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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

MAY 2011

House Fiscal Agency  
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## TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$3,102.2 million	\$3,580.5 million	15.4%	7.2%

Revenue collections for second quarter (February–April) of fiscal year (FY) 2010-11 were higher than second quarter FY 2009-10 collections by \$478.3 million or 15.4%. Much of the increase relative to a year-ago was due to higher income tax revenue. Fiscal-year-to-date (FYTD) revenue was up \$602.6 million or 7.2%.

## INCOME TAX (NET)

<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$232.4 million	\$658.8 million	183.5%	24.9%

Income tax revenue consists of three components—withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 81% 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 second quarter FY 2010-11 were higher than second quarter FY 2009-10 collections by \$426.5 million or 183.5%. Withholding payments were up 6.1%, quarterly and annual payments were up 24.2%, and refunds were down 10.3%. Net income tax collections FYTD were \$2.7 billion—up \$545.3 million or 24.9% from a year ago.

## SALES AND USE TAXES

<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$1,770.2 million	\$1,784.4 million	0.8%	4.9%

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, gas and electric utilities, and remote sales.

Sales and use tax collections for second quarter FY 2010-11 were higher than the year-ago quarter by \$14.2 million or 0.8%. Sales tax due to motor vehicle sales decreased 0.7%; all other sales tax collections were up 2.3% in second quarter FY 2010-11 relative to the year-ago second quarter. Sales and use tax collections FYTD were \$3.8 billion—up \$177.4 million or 4.9% from a year ago.

## BUSINESS AND INSURANCE TAXES

<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$565.7 million	\$605.5 million	7.0%	-9.1%

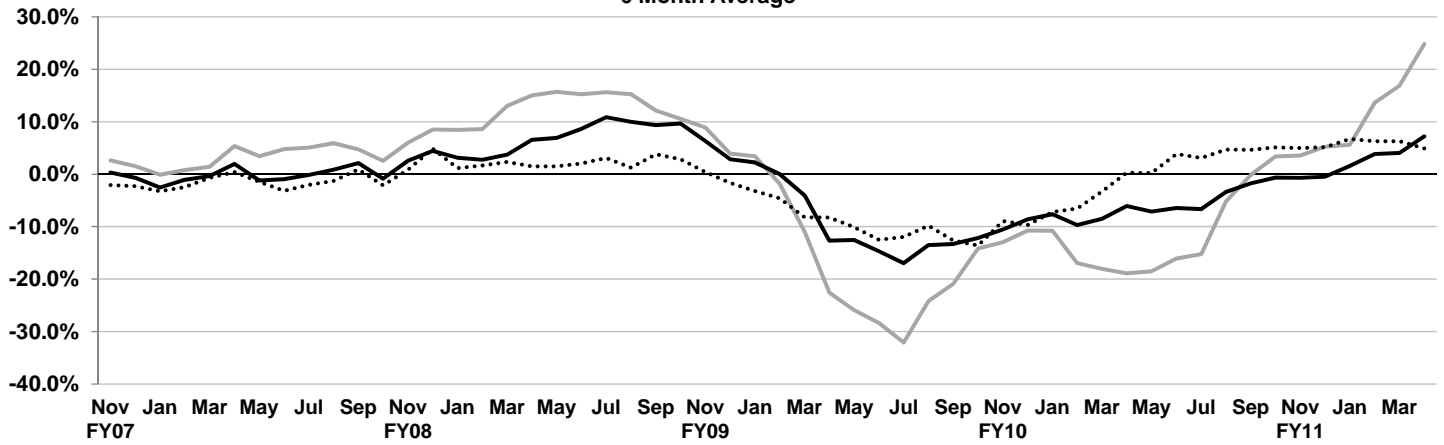
Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For the second quarter FY 2010-11, business tax collections were above the year-ago second quarter by \$39.8 million or 7.0%. Business tax collections FYTD were \$1.1 billion—down \$108.7 million or 9.1% from a year ago.

## OTHER REVENUE

<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$534.0 million	\$531.9 million	-0.4%	-0.9%

Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for second quarter FY 2010-11 were down \$2.2 million or 0.4% from the second quarter of FY 2009-10. Other revenue collections FYTD were \$1.3 billion—down \$11.5 million or 0.9% from a year ago.

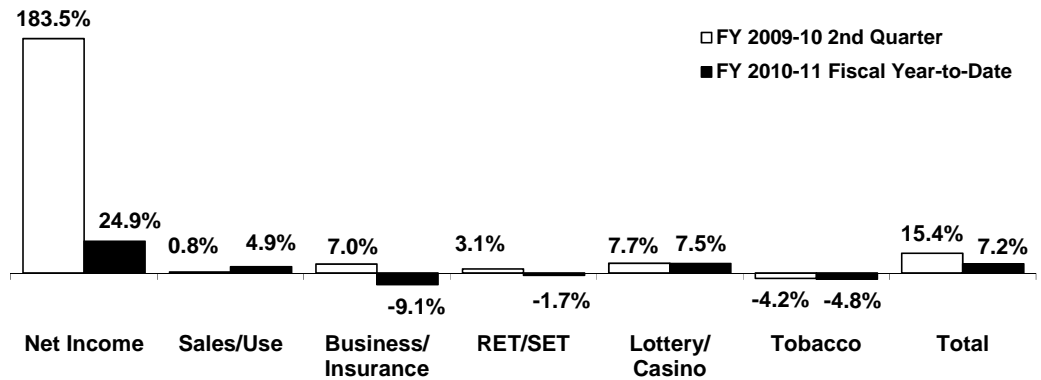
**Percent Change in Net Income, Sales/Use, and Total Major Taxes  
6 Month Average**



