



...

# Individual Nonwithholding Overview

*A Briefing for the  
Senate Finance Committee*

**John R. Layman**

Chief Economist

Revenue Forecasting

Virginia Department of Taxation

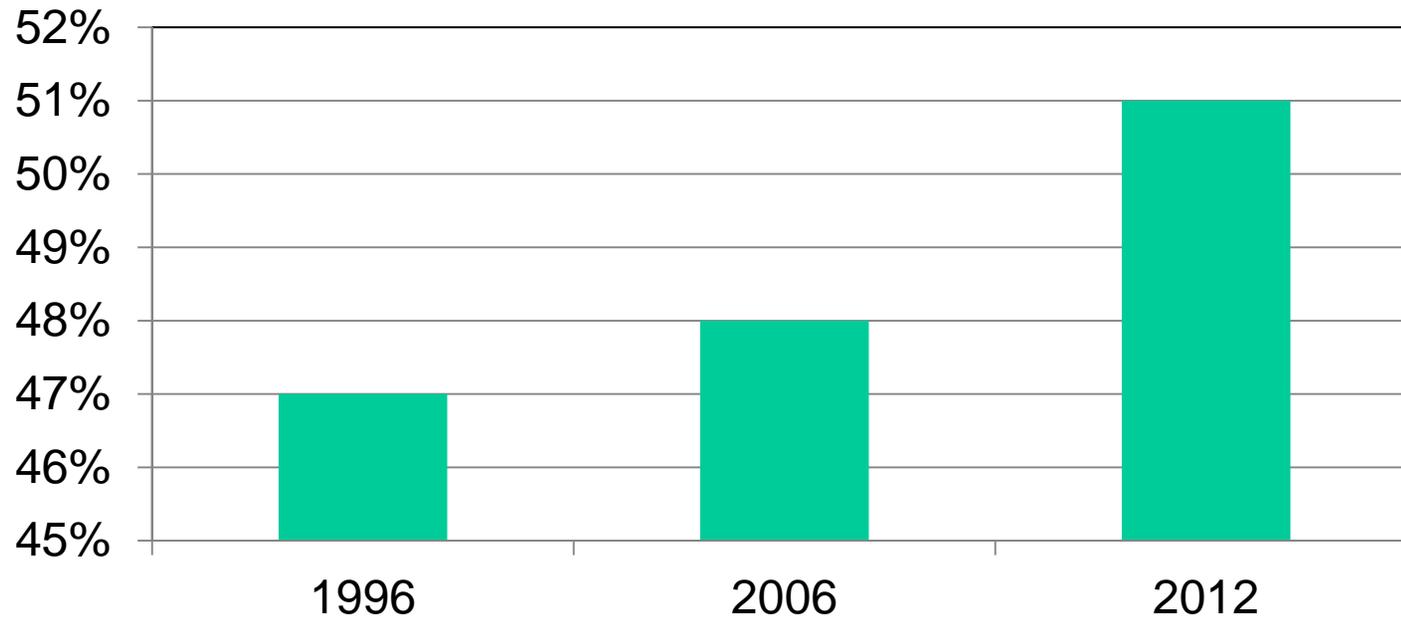
June 23, 2015

## The Major Components of Income...

Component	Tax Year 1991 (Percent)	Tax Year 2000 (Percent)	Tax Year 2012 (Percent)
Wages & Salaries	81	73	71
Taxable Retirement	4	7	12
Capital Gains	3	8	5
Partnership Income	1	3	5
Dividends & Interest	7	5	4
Self Employment	3	3	3
Other	1	1	0

Over the last two decades, wages and salaries have declined as a percent of total income – subject to payroll withholding -- while other forms of income are mainly paid via estimated and final payments.

## Total Taxable Income Has Become More Concentrated...



On average, the top 5 percent of taxpayers made more income and paid increasing shares of the federal and Virginia income tax.

## The Structure of the Individual Income Tax...

Where do the income tax receipts come from?

