

MEMORANDUM



DATE: 7/16/2020
TO: Interested Parties
FROM: Mary Ann Cleary, Director *MAC*
RE: June Revenue Update

Please find attached the House Fiscal Agency's Monthly Revenue Report for June 2020. After lagging in May, revenue from major taxes rebounded in June and is now roughly on target relative to the May 2020 Consensus Revenue Estimating Conference.

It should be noted that the revenue information shows actual collections without any implicit adjustments for revenues that are expected, but not yet received. For example, because the filing deadline for individual and corporate income taxes was extended until July 15th, current quarterly and annual collections are well below what would normally be anticipated. However, when July collections are reported in August, quarterly and annual payment amounts should provide a more accurate picture of overall income tax revenues.

In addition, 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 for one month without incurring penalties and interest until June, at which point businesses could opt to remit those payments in up to six monthly installments. To some degree, those payments are now being reflected in June collections.

Withholding payments for June were particularly strong, and the almost \$904 million collected for the month was the seventh highest monthly total over the past 20 years. While the receipt of deferred payments contributed to total collections, the more significant factor lies in the amount of withholding attributable to unemployment insurance (UI) payments. Largely because of the additional \$600 federal UI benefit, withholding was boosted by an estimated \$125 million in June. It should be noted, however, that this benefit is set to expire at the end of July.

Sales and use tax collections were also robust for June, although in the case of use tax revenues a significant portion is represented by prior sales tax collections which were reclassified as use taxes. About half of the reclassification is due to remote vendors remitting use tax revenue as sales tax instead. Because the taxes are distributed differently between the General Fund and School Aid Fund, it is important that they be correctly identified.

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

Attachment



Mary Ann Cleary, Director
Jim Stansell, Senior Economist

June 2020 Revenue Update

Major Taxes

Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled \$2,068.7 million in June 2020, \$169.5 million less than in June 2019. For the fiscal year-to-date, collections in FY 2019-20 were \$1,245.9 million (or 8.0%) lower than during FY 2018-19.

Net income tax revenue totaled \$949.2 million in June 2020, and for FY 2019-20 collections through June were \$781.0 million less than the same period during FY 2018-19. Year-to-date gross income tax collections in FY 2019-20 were \$744.0 million lower than one year ago as quarterly and annual payments lagged FY 2018-19 levels through June 2020 due to the delay in the filing deadline. Conversely, year-to-date withholding payments through June 2020 were \$390.2 million higher than one year ago, in part due to federal income support initiatives from enhanced unemployment insurance benefits and the Payroll Protection Program.

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 June 2020 were \$184.8 million lower than a year ago, primarily due to the extension for filing CIT returns. CIT revenue through June 2020 was \$295.3 million lower than last year's collections.

Revenue from consumption taxes, which consist of the sales tax, the use tax, beer and wine taxes, liquor taxes, and tobacco taxes, totaled \$940.6 million in June 2020, but were collectively \$307.4 million lower than in FY 2018-19 on a year-to-date basis. As with individual and corporate income taxes, sales and use tax collections lag last year's amount due to extensions that allow some taxpayers to postpone remitting their payments.

Revenues from the state education tax (SET) and the real estate transfer tax (RET) in June 2020 were \$26.4 million and \$16.0 million, respectively. Transfers from the lottery to the School Aid Fund were \$85.0 million in June 2020, and were \$44.8 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, although it should be noted that the loss of gaming revenue affects the city of Detroit much more significantly than the state.

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

General Fund/General Purpose revenue from Michigan's major taxes was estimated¹ to be \$992.7 million in June 2020, about \$73.0 million above the projection established at the May 2020 Consensus Revenue Estimating Conference (CREC). Reclassification of sales tax (of which only about 16% accrues to the general fund) to use tax revenue (about 50% of which accrues to the general fund) and higher than projected income tax collections accounted for much of the difference.

Year-to-date GF/GP tax revenue for FY 2019-20 is about \$12.5 million above the projected amount.

School Aid Fund (SAF) Revenue

School Aid Fund revenue from Michigan's major taxes was estimated¹ to be \$972.4 million in June 2020, about \$92.0 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 \$19.4 million below the consensus revenue projections.

