



Michigan REVENUE REPORT

January revenue collections (December activity) were considerably stronger than collections in the first two months of the fiscal year. Personal income tax withholding increased 7.1 percent above the year-ago level, the largest increase since July. Net income tax collections increased a robust 19.1 percent due to a nearly 40 percent decline in refunds and a 33.1 percent increase in quarterly and annual payments. The latter increase probably was due to taxpayers taking capital gains in the last quarter of 1986 to avoid the higher federal tax rates on these gains in 1987.

January sales and use tax collections increased 6 percent above the January 1986 level, the largest increase since October. Collections were boosted by a 14.6 percent gain in sales and use taxes collected on motor vehicles, as consumers took final advantage of the sales tax deduction on the federal income tax.

Single business tax (SBT) collections fell 0.3 percent in January, but this weakness is likely due to a change in the collection pattern rather than weak economic activity.

The Department of Management and Budget (DMB) reported the fiscal year 1985-86 year-end balance as \$152.6 million, \$33 million less than the Senate Fiscal Agency (SFA) estimate cited in this report last month. (over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary January 1987	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1986-87 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding ^a	\$325,586	7.1%	\$ 909,502	5.6%	\$ 909,502	5.6%
Quarterly and Annual Payments ^a	97,484	33.1	148,387	50.0	148,387	50.0
Gross Personal Income Tax ^a	423,070	12.2	1,057,889	13.1	1,057,889	13.1
Less: Refunds	(26,824)	-39.7	(57,278)	-15.0	(57,278)	-15.0
Net Personal Income Tax ^a	396,246	19.1	1,000,611	15.3	1,000,611	15.3
Sales and Use Taxes	270,580	6.0	702,704	3.8	702,704	3.8
-Motor Vehicles	34,531	14.6	100,854	6.6	100,854	6.6
Single Business Tax	94,906	-0.3	333,631	3.3	333,631	5.3
Cigarette Tax	21,126	0.1	59,818	-3.0	59,818	-3.0
Public Utility Taxes	-0-	—	58,620	6.6	58,620	6.6
Oil and Gas Severance Tax	3,947	-37.4	11,821	-37.4	11,821	-37.4
Lottery ^b	34,015	6.6	104,550	6.1	104,550	6.6
Penalties and Interest	(157)	NM	7,355	1.6	7,355	1.6
SUW—Annuals and Undistributed ^c	8,039	306.6	9,946	72.5	9,946	72.6
Other Taxes ^d	21,904	44.6	69,919	55.1	69,919	55.1
TOTAL TAXES (GF & SAF) ^e	\$850,606	11.9%	\$2,358,975	9.5%	\$2,358,975	9.5%
Motor Fuel Tax ^f	\$52,072	1.5%	\$161,311	3.2%	\$161,311	3.2%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. On an unadjusted basis, January withholding collections declined 3.4 percent from the year-ago level.

^bLottery 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 41.9 percent based on the average profit to the State for fiscal year 1985-86. The percentage increase is calculated on gross sales for the month.

^cThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^dIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^eExcluded 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 percent of GF-GP and SAF revenue and have usually shown little growth in recent years. One exception is the insurance premium tax, which increased about 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

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

**Revenue Estimates,
FY 1986-87 and FY 1987-88**

The Department of Management and Budget is estimating general fund-general purpose (GF-GP) revenue at \$6,158.0 million for FY 1986-87 and \$6,464.3 million for FY 1987-88. The FY 1986-87 estimate is \$160.8 million higher than the projections made one year ago in the FY 1986-87 executive budget. The main reason is that the DMB underestimated revenue the previous fiscal year (FY 1985-86) by \$199.9 million, or 3.2 percent. This amount actually understates the error, as the original projections assumed the income tax would not be rolled back until April 1; the rollback took effect on January 1. The underestimate was due to a stronger-than-expected economy; also, revenues from the state tax-amnesty program were underestimated by about \$40 million and the transfer from the working capital reserve fund was \$35 million more than anticipated.

On an unadjusted basis, the FY 1986-87 GF-GP revenue is forecast to be 0.1 percent below the previous year. For FY 1987-88, revenue is forecast to be 5 percent above the FY 1986-87 estimate. However, adjusted for noneconomic factors such as several one-time payments in FY 1985-86 and the rollback of the income tax rate to 4.6 percent, revenues are projected to increase 6.7 percent in FY 1986-87 and 5.7 percent in FY 1987-88.

The FY 1986-87 revenue projections reported by the SFA in their budget status report of January 22, 1987, are almost identical to those of the DMB, with the exception of their estimates for the school aid fund (SAF). The DMB figure is about \$43 million higher than the SFA estimate. This is due to projections for lottery revenue; the SFA expects lottery revenue to increase 9.6 percent compared to the DMB's projection of an increase of 17.8 percent. Based on recent sales, both may be too optimistic.

Public Sector Consultants believes that the FY 1986-87 GF-GP revenue estimates are reasonable, although income tax collections are likely to be higher and sales and SBT collections lower than current expectations. The SAF estimate made by the DMB appears to be \$40 million to \$50 million too high, as lottery and sales tax revenues are likely to be lower than expected. The GF-GP and SAF revenue estimates for FY 1987-88 seem to be about 1.0 to 1.5 percent too high.

*Table 2. General Fund-General Purpose and School Aid Fund Estimates,
Fiscal Years 1985-86, 1986-87, and 1987-88*

	FY 1985-86		FY 1986-87		FY 1987-88	
	GF-GP	SAF	GF-GP	SAF	GF-GP	SAF
Management and Budget ^a	\$5,965.6	\$1,882.2	\$6,158.0	\$2,027.0	\$6,464.3	\$2,121.7
Senate Fiscal Agency ^b	\$6,044.6 ^c	\$1,889.5	\$6,147.8	\$1,983.9	\$6,464.6	\$2,117.7
Actual Collections	\$6,165.5	\$1,880.4	—	—	—	—

SOURCE: Senate Fiscal Agency.

^aEstimate in executive budget for FY 1986-87, issued January 1986.

^bEstimate made February 5, 1986, in presentation to Senate Appropriations Committee.

^cAdjusted for different treatment of income tax rollback, amnesty collections, and working capital reserve fund transfer.