

# Economic and Revenue Update

## *A Briefing for the Money Committees*

**Aubrey L. Layne Jr., MBA, CPA**

Secretary of Finance

Commonwealth of Virginia

[www.finance.virginia.gov](http://www.finance.virginia.gov)

June 2019

# Topics for Discussion

- National and State Economic Indicators
- May Year-to-Date Revenue Collections, Fiscal Year 2019
- Next Steps
- Taxpayer Relief Refunds

# National and State Economic Indicators

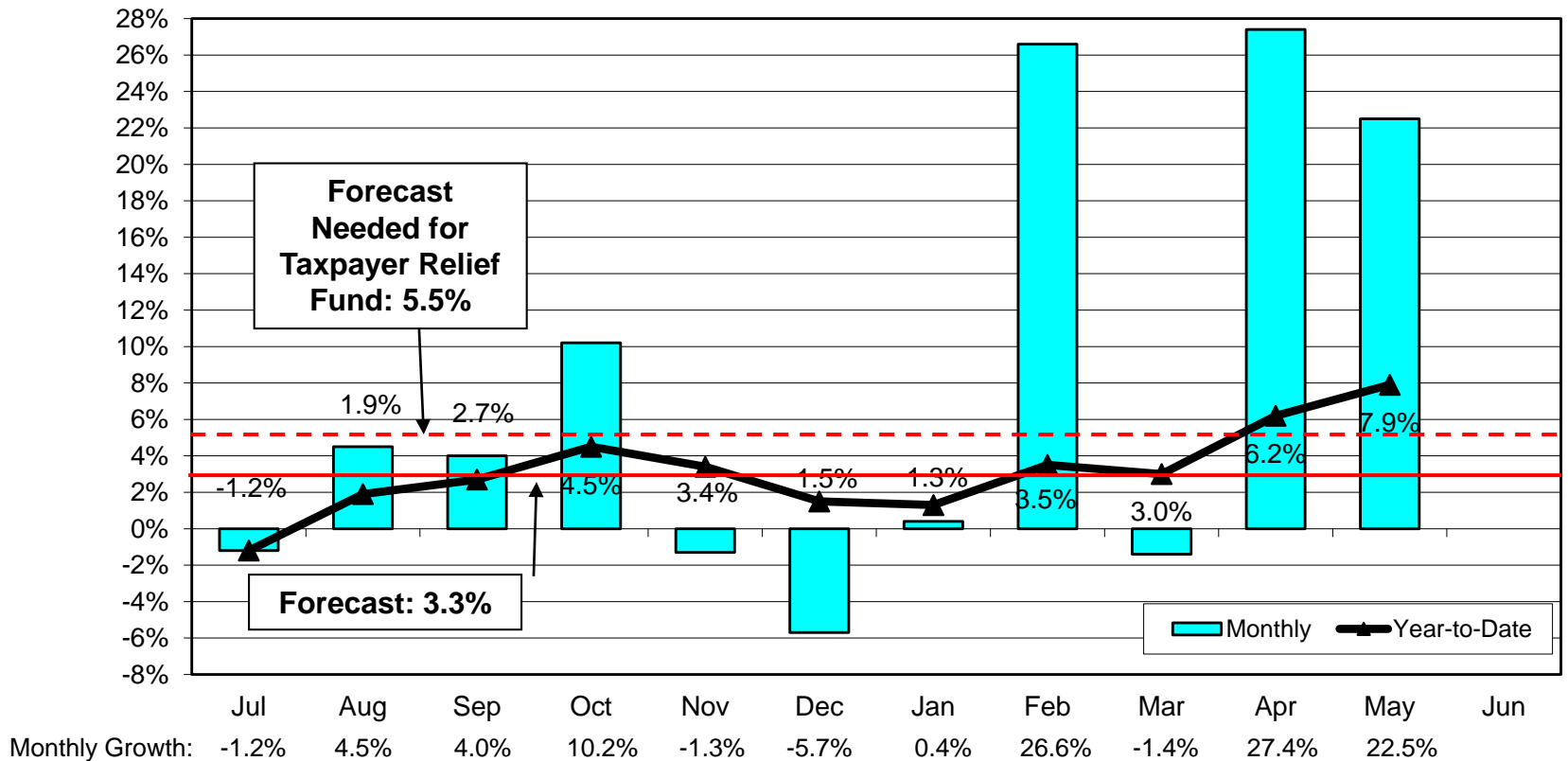
- According to the second estimate, real GDP grew at an annualized rate of 3.1 percent in the first quarter of 2019, following 2.2 percent in the fourth quarter.
- Payroll employment rose by only 75,000 jobs in May.
  - This follows the April gain of 224,000 jobs.
- The national unemployment rate remained unchanged at 3.6 percent in May.
  - This is the lowest rate since the 1960s.
- Initial claims for unemployment were unchanged at 218,000 during the week ending June 1, consistent with a healthy labor market.
  - The four-week moving average fell by 2,500 to 215,000.
- The Conference Board's index of leading indicators rose 0.2 percent in April, following a 0.3 percent increase in March, suggesting moderate economic growth should continue.
- The Conference Board's index of consumer confidence rose from 129.2 to 134.1 in May. Both the expectations and current conditions components contributed to the increase.
- With escalating tensions between the U.S. and its major trading partners, conditions in the manufacturing sector further weakened in May. The Institute of Supply Management index fell from 52.8 to 52.1, still consistent with continued growth.

