

**DATE:** May 10, 2007

**FROM:** Mitchell E. Bean, Director

**RE:** House Fiscal Agency's May 2007 *Revenue Review*

In the May 2007 **Revenue Review**, year-to-date collections appear to be significantly stronger than they actually are. We believe this is due to the following:

- Timing issues, which account for approximately \$170 million, in collection of the Single Business Tax (SBT) and annual income tax payments.
- One-time revenue of about \$30 million due to employee buyouts.
- One-time collection of about \$15 million in payment and interest from a use tax settlement.

To provide a more accurate picture of year-to-date revenue growth, we have adjusted the collection data to reflect the \$170 million difference that is due to timing issues. The last row of the table at the end of the report shows that year-to-date revenue growth, when adjusted for timing, is estimated to be 0.2%—not 2.0% as the raw data suggests.

Because SBT payments are due at the end of April, some SBT revenue is reflected in the May revenue figures. Typically, when April payments appear to be stronger than expected, the May payments will be weaker—and the reverse is also true (when April payments appear to be weaker than expected, then May payments will be stronger than expected).

State and national economic data supports our conclusion that actual collections are weaker than they appear to be. University of Michigan economists noted the following in their most recent state forecast ([The Michigan Economic Outlook for 2007-2008 April 2007 Forecast Update](#) by Joan Crary and George Fulton):

"The revised data suggest that the current employment situation is considerably weaker than originally depicted. Job losses during the past two years are now roughly double the previously reported decline. More troubling, the new data reveal that the one relatively bright spot in the employment picture, modest job growth in the private nonmanufacturing sector, began to evaporate in late 2005."

If you have any questions about this *Revenue Review*, please call me.

attachment



Mitchell E. Bean, Director  
Rebecca Ross, Senior Economist

# R E V E N U E

## REVIEW

Quarterly  
Revenue Report  
for the  
State of Michigan

MAY 2007

House Fiscal Agency  
P.O. Box 30014  
Lansing, MI 48909-7514  
www.house.mi.gov/hfa

### TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>2nd Qtr FY 2005-06</u>	<u>2nd Qtr FY 2006-07</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$3,895.5 million	\$4,150.2 million	6.5%	2.0%

Revenue collection for second quarter (February–April) of fiscal year (FY) 2006-07 was higher than second quarter FY 2005-06 revenue collection by \$254.7 million or 6.8%. However, much of this increase—approximately \$150 million to \$170 million—was due to timing issues with annual income tax payment and the Single Business Tax. Revenue—not including \$170 million—was up \$84.7 million or 2.2%. Fiscal year-to-date (FYTD), total revenue was up \$185.5 million or 2.0%; adjusted revenue was up \$15.5 million or 0.2%.

### INCOME TAX (NET)

<u>2nd Qtr FY 2005-06</u>	<u>2nd Qtr FY 2006-07</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$939.5 million	\$1,079.7 million	14.9%	5.4%

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 collection. Annual and quarterly payments are based on self-employment earnings and other income sources, such as capital gains.

Net income tax collection (which includes income tax refunds) for second quarter FY 2006-07 was higher than second quarter FY 2005-06 collection by \$140.2 million or 14.4%. Withholding payments were up 5.2%, quarterly and annual payments were up 16.5%, and refunds were up 3.6%. FYTD net income tax collection was up 5.4% from a year ago.

### SALES AND USE TAXES

<u>2nd Qtr FY 2005-06</u>	<u>2nd Qtr FY 2006-07</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$1,812.0 million	\$1,846.4 million	1.9%	0.4%

Sales tax collection is 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 2006-07 were higher than the year-ago quarter by \$34.4 million or 1.9%. Sales tax due to motor vehicle sales increased 3.0%; all other sales tax collection was up 2.4% in second quarter FY 2006-07 relative to the year-ago second quarter. FYTD sales and use tax collections were up 0.4% from a year ago.

### SINGLE BUSINESS AND INSURANCE TAXES

<u>2nd Qtr FY 2005-06</u>	<u>2nd Qtr FY 2006-07</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$487.0 million	\$564.1 million	15.8%	1.5%

Single business tax is applied to the value added of business activities; insurance tax is based on insurance premiums. For second quarter FY 2006-07, single business and insurance tax collections was above the year-ago second quarter by \$77.1 million or 15.8%. FYTD business tax collection was up 1.5% from a year ago.

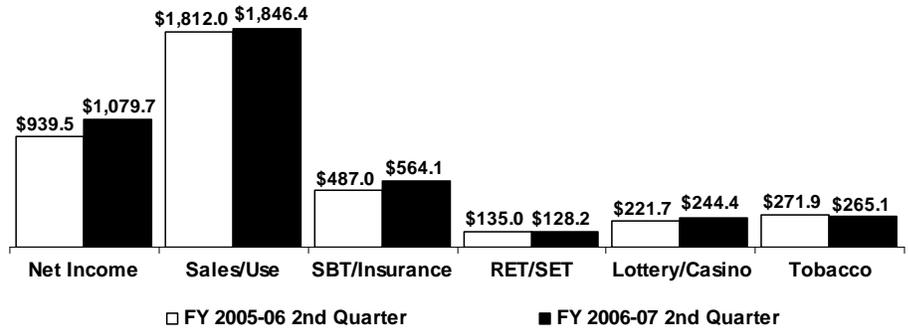
### OTHER REVENUE

<u>2nd Qtr FY 2005-06</u>	<u>2nd Qtr FY 2006-07</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$657.0 million	\$660.0 million	0.5%	0.1%

Other revenue collection—which includes primarily the state education tax (SET), real estate transfer (RET) tax, tobacco tax, and lottery revenue—for second quarter FY 2006-07 was up \$3.0 million or 0.5% from the second quarter of FY 2005-06.