- Net Individual Income taxes account for 69 percent of Total General Fund revenues.
- Net Individual income taxes are comprised of the following:
  - Withholding payroll taxes – 63 percent
  - Nonwithholding receipts – 16 percent
    - Estimated payments – 3/5 of total nonwithholding
    - Tax Due Payments – 2/5 of total nonwithholding
  - Individual Refunds – 11 percent

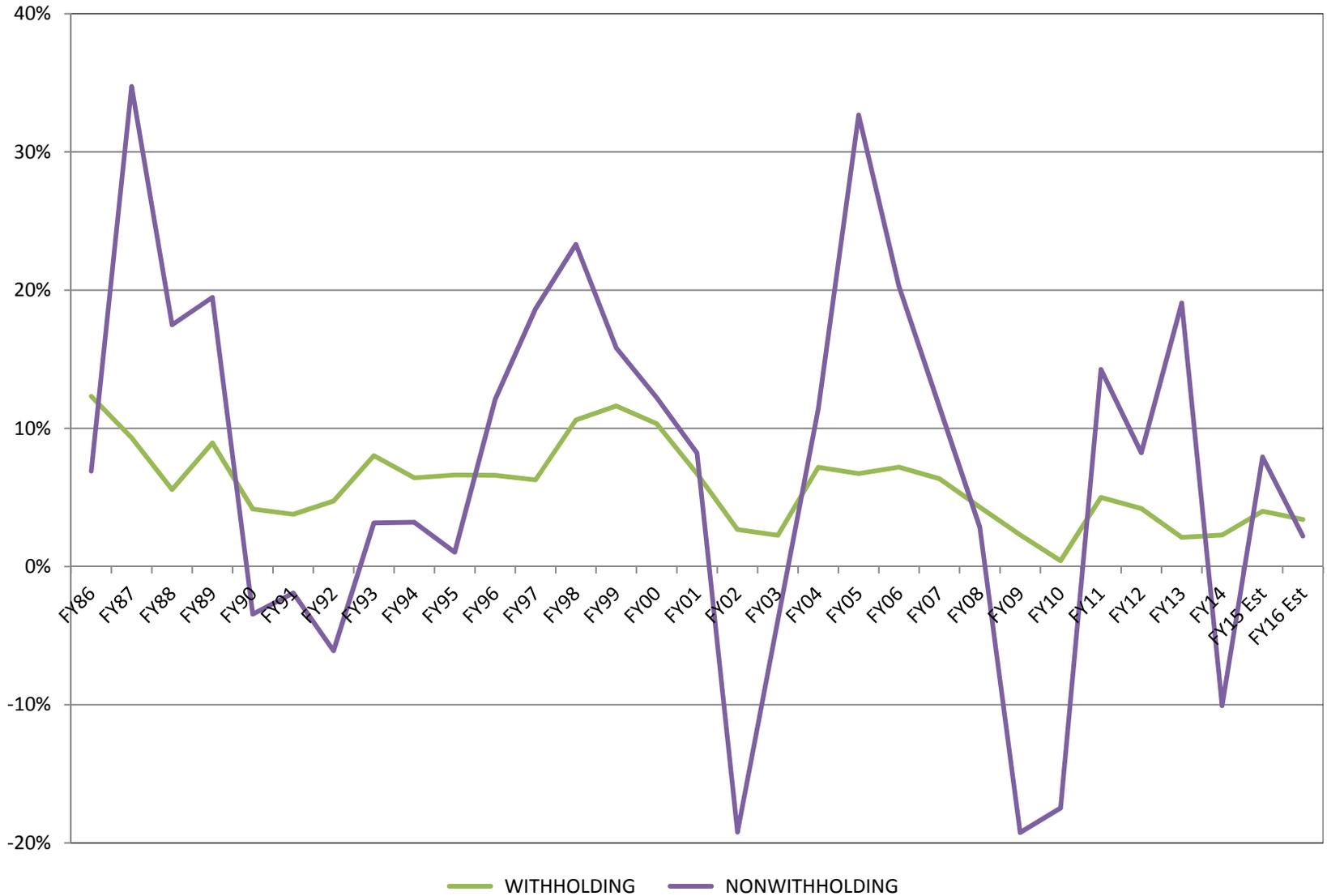
## Characteristics of Those Who Make Estimated Payments...