# National and State Economic Indicators

- The CPI rose 0.3 percent in April following a 0.4 percent increase in March, and stands 2.0 percent above April 2018.
  - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 2.1 percent from last year.
- At its May meeting, the Federal Reserve left the federal funds target rate unchanged at 2.25 to 2.5 percent.
- In Virginia, payroll employment rose 1.0 percent in April compared with last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads employment grew 0.2 percent, and Richmond-Petersburg rose 1.5 percent.
- The seasonally adjusted unemployment rate was unchanged at 2.9 percent in April and remains 0.2 percent below last year.
- The Virginia Leading Index jumped 1.0 percent in April after rising 0.1 percent in March.
  - All four components -- the U.S. Leading Index, future employment, auto registrations, and initial claims -- improved in April.
  - The index for Lynchburg decreased in April while the index for Staunton was flat; the indexes for the remaining Virginia metro areas rose last month.

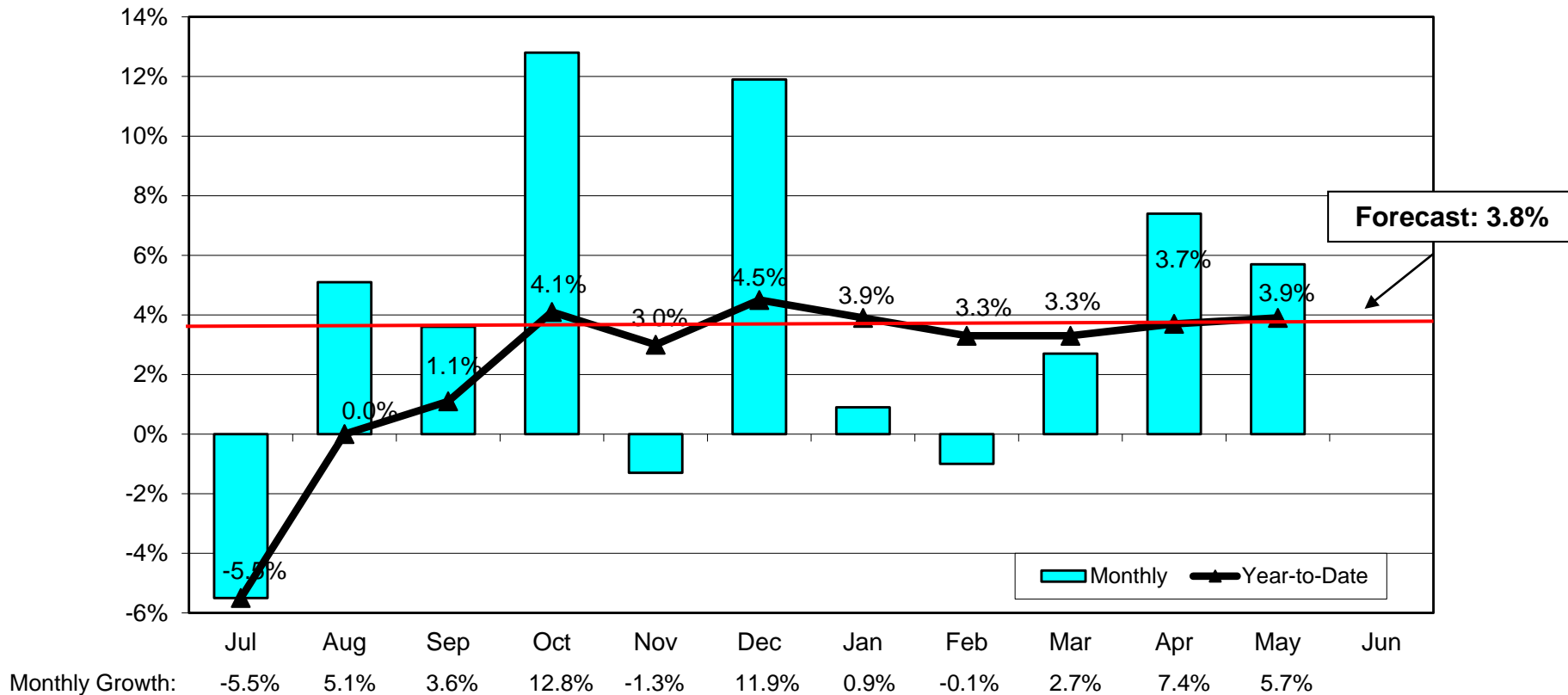
## Growth in Total General Fund Revenue Collections

### FY19 Monthly and Year-to-Date



- Total general fund revenues increased 22.5 percent in May.
  - Most of the increase is due to individual nonwithholding payments received for the May 1 filing date.
- On a year-to-date basis, total revenues increased 7.9 percent, ahead of the annual forecast of a 3.3 percent increase.

