



# Revenue Update

## *Briefing for Agency Heads*

**Jody M. Wagner**

Secretary of Finance

Commonwealth of Virginia

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

May 23, 2007

# Summary of Fiscal Year 2007 Revenue Collections

July through April

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD</u> <u>Actual</u>	<u>04/04/07</u> <u>Estimate</u>	<u>Variance</u>
Withholding	53.9 %	5.7 %	5.7 %	0.0 %
Nonwithholding	17.6	7.1	10.2	(3.1)
Refunds	(8.5)	27.4	4.2	23.2
Net individual	63.1	2.9	7.1	(4.2)
Sales *	19.6	4.2	4.2	0.0
Corporate	5.7	0.3	3.4	(3.1)
Wills (Recordation)	3.5	(16.6)	(20.2)	3.6
Insurance	2.4	(0.4)	2.9	(3.3)
All Other Revenue	5.7	8.3	16.2	(7.8)
<b>Total **</b>	<b>100.0 %</b>	<b>2.9 %</b>	<b>5.4 %</b>	<b>(2.5) %</b>

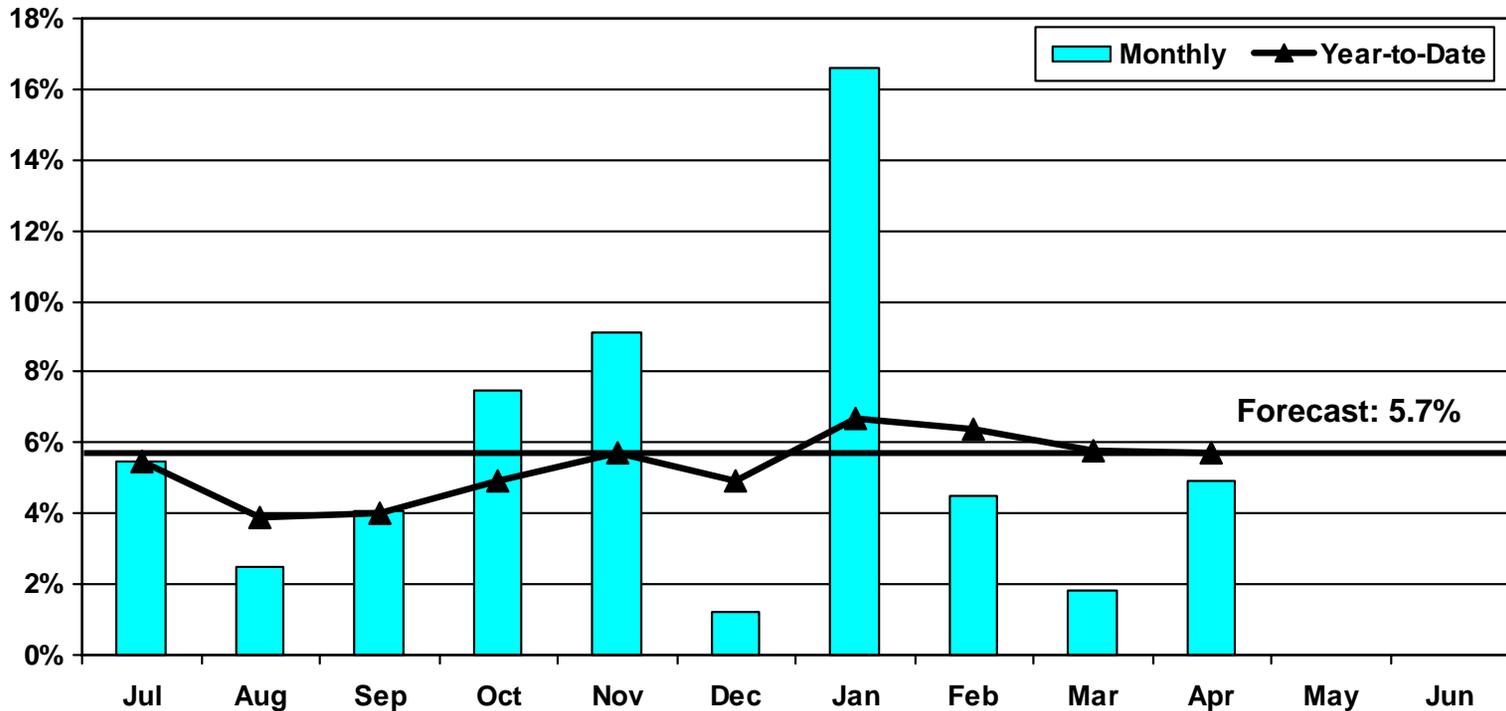
\* Adjusted for the end of the Accelerated Sales Tax program in FY06. Unadjusted growth stands at 11.2% compared with the forecast of 10.0% growth.

