



# Revenue Update

## *A Briefing for the Senate Finance Committee*

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## Summary of Fiscal Year 2007 Revenue Collections

July through May

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>04/04/07 Estimate</u>	<u>Variance</u>
Withholding	53.9 %	6.3 %	5.7 %	0.6 %
Nonwithholding	17.6	12.1	10.2	1.9
Refunds	(8.5)	24.0	4.2	19.8
Net individual	63.1	5.3	7.1	(1.8)
Sales *	19.6	2.6	4.2	(1.6)
Corporate	5.7	1.6	3.4	(1.8)
Wills (Recordation)	3.5	(16.5)	(20.2)	3.7
Insurance	2.4	0.2	2.9	(2.7)
All Other Revenue	5.7	8.0	16.2	(8.2)
<b>Total **</b>	<b>100.0 %</b>	<b>3.5 %</b>	<b>5.4 %</b>	<b>(1.9) %</b>

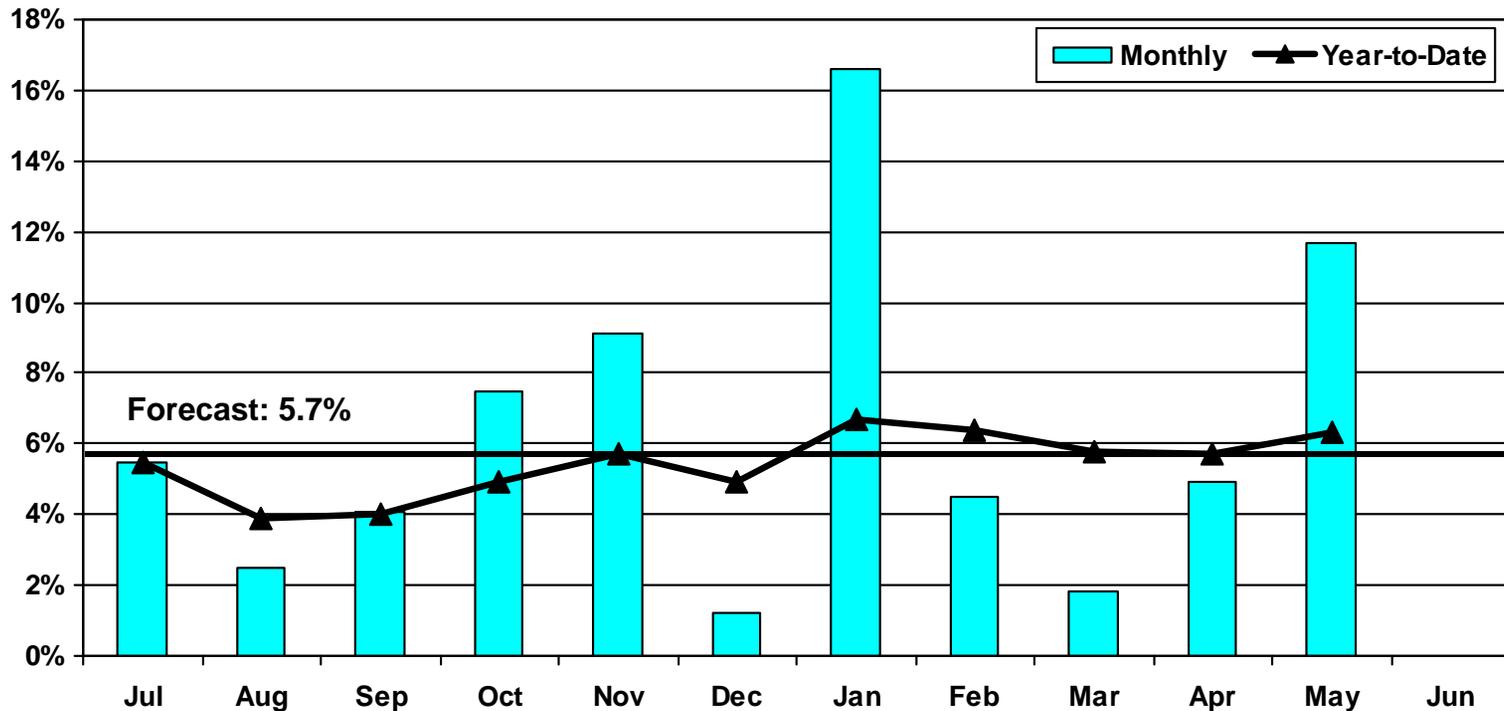
\* Adjusted for the end of the Accelerated Sales Tax program in FY06. Unadjusted growth stands at 8.8% compared with the forecast of 10.0% growth.

