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R E V E N U E

REVIEW

Quarterly
Revenue Report
for the
State of Michigan

AUGUST 2009

House Fiscal Agency
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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>3rd Qtr FY 2007-08</u>	<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$5,457.9 million	\$4,775.6 million	-12.5%	-12.6%

Revenue collections for third quarter (May–July) of fiscal year (FY) 2008-09 were lower than third quarter FY 2007-08 revenue collections by \$682.3 million or 12.5%. Total collections fiscal-year-to-date (FYTD) were \$13.6 billion - down \$2.0 billion or 12.6% from a year ago.

INCOME TAX (NET)

<u>3rd Qtr FY 2007-08</u>	<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,798.0 million	\$1,539.6 million	-14.4%	-19.8%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 81% 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 collections (which include income tax refunds) for third quarter FY 2008-09 were lower than third quarter FY 2007-08 collections by \$258.4 million or 14.4%. Withholding payments were down 8.2%, quarterly and annual payments were down 31.7%, and refunds were up 17.3%. Net income tax collections FYTD were \$4.2 billion—down \$1.0 billion or 19.8% from a year ago.

SALES AND USE TAXES

<u>3rd Qtr FY 2007-08</u>	<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$2,115.2 million	\$1,795.0 million	-15.1%	-11.8%

Sales tax collections are 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 third quarter FY 2008-09 were lower than the year-ago quarter by \$320.2 million or 15.1%. Sales tax due to motor vehicle sales increased 15.1%; all other sales tax collections were down 18.0% in third quarter FY 2008-09 relative to the year-ago third quarter. Sales and use tax collections FYTD were down \$711.2 million or 11.8% from a year ago.

MICHIGAN/SINGLE BUSINESS AND INSURANCE TAXES

<u>3rd Qtr FY 2007-08</u>	<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$838.5 million	\$753.1 million	-10.2%	1.6%

Michigan business tax (MBT) is applied to gross receipts less purchases from other firms; single business tax is applied to the value added of business activities; insurance tax is based on insurance premiums. For third quarter FY 2008-09, Michigan/single business and insurance tax collections were below the year-ago third quarter by \$85.4 million or 10.2%. Business tax collections FYTD were up \$32.0 million or 1.6% from a year ago.

OTHER REVENUE

<u>3rd Qtr FY 2007-08</u>	<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$706.3 million	\$687.9 million	-2.6%	-10.8%

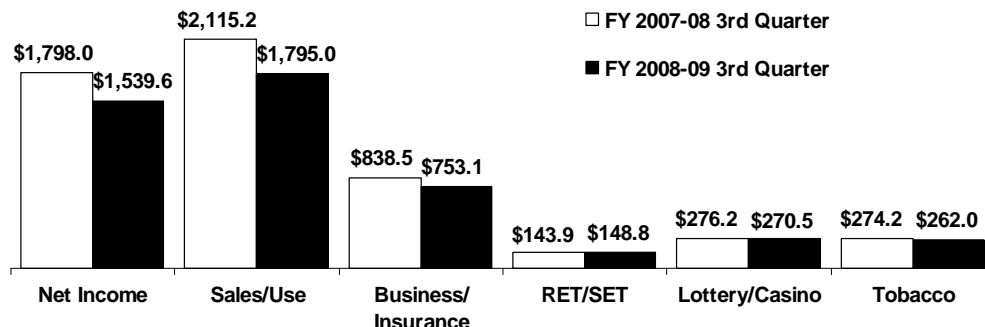
Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for third quarter FY 2008-09 were down \$18.3 million or 2.6% from the third quarter of FY 2007-08. Other revenue collections FYTD were \$2.0 billion—down \$243.8 million or 10.8% from a year ago.

State of Michigan Revenue: 3rd Quarter Comparison

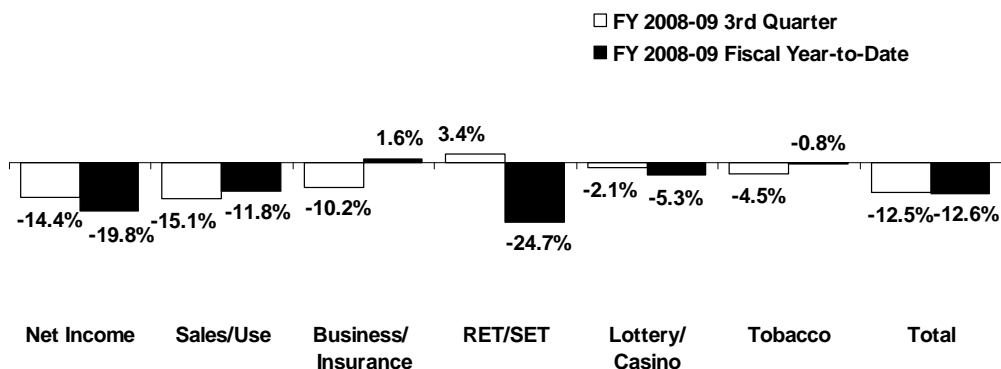
(Millions of Dollars)

Weak revenue collections reflect the national recession and ongoing state structural changes related to motor vehicle manufacturing.

