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# R E V E N U E

# REVIEW

Quarterly  
Revenue Report  
for the  
State of Michigan

AUGUST 2012

House Fiscal Agency  
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## TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr FY 2011-12</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$5,051.9 million	\$4,956.4 million	-1.9%	+1.6%

Revenue collections for third quarter (May–July) of fiscal year (FY) 2011-12 were lower than third quarter FY 2010-11 collections by \$95.5 million or 1.9%. Total collections fiscal-year-to-date (FYTD) were \$14.2 billion—up \$218.0 million or 1.6% from a year ago.

## INCOME TAX (NET)

<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr FY 2011-12</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$1,698.4 million	\$1,907.8 million	+12.3%	+9.8%

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 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 third quarter FY 2011-12 were higher than third quarter FY 2010-11 collections by \$209.5 million or 12.3%. Withholding payments were up 11.0%, quarterly and annual payments were up 14.6%, and refunds were up 4.5%. Net income tax collections FYTD were \$4.9 billion—up \$436.0 million or 9.8% from a year ago. Part of this increase was due to the income tax increase enacted under PA 38 of 2011.

## SALES AND USE TAXES

<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr FY 2011-12</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$2,039.3 million	\$2,079.8 million	+2.0%	+3.7%

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, and remote sales.

Sales and use tax collections for third quarter FY 2011-12 were higher than the year-ago quarter by \$40.5 million or 2.0%. Sales tax due to motor vehicle sales increased 6.0%; all other sales tax collections were up 0.5% in third quarter FY 2011-12 relative to the year-ago third quarter. Sales and use tax collections FYTD were \$6.0 billion—up \$214.5 million or 3.7% from a year ago.

## BUSINESS AND INSURANCE TAXES

<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr FY 2011-12</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$741.9 million	\$395.9 million	-46.6%	-20.3%

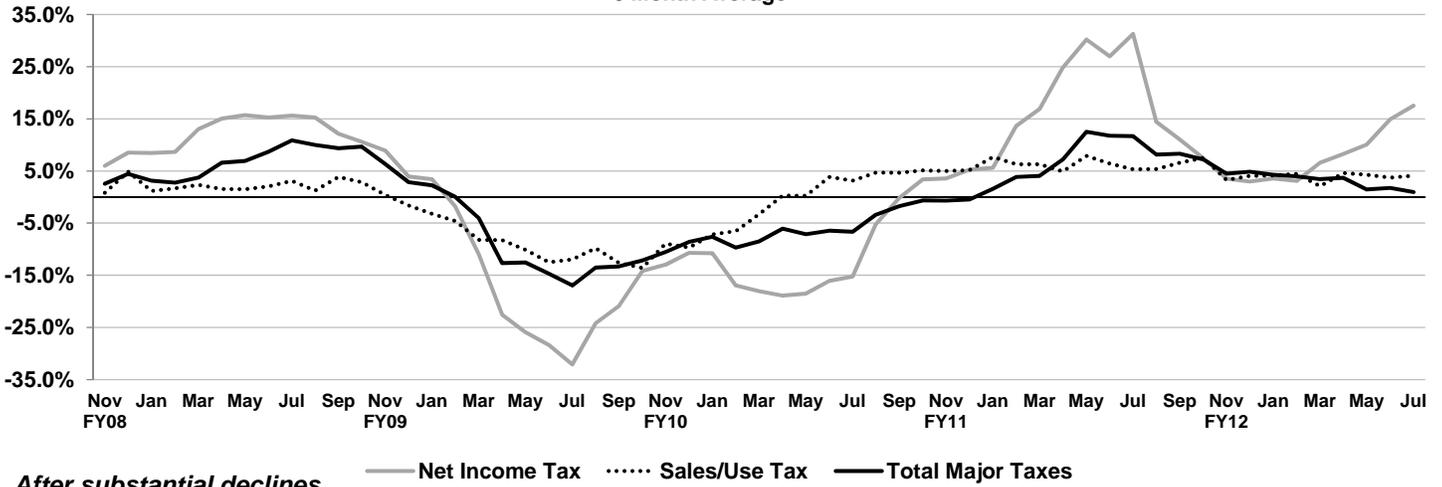
The Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit, while the corporate income tax (CIT) is based on net profit. The insurance tax is based on insurance premiums. For third quarter FY 2011-12, business tax collections were below the year-ago third quarter by \$346.0 million or 46.6%. Business tax collections FYTD were \$1.5 billion—down \$370.3 million or 20.3% from a year ago. Much of this drop is due to the business tax cut included in PA 39 and 40 of 2011.

