



## ***COMMONWEALTH of VIRGINIA***

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

P.O. Box 1475  
Richmond, Virginia 23218

September 10, 2020

### **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: August Revenue Report

This month's revenue report incorporates the interim revised revenue forecast for fiscal year 2021 released on August 18. The revised forecast anticipates a decline of 1.8 percent in total general fund revenue collections in fiscal year 2021.

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues fell 0.2 percent in August, largely due to one less deposit day affecting payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 11.6 percent through August, ahead of the annual forecast of a 1.8 percent decline.

### **National Economic Indicators**

The U.S. slid into recession in February as economic fallout from COVID-19 began to take effect. The March-April recession was the shortest but the most severe on record. Many economist believe the recession ended in May, but after an initial increase in activity, growth is expected to be weak in the near term amid fears of a second wave of COVID-19 closings.

- According to the second estimate, real GDP fell at an annualized rate of 31.7 percent in the second quarter of 2020, the largest decline on record. The prior record was a 10 percent decline in the first quarter of 1958.
- The labor market continues to improve. Payroll employment increased by 1.4 million jobs in August, after a gain of 1.7 million in July. In a separate report, the

unemployment rate fell from 10.2 percent to 8.4 percent, even as more workers entered the labor force.

- Initial claims for unemployment fell by 130,000 to 881,000 during the week ending August 29. Although this is the lowest level recorded since the pandemic began, the decline is largely due to a change in the seasonal adjustment process.
- The Conference Board's index of leading indicators rose 1.4 percent in July to 104.4 following increases of 3.1 percent in May and 3.0 percent in June, bringing the index above the March level posted before the recession began. The reading suggests the economy is in a recovery, but without momentum.
- Consumer confidence unexpectedly fell in August, as COVID-19 infections increased. The Conference Board's index of consumer confidence fell from 91.7 to 84.8 in August. Although both components dropped for the month, the current conditions component drove the decline.
- The manufacturing sector continues to improve. The Institute of Supply Management index rose from 54.2 to 56.0 in August, its third consecutive month above the neutral threshold of 50.0.
- The CPI rose 0.6 percent in July matching June's increase. The increases are probably a temporary rebound after falling in March, April, and May. The index stands 1.0 percent above July 2019. Core inflation (excluding food and energy prices) also rose 0.6 percent and stands 1.6 percent above a year ago.
- At its July 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 7.0 percent in July from July of last year. Employment in Northern Virginia fell by 8.0 percent; Hampton Roads fell 5.8 percent; and Richmond-Petersburg fell 6.7 percent. The seasonally adjusted unemployment rate decreased 0.1 percentage point to 8.0 percent and stands 5.3 percentage points above July of last year.

The Virginia Leading Index rose 1.6 percent in July after declining 2.1 percent in June. All four components, the U.S. Leading index, future employment, auto sales, and initial claims for unemployment improved in July. The index for Lynchburg was unchanged, while the remaining ten metro areas increased for the month.

### **August Revenue Collections**

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund

revenues fell 0.2 percent in August, largely due to one less deposit day affecting payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 11.6 percent through August, ahead of the annual forecast of a 1.8 percent decline.

***Net Individual Income Tax (72% of general fund revenues):*** Through August, collections of net individual income tax rose 9.3 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 (64% of general fund revenues):*** With one less deposit day than August of last year, collections of payroll withholding taxes fell 4.0 percent in August. Year-to-date, collections have fallen 1.9 percent from the same period last year, trailing the annual estimate of 2.4 percent growth.

***Individual Income Tax Nonwithholding (17% of general fund revenues):*** August is not a significant month for collections in this source. Collections in nonwithholding were \$96.1 million compared with \$66.4 million in August of last year, an increase of 44.7 percent. Year-to-date, collections were \$487.4 million compared with \$134.3 million in the same period last year.

***Individual Income Tax Refunds:*** August is not a significant month for refunds. The Department of Taxation issued \$65.4 million in refunds compared with \$60.6 million in August of last year, an increase of 7.8 percent.

***Sales Tax (16% of general fund revenues):*** Collections of sales and use taxes, reflecting July sales, rose 1.2 percent in August. On a year-to-date basis, collections of sales and use taxes have risen 15.0 percent, ahead of the annual estimate of a 9.7 percent decline.

***Corporate Income Tax (5% of general fund revenues):*** As with nonwithholding, August is not typically a significant month for collections in this source, as the first estimated payment for the fiscal year is due in September. Through August, collections of corporate income taxes were \$84.9 million compared with \$33.1 million in the same period last year.

***Wills, Suits, Deeds, Contracts (2% of general fund revenues):*** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$54.5 million in August, compared with \$41.5 million in August of last year, an increase of 31.3 percent. On a year-to-date basis, collections are up 27.9 percent, ahead of the annual forecast of a 12.6 percent decline.

***Insurance Premiums (2% of general fund revenues):*** Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$181.4 million has been deposited.

#### **Other Revenue Sources**

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

**Annual**

	<u>Year-to-Date</u>	<u>Estimate</u>
Interest Income (0.4% GF revenues)	-29.7%	-27.5%
ABC Taxes (1% GF revenues)	-10.1%	-2.6%

***All Other Revenue*** (2% of general fund revenues): Receipts in All Other Revenue fell 11.1 percent in August, \$28.5 million compared with \$32.1 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 2.7 percent from the same period last year, ahead of the annual estimate of a 6.6 percent decline.

**Summary**

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues fell 0.2 percent in August, largely due to one less deposit day affecting payroll withholding taxes. On a fiscal year-to-date basis, total revenue collections rose 11.6 percent through August, ahead of the annual forecast of a 1.8 percent decline.

September collections will complete the first quarter of fiscal year 2021 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.