



COMMONWEALTH of VIRGINIA

K. Joseph Flores
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

January 12, 2022

MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: K. Joseph Flores

SUBJECT: December Revenue Report

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2022. The report incorporates the revised general fund revenue forecast included in the budget bill introduced on December 16, 2021, which projects total general fund revenues to increase by 4.2 percent in fiscal year 2022.

Total general fund revenues grew 19.2 percent in December, with broad-based strength in major source receipts. On a fiscal year-to-date basis, total revenue collections rose 14.1 percent through December, well ahead of the annual forecast of a 4.2 percent increase.

National Economic Indicators

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

- According to the third estimate, real GDP rose at an annualized rate of only 2.3 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 199,000 jobs to payrolls in December. In a separate report, the unemployment rate fell from 4.2 to 3.9 percent. There is probably difficulty in filling positions as COVID-19 is keeping many away from joining the work force and seeking jobs.

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- Initial claims for unemployment rose from 200,000 to 207,000 during the week ending January 1. The four-week moving average rose from 199,750 to 204,500, still a relatively low level. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 1.1 percent in November to 119.9, and follows growth of 0.9 percent in October, the largest gain in six months.
- The Conference Board's index of consumer confidence rose from 111.9 to 115.8 in December. The current conditions component declined while the expectations component increased for the month.
- The Institute of Supply Management index fell from 61.1 to 58.7 in December. The Delta variant continues to cause problems in the global supply chain, weighing on U.S. manufacturing.
- The CPI rose 0.8 percent in November and stands 6.8 percent above November of last year. Core inflation (excluding food and energy prices) rose 0.5 percent and stands 4.9 percent above a year ago.
- At its December 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 2.1 percent in November from November of last year. Employment in Northern Virginia rose by 3.5 percent; Hampton Roads rose 0.6 percent; and Richmond-Petersburg fell 0.4 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 3.4 percent and stands 2.4 percentage points below a year ago.

The most current Virginia Leading Index is unavailable at this time as VEC is updating unemployment claims data. The Virginia Leading Index dropped 0.8% in October after falling 0.9% in September. The U.S. Leading Index increased in October while auto registrations and future employment declined and initial claims jumped. The index for Blacksburg inched forward in October while the indexes for the remaining ten metro areas decreased in October.

December Revenue Collections

Total general fund revenues grew 19.2 percent in December, with broad-based strength in major source receipts. On a fiscal year-to-date basis, total revenue collections rose 14.1 percent through December, well ahead of the annual forecast of a 4.2 percent increase.

Net Individual Income Tax (69% of general fund revenues): Through December, collections of net individual income tax rose 10.9 percent from the same period last year, ahead of the annual estimate of 3.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (57% of general fund revenues): Collections of payroll withholding taxes rose 11.7 percent for the month. Year-to-date, collections have risen 10.3 percent from the same period last year, ahead of the annual estimate of 5.9 percent growth.

Individual Income Tax Nonwithholding (20% of general fund revenues): 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 18 to submit their fourth estimated payment for tax year 2021 and some of these payments are typically received in December. Collections of \$183.0 million were above the \$140.2 million collected in December of last year. Year-to-date, collections were \$1.3 billion, about the same amount as the same period last year, growing by 0.2 percent and ahead of the annual estimate of a 0.2 percent decline.

A clearer assessment of growth will be possible at the end of January, when all quarterly payments have been received and January collections can be considered together with those from December.

Individual Income Tax Refunds: December is not a significant month for refund activity, as it concludes tax year 2021 refund processing. Through December, the Department of Taxation has issued \$342.4 million in refunds compared with \$471.5 million in the same period last year, a 27.4 percent decrease.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting November sales, rose 16.5 percent in December. As November represents the beginning of the holiday shopping season, a clearer assessment of the season will be possible after receiving December sales tax payments due in January. On a year-to-date basis, collections of sales and use taxes have risen 14.8 percent, ahead of the annual estimate of 6.3 percent growth.

Corporate Income Tax (7% of general fund revenues): December is a significant month for corporate income tax collections as quarterly estimated payments are due for most corporations and refunds from extension returns are processed. With the main refunding season completed and the first two estimated payments received, collections of corporate income taxes grew 57.3 percent on a year-to-date basis, compared with the forecast of 13.6 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$61.5 million in December, compared with \$63.6 million in December of last year, decrease of 3.2 percent. On a year-to-date basis, collections are up 2.1 percent, ahead of the annual forecast of a 12.6 percent decline.

Insurance Premiums (2% of general fund revenues): Chapter 986, 2007 Acts of the Assembly required that \$180.7 million of collections in this source to be transferred to the Transportation Trust Fund in fiscal year 2022 before making any deposits to the general fund. The required transfer was completed in December. Collections of taxes on insurance premiums were \$119.6 million in December, compared with \$102.2 million in December of last year.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	4.0%	6.7%
ABC Taxes (1% GF revenues)	1.6%	1.4%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 17.0 percent in December, \$31.6 million compared with \$27.0 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 17.0 percent from the same period last year, above the annual estimate of 3.1 percent growth.

Summary

Total general fund revenues grew 19.2 percent in December, with broad-based strength in major source receipts. On a fiscal year-to-date basis, total revenue collections rose 14.1 percent through December, well ahead of the annual forecast of a 4.2 percent increase.

January receipts will give us a clearer picture of sales and use taxes, along with individual nonwithholding.