- Two groups roughly of equal size pay estimated and final payments – “**retirees**” and “**non-retirees**”.
  - ◆ “**Retirees**” – persons eligible for at least 1 age deduction or are over 65 years old.
    - ▶ 70 percent of income is generated by investments and pensions.
    - ▶ 18 percent of income is from wages, businesses, and partnerships.
  - ◆ “**Non-retirees**” – small businessmen or entrepreneurs.
    - ▶ 73 percent of income is from wages, businesses, and partnerships.
    - ▶ 27 percent of income is generated by investments and pensions.

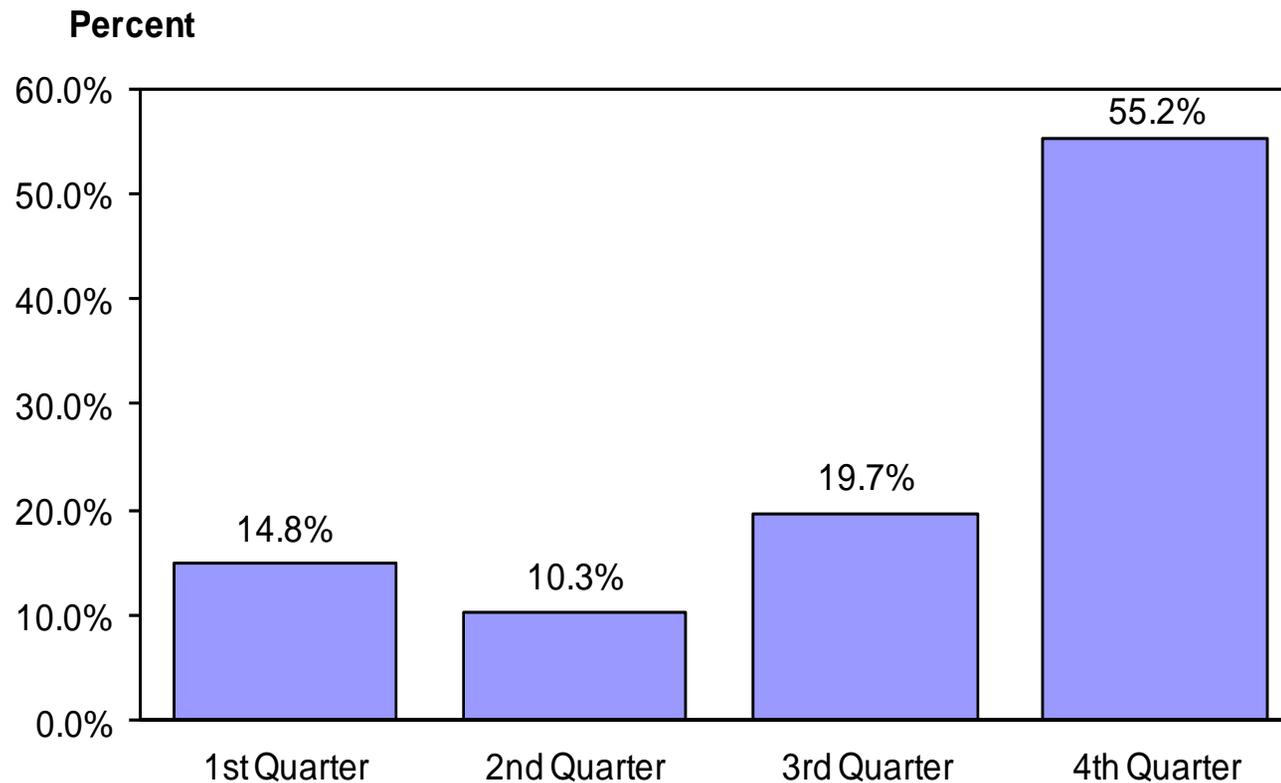
## Fundamentals of Nonwithholding Receipts...

- Estimated payments are individual income tax payments made on taxable income not subject to payroll withholding.
  - ◆ Taxpayers who make estimated payments receive only 26 percent of their income from wages and salaries.
  - ◆ Taxpayers who do not make estimated payments receive more than 88 percent of their income in the form of wages and salaries.
  - ◆ Other significant sources of income for estimated payers include investments, self-employment, and pensions.
- Tax due payments are due May 1, when the individual income tax return or extension form is filed to reconcile tax liability for the prior year.

