

MICHIGAN REVENUE REPORT

A monthly publication of the **FISCAL AWARENESS SERVICE**

DR. GERALD FAVERMAN, Chairman of the Board

ROBERT J. KLEINE, Editor

Volume 3, Number 9 August 1986

July revenue collections (June activity) reflected the slow pace of economic growth in the Michigan and United States economies in recent months. July sales and use tax collections increased only 2.4% above the year-ago figure; excluding motor vehicles, there was only a 1.2% increase. Single business tax collections fell 6.7% below the year-ago period, although this may reflect a different pattern of collections rather than a slowdown in economic activity.

Personal income tax withholding increased 5.8% above the July 1985 level (adjusted for the change in the tax rate), the smallest increase since May.

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary July 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	\$282,487	5.8%	\$ 854,932	8.1%	\$2,767,124	8.3%
Quarterly and Annual Payments ^a	10,608	-19.3	144,572	15.2	428,175	14.6
SAFRA ^{a,b}	196	NM	2,682	NM	45,127	-69.6
Gross Personal Income Tax ^a	293,291	5.1	1,002,186	9.0	3,240,426	9.1
Less: Refunds	-20,743	-36.1	-286,659	-20.2	-923,705	0.4
Net Personal Income Tax ^a	272,548	10.5	715,527	27.8	2,316,721	13.0
Sales and Use Taxes	234,525	2.4	682,387	3.0	1,955,817	7.2
-Motor Vehicles	46,795	8.0	140,524	1.7	335,410	6.1
Single Business Tax	98,682	-6.7	409,344	4.1	1,094,869	5.1
Cigarette Tax	20,443	-3.3	59,716	-4.0	176,071	-1.5
Public Utility Taxes	6,827	-38.7	7,042	-36.7	62,051	-7.9
Oil and Gas Severance Tax	3,965	-37.8	11,454	-41.1	45,208	-20.4
Lottery ^c	33,375	8.6	105,840	11.6	321,085	15.7
Penalties and Interest ^d	73	NM	9,623	-2.1	29,278	23.7
SUW—Annuals and Undistributed ^e	5,564	0.1	5,820	-28.2	14,249	-6.2
Other Taxes ^f	6,475	4.3	42,107	-1.7	170,232	17.7
TOTAL TAXES (GF-GP & SAF)^g	\$682,447	3.0%	\$2,048,860	9.9%	\$6,185,581	8.9%
Motor Fuel Tax ^h	\$ 60,877	13.0%	\$ 172,637	10.2%	\$ 483,016	5.7%

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, July withholding collections declined 4.1% from the year-ago level.

^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, June lottery collections are included in this month's report. The State share of lottery collections is estimated to be 42.9%, based on the average profit to the State for the first six months of the current fiscal year. The percentage increase is calculated on gross sales.

^dPenalty and interest collections for the past three months exclude July and cover the March through June 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.

A SERVICE OF

PUBLIC SECTOR CONSULTANTS, inc.

KNAPP'S CENTRE • 800 S. WASHINGTON SQUARE • SUITE 401 • LANSING, MI 48933 • (517) 484-4954

In the latest financial report to the legislature (July 23), the Department of Management and Budget reports an upward revision of \$105 million in their FY 1985-86 general fund-general purpose revenue estimate. The components consist of an additional \$52 million from the amnesty program, \$18.1 million from the working capital reserve account, \$41 million from income tax withholding, and a reduction of \$6 million in oil and gas severance tax revenue. The department is estimating a year-end surplus of \$54.1 million, after allowing for a \$101 million revenue reduction to cover a January 1, 1986 rollback date for the personal income tax; previous estimates reflected an April 1 rollback date.

Another interesting development is the recent strength in motor fuel collections. Collections for the May-July period are running 10.2% above the year-ago period. In our March "Revenue Report," we indicated that the fall in gas prices would stimulate consumption, but the increase has been even larger than expected. It now appears that motor fuel collections will exceed the governor's budget estimate by \$25 million to \$30 million.

Monthly Focus: Consumer Expenditures

Table 2 presents data on consumer expenditures recently released by the U.S. Department of Labor. Various categories of expenditures are calculated as a share of total expenditures for five income classes. Transportation is the largest budget item for all income classes, followed by shelter and food. Food, however, is the second largest budget item for all income classes but the highest 20%.

These data provide some indication of the fairness of a sales tax levied on various goods and services. A tax that takes a larger share of the income of a low-income person than a high-income person is said to be regressive. In general, the sales tax is regressive because low-income persons spend a larger share of their income than high-income persons and therefore pay a higher portion of their income for sales taxes, as can be seen in Table 2. The best measure of the regressivity of the sales tax would be to calculate expenditures as a share of income, but because all sources of income are not reported in this survey, this calculation cannot be accurately made. Note that for the lowest 20% income group, expenditures are several times reported income. This is because income such as gifts and loans are not reported. Still, some conclusions are possible. The components that contribute most to the regressivity of a sales tax are food and utilities, as these categories comprise a larger share of the budget of a low-income person than of a high-income person; this is one reason food is exempt from the sales tax in Michigan. The components that tend to reduce the regressivity of a sales tax are transportation-related expenditures, mainly motor vehicles, household operations, apparel and services, and entertainment. Many of these expenditure items are classified as services and are largely exempt from the Michigan sales tax.

From a tax policy standpoint, the data in Table 2 would support removing the sales tax on utilities and imposing a sales tax on most services.

TABLE 2
Consumer Expenditures by Category as Share of Total
Consumer Expenditures, by Income Class: 1984

	All Consumer Units	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%
Income before taxes	\$24,578	\$ 3,577	\$10,828	\$19,297	\$30,370	\$58,639
Annual expenditures	22,149	11,347	13,864	18,981	25,525	40,935
Food	16.6%	20.2%	19.2%	17.9%	16.4%	14.4%
Shelter	16.9	19.6	17.7	17.4	16.3	16.1
Utilities	7.5	9.8	9.7	8.5	7.1	6.0
Household operations and other	5.5	5.1	4.7	5.0	5.4	6.2
Apparel and services	5.5	5.4	4.8	5.2	5.0	6.1
Transportation	20.1	17.2	19.9	21.1	20.8	20.2
Health care	4.1	5.0	6.1	4.8	3.6	3.2
Entertainment	4.9	4.0	3.9	4.4	5.0	5.5
Personal insurance and pensions	9.9	3.8	5.1	7.9	11.6	13.1
Other ^a	8.9	9.8	9.0	7.8	8.9	9.2
TOTAL	99.9%	99.9%	100.1%	100.0%	100.1%	100.0%

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey*, June 1986.

^aIncludes personal care, education, tobacco, and cash contributions.