Fiscal year-to-date, GF/GP revenue is down \$65 million, and SAF revenue is down \$85 million from HFA target estimates—which are based on the May 2009 consensus.



State of Michigan Revenue: % Change From Prior Year



Revenue Quarterly Review: 3rd Quarter (May–July) FY 2008-09 (Millions of Dollars)

	FY 2008-09 3rd Quarter	Change From Year-Ago 3rd Quarter	FY 2008-09			FY 2008-09 May Consensus Forecast Growth
			Year-to-Date	Change From Previous Fiscal Year-to-Date		
Annual Income Tax	\$39.8	-10.3%	\$587.8	(\$218.3)	-27.1%	-28.0%
Quarterly Income Tax	128.6	-36.4%	459.4	(172.7)	-27.3%	-25.0%
Withholding	1,617.1	-8.2%	5,202.6	(334.1)	-6.0%	-5.3%
Subtotal	1,785.5	-11.1%	6,249.8	(725.1)	-10.4%	-9.4%
Income Tax Refunds	245.9	17.3%	2,004.3	322.4	19.2%	17.9%
Net Income Tax	1,539.6	-14.4%	4,245.5	(1,047.6)	-19.8%	-16.2%
Sales Tax	1,503.1	-14.2%	4,518.4	(497.1)	-9.9%	-8.3%
Use Tax	291.9	-19.6%	811.7	(214.1)	-20.9%	-16.3%
Subtotal	1,795.0	-15.1%	5,330.1	(711.2)	-11.8%	-9.6%
Single Business Tax	(1.8)	-102.1%	(95.6)	(784.9)	-113.9%	-127.6%
Michigan Business Tax	692.4	0.1%	1,963.6	805.8	69.6%	22.5%
Insurance Tax	62.5	8.8%	198.9	11.1	5.9%	9.2%
Subtotal	753.1	-10.2%	2,066.9	32.0	1.6%	-10.6%
Casino Wagering	27.8	-11.4%	84.5	(12.9)	-13.2%	-12.5%
Tobacco Tax	262.0	-4.5%	760.3	(5.8)	-0.8%	-5.4%
Lottery	242.7	-0.9%	596.8	(25.0)	-4.0%	-7.1%
Industrial/CommFacility Taxes	6.8	-43.2%	27.9	(25.1)	-47.4%	-35.0%
Real Estate Transfer Tax	34.1	-17.1%	86.7	(46.9)	-35.1%	-41.1%
State Education Tax	114.7	11.6%	447.9	(128.2)	-22.3%	-3.5%
Subtotal	687.9	-2.6%	2,004.1	(243.8)	-10.8%	-7.0%
TOTAL	4,775.6	-12.5%	13,646.6	(1,970.5)	-12.6%	-11.4%

House Fiscal Agency: Economic/Revenue Highlights

U.S. Economy

** Gross Domestic Product (GDP) declined 1.0% in the second quarter of 2009, which was a better reading than the 6.4% decline posted in the first quarter. Personal consumption decreased 1.2%, business fixed investment fell 13.5%, while government increased 5.6%. Also, reflective of the global recession, both exports and imports declined substantially.

** Light motor vehicle sales increased in July to a seasonally adjusted annual rate of 11.2 million units; this is above the June level of 9.7 million units. The CARS or Cash for Clunkers program assisted in raising the sales level. July sales for Ford increased 2.4%, while GM decreased 19.4%, and Chrysler decreased 9.4% from a year ago.

** Home prices, as measured by the S&P/Case-Shiller index declined in May from a year ago by 17.1% for the 20-City index and by 24.5% for the Detroit index. The inventory of homes for sale remains high as more homes become delinquent, this will continue to put downward pressure on prices.

** National nonfarm employment decreased by 247,000 in July and by 443,000 in June. Since the recession began in December 2007, 6.7 million payroll jobs have been lost. Job losses were broad based, with the most significant declines in manufacturing, construction, professional and business services, and retail trade.

Michigan Economy

** Michigan nonfarm employment decreased by 31,000 in June, after a decrease of 24,000 jobs in May. In June, jobs were lost in construction, manufacturing, professional and business services, and information.

** In June, Michigan's unemployment rate was 15.2%; while the national unemployment rate was 9.5%. In June, Michigan had the highest unemployment rate in the nation, followed by Rhode Island at 12.4%, Oregon at 12.2%, South Carolina at 12.1%, and Nevada at 12.0%.

State Revenue

** Based on HFA target estimates and revenue data through July, revenue is down \$65 million for the GF/GP and is down \$85 million for the SAF. Target estimates are based on the May 2009 consensus estimates.

** According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the January – March 2009 period, declined 12.6% compared with the same period a year ago -- the sharpest decline on record. The personal income tax, corporate income tax, and sales tax all posted declines. Total tax revenue declined in 45 of 47 reporting states.