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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 2012

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

| <u>4th Qtr FY 2010-11</u> | <u>4th Qtr FY 2011-12</u> | <u>4th Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$6,561.3 million | \$6,277.9 million | -4.3% | -0.3% |

Total revenue collections for fourth quarter (August–October) fiscal year (FY) 2011-12 were lower than fourth quarter FY 2010-11 total revenue by \$283.4 million or 4.3%. The fourth quarter decrease was a slowdown from the third quarter, which was due primarily to the business tax cuts. Fiscal-year-to-date (FYTD) revenue was \$20.5 billion—down \$65.4 million or 0.3% from a year ago.

INCOME TAX (NET)

| <u>4th Qtr FY 2010-11</u> | <u>4th Qtr FY 2011-12</u> | <u>4th Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$1,904.8 million | \$2,046.1 million | +7.4% | +9.1% |

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 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 2011-12 were higher than fourth quarter FY 2010-11 collections by \$141.3 million or 7.4%. Withholding payments were up 5.8%, quarterly and annual payments were up 12.9%, and refunds were down 6.9%. Net income tax collections FYTD were \$6.9 billion—up \$577.3 million or 9.1% from a year ago.

SALES AND USE TAXES

| <u>4th Qtr FY 2010-11</u> | <u>4th Qtr FY 2011-12</u> | <u>4th Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$2,049.9 million | \$2,114.2 million | +3.1% | +3.5% |

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 2011-12 were higher than the year-ago quarter by \$64.3 million or 3.1%. Sales tax due to motor vehicle sales increased 3.2%; all other sales tax collections were up 0.3% in fourth quarter FY 2011-12 relative to the year-ago fourth quarter. Sales and use tax collections FYTD were \$8.2 billion—up \$278.8 million or 3.5% from a year ago.

BUSINESS AND INSURANCE TAXES

| <u>4th Qtr FY 2010-11</u> | <u>4th Qtr FY 2011-12</u> | <u>4th Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$635.6 million | \$227.8 million | -64.2% | -31.6% |

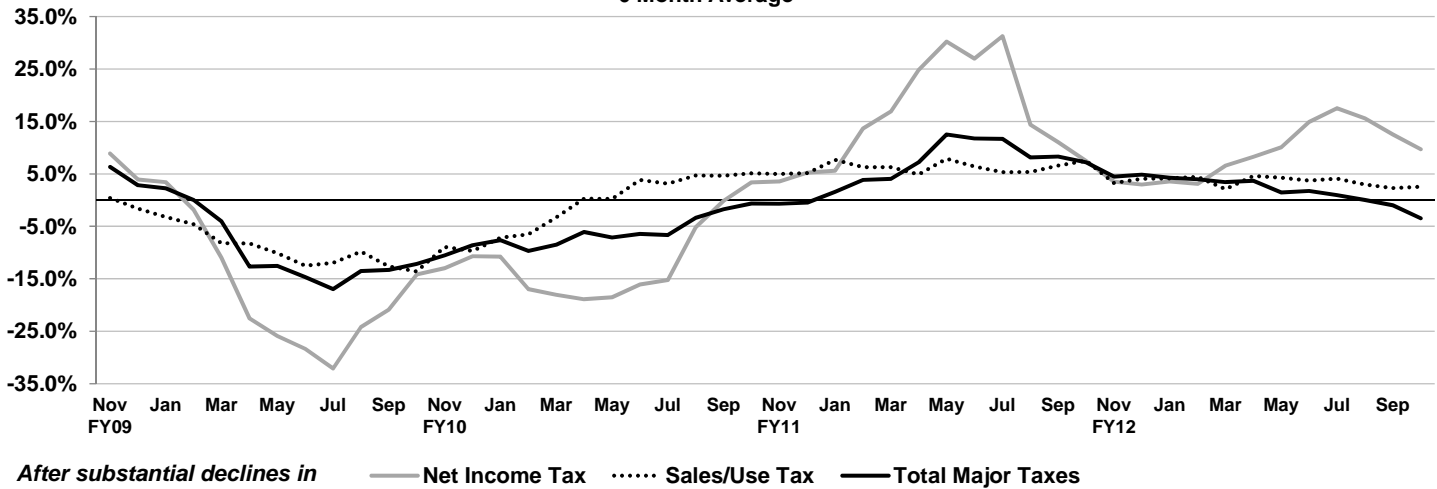
The Michigan Business Tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit, while the corporate income tax (CIT) is based on net profit. The insurance tax is based on insurance premiums. For fourth quarter FY 2011-12, business tax collections were below the year-ago fourth quarter by \$407.8 million or 64.2%. Business tax collections FYTD were \$1.7 billion—down \$778.1 million or 31.6% from a year ago.

