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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

AUGUST 2011
Revised

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$4,616.1 million	\$5,053.3 million	+9.5%	+8.0%

Despite recent national economic weakness, Michigan's economy and revenue has so far been stable. Revenue collections for third quarter (May–July) of fiscal year (FY) 2010-11 were higher than third quarter FY 2009-10 revenue collections by \$437.2 million or 9.5%. Total collections fiscal-year-to-date (FYTD) were \$14.0 billion—up \$1.0 billion or 8.0% from a year ago.

INCOME TAX (NET)

<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,563.4 million	\$1,698.4 million	+8.6%	+18.1%

Income tax revenue consists of three components—withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 81% 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 third quarter FY 2010-11 were higher than third quarter FY 2009-10 collections by \$134.9 million or 8.6%. Withholding payments were up 3.4%, quarterly and annual payments were up 34.5%, and refunds were down 9.4%. Net income tax collections FYTD were \$4.4 billion—up \$680.3 million or 18.1% from a year ago.

SALES AND USE TAXES

<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,861.1 million	\$2,039.3 million	+9.6%	+6.5%

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 third quarter FY 2010-11 were higher than the year-ago quarter by \$178.1 million or 9.6%. Sales tax due to motor vehicle sales decreased 5.1%; all other sales tax collections were up 13.8% in third quarter FY 2010-11 relative to the year-ago third quarter. Sales and use tax collections FYTD were up \$355.6 million or 6.5% from a year ago.

BUSINESS AND INSURANCE TAXES

<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$604.4 million	\$741.9 million	22.7%	1.6%

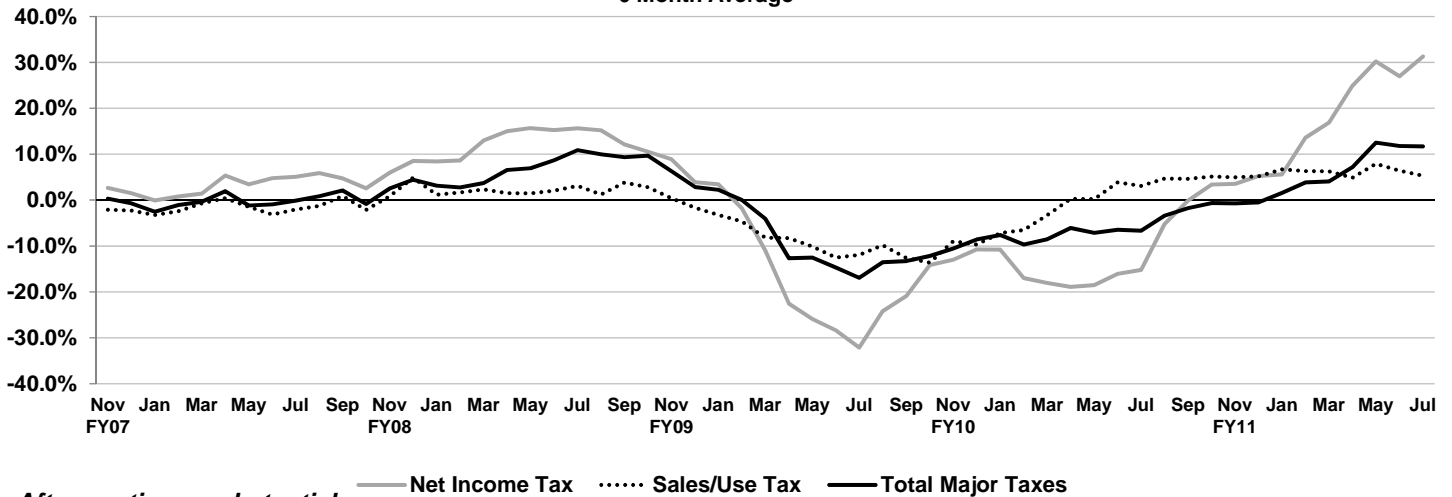
Michigan Business Tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For third quarter FY 2010-11, business tax collections were above the year-ago third quarter by \$137.4 million or 22.7%. Business tax collections FYTD were up \$28.7 million or 1.6% from a year ago.

OTHER REVENUE

<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$587.1 million	\$573.8 million	-2.3%	-1.3%

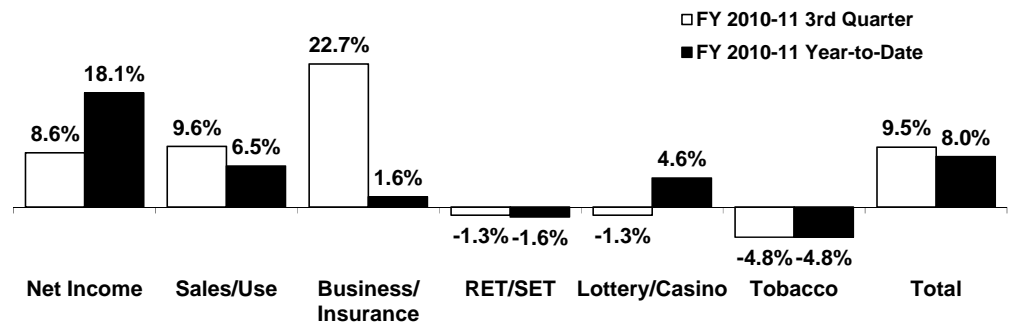
Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for third quarter FY 2010-11 were down \$13.3 million or 2.3% from the third quarter of FY 2009-10. Other revenue collections FYTD were \$1.9 billion—down \$24.8 million or 1.3% from a 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 has improved—driven mainly by increases in net income tax.

