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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

MAY 2012

House Fiscal Agency
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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr FY 2011-12</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$3,594.5 million	\$3,758.4 million	4.6%	3.5%

Revenue collections for second quarter (February–April) of fiscal year (FY) 2011-12 were higher than second quarter FY 2010-11 collections by \$163.9 million or 4.6%. Much of the increase relative to a year-ago was due to higher income tax and sales tax revenue. Fiscal-year-to-date (FYTD) revenue was up \$313.5 million or 3.5%.

INCOME TAX (NET)

<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr FY 2011-12</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$658.8 million	\$862.5 million	30.9%	8.3%

Income tax revenue consists of three components—withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 82% 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 second quarter FY 2011-12 were higher than second quarter FY 2010-11 collections by \$203.7 million or 30.9%. Withholding payments were up 10.9%, quarterly and annual payments were down 1.4%, and refunds were down 1.2%. Net income tax collections FYTD were \$3.0 billion—up \$226.5 million or 8.3% from a year ago.

SALES AND USE TAXES

<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr FY 2011-12</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$1,784.4 million	\$1,901.2 million	6.5%	4.6%

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 second quarter FY 2011-12 were higher than the year-ago quarter by \$116.8 million or 6.5%. Sales tax due to motor vehicle sales increased 7.2%; all other sales tax collections were up 8.5% in second quarter FY 2011-12 relative to the year-ago second quarter. Sales and use tax collections FYTD were \$4.0 billion—up \$174.0 million or 4.6% from a year ago.

BUSINESS AND INSURANCE TAXES

<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr FY 2011-12</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$605.5 million	\$420.9 million	-30.5%	-2.2%

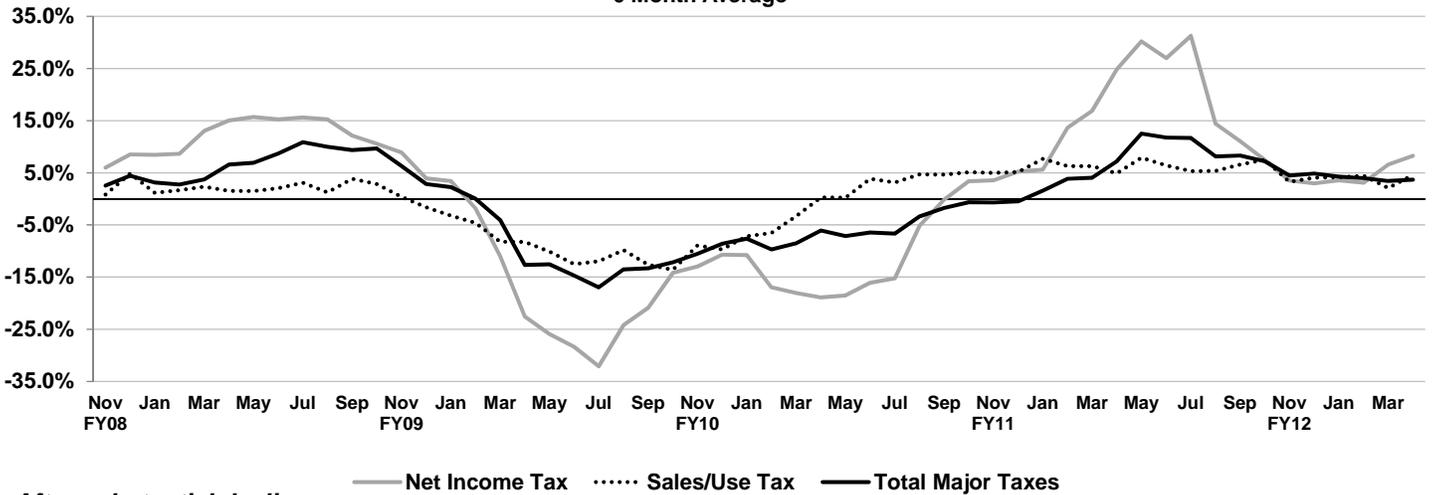
The Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit, while the corporate income tax (CIT) is based on net profit. The insurance tax is based on insurance premiums. For the second quarter FY 2011-12, business tax collections were below the year-ago second quarter by \$184.6 million or 30.5%. Business tax collections FYTD were \$1.1 billion—down \$24.3 million or 2.2% from a year ago.

OTHER REVENUE

<u>2nd Qtr FY 2010-11</u>	<u>2nd Qtr FY 2011-12</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$545.9 million	\$573.8 million	5.1%	-4.7%

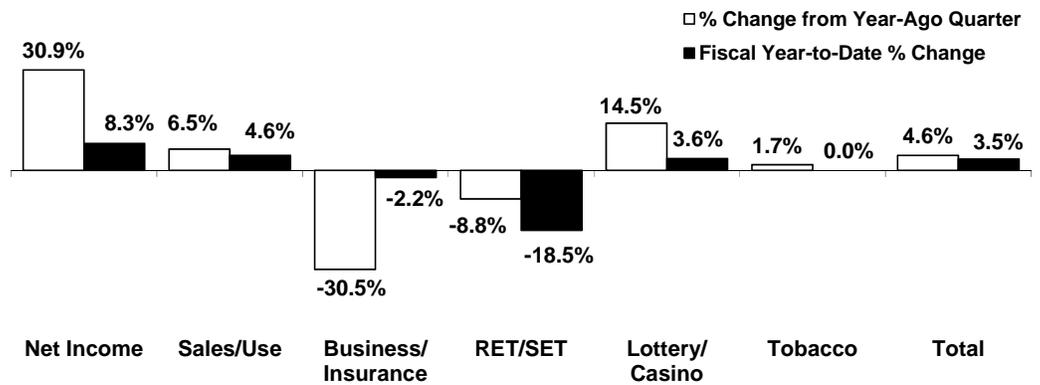
Other revenue collections—which include primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for second quarter FY 2011-12 were up \$28.0 million or 5.1% from the second quarter of FY 2010-11. Other revenue collections FYTD were \$1.3 billion—down \$62.8 million or 4.7% 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, 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 3.7%.

