



# Michigan REVENUE REPORT

To classify April revenue collections (March activity) as strong would be an understatement. Collections were so strong as to be unexplainable by economic indicators. Although the unemployment rate fell to 7.4 percent in April, the Michigan economy does not appear particularly robust; revenues, however, continue to drop from the sky.

Personal income withholding collections increased 17.4 percent above the year-ago level. This increase is the largest in several years and is difficult to explain; it is almost certainly due to some change in the collection pattern. May collections will likely show little, if any, growth. Quarterly and annual payments increased almost 50 percent above the year-ago period. The strength in these collections is likely due to federal tax reform. It appears that the estimates of the revenue gain resulting from the changes in federal tax law may have been understated.

Sales and use tax collections were also strong, increasing 8 percent above the year-ago level. Part of this strength is due to Easter being earlier this year than in 1987; last year most Easter purchases were made in April, this year these purchases occurred in March. Motor vehicle sales tax collections increased 6.8 percent above the April 1987 level, as automobile sales continue to be stronger than expected.

The growth in single business tax collections slowed, but collections were still a respectable 8.6 percent above the year-ago level. Lottery revenue also continues to outpace estimates. March sales were 16.5 percent above the year-ago level, and sales for the first four weeks of April were about 20 percent above the April 1987 level.

Overall, the revenue outlook is much improved from several months ago. It now appears that general fund-general purpose and school aid fund revenues could exceed the budget estimates by \$100-125 million. (over)

**Table 1. Monthly Tax Collections**

*Dollars in Thousands*

Type of Revenue	Preliminary April 1988	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1987-1988 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding <sup>a</sup>	\$345,766	17.4%	\$948,704	6.6%	\$1,920,039	6.4%
Quarterly and Annual Payments	218,350	49.6	263,089	50.0	414,433	27.1
Gross Personal Income Tax	564,116	28.1	1,211,793	13.8	2,334,392	9.6
Less: Refunds	-262,559	6.2	-684,134	-7.0	-717,438	-9.5
Net Personal Income Tax	301,557	56.1	527,659	60.2	1,616,954	20.9
Sales and Use Taxes	234,655	8.0	636,976	5.6	1,305,447	5.1
-Motor Vehicles	44,045	6.8	105,727	7.9	205,663	3.5
Single Business Tax	110,661	8.6	365,881	12.8	779,150	18.2
Cigarette Tax	23,031	20.4 <sup>b</sup>	59,298	10.8	121,446	7.1
Public Utility Taxes	—	—	—	—	61,235	4.4
Oil and Gas Severance	3,206	-11.9	10,413	-7.8	22,775	-1.4
Lottery <sup>c</sup>	41,417	16.5	144,282	30.3	246,942	19.9
Penalties and Interest	171	NM	9,873	-8.2	29,009	32.7
SUW—Annuals and Undistributed <sup>d</sup>	5,303	NM	16,014	96.1	17,672	24.7
Other Taxes <sup>e</sup>	43,109	-5.4	87,940	5.8	142,124	-7.1
<b>TOTAL TAXES (GF &amp; SAF)<sup>f</sup></b>	<b>\$763,110</b>	<b>23.7%</b>	<b>\$1,858,336</b>	<b>21.1%</b>	<b>\$4,408,780</b>	<b>13.3%</b>
Motor Fuel Tax <sup>g</sup>	\$53,112	1.3%	\$163,942	7.5%	\$330,340	3.9%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Withholding is adjusted to reflect the difference in number of Fridays (paydays) in a month.

<sup>b</sup>Increase is 1.2 percent adjusted for change in tax rate.

<sup>c</sup>Lottery 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 profit to the state for the current month is estimated on the basis of year-to-date data through January 31. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

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

<sup>e</sup>Includes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

<sup>f</sup>Excluded 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.

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

**Michigan Personal Income**

In 1987 Michigan personal income increased only 4.2 percent, the smallest increase since 1982. The national increase was 5.8 percent. Michigan ranked 39th among the states in personal income growth and last among the Great Lakes states. Most of the states ranking below Michigan were those heavily dependent on natural resources and agricultural production, sectors where activity was depressed. (See Table 2.)

One bright spot in the 1987 personal income numbers was Michigan's strong fourth-quarter performance. From the third quarter to the fourth quarter of 1987, Michigan personal income increased 2.8 percent (seasonally adjusted); only Maine recorded a larger increase.

Over the course of the business cycle, Michigan usually has done much worse than the United States during a recession and somewhat better during a recovery. In the current business cycle that began in 1979, Michigan did much worse on the downside but failed to outperform the economy on the upside.<sup>1</sup> As a result, Michigan personal income increased only 59.3 percent from 1979 to 1987 compared with a national increase of 84.1 percent. One result is that Michigan per capita income fell from 6 percent above the national average in 1979 to slightly below the national average in 1987.

As can be seen in Table 3, Michigan personal income growth was only 46 percent of U.S. income growth from 1979 to 1982. The rate of increase in Michigan was about the same as that of the United States during the first two years of the recovery (1982-1984), but it has fallen slightly behind the national rate in the last three years (1984-1987).

<sup>1</sup>Technically there have been two business cycles since 1979, but the recovery from the 1980 recession was so short I am treating it as one business cycle.

*Table 2. Total and Per Capita Income, 1987,  
United States, Michigan, and Selected States*

	Total Personal Income, 1987 (billions)	Percentage Change 1986-1987	Per Capita Personal Income, 1987	Percentage Change 1986-1987
MICHIGAN	\$141.0	4.2%	\$15,330	3.5%
Illinois	189.3	5.5	16,347	5.2
Indiana	76.5	5.9	13,834	5.3
Ohio	156.8	5.0	14,543	4.6
Wisconsin	70.5	5.4	14,659	4.8
Minnesota	67.0	6.6	15,783	5.3
New York	321.8	6.6	18,055	6.5
Florida	183.2	7.3	15,241	4.3
Arizona	47.5	6.2	14,030	2.9
Texas	231.1	2.7	13,764	2.1
California	488.6	7.3	17,661	4.7
United States	\$3,733.7	5.8%	\$15,340	4.8%

SOURCE: *News*, U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.: April 20, 1988.

*Table 3. Personal Income Growth Rates for Selected Periods,  
1979-1987, Michigan and the United States*

	1979-1982	1982-1984	1984-1987	1982-1987	1979-1987
Michigan	14.3	16.4	19.5	39.3	59.3
United States	31.2	16.6	20.4	40.3	84.1

SOURCE: Calculated by Public Sector Consultants from data in *News*, U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.: August 20, 1987 and April 20, 1988.