



# Economic and Revenue Update

## *A Briefing for the Money Committees*

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# Topics for Discussion

- National and State Economic Indicators
- December Year-to-Date Revenue Collections, Fiscal Year 2017
- Next Steps

# National and State Economic Indicators

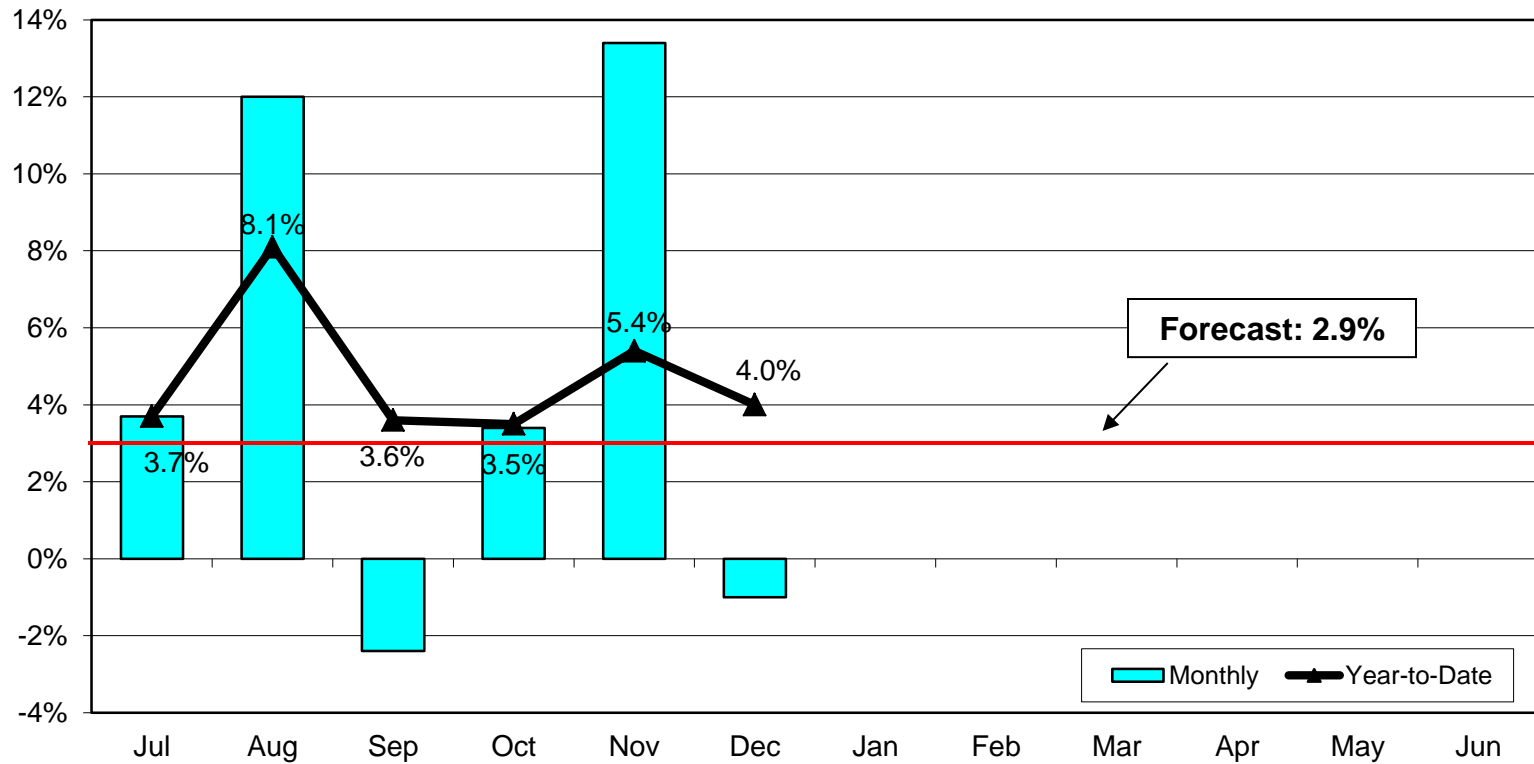
- According to the third estimate, real GDP grew at an annualized rate of 3.5 percent in the third quarter of 2016, following three weak quarters.
- Payroll employment rose by 156,000 jobs in December, following a gain of 204,000 in November.
- The national unemployment rate edged higher to 4.7 percent as more workers entered the labor force.
- Initial claims for unemployment fell by 28,000 to 235,000 during the week ending December 31.
  - The four-week moving average fell by 5,750 to 256,750, consistent with an improving labor market.
- The Conference Board's index of leading indicators remained unchanged in November, following a 0.1 percent increase in October.
- The Conference Board's index of consumer confidence rose 4.3 points to 113.7 in December. The present conditions component fell, while the expectations component increased for the month.
- Activity in the manufacturing sector improved in December, with the Institute of Supply Management index rising from 53.2 to 54.7.

