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R E V E N U E R E V I E W

Quarterly
Revenue Report
for the
State of Michigan

FEBRUARY 2012

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>1st Qtr FY 2010-11</u>	<u>1st Qtr FY 2011-12</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$5,355.4 million	\$5,504.8 million	+2.8%	+2.8%

Revenue collections for the first quarter (November–January) of fiscal year (FY) 2011-12 were higher than first quarter FY 2010-11 collections by \$149.4 million or 2.8%. The first quarter revenue change was a deceleration from the 5.5% increase posted in the fourth quarter of FY 2010-11. Fiscal year-to-date, GF/GP revenue and SAF revenue are in line with the HFA target estimates—which are based on the January 2012 consensus.

INCOME TAX (NET)

<u>1st Qtr FY 2010-11</u>	<u>1st Qtr FY 2011-12</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$2,080.9 million	\$2,103.7 million	+1.1%	+1.1%

Income tax revenue consists of three components—withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 86% of gross income tax collections. 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 first quarter FY 2011-12 were higher than first quarter FY 2010-11 collections by \$22.8 million or 1.1%. Withholding payments were up 1.7%, quarterly payments and annual payments were up 6.8%, and refunds were up 13.1%.

SALES AND USE TAXES

<u>1st Qtr FY 2010-11</u>	<u>1st Qtr FY 2011-12</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$2,003.7 million	\$2,060.9 million	+2.9%	+2.9%

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, and remote sales.

Sales and use tax collections for first quarter FY 2011-12 were higher than the year-ago quarter by \$57.2 million or 2.9%. Sales tax due to motor vehicle sales increased 1.2%; all other sales tax collections were up 3.5% in first quarter FY 2011-12 relative to the year-ago first quarter.

BUSINESS AND INSURANCE TAXES

<u>1st Qtr FY 2010-11</u>	<u>1st Qtr FY 2011-12</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$479.0 million	\$639.1 million	+33.4%	+33.4%

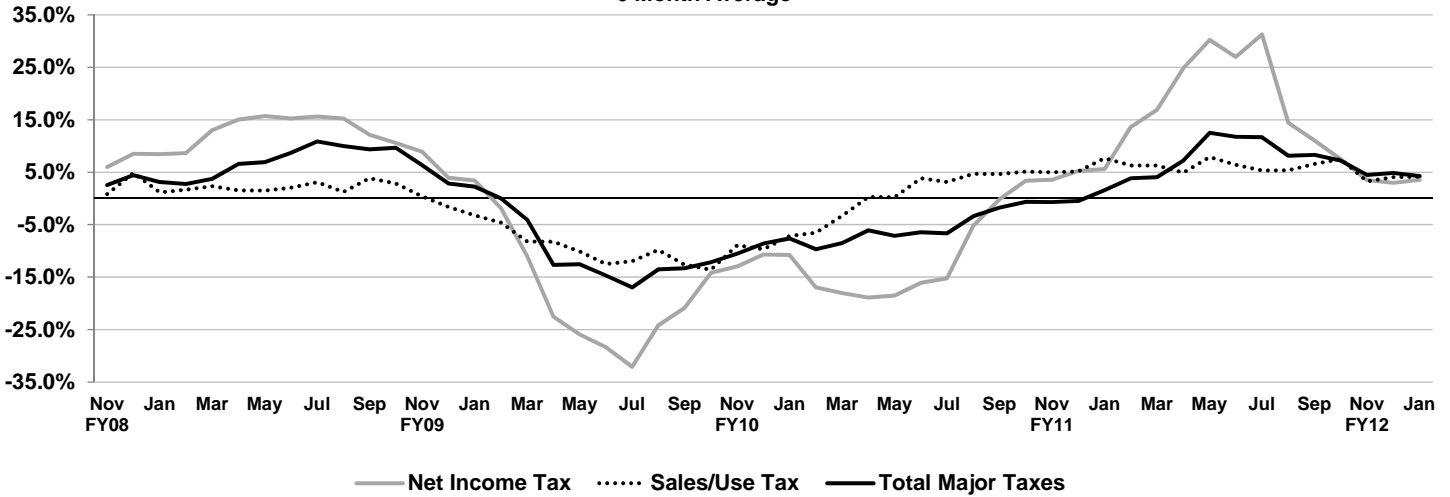
The Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For the first quarter FY 2011-12, business tax collections were above the year-ago first quarter by \$160.1 million or 33.4%.

OTHER REVENUE

<u>1st Qtr FY 2010-11</u>	<u>1st Qtr FY 2011-12</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$791.8 million	\$701.1 million	-11.5%	-11.5%

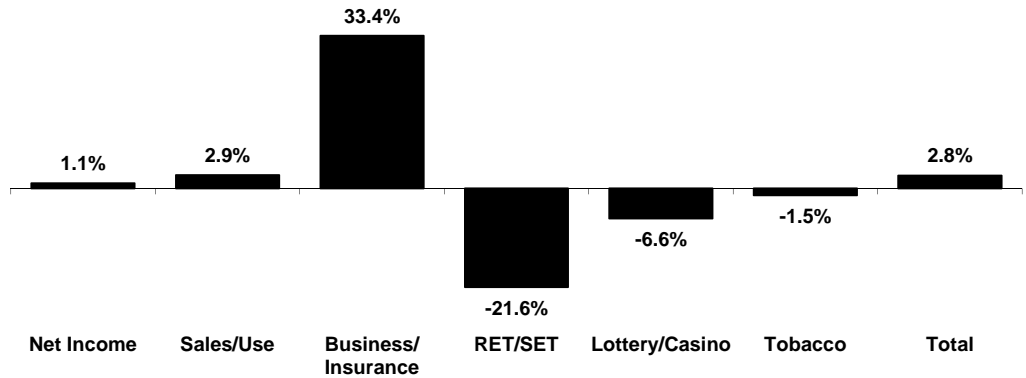
Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for first quarter FY 2011-12 were down \$90.7 million or 11.5% from the first quarter of FY 2010-11.