\*\* Adjusted for the end of the Accelerated Sales Tax program in FY06. Unadjusted growth stands at 4.7% compared with the forecast of 6.5% growth.

Note: Variance computations may appear off due to rounding.

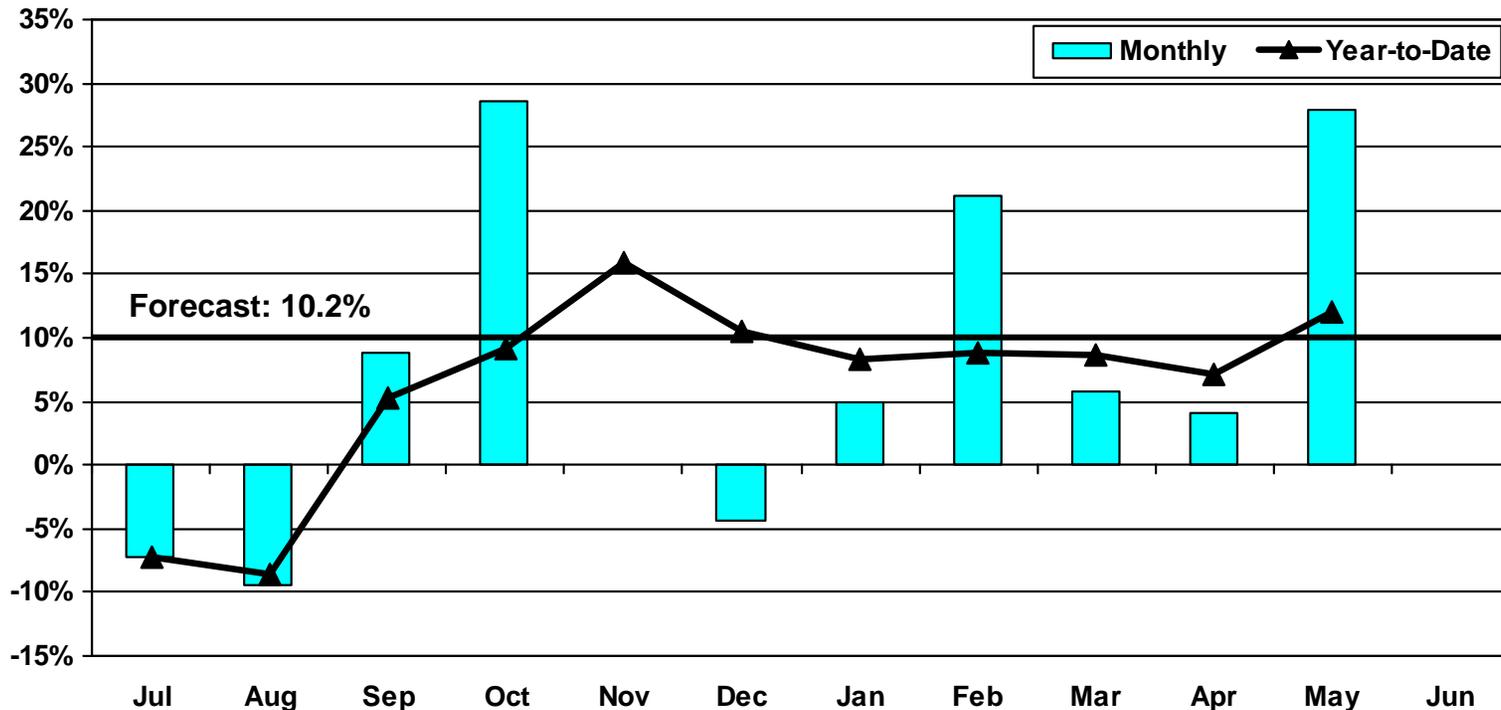
## Growth in Withholding Tax Collections