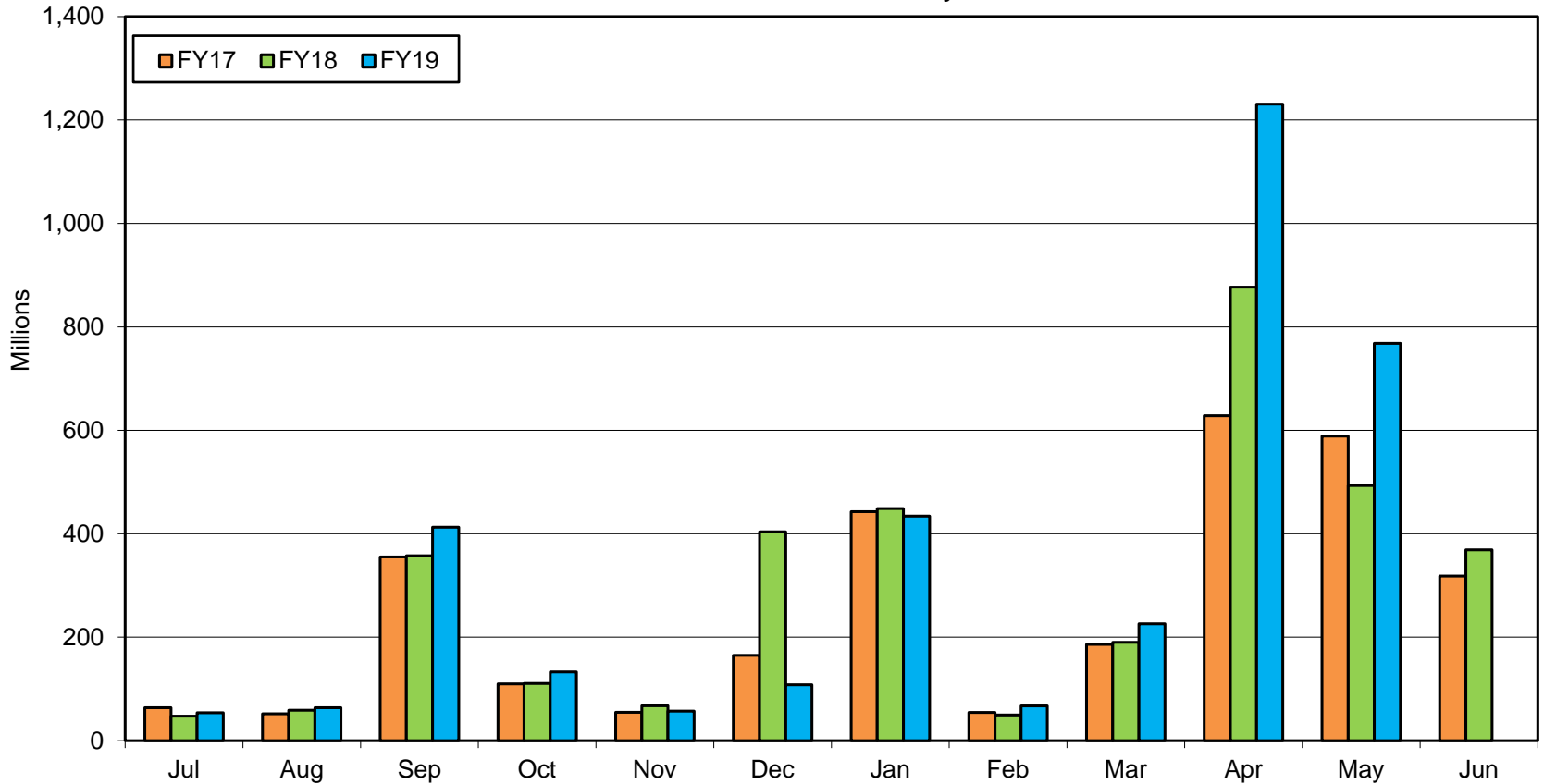
## Growth in Withholding Tax Collections FY19 Monthly and Year-to-Date



- Collections increased 5.7 percent in May.
  - There were no significant calendar day issues affecting year over year comparisons.
- Year-to-date, withholding collections have increased 3.9 percent compared with the same period last year, ahead of the projected annual growth of 3.8 percent.

# Nonwithholding Tax Collections

FY17 - FY19 Monthly



- To date, the entire nonwithholding forecast has been collected and collections are \$131.5 million over the estimate contained in Chapter 854.
  - April and May's \$2.0 billion in receipts includes payments due to the *Tax Cuts and Jobs Act*.
    - Next highest year was FY13 -- \$1.4 billion – due in part to changes in federal tax policy in 2012.
  - April and May's receipts were 46 percent higher than last year's April and May.
- June receipts will mainly be estimated payments for tax year 2019 and continues to be a significant unknown positive affecting the revenue forecast.

## Individual Income Tax Refunds

- As the main filing season continues, \$144.6 million in refunds were issued in May compared with \$168.2 million last May.
- Year-to-date, refunds decreased 10.3 percent from the same period last year, as compared to the estimate of a 5.4 percent increase.
  - Since the filing season began in February, TAX has issued 2.3 million refunds, about 152,000 fewer than through May of last year.
  - Part of the decline in refunds is due to the *Tax Cuts and Jobs Act* effects on Virginians.

