

MICHIGAN REVENUE REPORT

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The revenue picture was mixed in April (March activity). (See Table 1.) Sales and use as well as single business tax collections were strong, while income tax collections were relatively weak. Sales and use tax collections increased 8.8% above their level one year ago, rebounding from a weak performance in February. Non-motor vehicle sales were particularly strong, increasing 14.2% above the April 1985 level. As expected, motor vehicles sales were weak, declining 11.6%. Single business tax collections were strong for the second consecutive month, turning in a gain of 30.6%. Income tax withholding collections increased only 5.2% above the level a year ago; this was the second smallest increase in the fiscal year. Net income tax collections (after refunds) declined 7.7%. Refunds are running well ahead of last year, increasing 21.4% in April, and 13.4% for the year. However, this is due mainly to faster processing, as the average credit per return is down about 4.5% from a year ago.

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary April 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	\$312,377	5.2	\$943,456	7.2	\$1,905,689	8.5
Quarterly and Annual Payments ^a	137,487	6.2	168,341	5.6	280,850	12.4
SAFRA ^{a,b}	4,849	NM	6,337	NM	42,322	-57.1
Gross Personal Income Tax ^a	454,713	5.5	1,118,134	6.9	2,228,861	9.0
Less: Refunds	234,087	21.4	569,100	11.5	636,485	13.4
Net Personal Income Tax ^a	220,626	-7.7	549,034	2.6	1,592,376	7.3
Sales and Use Taxes	207,062	8.8	593,592	7.9	1,272,195	9.5
-Motor Vehicles	35,221	-11.6	100,312	8.8	194,918	9.5
Single Business Tax	120,101	30.6	366,030	9.0	683,898	5.4
Cigarette Tax	18,983	-0.9	54,732	-0.8	116,343	-0.2
Public Utility Taxes	-0-	—	-0-	—	55,009	-2.1
Oil and Gas Severance Tax	4,108	-25.6	14,870	-18.4	33,743	-9.7
Lottery ^c	36,516	16.8	109,262	21.2	205,183	17.8
Penalties and Interest ^d	-356	NM	12,681	47.8	19,572	36.7
SUW—Annuals and Undistributed ^e	5,125	-3.3	12,300	-3.2	14,059	5.1
Other Taxes ^f	42,270	10.2	82,836	19.6	126,602	24.8
TOTAL TAXES (GF-GP & SAF)^g	\$654,435	1.2	\$1,795,337	7.2	\$4,118,980	9.3
Motor Fuel Tax ^h	\$50,347	0.3	\$148,071	1.1	\$307,221	3.0

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. This fund is no longer operational and is receiving only residual payments. These monies are not included in totals for purposes of calculating percent changes.

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

One of the major economic developments of recent months has been the sharp slowdown in the rate of inflation. In March, the Detroit Consumer Price Index (CPI) for all urban consumers declined 0.9% from the February level and was only 1.4% above March 1985. This followed a small drop in February and no change in January. The major factor in the recent drop in inflation has been the decline in oil prices. In March, the motor fuel component of the CPI fell 17.3% below the February 1986 level, and 23% below the March 1985 level. If energy costs are excluded, the Detroit CPI was unchanged in March compared with February and was 3.1% above the level one year ago.

The decline in the rate of inflation from a peak of 13.5% in 1980 has been one of the major factors in the economic recovery. It has allowed real incomes to increase and interest rates to fall. (See Table 2.) However, in the short run, the current drop in the inflation rate could slightly dampen sales tax collections, because the tax is levied on the price of goods. Prices would, of course, be higher with higher rates of inflation, as would sales tax collections. The actual sales tax yield for a particular commodity depends on its responsiveness to price (elasticity). For example, the demand for motor fuel is inelastic; that is, it is not particularly responsive to price. This means that a 10% decline in the price will result in less than a 10% increase in sales (demand). The result is a decline in sales tax collections on this particular commodity.

Petroleum prices are beginning to level off; therefore, the rate of inflation should move up to about 3 to 4% in the second half of the year. One signal that the rate of inflation will stay very low in the near future was the 1.4% drop in the March producer price index for finished goods; this index generally leads the CPI by two or three months.

TABLE 2
Inflation, Interest Rates, and Real Income
(Selected Years)

	Detroit CPI (% Change from Previous Year)	Three-month Treasury Bill Rates	Real Michigan Personal Income (1967 Dollars) (% Change from Previous Year)
1965	2.3%	4.0%	8.8%
1970	6.1	5.4	-2.8
1975	7.5	5.8	-2.0
1980	15.9	11.5	-8.4
1981	9.3	14.1	-2.9
1982	4.0	10.7	-2.2
1983	2.8	8.6	3.3
1984	3.5	9.6	5.8
1985	3.5	7.5	3.5(est.)
1986 ^a	1.9	6.9	N.A.

SOURCES: State of Michigan, *Economic Report of the Governor*, 1985; Council of Economic Advisors, *Economic Indicators*, March 1986.

^aFirst quarter.