\*\* Adjusted for the end of the Accelerated Sales Tax program and controlled production in FY06. Unadjusted growth stands at 3.6% compared with the forecast of 6.5% growth.

Note: Variance computations may appear off due to rounding.

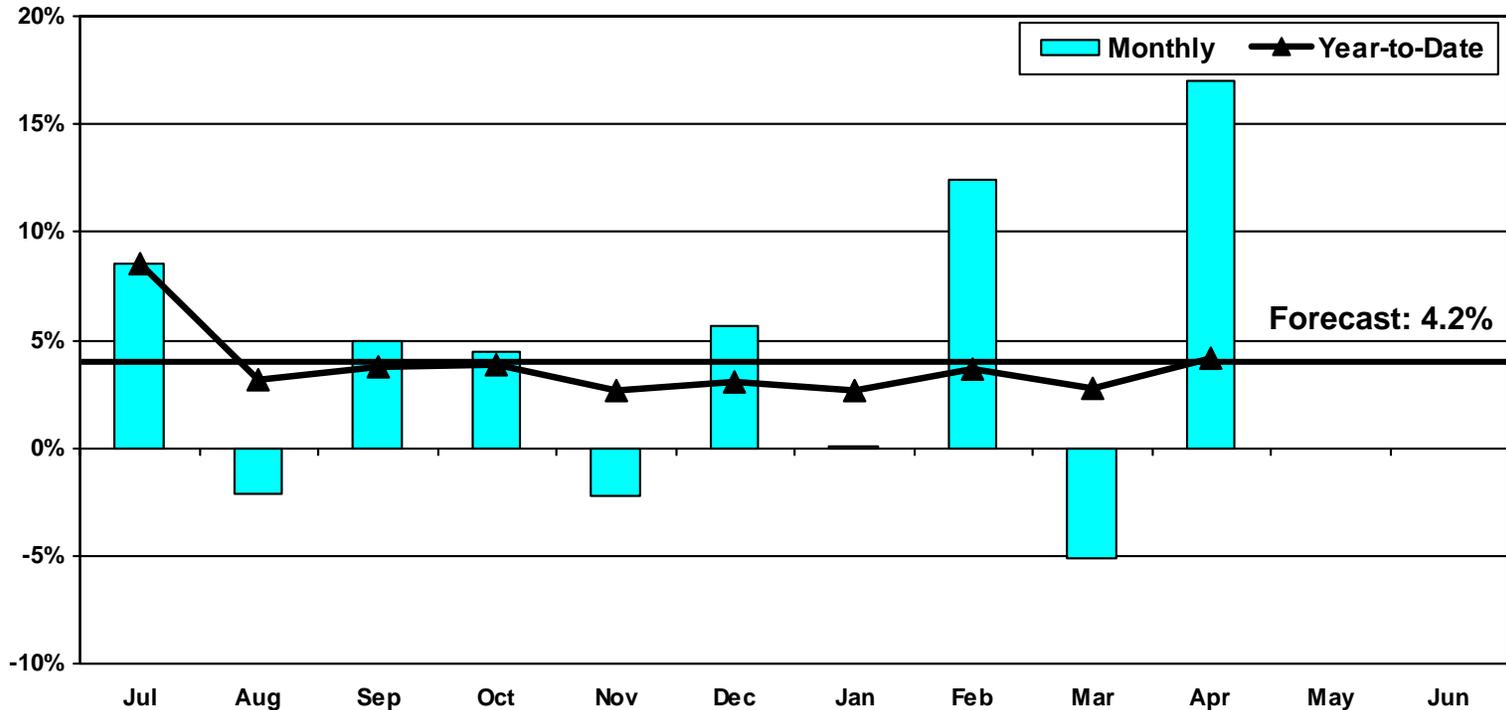
## Growth in Withholding Tax Collections

### FY07 Monthly and Year-to-Date



- Despite an additional deposit day compared with April of 2006, collections of payroll withholding taxes grew a modest 4.9 percent in April.
- Year-to-date withholding growth is 5.7 percent, matching the projected annual growth rate.
- In order to reach the annual estimate, receipts for May and June must grow 5.3 percent over the same period last year when collections experienced extraordinary growth of 11.7 percent. Withholding growth for 4 out of the last 5 months has been below 5.0 percent.