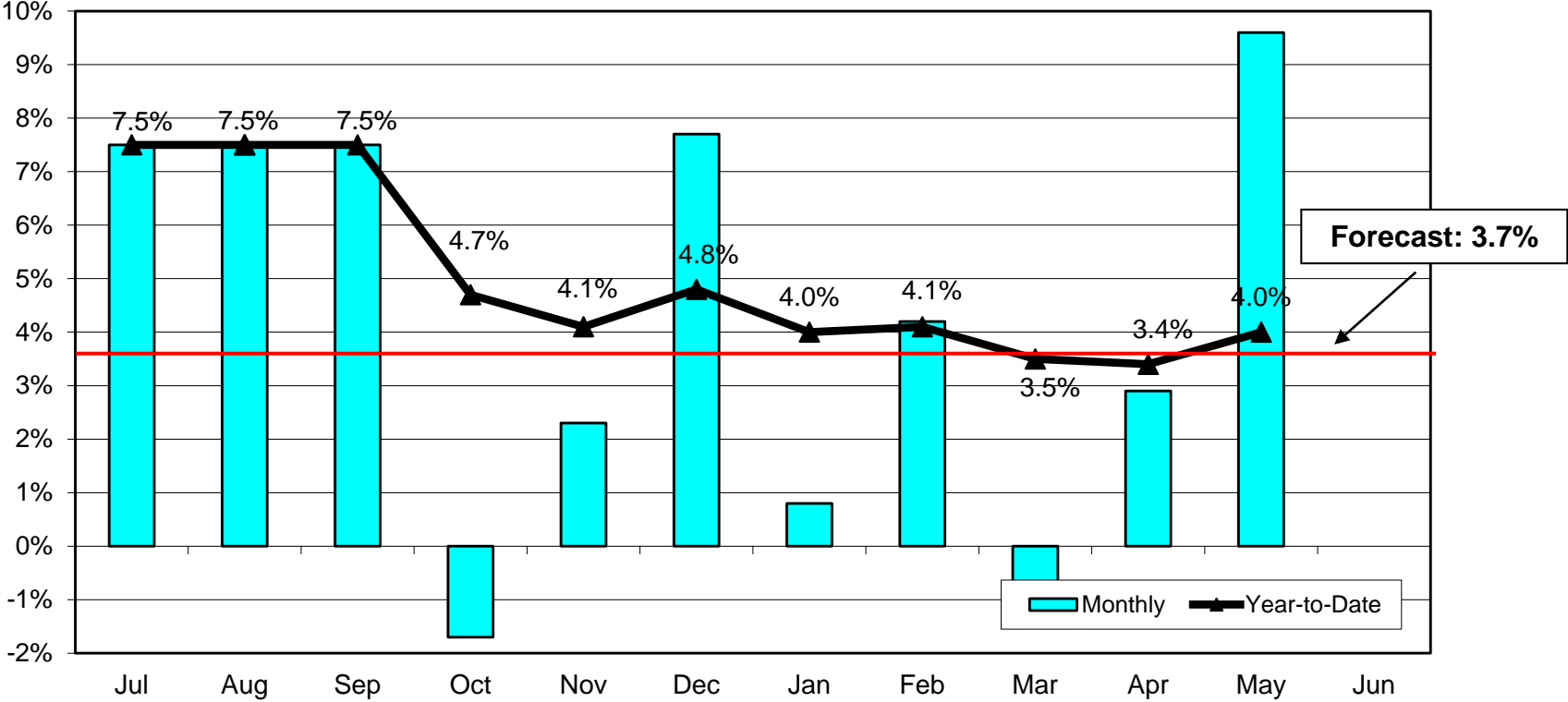
## Net Individual Income Tax

- Through May, collections of net individual income tax rose 8.5 percent from the same period last year, ahead of the annual estimate of 2.2 percent growth contained in Chapter 854.



# Growth in Sales Tax Collections

## FY19 Monthly and Year-to-Date



Monthly Growth: 7.5% 7.5% 7.5% -1.7% 2.1% 7.7% 0.8% 4.2% -1.1% 2.9% 9.7%

- Collections of sales and use taxes, reflecting mainly April sales, increased 9.7 percent in May.
- On a year-to-date basis, collections increased 4.0 percent, ahead of the annual estimate of 3.7 percent growth.
  - Sales tax dealers payments have increased 2.6 percent
  - Use tax dealers (includes internet sellers) payments have increased 13.8 percent

## **Net Corporate Income Tax Collections**

- This is not a significant month.
- On a year-to-date basis, collections in this source have increased 12.3 percent, behind the estimate of 17.4 percent growth.

## **Recordation Tax Collections**

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 13.8 percent in May.
  - On a year-to-date basis, collections have declined 2.1 percent as compared to the forecast of a 6.7 percent decline.