# National and State Economic Indicators

- The CPI rose 0.2 percent in November and stands 1.7 percent above November 2015.
  - Core inflation (excluding food and energy prices) rose 0.2 percent in November, and has increased 2.1 percent from last year.
- At its November meeting, the Federal Reserve announced that there is no sense of urgency to raise rates again; the consensus is that the risks to the economic outlook remain roughly balanced.
- In Virginia, payroll employment rose 1.0 percent in November from November of last year.
  - Northern Virginia posted growth of 2.2 percent, Hampton Roads fell 1.6 percent, and Richmond-Petersburg rose 0.9 percent.
  - The seasonally adjusted unemployment rate rose 0.1 percentage point to 4.2 percent.
- The Virginia Leading Index rose 0.4 percent in November after increasing 0.1 percent in October. Future employment and initial unemployment claims improved, while the U.S. leading index remained unchanged and auto registrations declined in November.
  - The indexes for Roanoke, Northern Virginia, Hampton Roads, Richmond, Blacksburg, and Winchester increased in November, while the indexes for Lynchburg, Harrisonburg, and Staunton declined. The indexes for Charlottesville and Bristol were unchanged.

## Growth in Total General Fund Revenue Collections

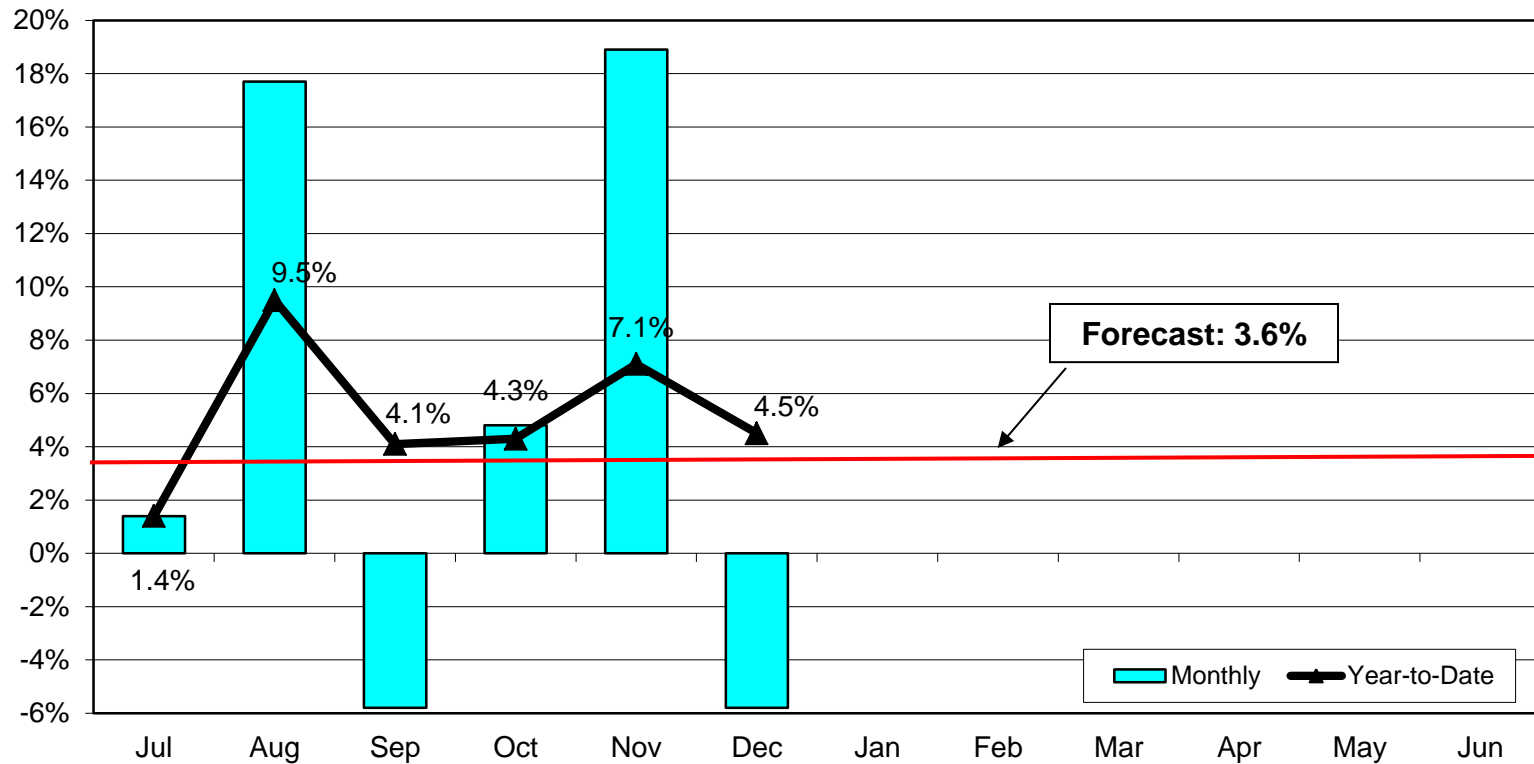
### FY17 Monthly and Year-to-Date



Monthly Growth:    3.7%    12.0%    -2.4%    3.4%    13.4%    -1.0%

- Total general fund revenues decreased 1.0 percent in December mainly due to one less deposit day in individual withholding.
- On a year-to-date basis, total revenues increased 4.0 percent, ahead of the annual forecast of a 2.9 percent increase.