# Payroll Withholding is Significantly More Stable Than Nonwithholding....

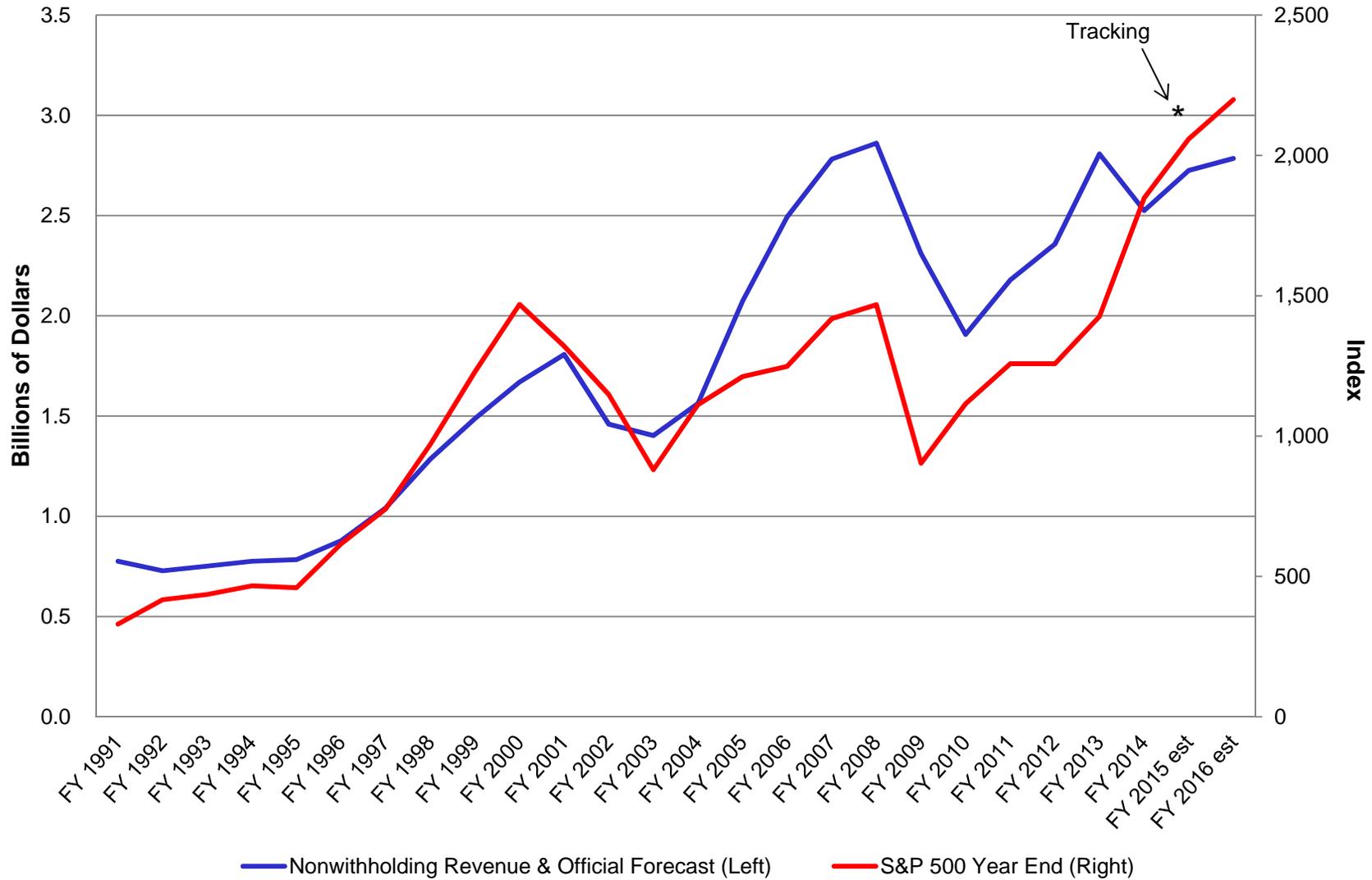


## Close to 75 Percent of Nonwithholding Receipts are Received in the Last Half of the Fiscal Year...



- Over half of nonwithholding revenues are collected in the last quarter of the fiscal year.
- The 4<sup>th</sup> quarter includes the first 2 estimated payments and final payment.

