



Michigan REVENUE REPORT

March revenue collections (February activity) were not as strong as those for January and February. Personal income tax withholding collections fell 0.6 percent below the year-ago level, the first decline since July 1987. Sales and use tax collections increased only 3.1 percent despite a 20.2 percent increase in motor vehicle collections; collections not related to motor vehicles were only 0.4 percent above the year-ago level. Single business tax collections increased 4.7 percent, a marked slowdown from the average growth rate for the last three months.

Although cigarette tax collections rose sharply because of the 4-cent-per-pack tax increase that took effect on January 1, when adjusted for the higher tax rate, collections increased 4.5 percent above the year-ago level. The collection pattern has been distorted by the tax increase, and in future months adjusted collections likely will decline.

Lottery sales continued to be very strong, increasing 34.8 percent in February and 13.6 percent in March (based on preliminary data for the first four weeks).

The major revenue sources are running above the budget estimates for the first five months of the fiscal year. Income and sales and use tax collections are one to 2 percent ahead of estimates, and single business tax and lottery collections are well above estimates. Revenue growth, however, likely will slow in the last seven months of the year. On balance, general fund/general purpose and school aid fund revenues are likely to do better than we anticipated several months ago. Our forecast of a one percent shortfall (February *Revenue Report*) in revenues may be too pessimistic. Unless the economy weakens more than we expect, revenues are likely to be close to the original budget projections.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary March 1988	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1987-88 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding ^a	\$272,813	-0.6%	\$970,371	5.4%	\$1,563,922	4.0%
Quarterly and Annual Payments	28,838	75.6	145,157	14.1	194,252	9.0
Gross Personal Income Tax	301,021	3.7	1,115,528	6.5	1,758,174	4.5
Less: Refunds	-289,419	-5.9	-432,904	-15.9	-454,288	-16.7
Net Personal Income Tax	11,602	NM	682,624	28.1	1,303,886	14.6
Sales and Use Taxes	194,642	3.1	683,943	4.2	1,136,897	4.5
-Motor Vehicles	31,082	20.2	96,063	5.3	161,646	2.6
Single Business Tax	50,604	4.7	358,449	12.5	667,599	19.8
Cigarette Tax	21,427	26.4	59,802	7.7	98,412	4.4
Public Utility Taxes	0	NM	0	—	61,235	4.4
Oil and Gas Severance	4,230	6.3	11,439	-1.4	19,507	0.2
Lottery ^b	42,472	34.8	140,466	31.1	205,525	20.7
Penalties and Interest	185	-55.8	9,917	7.3	23,472	40.1
SUW—Annuals and Undistributed ^c	5,303	-8.7	19,830	19.6	17,875	-11.0
Other Taxes ^d	32,944	9.4	65,585	7.5	98,991	-7.8
TOTAL TAXES (GF & SAF)^e	\$363,409	-0.8%	\$2,032,055	14.9%	\$3,633,399	11.1%
Motor Fuel Tax ^f	\$56,438	14.3%	\$161,032	4.9%	\$274,251	2.2%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aWithholding is adjusted to reflect the difference in number of Fridays (paydays) in a month.

^bLottery 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 actual profit to the state is shown for the current year, and the previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

^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.

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

Sales Tax Collections

Michigan sales tax collections increased only 3 percent in FY 1986-87 (October 1986-September 1987), the smallest increase since FY 1981-82. The main areas of weakness were general merchandise (-4.9 percent), particularly major department stores, which declined 9.4 percent, and two energy-related categories, gasoline stations (-21.9 percent) and gas and electricity (-5.0 percent). The declines in energy-related collections were due to a drop in oil prices and a mild Michigan winter. Slower sales by new and used car dealers, which increased only 1.2 percent above the year-ago level after a strong 10.8 percent increase in FY 1985-86, also were a drag on sales tax collections. (See Table 2.)

As has been the case in recent years, the categories enjoying the most growth in business activity—and thus generating the most growth in sales tax collections—were related to housing. Building, hardware, and lumber sales increased 15.1 percent, and furniture store sales increased 7.9 percent.

The largest increase for any subcategory was the 80.8 percent increase in sales by business service firms. This has been a major growth area for the Michigan economy in recent years.

Many economists believed the stock market crash would dampen consumer spending, but this has not occurred; the consumer has proved more resilient than expected. Sales tax collections in the current fiscal year (FY 1987-88) are growing somewhat faster than in FY 1986-87—4.5 percent for the first five months. Retail sales have remained relatively strong both nationally and in Michigan, particularly for motor vehicles. In Michigan, however, retail sales are likely to slow somewhat in the second half of the year due to an expected downturn in motor vehicle sales and higher unemployment associated with General Motors plant closings.

*Table 2. Sales Tax Collections by Business Category,
FY 1986-87 (in millions)*

Category	Amount FY 1986-87	Percent Change from Previous Fiscal Year
Building, Hardware, and Lumber	\$157.4	15.1%
General Merchandise	178.5	-4.9
Food	360.4	8.2
Automotive	614.1	-4.3
-New and Used Cars	425.2	1.2
-Gasoline Stations	131.3	-21.9
Apparel	102.5	5.9
Furniture	107.8	7.9
Miscellaneous Retail	239.2	5.2
Nonretail	571.3	6.2
-Gas and Electricity	196.9	-5.0
-Business Services	51.7	80.8
TOTAL	\$2,331.2	3.1%

SOURCE: Michigan Department of Treasury, *Monthly Research and Statistical Bulletin*, October 31, 1987.