

# Michigan REVENUE REPORT

Revenue collections continue to do well overall, despite weakness in several sources. Personal income tax withholding increased only 1.1 percent in May (April activity) above the year-ago level, but there were only four Fridays (paydays) this April compared with five Fridays in April 1988. Adjusted for this difference, collections increased a robust 8.7 percent. Quarterly and annual payments were exceptionally strong, increasing 117.7 percent above the year-ago level. Annual payments are already well above the budget estimate for FY 1988-89. These larger-than-expected payments are likely due to the effect in 1988 of federal tax reform on unearned income and large capital gains.

Sales and use tax collections increased only 4 percent, as motor vehicle sales fell 5.3 percent below the year-ago level. Excluding motor vehicles, collections increased 6.2 percent, only slightly below the rate of increase for the first seven months of the fiscal year.

Single business tax collections in May fell 5.3 percent below the year-ago level but are still up 7.4 percent for the fiscal year. Lottery sales were up 3.3 percent in April—the first increase since December. Preliminary May sales figures indicate continued improvement, as sales were about 5 percent above May 1988.

Intangibles tax collections totaled \$113.5 million through May, compared with a budget estimate of \$81.5 million for the fiscal year. Based on last year's experience, another \$2-3 million can be expected for the remainder of the fiscal year. This windfall is likely due to the Department of Treasury's increased efforts to enforce the intangibles tax law, which many taxpayers have avoided in the past.

(over)

*Table 1. Monthly Tax Collections*

*Dollars in Thousands*

Type of Revenue	Preliminary May 1989	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1988-89 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$295,775	8.7% <sup>a</sup>	\$974,375	5.2%	\$2,341,029	6.5% <sup>a</sup>
Quarterly and Annual Payments	164,599	117.7	398,368	22.2	567,047	15.4
Gross Personal Income Tax	460,374	32.4 <sup>a</sup>	1,372,743	9.6	2,908,076	8.1 <sup>a</sup>
Less: Refunds	-207,662	82.3	-722,874	10.1	-865,876	5.4
Net Personal Income Tax	252,712	9.0 <sup>a</sup>	649,869	9.1	2,042,200	9.4 <sup>a</sup>
Sales and Use Taxes	252,320	4.0	711,303	6.0	1,718,174	6.5
-Motor Vehicles	45,770	-5.3	123,395	0.0	267,955	5.5
Single Business Tax	359,084	-5.3	533,508	-1.9	1,246,410	7.4
Cigarette Tax <sup>c</sup>	21,397	0.4	61,941	-5.8	150,798	-2.7 <sup>b</sup>
Public Utility Taxes	0	--	1	--	64,647	5.6
Oil and Gas Severance	3,248	-16.6	11,630	2.5	23,403	-12.1
Lottery <sup>c</sup>	41,130	3.3	115,278	-3.7	275,273	-1.7
Penalties and Interest	518	NM	15,251	32.0	33,066	-5.1
SUW—Annals and Undistributed <sup>d</sup>	4,929	-30.0	13,150	-0.8	19,500	5.3
Other Taxes <sup>e</sup>	40,922	-4.9	188,135	57.9	279,038	50.7
TOTAL TAXES (GF & SAF) <sup>f</sup>	\$976,260	0.5% <sup>a</sup>	\$2,300,066	6.9%	\$5,852,509 <sup>a</sup>	8.6% <sup>a</sup>
Motor Fuel Tax <sup>g</sup>	\$51,444	-2.0%	\$167,469	-0.3%	\$388,657	0.7%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Adjusted to reflect difference in number of Fridays (paydays) in a month.

<sup>b</sup>Adjusted for 4-cent increase on January 1, 1988.

<sup>c</sup>Lottery 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 40.7 percent, based on the average profit to the state for fiscal year 1987-88. 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, foreign insurance premium, 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 and SAF revenue and usually have shown little growth in recent years.

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



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Based on revenue collections for the first seven months of the fiscal year, budget estimates for most major revenue sources will be exceeded by the following amounts:

Income Tax	\$175-200 million
Sales and Use Tax	\$30-35 million
Single business tax	\$30-40 million
Lottery	\$15-20 million
Intangibles	\$35 million
TOTAL	\$285-330 million

These increases will be partially offset by shortfalls of about \$40 million in other revenue sources, principally insurance taxes.

### ***Monthly Focus: Michigan Personal Income***

Michigan personal income figures for the fourth quarter of 1988 recently were released by the U.S. Department of Commerce. The figures show that economic activity in the fourth quarter was very strong. Michigan personal income increased 3.9 percent above the third-quarter level and 9.9 percent above the fourth-quarter 1987 level. In comparison, the national increases were 2.3 percent and 6.9 percent, respectively. The Michigan numbers should be interpreted with caution, however, as downward revisions have been common in recent quarters, and these numbers appear a little too strong.

As shown in Table 2, the major areas of strength in the fourth quarter were in the manufacturing, government, services, and other categories. The 6.8 percent increase in manufacturing income was due, in large part, to heavy overtime in the motor vehicle industry. The large increase in the "other" category was due to the recovery in the farm sector.

For all of 1988, Michigan personal income increased 7.4 percent compared to a 7.3 percent increase nationally. The largest increases were in the construction (14.3 percent) and finance, insurance, and real estate (12 percent) sectors, as the five-year building boom in Michigan continued. In both sectors, Michigan did much better than did the nation as a whole. Michigan personal income in the first quarter of 1989 is likely to have grown at a much slower rate than in the fourth quarter.

***Table 2. Michigan and U.S. Personal Income, Fourth Quarter 1988 and 1987  
(dollars in millions at seasonally adjusted annual rates)***

	Fourth Quarter 1988		Percentage Change from Third Quarter 1988		1988		Percentage Change from 1987	
	U.S.	Michigan	U.S.	Michigan	U.S.	Michigan	U.S.	Michigan
Earnings	\$3,054,806	\$118,438	2.3%	4.6%	\$2,958,956	\$112,256	7.3%	7.7%
Construction	198,130	5,811	2.5	2.3	191,824	5,557	6.9	14.3
Manufacturing	613,078	42,201	2.0	6.8	597,494	39,628	6.2	6.7
Transportation and public utilities	207,547	6,175	1.4	0.7	202,197	6,026	6.8	7.1
Wholesale and retail trade	496,031	17,065	2.3	2.4	479,473	16,420	8.9	8.8
Finance, insurance, and real estate	220,069	5,218	3.0	3.1	212,280	5,016	8.7	12.0
Services	768,814	25,326	3.8	4.1	723,781	23,789	9.4	9.0
Government	470,281	15,468	1.4	4.4	460,841	14,652	6.2	5.7
Other	80,857	1,174	-3.7	14.9	90,999	1,266	3.6	-11.3
Dividends, interest and rent	721,186	24,730	3.2	3.3	691,531	23,695	9.1	8.7
Transfer payments	576,904	23,827	1.3	1.0	586,568	23,355	6.8	6.7
TOTAL	\$4,172,895	\$159,672	2.3%	3.9%	\$4,042,110	\$152,400	7.3%	7.4%
Addendum:								
Wage and salaries	\$2,510,954	\$99,656	2.5%	4.7%	\$2,418,210	\$94,170	8.0%	8.3%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.