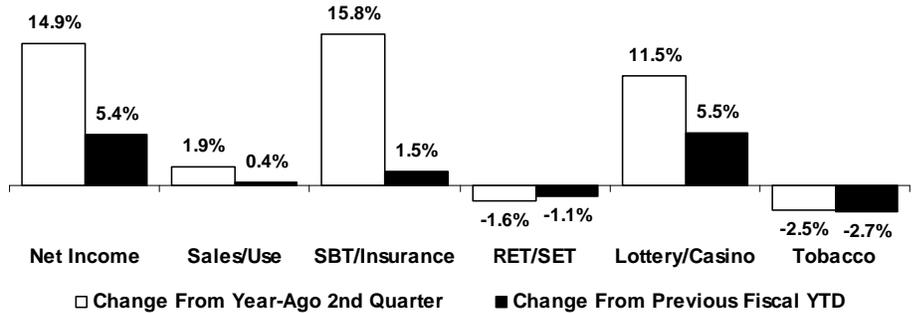
**State of Michigan Revenue: 2nd Quarter Comparison**  
(Millions of Dollars)

**Adjusted total revenue (total revenue less \$170 million for annual income tax and SBT timing) increased 0.2% in the first two quarters of FY 2006-07.**



**Fiscal year-to-date, GF/GP revenue is down \$20 million, and SAF revenue is down \$50 million from target estimates.**

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



**Revenue Quarterly Review: 2nd Quarter (February–April) FY 2006-07** (Millions of Dollars)

	FY 2006-07 2nd Quarter	% Change From Year-Ago 2nd Quarter	Change From Previous Fiscal Year-to-Date			FY 2006-07 January Consensus Forecast Growth
			FY 2006-07 Year-to-Date	Dollar	Percent	
Annual Income Tax	\$604.5	17.3%	\$635.3	\$84.7	15.4%	3.5%
Quarterly Income Tax	128.6	13.1%	397.1	15.1	4.0%	4.5%
Withholding	1,640.7	5.2%	3,411.9	113.5	3.4%	0.5%
<b>Subtotal</b>	<b>2,373.8</b>	<b>8.5%</b>	<b>4,444.3</b>	<b>213.3</b>	<b>5.0%</b>	<b>1.1%</b>
Income Tax Refunds	1,294.1	3.6%	1,406.0	58.9	4.4%	4.3%
<b>Net Income Tax</b>	<b>1,079.7</b>	<b>14.9%</b>	<b>3,038.4</b>	<b>154.5</b>	<b>5.4%</b>	<b>0.3%</b>
Sales Tax	1,514.8	2.4%	3,190.4	0.7	0.0%	1.4%
Use Tax	331.7	-0.5%	677.2	14.5	2.2%	2.8%
<b>Subtotal</b>	<b>1,846.4</b>	<b>1.9%</b>	<b>3,867.5</b>	<b>15.1</b>	<b>0.4%</b>	<b>1.7%</b>
Single Business Tax	507.3	17.3%	894.8	17.7	2.0%	1.5%
Insurance Tax	56.8	4.4%	111.2	(3.0)	-2.6%	3.0%
<b>Subtotal</b>	<b>564.1</b>	<b>15.8%</b>	<b>1,006.0</b>	<b>14.7</b>	<b>1.5%</b>	<b>1.7%</b>
Casino Wagering	41.0	2.9%	95.4	5.5	6.2%	4.8%
Tobacco Tax	265.1	-2.5%	546.3	(15.0)	-2.7%	-1.9%
Lottery	203.4	11.9%	387.8	19.8	5.4%	2.0%
Industrial/CommFacility Taxes	22.3	-21.4%	40.9	(3.3)	-7.5%	1.0%
Real Estate Transfer Tax	54.5	-25.6%	112.3	(44.4)	-28.3%	-18.0%
State Education Tax	73.7	19.5%	441.9	38.5	9.5%	4.5%
<b>Subtotal</b>	<b>660.0</b>	<b>0.5%</b>	<b>1,624.7</b>	<b>1.2</b>	<b>0.1%</b>	<b>0.9%</b>
<b>Total</b>	<b>4,150.2</b>	<b>6.5%</b>	<b>9,536.5</b>	<b>185.5</b>	<b>2.0%</b>	<b>1.1%</b>
Timing Adjustment	(170.0)		(170.0)	(170.0)		
<b>ADJUSTED TOTAL</b>	<b>\$3,980.2</b>	<b>2.2%</b>	<b>\$9,366.5</b>	<b>\$15.5</b>	<b>0.2%</b>	