*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.*

— Net Income Tax    ..... Sales/Use Tax    - - - - Total Major Taxes

**State of Michigan Revenue: % Change From Prior Year**



**Revenue Quarterly Review: 2nd Quarter (February–April) FY 2010-11  
(Millions of Dollars)**

	FY 2010-11 2nd Quarter	Change From Year-Ago 2nd Quarter	FY 2010-11 Year-to-Date	Change From Previous		FY 2010-11 January Consensus Forecast Growth
				Fiscal-Year-to-Date		
Annual Income Tax	\$539.0	25.2%	\$566.8	\$105.4	22.8%	9.0%
Quarterly Income Tax	100.1	19.1%	308.4	32.5	11.8%	7.0%
Withholding	1,761.7	6.1%	3,718.3	243.1	7.0%	2.5%
<b>Subtotal</b>	<b>2,400.7</b>	<b>10.4%</b>	<b>4,593.5</b>	<b>381.0</b>	<b>9.0%</b>	<b>3.3%</b>
Income Tax Refunds	1,741.9	-10.3%	1,853.8	(164.3)	-8.1%	2.0%
<b>Net Income Tax</b>	<b>658.8</b>	<b>183.5%</b>	<b>2,739.7</b>	<b>545.3</b>	<b>24.9%</b>	<b>3.8%</b>
Sales Tax	1,512.9	1.9%	3,221.0	168.0	5.5%	2.9%
Use Tax	271.4	-4.7%	567.1	9.5	1.7%	3.6%
<b>Subtotal</b>	<b>1,784.4</b>	<b>0.8%</b>	<b>3,788.1</b>	<b>177.4</b>	<b>4.9%</b>	<b>3.0%</b>
Single Business Tax	6.6	-19.4%	1.0	(30.5)	-96.9%	-100.0%
Michigan Business Tax	527.6	8.6%	949.8	(76.6)	-7.5%	13.4%
Insurance Tax	71.3	-0.8%	133.7	(1.6)	-1.2%	5.5%
<b>Subtotal</b>	<b>605.5</b>	<b>7.0%</b>	<b>1,084.5</b>	<b>(108.7)</b>	<b>-9.1%</b>	<b>12.3%</b>
Casino Wagering	30.2	20.1%	57.6	2.6	4.7%	0.8%
Tobacco Tax	221.7	-4.2%	458.9	(23.3)	-4.8%	-3.2%
Lottery	173.0	5.8%	377.6	27.8	7.9%	1.8%
Industrial/CommFacility Taxes	8.4	-54.0%	16.0	(11.5)	-41.9%	-13.0%
Real Estate Transfer Tax	28.7	11.5%	56.5	(0.5)	-0.9%	2.8%
State Education Tax	69.8	-0.1%	356.9	(6.5)	-1.8%	-3.7%
<b>Subtotal</b>	<b>531.9</b>	<b>-0.4%</b>	<b>1,323.6</b>	<b>(11.5)</b>	<b>-0.9%</b>	<b>-2.4%</b>
<b>TOTAL</b>	<b>3,580.5</b>	<b>15.4%</b>	<b>8,935.9</b>	<b>602.6</b>	<b>7.2%</b>	<b>3.2%</b>

## House Fiscal Agency: Economic/Revenue Overview

### U.S. Economy

\*\* Gross Domestic Product or GDP grew 1.8% in the first quarter of 2011 – down from the 3.1% pace in the fourth quarter of 2010. Personal consumption posted a 2.7% increase due predominately to purchases of durable and nondurable goods. Inventory accumulation and business investment in equipment and software added to the increase, while government subtracted from the first quarter economic growth.

\*\* Light motor vehicle sales held steady in April at a seasonally adjusted annual rate of 13.1 million units. Compared to a year-ago, auto sales were up 21.0% and light trucks and SUVs were up 14.7%. April sales for Ford increased 16.3%, for GM increased 26.6%, and for Chrysler increased 21.6% from a year-ago.

\*\* The price of West Texas Intermediate (WTI) crude oil fell quickly to around \$100 per barrel after the recent highs of \$110 to \$115 per barrel.

\*\* The Reuters/University of Michigan's consumer sentiment index increased 2.3 points in April following a 10 point plunge in March. Gasoline and food prices, volatility in the stock markets, and employment concerns are keeping the index low relative to earlier in the year.

\*\* National nonfarm employment increased by 244,000 in April, following an increase of 221,000 in March. Job gains occurred in manufacturing, professional and business services, education and health services, retail and wholesale trade, and leisure and hospitality, while job losses occurred in state and local government.

### Michigan Economy

\*\* Michigan nonfarm employment increased in March, after a slight loss February. Relative to February, gains occurred in manufacturing, professional and business services, leisure and hospitality, while job losses occurred in construction. The Michigan unemployment rate declined to 10.3% in March, which was above the 8.8% national rate.

\*\* In March, Michigan's nonfarm employment grew 2.1% or by 79,000 jobs relative to a year ago. Compared to other states, Michigan posted the 5th highest percentage year-over-year job gain in March, which was driven by a strong performance in manufacturing and education and health services.

### State Revenue

\*\* Based on HFA target estimates, which are relative to the January 2011 consensus estimates, and revenue data through April, FY 2010-11 revenue is up \$340 million for the General Fund/General Purpose and is up \$115 million for the School Aid Fund.

**It is important to note that these figures should not be extrapolated to the second half of the fiscal year.** Over the second half of FY 2010-11, MBT assessments and audits are expected to come in below the current estimate and a \$63 million use tax refund will be paid.

\*\* According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the October – December 2010 period, increased 7.8% compared with the same period a year ago. Despite four consecutive quarters of growth, state tax revenues were still 0.6% below the same period a year ago. Only 18 states reported higher collections in the fourth quarter of 2010 than in the same quarter of 2007.