## Growth in Withholding Tax Collections FY17 Monthly and Year-to-Date

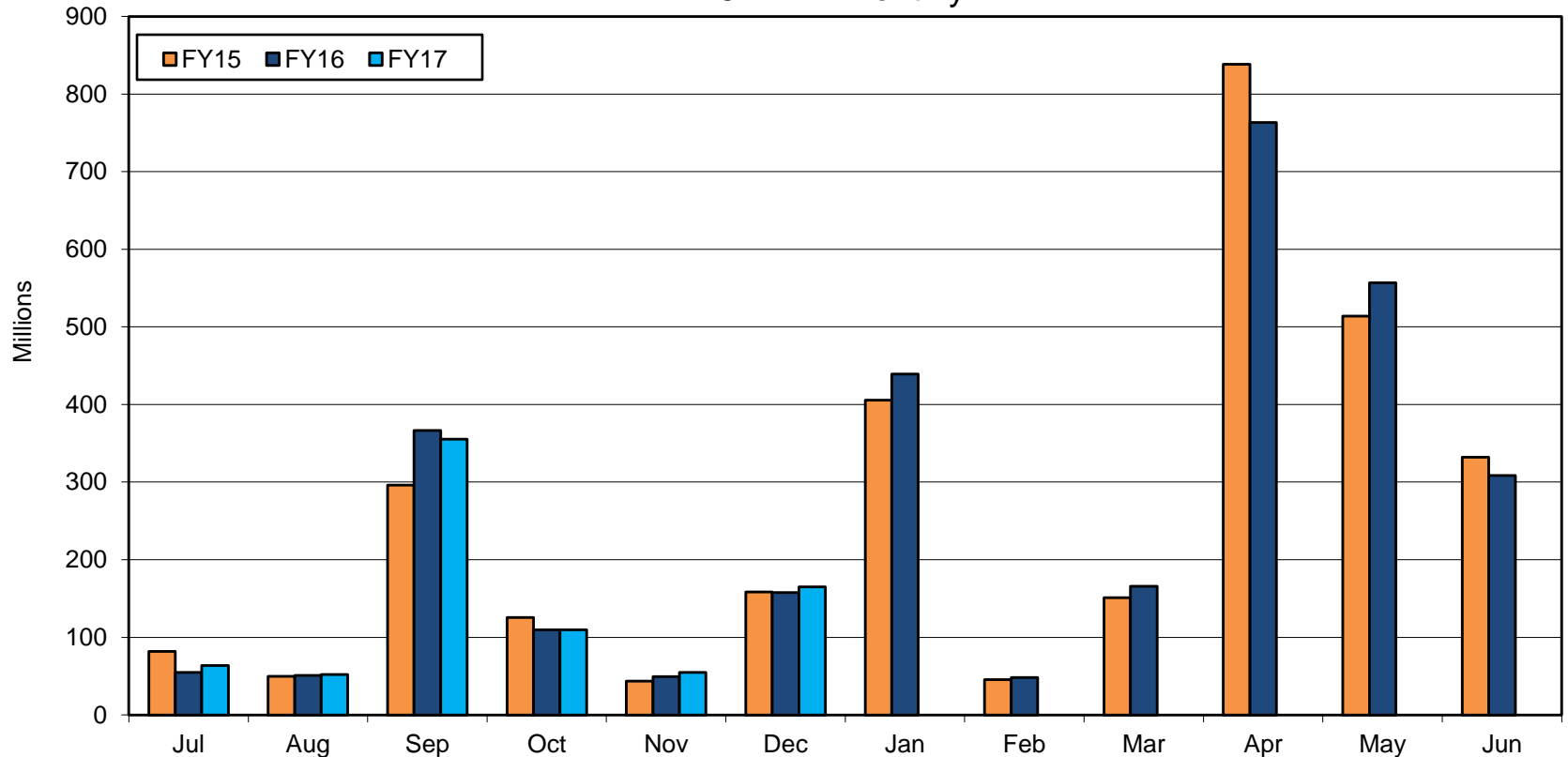


Monthly Growth: 1.4% 17.7% -5.8% 4.8% 18.9% -5.8%

- Collections of payroll withholding taxes decreased 5.8 percent in December, with one less deposit day than a year-ago.
- Year-to-date, withholding collections increased 4.5 percent compared with the same period last year, ahead of the projected annual growth rate of 3.6 percent.

# Nonwithholding Tax Collections

FY15-FY17 Monthly



- December and January are significant months for collections in this source, but analysis of growth at this point is limited by the timing of payments.
  - January 17th is the due date for the fourth estimated payment for tax year 2016.
  - A complete assessment of growth in this source will be available at the end of January, when all 2016 quarterly payments have been received.
- Year-to-date, collections were \$800.3 million compared with \$788.8 million in the same period last year, an increase of 1.5 percent and ahead of the annual estimate of a 0.7 percent decline.

## **Individual Income Tax Refunds**

- Not a significant month.
- Through December, TAX has issued \$257.9 million in individual refunds compared with \$288.7 million in the same period last year, a 10.7 percent decline as compared to the annual estimate of 1.5 percent growth.