## **Insurance Premiums Tax**

- This is not a significant month.
- For the fiscal year-to-date, net insurance premiums tax collections are \$253.6 million compared with \$217.6 million during the same period last year.

# Summary of Fiscal Year 2019 Revenue Collections

July through May

Percent Growth over Prior Year

<u>Major Source</u>	<u>As a % of Total Revenues</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>	<u>June Req'd to Meet Est.</u>	<u>Prior Year June</u>
Withholding	63.4 %	3.9 %	3.8 %	0.1 %	3.0 %	8.6 %
Nonwithholding	16.7	14.4	(1.5)	15.9	(135.7)	15.9
Refunds	(9.8)	(10.3)	5.4	(15.7)	394.1	(10.9)
Net Individual	70.3	8.5	2.2	6.3	(53.6)	11.7
Sales	17.5	4.0	3.7	0.3	2.0	4.0
Corporate	4.9	12.3	17.4	(5.1)	37.1	2.4
Wills (Recordation)	1.8	(2.1)	(6.7)	4.6	(47.0)	8.3
Insurance	1.9	16.5	17.0	(0.5)	17.8	(0.9)
All Other Revenue	3.6	12.9	3.0	9.9	(44.5)	1.0
<b>Total</b>	<b>100.0 %</b>	<b>7.9 %</b>	<b>3.3 %</b>	<b>4.6 %</b>	<b>(30.7) %</b>	<b>7.9 %</b>
Total less Corp & Nonwithholding	78.4 %	6.2 %	3.5 %	2.7 %	(16.3) %	7.0 %

- To attain the Chapter 854 enacted budget and fully fund the *Taxpayer Relief Fund* of \$450 million, total fiscal year revenue growth needs to be 5.5 percent.

## Next Significant Data Points

- **June**
  - Individual, corporate and insurance companies have estimated payments due June 15.
  - AST payments are due June 30 and when combined with the final deposit day for payroll withholding, represents deposits of over \$300 million in general fund revenue.