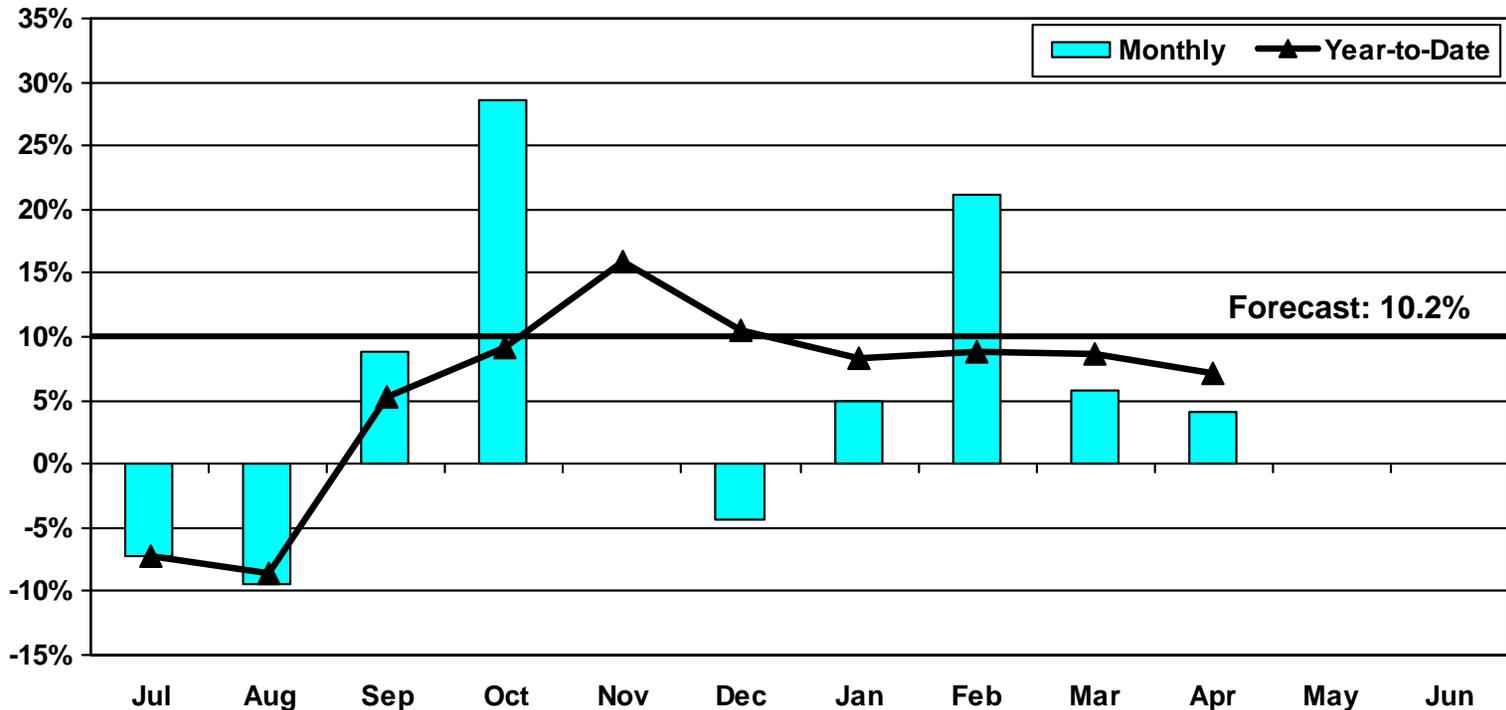
## Growth in Sales Tax Collections FY07 Monthly and Year-to-Date



Note: July and Year-to-date growth are adjusted for the end of the Accelerated Sales Tax Program in FY06.

