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REVENUE REVIEW

Quarterly Revenue Report for the State of Michigan

NOVEMBER 2009

House Fiscal Agency
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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>4th Qtr FY 2007-08</u>	<u>4th Qtr FY 2008-09</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$7,038.5 million	\$6,193.3 million	-15.6%	-12.4%

Total revenue collections for fourth quarter (August–October) fiscal year (FY) 2008-09 were lower than fourth quarter FY 2007-08 total revenue collections by \$845.2 million or 15.6%. Fiscal year-to-date (FYTD) revenue was down \$2,806.3 million or 12.4% from a year ago.

INCOME TAX (NET)

<u>4th Qtr FY 2007-08</u>	<u>4th Qtr FY 2008-09</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$1,980.5 million	\$1,703.2 million	-15.4%	-18.2%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 84% of gross income tax collection. 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 fourth quarter FY 2008-09 were lower than fourth quarter FY 2007-08 collections by \$277.3 million or 15.4%. Withholding payments were down 9.8%, quarterly and annual payments were down 30.9%, and refunds were up 14.0%. Net income tax collections FYTD were \$5.9 billion—down \$1,324.9 million or 18.2% from a year ago.

SALES AND USE TAXES

<u>4th Qtr FY 2007-08</u>	<u>4th Qtr FY 2008-09</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$2,074.3 million	\$1,824.5 million	-11.8%	-11.8%

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 fourth quarter FY 2008-09 were lower than the year-ago quarter by \$249.8 million or 11.8%. Sales tax due to motor vehicle sales increased 4.8% while all other sales tax collections were down 13.8% in fourth quarter FY 2008-09 relative to the year-ago fourth quarter. Sales and use tax collections FYTD were \$7.2 billion, down \$961.0 million or 11.8% from a year ago.

BUSINESS (MBT/SBT) AND INSURANCE TAXES

<u>4th Qtr FY 2007-08</u>	<u>4th Qtr FY 2008-09</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$782.8 million	\$553.7 million	-27.3%	-7.0%

The Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or profit and the insurance tax is based on insurance premiums. For fourth quarter FY 2008-09, MBT/SBT and insurance tax collections were below the year-ago fourth quarter by \$229.1 million or 27.3%. Business tax collections FYTD were \$2.6 billion—down \$197.1 million or 7.0% from a year ago.

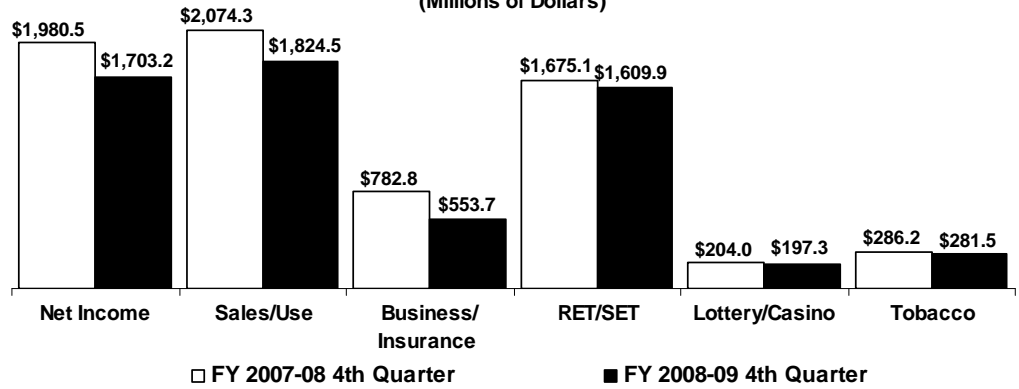
OTHER REVENUE

<u>4th Qtr FY 2007-08</u>	<u>4th Qtr FY 2008-09</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$2,200.8 million	\$2,111.9 million	-13.6%	-7.4%

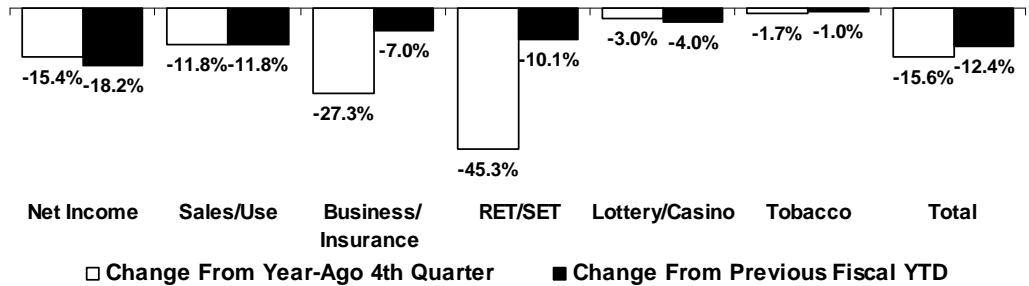
Other revenue collections—which include primarily the state education tax (SET), real estate transfer (RET) tax, tobacco tax, and lottery revenue—for fourth quarter FY 2008-09 were down \$88.9 million or 13.6% from the fourth quarter of FY 2007-08. Other revenue collections FYTD were \$4.1 billion—down \$323.3 million or 7.4% from a year ago.

