



COMMONWEALTH of VIRGINIA

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Secretary of Finance

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November 12, 2021

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: K. Joseph Flores

SUBJECT: October Revenue Report

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Individual income tax extension return processing begins in October as they are due November 1.

Total general fund revenues rose 15.6 percent in October, driven by collections in payroll withholding and sales taxes. Receipts in most major sources were strong compared with last year when the economy was partially closed. Of the major sources, only recordation taxes declined for the month, the first time since August 2020. On a fiscal year-to-date basis, total revenue collections rose 11.8 percent through October, well ahead of the annual forecast of an 8.0 percent decline.

National Economic Indicators

Recent data indicate the U.S. economy is expanding at a healthy pace; however, there are signs the recovery slowed as stimulus effects faded.

- According to the preliminary estimate, real GDP rose at an annualized rate of only 2.0 percent in the third quarter of 2021, following 6.7 percent in the second quarter and 6.3 percent in the first quarter.
- The labor market added a robust 531,000 jobs to payrolls in October. Furthermore, the September gain was revised up from 194,000 to 312,000 and August was revised up from 366,000 to 483,000, bringing the three-month average job gain to

442,000. In a separate report, the unemployment rate fell to 4.6 percent, the lowest rate since March 2020.

- Initial claims for unemployment fell from 283,000 to 269,000 during the week ending October 30, the fewest since March 2020. The four-week moving average fell by 15,000 to 284,750. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 0.2 percent in September to 117.5, and follows growth of 0.8 percent in August and 0.9 percent in July.
- The Conference Board's index of consumer confidence rose from 109.8 to 113.8 in October. Both the current conditions and the expectations components increased for the month.
- The Institute of Supply Management index fell from 61.1 to 60.8 in October. The Delta variant continues to cause problems in the global supply chain, weighing on U.S. manufacturing.
- The CPI rose 0.4 percent in September and stands 5.4 percent above September of last year. Core inflation (excluding food and energy prices) rose 0.2 percent and stands 4.0 percent above a year ago.
- At its November 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 rose 1.9 percent in September from September of last year. Employment in Northern Virginia rose by 3.1 percent; Hampton Roads rose 0.8 percent; and Richmond-Petersburg fell 0.3 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 3.8 percent and stands 2.8 percentage points below a year ago.

The Virginia Leading Index dropped 0.9 percent in September after falling 0.6 percent in August. The U.S. Leading Index increased in September while auto registrations and future employment declined and initial claims increased. The indexes for all metro areas fell for the month.

October Revenue Collections

Total general fund revenues rose 15.6 percent in October, driven by collections in payroll withholding and sales taxes. Receipts in most major sources were strong compared with last year when the economy was partially closed. Of the major sources, only recordation taxes declined for the month, the first time since August 2020. On a fiscal year-to-date basis, total revenue collections rose 11.8 percent through October, well ahead of the annual forecast of an 8.0 percent decline.

Net Individual Income Tax (70% of general fund revenues): Through October, collections of net individual income tax rose 9.5 percent from the same period last year, ahead of the annual estimate of a 7.6 percent decline. 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 rose 9.8 percent for the month. Year-to-date, collections have risen 9.7 percent from the same period last year, ahead of the annual estimate of 1.7 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): October is not typically a significant month for collections in this source. Collections of \$207.6 million were well above the \$149.1 million collected in October of last year. Year-to-date, collections were \$1,070.4 million compared with \$1,131.5 million in the same period last year, declining by 5.4 percent yet ahead of the estimate of a 25.4 percent decline.

Individual Income Tax Refunds: Through October, the Department of Taxation has issued \$262.9 million in refunds compared with \$383.6 million in the same period last year, a 31.5 percent decrease.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 12.2 percent in October. On a year-to-date basis, collections of sales and use taxes have risen 15.4 percent, ahead of the annual estimate of a 4.2 percent decline.

Corporate Income Tax (6% of general fund revenues): October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. Corporate collections were \$50.5 million compared with \$35.5 million last year. On a year-to-date basis, collections of corporate income taxes were \$509.0 million compared with \$371.3 million in the same period last year, a 37.1 percent increase and ahead of the annual forecast of a 16.1 percent decline.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$55.8 million in October, compared with \$59.9 million in October of last year, decrease of 6.8 percent. This was the first monthly decline since August of 2020. On a year-to-date basis, collections are up 4.8 percent, ahead of the annual forecast of a 31.3 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 \$180.7 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	10.6%	6.8%
ABC Taxes (1% GF revenues)	-11.3%	-4.2%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 16.4 percent in October, \$38.9 million compared with \$33.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 13.8 percent from the same period last year, above the annual estimate of a 5.8 percent decline.

Summary

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The *Joint Advisory Board of Economists* (JABE) met on October 13 to assess recent economic developments and the economic outlook for the current and next biennium. The *Governor's Advisory Council on Revenue Estimates* (GACRE) will meet on November 22 to evaluate both the JABE economic recommendations and revenue collections through October. The GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released on December 16 when the Governor introduces his budget recommendations to the General Assembly.