- Collections of sales and use taxes, reflecting March sales, grew 17.0 percent in April. Five Saturdays in March and Easter falling early in April contributed to the growth.
- Year-to-date growth in sales and use taxes of 11.2 percent is inflated due to the repeal of the Accelerated Sales Tax program. Adjusting for the repeal of this program, growth in this source was 4.2 percent through April, matching the projected annual growth rate.

## Growth in Nonwithholding Tax Collections FY07 Monthly and Year-to-Date



- April is a significant month for nonwithholding collections. Collections grew 4.1 percent over April of last year. Typically, a large portion of final payments due May 1 are received in April, however, the amount varies from year to year.
- Estimated and final payments will continue to be processed in May; therefore, one must consider April and May collections together to accurately assess growth in this source.

## Preliminary May Nonwithholding Collections and Implications

- Collections of individual nonwithholding payments through May 18<sup>th</sup> have been strong.
  - Taken together, April and May collections are projected to grow 17 percent over the same period last year.
- Based on analysis through May 18<sup>th</sup>, year-to-date growth in nonwithholding collections through May is projected to be about 13 percent.
- In summary, May collections have put the nonwithholding forecast tracking close to target.
- June collections (the 2<sup>nd</sup> individual estimated payment for 2007 liability) remain the key in attaining the annual estimate.
  - Collections last year totaled \$285.5 million, growth of 16.6 percent over June 2005.

## Individual Income Tax Refunds

- Individual refunds grew 26.5 percent in April, \$401.6 million compared with \$317.5 million in April of last year. Year-to-date growth stands at 27.4 percent, significantly ahead of the annual estimate of 4.2 percent growth.
- For the filing season beginning January 1, TAX has issued about 70,000 more refunds than the same period last year. The average refund check size is up 13 percent compared with the forecast of 5 percent growth.
- Through the first ten months of the fiscal year, individual refunds have already surpassed the annual forecast of \$1.3 billion.
- For May 1<sup>st</sup> through May 18<sup>th</sup>, TAX has issued an additional \$105 million in individual refunds.
  - Over the last 3 years, the average for May and June combined is \$167 million.

## Individual Income Tax Refunds

### A Comparison of 2006 and 2007 Filing Season Refunds

(millions of dollars)

Range	Jan-May 2006		Jan-May 2007		Year-over-Year Change	
	# of Returns	Total Dollars	# of Returns	Total Dollars	# of Returns	Total Dollars
< \$500	1,540,262	\$261.2	1,522,059	\$270.6	(18,203)	\$9.4
\$500 - \$1,000	382,932	272.4	440,020	311.1	57,088	38.6
\$1,000 - \$2,500	231,818	334.3	271,201	396.7	39,383	62.4
\$2,500 - \$5,000	22,911	73.7	32,586	105.6	9,675	31.9
> \$5,000	2,036	30.2	6,077	68.6	4,041	38.4
Total	2,179,959	\$971.8	2,271,943	\$1,152.6	91,984	\$180.8

Note: Data reflects refund processing as of May 18<sup>th</sup>.