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

FY 2019-20 June Revenue Collections

Millions of Dollars

<u>Major Taxes</u>	FY 2019-20	Year-to-Date Collections		Change from		FY 2019-20 Estimates		
	<u>June</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2019-20 Year-to-Date</u>	<u>Dollar</u>	<u>% Change</u>	<u>(May 2020 CREC)</u>	
							<u>Dollar</u>	<u>% Change</u>
Individual Income Tax								
Withholding	\$903.9	\$6,675.3	\$7,065.5	\$390.2	5.8%		\$9,439.0	(5.0%)
Quarterly Income Tax	94.0	892.9	586.5	(306.3)	(34.3%)		939.4	(26.8%)
Annual Income Tax	<u>62.5</u>	<u>1,194.6</u>	<u>366.7</u>	<u>(827.9)</u>	<u>(69.3%)</u>		<u>1,175.2</u>	<u>(12.1%)</u>
Gross Income Tax	1,060.4	8,762.7	8,018.7	(744.0)	(8.5%)		11,553.6	(8.0%)
Less: Income Tax Refunds	<u>111.2</u>	<u>1,927.4</u>	<u>1,964.4</u>	<u>37.0</u>	1.9%		<u>2,256.3</u>	6.2%
Net Income Tax	949.2	6,835.3	6,054.3	(781.0)	(11.4%)		9,297.3	(10.9%)
Business Taxes								
Single Business Tax	0.0	(80.9)	4.7	85.7			0.0	
Michigan Business Tax	(8.9)	(506.1)	(496.5)	9.7			(641.0)	
Corporate Income Tax	51.6	811.8	516.5	(295.3)	(36.4%)		910.1	(28.8%)
Insurance Company Taxes	<u>(3.4)</u>	<u>177.6</u>	<u>192.9</u>	<u>15.2</u>	8.6%		<u>351.8</u>	11.7%
Subtotal	39.3	402.4	217.6	(184.8)	(45.9%)		620.9	(38.8%)
Consumption Taxes								
Sales Tax	674.1	5,280.3	5,047.8	(232.6)	(4.4%)		7,512.8	(9.0%)
Use Tax (excluding LCSA levy)	176.6	896.6	825.6	(71.0)	(7.9%)		1,066.5	(21.4%)
Beer and Wine Taxes	2.9	32.1	25.9	(6.2)	(19.3%)		48.0	(4.3%)
Liquor Excise Tax	12.1	79.7	87.5	7.8	9.8%		111.6	(8.1%)
Tobacco Taxes	<u>74.9</u>	<u>575.2</u>	<u>569.8</u>	<u>(5.4)</u>	(0.9%)		<u>880.3</u>	(1.0%)
Subtotal	940.6	6,864.0	6,556.6	(307.4)	(4.5%)		9,619.2	(9.9%)
Other Miscellaneous Taxes								
State Education Tax	26.4	395.1	468.4	73.3	18.6%		2,155.9	2.1%
Real Estate Transfer Tax	16.0	199.0	198.1	(0.9)	(0.5%)		300.6	(14.1%)
Essential Services Assessment	2.9	4.1	4.6	0.6	14.1%		121.0	8.8%
Industrial & Commercial Facilities Taxes	6.6	21.3	21.8	0.6	2.7%		36.5	(7.6%)
Casino Wagering Tax	0.0	79.4	44.7	(34.8)	(43.8%)		71.4	(39.1%)
Gas and Oil Severance Tax	0.3	15.8	9.7	(6.1)	(38.6%)		14.0	(37.2%)
Telephone and Telegraph Tax	0.0	10.4	10.3	(0.1)	(1.0%)		30.0	(0.9%)
Penalties and Interest	2.2	98.2	48.1	(50.2)	(51.1%)		100.0	(20.3%)
Lottery Transfer to School Aid Fund	<u>85.0</u>	<u>622.0</u>	<u>666.8</u>	<u>44.8</u>	7.2%		<u>970.0</u>	(9.4%)
Subtotal	139.6	1,445.4	1,472.6	27.2	1.9%		3,799.4	3.6%
TOTAL	\$2,068.7	\$15,547.0	\$14,301.1	(\$1,245.9)	(8.0%)		\$23,336.8	(9.5%)

Note: Numbers June not add due to rounding.