

Resources

The general fund resources assumed in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), include changes totaling \$1.8 billion to general fund revenues and transfers that were assumed in the amended budget, Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005). The 2020 Special Session I was called to order on August 18, 2020, to amend the budget to account for significant revenue forecast adjustments anticipated as a result of the COVID-19 pandemic. Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), incorporated a projected decline in GF revenues of \$2.7 billion over the biennium compared to the forecast assumed in Chapter 1289 of the 2020 Acts of Assembly (HB 30). Following adoption of Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005), the Joint Advisory Board of Economists (JABE) and the Governor's Advisory Council on Revenue Estimates (GACRE) met as part of the standard Fall Reforecasting process and the majority of members endorsed a standard forecast reflecting better economic conditions than what was anticipated in the amended budget adopted during the Special Session I. The updated forecast, as well as better than expected revenue collections, form basis for the general fund adjustments contained in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800).

As introduced, the Governor's proposed base forecast increased general fund revenues by \$689.7 million in FY 2021 and \$552.7 million in FY 2022. In addition, the introduced budget included net reductions of \$43.0 million associated with proposed tax policy adjustments, including partial conformity with the tax provisions of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The enacted budget includes additional base revenue forecast changes and adjustments associated with tax policy changes explained below.

As adopted, Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), reflects positive mid-session revenue adjustments totaling \$730.2 million, including \$410.1 million in FY 2021 and \$320.1 million in FY 2022. The revised forecast accounts for actual collections received year-to-date and incorporates updated sales tax data, including three full quarters of 2020 sales tax data and an unexpectedly robust holiday shopping season during the pandemic. Through the first seven months of FY 2021, total revenues increased 6 percent, significantly higher than the 1.2 percent growth assumed in HB1800, as introduced, and sales tax collections were up 6.5 percent, or 1.7 percentage points higher than projected. Through January, actual general fund revenue collections were \$589.0 million ahead of the forecast assumed in the introduced budget.

In total, the revisions to the FY 2020-22 resources contained in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), include \$1.8 billion more in general fund resources than that assumed in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005). The resource adjustments reflect a \$1.7 billion increase in the general fund revenue forecast, net transfer additions of \$155.1 million, and a positive balance adjustment of \$5.9 million. As adopted, the amendments contained in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), leave an unappropriated balance of \$8.1 million at the close of FY 2022.

**Change to General Fund Resources
Available for Appropriation**
(\$ in millions)

	<u>Chapter 56</u>	<u>HB 1800</u>	<u>Change</u>
Prior Year Balance	\$2,874.1	\$2,874.1	\$0
Additions to Balance	<u>(1,254.6)</u>	<u>(1,248.7)</u>	<u>5.9</u>
Net Adjustments to Balance	\$0	\$0	\$5.9
Chapter 56 Revenue Estimate	\$43,538.6	\$43,538.6	\$0
GACRE Forecast Adjustments		1,242.4	1,242.4
Mid-Session Reforecast		674.3	674.3
Partial Conformity, CARES Act		(41.7)	(41.7)
Partial Conformity, CAA		(78.7)	(78.7)
Partial Deductibility of PPP Loans, Rebuild VA		(100.6)	(100.6)
Other Tax Policy Adjustments*		(14.3)	(14.3)
Transfers	<u>1,222.8</u>	<u>1,377.9</u>	<u>155.1</u>
Total GF Resources	\$46,380.8	\$48,220.0	\$1,839.1
Unappropriated Balance (Ch. 56)			\$302.2
HB 1800 Change in Available Resources			1,842.4
HB 1800 Net Reduction / (Increase) in Spending			<u>(2,136.5)</u>
Unappropriated Balance (HB 1800)			\$8.1

**See table below for additional details.*

Economic Projections

The economic growth assumed in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), reflects conditions that are much better than originally estimated when COVID-19 first affected the economy. When the Joint Advisory Board of Economists (JABE) met prior to the 2021 Special Session I, the standard forecast assumed a significant contraction in the economy in FY 2021. Real GDP was projected to contract 4 percent for the year. Now, rather than a 4 percent contraction in real GDP in FY 2021, the forecast calls for a 0.8 percent increase. Likewise, Virginia employment is expected to fall just 0.3 percent for the fiscal year instead of a 2 percent decline that was assumed in Chapter 56 of the 2020 Acts of Assembly, Special Session I (HB 5005). The budget, as introduced, assumed Virginia personal income will grow 3.7 percent in FY 2021 and 3.4 percent in FY 2022 and Virginia wage and salary income is expected to grow 3.2 percent in FY 2021 and 3.9 percent in FY 2022.