OTHER REVENUE

| <u>4th Qtr FY 2010-11</u> | <u>4th Qtr FY 2011-12</u> | <u>4th Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$1,971.0 million | \$1,889.9 million | -4.1% | -3.7% |

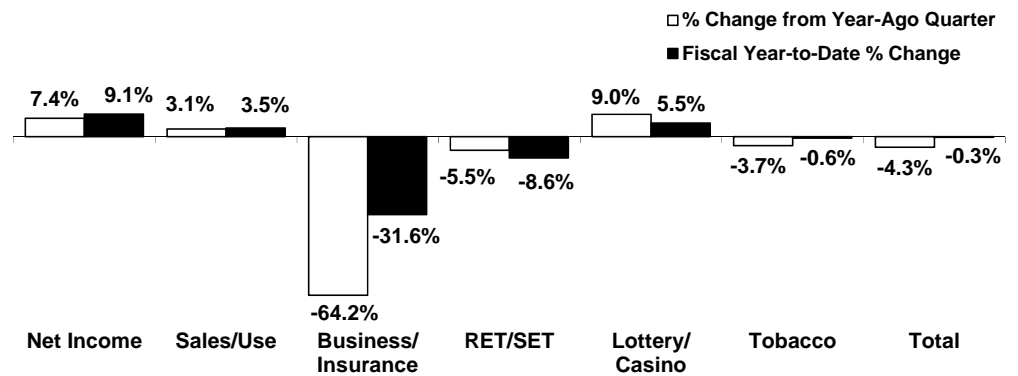
Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for fourth quarter FY 2011-12 were down \$81.2 million or 4.1% from the fourth quarter of FY 2010-11. Other revenue collections FYTD were \$3.7 billion—down \$143.4 million or 3.7% 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 FY 2011-12, the six month average percent change of total major taxes has held close to 2.0%. Final FY 2011-12 revenue will not be available until mid-December after all accruals and adjustments are made.

State of Michigan Revenue: FY 2011-12 Fourth Quarter



Revenue Quarterly Review: 4th Quarter (August–October) FY 2011-12
(Millions of Dollars)

| | FY 2011-12 4th Quarter | Change From Year-Ago 4th Quarter | FY 2011-12 | | FY 2011-12 May Consensus Forecast Growth |
|-------------------------------|---------------------------|--|-------------------|---|--|
| | | | Year-to-Date | Change From Previous Fiscal-Year-to-Date | |
| Annual Income Tax | \$68.3 | 7.8% | \$696.7 | (\$3.4) -0.5% | -2.3% |
| Quarterly Income Tax | 193.1 | 14.8% | 704.7 | 73.5 11.7% | 7.4% |
| Withholding | 1,893.9 | 5.8% | 7,697.8 | 502.0 7.0% | 6.9% |
| Subtotal | 2,155.4 | 6.6% | 9,099.3 | 572.2 6.7% | 6.1% |
| Income Tax Refunds | 109.3 | -6.9% | 2,179.1 | (5.1) -0.2% | -1.1% |
| Net Income Tax | 2,046.1 | 7.4% | 6,920.2 | 577.3 9.1% | 8.5% |
| Sales Tax | 1,818.5 | 0.6% | 6,987.4 | 214.5 3.2% | 4.7% |
| Use Tax | 295.7 | 21.8% | 1,168.6 | 64.3 5.8% | 7.4% |
| Subtotal | 2,114.2 | 3.1% | 8,156.0 | 278.8 3.5% | 5.1% |
| Single Business Tax | (49.2) | 498.2% | (69.2) | (73.1) -1,856.3% | -765.4% |
| Corporate Income Tax | 215.0 | N/A | 542.3 | 542.3 N/A | N/A |
| Michigan Business Tax | (9.2) | -101.6% | 916.8 | (1,265.1) -58.0% | -65.7% |
| Insurance Tax | 71.0 | -2.2% | 293.9 | 17.7 6.4% | 10.6% |
| Subtotal | 227.8 | -64.2% | 1,683.8 | (778.1) -31.6% | -37.1% |
| Casino Wagering | 27.7 | -0.7% | 115.4 | 1.2 1.1% | 0.6% |
| Tobacco Tax | 254.4 | -3.7% | 963.4 | (5.4) -0.6% | -0.7% |
| Lottery | 168.8 | 10.8% | 757.2 | 44.7 6.3% | 3.1% |
| Industrial/CommFacility Taxes | 18.3 | -22.0% | 39.2 | (8.3) -17.5% | -1.6% |
| Real Estate Transfer Tax | 49.0 | 17.5% | 143.2 | 19.6 15.9% | 1.4% |
| State Education Tax | 1,371.6 | -6.1% | 1,719.3 | (195.2) -10.2% | -2.1% |
| Subtotal | 1,889.9 | -4.1% | 3,737.7 | (143.4) -3.7% | -0.5% |
| TOTAL | \$6,277.9 | -4.3% | \$20,497.7 | (\$65.4) -0.3% | 0.2% |