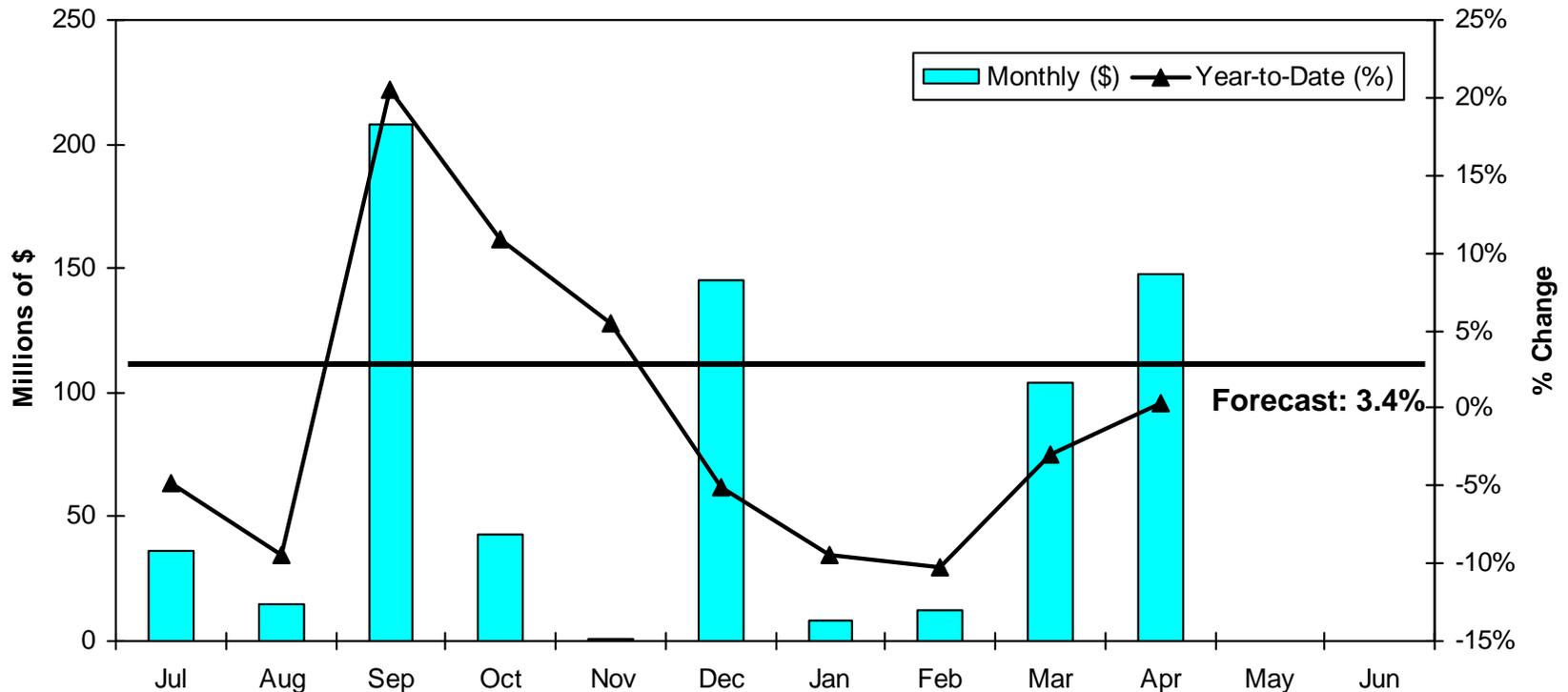
- The extraordinary growth in refunds during the 2007 filing season has been primarily driven by growth in large refunds, or those refunds greater than \$1,000.
  - Each \$1,000 in refunds represents an overestimate of annual income of \$17,500.
- Large refund growth is a combination of overpayment of estimated income taxes throughout the year and increased tax credits claimed on final returns.
  - Anecdotal evidence suggests that the fallout in housing has significantly reduced self-employment income associated with housing.
  - Land preservation credits have exceeded expectations.
  - Low income earners have been able to claim \$30 million more than was projected in the official forecast for correcting the low income credit “cliff effect”.

## Land Preservation Credits

- Since the inception of the land preservation tax credit, about \$660 million in credits have been requested/issued. Of this amount, only about \$290 million in credits have been claimed on individual returns, including \$59 million through May 18<sup>th</sup> for 2006 returns.
- Recent legislative changes have capped the amount of credits that may be issued to \$100 million beginning with tax year 2007. However, there is no limit on the amount that may be claimed in any given year.
- In fiscal year 2006, land preservation credits claimed on individual returns totaled about \$70 million.
- The official forecast assumed that \$75 million in land preservation credits would be claimed in fiscal year 2007. For fiscal year 2007 through May 18<sup>th</sup>, claimed credits have totaled about \$110 million.