## OTHER REVENUE

<u>3rd Qtr FY 2010-11</u>	<u>3rd Qtr FY 2011-12</u>	<u>3rd Qtr Change</u>	<u>YTD Change</u>
\$572.4 million	\$573.0 million	+0.1%	-3.3%

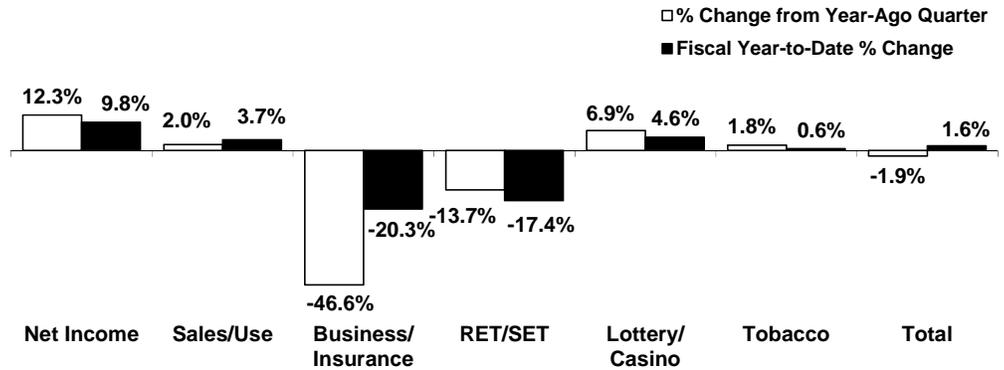
Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for third quarter FY 2011-12 were up slightly from the third quarter of FY 2010-11. Other revenue collections FYTD were \$1.8 billion—down \$62.2 million or 3.3% from a year ago.

**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, revenue performance improved beginning in FY 2010-11. Over the last quarter, the six month average percent change of total major taxes has held close to 1.0%.*

**State of Michigan Revenue: FY 2011-12 Third Quarter**



**Revenue Quarterly Review: 3rd Quarter (May-July) FY 2011-12  
(Millions of Dollars)**

	FY 2011-12 3rd Quarter	Change From Year-Ago 3rd Quarter	FY 2011-12		FY 2011-12 May Consensus Forecast Growth
			Year-to-Date	Change From Previous Fiscal-Year-to-Date	
Annual Income Tax	\$77.9	11.5%	\$628.4	(\$8.3) -1.3%	-2.3%
Quarterly Income Tax	179.5	16.1%	511.6	48.6 10.5%	7.4%
Withholding	1,873.1	11.0%	5,803.9	398.7 7.4%	6.9%
<b>Subtotal</b>	<b>2,130.4</b>	<b>11.5%</b>	<b>6,943.9</b>	<b>439.0 6.7%</b>	<b>6.1%</b>
Income Tax Refunds	222.6	4.5%	2,069.8	3.0 0.1%	-1.1%
<b>Net Income Tax</b>	<b>1,907.8</b>	<b>12.3%</b>	<b>4,874.1</b>	<b>436.0 9.8%</b>	<b>8.5%</b>
Sales Tax	1,765.6	1.2%	5,168.9	203.0 4.1%	4.7%
Use Tax	314.1	6.7%	872.9	11.5 1.3%	7.4%
<b>Subtotal</b>	<b>2,079.8</b>	<b>2.0%</b>	<b>6,041.8</b>	<b>214.5 3.7%</b>	<b>5.1%</b>
Single Business Tax	(4.7)	-141.9%	-20.0	(32.2) -264.7%	-765.4%
Corporate Income Tax	214.6	N/A	327.3	327.3 N/A	N/A
Michigan Business Tax	112.0	-83.1%	926.0	(684.7) -42.5%	10.6%
Insurance Tax	73.9	5.8%	222.8	19.3 9.5%	10.6%
<b>Subtotal</b>	<b>395.9</b>	<b>-46.6%</b>	<b>1,456.1</b>	<b>(370.3) -20.3%</b>	<b>-37.1%</b>
Casino Wagering	27.7	-3.3%	87.7	1.4 1.6%	0.6%
Tobacco Tax	249.9	1.8%	709.0	4.5 0.6%	-0.7%
Lottery	183.1	8.6%	588.4	28.3 5.0%	3.1%
Industrial/Comm Facility Taxes	7.3	-9.5%	20.9	(3.1) -13.1%	-1.6%
Real Estate Transfer Tax	38.9	53.5%	94.2	12.3 15.0%	1.4%
State Education Tax	66.2	-31.3%	347.7	(105.6) -23.3%	-2.1%
<b>Subtotal</b>	<b>573.0</b>	<b>0.1%</b>	<b>1,847.9</b>	<b>(62.2) -3.3%</b>	<b>-0.5%</b>
<b>TOTAL</b>	<b>\$4,956.4</b>	<b>-1.9%</b>	<b>\$14,219.8</b>	<b>\$218.0 1.6%</b>	<b>0.2%</b>