FY 2008-09 revenue will not be final until late December. However, FY 2008-09 revenue is expected to be down \$90 million for the General Fund/General Purpose and down \$45 million for the School Aid Fund relative to the May 2009 consensus estimates.

State of Michigan Revenue: 4th Quarter Comparison
(Millions of Dollars)



State of Michigan Revenue
% Change From Year-Ago Quarter and Fiscal Year-to-Date (YTD)



Revenue Quarterly Review: 4th Quarter (August–October) FY 2008-09 (Millions of Dollars)

	FY 2008-09 4th Quarter	Change From Year-Ago 4th Quarter	FY 2008-09		FY 2008-09 May Consensus Forecast Growth
			Year-to-Date	Change From Previous Fiscal-Year-to-Date	
Annual Income Tax	\$58.8	-14.9%	\$646.6	(\$224.9) -25.8%	-28.0%
Quarterly Income Tax	148.8	-34.4%	608.2	(242.2) -28.5%	-25.0%
Withholding	1,615.7	-9.8%	6,818.3	(506.0) -6.9%	-5.3%
Subtotal	1,823.2	-12.4%	8,073.0	(973.1) -10.8%	-9.4%
Income Tax Refunds	120.0	14.0%	2,124.3	351.7 19.8%	17.9%
Net Income Tax	1,703.2	-15.4%	5,948.7	(1,324.9) -18.2%	-16.2%
Sales Tax	1,534.2	-11.4%	6,052.6	(696.1) -10.3%	-8.3%
Use Tax	290.3	-14.0%	1,102.0	(264.9) -19.4%	-16.3%
Subtotal	1,824.5	-11.8%	7,154.6	(961.0) -11.8%	-9.6%
Single Business Tax	(6.3)	-35.3%	(101.9)	(816.6) -114.3%	-127.6%
Michigan Business Tax	486.6	-30.8%	2,450.2	592.9 31.9%	22.5%
Insurance Tax	73.4	27.0%	272.3	26.6 10.8%	9.2%
Subtotal	553.7	-27.3%	2,620.6	(197.1) -7.0%	-10.6%
Casino Wagering	27.6	-8.5%	112.1	(15.5) -12.2%	-12.5%
Tobacco Tax	281.5	-1.7%	1,041.8	(10.5) -1.0%	-5.4%
Lottery	169.7	-2.1%	721.1	(19.6) -2.6%	-7.1%
Industrial/CommFacility Taxes	23.1	-104.0%	51.0	(37.5) -42.4%	-35.0%
Real Estate Transfer Tax	40.5	-10.4%	127.2	(51.2) -28.7%	-41.1%
State Education Tax	1,569.4	-59.2%	2,017.3	(189.1) -8.6%	-3.5%
Subtotal	2,111.9	-13.6%	4,070.6	(323.3) -7.4%	-7.0%
TOTAL	6,193.3	-15.6%	19,794.5	(2,806.3) -12.4%	-11.4%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Nonmortgage consumer credit fell \$12.0 billion in August, the seventh straight month of decline. Consumer credit declined at an accelerated rate in the second and third quarters of 2009, reflecting the tightening of lending standards and hesitance among consumers to assume new debt given their employment and income concerns.

** The gasoline price was \$2.69/gallon the last week of October, which was \$0.29/gallon higher than a year-ago. The West Texas Intermediate price edged back up to near \$79/barrel.

** Light motor vehicle sales increased in October to a seasonally adjusted annual rate of 10.4 million units; this is above the September level of 9.2 million units. October sales for Ford increased 3.3%, GM increased 4.7%, but Chrysler decreased 30.4% from a year ago.

** Manufacturing, as measured by the ISM index, increased 3.1 points to 55.7 in October. Manufacturing production, employment, and export orders all posted gains. However, the non-manufacturing services industries index slipped 0.3 points to 50.6 in October. The services decline was primarily driven by employment reductions.

** National nonfarm employment decreased by 190,000 in October and by 219,000 in September. Since the recession began in December 2007, 7.3 million payroll jobs have been lost. Job losses were broad based, with the most significant declines in manufacturing, construction, retail trade, and leisure and hospitality.

Michigan Economy

** Michigan nonfarm employment decreased by 22,000 in September, after a decrease of 16,700 jobs in August. Job losses were posted in construction, retail trade, government, leisure and hospitality, and education and health services.

** In September, Michigan's unemployment rate was 15.3%; while the national unemployment rate was 9.8%. In September, Michigan had the highest unemployment rate in the nation, followed by Nevada at 13.3%, Rhode Island at 13.0%, California at 12.2%, and South Carolina at 11.6%.

State Revenue

** FY 2008-09 revenue will not be final until late December. However, FY 2008-09 revenue is expected to be down \$90 million for the General Fund/General Purpose and down \$45 million for the School Aid Fund relative to the May 2009 consensus estimates.

** According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the April – June 2009 period, declined 16.6% compared with the same period a year ago -- the sharpest decline on record. The personal income tax and sales tax posted declines, while the corporate income tax was up slightly. Total tax revenue declined in 49 states, while 36 states reported double-digit declines.