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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

NOVEMBER 2011

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>4th Qtr FY 2009-10</u>	<u>4th Qtr FY 2010-11</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$6,241.6 million	\$6,583.2 million	+5.5%	+7.2%

Despite national economic weakness, Michigan's economy and revenue has remained relatively stable and positive. Total revenue collections for fourth quarter (August–October) fiscal year (FY) 2010-11 were higher than fourth quarter FY 2009-10 total revenue collections by \$341.6 million or 5.5%. The fourth quarter increase was a slowdown from the third quarter, which was due primarily to net income tax collections and a large use tax refund. Fiscal year-to-date (FYTD) revenue was up \$1,381.4 million or 7.2% from a year ago.

INCOME TAX (NET)

<u>4th Qtr FY 2009-10</u>	<u>4th Qtr FY 2010-11</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$1,789.7 million	\$1,904.8 million	+6.4%	+14.3%

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 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 fourth quarter FY 2010-11 were higher than fourth quarter FY 2009-10 collections by \$115.1 million or 6.4%. Withholding payments were up 5.4%, quarterly and annual payments were up 11.6%, and refunds were up 1.0%. Net income tax collections FYTD were \$6.3 billion—up \$795.4 million or 14.3% from a year ago.

SALES AND USE TAXES

<u>4th Qtr FY 2009-10</u>	<u>4th Qtr FY 2010-11</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$1,942.7 million	\$2,049.9 million	+5.5%	+6.2%

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 fourth quarter FY 2010-11 were higher than the year-ago quarter by \$107.2 million or 5.5%. Sales tax due to motor vehicle sales increased 0.1% while all other sales tax collections were up 14.2% in fourth quarter FY 2010-11 relative to the year-ago fourth quarter. Sales and use tax collections FYTD were \$7.9 billion, up \$462.7 million or 6.2% from a year ago.

BUSINESS AND INSURANCE TAXES

<u>4th Qtr FY 2009-10</u>	<u>4th Qtr FY 2010-11</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$512.2 million	\$635.6 million	+24.1%	+6.6%

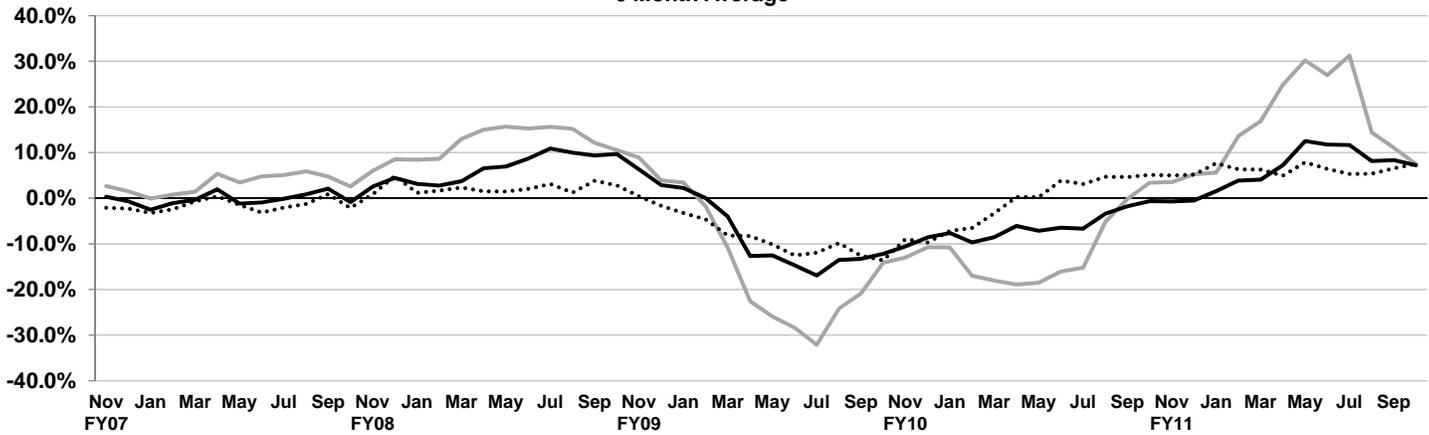
The Michigan Business Tax (MBT) is applied to gross receipts less purchases from other firms and business income or profit. The insurance tax is based on insurance premiums. For fourth quarter FY 2010-11, business tax collections were above the year-ago fourth quarter by \$123.4 million or 24.1%. Business tax collections FYTD were \$2.5 billion—up \$152.1 million or 6.6% from a year ago.

OTHER REVENUE

<u>4th Qtr FY 2009-10</u>	<u>4th Qtr FY 2010-11</u>	<u>4th Qtr % Change</u>	<u>YTD % Change</u>
\$1,997.0 million	\$1,993.0 million	-0.2%	-0.7%

Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for fourth quarter FY 2010-11 were down \$4.0 million or 0.2% from the fourth quarter of FY 2009-10. Other revenue collections FYTD were \$3.9 billion—down \$28.8 million or 0.7% from a year ago.