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Real Gross Domestic Product (GDP) increased at an annual rate of 2.0% in the third quarter of 2012 following a 1.3% pace in the second quarter. Final sales (or GDP less inventories) accelerated from 1.7% to 2.1% – this advance was concentrated in consumer spending, residential fixed investment (housing related activities), and federal government spending, while exports and business investment subtracted from economic activity.

** The October nonfarm employment report showed a 171,000 job gain, following an upwardly revised increase of 148,000 in September. In October, private payrolls added 184,000 and government subtracted 13,000. The number of long-term unemployed (those jobless for 27 weeks or more) remained close to 5 million and represents about 40% of the unemployed.

** Light motor vehicle sales decreased to a seasonally adjusted annual rate of 14.2 million units in October, which was below the 14.9 million units sold in September. Hurricane Sandy disrupted sales at the end of the month which will be more than offset in the coming months. Consumers continue to respond to vehicle deals offered by manufacturers, the improved availability of credit, and the need to replace aging vehicles. October sales for Ford were flat, for GM increased 4.7%, and for Chrysler increased 10.2% from a year-ago.

** In October, the Reuters/University of Michigan's consumer sentiment index increased 4.3 points to 82.6, the highest level since the start of the Great Recession. Declining fuel prices, more optimistic job prospects, and improved personal finances contributed to the encouraging reading from consumers.

** The ISM manufacturing index increased 0.2 points to 51.7 in October and the non-manufacturing (services) index decreased by 0.9 points to 54.2. Readings above 50 indicate expansion, while figures below 50 indicate contraction.

Michigan Economy

** Michigan nonfarm employment decreased by 13,000 in September following a 7,000 decrease in August. Relative to a year-ago, nonfarm employment was up 1.0% or 39,000 jobs, with the job gains concentrated in manufacturing and professional and business services, while job losses occurred in government, construction and retail trade. The Michigan unemployment rate decreased to 9.3% in September which was above the 7.8% national rate.

** The Chicago Fed Midwest Manufacturing Index decreased 0.4% in September relative to the previous month. Relative to a year-ago, Midwest manufacturing activity increased 8.5% (16.4% for automotive), while national manufacturing production increased 3.5% (9.4% for automotive).

State Revenue

** Fiscal-year-to-date, revenue was \$65.4 million or 0.3% lower than the level a year-ago. Based on HFA target estimates and revenue data through October, FY 2011-12 General Fund/General Purpose revenue is up between \$70 and \$130 million and School Aid Fund revenue is down \$50 million from the anticipated level. Target estimates are based on the May 2012 consensus estimates and historical monthly patterns. ***Final FY 2011-12 revenue will not be available until mid-December after all accruals and adjustments are made.***