

MICHIGAN REVENUE REPORT

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Revenue growth weakened in November (December collections) as sales, use, and withholding receipts increased only 7.1% above the year-ago level compared with a 13.4% increase in the previous month. This slowdown is partly attributable to the recent weakness in car sales; motor vehicle sales and use tax collections fell 1% in December. Personal income tax withholding and single business tax collections were also very weak. The weakness in the SBT is due, in part, to a large increase in refunds; year-to-date collections before refunds are 7.3% above the year-ago level.

However, the slowdown in revenue growth may be temporary as the Michigan economy continues to show considerable strength, evidenced by the decline in the unemployment rate from 10.3% in October to 7.6% in December.

(over)

Monthly Tax Collections (dollars in thousands)

Type of Revenue	Preliminary December 1985	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1985-86 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$307,304	2.7	\$902,718	7.7	\$610,925	8.2
Quarterly and Annual Payments ^a	20,602	22.5	42,437	42.5	25,937	-0.4
SAFRA ^b	15,109	-3.4	45,081	5.4	30,160	24.2
Gross Personal Income Tax ^a	343,015	3.3	990,236	8.6	666,392	7.8
Less: Refunds	-4,494	-55.4	-36,243	-5.0	-22,878	-10.2
Net Personal Income Tax ^a	338,521	4.1	953,993	9.2	643,514	8.7
Sales and Use Taxes	211,465	11.6	657,467	13.4	420,793	10.4
-Motor Vehicles	29,397	-1.0	115,599	25.6	64,489	7.5
Single Business Tax	47,090	-2.5	323,929	-0.7	219,364	-2.9
Cigarette Tax	19,035	0.2	61,226	3.0	40,525	0.5
Public Utility Taxes ^d	626	NM	55,046	-2.2	55,010	-2.0
Oil and Gas Severance Tax	7,519	208.7	18,677	20.0	12,566	33.7
Lottery ^c	33,937	15.4	89,837	16.3	64,827	14.1
Penalties and Interest ^d	513	NM	11,265	48.9	3,210	NM
Other Taxes ^e	14,904	53.7	41,379	14.5	29,398	43.8
TOTAL TAXES (GF-GP & SAF)^f	\$673,610	7.9	\$2,212,819	8.9	\$1,469,207	7.5
Motor Fuel Tax ^g	\$48,067	2.5	\$155,005	3.3	\$101,957	3.6

NM = Not meaningful

^aAdjusted to reflect changes in tax rates.

^bState Accounting and Fiscal Responsibility Account.

^cLottery collections run one month behind other tax collections due to a reporting lag. Therefore, November lottery collections are contained in this month's report. The State share of lottery collections is estimated to be 40.8%, based on the average profit to the State for FY 1984-85.

^dThe past three months penalty and interest collections exclude December and cover the September through November period.

^eIncludes intangibles, inheritance, and industrial and commercial facilities taxes.

^fExcluded are beer and wine, liquor, horse racing, and insurance premium taxes, which are not collected by the Department of Treasury. These taxes account for less than 3% of GF-GP and SAF revenue and have shown little growth in recent years.

^gThe motor fuel tax is restricted to the Transportation Fund.

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Monthly Focus: A Fond Farewell to SAFRA

The State of Michigan reached an important milestone in November, as sufficient funds were accumulated to complete the state's fiscal recovery program. The Governor declared November 11 Fiscal Solvency Day and announced that the income tax rate would be reduced from 5.35 to 5.1% on December 1.

The State Accounting and Fiscal Responsibility Account (SAFRA) and the Working Capital Reserve Account (WCRA) were established to set aside revenue to correct deviations from generally accepted accounting principles in the State's accounts. The cigarette tax was increased from 11 cents to 21 cents per pack in May 1982, with an effective date of January 1, 1983, and the proceeds were earmarked for the WCRA. In March 1983, the personal income tax rate was raised from 4.6% to 6.35% and .25% was earmarked for the SAFRA.

The 10-cent increase in the cigarette tax, which as of December 1 is allocated to General Fund-General Purpose revenue, raised about \$410 million for the WCRA and the .25% increase in the personal income tax rate generated nearly \$500 million in revenue.

In fiscal year 1982-83, \$48.1 million was used to change from cash to accrual accounting for Voluntary Home Heating and General Assistance Medical payments. In fiscal year 1983-84, Medicaid payments were placed on an accrual accounting basis at a cost of \$104.3 million. The WCRA now has a balance of about \$750 million (all monies in the SAFRA have been transferred to the WCRA), which is sufficient to allow income tax refunds to be treated on an accrual accounting basis rather than on a cash basis. This is the final piece of the fiscal recovery program.

The monies accumulated in the WCRA and in the Budget Stabilization Fund are responsible for improving the State's cash flow from a \$621 million shortfall in fiscal year 1981-82 to an expected balance of more than \$500 million by the end of the current fiscal year.