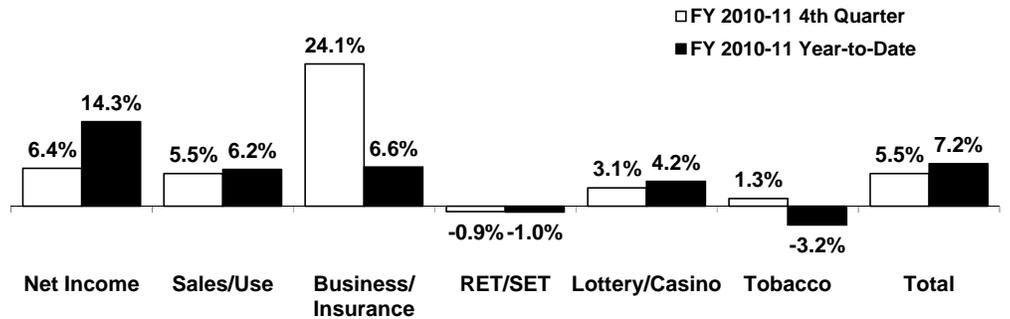
**Percent Change in Net Income, Sales/Use, and Total Major Taxes
6 Month Average**



After posting a substantial decline in FY 2008-09 and a more modest decline in FY 2009-10, the six month average percent change of total major taxes has improved—driven mainly by increases in net income tax, sales tax, and the MBT.

— Net Income Tax Sales/Use Tax — Total Major Taxes

State of Michigan Revenue: % Change From Prior Year



Revenue Quarterly Review: 4th Quarter (August–October) FY 2010-11 (Millions of Dollars)

	FY 2010-11 4th Quarter	Change From Year-Ago 4th Quarter	FY 2010-11		FY 2010-11 May Consensus Forecast Growth	
			Year-to-Date	Change From Previous Fiscal-Year-to-Date		
Annual Income Tax	\$63.4	7.7%	\$700.1	\$141.4	25.3%	18.8%
Quarterly Income Tax	168.2	13.2%	631.2	78.1	14.1%	9.7%
Withholding	1,790.6	5.4%	7,195.8	390.7	5.7%	5.4%
Subtotal	2,022.2	6.1%	8,527.0	610.2	7.7%	6.7%
Income Tax Refunds	117.4	1.0%	2,184.2	(185.1)	-7.8%	-6.8%
Net Income Tax	1,904.8	6.4%	6,342.9	795.4	14.3%	12.5%
Sales Tax	1,807.0	12.3%	6,772.9	540.1	8.7%	5.2%
Use Tax	242.9	-27.1%	1,104.3	(77.4)	-6.6%	-5.5%
Subtotal	2,049.9	5.5%	7,877.2	462.7	6.2%	3.4%
Single Business Tax	(8.2)	-586.4%	3.9	(40.3)	-91.1%	-100.0%
Michigan Business Tax	571.2	27.3%	2,181.9	176.7	8.8%	10.7%
Insurance Tax	72.6	17.3%	276.1	15.7	6.0%	3.1%
Subtotal	635.6	24.1%	2,461.9	152.1	6.6%	9.6%
Casino Wagering	27.9	9.8%	114.2	13.2	13.1%	2.6%
Tobacco Tax	264.3	1.3%	968.7	(32.0)	-3.2%	-4.5%
Lottery	174.4	2.1%	721.9	20.6	2.9%	4.6%
Industrial/CommFacility Taxes	23.5	-2.5%	47.5	(8.9)	-15.8%	-22.1%
Real Estate Transfer Tax	41.7	22.8%	123.6	0.9	0.7%	2.8%
State Education Tax	1,461.2	-1.4%	1,914.5	(22.5)	-1.2%	-4.1%
Subtotal	1,993.0	-0.2%	3,890.4	(28.8)	-0.7%	-2.5%
TOTAL	\$6,583.2	5.5%	\$20,572.5	\$1,381.4	7.2%	5.5%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** U.S. economic growth or GDP posted a 2.5% increase in the third quarter; it was the strongest gain in over a year. Nonresidential business fixed investment was up 16.3% – both structures and equipment and software contributed to this strong gain. Personal consumption increased 2.4% despite a decline of 1.7% in real disposable income and negative views on the economy. Government spending and investment was neutral to overall GDP, while net trade was a small contributor.

** The October nonfarm employment report showed an 80,000 job gain, while the job gains for August and September were revised up a combined 102,000. In October, private payrolls added 104,000, while government jobs declined by 24,000 (primarily at the state level). The national economy needs to add about 150,000 jobs per month to keep pace with population increases.

** In October, the Reuters/University of Michigan's consumer sentiment index increased 1.5 points to 60.9, but it remains at recessionary levels. Concerns over Europe, declining wealth, employment, and income weigh heavily on consumer confidence – which has dropped more than 35% over the summer.

** Light motor vehicle sales increased to a seasonally adjusted annual rate of 13.2 million units in October, which was up from the 13.0 million units in September and the highest level since February 2011. October sales for Ford increased 6.2%, for GM increased 1.8%, and for Chrysler increased 27.0% from a year-ago.

** The ISM manufacturing index fell 0.8 points to 50.8 in October, while the non-manufacturing (services) index slightly declined to 52.9. Both of these are barely in expansion mode; readings above 50 indicate expansion, while figures below 50 indicate contraction.

Michigan Economy

** Michigan nonfarm employment decreased by 14,200 in September following a 2,200 job loss in August. Relative to a year-ago, nonfarm employment was up 1.7% or 65,000 jobs, with job gains were concentrated in manufacturing, construction, professional and business services, and education and health services. The Michigan unemployment rate decreased to 11.1% in September which was above the 9.1% national rate.

** The Chicago Fed Midwest Manufacturing Index increased 0.4% in September relative to the previous month, which was due predominately to automotive production. Relative to a year-ago Midwest manufacturing activity increased 7.2% (9.9% for automotive), while national manufacturing production increased 4.3% (8.0% for automotive).

State Revenue

** Based on HFA target estimates and revenue data through October, FY 2010-11 revenue was up \$240 million for the General Fund/General Purpose and was up \$260 million for the School Aid Fund. Target estimates are based on the May 2011 consensus estimates and historical monthly patterns. Final FY 2010-11 revenue will not be available until mid-December after all accruals and adjustments are made.