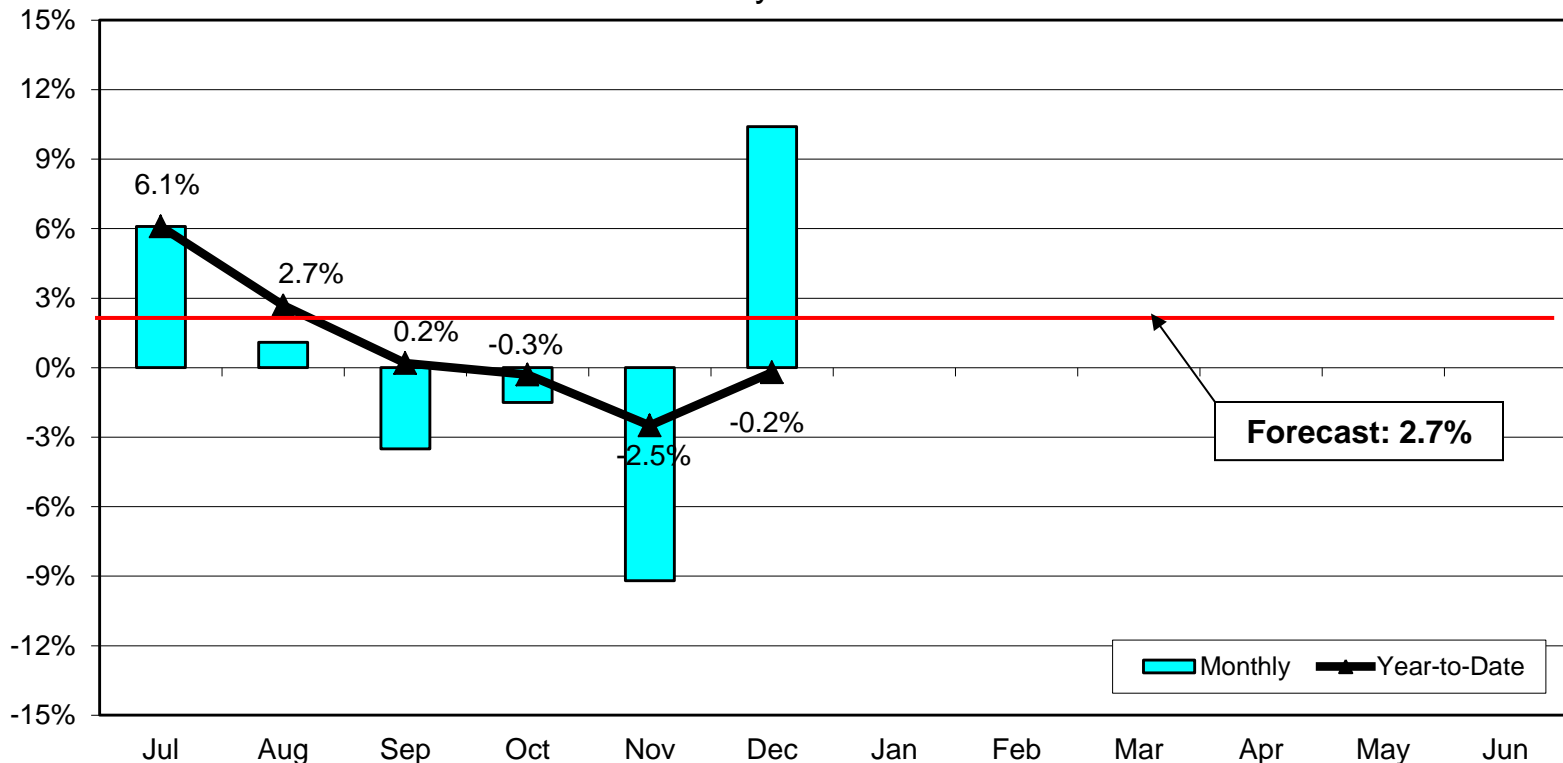
## **Net Individual Income Tax**

- Through the first six months of the fiscal year, collections of net individual income tax increased 4.8 percent from the same period last year, ahead of the annual estimate of a 2.9 percent growth.



## Growth in Sales Tax Collections

### FY17 Monthly and Year-to-Date



Monthly Growth: 6.1% 1.1% -3.5% -1.5% -9.2% 10.4%

- Collections of sales and use taxes, reflecting mainly November sales, increased 10.4 percent in December.
- On a year-to-date basis, collections decreased 0.2 percent, behind the annual estimate of 2.7 percent growth.
  - Adjusting for AST program, sales tax collections decreased 0.1 percent through December, behind the economic-base forecast of a 2.8 percent increase.

## Net Corporate Income Tax Collections

- December is a significant month since quarterly estimated payments are due from most corporations.
- Collections were \$144.9 million in December, compared with \$149.4 million last year, a 3.0 percent decline.
- On a year-to-date basis, collections in this source have increased 9.5 percent, ahead of the annual estimate of 3.8 percent growth.
  - Gross payments have increased 4.8 percent.
  - Refunds have declined 3.7 percent.
- Fiscal-year-to-date, 40.0 percent of the projected fiscal year's net corporate payments have been received.
  - This is behind the historical average of 40.8 percent.

# Recordation and Insurance Premiums Tax

## Recordation

- In December, collections increased 5.6 percent compared to last year. Year-to-date collections have increased 11.6 percent compared to last year, ahead of the December forecast of a 8.0 percent increase.
  - Collections on a year-to-date basis are \$208.1 million – the highest since the \$243.3 million collected in the first half of fiscal year 2008.

## Insurance

- The transfer of insurance premiums to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, in the amount of \$163.1 million was completed in December.
  - December collections to the General Fund were \$90.2 million as compared to last December's \$87.4 million.

