

MICHIGAN REVENUE REPORT

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DR. GERALD FAVERMAN, Chairman of the Board

ROBERT J. KLEINE, Editor

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Revenue collections continued to increase at a moderate rate in May (April activity). Withholding collections increased 9.5% above the year-ago level in May, adjusted for the rate reduction from 5.1 to 4.6%; this was a marked improvement compared with April. However, net income tax collections fell 3.9% from the year-ago level, as refunds continued to run well ahead of last year. In the remaining months of the fiscal year this situation will be reversed, and refunds will be well below the year-ago level, as the Michigan Department of Treasury has announced that for the first time in ten years all refunds received by April 15 were paid by June 1.

May sales and use tax collections were quite weak, increasing only 2.8% above the May 1985 level, continuing the slowdown that began in March (February activity). This is likely due to consumer retrenchment after the spending binge of the last two and one-half years. (See April Revenue Report.)

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary May 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 ^a	\$260,579	9.5%	\$864,411	6.6%	\$2,172,771	8.6%
Quarterly and Annual Payments ^a	65,306	19.7	225,134	10.7	348,909	15.4
SAFRA ^{a,b}	1,994	NM	7,827	NM	44,438	-61.2
Gross Personal Income Tax ^a	327,879	11.2	1,097,372	7.4	2,566,118	8.3
Less: Refunds	203,746	24.7	640,958	15.0	840,792	16.2
Net Personal Income Tax ^a	124,133	-3.9	456,414	-1.8	1,725,326	7.5
Sales and Use Taxes	217,995	2.8	607,928	4.3	1,491,365	8.6
-Motor Vehicles	44,650	0.3	110,095	1.7	239,536	7.7
Single Business Tax	261,490	6.4	432,379	14.4	947,017	6.0
Cigarette Tax	19,993	1.7	55,951	0.6	136,530	0.3
Public Utility Taxes	-0-	—	-0-	—	55,009	-2.0
Oil and Gas Severance Tax	3,682	-43.7	13,262	-28.3	37,415	-14.3
Lottery ^c	33,780	11.7	102,204	16.1	238,965	17.0
Penalties and Interest ^d	-127	NM	11,507	21.9	22,841	36.9
SUW—Annuals and Undistributed ^e	4,525	3.5	7,891	48.4	12,953	12.9
Other Taxes ^f	28,528	-6.0	98,513	10.9	156,654	18.8
TOTAL TAXES (GF-GP & SAF)^g	\$693,999	2.4%	\$1,786,049	3.9%	\$4,824,075	7.8%
Motor Fuel Tax ^h	\$51,355	6.4%	\$153,288	1.5%	\$361,695	3.8%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is adjusted to reflect difference in number of Fridays (paydays) in a month. On an unadjusted basis, May withholding collections declined 1.3% from the year-ago level and net income tax collections declined 5.6%.

^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, April 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.

^dPenalty and interest collections for the past three months exclude May and cover the February through April 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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KNAPP'S CENTRE • 300 S. WASHINGTON SQUARE • SUITE 401 • LANSING, MI 48933 • (517) 484-4954

One other noteworthy revenue development was the sharp decline in oil and gas severance tax collections, 43.7% in May and 28.3% for the last three months compared to the year-ago period. This decline was due to the sharp fall in oil prices.

Monthly Focus: Monetary Policy

The policies of the Federal Reserve Board have been an important factor in the economic recovery. The board has reduced the discount rate (the interest rate the Federal Reserve charges its member institutions) from a high of 14% in 1981 to the current level of 6.5% and has allowed the money supply to increase more than 12% in the past year. (See Table 2 for historical comparisons.)

The low rates of inflation, the weak demand for business loans, and the moderate rate of growth in the economy has made this accommodation possible and has allowed the Federal Reserve Board to finance the huge federal debt without putting pressure on market interest rates. The board's easy money policy has fostered low interest rates and provided ample credit for the economy, helping to stimulate strong growth in spending for consumer goods and for housing over the past three years.

Just as everything went wrong with the economy in the 1970s and early 1980s, everything has been going right in recent years, making the job of the monetary authorities much easier.

TABLE 2
Selected Monetary Aggregates, 1979-85

	% Change in Money Supply (M1)	% Change in Commercial and Industrial Business Loans	Average Discount Rate
1979	7.1%	18.3%	10.3
1980	6.6	12.3	11.8
1981	6.5	8.6	13.4
1982	8.8	10.3	11.0
1983	9.8	5.4	8.5
1984	6.0	13.6	8.8
1985	12.2	5.3	7.7

SOURCES: Council of Economic Advisors, *Economic Indicators*, April 1986; The Federal Reserve Bank of St. Louis, *U.S. Financial Data*, May 29, 1986.

Errata—The *May Revenue Report* stated that April sales and use tax collections increased 8.8% above the year-ago level. The correct figure is 4.2%.