



# Michigan REVENUE REPORT

January revenue collections (December activity) turned in a weak performance, as layoffs in the motor vehicle industry began to affect the Michigan economy.

Personal income tax withholding collections increased only 2.4 percent above the year-ago level. However, collections were not as weak as this figure indicates, as there were five Thursdays (state paydays) in December 1988 and only four in December 1989. Collections for the last three months increased 3.6 percent, which provides a better measure of the actual strength of the income tax.

Sales and use tax collections increased only 1.7 percent, the smallest increase since November 1988. The weakness was due, in part, to motor vehicle collections, which declined 14.7 percent from the January 1989 level. All other collections increased 3.8 percent.

Single business tax collections continued weak, increasing only 2.9 percent. However, the strength of the quarterly payment due January 31 cannot be assessed until February collections are received. For the past three months, collections are off 5.9 percent from the same period last year.

Lottery sales were off about 11 percent in December but increased about 2 percent in January (preliminary data).

*Table 1. Monthly Tax Collections*

*Dollars in Thousands*

Type of Revenue	Preliminary January 1990	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1989-90 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$437,866	2.4%	\$1,079,230	3.6%	\$1,079,230	3.6%
Quarterly and Annual Payments	114,848	0.5	156,075	1.2	156,075	1.2
Gross Personal Income Tax	552,714	2.0	1,235,305	3.3	1,235,305	3.3
Less: Refunds	-30,675	102.9	-48,228	40.8	-48,228	40.8
Net Personal Income Tax	522,039	-0.9	1,187,077	2.2	1,187,077	2.2
Sales and Use Taxes	310,334	1.7	820,422	4.5	820,422	4.5
Motor Vehicles	29,201	-14.7	102,130	-4.6	102,130	-4.6
Single Business Tax	157,410	2.9	438,800	-5.9	438,800	-5.9
Cigarette Tax	20,567	-13.3	64,830	-7.1	64,830	-7.1
Public Utility Taxes	-0-	-0-	69,861	8.1	69,861	8.1
Oil and Gas Severance	3,487	3.3	11,599	18.9	11,599	18.9
Lottery <sup>a</sup>	39,878	-10.8	124,716	-0.3	124,716	-0.3
Penalties and Interest	503	-3.3	7,560	71.7	7,560	71.7
SUW—Annuals and Undistributed <sup>b</sup>	14,275	43.1	24,970	143.4	24,970	143.4
Other Taxes <sup>c</sup>	27,453	23.6	72,443	-4.9	72,443	-4.9
<b>TOTAL TAXES (GF &amp; SAF)<sup>d</sup></b>	<b>\$1,095,946</b>	<b>0.6%</b>	<b>\$3,674,493</b>	<b>2.4%</b>	<b>\$3,674,493</b>	<b>2.4%</b>
Motor Fuel Tax <sup>e</sup>	\$56,319	-2.7%	\$167,458	1.0%	\$167,458	1.0%

SOURCE: Data supplied by Michigan Department of Treasury.

NOTE: Numbers for the past three months and year to date are the same because there have been three months collections in the current fiscal year.

<sup>a</sup>Lottery collections run one month behind other tax collections due to a reporting lag; 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 the fiscal year 1988-89. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>b</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>c</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>d</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

<sup>e</sup>The motor fuel tax is restricted to the Transportation Fund.

**Revenue Estimates, FY 1989-90 and  
FY 1990-91**

Preliminary final collections for FY 1988-89 general fund-general purpose (GF/GP) and school aid fund (SAF) revenues totaled \$9,238 million. In our March 1989 *Revenue Report* we stated that the Department of Management and Budget (DMB) estimate for FY 1988-89 was \$8,942 million, and that we believed the estimate was about \$75-100 million low. Our estimate turned out to be conservative, as revenues exceeded the DMB estimate by \$296 million. Personal income tax collections exceeded the DMB estimate by about \$150 million, and there were significant underestimates of penalties and interest, intangibles, lottery, and nontax revenues.

The DMB is estimating GF/GP revenue at \$7,244.8 million for FY 1989-90 and \$7,630 million for FY 1990-91. The FY 1989-90 estimate is \$253 million higher than executive budget projections made one year ago. The main reason for the upward revision is the higher base for FY 1988-89, as discussed above. The personal income tax estimate was increased \$166 million, consumption taxes were increased \$34 million, and the estimate for nontax revenue was increased \$35 million.

The SAF is estimated at \$2,269.5 million in FY 1989-90 and \$2,376.7 million for FY 1990-91. The FY 1989-90 estimate is \$39.5 million higher than the DMB's estimate made one year ago. The upward revision is due mainly to higher sales and industrial facilities tax collections in FY 1988-89 than originally projected.

On an unadjusted basis, FY 1989-90 GF/GP revenue is forecast to increase 2.5 percent above the FY 1988-89 level. The projected increase for FY 1990-91 is 5.3 percent. When adjusted for noneconomic factors such as tax policy changes and one-time revenues, however, FY 1989-90 GF/GP revenues are projected to increase about 2.8 percent and FY 1990-91 revenues, about 5.7 percent. SAF revenues are projected to increase 4.6 percent in FY 1989-90 and 4.5 percent in FY 1990-91.

As shown in Table 2, the DMB and Senate Fiscal Agency (SFA) revenue estimates are remarkably close for both FY 1989-90 and FY 1990-91. The SFA estimates (GF/GP and SAF) are only \$7.5 million higher in the first year, and only \$19.6 million higher in FY 1990-91. The University of Michigan is more optimistic for both years. Its GF/GP estimate (the U of M does not estimate SAF revenue) is \$81.2 million higher than the DMB's for the current year and \$136 million higher for FY 1990-91.

Public Sector Consultants believes that the DMB's revenue estimates for FY 1989-90 are about \$50 million too high. Its FY 1990-91 estimates appear reasonable. Both DMB's and our estimates assume slow economic growth in 1990, with some improvement in the latter months of the year and in 1991. Given the weakness in the economy, however, a mild recession this year would not be a surprise. A mild, short recession likely would reduce revenue growth about 2 percent below current estimates.

**Table 2. General Fund/General Purpose and School Aid Fund Estimates,  
Fiscal Years 1988-89, 1989-90, and 1990-91**

	FY 1988-89		FY 1989-90		FY 1990-91	
	GF/GP	SAF	GF/GP	SAF	GF/GP	SAF
Management and Budget	\$6,817.4 <sup>a</sup>	\$2,124.5 <sup>a</sup>	\$7,244.8	\$2,269.5	\$7,630.0	\$2,371.7
Senate Fiscal Agency	6,863.5 <sup>b</sup>	2,194.0 <sup>b</sup>	7,265.3	2,256.5	7,650.5	2,369.8
University of Michigan	6,926.9 <sup>c</sup>	NA	7,326.0	NA	7,766.0	NA
Actual Collections	\$7,068.0	\$2,169.1	NA	NA	NA	NA

NA=not available

<sup>a</sup>Estimate in *The State of Michigan Executive Budget, 1989-90 Fiscal Year*, issued February 1989.

<sup>b</sup>Estimate presented in *Budget Status Report*, issued February 1, 1989.

<sup>c</sup>Estimate in *The Michigan Economic Outlook for 1989-90, March Forecast Update*, March 6, 1989. The University of Michigan does not forecast nontax revenue, therefore the DMB estimate was added to its estimate of taxes.