



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Timothy M. Kaine

THROUGH: The Honorable Wayne M. Turnage

FROM: Richard D. Brown 

SUBJECT: April Revenue Data

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2008 and the first estimated payment for tax year 2009 are due from corporations on April 15. Also, a large portion of estimated and final payments from individuals, which are due May 1, are typically received in April.

Total general fund revenues fell 19.7 percent in April compared to April of last year, the largest monthly decline since May 2002. Most of the decline in April was due to a sharp drop in individual nonwithholding and a jump in individual refunds. Since individual returns will continue to be processed in May, and the number of payments received in advance of the May 1 due date fluctuates widely from year to year, it is important to consider April and May together to assess growth.

On a year-to-date basis, total revenues fell 8.6 percent, trailing the revised annual forecast approved on April 8, 2009 of a 7.3 percent decline. Collections of individual withholding, nonwithholding, and recordation taxes are tracking their annual forecasts. Receipts of corporate income taxes and sales taxes are lagging their forecasts, while individual refunds are up sharply from the same period last year.

National Economic Indicators

The economy remains in a deep recession; however, some national indicators suggest the rate of decline may be slowing.

- Real GDP fell 6.1 percent at an annualized rate in the first quarter of 2009, according to the advance estimate, close to the 6.3 percent decline in the fourth quarter of 2008. The decline is the sharpest two-quarter drop since 1958. On a positive note, consumer spending increased in the first quarter, after declining sharply in the last half of 2008.
- The labor market continued to contract in April; however, the number of job losses declined from previous months. Payroll employment fell by 539,000 jobs in April, following losses of 699,000 in March and 681,000 in February. In a separate report, the unemployment rate rose to 8.9 percent from 8.5 percent.
- Initial claims for unemployment fell by 34,000 to 601,000 during the week ending May 2. The four-week moving average fell from 638,000 to 624,000. Although the level of initial claims is indicative of continued weakness in the labor market, layoffs appear to be slowing.
- The Conference Board's index of leading indicators fell 0.3 percent to 98.1 in March, following a 0.2 percent decrease in February. The decline was led by lower stock prices and falling building permits.
- Consumer confidence appears to have improved in April. The Conference Board's index of consumer confidence jumped from 26.9 to 39.2 in April. The expectations component drove the increase, while the current conditions component rose only modestly.
- The manufacturing sector continues to contract, but at a slower rate. The Institute of Supply Management index increased by 3.8 points in April, rising from 36.3 to 40.1. Although the index remains at recessionary levels, the gradual improvement over the last four months suggests the rate of contraction has peaked.
- Inflation remains very low. In March, the CPI declined by 0.1 percent from February and 0.4 percent from March of last year, driven by falling energy prices. Core inflation rose 0.2 percent from February and stands 1.8 percent above March of last year. Core inflation has held steady at 0.2 percent per month for three consecutive months.

Virginia Economy

In Virginia, payroll employment fell by 2.4 percent in March, the largest monthly drop since September 1991. Northern Virginia posted a decline of 1.2 percent, Hampton Roads fell 0.9 percent, and employment in the Richmond-Petersburg area fell 3.5 percent in March. After rising for five consecutive months, the unemployment rate in Virginia held steady at 7.0 percent in March.

The Virginia Leading Index fell 0.2 percent in March, its seventh consecutive decline. All three components – auto registrations, building permits, and initial unemployment claims – contributed to the decline. The leading index declined in nine of the eleven metro areas in the Commonwealth. Leading indexes for Roanoke and Winchester increased in March.

April Revenue Collections

Total general fund revenues fell 19.7 percent in April compared to April of last year. A significant drop in individual nonwithholding and a surge in refund activity account for most of the decline. On a year-to-date basis, total revenues fell 8.6 percent, trailing the revised annual forecast of a 7.3 percent decline. Collections of individual withholding, nonwithholding and recordation taxes are tracking their annual forecasts. Receipts of corporate income taxes and sales taxes are lagging their forecasts, while individual refunds are up sharply from the same period last year.

