

MEMORANDUM



DATE: 6/9/2020
TO: Interested Parties
FROM: Mary Ann Cleary, Director *MAC*
RE: May Revenue Update

Please find attached the House Fiscal Agency's Monthly Revenue Report for May 2020. For several reasons, the monthly collections do not accurately reflect the underlying economic conditions in Michigan, and it is important to acknowledge that key revenue streams are likely to experience significant fluctuations in the coming months.

On March 19, 2020, the Michigan Department of Treasury issued a notice that allowed some businesses required to remit sales, use, and withholding payments to delay those payments for one month without incurring penalties and interest. Similar waivers were made in April and May so that collections would not be required until June 22, 2020. On May 26, 2020, the department implemented a policy to allow the payments to be remitted in up to six monthly installments. As such, historical collections for these taxes no longer serve as reasonable proxies of what will be remitted in any given month, and will likely blur the distinction between revenue that may be affected by the reduction in economic activity as opposed to revenue that is simply delayed due to collection procedures.

In addition, the filing deadline for quarterly and annual individual income tax and corporate income tax payments due on April 15, 2020 and June 15, 2020 has been extended until July 15, 2020. The impact of the extension is especially noticeable with annual individual income tax payments which were collectively \$145.6 million in April and May, roughly one-seventh of the total from the prior year. In the same vein, corporate income tax collections over the same period were only about one-quarter of last year's amounts.

The overriding message is that while both General Fund and School Aid Fund revenues were well below the target amounts, at least some portion is due to extensions in the payment deadlines. Until revenue collections return to more traditional payment schedules, trying to get a true picture of monthly revenues will continue to be difficult.

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

May 2020 Revenue Update

Major Taxes

Cash collections from Michigan's major taxes, penalties and interest, and lottery transfers totaled \$1,521.6 million in May 2020, \$332.4 million less than in May 2019. For the fiscal year-to-date, collections in FY 2019-20 were \$1,076.4 million (or 8.1%) lower than during FY 2018-19.

Net income tax revenue totaled \$715.5 million in May 2020, and for FY 2019-20 collections through May were \$706.4 million less than the same period during FY 2018-19. Year-to-date gross income tax collections in FY 2019-20 were \$731.9 million lower than one year ago as quarterly and annual payments lagged FY 2018-19 levels through May 2020 due to the delay in the filing deadline. Conversely, year-to-date withholding payments through May 2020 were 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 May 2020 were \$55.6 million lower than a year ago, primarily due to the extension for filing CIT returns. CIT revenue through May 2020 was \$196.9 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 \$679.2 million in May 2020, and were collectively \$313.9 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 May 2020 were \$18.5 million and \$18.9 million, respectively. Transfers from the lottery to the School Aid Fund were \$60.0 million in May 2020, and were \$0.2 million lower 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 \$680.8 million in May 2020, about \$64.6 million below the projection established at the May 2020 Consensus Revenue Estimating Conference (CREC). The previously noted extensions in various filing deadlines explain much of the difference. As those payments are received, it's expected that revenues will approach the target levels.

Because May collections are the only monthly revenues since the most recent CREC, year-to-date GF/GP tax revenue for FY 2019-20 was also about \$64.6 million below the projected amount.

School Aid Fund (SAF) Revenue

School Aid Fund revenue from Michigan's major taxes was estimated¹ to be \$749.4 million in May 2020, about \$129.7 million below the amount established at the May 2020 CREC. Again, payment extensions coupled with the lack of casino revenue accounted for much of the discrepancy between actual collections and the monthly target estimate.

For the same reason as with year-to-date GF/GP revenue, year-to-date SAF revenue for FY 2019-20 was also about \$129.7 million below the consensus revenue projections.

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

FY 2019-20 May Revenue Collections

Millions of Dollars

<u>Major Taxes</u>	FY 2019-20	Year-to-Date Collections		Change from FY 2019-20 Year-to-Date		FY 2019-20 Estimates (May 2020 CREC)	
	<u>May</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	\$794.2	\$5,892.4	\$6,161.6	\$269.2	4.6%	\$9,439.0	(5.0%)
Quarterly Income Tax	18.3	622.6	492.5	(130.1)	(20.9%)	939.4	(26.8%)
Annual Income Tax	<u>37.6</u>	<u>1,175.2</u>	<u>304.2</u>	<u>(871.0)</u>	<u>(74.1%)</u>	<u>1,175.2</u>	<u>(12.1%)</u>
Gross Income Tax	850.1	7,690.2	6,958.3	(731.9)	(9.5%)	11,553.6	(8.0%)
Less: Income Tax Refunds	<u>134.6</u>	<u>1,878.7</u>	<u>1,853.3</u>	<u>(25.5)</u>	<u>(1.4%)</u>	<u>2,256.3</u>	<u>6.2%</u>
Net Income Tax	715.5	5,811.5	5,105.1	(706.4)	(12.2%)	9,297.3	(10.9%)
Business Taxes							
Single Business Tax	6.3	(89.0)	4.7	93.7		0.0	
Michigan Business Tax	(3.4)	(515.1)	(487.6)	27.4		(641.0)	
Corporate Income Tax	26.2	661.8	464.9	(196.9)	(29.8%)	910.1	(28.8%)
Insurance Company Taxes	<u>(4.6)</u>	<u>176.1</u>	<u>196.3</u>	<u>20.2</u>	11.5%	<u>351.8</u>	11.7%
Subtotal	24.6	233.9	178.3	(55.6)	(23.8%)	620.9	(38.8%)
Consumption Taxes							
Sales Tax	536.1	4,553.5	4,373.6	(179.9)	(4.0%)	7,512.8	(9.0%)
Use Tax (excluding LCSA levy)	55.8	786.7	648.9	(137.7)	(17.5%)	1,066.5	(21.4%)
Beer and Wine Taxes	1.8	27.4	23.0	(4.4)	(16.0%)	48.0	(4.3%)
Liquor Excise Tax	12.7	68.0	75.5	7.4	10.9%	111.6	(8.1%)
Tobacco Taxes	<u>72.9</u>	<u>494.3</u>	<u>494.9</u>	<u>0.6</u>	0.1%	<u>880.3</u>	(1.0%)
Subtotal	679.2	5,929.9	5,616.0	(313.9)	(5.3%)	9,619.2	(9.9%)
Other Miscellaneous Taxes							
State Education Tax	18.5	373.2	442.0	68.8	18.4%	2,155.9	2.1%
Real Estate Transfer Tax	18.9	172.2	182.1	9.9	5.7%	300.6	(14.1%)
Essential Services Assessment	0.9	2.6	1.7	(0.9)	(34.9%)	121.0	8.8%
Industrial & Commercial Facilities Taxes	2.7	18.3	15.2	(3.1)	(16.7%)	36.5	(7.6%)
Casino Wagering Tax	0.0	69.9	44.7	(25.2)	(36.1%)	71.4	(39.1%)
Gas and Oil Severance Tax	(0.3)	14.3	9.4	(4.9)	(34.4%)	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	1.5	90.6	45.9	(44.7)	(49.4%)	100.0	(20.3%)
Lottery Transfer to School Aid Fund	<u>60.0</u>	<u>582.0</u>	<u>581.8</u>	<u>(0.2)</u>	<u>(0.0%)</u>	<u>970.0</u>	<u>(9.4%)</u>
Subtotal	102.2	1,333.5	1,333.0	(0.4)	(0.0%)	3,799.4	3.6%
TOTAL	\$1,521.6	\$13,308.8	\$12,232.4	(\$1,076.4)	(8.1%)	\$23,336.8	(9.5%)

Note: Numbers may not add due to rounding.