### FY07 Monthly and Year-to-Date



- Year-to-date withholding growth is 6.3 percent, slightly ahead of the projected annual growth rate of 5.7 percent.
- If June receipts are equal to June 2006 this source will reach the annual estimate. Last June, collections increased 11.7 percent.

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



- The first estimated payment for tax year 2007 liability declined about 4.5 percent from the prior year.
- 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

- Year-to-date growth stands at 24.0 percent, significantly ahead of the annual estimate of 4.2 percent growth.
- For the filing season beginning January 1, TAX has issued about 40,000 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 eleven months of the fiscal year, individual refunds have already surpassed the annual forecast of \$1.3 billion by \$170 million.
- For the first two weeks of June, TAX has issued an additional \$25 million in individual refunds.
  - Over the last 3 years, the average for June is \$50 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	1,574,966	\$266.2	1,546,598	\$274.1	(28,368)	\$7.9
\$500 - \$1,000	389,094	276.8	444,640	314.4	55,546	37.6
\$1,000 - \$2,500	236,078	340.7	274,814	402.2	38,736	61.5
\$2,500 - \$5,000	23,901	77.1	33,454	108.6	9,553	31.5
> \$5,000	2,927	40.0	7,088	81.7	4,161	41.7
Total	2,226,966	\$1,000.8	2,306,594	\$1,181.0	79,628	\$180.2

Note: Data reflects refund processing through June 1.

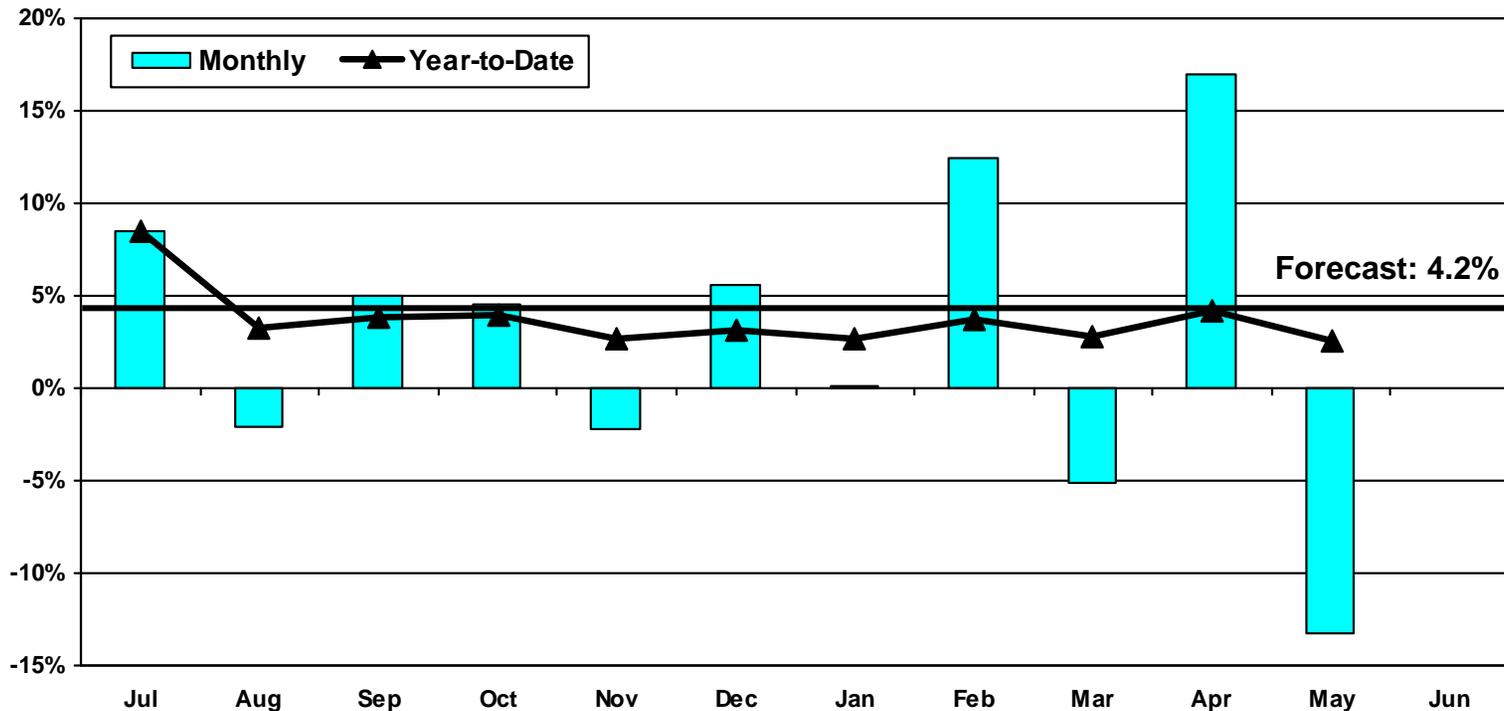
- The extraordinary growth in refunds during the 2007 filing season has been primarily driven by growth in large refunds, or those refunds greater than \$1,000.
  - Each \$1,000 in refunds represents an overestimate of annual income of \$17,500.
- Large refund growth is a combination of overpayment of estimated income taxes throughout the year and increased tax credits claimed on final returns.
  - Anecdotal evidence suggests that the downturn in housing has reduced self-employment income.
  - Land preservation credits are tracking to exceed expectations by \$75 million.