## Corporate Income Tax Collections -- Net

### FY06 Monthly Collections and Year-to-Date Growth

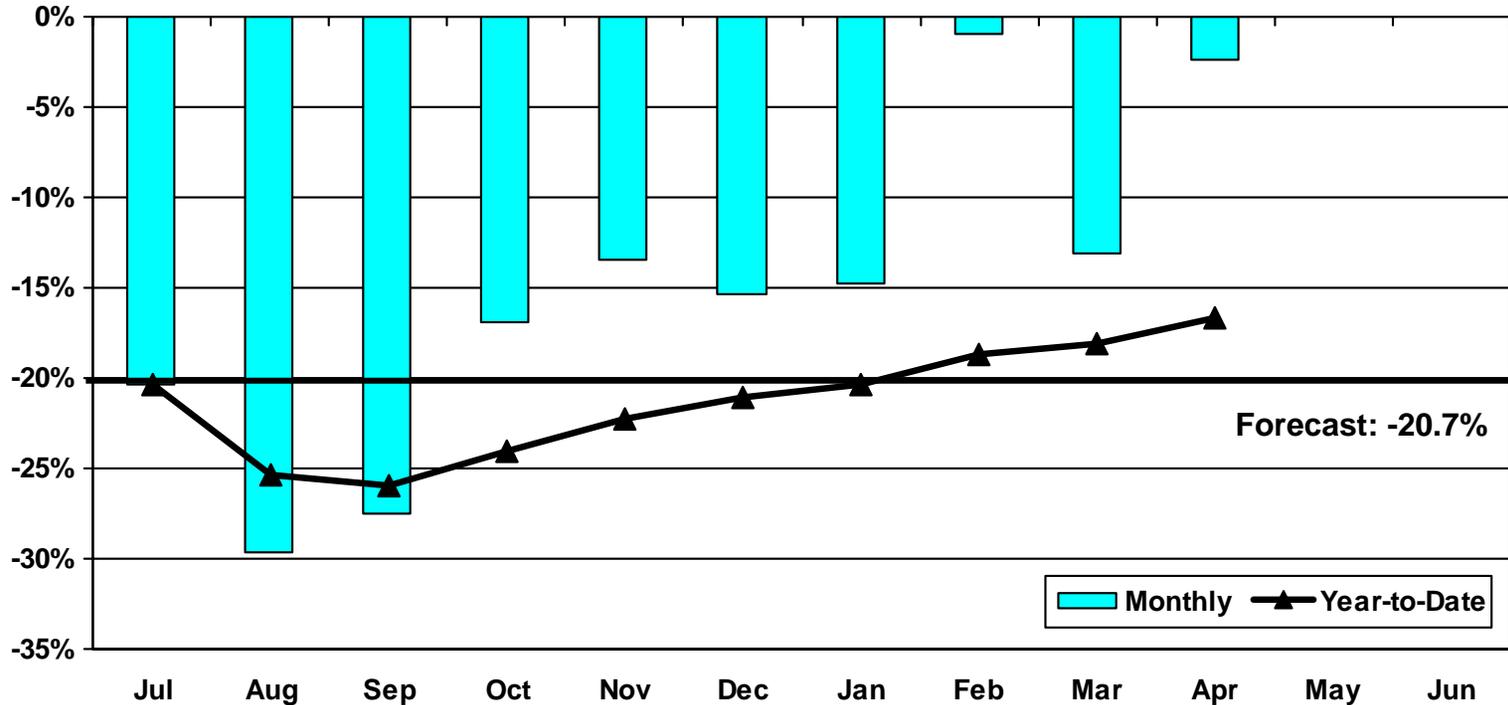


- A sample of April payments from large corporations reveals payments attributable to calendar year 2006 liabilities declined 19 percent while estimated payments towards calendar year 2007 liability fell 4 percent. Monthly collections increased 15.9 percent in April due to a delay in refund processing last year at TAX that pushed refunds from the first half of fiscal year 2006 into April 2006.
- Year-to-date collections are up 0.3 percent compared to the same period last year, trailing the annual projected growth rate of 3.4 percent.

## Corporate Income Tax Receipts

- The weak growth in corporate income tax payments is broad-based across corporation size.
- Data through June will allow a full analysis of corporate income tax receipts for the final quarter of the fiscal year, which includes two estimated payments for 2007 liability and a final payment for 2006 liability.
- Additional data will allow an analysis of corporate payments by industry.
  - Housing, IT/Defense, Retail