# Summary of Fiscal Year 2017 Revenue Collections

July through December

Percent Growth over Prior Year

<u>Major Source</u>	As a % of Total <u>Revenues</u>	<u>YTD</u> <u>Actual</u>	<u>Annual</u> <u>Estimate</u>	<u>Variance</u>	<u>Jan-Jun Req'd</u> <u>to Meet Est.</u>	<u>Prior Year</u> <u>Jan-Jun</u>
Withholding	63.1 %	4.5 %	3.6 %	0.9 %	2.7 %	2.5 %
Nonwithholding	16.4	1.5	(0.7)	2.2	(1.4)	(0.2)
Refunds	(10.0)	(10.7)	1.5	(12.2)	3.8	3.7
Net Individual	69.6	4.8	2.9	1.9	1.0	1.2
Sales	18.2	(0.2)	2.7	(2.9)	5.2	2.4
Corporate	4.3	9.5	3.8	5.7	0.3	2.2
Wills (Recordation)	2.1	11.6	8.0	3.6	4.3	2.6
Insurance	1.9	na	1.5	na	0.9	11.8
All Other Revenue	3.9	(1.9)	0.7	(2.6)	2.5	2.8
<b>Total</b>	<b>100.0 %</b>	<b>4.0 %</b>	<b>2.9 %</b>	<b>1.1 %</b>	<b>1.9 %</b>	<b>1.8 %</b>

Sales (x AST)	(0.1) %	2.8 %	(2.9) %	5.5 %	2.6 %
Total (x AST)	4.0 %	2.9 %	1.1 %	1.9 %	1.8 %

# Summary of Fiscal Year 2017 Revenue Collections

## July through November

### General Fund Revenue Collection Trends

(thousands of dollars)

FY	Total Collections	Revenue Collections Through:											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
2015	17,735.6	1,208.9	2,370.4	3,972.6	5,286.0	6,451.6	8,189.9	9,871.8	10,821.7	12,041.3	13,997.6	15,595.1	17,735.6
2016	18,040.1	1,088.3	2,309.0	4,066.3	5,312.6	6,538.5	8,318.1	10,111.0	11,048.9	12,360.6	14,185.1	15,883.0	18,040.1
Average	14,323.8	910.9	1,919.9	3,303.9	4,360.9	5,366.1	6,739.8	8,174.7	8,909.1	9,831.1	11,271.0	12,666.4	14,323.8
% of Total	100.0%	6.4%	13.4%	23.1%	30.4%	37.5%	47.1%	57.1%	62.2%	68.6%	78.7%	88.4%	100.0%
2017													
December	18,557.4	1,128.1	2,495.9	4,211.3	5,500.4	6,890.2	8,651.3						
% of Estimate		6.1%	13.4%	22.7%	29.6%	37.1%	46.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

# Next Steps

- January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year and serve as the basis for any recommended midsession adjustment.
  - Withholding: Monthly and quarterly filers are due.
  - Nonwithholding: December and January are significant months for collections in this source. Taxpayers have until January 17 to submit their fourth estimated payment for tax year 2016. A clearer assessment of growth in this source will be possible at the end of January.
  - Sales: January receipts are needed to more accurately assess growth in this source because a large part of holiday sales occur in December.
  - Corporate: The fourth estimated payment will be received from retailers and other companies with February-January taxable years.

# Proposed Tax Policy Changes

- Tax Amnesty Program
- Clarification of Sales Tax Nexus for Sellers with Inventory in Virginia
- Use Tax Reporting Requirement
- Notification of Payroll System Breaches
- Extension of \$20,000 Land Preservation Tax Credit Limitation
- \$5 Million Historic Rehabilitation Tax Credit Limitation
- Elimination of Double State Tax Benefit for Certain Tax Credits
- Extension of Sales Tax Holidays
- VOSH Civil Penalties

# 2017 Tax Amnesty Program

- House Bill 2246, Senate Bill 1438, and budget language create a tax amnesty program for a 60 to 75 day period during FY 2018.
  - Three prior amnesty programs held in Virginia: 1990, 2003, and 2009
- Program requirements same as authorized in the 2009 amnesty program.
  - Allow the waiver of penalty and half of the interest due on qualifying payments.
  - Taxpayers under investigation for fraud and recent returns and assessments would not be eligible.
  - Assessments that qualify for the amnesty program not paid will be subject to an additional 20 percent penalty.
- This program is estimated to generate \$71.5 million in revenues during FY 2018, \$58.2 million of which would be general fund revenues.
  - Program revenues computed by comparing the amount of amnesty-eligible receivables prior to the last amnesty program to the amount of actual tax collections for each age group of receivables within each tax type.
  - These ratios were then applied to the amount of receivables estimated to be eligible for an amnesty program as of September 2016.
- Amnesty program administrative costs estimated at \$5.5 million.
  - Budget language authorizes a Treasury loan to fund implementation, with all costs being repaid from proceeds of the amnesty program.
  - To ensure timely technology development/implementation, an exemption from VITA's procurement process is provided.



