

MEMORANDUM



DATE: 8/17/2020
TO: Interested Parties
FROM: Mary Ann Cleary, Director *MAC*
RE: July Revenue Update

Please find attached the House Fiscal Agency's Monthly Revenue Report for July 2020. After lagging in June, revenue from major taxes rebounded in July and is now well above the target estimates relative to the May 2020 Consensus Revenue Estimating Conference (CREC).

Between March and May, the Michigan Department of Treasury issued a series of notices that allowed some businesses required to remit sales, use, and withholding payments to delay those payments until June without incurring penalties and interest, at which point businesses could opt to remit those payments in up to six monthly installments. Those payments are now being reflected in July collections.

Even more significantly, annual corporate and individual income tax payments typically due in April were deferred until July, along with estimated quarterly payments typically due in April and June. The July revenue amounts reflect those payments, which account for the large increases in individual and corporate income tax collections relative to prior months. In addition, while year-to-date annual and quarterly individual and corporate income tax receipts are below last year's amounts, they are substantially higher than the estimates from the May 2020 CREC.

Withholding payments for July continued to be strong, in part because of enhanced unemployment insurance (UI) payments, which are taxable. Largely because of the additional \$600 federal UI benefit, withholding exceeded the projected amount by more than \$200 million in July, although it should be noted that this benefit expired at the end of July. As such, withholding payments will likely weaken in subsequent months.

Finally, consumer spending continued to be boosted by UI payments, which led to sales tax collections exceeding CREC projections. Again, the expiration of the \$600 UI benefit, which supported higher spending, will potentially have a significant impact on sales tax collections going forward.

If you have any questions, please contact me at Mcleary@house.mi.gov or Jim Stansell at Jstanse@house.mi.gov.

Attachment



Mary Ann Cleary, Director
Jim Stansell, Senior Economist

July 2020 Revenue Update

Major Taxes

Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled \$3,403.7 million in July 2020, \$1,233.0 million more than in July 2019. For the fiscal year-to-date, collections in FY 2019-20 were \$12.9 million (or 0.1%) lower than during FY 2018-19.

Net income tax revenue totaled \$1,758.3 million in July 2020, and for FY 2019-20 collections through July were \$119.5 million more than the same period during FY 2018-19. Year-to-date gross income tax collections in FY 2019-20 were \$283.9 million higher than one year ago as quarterly and annual payments which had been extended were received in July 2020. Year-to-date withholding payments through July 2020 were \$415.5 million higher than one year ago, in part due to federal income support initiatives from enhanced unemployment insurance (UI) benefits, although those benefits lapsed at the end of July. It should be noted that because the amount of withholding on UI benefits appears to be much higher than expected, a sizable portion likely reflects revenue that would have otherwise been collected in FY 2020-21.

Net business taxes are composed of the single business tax (SBT), the Michigan business tax (MBT), the corporate income tax (CIT), and insurance company taxes. Because of their inherent volatility, monthly collections of business taxes often display significant fluctuations that diverge from historical trends. On a fiscal year-to-date basis, net business taxes through July 2020 were \$46.9 million higher than a year ago, primarily due to SBT and MBT collections. CIT collections remain below FY 2018-19 levels.

Revenue from consumption taxes, which consist of the sales tax, the use tax, beer and wine taxes, liquor taxes, and tobacco taxes, totaled \$1,093.2 million in July 2020, but were collectively \$164.6 million lower than in FY 2018-19 on a year-to-date basis. Despite lagging last year's amounts, consumption taxes exceed consensus estimates for FY 2019-20.

Revenues from the state education tax (SET) and the real estate transfer tax (RET) in July 2020 were \$11.6 million and \$20.8 million, respectively. Transfers from the lottery to the School Aid Fund were \$85.0 million in July 2020, and were \$49.8 million higher than FY 2018-19 on a year-to-date basis. Casino gaming revenue remained at \$0 due to the closure of the three Detroit casinos.

General Fund/General Purpose (GF/GP) Tax Revenue

General Fund/General Purpose revenue from Michigan's major taxes was estimated¹ to be \$1,989.9 million in July 2020, about \$1,096.0 million above the projection established at the May 2020 Consensus Revenue Estimating Conference (CREC). The most significant factors were individual and corporate annual and estimated income tax collections, which had been deferred from April and June.

Year-to-date GF/GP tax revenue for FY 2019-20 is about \$1,108.5 million above the projected amount due almost exclusively to individual and business tax collections.

