For Immediate Release: July 11, 2019
Contacts: Office of the Governor: Alena Yarmosky, Alena.Yarmosky@governor.virginia.gov

Fiscal Year 2019 General Fund Revenue Collections Increase 7.2%, $778 Million Ahead of Official Forecast (Chapter 854)

Impact of nonwithholding income tax collections and individual tax refunds drove surplus

RICHMOND—Governor Ralph Northam today announced that the Commonwealth of Virginia reached the end of fiscal year 2019 with a sizable revenue surplus. Total collections rose by 7.2 percent in fiscal year 2019, ahead of the revenue forecast of 3.3 percent growth.

"With revenue collections coming in at $2.4 billion for the month, I am happy to announce that preliminary figures indicate that the state concluded the year with a general fund revenue surplus of approximately $778 million," **said Governor Northam**. "Since I took office in 2018, we have worked to diversify Virginia's economic base and make strategic investments in key fundamentals like health care, infrastructure, workforce development, and education."

The main drivers of the revenue increase were nonwithholding income tax collections and lower individual income tax refunds—these two sources contributed $831 million to the surplus. The majority of the surplus can be attributed to an estimated $450 million from the federal *Tax Cuts and Jobs Act* (TCJA) that was anticipated but not included in the official General Fund Revenue forecast.

"While we are pleased with the revenue performance, it was expected based on federal tax law changes," **said Secretary of Finance Aubrey Layne**. "Provisions in the Virginia Constitution, the Appropriation Act, and the Code of Virginia specify how most of the fiscal year 2019 additional resources must be assigned, including a one-time taxpayer relief refund to individuals."

Analysis of Fiscal Year 2019 Revenues
Based on Preliminary Data

- Total general fund revenue collections, excluding transfers, exceeded the official forecast (Chapter 854) by $778.0 million (3.8 percent variance) in fiscal year 2019.
    - Including the $450 million estimated revenues from the TCJA, the total general fund revenue forecast was within 1.6 percent of forecast.
    - The 29-year average general fund revenue forecast variance is plus or minus 1.6 percent.
- The fiscal year 2019 revenue surplus is attributable to prudent fiscal management, including Virginia's consensus revenue forecasting process.
    - In its fall meeting, the Joint Advisory Board of Economists (JABE) opted for the standard forecast.
    - The business leaders and General Assembly members who make up the Governor's Council on Revenue Estimates (GACRE) adopted the standard forecast but expressed concerns about the timing of federal expenditures and their impact on Virginia.
    - The continued adoption of a conservative nonwithholding projection ("collar") that limits forecasted growth in payments as it relates to historical performance compared to total general fund revenue growth. Nonwithholding is our most volatile revenue source.
    - Expected revenue from the TCJA was anticipated but not reflected in the official General Fund Revenue forecast.
- Payroll withholding and sales tax collections, 85 percent of total revenues, and the best indicator of current economic activity in the Commonwealth, finished $36.8 million or 0.3 percent behind the forecast.
    - Estimates for these two sources are directly tied to the economic outlook developed during the fall forecasting process, and specifically, the outlook for jobs and wage income in the Commonwealth.
    - Payroll withholding growth of 3.6 percent was behind the forecast of 3.8 percent growth.
    - Sales tax collections increased 3.4 percent as compared to the annual forecast of 3.7 percent.
- Nonwithholding income tax collections finished the year above expectations, a 14.5 percent increase as compared to the official forecast of a 1.5 percent decrease. This $557.6 million surplus was the largest component of the surplus. The strength in this source can likely be attributed to strong capital gains realizations and federal income tax changes related to the TCJA.
- Individual income tax refunds were the other major source that contributed to the revenue surplus. Tax refunds were $272.9 million below expectations as federal income tax changes related to the TCJA likely reduced the average state refund to taxpayers.
- Corporate income tax collections increased 9.5 percent for the year, behind the annual forecast of 17.4 percent mainly due to the lower than expected final payments in April that were related to the TCJA.
- A complete analysis of all final receipts for revenue sources, including transfers, will not be available until the Joint Money Committee meeting (August 20) and the official certification of revenues.

# # #