# Comparison of Receivables to Estimated Collections: 2009 Amnesty to Proposed 2017 Amnesty

Tax Type	FY 2008 Receivables (% of total)	2009 Amnesty Gross Revenue* (% of total)	Current Receivables (% of total)	Current Estimate With Program Costs ** (% of total)
Individual Income Tax	\$1 billion (62%)	\$41 million (26%)	\$1 billion (58%)	\$18 million (25%)
Sales and Use Tax	\$370 million (23%)	\$51 million (33%)	\$356 million (20%)	\$14 million (19%)
Corporate Income Tax	\$90 million (6%)	\$51 million (33%)	\$194 million (11%)**	\$31 million (43%)
Withholding	\$152 million (9%)	\$9 million (6%)	\$183 million (11%)	\$8 million (11%)
Other Taxes	\$6 million (< 1%)	\$3 million (2%)	\$7 million (< 1%)	\$1 million (2%)

\* Figures do not take into account the baseline amount that would have been collected regardless of whether amnesty was implemented (\$38 million total) or administrative costs (\$5 million).

\*\* Estimated revenues take into account baseline collections.

\*\*\* Corporate Income Tax receivables include amounts related to pending litigation. These amounts were excluded when computing the current revenue estimate.

# 2017 Amnesty Revenue Estimates by Tax Type and Fund

Fund	Individual Income Tax	Corporate Income Tax	Sales and Use Tax	Withholding	Other	Total
<b>GROSS REVENUE (Before Costs)</b>	<b>\$18.07 million</b>	<b>\$30.81 million</b>	<b>\$13.74 million</b>	<b>\$7.56 million</b>	<b>\$1.28 million</b>	<b>\$71.46 million</b>
Transportation Trust Fund	-	-	\$1.95 million	-	-	\$1.95 million
Local Option	-	-	\$2.43 million	-	-	\$2.43 million
HMOF (GF Transfer)	-	-	\$0.24 million	-	-	\$0.24 million
Regional Transportation Funds (0.7%)	-	-	\$0.90 million	-	-	\$0.90 million
Education (GF Transfer 0.125%)	-	-	\$0.30 million	-	-	\$0.30 million
Education SOQ (GF Transfer 0.250%)	-	-	\$0.61 million	-	-	\$0.61 million
Other Non-General Fund	-	-	-	-	\$1.28 million	\$1.28 million
GF - Unrestricted	\$18.07 million	\$30.81 million	\$4.90 million	\$7.56 million	-	\$61.34 million
GF - Restricted	-	-	\$2.41 million	-	-	\$2.41 million
<b>Total General Fund (Before Costs)</b>	<b>\$18.07 million</b>	<b>\$30.81 million</b>	<b>\$7.31 million</b>	<b>\$7.56 million</b>	<b>-</b>	<b>\$63.75 million</b>
<b>Less: Administrative Costs</b>						<b>\$5.5 million</b>
<b>NET GENERAL FUND REVENUE (After Costs)</b>						<b>\$58.2 million</b>

## Prior Virginia Tax Amnesty Programs

Year Enacted	Dates of Amnesty Program	Collections
1989	January 15 - March 31, 1990	\$32.2 million
2003	September 2 - November 3, 2003	\$90 million
2009	October 7 - December 5, 2009	\$103 million

## Results from Recent Amnesty Programs in Other States

State	Dates of Amnesty Program	Collections
Arizona	September 1 - October 31, 2015	\$55 million
Indiana	September 15 - November 15, 2016	\$188 million
Kansas	September 1 - October 15, 2015	\$23 million*
Massachusetts	April 1 – May 31, 2016	\$136 million
Maryland	September 1 - October 30, 2015	\$32.2 million
Missouri	September 1 – November 30, 2015	\$35 million*
New Hampshire	May 1 – July 15, 2015	\$19 million
Oklahoma	September 14 – November 13, 2015	\$153.6 million

\* Indicates that actual collections were less than estimated.