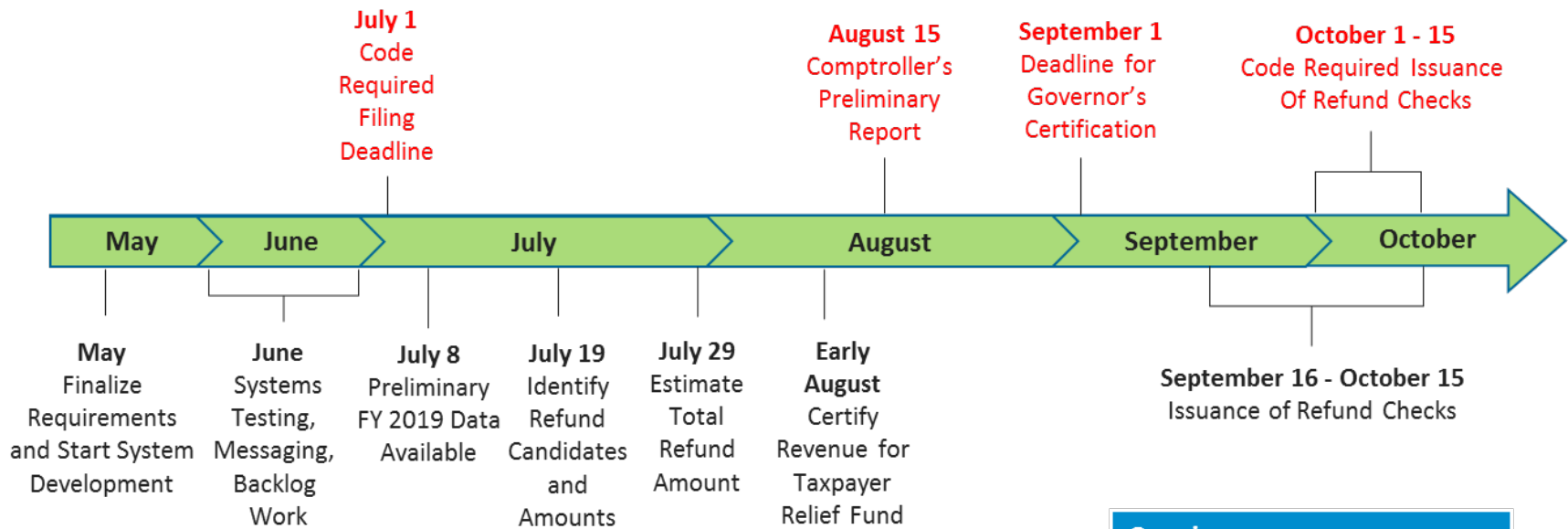
# Taxpayer Relief Refunds

## Statutory Requirements

- ▶ 2018 Individual Tax Return must be filed by July 1, 2019
- ▶ Refund amount is a maximum of \$110 for an individual and \$220 for a joint return
  - ▶ Limited to the tax liability after any deductions, subtractions or credits to which the individual is entitled
- ▶ The Governor, in consultation with the State Comptroller and the Tax Commissioner, must certify revenue for the Taxpayer Relief Fund to the General Assembly on or before September 1, 2019
- ▶ If the estimated amount in the Taxpayer Relief Fund is insufficient to issue the full amount of the refunds, then such refunds will be reduced and prorated
- ▶ Refunds to be issued on or after October 1, 2019 but before October 15, 2019

# Taxpayer Relief Refunds

## High-Level Anticipated Timeline



- Ongoing:**
- Error worklists cleared
  - Refund checks reissued
  - File generation for Treasury

Note: Dates in red are in *Code of Virginia*

# Taxpayer Relief Refunds

## Potential Shifting Extension Returns from Fall to June 2019

- ▶ Impact of refund returns typically filed between July and December that might be filed by July 1 to qualify for refund
  - ▶ 348,000 returns filed July 2018 – December 2018
    - ▶ 42 % paper (versus 16% January – June)
    - ▶ Typically on average 10% of total refunds are issued during this period
- ▶ Extent shifting will occur is unknown, but could affect FY 2019 revenue results (more refunds) and the calculation of amount needed in Relief Fund to avoid proration

# Taxpayer Relief Refunds

## Outstanding Issues Virginia Department of Taxation Will Address

- ▶ Majority of returns filed by July 1 will be fully processed by late July
  - ▶ However, there will be returns filed by July 1, that have not completed processing by October 15
