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R E V E N U E

REVIEW

Quarterly
Revenue Report
for the
State of Michigan

AUGUST 2010

House Fiscal Agency
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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$4,730.2 million	\$4,616.1 million	-2.4%	-4.8%

Revenue collections for third quarter (May–July) of fiscal year (FY) 2009-10 were lower than third quarter FY 2008-09 revenue collections by \$114.0 million or 2.4%. Total collections fiscal-year-to-date (FYTD) were \$12.9 billion—down \$651.7 million or 4.8% from a year ago.

INCOME TAX (NET)

<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,539.6 million	\$1,563.4 million	+1.5%	-11.5%

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 2009-10 were higher than third quarter FY 2008-09 collections by \$23.8 million or 1.5%. Withholding payments were up 0.7%, quarterly and annual payments were down 0.9%, and refunds were down 4.4%. Net income tax collections FYTD were \$3.8 billion—down \$487.6 million or 11.5% from a year ago.

SALES AND USE TAXES

<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,795.0 million	\$1,861.1 million	+3.7%	+2.7%

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 2009-10 were higher than the year-ago quarter by \$66.1 million or 3.7%. Sales tax due to motor vehicle sales decreased 3.4%; all other sales tax collections were up 5.9% in third quarter FY 2009-10 relative to the year-ago third quarter. Sales and use tax collections FYTD were up \$141.6 million or 2.7% from a year ago.

BUSINESS AND INSURANCE TAXES

<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$753.1 million	\$604.4 million	-19.7%	-13.0%

Michigan Business Tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For third quarter FY 2009-10, business tax collections were below the year-ago third quarter by \$148.6 million or 19.7%. Business tax collections FYTD were down \$269.3 million or 13.0% from a year ago.

OTHER REVENUE

<u>3rd Qtr FY 2008-09</u>	<u>3rd Qtr FY 2009-10</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$642.5 million	\$587.1 million	-8.6%	-1.9%

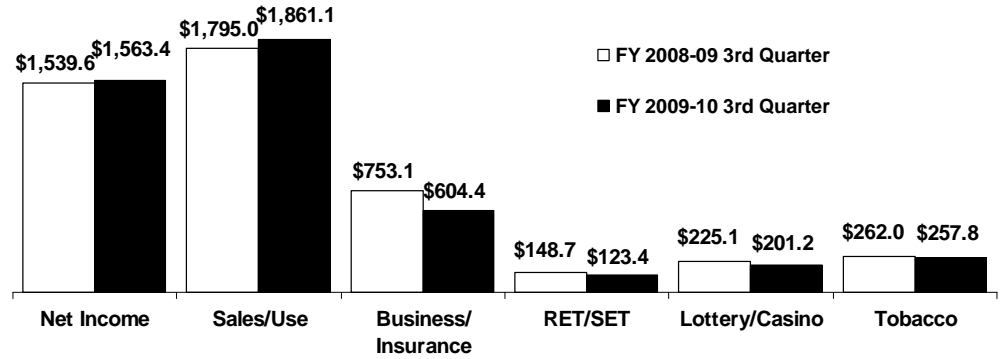
Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for third quarter FY 2009-10 were down \$55.4 million or 8.6% from the third quarter of FY 2008-09. Other revenue collections FYTD were \$1.9 billion—down \$36.5 million or 1.9% from a year ago.

State of Michigan Revenue: 3rd Quarter Comparison

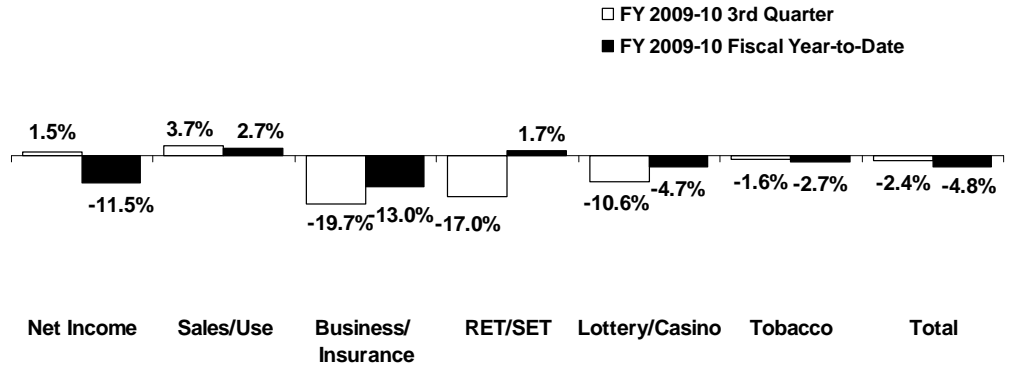
(Millions of Dollars)

Gains in net income tax and sales tax revenue were offset by weakness in Michigan Business Tax revenue.