**Percent Change in Net Income, Sales/Use, and Total Major Taxes
6 Month Average**



After substantial declines in FY 2008-09 and FY 2009-10, the revenue performance improved throughout FY 2010-11. Over the last quarter, the six month average percent change of total major taxes has held close to 4.5%.

**State of Michigan Revenue
% Change From Year-Ago Quarter and Fiscal Year-to-Date**



**Revenue Quarterly Review: 1st Quarter (November–January) FY 2011-12
(Millions of Dollars)**

	FY 2011-12 1st Quarter	Change From Year-Ago 1st Quarter	FY 2011-12 Year-to-Date	Change From Previous		FY 2011-12 January Consensus Forecast Growth
				Fiscal-Year-to-Date		
Annual Income Tax	\$31.5	13.0%	\$31.5	\$3.6	13.0%	1.9%
Quarterly Income Tax	220.8	6.0%	220.8	12.5	6.0%	7.4%
Withholding	<u>1,978.0</u>	1.1%	<u>1,978.0</u>	<u>21.4</u>	1.1%	6.5%
Subtotal	2,230.2	1.7%	2,230.2	37.4	1.7%	6.2%
Income Tax Refunds	<u>126.5</u>	13.1%	<u>126.5</u>	<u>14.6</u>	13.1%	-4.0%
Net Income Tax	2,103.7	1.1%	2,103.7	22.8	1.1%	9.6%
Sales Tax	1,764.0	3.3%	1,764.0	55.9	3.3%	2.6%
Use Tax	<u>296.9</u>	0.4%	<u>296.9</u>	<u>1.2</u>	0.4%	8.9%
Subtotal	2,060.9	2.9%	2,060.9	57.2	2.9%	3.5%
SBT/Corporate Income Tax	4.2	-174.6%	4.2	9.9	-174.6%	18,488.5%
Michigan Business Tax	564.3	33.6%	564.3	142.1	33.6%	-69.4%
Insurance Tax	<u>70.6</u>	13.2%	<u>70.6</u>	<u>8.2</u>	13.2%	4.0%
Subtotal	639.1	33.4%	639.1	160.1	33.4%	-40.5%
Casino Wagering	28.6	4.2%	28.6	1.1	4.2%	-0.3%
Tobacco Tax	233.7	-1.5%	233.7	(3.6)	-1.5%	-2.7%
Lottery	188.1	-8.0%	188.1	(16.5)	-8.0%	-1.0%
Industrial/CommFacility Taxes	3.8	-50.5%	3.8	(3.8)	-50.5%	3.0%
Real Estate Transfer Tax	25.8	-7.3%	25.8	(2.0)	-7.3%	7.9%
State Education Tax	<u>221.1</u>	-23.0%	<u>221.1</u>	<u>(66.0)</u>	-23.0%	-1.4%
Subtotal	701.1	-11.5%	701.1	(90.7)	-11.5%	-1.3%
TOTAL	\$5,504.8	2.8%	\$5,504.8	\$149.4	2.8%	-0.6%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** U.S. economic growth or GDP posted a 2.8% increase in the fourth quarter due largely to an accumulation in inventories. Final sales, which exclude inventories, increased 0.8%. Personal consumption increased 2.0%, nonresidential business fixed investment was up 1.7%, while government spending and investment declined 4.6% and net trade was a small subtraction.

** The January nonfarm employment report showed a 243,000 job gain – private payrolls added 257,000, while government jobs declined by 14,000. The employment gain in January was the best performance since April 2011. Manufacturing, business services, healthcare, and leisure and hospitality contributed to the gain.

** In 2011, existing home sales totaled 4.26 million units and increased 1.7% from the previous year. Median existing home sale prices continue to fall at declining rates and the inventory levels have fallen from very high levels to a 6.2 month supply, which is about equal to the March 2005 level.

** Light motor vehicle sales increased to a seasonally adjusted annual rate of 14.1 million units in January, which was up from the 13.5 million units in December and the highest level since the Cash-for-Clunkers incentive program in August 2009. January sales for Ford increased 7.3%, for GM decreased 6.1%, and for Chrysler increased 44.3% from a year-ago.

** The ISM manufacturing index increased to 54.1 in January and the non-manufacturing (services) index gained 3.8 points to 56.8 – the highest level since February 2011. Services represent approximately 90% of overall economic activity. Both of these are in an expansionary mode; readings above 50 indicate expansion, while figures below 50 indicate contraction.

Michigan Economy

** Michigan nonfarm employment increased by 4,000 in December following a slight increase in November. Relative to a year-ago, nonfarm employment was up 1.7% or 67,000 jobs, with the job gains were concentrated in manufacturing, professional and business services, and education and health services. The Michigan unemployment rate decreased to 9.3% in December which was above the 8.5% national rate.

** The Chicago Fed Midwest Manufacturing Index increased 1.7% in December relative to the previous month, which was due predominately to steel and machinery production. Relative to a year-ago Midwest manufacturing activity increased 8.4% (14.8% for automotive), while national manufacturing production increased 4.0% (9.8% for automotive).

State Revenue

** First quarter revenue was \$149.4 million or 2.8% higher than the level a year-ago. Based on HFA target estimates and revenue data through January, FY 2011-12 revenue is on target. Target estimates are based on the January 2012 consensus estimates and historical monthly patterns.