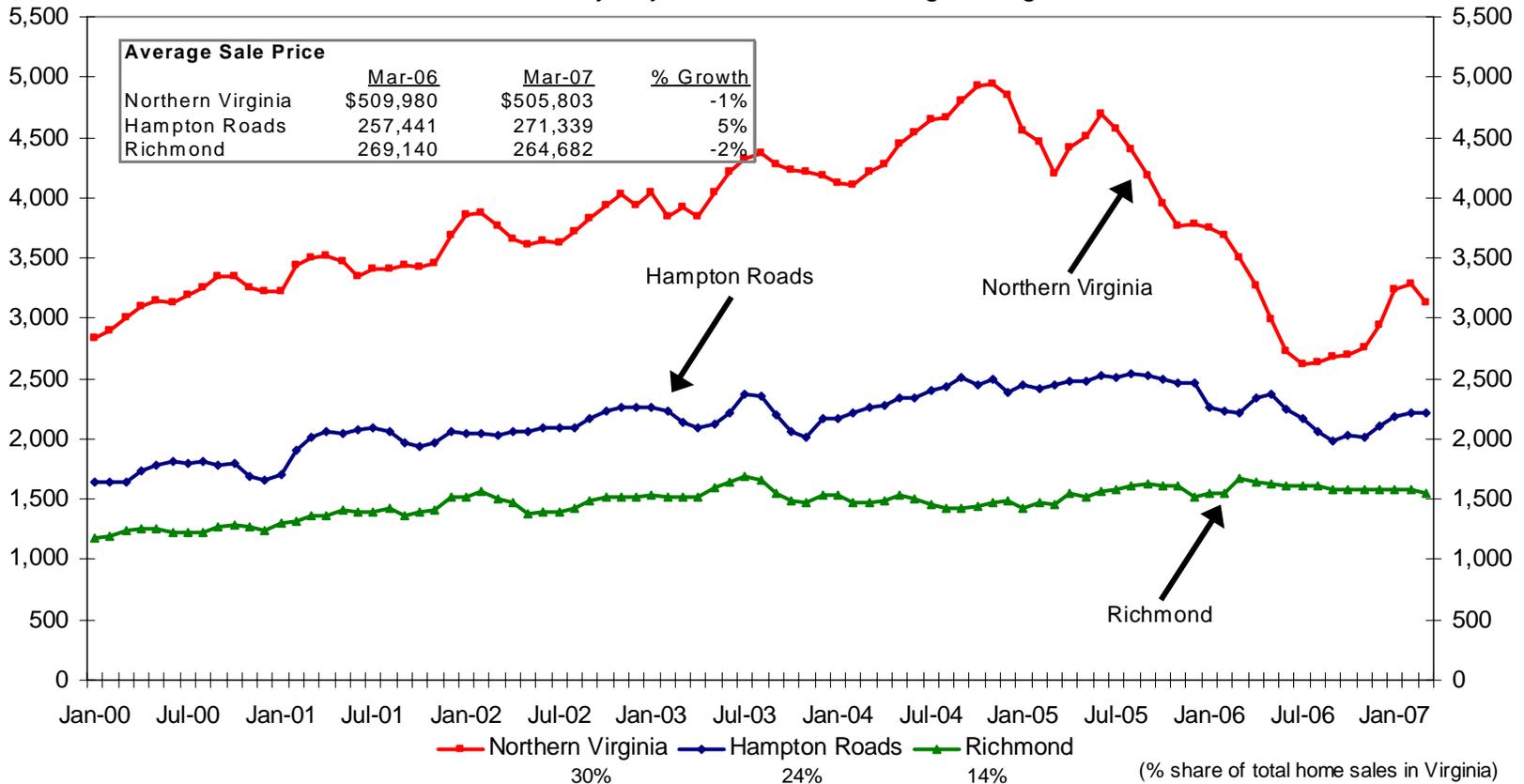
## Growth in Recordation Tax Collections FY07 Monthly and Year-to-Date



- Recordation tax collections are the main component of wills, suits, deeds, and contracts. Collections declined 2.4 percent in April and are down 16.7 percent through ten months of the fiscal year, better than the annual estimate.

## Pending Home Sales in Northern Virginia, Hampton Roads, and Richmond Levels

Seasonally-adjusted 3-month moving average



- Pending home sales in the three major metropolitan areas, representing about 70% of total recordation taxes, are down from prior year levels.

## Next Steps

- Section 2.2-1503.3 of the Code of Virginia requires a reestimate of general fund revenues if the sum of individual income, corporate income, and sales taxes fall more than 1.0 percent below the official budget estimate for the three sources.
  - For fiscal year 2007, the 1.0 percent threshold is \$139.6 million.
- Based on analysis of revenues through May 18<sup>th</sup>, a reforecast of general fund revenues will need to be completed.
- The Secretary of Finance will be creating an advisory group to analyze the impact of the housing market on various revenue sources in the Commonwealth.
- Assuming a reforecast of general fund revenues will be necessary, such process will be completed by August 20<sup>th</sup> for presentation to the Joint Money Committees.