## Net Individual Income Tax

- Taken together, withholding, nonwithholding, and refunds comprise net individual income tax.
- Through May, net individual income tax has increased 5.3 percent over the same period last year, below the annual estimate of 7.1 percent growth.
- The fiscal year 2007 forecast anticipated a year-to-year deceleration in the annual growth rate of 4.4 percentage points, in line with historical results from a soft-landing in the economy.
- Growth in net individual income tax is tracking towards a 6.4 percentage point deceleration from growth in fiscal year 2006.
  - This would represent the largest year-to-year deceleration outside of an economic recession.

## Growth in Sales Tax Collections

### FY07 Monthly and Year-to-Date

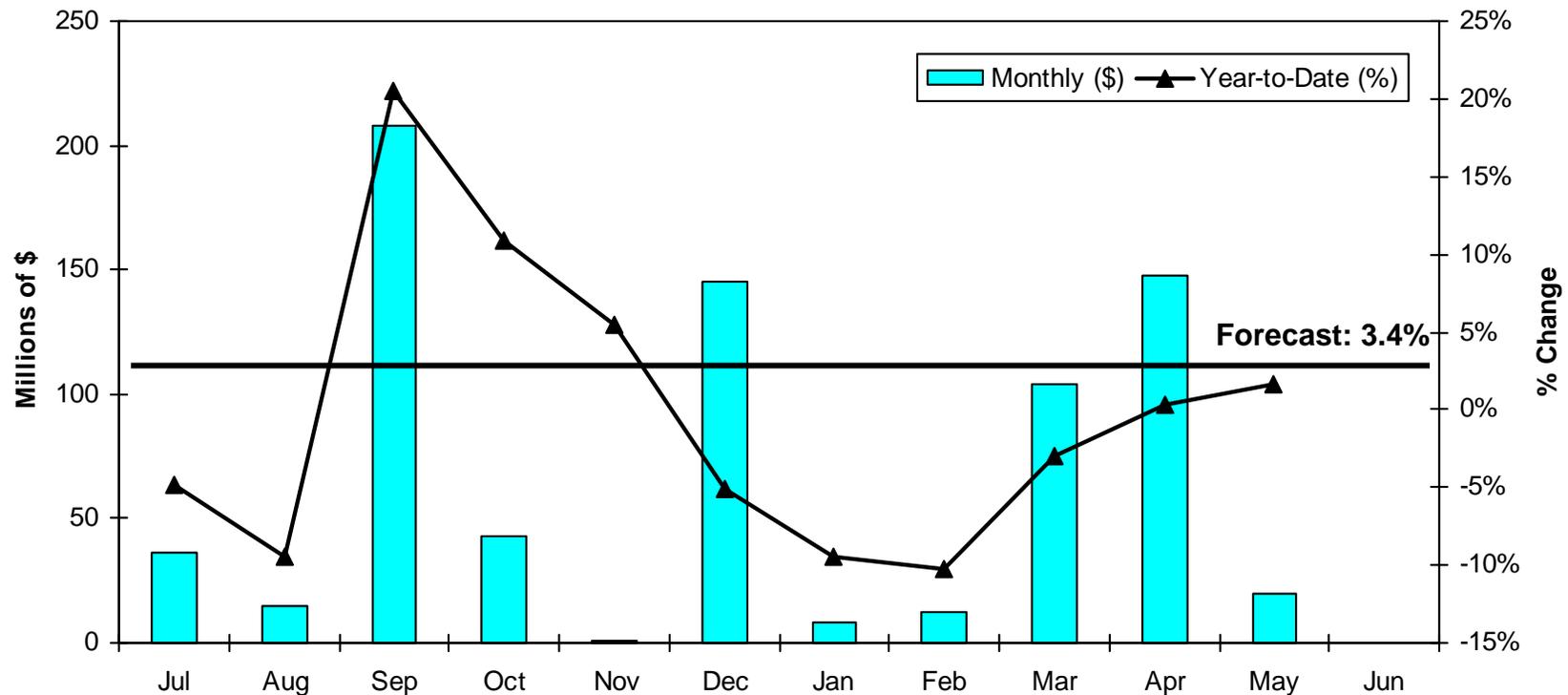


Note: July and Year-to-Date growth are adjusted for the end of the Accelerated Sales Tax Program in FY06.

- After increasing 17.0 percent in April, collections of sales and use taxes, reflecting April sales, fell 13.2 percent in May.
- Year-to-date growth in sales and use taxes of 8.8 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 2.6 percent through May, behind the projected annual growth rate of 4.2 percent.