## House Fiscal Agency: Economic/Revenue Overview

### U.S. Economy

\*\* Real Gross Domestic Product (GDP) increased at an annual rate of 1.5% in the second quarter of 2012 following a 2.0% pace in the first quarter. Final sales (or GDP less inventories) decelerated from 2.4% to 1.2%—this slowdown was concentrated in consumer and business spending. Residential fixed investment (housing related activities) posted a solid gain, while net trade and government subtracted from economic activity.

\*\* The July nonfarm employment report showed a 163,000 job gain, following an increase of 64,000 in June. This was a considerable improvement from the past few months and was the largest gain since February. In July, private payrolls added 172,000, while government jobs declined by 9,000. Manufacturing, professional and business services, leisure and hospitality, and healthcare contributed to the private sector gain.

\*\* Light motor vehicle sales decreased to a seasonally adjusted annual rate of 14.0 million units in July, which was below the 14.3 million units sold in June. Consumers continue to respond to vehicle deals offered by manufacturers, the improved availability of credit, and the need to replace aging vehicles. July sales for Ford decreased 3.8%, for GM decreased 6.4%, and for Chrysler increased 12.6% from a year-ago.

\*\* The S&P Case-Shiller 10- and 20-city seasonally adjusted composite indices were both up 0.9% in May. This was the fourth consecutive monthly increase. On a year-over-year basis, both of these indices reported the smallest declines since late 2010.

\*\* The ISM manufacturing index increased 0.1 points to 49.8 in July and the non-manufacturing (services) index increased by 0.5 points to 52.6. Readings above 50 indicate expansion, while figures below 50 indicate contraction.

### Michigan Economy

\*\* Michigan nonfarm employment decreased by 1,000 in June following a decrease of 5,000 in May. Relative to a year-ago, nonfarm employment was up 1.3% or 52,000 jobs, with the job gains concentrated in manufacturing, professional and business services, and education and health services, but job losses occurred in government, construction and retail trade. The Michigan unemployment rate increased to 8.6% in June which was above the 8.2% national rate.

\*\* The Chicago Fed Midwest Manufacturing Index increased 1.1% in June relative to the previous month. Relative to a year-ago Midwest manufacturing activity increased 11.0% (21.9% for automotive), while national manufacturing production increased 5.6% (15.2% for automotive).

### State Revenue

\*\* Fiscal-year-to-date, revenue was \$218.0 million or 1.6% higher than the level a year-ago. Based on HFA target estimates and revenue data through July, FY 2011-12 General Fund/General Purpose revenue is up \$80 million and School Aid Fund revenue is up about \$20 million from the anticipated level. Target estimates are based on the May 2012 consensus estimates and historical monthly patterns.