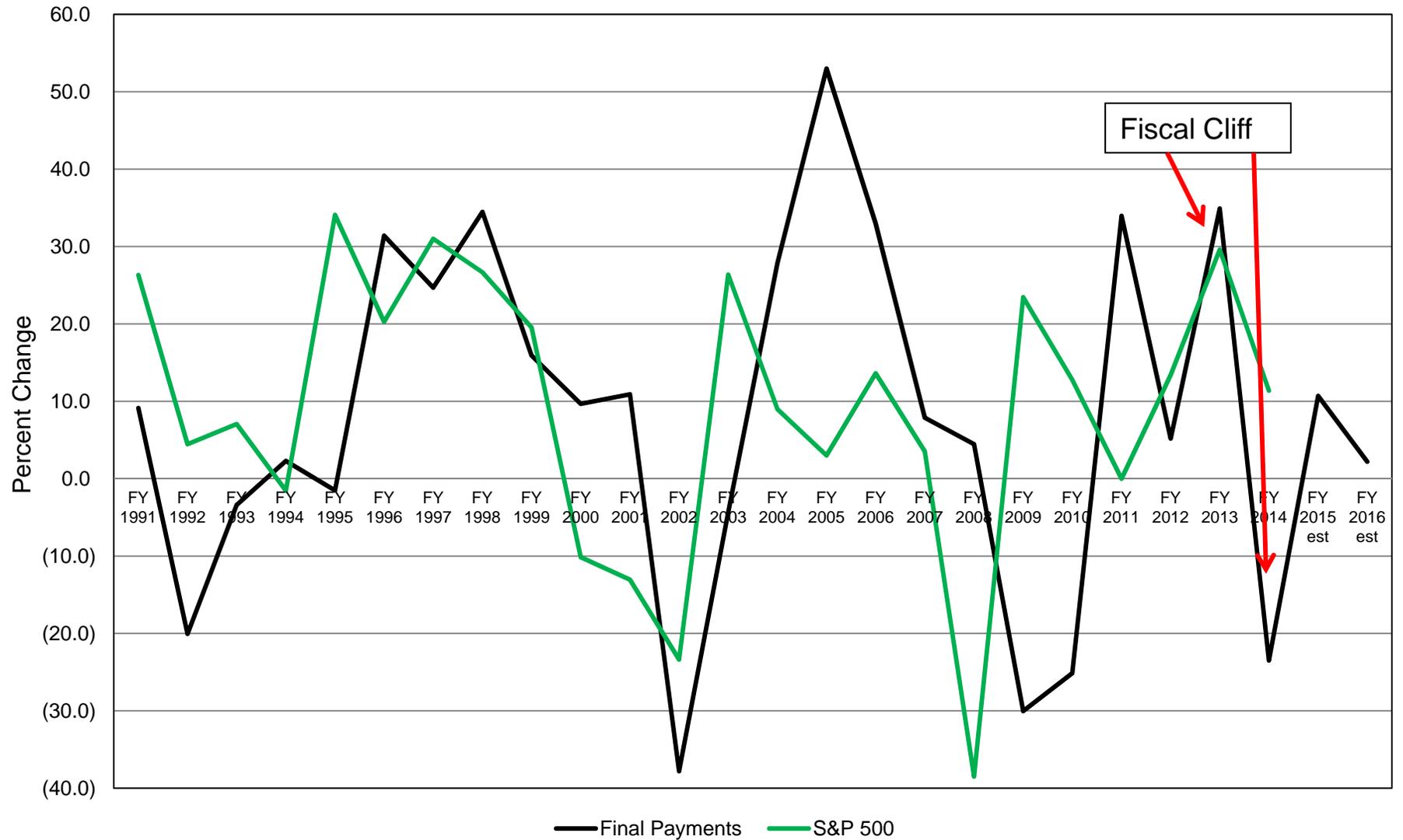
# Nonwithholding Payments Tend to Track Stock Market Movements....



