

MEMORANDUM



DATE: 4/14/2020
TO: Interested Parties
FROM: Mary Ann Cleary, Director *MAC*
RE: March Revenue Update

Please find attached the House Fiscal Agency's Monthly Revenue Report for March 2020. For a variety of reasons, the revenue amounts are not indicative of the changes that have occurred over the past month, and it is important to acknowledge that revenues are likely to be significantly diminished in the coming months.

Although Executive Order 2020-9 temporarily shuttered restaurants (other than take-out and delivery), casinos, exercise facilities, movie theaters, and other venues for public gatherings, the order was not signed until March 16th, essentially halfway into the month. Thus, a significant amount of economic activity had already taken place before the restrictions were imposed. Further, in many cases, tax revenues are remitted with a one-month delay, meaning that March collections actually reflect February's economic activity.

Although the constraints on non-essential business will lead to significant reductions for many revenue streams, some measures have been taken to limit the impacts. Unemployment insurance (UI) benefits have been extended at the state level and the federal government has increased UI benefits by \$600 per week as part of the federal CARES Act. Because UI benefits are taxable as ordinary income, this will replace some of the withholding lost due to the increase in the number of unemployed workers. In conjunction with other stimulus programs, this will help to replace lost income and, in some cases, may reduce the loss of sales tax revenue. Regardless, the reductions in revenues are still likely to be large until economic recovery is well under way.

Ultimately, the extent to which the shelter-at-home restrictions will reduce state revenues will depend on how long the restrictions remain in place and the level of consumer confidence once they're lifted.

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

March 2020 Revenue Update

Major Taxes

Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled \$1,379.3 million in March 2020, \$92.2 million more than in March 2019. For the fiscal year-to-date, collections in FY 2019-20 were \$415.7 million (or 4.7%) higher than during FY 2018-19.

Net income tax revenue totaled \$382.5 million in March 2020, and for FY 2019-20 collections through March were \$69.2 million more than the same period during FY 2018-19. Year-to-date gross income tax collections in FY 2019-20 were \$299.8 million higher than one year ago as all three components exceeded FY 2018-19 levels through March 2020. March 2020 income tax refunds were higher than any other March in the last decade and reduced net income tax collections substantially. Given that refunds were also unusually large in February, this likely represents an overall increase in the level of refunds than initially projected.

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 March 2020 were \$86.5 million higher than a year ago as SBT collections are no longer as highly negative as they were at this point in FY 2018-19. CIT revenue through March 2020 was \$25.8 million lower than last year's collections and continues to be below projections.

Revenue from consumption taxes, which consist of the sales tax, the use tax, beer and wine taxes, liquor taxes, and tobacco taxes, totaled \$785.7 million in March 2020, and were collectively \$175.6 million higher than in FY 2018-19 on a year-to-date basis. Sales tax receipts continue to exceed last year's amounts and account for most of the differential in year-to-date collections.

Revenues from the state education tax (SET) and the real estate transfer tax (RET) in March 2020 were \$14.1 million and \$17.1 million, respectively. Transfers from the lottery to the School Aid Fund were \$80.0 million in March 2020, and were \$9.8 million higher than FY 2018-19 on a year-to-date basis. Conversely, casino gaming revenue declined 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 \$413.1 million in March 2020, about \$11.3 million above the projection established at the January 2020 Consensus Revenue Estimating Conference (CREC). Larger than expected individual income tax refunds were more than offset by MBT collections.

Year-to-date GF/GP tax revenue for FY 2019-20 is about \$148.2 million below the projected amount, but as already noted, much of this is due to larger than expected income tax refunds.

School Aid Fund (SAF) Revenue

School Aid Fund revenue from Michigan's major taxes was estimated¹ to be \$874.2 million in March 2020, about \$59.6 million below the amount established at the January 2020 CREC. Lower than projected sales tax collections in conjunction with the decline in casino revenue accounted for much of the discrepancy between actual collections and the monthly target estimate.

Year-to-date SAF revenue for FY 2019-20 is \$36.7 million below the consensus revenue projections. Lower than expected sales tax collections are the primary reason, although casino tax revenues and SET collections are also below the YTD target estimates.