## Corporate Income Tax Collections -- Net

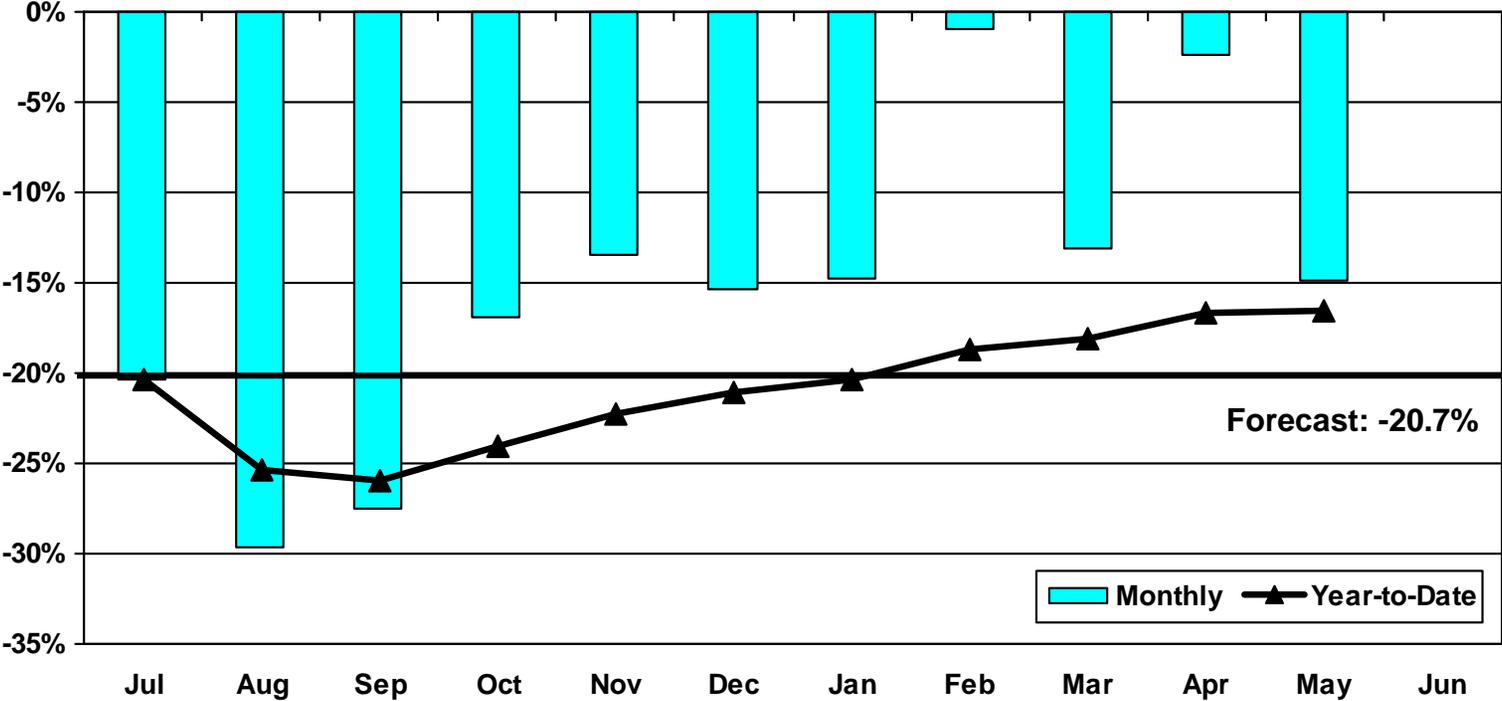
### FY07 Monthly Collections and Year-to-Date Growth



- May is typically not a significant month for corporate income tax collections. Collections this month totaled \$20.2 million, compared to \$11.4 million received last year.
- Through May, corporate income tax collections are up 1.6 percent for the year, trailing the forecast of 3.4 percent growth. The last corporate estimated payment of the fiscal year is due June 15.