Net Individual Income Tax (66% of general fund revenues): Year-to-date collections of net individual income tax fell 25.8 percent in April. On a year-to-date basis, a decline of 4.5 percent is slightly trailing the annual estimate of a 4.1 percent decline. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes grew 3.3 percent in April. Year-to-date withholding growth is 2.3 percent, close to the projected annual growth rate of 2.5 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): April is a significant month for nonwithholding collections. Final payments for tax year 2008 and the first estimated payment for tax year 2009 are both due May 1.

April collections were \$581.0 million compared with \$822.2 million in April 2008, a 29.3 percent decrease. To date, about 72 percent of the nonwithholding forecast has been collected, and collections during this period are 16.9 percent below the same period last year, close to the revised annual estimate of a 17.9 percent decline.

Typically, a large portion of final payments due May 1 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for this fiscal year is due June 15.

Individual Income Tax Refunds: Through April, \$1.6 billion in individual refunds have been issued, compared with \$1.5 billion in the same period last year. Year to date, refunds are 13.1 percent ahead of the same period last year, ahead of the annual forecast of a 7.4 percent increase.

For the filing season beginning in January, 2.3 million refunds have been issued – about 4 percent more than during the same period last year. TAX can issue another \$158 million

in refunds and meet the annual estimate; however, last year \$224 million in refunds was issued in the last two months.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting March sales, fell 9.5 percent in April. One likely reason for the sharp decline is that Easter was in March of last year, while this year it was in April. May's receipts of April sales will provide a better year-over-year comparison of the spring season. On a year-to-date basis, collections have fallen 4.8 percent, lagging the annual estimate of a 3.7 percent decline.

Corporate Income Tax (5% of general fund revenues): In April, corporations made their first estimated payment for tax year 2009, and made either a final or extension payment for tax year 2008.

Corporate income tax collections were \$158.2 million in April compared with \$165.7 million in April of last year. Year-to-date collections are down 22.7 percent from the same period last year, trailing the annual estimate of a 15.2 percent decline. The second estimated payment for tax year 2009 is due June 15. About \$192 million is needed to meet the annual forecast in this source. In the last two years, about \$170 million was collected in May and June.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 27.8 percent in April, and are down 33.6 percent on a year-to-date basis, near the forecast of a 34.7 percent decline.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	-47.7%	-35.1%
Interest Income (1% GF revenues)	-40.9%	-36.2%
ABC Taxes (1% GF revenues)	2.6%	3.6%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 30.4 percent in April – \$25.3 million compared with \$36.3 million last April. For the fiscal year-to-date, collections of All Other Revenue fell 28.1 percent from the same period in fiscal year 2008, slightly behind the annual estimate of a 24.8 percent decline. The large decline in year-to-date collections and the annual forecast is attributable to the repeal of the estate tax. The tax was repealed effective July 1, 2007, and estates from deaths prior to that date had up to nine months to file.

Lottery Revenues: Net income for April 2009 totaled \$38.1 million, an increase of \$411,000 from April 2008. Lower prize expense rates were somewhat offset by lower interest earnings

The Honorable Timothy M. Kaine

May 14, 2009

Page 5 of 5

because of the accelerated profit transfer schedule this year. Year-to-date, net income is down 3.6 percent, ahead of the annual estimate of a 5.4 percent decline.

Summary

Total general fund revenues fell 19.7 percent in April compared to April of last year. Individual nonwithholding fell 29.3 percent in April and individual refunds jumped 21.0 percent, contributing to most of the decline. On a year-to-date basis, total revenues fell 8.6 percent, trailing the revised annual forecast of a 7.3 percent decline. Collections of individual withholding, nonwithholding, and recordation taxes are tracking their annual forecasts. Receipts of corporate income taxes and sales taxes are lagging their forecasts, while individual refunds are up sharply from the same period last year.

While total general fund revenue collections through April are lagging the annual estimate, May and June are also very important collection months. Individual estimated and final payments will continue to be processed in May and estimated payments for individuals, corporations, and insurance companies are due June 15. About \$3 billion in total revenue must be collected during May and June to attain the estimate compared to \$3.1 billion in revenue in May and June 2008.