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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 2010

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>1st Qtr FY 2008-09</u>	<u>1st Qtr FY 2009-10</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$5,317.4 million	\$5,217.9 million	-1.9%	-1.9%

Revenue collections for the first quarter (November–January) of fiscal year (FY) 2009-10 were lower than first quarter FY 2008-09 collections by \$99.5 million or 1.9%. The first quarter revenue change was an improvement from the 12.4% decrease posted in the fourth quarter of FY 2008-09.

INCOME TAX (NET)

<u>1st Qtr FY 2008-09</u>	<u>1st Qtr FY 2009-10</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$2,127.0 million	\$1,962.1 million	-7.8%	-7.8%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 85% 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 2009-10 were lower than first quarter FY 2008-09 collections by \$165.0 million or 7.8%. Withholding payments were down 5.6%, quarterly payments and annual payments were down 17.7%, and refunds were up 15.8%

SALES AND USE TAXES

<u>1st Qtr FY 2008-09</u>	<u>1st Qtr FY 2009-10</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$1,808.4 million	\$1,840.5 million	+1.8%	+1.8%

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, gas and electric utilities, and remote sales.

Sales and use tax collections for first quarter FY 2009-10 were higher than the year-ago quarter by \$32.0 million or 1.8%. Sales tax due to motor vehicle sales increased 5.9%; all other sales tax collections were down 1.1% in first quarter FY 2009-10 relative to the year-ago first quarter.

BUSINESS AND INSURANCE TAXES

<u>1st Qtr FY 2008-09</u>	<u>1st Qtr FY 2009-10</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$614.8 million	\$627.5 million	2.1%	2.1%

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 first quarter FY 2009-10, business tax collections were above the year-ago first quarter by \$12.7 million or 2.1%.

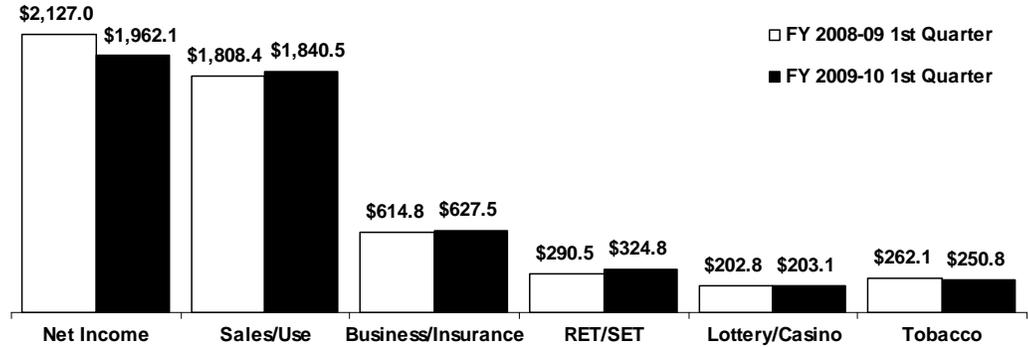
OTHER REVENUE

<u>1st Qtr FY 2008-09</u>	<u>1st Qtr FY 2009-10</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$767.1 million	\$787.9 million	+2.7%	+2.7%

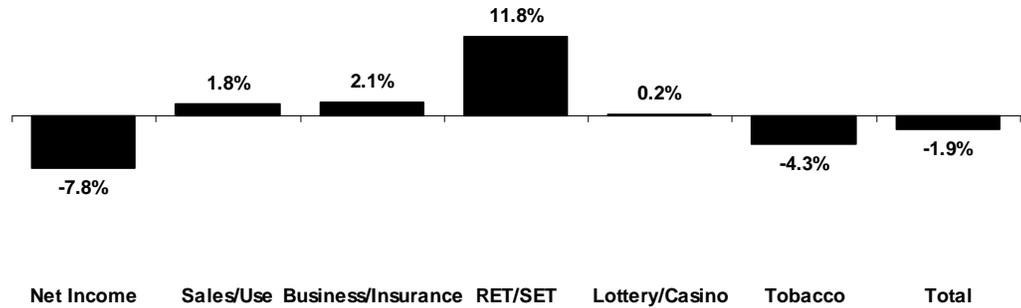
Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for first quarter FY 2009-10 were up \$20.8 million or 2.7% from the first quarter of FY 2008-09.

Fiscal year-to-date, GF/GP revenue is up \$35 million and SAF revenue is down \$15 million from HFA target estimates – which are based on the January 2010 consensus.