School Aid Fund (SAF) Revenue

School Aid Fund revenue from Michigan's major taxes was estimated¹ to be \$1,280.8 million in July 2020, about \$461.9 million above the amount established at the May 2020 CREC. Gross income tax collections along with sales and use tax revenues all exceeded the monthly projections.

Year-to-date SAF revenue for FY 2019-20 is about \$442.5 million above the consensus revenue projections, on the strength of individual income tax and sales tax collections.

¹ Because of accruals and undistributed revenue, monthly fund splits are estimated.

FY 2019-20 July Revenue Collections

Millions of Dollars

<u>Major Taxes</u>	FY 2019-20	Year-to-Date Collections		Change from FY 2018-19 Year-to-Date		FY 2019-20 Estimates (May 2020 CREC)	
	<u>July</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>Dollar</u>	<u>% Change</u>	<u>Dollar</u>	<u>% Change</u>
Individual Income Tax							
Withholding	\$896.2	\$7,546.2	\$7,961.7	\$415.5	5.5%	\$9,439.0	(5.0%)
Quarterly Income Tax	253.1	918.5	839.6	(78.9)	(8.6%)	939.4	(26.8%)
Annual Income Tax	<u>793.7</u>	<u>1,213.1</u>	<u>1,160.4</u>	<u>(52.7)</u>	(4.3%)	<u>1,175.2</u>	(12.1%)
Gross Income Tax	1,943.0	9,677.8	9,961.7	283.9	2.9%	11,553.6	(8.0%)
Less: Income Tax Refunds	<u>184.7</u>	<u>1,984.7</u>	<u>2,149.1</u>	<u>164.5</u>	8.3%	<u>2,256.3</u>	6.2%
Net Income Tax	1,758.3	7,693.1	7,812.6	119.5	1.6%	9,297.3	(10.9%)
Business Taxes							
Single Business Tax	6.3	(96.9)	11.0	107.8		0.0	
Michigan Business Tax	19.2	(529.9)	(477.3)	52.6		(641.0)	
Corporate Income Tax	266.6	921.9	783.1	(138.8)	(15.1%)	910.1	(28.8%)
Insurance Company Taxes	<u>104.6</u>	<u>272.2</u>	<u>297.5</u>	<u>25.3</u>	9.3%	<u>351.8</u>	11.7%
Subtotal	396.7	567.4	614.3	46.9	8.3%	620.9	(38.8%)
Consumption Taxes							
Sales Tax	867.2	6,012.3	5,915.0	(97.3)	(1.6%)	7,512.8	(9.0%)
Use Tax (excluding LCSA levy)	116.0	1,026.4	941.5	(84.9)	(8.3%)	1,066.5	(21.4%)
Beer and Wine Taxes	11.1	36.7	37.0	0.2	0.7%	48.0	(4.3%)
Liquor Excise Tax	13.0	90.0	100.5	10.6	11.7%	111.6	(8.1%)
Tobacco Taxes	<u>86.0</u>	<u>649.0</u>	<u>655.8</u>	<u>6.8</u>	1.0%	<u>880.3</u>	(1.0%)
Subtotal	1,093.2	7,814.4	7,649.8	(164.6)	(2.1%)	9,619.2	(9.9%)
Other Miscellaneous Taxes							
State Education Tax	11.6	409.7	480.0	70.3	17.1%	2,155.9	2.1%
Real Estate Transfer Tax	20.8	243.6	219.0	(24.7)	(10.1%)	300.6	(14.1%)
Essential Services Assessment	17.0	21.8	21.6	(0.2)	(0.9%)	121.0	8.8%
Industrial & Commercial Facilities Taxes	1.0	24.2	22.8	(1.4)	(5.9%)	36.5	(7.6%)
Casino Wagering Tax	0.0	89.1	44.7	(44.4)	(49.9%)	71.4	(39.1%)
Gas and Oil Severance Tax	1.0	18.4	10.7	(7.7)	(41.8%)	14.0	(37.2%)
Telephone and Telegraph Tax	16.1	29.0	26.4	(2.6)	(8.9%)	30.0	(0.9%)
Penalties and Interest	3.1	105.0	51.2	(53.8)	(51.2%)	100.0	(20.3%)
Lottery Transfer to School Aid Fund	<u>85.0</u>	<u>702.0</u>	<u>751.8</u>	<u>49.8</u>	7.1%	<u>970.0</u>	(9.4%)
Subtotal	155.5	1,642.8	1,628.1	(14.7)	(0.9%)	3,799.4	3.6%
TOTAL	\$3,403.7	\$17,717.7	\$17,704.8	(\$12.9)	(0.1%)	\$23,336.8	(9.5%)

Note: Numbers may not add due to rounding.