State of Michigan Revenue: FY 2011-12 Second Quarter



**Revenue Quarterly Review: 2nd Quarter (February–April) FY 2011-12
(Millions of Dollars)**

	FY 2011-12 2nd Quarter	Change From Year-Ago 2nd Quarter	FY 2011-12 Year-to-Date	Change From Previous		FY 2011-12 January Consensus Forecast Growth
				Fiscal-Year-to-Date		
Annual Income Tax	\$519.0	-3.7%	\$550.5	(\$16.3)	-2.9%	1.9%
Quarterly Income Tax	111.4	11.3%	332.1	23.8	7.7%	7.4%
Withholding	<u>1,952.9</u>	10.9%	<u>3,930.8</u>	<u>212.6</u>	5.7%	6.5%
Subtotal	2,583.3	7.6%	4,813.5	220.0	4.8%	6.2%
Income Tax Refunds	<u>1,720.7</u>	-1.2%	<u>1,847.2</u>	<u>(6.5)</u>	-0.4%	-4.0%
Net Income Tax	862.5	30.9%	2,966.2	226.5	8.3%	9.6%
Sales Tax	1,639.3	8.4%	3,403.3	182.3	5.7%	2.6%
Use Tax	<u>261.9</u>	-3.5%	<u>558.8</u>	<u>(8.3)</u>	-1.5%	8.9%
Subtotal	1,901.2	6.5%	3,962.1	174.0	4.6%	3.5%
SBT/Corporate Income Tax	92.9	1,303.0%	97.3	96.3	9,828.6%	18,488.5%
Michigan Business Tax	249.7	-52.7%	814.0	(135.9)	-14.3%	-69.4%
Insurance Tax	<u>78.3</u>	9.9%	<u>148.9</u>	<u>15.3</u>	11.4%	4.0%
Subtotal	420.9	-30.5%	1,060.2	(24.3)	-2.2%	-40.5%
Casino Wagering	31.4	4.0%	60.0	2.4	4.1%	-0.3%
Tobacco Tax	225.5	1.7%	459.1	0.2	0.0%	-2.7%
Lottery	217.2	16.1%	405.4	13.7	3.5%	-1.0%
Industrial/CommFacility Taxes	9.9	17.2%	13.6	(2.4)	-14.9%	3.0%
Real Estate Transfer Tax	29.5	2.8%	55.3	(1.3)	-2.2%	7.9%
State Education Tax	<u>60.4</u>	-13.5%	<u>281.5</u>	<u>(75.4)</u>	-21.1%	-1.4%
Subtotal	573.8	5.1%	1,274.9	(62.8)	-4.7%	-1.3%
TOTAL	\$3,758.4	4.6%	\$9,263.4	\$313.5	3.5%	-0.6%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Real Gross Domestic Product increased at an annual rate of 2.2% in the first quarter of 2012 following a 3.0% pace in the fourth quarter of 2011. Personal consumption expenditures and inventory accumulation were the main contributors to the increase, while government subtracted from economic activity and net exports were neutral.

** The April nonfarm employment report showed an 115,000 job gain, following an increase of 154,000 in March. These two months were a disappointing slowdown from the average employment gain of 252,000 that occurred over the December through February period. In April, private payrolls added 130,000, while government jobs declined by 15,000. Manufacturing, professional and business services, healthcare, and leisure and hospitality contributed to the gain.

** Light motor vehicle sales increased to a seasonally adjusted annual rate of 14.4 million units in April, which was above the 14.3 million units sold in March. Consumers are responding to vehicle deals offered by manufacturers, the improved availability of credit, and the need to replace aging vehicles. April sales for Ford decreased 5.1%, for GM decreased 8.2%, and for Chrysler increased 20.0% from a year-ago.

** The ISM manufacturing index increased 1.4 point to 54.8 in April and the non-manufacturing (services) index declined by 2.5 points to 53.5. 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 1,000 in March following a similar modest increase in February. Relative to a year-ago, nonfarm employment was up 1.4% or 56,500 jobs, with the job gains concentrated in manufacturing, professional and business services, and education and health services, while job losses occurred in government and retail trade. The Michigan unemployment rate decreased to 8.5% in March which was above the 8.2% national rate.

** The Chicago Fed Midwest Manufacturing Index posted no change in March relative to the previous month. Relative to a year-ago Midwest manufacturing activity increased 8.6% (14.2% for automotive), while national manufacturing production increased 5.0% (11.4% for automotive).

State Revenue

** Fiscal-year-to-date, revenue was \$313.5 million or 3.5% higher than the level a year-ago. Based on HFA target estimates and revenue data through April, FY 2011-12 General Fund/General Purpose revenue is up \$35 million and the School Aid Fund is up \$95 million. Target estimates are based on the January 2012 consensus estimates and historical monthly patterns.