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# R E V E N U E R E V I E W

Quarterly  
Revenue Report  
for the  
State of Michigan

FEBRUARY 2011

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## TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>1st Qtr FY 2009-10</u>	<u>1st Qtr FY 2010-11</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$5,231.1 million	\$5,355.4 million	+2.4%	+2.4%

Revenue collections for the first quarter (November–January) of fiscal year (FY) 2010-11 were higher than first quarter FY 2009-10 collections by \$124.3 million or 2.4%. The first quarter revenue change was an improvement from the 0.7% increase posted in the fourth quarter of FY 2009-10. Fiscal year-to-date, GF/GP revenue is up \$20 million and SAF revenue is up \$10 million from HFA target estimates—which are based on the January 2011 consensus.

## INCOME TAX (NET)

<u>1st Qtr FY 2009-10</u>	<u>1st Qtr FY 2010-11</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$1,962.1 million	\$2,080.9 million	+6.1%	+6.1%

Income tax revenue consists of three components—withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 86% of gross income tax collections. Annual and quarterly payments are based on self-employment earnings and other income sources, such as capital gains.

Net income tax collections (which include income tax refunds) for first quarter FY 2010-11 were higher than first quarter FY 2009-10 collections by \$118.9 million or 6.1%. Withholding payments were up 7.8%, quarterly payments and annual payments were up 6.1%, and refunds were up 48.6%.

## SALES AND USE TAXES

<u>1st Qtr FY 2009-10</u>	<u>1st Qtr FY 2010-11</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$1,840.5 million	\$2,003.7 million	+8.9%	+8.9%

Sales tax collections are derived from the sale of taxable items such as motor vehicles, furniture, apparel, food consumed at restaurants, and other general merchandise. The use tax is applied to telephone services, leased motor vehicles, hotels and motels, and remote sales.

Sales and use tax collections for first quarter FY 2010-11 were higher than the year-ago quarter by \$163.2 million or 8.9%. Sales tax due to motor vehicle sales increased 6.1%; all other sales tax collections were up 9.3% in first quarter FY 2010-11 relative to the year-ago first quarter.

## BUSINESS AND INSURANCE TAXES

<u>1st Qtr FY 2009-10</u>	<u>1st Qtr FY 2010-11</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$627.5 million	\$479.0 million	-23.7%	-23.7%

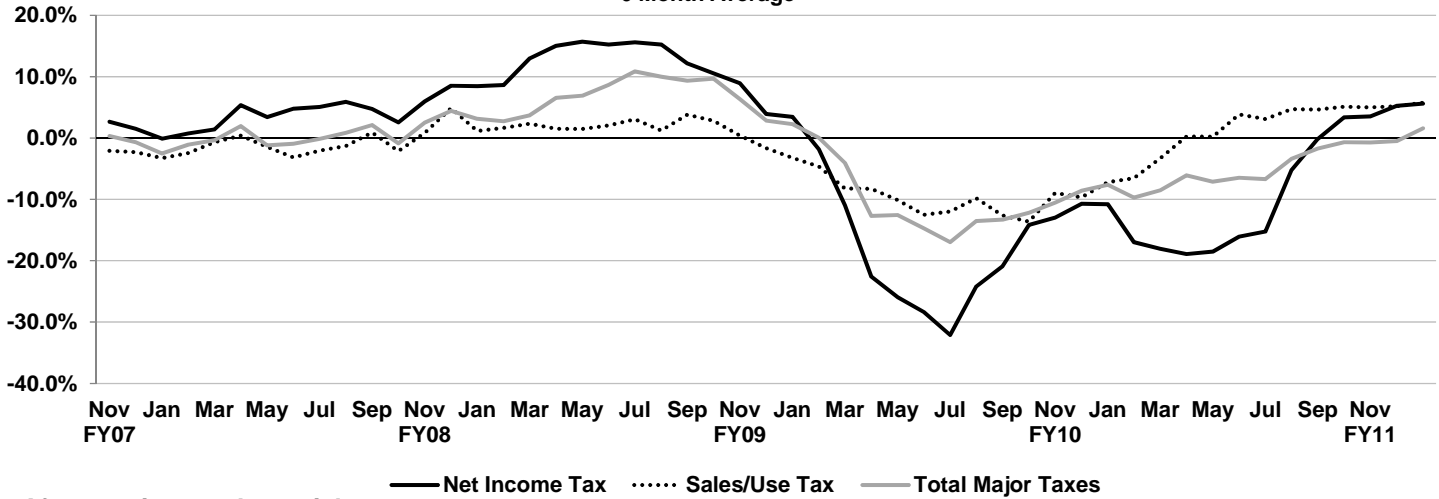
The Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For the first quarter FY 2010-11, business tax collections were below the year-ago first quarter by \$148.5 million or 23.7%.

