



COMMONWEALTH of VIRGINIA

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Secretary of Finance

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February 11, 2022

MEMORANDUM

TO: The Honorable Glenn Youngkin

THROUGH: The Honorable Jeff Goettman

FROM: Stephen E. Cummings

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 21.9 percent in January, with broad-based strength in major source receipts, but mainly driven by collections in individual withholding and nonwithholding and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 15.4 percent through January, well ahead of the annual forecast of a 4.2 percent increase.

National Economic Indicators

Recent data indicate the U.S. economy continues to expand.

- According to the preliminary estimate, real GDP rose at an annualized rate of 6.9 percent in the fourth quarter of 2021, following 2.3 percent in the third quarter. The growth came as effects of the Delta variant waned and before the Omicron variant surge started.
- The labor market added 467,000 jobs to payrolls in January following 510,000 in December. In a separate report, the unemployment rate rose from 3.9 to 4.0 percent.
- Initial claims for unemployment fell by 23,000 to 238,000 during the week ending January 29. The four-week moving average rose from 247,250 to 255,000. In a healthy economy, new filings are typically below 250,000.

- The Conference Board's index of leading indicators rose 0.8 percent in December to 120.8, and follows growth of 0.7 percent in November.
- The Conference Board's index of consumer confidence fell from 115.2 to 113.8 in January. Both the current conditions and expectations components declined for the month.
- The Institute of Supply Management index fell from 58.8 to 57.6 in January, although it remains above the neutral threshold of 50.0. Supply chain disruptions continue to weigh on U.S. manufacturing.
- The CPI rose 0.5 percent in December and stands 7.0 percent above December of last year. Core inflation (excluding food and energy prices) rose 0.6 percent and stands 5.5 percent above a year ago.
- At its January 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 2.8 percent in December from December of last year. Employment in Northern Virginia rose by 3.8 percent; Hampton Roads rose 1.2 percent, Richmond-Petersburg rose 0.2 percent; and the balance of the state increased 4.1 percent. The seasonally adjusted unemployment rate fell 0.2 percentage point to 3.2 percent and stands 2.4 percentage points below a year ago.

The Virginia Leading Index jumped 2.5 percent in December after rising 0.6 percent in November. All components of the Virginia Leading Index: the U.S. leading index, auto registrations, initial claims, and future employment improved in December. The index for Northern Virginia declined in December while the indexes for the remaining ten metro areas increased.

January Revenue Collections

Total general fund revenues grew 21.9 percent in January, with broad-based strength in major source receipts, but mainly driven by collections in individual withholding and nonwithholding and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 15.4 percent through January, well ahead of the annual forecast of a 4.2 percent increase.

Net Individual Income Tax (69% of general fund revenues): Through January, collections of net individual income tax rose 12.7 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 17.5 percent for the month. Year-to-date, collections have

risen 11.4 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): Collections in nonwithholding were \$728.0 million compared with \$576.2 million in January of last year, an increase of 26.4 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 15 to submit their fourth estimated payment for tax year 2021 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 27.2 percent from last year.

Year-to-date, collections in nonwithholding grew by 8.1 percent, ahead of the annual estimate of a 0.2 percent decline.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$38.0 million in refunds compared with \$37.1 million in January of last year, a 2.4 percent increase. The main income tax filing season begins in February.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting December sales, rose 19.9 percent in January. The combined December and January receipts, representing the bulk of the holiday shopping season, were 18.3 percent above the same period last year. On a year-to-date basis, collections of sales and use taxes have risen 15.7 percent, ahead of the annual estimate of 6.3 percent growth.

Corporate Income Tax (7% of general fund revenues): Collections of corporate income taxes were \$61.5 million in January, compared with receipts of \$49.3 million in January of last year. On a year-to-date basis, collections have increased 55.0 percent 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 \$51.5 million in January, compared with \$46.9 million in January of last year, an increase of 9.7 percent. On a year-to-date basis, collections are up 3.0 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.

January was a negative month in this source as the typical refunds were issued to insurance companies. Year-to-date collections of taxes on insurance premiums were \$75.3 million through January, compared with \$46.1 million in the same period last year.

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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 (<i>0.4% GF revenues</i>)	21.4%	6.7%
ABC Taxes (<i>1% GF revenues</i>)	(2.4)%	1.4%

All Other Revenue (*2% of general fund revenues*): Receipts in All Other Revenue rose 19.4 percent in January, \$45.8 million compared with \$38.4 million a year ago. On a year-to-date basis, collections of All Other Revenue rose 17.5 percent from the same period last year, above the annual estimate of 3.1 percent growth.

Summary

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These collections will be analyzed and form the basis of any mid-session forecast to be released next week when completed.