State of Michigan Revenue: 1st Quarter Comparison
(Millions of Dollars)



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



Revenue Quarterly Review: 1st Quarter (November–January) FY 2009-10
(Millions of Dollars)

	Change From Year-Ago		Change From Previous		FY 2009-10 January Consensus Forecast Growth
	FY 2009-10 1st Quarter	1st Quarter	FY 2009-10 Year-to-Date	Fiscal-Year-to-Date	
Annual Income Tax	\$30.8	20.9%	\$30.8	\$5.3 20.9%	-12.5%
Quarterly Income Tax	191.8	-21.7%	191.8	(53.1) -21.7%	-9.2%
Withholding	1,814.7	-5.6%	1,814.7	(106.9) -5.6%	-4.6%
Subtotal	2,037.3	-7.1%	2,037.3	(154.7) -7.1%	-5.6%
Income Tax Refunds	75.3	15.8%	75.3	10.3 15.8%	5.9%
Net Income Tax	1,962.1	-7.8%	1,962.1	(165.0) -7.8%	-9.9%
Sales Tax	1,567.8	-0.4%	1,567.8	(5.9) -0.4%	-3.2%
Use Tax	272.7	16.2%	272.7	38.0 16.2%	2.7%
Subtotal	1,840.5	1.8%	1,840.5	32.0 1.8%	-2.3%
Single Business Tax	23.3	-150.0%	23.3	69.8 -150.0%	-183.0%
Michigan Business Tax	540.8	-9.5%	540.8	(57.0) -9.5%	-1.4%
Insurance Tax	63.4	-0.2%	63.4	(0.1) -0.2%	3.8%
Subtotal	627.5	2.1%	627.5	12.7 2.1%	-2.6%
Casino Wagering	29.9	4.9%	29.9	1.4 4.9%	-9.7%
Tobacco Tax	250.8	-4.3%	250.8	(11.3) -4.3%	-6.0%
Lottery	173.2	-0.6%	173.2	(1.0) -0.6%	-2.3%
Industrial/CommFacility Taxes	9.2	-22.0%	9.2	(2.6) -22.0%	-21.5%
Real Estate Transfer Tax	31.3	6.8%	31.3	2.0 6.8%	1.4%
State Education Tax	293.5	12.4%	293.5	32.4 12.4%	-8.1%
Subtotal	787.9	2.7%	787.9	20.8 2.7%	-6.4%
TOTAL	5,217.9	-1.9%	5,217.9	(99.5) -1.9%	-5.5%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** New home sales fell 7.6% and existing home sales fell 16.7% in December. Some of this decline is due to the expired first-time buyers' tax credit. Seasonally adjusted prices increased for the sixth consecutive month in November, and are up 3.5% from their May low.

** The gasoline price was \$2.66/gallon the last week of December, which was \$0.77/gallon higher than a year-ago. The West Texas Intermediate price edged back up to near \$75/barrel.

** Light motor vehicle sales decreased in January to a seasonally adjusted annual rate of 10.8 million units; this is below the December level of 11.2 million units. Car sales were up 13.6%, while light truck sales were down 0.3%. January sales for Ford increased 25.0% and for GM increased 14.1%, but Chrysler sales decreased 8.1% from a year ago.

** Manufacturing, as measured by the ISM index, increased 3.5 points to 58.4 in December. The manufacturing index has been expanding for three consecutive months. However, the nonmanufacturing services industries index increased to 50.5 in December; which means the service industries are barely expanding.

** National nonfarm employment decreased by 20,000 in January and by 150,000 in December. Since the recession began in December 2007, 8.4 million payroll jobs have been lost. Job losses occurred in construction and leisure and hospitality, while job gains were in professional and business services, retail trade, and education and health services.

Michigan Economy

** Michigan nonfarm employment decreased by 15,700 in December, after a decrease of 17,800 jobs in November. Job gains in education and health services were offset by losses in manufacturing, construction, professional and business services, leisure and hospitality services, and government.

** In December, Michigan's unemployment rate was 14.6%; while the national unemployment rate was 10.0%. In December, Michigan had the highest unemployment rate in the nation, followed by Nevada at 13.0%, Rhode Island at 12.9%, South Carolina at 12.6%, and California at 12.4%.

State Revenue

** January 2010 revenue was up about \$20 million from the January 2010 consensus estimates. Of this \$20 million, General Fund/General Purpose revenue is up \$35 million and School Aid Fund revenue is down \$15 million.

** According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the July – September 2009 period, declined 10.9% compared with the same period a year ago – the fourth consecutive quarterly decline. Total tax revenue declined in 48 states, while the Southeast reported the lowest decline and the Southwest had the steepest decline.