Fiscal year-to-date, GF/GP revenue is on target and SAF revenue is down \$5 million from HFA target estimates—which are based on the May 2010 consensus.



State of Michigan Revenue: % Change From Prior Year



Revenue Quarterly Review: 3rd Quarter (May–July) FY 2009-10

(Millions of Dollars)

	FY 2009-10 3rd Quarter	Change From Year-Ago 3rd Quarter	FY 2009-10			FY 2009-10 May Consensus Forecast Growth
			Year-to-Date	Change From Previous Fiscal Year-to-Date		
Annual Income Tax	\$38.4	-3.6%	\$499.8	(\$88.0)	-15.0%	-16.2%
Quarterly Income Tax	128.6	0.0%	404.4	(54.9)	-12.0%	-11.3%
Withholding	1,631.5	0.9%	5,106.7	(95.9)	-1.8%	-1.7%
Subtotal	1,798.5	0.7%	6,011.0	(238.8)	-3.8%	-3.5%
Income Tax Refunds	235.0	-4.4%	2,253.1	248.8	12.4%	8.3%
Net Income Tax	1,563.4	1.5%	3,757.8	(487.6)	-11.5%	-8.1%
Sales Tax	1,570.3	4.5%	4,623.3	104.9	2.3%	1.3%
Use Tax	290.8	-0.4%	848.4	36.7	4.5%	3.6%
Subtotal	1,861.1	3.7%	5,471.7	141.6	2.7%	1.6%
Single Business Tax	11.1	-700.6%	42.5	138.2	-144.4%	-100.0%
Michigan Business Tax	530.1	-23.4%	1,556.6	(407.0)	-20.7%	-17.6%
Insurance Tax	63.3	1.3%	198.6	(0.4)	-0.2%	4.6%
Subtotal	604.4	-19.7%	1,797.6	(269.3)	-13.0%	-16.1%
Casino Wagering	20.5	-26.3%	75.5	(9.0)	-10.6%	-9.7%
Tobacco Tax	257.8	-1.6%	740.0	(20.3)	-2.7%	-5.1%
Lottery	180.7	-8.4%	530.6	(20.8)	-3.8%	-0.2%
Industrial/CommFacility Taxes	4.8	-29.2%	32.3	4.5	16.0%	14.4%
Real Estate Transfer Tax	31.7	-7.1%	88.7	2.1	2.4%	1.4%
State Education Tax	91.7	-20.0%	455.1	7.2	1.6%	-7.2%
Subtotal	587.1	-8.6%	1,922.2	(36.5)	-1.9%	-5.0%
TOTAL	4,616.1	-2.4%	12,949.4	(651.7)	-4.8%	-4.9%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Gross Domestic Product or GDP grew 2.4% in the second quarter of 2010 – down from the 3.7% pace in the first quarter of 2010. Economic growth in the next few quarters is expected to weaken as federal government spending (homebuyer's tax credit, ending of the Census, and diminishing affects of the stimulus package) is pulled back.

** Light motor vehicle sales increased in July to a seasonally adjusted annual rate of 11.8 million units; this is above the June level of 11.1 million units. Compared to a year-ago, car sales were down 5.9% and light truck sales were up 17.8%. July sales for Ford increased 3.3%, for GM increased 6.1%, and for Chrysler increased 5.0% from a year-ago.

** Retail sales declined 0.5% in June following a decrease of 1.1% in May. The pullback occurred at building and garden supplies, sporting goods stores, home furnishing stores, and vehicle dealerships. The report points to weakening consumer spending due in part to concerns about the economy and job growth.

** National nonfarm employment decreased by 131,000 in July following a decrease of 221,000 in June. The loss of temporary Census jobs is responsible for most of the decreases in these two months. Private sector employment increased by a meager 71,000 in July, which was an improvement from the previous month. Job gains occurred in manufacturing and education and health services, while job losses occurred in financial activities, temporary help services, and state and local government.

Michigan Economy

** Michigan nonfarm employment increased by 3,000 in June, after an increase of 8,000 jobs in May. Job losses in construction, information, and education and health services were offset by gains in manufacturing and retail trade.

** In June, Michigan's unemployment rate was 13.2%; while the national unemployment rate was 9.5%. In June, Nevada had the highest unemployment rate in the nation at 14.2%, followed by Michigan at 13.2%, California at 12.3%, Rhode Island at 12.0%, and Florida at 11.4%.

State Revenue

** Based on HFA target estimates and revenue data through July, revenue is on target for the General Fund/General Purpose and is down \$5 million for the School Aid Fund. Target estimates are based on the May 2010 consensus estimates.

** According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the January – March 2010 period, increased 2.5% compared with the same period a year ago – the first increase in the last six quarters. The Far West, New England, and Mid-Atlantic regions posted gains, while the Great Lakes region posted the largest decline.