## Forecasting of Nonwithholding Receipts...

- Estimated Payments
  - ◆ Estimated payments = Function (SP500, Virginia's total proprietor's income, Virginia's dividends, interest, and rental income)
  - ◆ Estimated payments are due January 15th, May 1st, June 15th, and September 15<sup>th</sup>.
- Final Payments or Tax Dues
  - ◆ Final payments = Function (Calendar year SP500)
  - ◆ Tax due payments are due May 1 when the individual income tax return or extension form is filed.

# Final Payments and S&P 500...



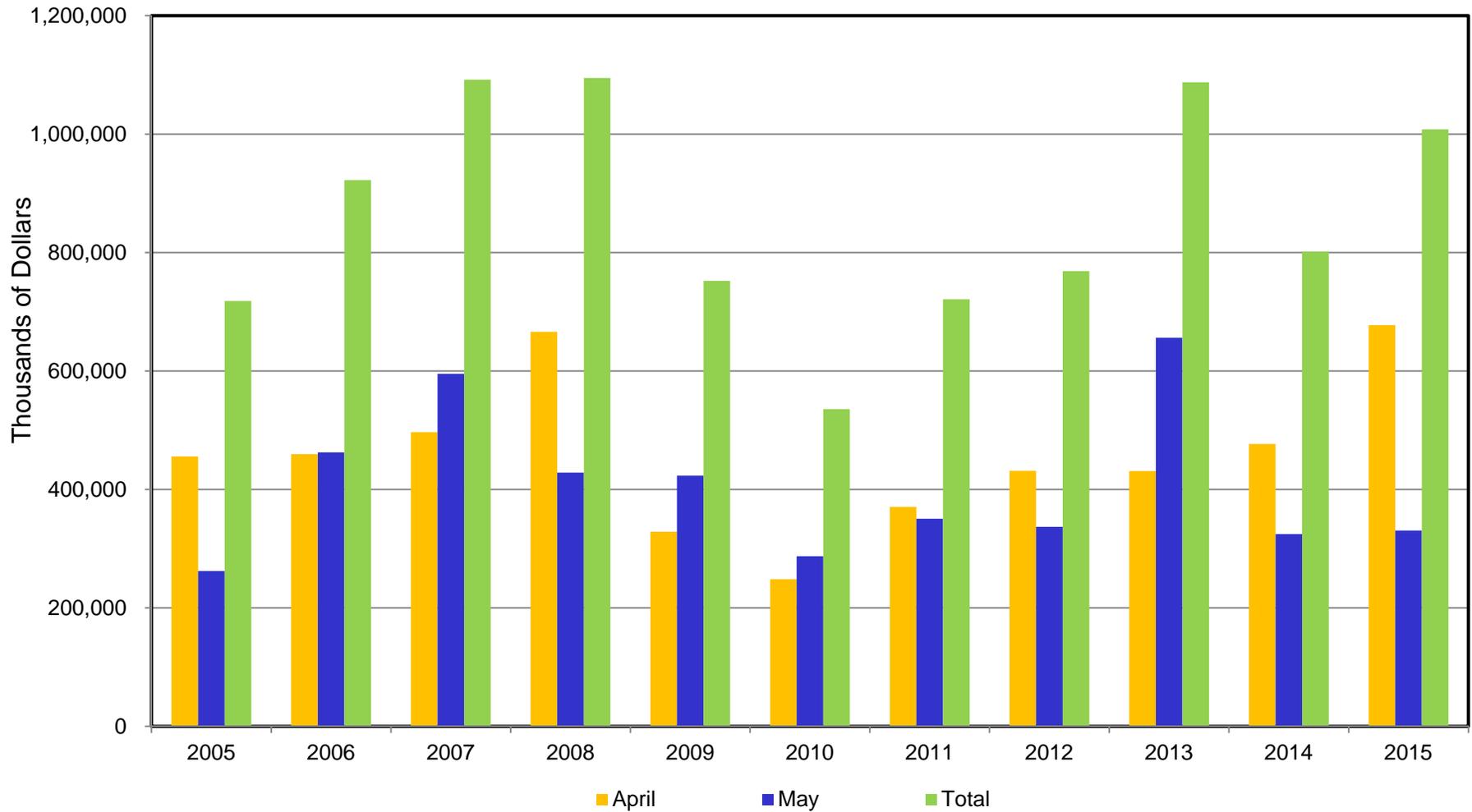
# Nonwithholding Revenue Received In April And May From Large Payers....

