

MICHIGAN REVENUE REPORT

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DR. GERALD FAVERMAN, Chairman of the Board

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President Reagan in late May of this year announced his recommendations for reforming the federal tax system. The President's proposal generally would attempt to eliminate nonproductive deductions, exclusions, and credits while providing reduced tax rates for many taxpayers. The proposal is designed to have a relatively neutral impact on federal revenue.

In terms of state tax collections, the primary impact of the President's tax proposal would be in the area of personal income tax collections. Michigan uses federal adjusted gross income as a starting point in calculating state taxable income. Under the President's proposal, additional income would be included in the definition of federal adjusted gross income through the inclusion of some types of fringe benefits, limitations on business deductions, and other minor provisions. If the President's proposal is passed in its entirety and the State adopted the expanded definition, revenue from individual income tax collections in Michigan would increase. However, the State Legislature could pass legislation to exclude any part of the federal adjusted gross income which is used as a starting point in calculating Michigan taxable income.

The President's tax proposal could have a major effect on personal income tax collections in the state subject to legislative acceptance of the proposed additions to federal adjusted gross income. While the President's proposal was initially met with a great deal of bipartisan enthusiasm and support, difficulties in reaching a compromise on the fiscal year 1986 budget have forced Congress to put the tax proposal on the back burner for now.

Monthly Tax Collections (dollars in thousands)

Type of Revenue	Preliminary June 1985	June 1984	Percent Change	FY 1984-85 Year to Date	FY 1983-84 Year to Date	Percent Change
Personal Income Tax	\$ 245,768 ^a	\$ 362,246	- 32.2	\$ 2,896,629 ^a	\$ 3,229,630	- 10.3
SAFRA ^b	12,009	15,104	- 20.5	140,823	147,912	- 4.8
Gross Personal Income Tax	257,777	377,350	- 31.7	3,037,452	3,377,542	- 10.1
Less: Refunds	- 162,599	- 117,845	+ 38.0	- 899,161	- 932,477	- 3.6
Net Personal Income Tax	95,178	259,505	- 63.3	2,138,291	2,445,065	- 12.6
Net Sales Tax	146,972	169,784	- 13.4	1,512,482	1,411,550	+ 7.2
Net Use Tax	23,932	29,433	- 18.7	231,253	233,293	- 0.9
Net Single Business Tax	36,750	41,630	- 11.7	1,036,854	946,899	+ 10.2
Net Cigarette Tax	21,415	21,402	+ 0.1	176,656	178,001	- 0.8
Net Motor Fuel Tax	50,680	53,064	- 4.5	453,294	417,799	+ 8.5
All Other Taxes and Fees	211,960	22,312	N.A. ^c	518,596	299,721	N.A. ^c
TOTAL NET COLLECTIONS	\$ 586,887^d	\$ 597,130	- 1.7	\$ 6,067,426^d	\$ 5,926,328	+ 2.4

^aThe personal income tax rate was reduced to 6.1% on January 1, 1984, and from 6.1% to 5.35% on September 1, 1984.

^bState Accounting and Fiscal Responsibility Account.

^cNot applicable as the figures are not comparable: preliminary 1985 numbers are before identification and appropriate distribution of miscellaneous receipts, while 1984 numbers reflect the results of this distribution.

^dExcludes escheats and investment income of \$64,952,000 for the month of June and \$566,168,900 for 1984-85 year-to-date totals.

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