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

FY 2019-20 March Revenue Collections

Millions of Dollars

Major Taxes	FY 2019-20 March	Year-to-Date Collections		Change from FY 2019-20 Year-to-Date		FY 2019-20 Estimates (January 2020 CREC)	
		FY 2018-19	FY 2019-20	Dollar	% Change	Dollar	% Change
Individual Income Tax							
Withholding	\$938.6	\$4,237.7	\$4,523.1	\$285.4	6.7%	\$10,194.0	5.6%
Quarterly Income Tax	16.9	416.7	427.1	10.4	2.5%	1,371.4	(9.4%)
Annual Income Tax	<u>83.4</u>	<u>154.6</u>	<u>158.6</u>	<u>4.0</u>	2.6%	<u>1,176.5</u>	18.6%
Gross Income Tax	1,038.9	4,809.0	5,108.8	299.8	6.2%	12,741.9	4.8%
Less: Income Tax Refunds	<u>656.4</u>	<u>1,150.1</u>	<u>1,380.7</u>	<u>230.6</u>	20.1%	<u>2,163.3</u>	8.4%
Net Income Tax	382.5	3,658.9	3,728.1	69.2	1.9%	10,578.6	4.1%
Business Taxes							
Single Business Tax	0.1	(73.1)	(3.1)	70.0		0.0	
Michigan Business Tax	8.4	(524.3)	(500.3)	24.0		(641.0)	
Corporate Income Tax	52.9	429.5	403.7	(25.8)	(6.0%)	1,210.1	18.6%
Insurance Company Taxes	<u>20.1</u>	<u>107.1</u>	<u>125.4</u>	<u>18.3</u>	17.1%	<u>361.8</u>	(8.0%)
Subtotal	81.3	(60.8)	25.7	86.5		930.9	21.7%
Consumption Taxes							
Sales Tax	605.4	3,213.2	3,385.6	172.4	5.4%	8,682.8	7.5%
Use Tax (excluding LCSA levy)	108.1	512.3	525.2	12.9	2.5%	1,359.5	(5.2%)
Beer and Wine Taxes	3.1	19.9	19.2	(0.6)	(3.2%)	52.0	2.4%
Liquor Excise Tax	8.0	50.4	52.7	2.4	4.7%	121.6	5.9%
Tobacco Taxes	<u>61.1</u>	<u>357.6</u>	<u>346.1</u>	<u>(11.5)</u>	(3.2%)	<u>854.8</u>	(6.9%)
Subtotal	785.7	4,153.3	4,328.9	175.6	4.2%	11,070.7	4.5%
Other Miscellaneous Taxes							
State Education Tax	14.1	319.8	406.4	86.6	27.1%	2,170.9	9.2%
Real Estate Transfer Tax	17.1	126.4	141.7	15.2	12.0%	361.0	3.1%
Essential Services Assessment	0.2	0.0	0.7	0.7		121.0	21.9%
Industrial & Commercial Facilities Taxes	5.1	10.0	10.3	0.3	3.4%	38.5	6.1%
Casino Wagering Tax	4.7	49.6	44.7	(4.9)	(9.9%)	121.3	5.1%
Gas and Oil Severance Tax	1.5	10.8	8.7	(2.1)	(19.4%)	22.0	(16.0%)
Telephone and Telegraph Tax	0.0	10.4	10.3	(0.1)	(1.0%)	30.0	(0.3%)
Penalties and Interest	7.2	58.7	37.6	(21.1)	(36.0%)	128.0	(27.0%)
Lottery Transfer to School Aid Fund	<u>80.0</u>	<u>422.0</u>	<u>431.8</u>	<u>9.8</u>	2.3%	<u>1,010.0</u>	3.1%
Subtotal	129.8	1,007.7	1,092.1	84.4	8.4%	4,002.7	(2.4%)
TOTAL	\$1,379.3	\$8,759.2	\$9,174.9	\$415.7	4.7%	\$26,582.9	3.8%

Note: Numbers may not add due to rounding.