



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: January Revenue Report

January is a significant month for revenue collections. Besides the normal monthly payroll withholding and sales tax collections, estimated payments from individuals are due in January and refunds are issued to insurance companies.

Total general fund revenues grew 8.7 percent in January, driven by broad-based growth in withholding, sales taxes, and recordation taxes and a surge in nonwithholding payments. On a fiscal year-to-date basis, total revenue collections rose 8.4 percent through January, well ahead of the annual forecast of 1.9 percent growth.

National Economic Indicators

Recent national indicators suggest the economy continues to expand.

- According to the preliminary report, real GDP rose at an annualized rate of 2.1 percent in the fourth quarter of 2019, following 2.1 percent in the third quarter.
- Payroll employment rose by 225,000 jobs in January, following the December gain of 147,000 and the November gain of 261,000. In a separate report, the unemployment rate rose from 3.5 percent to 3.6 percent as more workers entered the labor force.

- Initial claims for unemployment fell by 15,000 to 202,000 during the week ending February 1. The four-week moving average fell by 3,000 to 211,750. The level of claims remains at historically low levels and is consistent with a healthy labor market.
- The Conference Board's index of leading indicators fell 0.3 percent in December following a 0.1 percent increase in November and declines of 0.2 percent in the previous three months, suggesting a weakened outlook for the economy.
- The Conference Board's index of consumer confidence rose from 128.2 to 131.6 in January. Both the present situation and the expectations components contributed to the increase.
- The Institute of Supply Management index rose from 47.8 to 50.9 in January, following five consecutive months below its neutral threshold of 50.
- The CPI rose 0.2 percent in December following a 0.3 percent increase in November and stands 2.3 percent above December 2018. Core inflation (excluding food and energy prices) rose 0.1 percent and stands 2.2 percent above a year ago.
- At its January meeting, the Federal Reserve left the federal funds target rate unchanged in the range of 1.5 to 1.75 percent.

Virginia Economy

In Virginia, payroll employment rose 1.1 percent in December compared with last year. Northern Virginia posted growth of 1.4 percent; Hampton Roads employment increased 1.1 percent; and Richmond-Petersburg rose 2.0 percent from December of last year. The seasonally adjusted unemployment rate was unchanged at 2.6 percent in December, and is 0.2 percentage point below a year ago.

The Virginia Leading Index fell 0.3 percent in December after declining 0.4 percent in November. Auto registrations and the U.S. Leading index declined while initial claims improved. Future employment was unchanged. On a regional basis, the index for Blacksburg was unchanged in December; the indexes for the remaining ten metro areas declined.

January Revenue Collections

Total general fund revenues grew 8.7 percent in January, with solid growth in all major sources. On a fiscal year-to-date basis, total revenue collections rose 8.4 percent through January, well ahead of the annual forecast of 1.9 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through January, collections of net individual income tax rose 7.2 percent from the same period last year, ahead of the annual estimate of 0.4 percent growth. 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 rose 5.2 percent in January. Year-to-date, collections have grown 5.7 percent, ahead of the annual estimate of 4.7 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): Collections in nonwithholding were \$514.8 million compared with \$434.1 million in January of last year, an increase of 18.6 percent.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. Taxpayers have until January 15th to submit their fourth estimated payment for tax year 2019 and some of these payments are typically received in December so the two months must be considered together to assess growth. Receipts of nonwithholding for the two-month period of January-December increased 15.2 percent from last year.

Year-to-date, collections grew by 18.1 percent, well ahead of the annual estimate of a 7.7 percent decline.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$44.4 million in refunds compared with \$34.6 million in January of last year, a 28.4 percent increase. The main income tax filing season begins in February, however, due to the delayed start of the filing season last year, comparisons to last year will not be appropriate until the end of March.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 9.9 percent in January. The combined December and January receipts, representing the bulk of the holiday shopping season, were 7.7 percent above the same period last year. On a year-to-date basis, collections of sales and use taxes have risen 8.4 percent, ahead of the annual estimate of 6.0 percent growth.

Corporate Income Tax (4% of general fund revenues): Collections of corporate income taxes were \$29.8 million in January, compared with receipts of \$23.2 million in January of last year. On a year-to-date basis, collections have increased 19.7 percent compared with the forecast of 2.2 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$36.7 million in January, compared with \$27.2 million in January of last year. On a year-to-date basis, collections are up 29.8 percent, far ahead of the annual forecast of 13.2 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 986 of the 2007 Acts of the Assembly required that \$183.6 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2020 before making any deposits to the general fund. The required transfer was completed in December.

January was a negative month in this source as refunds were issued to insurance companies. Year-to-date collections of taxes on insurance premiums were \$53.6 million through January, compared with \$51.4 million in the same period last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	46.6%	48.4%
ABC Taxes (1% GF revenues)	9.4%	4.5%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 1.8 percent in January, \$43.8 million compared with \$43.0 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 2.1 percent from the same period last year, ahead of the annual estimate of a 6.1 percent decline.

Summary

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The Governor will review the results of the mid-session forecast when completed.