- ▶ Specifically, returns stopped by TAX's refund fraud unit pending receipt of documentation
  - ▶ These filed returns COULD be eligible for a relief refund check if documentation is provided
  - ▶ Expect far fewer to be eligible, but it is an unknown
  - ▶ Once documentation received and return fully processed a tax relief check will be issued after October 15



# Taxpayer Relief Refunds

## Outstanding Issues Virginia Department of Taxation Will Address

- ▶ Timely filed returns are also stopped for return errors that must be addressed prior to processing
  - ▶ For example, taxpayers claiming an incorrect tax credit or deduction amount
  - ▶ Many of these require documentation from taxpayers
- ▶ Estimates are that up to 10,000 returns could be on an error worklist and not be posted by mid-August depending on receipt date
  - ▶ Have allocated substantial overtime and other staff resources to address error worklist
  - ▶ Still will have timely filed returns that complete processing after October 15
- ▶ Depending on when first file is generated for Treasury, the potential to clear more worklists could further reduce the number yet to be processed

# Taxpayer Relief Refunds

## Outstanding Issues Virginia Department of Taxation Will Address

- ▶ Statute requires that taxpayer relief refunds be subject to the state's debt set-off program
  - ▶ Set-off refunds typically generate large volumes of calls to TAX
  - ▶ All checks will have set-off agency, contact and phone number
  - ▶ Taxpayers need to resolve issues directly with set-off agency however in some instances we will have additional work in reissuance of taxpayer relief refunds
- ▶ Refund checks returned by the Post Office as “undelivered” will require additional time to be re-issued – likely causing the affected taxpayers to receive checks beyond October 15