## OTHER REVENUE

<u>1st Qtr FY 2009-10</u>	<u>1st Qtr FY 2010-11</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$801.1 million	\$791.8 million	-1.2%	-1.2%

Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for first quarter FY 2010-11 were down \$9.3 million or 1.2% from the first quarter of FY 2009-10.

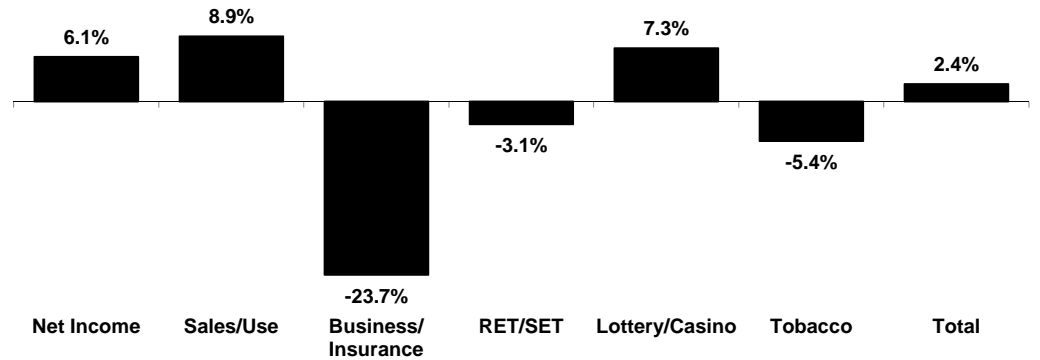
**Percent Change in Net Income, Sales/Use, and Total Major Taxes  
6 Month Average**



*After posting a substantial decline in FY 2008-09 and a more modest decline in FY 2009-10, the six month average percent change of total major taxes is improving—driven mainly by increases in net income tax and sales/use taxes.*