## Large Individual Payments

	<u>Number of Payments</u>		<u>Total \$ Amt of Payments</u> (in millions)	
<b>FY00</b>	299		\$84.0	
<b>FY01</b>	174	-42%	\$53.1	-37%
<b>FY02</b>	205	18%	\$51.1	-4%
<b>FY03</b>	195	-5%	\$56.4	10%
<b>FY04</b>	343	76%	\$93.6	66%
<b>FY05</b>	596	74%	\$163.1	74%
<b>FY06</b>	876	47%	\$274.3	68%
<b>FY07</b>	930	6%	\$330.8	21%
<b>FY08</b>	924	-1%	\$344.2	4%
<b>FY09</b>	511	-45%	\$257.9	-25%
<b>FY10</b>	328	-36%	\$112.5	-56%
<b>FY11</b>	547	67%	\$204.7	82%
<b>FY12</b>	521	-5%	\$184.4	-10%
<b>FY13</b>	884	70%	\$327.5	78%
<b>FY14</b>	426	-52%	\$141.5	-57%
<b>FY15</b>	615	44%	\$210.3	49%

Note: a large payment is a payment over \$100,000.00 representing approximately \$1.7 million in tax liability.

# Because of the Variability of Final Payments and the May 1<sup>st</sup> Due Date, April and May Need to be Evaluated Together....



# Forecasting the Magnitude of the Change is More Difficult Than Forecasting the Direction of the Change...

## Nonwithholding Annual Forecast to Actual Collections

	<u>Forecast</u>	<u>Forecast Change From Previous Year</u>	<u>Actual</u>	<u>Actual Change From Previous Year</u>	<u>Forecast Variance</u>	<u>%VAR</u>
FY01	\$ 1,821,000		\$ 1,806,825		\$ (14,175)	-1%
FY02	\$ 1,554,400	\$ (252,425)	\$ 1,459,508	\$ (347,317)	\$ (94,892)	-6%
FY03	\$ 1,266,300	\$ (193,208)	\$ 1,402,813	\$ (56,695)	\$ 136,513	11%
FY04	\$ 1,509,100	\$ 106,287	\$ 1,562,846	\$ 160,033	\$ 53,746	4%
FY05	\$ 1,809,100	\$ 246,254	\$ 2,073,530	\$ 510,684	\$ 264,430	15%
FY06	\$ 2,431,000	\$ 357,470	\$ 2,493,815	\$ 420,285	\$ 62,815	3%
FY07	\$ 2,789,000	\$ 295,185	\$ 2,781,934	\$ 288,119	\$ (7,066)	0%
FY08	\$ 2,882,000	\$ 100,066	\$ 2,861,183	\$ 79,249	\$ (20,817)	-1%
FY09	\$ 2,348,300	\$ (512,883)	\$ 2,310,391	\$ (550,792)	\$ (37,909)	-2%
FY10	\$ 1,794,200	\$ (516,191)	\$ 1,887,757	\$ (422,634)	\$ 93,557	5%
FY11	\$ 2,068,400	\$ 180,643	\$ 2,179,200	\$ 291,443	\$ 110,800	5%
FY12	\$ 2,452,200	\$ 273,000	\$ 2,357,887	\$ 178,687	\$ (94,313)	-4%
FY13	\$ 2,517,400	\$ 159,513	\$ 2,807,692	\$ 449,805	\$ 290,292	12%
FY14	\$ 2,926,000	\$ 118,308	\$ 2,524,942	\$ (282,750)	\$ (401,058)	-14%

## Limitations in Forecasting Nonwithholding Receipts....

- “Safe Harbor” rules protect individual taxpayers.
  - ◆ In years with exploding income growth, taxpayers can make one final payment, without penalty, instead of being constantly required to adjust their estimated payments.
- Quality of Data
  - ◆ Federal government downsizing has caused cutbacks in sample sizes and detail of different types of state income data.
- Data availability
  - ◆ All detailed data comes from the IRS and there is an 18 month delay in receiving complete data.
  - ◆ Current computer systems are not designed to handle additional reporting requirements even if mandated.