

MICHIGAN REVENUE REPORT

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March revenue collections (February activity) exhibited a strong rate of growth in most categories. Collections from income tax withholding and the single business tax were particularly strong. However, sales and use tax collections turned in the weakest performance of the year, increasing only 5.2% above their level one year ago despite a strong boost from motor vehicle sales. Sufficient data is not yet available to pinpoint the areas of weakness, but the slowdown probably is related to the large levels of consumer debt incurred during the Christmas season. Consumers are using current income to pay off debt and are cutting back on new commitments.

At this point, it appears that general fund/general purpose and school aid fund revenues, on an annual basis, are running about \$200 million above the latest estimates presented to the Legislature by the Department of Management and Budget.

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary March 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	\$287,509	12.5	\$977,625	10.9	\$1,595,870	10.4
Quarterly and Annual Payments ^a	16,944	1.5	112,176	22.8	140,720	21.5
SAFRA ^{a,b}	608	NM	5,541	NM	37,218	NM
Gross Personal Income Tax ^a	305,061	11.8	1,095,342	12.0	1,773,358	11.2
Less: Refunds	-202,231	0.3	-379,181	10.7	-402,064	9.3
Net Personal Income Tax ^a	102,830	45.6	716,161	13.6	1,371,744	13.6
Sales and Use Taxes	179,485	5.2	640,793	10.4	1,602,693	10.5
-Motor Vehicles	30,530	26.5	95,262	21.7	159,745	15.5
Single Business Tax	46,476	31.5	339,488	4.4	561,165	1.8
Cigarette Tax	16,957	0.6	56,815	-0.3	97,356	-0-
Public Utility Taxes	—	—	—	—	55,008	-2.1
Oil and Gas Severance Tax	5,472	-16.5	17,067	-23.9	29,635	-6.9
Lottery ^c	31,906	20.3	103,836	20.7	172,866	21.1
Penalties and Interest ^d	680	NM	12,103	42.3	15,480	31.5
SUW—Annuals and Undistributed ^e	9,481	59.9	10,753	NM	14,544	31.2
Other Taxes ^f	27,586	40.7	54,850	43.6	84,276	41.6
TOTAL TAXES (GF-GP & SAF)^g	\$420,873	19.6	\$1,951,866	11.6	\$3,464,767	10.6
Motor Fuel Tax ^h	\$46,234	1.5	\$149,630	3.5	\$254,640	3.7

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is adjusted to reflect difference in number of Fridays (paydays) in a month.

^bState Accounting and Fiscal Responsibility Account.

^cLottery collections run one month behind other tax collections due to a reporting lag. Therefore, February 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 March and cover the October through February period.

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

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

^gExcluded 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.

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

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Monthly Focus: Consumer Installment Credit

Consumers have been on a spending binge in the last 2½ years, and credit has been used to finance a substantial share of these purchases. Between 1983 and 1985, consumer installment credit increased 44% and rose from 14.9% of disposable income to 19% of disposable income. (See Table 2.) This latter figure is approaching an all-time peak. A large share of new credit commitments have been used to purchase automobiles. Of the \$89 billion increase in installment credit outstanding in 1985, 42.1% was used for automobile purchases.

The recent explosion in credit use is in marked contrast to the recession years of the early 1980s; between 1980 and 1982 the amount of credit outstanding increased only 10.8%.

It is unlikely that consumers are willing or able to increase their debt burden much more. As a result, a modest slowdown in consumer spending can be expected over the next six to nine months. The relatively small increase in Michigan retail sales in February may be the harbinger of a consumer retrenchment, although one month's data is a slim reed upon which to hang such a judgment.

TABLE 2
Consumer Installment Credit, U.S., 1960-1985

	Consumer Installment Credit (Billions)	% Change at Annual Rate ^a	Consumer Installment Credit as % of Disposable Personal Income	Automobile Installment Credit (Billions)	% Change at Annual Rate ^a	Automobile Installment Credit as % of Disposable Personal Income
1960	\$ 43.0	—	12.2	\$ 17.7	—	5.0
1965	71.3	10.6	14.4	28.6	10.0	5.8
1970	105.5	8.1	14.8	36.3	4.9	5.1
1975	172.0	10.2	15.2	57.2	9.5	5.0
1980	296.3	11.5	15.5	112.1	14.5	5.9
1981	312.9	5.6	14.7	119.8	6.9	5.6
1982	328.3	4.9	14.2	124.9	4.3	5.4
1983	376.0	14.5	14.9	142.5	14.1	5.7
1984	452.4	20.3	16.6	172.5	21.0	6.3
1985	541.4	19.7	19.0	210.0	21.7	7.4

SOURCE: Council of Economic Advisers, *Economic Indicators*, February 1986, and Board of Governors Federal Reserve System, *Federal Reserve Bulletin*, various issues.

^aPercent change listed for 1965, 1970, 1975, and 1980 is compounded annual rate for previous 5 years.