Economic Variables Assumed In Forecast
Percent Growth Over Prior Year
(December Forecast)

	<u>FY 2021</u>		<u>FY 2022</u>	
	<u>VA</u>	<u>U.S.</u>	<u>VA</u>	<u>U.S.</u>
U.S. Real GDP	0.0 %	0.8%	0.0%	2.9%
Employment	(0.3%)	(1.8%)	1.0%	3.3%
Personal Income	3.7%	2.8%	3.4%	0.6%
Wages & Salaries	3.3%	3.0%	3.9%	5.8%

Tax Policy Changes Assumed in Revenue Forecast

Embedded in the amended budget are revenue reductions associated with tax policy changes adopted by the General Assembly. These changes include advancing Virginia’s fixed date conformity to the federal tax code, partially deconforming from recently enacted federal tax changes, and other changes to existing Virginia tax policies.

Fixed Date Conformity. Language which changes Virginia’s fixed date conformity to the federal tax code date of December 31, 2020, is included in the budget. Stand-alone legislation, Chapters 117 and 118 of the 2021 Acts of Assembly, Special Session I (HB 1935/SB 1146) enacting this change was also passed.

Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, signed into law in March 2020, contains a number of provisions that will impact individuals and businesses related to income taxes. The budget and related legislation generally conform Virginia’s tax code to the CARES Act. Five tax provisions included in the CARES Act are estimated to have a negative general fund impact totaling \$41.7 million over the biennium. The first provision allows the exclusion of Paycheck Protection Program (PPP) loan forgiveness. The second provision allows taxpayers to include COVID-19 related distributions in taxable income over a three-year period. Third is the exclusion for certain student loan repayments by employers. The fourth CARES Act tax provision allows individuals who claim the standard deduction to claim an above-the-line deduction of up to \$300 for charitable contributions in 2020, and the fifth provision increases the income-based limitations on charitable deductions. Other tax provisions included in the CARES Act which primarily impact business taxpayers are specifically excluded from conformity language in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800).

Consolidated Appropriations Act (CAA). Additional federal COVID relief legislation was signed into law on December 27, 2020, after the Governor's proposed budget was released. The Consolidated Appropriations Act (CAA), 2021 (Public Law No: 116-260) includes several provisions that impact individual and corporate taxpayers in Virginia. Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), generally conforms to the CAA, but language in the act specifically deconforms Virginia from the provision of the CAA that permanently reduces the medical expense deduction threshold. The adopted budget conforms to the federal tax exemption for Paycheck Protection Program (PPP) loan forgiveness and Economic Injury Disaster Loan (EIDL) program funding, but deconforms from the provisions of the CAA allowing deductions for business expenses funded by forgiven PPP loan and EIDL funding proceeds. However, the budget and related legislation provide a Virginia specific individual and corporate income tax deduction of up to \$100,000 for business expenses funded by forgiven PPP loan proceeds. The provisions conforming Virginia's tax code to the CAA are expected to reduce general fund revenues by \$87.7 million over the biennium.

Deductibility of Paycheck Protection Program (PPP) Loans and Rebuild Virginia Grants. Language in the adopted budget and related legislation allow an individual and corporate income tax deduction for business expenses funded by forgiven PPP loan proceeds to the extent they do not exceed \$100,000 and they were paid or incurred during tax year 2020. The legislation also allows individual and corporate income tax subtractions for up to \$100,000 of all grant funds received by the taxpayer under the Rebuild Virginia program for tax year 2020. These provisions are estimated to reduce general fund revenues by \$100.6 million over the biennium.