**State of Michigan Revenue  
% Change From Year-Ago Quarter and Fiscal Year-to-Date**



**Revenue Quarterly Review: 1st Quarter (November–January) FY 2010-11  
(Millions of Dollars)**

	FY 2010-11 1st Quarter	Change From Year-Ago 1st Quarter	FY 2010-11 Year-to-Date	Change From Previous		FY 2010-11 January Consensus Forecast Growth
				Fiscal-Year-to-Date		
Annual Income Tax	\$27.9	-9.6%	\$27.9	(\$3.0)	-9.6%	9.0%
Quarterly Income Tax	208.3	8.6%	208.3	16.5	8.6%	7.0%
Withholding	<u>1,956.6</u>	7.8%	<u>1,956.6</u>	<u>141.9</u>	7.8%	2.5%
<b>Subtotal</b>	<b>2,192.8</b>	<b>7.6%</b>	<b>2,192.8</b>	<b>155.5</b>	<b>7.6%</b>	<b>3.3%</b>
Income Tax Refunds	<u>111.9</u>	48.6%	<u>111.9</u>	<u>36.6</u>	48.6%	2.0%
<b>Net Income Tax</b>	<b>2,080.9</b>	<b>6.1%</b>	<b>2,080.9</b>	<b>118.9</b>	<b>6.1%</b>	<b>3.8%</b>
Sales Tax	1,708.0	8.9%	1,708.0	140.2	8.9%	2.9%
Use Tax	<u>295.7</u>	8.4%	<u>295.7</u>	<u>23.0</u>	8.4%	3.6%
<b>Subtotal</b>	<b>2,003.7</b>	<b>8.9%</b>	<b>2,003.7</b>	<b>163.2</b>	<b>8.9%</b>	<b>3.0%</b>
Single Business Tax	-5.6	-124.3%	-5.6	(28.9)	-124.3%	-100.0%
Michigan Business Tax	62.4	-21.9%	422.2	(118.6)	-21.9%	13.4%
Insurance Tax	<u>422.2</u>	-1.6%	<u>62.4</u>	<u>(1.0)</u>	-1.6%	5.5%
<b>Subtotal</b>	<b>479.0</b>	<b>-23.7%</b>	<b>479.0</b>	<b>(148.5)</b>	<b>-23.7%</b>	<b>12.3%</b>
Casino Wagering	27.5	-8.3%	27.5	(2.5)	-8.3%	0.8%
Tobacco Tax	237.2	-5.4%	237.2	(13.5)	-5.4%	-3.2%
Lottery	204.6	9.8%	204.6	18.2	9.8%	1.8%
Industrial/CommFacility Taxes	7.6	-17.8%	7.6	(1.6)	-17.8%	-13.0%
Real Estate Transfer Tax	27.8	-11.1%	27.8	(3.5)	-11.1%	2.8%
State Education Tax	<u>287.1</u>	-2.2%	<u>287.1</u>	<u>(6.4)</u>	-2.2%	-3.7%
<b>Subtotal</b>	<b>791.8</b>	<b>-1.2%</b>	<b>791.8</b>	<b>(9.3)</b>	<b>-1.2%</b>	<b>-2.4%</b>
<b>TOTAL</b>	<b>5,355.4</b>	<b>2.4%</b>	<b>5,355.4</b>	<b>124.3</b>	<b>2.4%</b>	<b>3.2%</b>

## House Fiscal Agency: Economic/Revenue Overview

### U.S. Economy

\*\* Gross Domestic Product or GDP grew 3.2% in the fourth quarter of 2010 – up from the 2.6% pace in the third quarter of 2010. Domestic final spending (GDP less inventories and net exports) rose by 3.4% and was primarily driven by personal consumption, which was up 4.4%.

\*\* Light motor vehicle sales increased in January to a seasonally adjusted annual rate of 12.6 million units; this is above the December level of 12.5 million units. Compared to a year-ago, auto sales were up 6.6% and light trucks and SUVs were up 28.4%. January sales for Ford increased 13.2%, for GM increased 22.7%, and for Chrysler increased 22.7% from a year-ago.

\*\* The index of leading economic indicators increased 1.0% in December and remains on an upward trend. The index has increased in each of the last six months with November and December posting the strongest gains.

\*\* Both the ISM manufacturing and the non-manufacturing (services) indices showed solid gains in January.

\*\* National nonfarm employment increased by a weak 36,000 in January – however there was a sizable downward affect due to extreme weather conditions. Job gains occurred in durable goods manufacturing, retail trade, professional and business services, and education and health services, while job losses occurred in government and construction.

### Michigan Economy

\*\* Michigan nonfarm employment decreased by 7,000 in December, after a slight uptick in November. Relative to a year-ago, job losses occurred primarily in government, but also in construction, financial activities, and professional and business services.

\*\* In December, Michigan's unemployment rate was 11.7%; while the national unemployment rate was 9.4%. In December, Nevada had the highest unemployment rate in the nation at 14.5%, followed by California at 12.5%, Florida at 12.0%, Michigan at 11.7%, and Rhode Island at 11.5%.

### State Revenue

\*\* Based on HFA target estimates and revenue data through January, FY 2009-10 revenue is up \$20 million for the General Fund/General Purpose and is up \$10 million for the School Aid Fund. Target estimates are based on the January 2011 consensus estimates.

\*\* According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the July – September 2010 period, increased 4.5% compared with the same period a year ago. Despite three consecutive quarters of growth, state tax revenues were still 7.5% below the same period a year ago. Only 10 states reported higher collections in the third quarter of 2010 than in the same quarter of 2008.