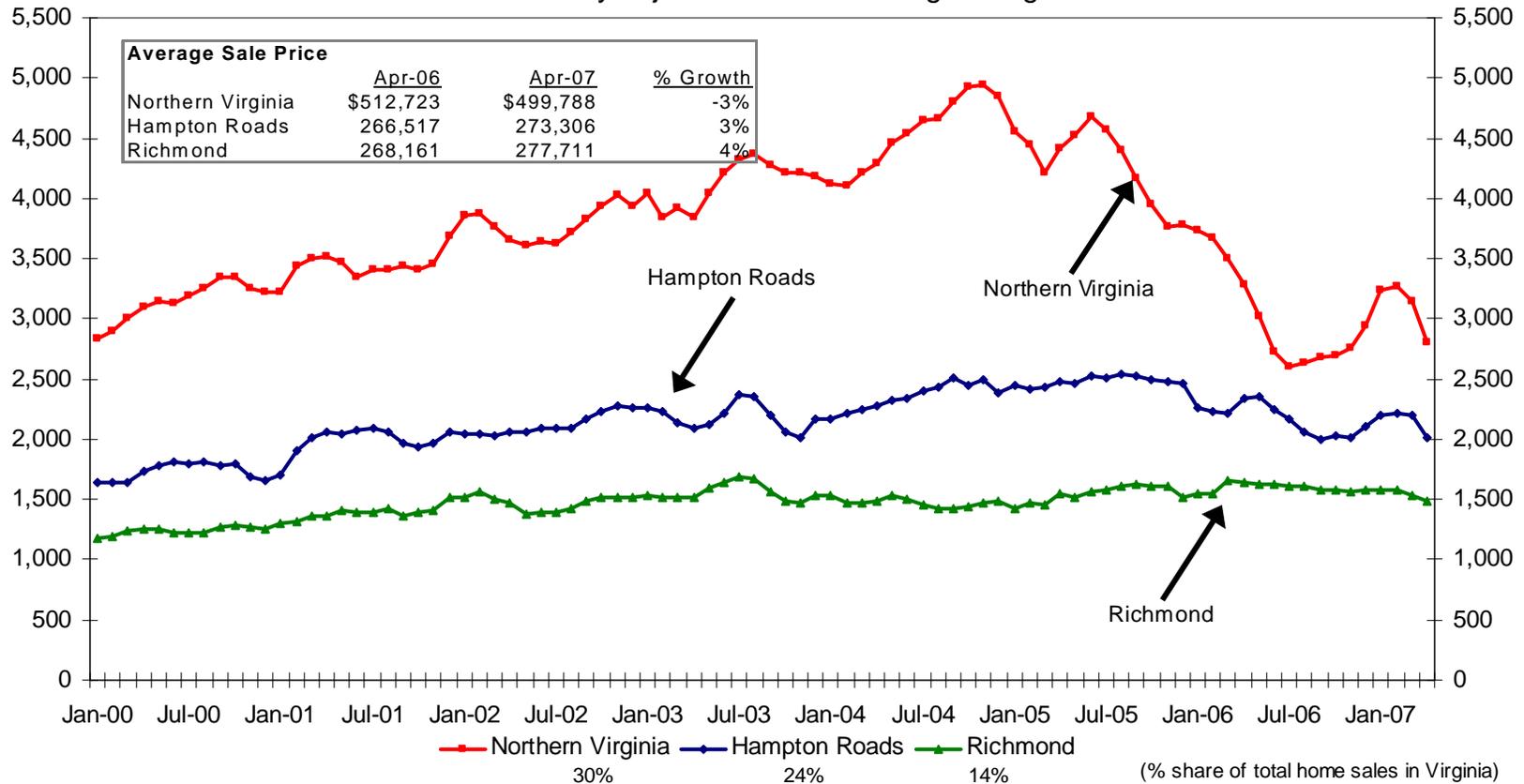
# Growth in Recordation Tax Collections

FY07 Monthly and Year-to-Date



- Recordation tax collections are the main component of wills, suits, deeds, and contracts. Collections declined 14.9 percent in May and are down 16.5 percent through eleven 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.

## Addressing the FY07 Shortfall

- Individual refunds are \$195 million ahead of the annual estimate with two weeks of processing remaining for the year.
- Corporate income tax receipts have lagged expectations, with gross payments slightly below expectations and refunds tracking ahead of the annual estimate.
- Recordation taxes, though tracking towards a decline of 16 percent for the year, have done better than expectations of a 20 percent decline.
- All other sources:
  - Insurance premiums taxes have lagged due to continued weakness in premium growth.
  - Estates are behind expectations due to not receiving any large returns.
  - General fund interest is behind expectations.
- The total revenue shortfall is tracking to be about 2.0 percent of total general fund revenue.

## Interim Forecasting Process

- The Governor's Advisory Board of Economists (GABE) met on June 13 to discuss the economic outlook for FY08 and the next biennium.
- On July 16, a special meeting will be convened with individuals involved in home building, real estate, and mortgage banking to gauge the future impact of the housing slowdown on Virginia's revenue collections.
- On July 25, the Governor's Advisory Council on Revenue Estimates (GACRE) will meet to discuss the interim economic and revenue forecasts. These forecasts will include input from the GABE and the housing sector experts.
  - The GACRE will recommend the most likely path of the Virginia economy along with the revenue forecast associated with its chosen economic outlook.
- The interim revenue forecast for fiscal years 2008 through 2010 will be released by the Governor at the Joint Money Committee meeting in August.