



COMMONWEALTH of VIRGINIA

K. Joseph Flores
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

September 13, 2021

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: K. Joseph Flores

SUBJECT: August Revenue Report

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. With one more deposit day than last year, total general fund revenue collections rose 18.9 percent in August. On a fiscal year-to-date basis, total revenue collections rose 5.2 percent, well ahead of the annual forecast of an 8.0 percent decline.

National Economic Indicators

Recent data indicate the U.S. economy remains strong, although the recent surge in Covid-19 has slowed growth in the labor market and dampened consumer confidence.

- According to the second estimate, real GDP rose at an annualized rate of 6.6 percent in the second quarter of 2021, following 6.3 percent in the first quarter.
- Following two strong months of growth, the labor market added only 235,000 jobs to payrolls in August, as the leisure and hospitality sector was flat. The July gain was revised up to 1.1 million and June was revised up to 962,000. In a separate report, the unemployment rate fell to 5.2 percent in August.
- Initial claims for unemployment fell from 345,000 to 310,000 during the week ending September 4, the lowest level since March 2020, although the Labor Day weekend holiday could be causing distortions in the data. In a healthy economy, new filings are typically below 250,000.

- The Conference Board's index of leading indicators rose 0.9 percent in July, and follows a rise of 0.5 percent in June and 1.2 percent in May. All ten components increased for the month, suggesting a solid recovery.
- The Conference Board's index of consumer confidence fell from 125.1 to 113.8 in August with another surge in covid-19. Both the current conditions and expectations components declined for the month.
- The Institute of Supply Management index rose from 59.5 to 59.9 in August. The index has remained above the neutral threshold of 50.0 for fifteen consecutive months.
- The CPI rose 0.5 percent in July and stands 5.3 percent above July of last year. Core inflation (excluding food and energy prices) rose 0.3 percent and stands 4.2 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 rose 3.8 percent in August from August of last year. Employment in Northern Virginia rose by 5.1 percent; Hampton Roads rose 3.1 percent; and Richmond-Petersburg rose 1.9 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 4.2 percent and stands 3.7 percentage points below a year ago.

The Virginia Leading Index advanced 1.3 percent in July after also rising 1.3 percent in June. All four components: auto registrations, future employment, initial unemployment claims, and the U.S. leading index improved in July, and the indexes for all 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. With one more deposit day than last year, total general fund revenue collections rose 18.9 percent in August. On a fiscal year-to-date basis, total revenue collections rose 5.2 percent, well ahead of the annual forecast of an 8.0 percent decline.

Net Individual Income Tax (70% of general fund revenues): Through August, collections of net individual income tax rose 2.5 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): With an extra deposit day, collections of payroll withholding taxes rose 12.7 percent for the month. Year-to-date, collections have risen 9.6 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): August is not a significant month for collections in this source since the first estimated payment for fiscal year 2022 is due in September. Through the first two months of the fiscal year, collections were \$242.9 million compared with \$487.4 million in the same period last year.

Individual Income Tax Refunds: August is not a significant month for refunds. The Department of Taxation issued \$42.9 million in refunds compared with \$65.4 million in August of last year.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 20.2 percent in August. July sales tax collections reflect the effects of the economy reopening. On a year-to-date basis, collections of sales and use taxes have risen 14.3 percent, ahead of the annual estimate of a 4.2 percent decline.

Corporate Income Tax (6% 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 \$103.9 million compared with \$84.9 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 \$59.3 million in August, compared with \$54.5 million in August of last year, an increase of 8.9 percent. On a year-to-date basis, collections are up 10.5 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 August collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	-20.9%	6.8%
ABC Taxes (1% GF revenues)	-13.2%	-4.2%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 14.9 percent in August, \$32.8 million compared with \$28.5 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 14.5 percent from the same period last year, above the annual estimate of a 5.8 percent decline.

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Summary

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September collections will complete the first quarter of fiscal year 2022 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.