



COMMONWEALTH of VIRGINIA

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May 12, 2021

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: April Revenue Report

This month's revenue report incorporates the Chapter 552 (2021 Special Session 1) forecast signed April 7. April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for the previous tax year 2020 and the first estimated payment for the current tax year 2021 are due from corporations on April 15. A portion of estimated and final payments from individuals, which are due May 1 (extended to May 17 this year), are typically received in April, but the amount received in April versus May can vary from year to year. Therefore, the timing of receipts between April and May can distort monthly growth rates. In addition, the filing date last year was extended to June 1, further misrepresenting revenue growth. The entire quarter of April through June will be required to accurately assess growth.

Total general fund revenue collections grew 41.9 percent in April. About eighty percent of the increase was due to a return to normal filing dates for most corporate and individual taxes as compared to last year when the filing date which was extended to June 1. On a fiscal year-to-date basis, total revenue collections rose 12.8 percent through April, ahead of the annual forecast of 2.7 percent growth.

National Economic Indicators

Although the U.S. economy remains closely tied to the effects of COVID-19, recent data indicate growth is gaining strength.

- According to the preliminary estimate, real GDP rose at an annualized rate of 6.4 percent in the first quarter of 2021, following 4.3 percent in the fourth quarter of 2020.

- The labor market added 266,000 jobs to payrolls in April, fewer than consensus expectations of one million jobs. March gains were revised down from 916,000 to 770,000. In a separate report, the unemployment rate rose from 6.0 to 6.1 percent, driven primarily by an increase in the labor force.
- Initial claims for unemployment fell from 590,000 to 498,000 during the week ending May 1, the lowest level since the pandemic began and the first time below 500,000 since the onset. In a healthy economy (pre-pandemic), new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 1.3 percent in March, stronger than expected, and follows a drop of 0.1 percent in February.
- The Conference Board's index of consumer confidence jumped from 109.0 to 121.7 in April after increasing from 90.4 to 109.0 in March. Both the current conditions and expectations components increased for the month.
- The Institute of Supply Management index unexpectedly fell from 64.7 to 60.7 in April, but remains elevated. The index has remained above the neutral threshold of 50.0 every month since June.
- Driven by rising energy prices, the CPI rose 0.6 percent in March following a 0.4 percent increase in February, and stands 2.6 percent above March of last year. Core inflation (excluding food and energy prices) rose 0.3 percent and stands 1.6 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.

Virginia Economy

In Virginia, payroll employment fell 4.5 percent in March from March of last year. Employment in Northern Virginia fell by 4.6 percent; Hampton Roads fell 4.1 percent; and Richmond-Petersburg fell 5.6 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 5.1 percent and stands 2.5 percentage points above a year ago.

The Virginia Leading Index fell 0.6 percent in March after rising 0.3 percent in February. Auto registrations and future employment decreased in March; initial unemployment claims rose and the U.S. leading index advanced. The indexes for all metro areas except Northern Virginia decreased in March.

April Revenue Collections

Total general fund revenue collections grew 41.9 percent in April. About eighty percent of the increase was due to a return to normal filing dates for most corporate and individual taxes. On a fiscal year-to-date basis, total revenue collections rose 12.8 percent through April, ahead of the annual forecast of 2.7 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through April, collections of net individual income tax rose 11.1 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (61% of general fund revenues): Collections of payroll withholding taxes rose 3.4 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): April is typically a significant month for collections in this source, with final payments for tax year 2020 and the first estimated payment for tax year 2021 both due at the beginning of May. Last year the filing date was extended to June 1 for both payments, and this year to May 17 for only the final payment, so the effect on the timing of collections is unclear.

Collections in nonwithholding were \$907.2 million compared with \$470.1 million in April of last year, an increase of 93.0 percent. Year-to-date, collections grew by 40.1 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 three months of the main filing season, TAX issued about 1.9 million refunds as compared to last year's 2.1 million. Through April, TAX has issued \$1.5 billion refunds, similar to the same period last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting March sales, rose 24.8 percent in April. Collections rose as this March parts of the economy were reopening as compared to last March when many businesses were being shut down in the latter part of the month. On a year-to-date basis, collections of sales and use taxes have risen 8.7 percent, ahead of the annual estimate of 4.7 percent growth.

Corporate Income Tax (6% of general fund revenues): In April, corporations typically make their first estimated payment for the current tax year and make either a final or an extension payment for the previous tax year 2020. Last year, the filing date was extended to June 1, while this year it returned to normal. Collections of corporate income taxes were \$387.3 million in April, compared with receipts of \$149.9 million in April of last year. On a year-to-date basis, collections have increased 59.2 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 \$59.8 million in April, compared with \$42.3 million in April of last year, an increase of 41.3 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): Insurance companies made their first estimated payment for tax year 2020 in April. Collections in this source were \$144.5 million

compared with \$141.7 million last year. Year-to-date collections were \$221.3 million through April, compared with \$223.8 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 April collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	-30.4%	-19.7%
ABC Taxes (1% GF revenues)	10.6%	2.7%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 30.8 percent in April, \$34.4 million compared with \$26.3 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 0.5 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.