Other Tax Policy Changes. The revenue estimate assumed in the adopted budget also includes a net reduction of \$14.3 million associated legislation and tax policy changes agreed to by the General Assembly. These changes include additional revenue of \$11.7 million related to sports betting; \$2.1 million from extending the sales tax to apply to accommodation fees in Chapter 383 of the 2021 Acts of Assembly, Special Session I (SB 1398); and, \$650,000 in anticipated revenues that results from allowing the Tax Commissioner greater flexibility in referring delinquent accounts to outside collection agencies. Revenue reductions include \$15.0 million resulting from the enactment of a state low-income housing tax credit as adopted in Chapter 495 of the 2021 Acts of Assembly, Special Session I (SB 1197), and \$11.0 million from the creation of a sales and use tax exemption for personal protective equipment as adopted in Chapters 55 and 56 of the 2021 Acts of Assembly, Special Session I (HB 2185/SB 1403). The revenue estimate also includes negative adjustments of \$1.3 million that relates to changes to the conservation tillage and advanced technology pesticide and fertilizer application credits, as adopted in Chapter 272 of the 2021 Acts of Assembly, Special Session I (SB 1163), and \$1.0 million from the creation of an enhanced tax credit for the implementation of certain agricultural best management practices as adopted in Chapters 39 and 40 of the 2021 Acts of Assembly, Special Session I (HB 1763/SB 1162). Lastly, the revenue forecast is reduced by \$531,700 to reflect a reduction in permit application fees and audit and administration fees from certain charitable gaming organizations as adopted in Chapter 520 of the 2021 Acts of Assembly, Special Session I (SB 1127).

Other Tax Policy Adjustments
(\$ in millions)

	<u>2020-22</u>
Revenue Amendments:	
Sports Betting	\$11.7
SB 1398: Sales Tax on Accommodation Fees	2.1
Additional Tax Revenue - OCA	0.7
SB 1127: Charitable Gaming Reform	(0.5)
SB 1162: Enhanced Agriculture Equipment Credit	(1.0)
HB 1763/SB 1163: Agricultural Best Mgt. Practices Tax Credit	(1.3)
HB 1403/SB 1403: PPE Sales and Use Tax Exemption	(11.0)
SB 1197: Housing Opportunity Tax Credit	<u>(15.0)</u>
Total Tax Policy Adjustments	(\$14.3)

Changes in Revenues

The revised forecast assumed in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800), including the mid-session reforecast and adopted tax policy changes, increases total general fund revenues by \$967.7 million in fiscal year 2021 and \$713.5 million in fiscal year 2022. The increase comes mainly from upward revisions to corporate income, sales and use taxes, and recordation taxes. Revenues are assumed to grow by 2.7 percent in fiscal year 2021 and increase 2.6 percent in fiscal year 2022.

Change in GF Revenues by Source Compared to Chapter 56
(\$ in millions)

<u>Major Tax Sources</u>	<u>Estimated FY 2021</u>	<u>Annual Growth</u>	<u>Estimated FY 2022</u>	<u>Annual Growth</u>
Net Individual Income	(\$2.2)	0.6%	(\$72.1)	3.5%
Corporate Income	247.0	27.4%	128.6	(1.3%)
Sales and Use	532.8	4.7%	553.5	2.9%
Insurance Premiums	(22.5)	(12.7%)	1.3	14.6%
Wills (Recordation)	178.9	24.4%	74.0	(22.3%)
All Other	<u>33.7</u>	<u>(4.0%)</u>	<u>28.2</u>	<u>3.2%</u>
Total GF Revenues	\$967.7	2.7%	\$713.5	2.6%

Changes in Transfers

Net transfer adjustments total \$155.1 million in Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800). The largest increase is derived from adjustments to the sales tax forecast for the 0.375 percent of sales tax transferred to the general fund for K-12 education. This includes an adjustment of \$57.9 million to the base sales tax forecast assumed in the introduced budget and \$55.9 million reflecting the mid-session reforecast. Other transfer adjustments include \$17.5 million in additional ABC net profits, \$14.7 million from the transfer of real property from ABC to Virginia Commonwealth University, and \$5.7 million from the Office of the Attorney General's Consumer Affairs Revolving Fund. Chapter 552 of the 2021 Acts of Assembly, Special Session I (HB 1800) also includes a transfer of \$3.3 million of unspent COVID-19 Fund balances at the Department of Health and the Department of Emergency Management.

Changes to Transfers Compared to Chapter 56	
(\$ in millions)	
	<u>2020-22</u>
Transfers:	
Base Sales Tax Forecast Adjustment (0.375 cents for K-12)	\$57.9
Mid-Session Sales Tax Reforecast (0.375 cents for K-12)	55.9
ABC Net Profits	17.5
ABC Property Transfer to VCU	14.7
OAG: Consumer Affairs Revolving Fund	5.7
Unspent COVID-19 Balances	3.3
Miscellaneous Other Transfers	<u>0.1</u>
Total Transfer Adjustments	\$155.1