

MICHIGAN REVENUE REPORT

A monthly publication of the **FISCAL AWARENESS SERVICE**

DR. GERALD FAVERMAN, Chairman of the Board

ROBERT J. KLEINE, Editor

Volume 3, Number 3 February 1986

General fund-general purpose and school aid fund taxes increased 6.4% in January (December activity), a slower rate of growth than was recorded last month. However, revenue growth was actually stronger, as withholding collections increased 9.2% compared with a 2.7% increase in December, single business tax (SBT) collections increased 16.6% compared with a 2.5% decline last month, and sales and use tax collections increased 11.7%, almost the same growth rate as last month. The slower growth rate in total taxes was due to a large jump in income tax refunds in January; this was because of a change in the rate of processing rather than any change in economic activity.

Revenue growth for the first three months of the fiscal year, adjusted for the increase in income tax refunds is running about 1% above the increase for FY 1985-86 estimated in the Governor's budget.

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary January 1986	% 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	\$339,554	9.2	\$957,779	9.4	\$957,779	9.4
Quarterly and Annual Payments ^a	81,262	22.2	109,706	23.9	109,706	23.9
SAFRA ^b	3,966	NM	35,644	-25.0	35,644	-25.0
Gross Personal Income Tax ^a	424,782	7.5	1,103,059	9.4	1,103,059	9.4
Less: Refunds	-44,505	77.8	-67,387	33.4	-67,387	33.4
Net Personal Income Tax ^a	380,277	2.8	1,035,672	8.1	1,035,672	8.1
Sales and Use Taxes	256,925	11.7	678,827	11.2	678,827	11.2
-Motor Vehicles	29,967	16.1	94,451	10.5	94,451	10.5
Single Business Tax	95,170	16.6	316,798	2.3	316,798	2.3
Cigarette Tax	21,100	0.7	61,643	0.6	61,643	0.6
Public Utility Taxes ^d	-0-	-	55,010	-2.0	55,010	-2.0
Oil and Gas Severance Tax	6,306	-35.1	18,873	-1.3	18,873	-1.3
Lottery ^c	31,253	14.4	95,921	14.2	95,921	14.2
Penalties and Interest ^d	316	NM	11,984	47.2	11,984	47.2
Other Taxes ^e	15,145	38.4	44,997	39.9	44,997	39.9
TOTAL TAXES (GF-GP & SAF)^f	\$806,492	6.4	2,319,725	8.4	2,319,725	8.4
Motor Fuel Tax ^g	\$51,281	5.6	156,288	3.1	156,288	3.1

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, December lottery collections are included 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 January and cover the October through December period.

^eIncludes intangibles, inheritance, corporate organization, 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.

A SERVICE OF

PUBLIC SECTOR CONSULTANTS, inc.

KNAPP'S CENTRE • 300 S. WASHINGTON SQUARE • SUITE 401 • LANSING, MI 48933 • (517) 484-4954

Monthly Focus: Single Business Tax

The single business tax (SBT) is a 2.35% tax levied on the value added by business firms as they produce their products, be it automobiles or legal services. The main components of value added are labor, interest paid, depreciation, and profit. A deduction is allowed for capital investment. The tax took effect in 1976 as a replacement for seven other business taxes, the three largest being the corporate income tax, personal property tax on inventories, and the corporate franchise tax. As planned, the SBT has added stability to the Michigan tax structure, increasing from about \$800 million in the first full year of collection (FY 1977) to \$1.37 billion in FY 1984-85.

Table 2 presents a breakdown of SBT collections for 1984 and 1985 by industry. Michigan's heavy reliance on manufacturing is evident, as almost 50% of the receipts from this tax were generated by that sector in 1985. The largest manufacturing sector is transportation equipment, which generated 22.6% of all receipts in 1985, down from almost 30% in 1984. This decline reflects the weakening in profits in the industry in 1985.

The next largest business sectors in 1985 were retail trade and services, generating 16.4% and 12.3% of receipts, respectively.

TABLE 2
Comparison of Quarterly Single Business Tax Payments, 1984 and 1985
(dollars in millions)

Industry	1984 Quarterly Payments	% of Total	1985 Quarterly Payments	% of Total
Manufacturing	\$642.0	55.3	\$598.2	49.5
Nondurable	104.7	9.0	106.0	8.8
Transportation Equipment	345.4	29.8	272.3	22.6
Machinery (excluding electrical)	45.0	3.9	51.2	4.2
Fabricated Metals	35.4	3.1	43.0	3.6
Primary Metals	27.4	2.4	21.7	1.8
Other Durables	84.0	7.3	103.9	8.6
Retail Trade	174.5	15.0	197.7	16.4
Services	140.5	12.1	148.4	12.3
Communications and Utilities	72.1	6.2	92.7	7.7
Finance, Insurance, and Real Estate	36.9	3.2	59.1	4.9
Wholesale Trade	38.0	3.3	50.3	4.2
Construction	24.5	2.1	28.8	2.4
Other	31.5	2.7	32.4	2.7
TOTAL	\$1,160.0	100.0^a	\$1,207.6	100.0^a

SOURCE: Michigan Department of Treasury; 1985 estimates by Michigan Department of Management and Budget.

^aTotals do not add to 100% of rounding.