P.O. Box 1475
Richmond, Virginia 23218

June 11, 2020

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: May Revenue Report

May is typically a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are due May 1. However, this year, the Governor authorized any income tax payments due from April 1, 2020, to June 1, 2020, to be due on June 1, 2020. This includes individual and corporate income taxes. The extension applies to taxable year 2019 final payments and extension payments, and the first estimated payment for taxable year 2020. Therefore, complete June receipts will be required to properly assess fiscal year 2020 revenues.

With COVID-19 effects in payroll withholding and retail sales, combined with delaying the individual and corporate tax due date to June 1, total general fund revenue collections fell 20.6 percent in May. On a fiscal year-to-date basis, total revenue collections have declined by 1.2 percent, trailing the annual forecast of 3.1 percent growth. This performance is slightly better than anticipated and consistent with our updated revenue projections reflecting the effects of COVID-19. We anticipate that fiscal year 2020 revenue collections will be less than \$1 billion below the official forecast.

National Economic Indicators

The U.S. slid into recession in February as economic fallout from COVID-19 began to take effect.

- According to the second estimate, real GDP fell at an annualized rate of 5.0 percent in the first quarter of 2020, following 2.1 percent in the previous two quarters.

- On a positive note, the May employment report was a surprise. Payroll employment increased by 2.5 million jobs in May, while expectations were for a decline of 7.5 million. In a separate report, the unemployment rate fell from 14.7 percent to 13.3 percent.
- The number of people filing for unemployment benefits is steadily declining. Initial claims for unemployment fell by 249,000 to 1.9 million during the week ending May 30, while the four-week moving average fell from 2.6 million to 2.3 million.
- The Conference Board's index of leading indicators fell 4.4 percent in April to 98.8. The deterioration of the components was broad-based.
- Consumer confidence stabilized in May after posting a record monthly decline in April. The Conference Board's index of consumer confidence rose slightly from 85.7 to 86.6 in May. The expectations component drove the increase, offsetting a decline in the present conditions component.
- The manufacturing sector improved somewhat in May but activity was below expectations. The Institute of Supply Management index rose from 41.5 to 43.1 in May. Overall, the index suggests that although the breadth of the recession slightly moderated, the economy remains significantly weak.
- As much of the U.S. economy was shut down and energy prices declined, the CPI fell 0.8 percent in April following a 0.4 percent decrease in March. The index stands 0.4 percent above April 2019. Core inflation (excluding food and energy prices) fell 0.4 percent and stands 1.4 percent above a year ago.
- At its April meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent. Quantitative easing remains open-ended.

Virginia Economy

In Virginia, payroll employment fell by 365,000 jobs in April, a drop of 9.0 percent compared with April of last year. Employment in Northern Virginia fell by 8.4 percent; Hampton Roads fell 9.2 percent; and Richmond-Petersburg fell 9.7 percent. The seasonally adjusted unemployment rate increased 7.3 percentage points to 10.6 percent.

The Virginia Leading Index fell 5.3 percent in April after declining 6.7 percent in March. The U.S. Leading index, future employment, and auto sales declined in April, while initial claims for unemployment surged. The indexes for all eleven metro areas declined sharply for the month.

May Revenue Collections

With COVID-19 effects in payroll withholding and retail sales, combined with delaying the individual tax due date to June 1, total general fund revenue collections fell 20.6 percent in May. On a fiscal year-to-date basis, total revenue collections have declined by 1.2 percent through May, trailing the annual forecast of 3.1 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through May, collections of net individual income tax fell 3.6 percent from the same period last year, trailing the annual estimate of 1.3 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes fell 13.0 percent in May. Two fewer deposit days accounted for a large part of the decline; however, there was a broad-based decrease in the number of firms paying. Tax withholding collections decreased 4.4 percent during April and May combined. Year-to-date, collections have grown 3.1 percent, trailing the annual estimate of 4.7 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): May is typically a significant month for collections in this source, with final payments for tax year 2019 and the first estimated payment for tax year 2020 both due at the beginning of May. This year, the payment date has been extended to June 1, so it is unclear how many payments have been delayed.

Collections in nonwithholding were \$500.1 million compared with \$764.9 million in May of last year, a decline of 34.6 percent. This decline was anticipated and consistent with our projections. Year-to-date, collections fell by 22.6 percent, trailing the annual estimate of a 4.3 percent decline.

Individual Income Tax Refunds: The Department of Taxation issued \$182.0 million in refunds in May, compared with \$144.6 million in May of last year, an increase of 25.9 percent. For the filing season, TAX has issued 2.3 million refunds, about the same number as last year. On a fiscal year basis, TAX has issued \$1,695.9 million in refunds through May compared with \$1,643.4 million through the same period last year.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting April sales, fell 12.5 percent in May. The month represents a full month of reduction in sales due to numerous store closings during the COVID-19 pandemic. On a year-to-date basis, collections of sales and use taxes have risen 5.4 percent, trailing the annual estimate of 7.4 percent growth.

Corporate Income Tax (5% of general fund revenues): May is not typically a significant month for collections in this source, as final or extension payments are mainly due only from retailers who usually have a January 31 close to their fiscal year. Such payments vary significantly from year to year. Collections of corporate income taxes were \$47.2 million in May, compared with receipts of \$2.5 million in May of last year. The main reason for the increase is that last year contained about \$25 million in prior tax year refunds.

On a year-to-date basis, collections have increased 1.6 percent compared with the forecast of 9.3 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$39.6 million in May, compared with \$42.0 million in May of last year, a decrease of 5.6 percent and the first decline since June of 2019.

On a year-to-date basis, collections are up 25.6 percent, ahead of the annual forecast of 21.3 percent growth.

Insurance Premiums (2% of general fund revenues): May is not a significant month for collections in this source. Collections were \$5.9 million compared with \$5.7 million last year. Year-to-date collections were \$229.7 million through May, compared with \$253.6 million in the same period last year. Estimated payments for insurance companies are again due in June.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	27.7%	48.4%
ABC Taxes (1% GF revenues)	9.8%	4.5%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 26.6 percent in May, \$43.6 million compared with \$59.4 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 6.1 percent from the same period last year, matching the annual estimate.

Summary

May is typically a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, estimated and final payments for individuals are due May 1. This year, the Governor authorized any income tax payments due from April 1, 2020, to June 1, 2020, to be due on June 1, 2020. This includes individual and corporate income taxes. The extension applies to taxable year 2019 final payments and extension payments, and the first estimated payment for taxable year 2020.

With COVID-19 effects in payroll withholding and retail sales, combined with delaying the individual tax due date to June 1, total general fund revenue collections fell 20.6 percent in May. On a fiscal year-to-date basis, total revenue collections have declined by 1.2 percent through May, trailing the annual forecast of 3.1 percent growth. This performance is slightly better than anticipated and consistent with our updated revenue projections reflecting the effects of COVID-19.

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 (now due June 1), estimated payments are again due in June. Since the filing date for corporate and individual returns has been extended, an accurate assessment of revenue growth will require June collections. To attain the revenue forecast in Chapter 1283, June collections must be \$3.3 billion, compared with \$2.4 billion collected in June of last year. If June collections match the previous year, total fiscal year 2020 revenues will be approximately \$900 million below the official forecast.

June 11, 2020

Page 5 of 5

With the delayed payment date for individual taxes occurring in June, we anticipate collections will be greater than last year for the month.