State of Michigan Revenue: % Change From Prior Year



**Revenue Quarterly Review: 3rd Quarter (May–July) FY 2011-12
(Millions of Dollars)**

	FY 2011-12 3rd Quarter	Change From Year-Ago 3rd Quarter	FY 2011-12		FY 2011-12 May Consensus Forecast Growth
			Year-to-Date	Change From Previous Fiscal-Year-to-Date	
Annual Income Tax	\$69.9	82.0%	\$636.7	\$136.9 27.4%	18.8%
Quarterly Income Tax	154.6	20.3%	463.0	58.6 14.5%	9.7%
Withholding	<u>1,686.9</u>	3.4%	<u>5,405.2</u>	<u>298.5</u> 5.8%	5.4%
Subtotal	1,911.4	6.3%	6,504.9	493.9 8.2%	6.7%
Income Tax Refunds	<u>213.0</u>	-9.4%	<u>2,066.8</u>	<u>(186.4)</u> -8.3%	-6.8%
Net Income Tax	1,698.4	8.6%	4,438.1	680.3 18.1%	12.5%
Sales Tax	1,744.9	11.1%	4,965.9	342.6 7.4%	5.2%
Use Tax	<u>294.4</u>	1.2%	<u>861.4</u>	<u>13.0</u> 1.5%	-5.5%
Subtotal	2,039.3	9.6%	5,827.3	355.6 6.5%	3.4%
Single Business Tax	11.2	1.2%	12.2	(30.4) -71.4%	-100.0%
Michigan Business Tax	660.8	24.7%	1,610.7	54.1 3.5%	10.7%
Insurance Tax	<u>69.9</u>	10.3%	<u>203.5</u>	<u>5.0</u> 2.5%	3.1%
Subtotal	741.9	22.7%	1,826.3	28.7 1.6%	9.6%
Casino Wagering	28.6	40.0%	86.3	10.7 14.2%	2.6%
Tobacco Tax	245.5	-4.8%	704.4	(35.5) -4.8%	-4.5%
Lottery	169.9	-6.0%	547.6	16.9 3.2%	4.6%
Industrial/Comm Facility Taxes	8.0	66.9%	24.0	(8.3) -25.7%	-22.1%
Real Estate Transfer Tax	25.4	-20.0%	81.9	(6.8) -7.7%	2.8%
State Education Tax	<u>96.4</u>	5.1%	<u>453.3</u>	<u>(1.8)</u> -0.4%	-4.1%
Subtotal	573.8	-2.3%	1,897.5	(24.8) -1.3%	-2.5%
TOTAL	\$5,053.3	9.5%	\$13,989.2	\$1,039.8 8.0%	5.5%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Over the last year, U.S. economic growth or GDP averaged an anemic 1.6% – with the first quarter of 2011 increasing at 0.4% and the second quarter advancing 1.3%. Personal consumption contributed virtually nothing to the second quarter gain, increasing only 0.1%. Government, for three successive quarters has continued its contraction, declining 1.1% in the second quarter. The gain in the second quarter came from exports and business investment.

** July nonfarm employment increased 117,000 following an upwardly revised gain of 46,000 in June. The national economy needs to add about 150,000 jobs per month to keep pace with population increases. The private sector added 154,000 jobs, while government posted a loss of 37,000. The private sector gains were broad based, with only information and financial activities declining.

** In July, the Reuters/University of Michigan's consumer sentiment index fell 7.8 points to 63.7 – the lowest level since March 2009. High gasoline prices, the debt ceiling debate, and concerns over employment and income weighed heavily on consumer confidence.

** Light motor vehicle sales increased to a seasonally adjusted annual rate of 12.2 million units in July, which was up from the 11.5 million units in June. July sales for Ford increased 8.7%, for GM increased 7.7%, and for Chrysler increased 20.1% from a year-ago.

** West Texas Intermediate (WTI) price of oil averaged \$97 per barrel in July, which was down from the May level of \$101 and the April level of \$110, but was still \$21 per barrel higher than a year-ago.

Michigan Economy

** Michigan nonfarm employment increased by 18,000 in June following a 10,000 job loss in May. Relative to May, gains occurred in government, leisure and hospitality, education and health services, and construction. The Michigan unemployment rate increased to 10.5% in June, which was above the 9.2% national rate.

** In 2010, real gross domestic product (GDP) increased 2.6% nationally and by 2.9% in Michigan. In Michigan, half of the growth came from durable-goods manufacturing, while other significant contributors were wholesale and retail trade and nondurable-goods manufacturing. Compared to other states, Michigan posted the 15th highest percentage increase in 2010.

State Revenue

** Based on HFA target estimates and revenue data through July, FY 2010-11 revenue was up \$100 million for the General Fund/General Purpose and was up \$60 million for the School Aid Fund. Target estimates are based on the May 2011 consensus estimates and historical monthly patterns. ***If Michigan's economy slows with the national economy over the next few months, we are likely to see weaker than expected revenue collections in the coming months.***