# Sales Tax Nexus

- Budget language and House Bill 2058 and Senate Bill 962 clarify that the presence of inventory in Virginia provides Retail Sales and Use Tax nexus for out-of-state sellers who have sales to Virginia customers.
- The dealer registration statute, Va. Code § 58.1-612, which lists the acts that make a seller liable to register as a dealer in Virginia currently does not include ownership of inventory in Virginia.
- As a result, out-of-state sellers who sell into Virginia and who use Virginia warehouses and/or fulfillment centers would be required to register as dealers for the collection of the Retail Sales and Use Tax.
  - FY 2018 GF revenue impact: \$11.1 million.

# Use Tax Reporting Requirement

- Consumer use tax is owed whenever a taxpayer purchases an item in Virginia on which Virginia sales tax was not paid.
  - For tax years 2012 – 2015, use tax collections each year averaged about \$2.0 million.
- Many income tax preparation software applications allowed taxpayers to complete their return without entering a value in the consumer use tax field.
- Beginning in tax year 2016, tax preparation software will be required to inform the taxpayer when consumer use tax is to be paid and provide instructions in computing the tax owed.
  - If the taxpayer reports no tax is owed, the associated line must have an entry of \$0, the line cannot be left blank.
- Other states with similar requirements reported increases in consumer use tax collections.
  - FY 2018 GF revenue impact: \$2.0 million.

# Notification of Payroll Breaches

- Budget language and House Bill 2113 and Senate Bill 1033 would require employers and payroll service companies to notify the Department of Taxation when they discover a payroll system security breach.
- This information will permit the Department to provide extra scrutiny to the tax returns of affected employees, thereby reducing the number of fraudulent refunds issued.
- Refund fraud and fraudsters efforts to obtain HR/payroll data for that purpose continue to grow – the Department denied 30,000 fraudulent refunds in 2016, compared to 12,000 refunds denied in 2015.
  - FY 2018 GF revenue impact: \$800,000.

# Changes to Tax Credits and Sales Tax Holidays

- Budget language and House Bill 2150 and Senate Bill 963 would extend the annual \$20,000 limitation on the amount of Land Preservation Tax Credits that may be claimed by each taxpayer.
  - FY 2018 GF revenue impact: \$6.1 million.
- Budget language and House Bill 1635 and Senate Bill 1034 would impose a \$5 million limitation on the annual amount of Historic Rehabilitation Tax Credits that may be claimed per taxpayer.
  - This would change the timing of when certain taxpayers could claim the tax credits that they receive; it would not impose an overall or per project cap.
  - FY 2018 GF revenue impact: \$9.9 million.
- House Bill 1707 and Senate Bill 1109 would prohibit taxpayers from claiming both a state deduction and either the Neighborhood Assistance Act Tax Credit or Education Improvement Scholarships Tax Credit for the same charitable donation.
  - FY 2018 GF revenue impact: \$2.04 million.
- House Bill 1529 and Senate Bill 1018 would extend the sunset date for the combined sales tax holidays from July 1, 2017 to June 30, 2022.

# VOSH Civil Penalties

- Revenue generated from civil penalties imposed on employers for workplace safety violations is deposited to the general fund, as provided for in §40.1-49.4, Code of Virginia.
- Under the 2015 federal Civil Penalties Inflation Adjustment Act Improvements Act, Congress required the federal Occupational Safety and Health Administration (OSHA) to increase its maximum penalty amounts to reflect inflation changes that have occurred since the last time its penalties were increased in 1990.
- Federal OSHA considers statutory maximum penalties to be a core component of the enforcement program, and the failure of a Virginia to adopt the maximum penalties could ultimately result in the revocation of the VOSH program and direct federal OSHA enforcement in Virginia.
- Current maximum penalties for OSHA serious and other-than-serious violations will increase from \$7,000 to \$12,471; while repeated and willful violation penalties will increase from \$70,000 to \$124,709.
- It is assumed the penalties increased in this bill will take effect for workplace inspections begun on or after August 1, 2017.
- The penalty reduction for small business will increase by 10 percent, from a 60 percent reduction to a 70 percent reduction.
- While DOLI would apply the increased fee structure to inspections begun on or after August 1, 2017, there is a lag between the time an inspection is completed and a citation issued, and penalty revenue is collected. DOLI anticipates the increased revenue will be collected in the last six months of FY 2018.