



Michigan REVENUE REPORT

The major revenue sources recorded strong increases in July (June activity); however, as explained below, much of the strength in collections was more apparent than real.

Withholding collections in July increased 7.8 percent above the year-ago level following a 1.9 percent decline in June. This continues the pattern of a weak month followed by a strong month. Collections for the two months combined were 2.8 percent above the year-ago period, which is more indicative of the current level of economic activity.

Sales and use tax collections increased 5.4 percent, despite only a 2 percent increase in motor vehicle collections. This increase is larger than expected, but it is unlikely to signal an upward trend in consumer spending.

Single business tax collections increased 61.1 percent above the year-ago level, but this is misleading. Because the quarterly payment was due on July 31, a Saturday, it is likely that a number of firms sent in their payments a day or two early this year; last year these payments were received in August. Therefore, August collections could be down sharply from a year ago.

Lottery collections for June increased 11.3 percent above the year-ago level, the largest increase since last September. This strength was due, in part, to the second largest Lotto jackpot ever in June.

This month there was a significant revenue development concerning the insurance premiums tax. The Michigan
(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary July 1987	% Change from Last Year	Past 3 Months Collections	% Change from Last Year	FY 1986-87 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$304,389	7.8%	\$888,328	3.9%	\$2,692,246 ^a	4.1%
Quarterly and Annual Payments	8,006	-21.4	150,298 ^a	8.3	478,518 ^a	21.3
Gross Personal Income Tax	312,395	6.7	1,038,626 ^a	4.5	3,170,764 ^a	6.4
Less: Refunds	-17,851	-13.9	-168,584	-41.2	-962,503	4.2
Net Personal Income Tax	294,544	8.1	870,042 ^a	23.1	2,208,261 ^a	7.4
Sales and Use Taxes	247,294	5.4	708,623	3.8	2,014,022	3.0
-Motor Vehicles	47,719	2.0	132,660	-5.6	331,377	-1.2
Single Business Tax	158,950	61.1	498,094	21.7	1,160,133	6.0
Cigarette Tax	20,555	0.5	59,289	-0.7	172,646	-1.9
Public Utility Taxes	7,669	12.3	7,929	12.6	66,565	7.3
Oil and Gas Severance Tax	4,389	10.7	12,550	9.5	35,660	-21.1
Lottery ^b	34,650	11.3	102,079	1.9	301,624	-5.1
Penalties and Interest	282	NM	10,060	58.3	37,440	27.7
SUW—Annuals and Undistributed ^c	-442	NM	8,658	48.8	22,076	54.9
Other Taxes ^d	7,917	22.3	49,792	18.3	202,947	19.2
TOTAL TAXES (GF & SAF)^e	\$741,158	14.1%	\$2,328,942	14.2%	\$6,196,040	5.0%
Motor Fuel Tax ^f	\$64,579	6.1%	\$175,558	1.7%	\$496,456	2.8%

NM = Not meaningful

^aAdjusted to reflect changes in tax rates. Withholding is also adjusted to reflect difference in number of Fridays (paydays) in a month.

^bLottery 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 percentage change for the month and the past three months is calculated on the basis of gross sales. The year-to-date change is based on net revenue to the school aid fund (SAF), which includes other revenue and reflects the change in the share allocated to the SAF after expenses and prizes. In fiscal year 1985-86, the SAF received 40.6 percent of gross lottery revenue. This share was only 39.3 percent as of May 30, 1987.

^cThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^dIncludes intangibles, inheritance, corporate organization, and industrial and commercial facilities taxes.

^eExcluded 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. One exception is the insurance premiums tax, which increased about 27 percent in fiscal year 1985-86 and 13.1 percent in the previous fiscal year.

^fThe motor fuel tax is restricted to the Transportation Fund.

Court of Appeals ruled the tax unconstitutional because it discriminates against insurance companies located in other states that do business in Michigan. The tax is expected to generate \$152 million in general fund-general purpose revenue in the current fiscal year. The court did not order a refund, and the outcome is uncertain pending an appeal to the U.S. Supreme Court. If the ruling is upheld, it would add significantly to the state's current fiscal problems. However, it is possible that a large portion of any revenue loss could be made up under the insurance retaliatory tax (a tax on insurers in states that tax Michigan insurers at higher rates than we tax their insurers), although the constitutionality of this tax could also be in question. Also, the legislature could pass legislation levying the insurance premiums tax on domestic insurers, thereby removing its discriminatory nature.

A positive development this month is that income tax refunds appear to be less than estimated; possibly as much as \$25-35 million below estimates.

July revenue collections provide no basis to change our FY 1986-87 revenue projections, but do provide some evidence that further shortfalls in the current fiscal year are not likely.

Monthly Focus: Michigan Personal Income—First Quarter 1987

The U.S. Department of Commerce recently released first-quarter personal income data for the states. Michigan personal income increased 1.6 percent above the previous quarter, well below the 1.9 percent increase for the Great Lakes region and slightly below the 1.7 percent increase for the United States. Personal income was 3.9 percent above the year-ago quarter compared with a 4.6 percent increase for the nation. (See Table 2.)

Mining and construction were the strongest sectors, as wage and salary payments increased 8.2 percent and 5.4 percent, respectively, above the previous quarter (not seasonally adjusted). Wage and salary payments in manufacturing increased only 0.2 percent.

As indicated in Table 2, the strongest regions compared with a year ago are the Plains and the Far West. The weakest are the Southwest and Rocky Mountain regions, where many energy-producing states were hurt by low energy prices.

Table 2. Total Personal Income, Percentage Change in Selected States and Regions, First Quarter 1987

State	Percentage Change	Percentage Change
	1st Quarter 1986- 1st Quarter 1987	4th Quarter 1986- 1st Quarter 1987
MICHIGAN	3.9%	1.6%
Illinois	6.0	2.3
Indiana	5.1	2.7
Ohio	4.1	1.7
Wisconsin	3.2	1.3
Massachusetts	6.8	1.6
New York	5.5	1.5
Florida	4.9	1.4
California	5.8	1.7
Texas	-0.7	1.8
Region		
New England	4.6	1.7
Mideast	5.0	1.4
Great Lakes	4.6	1.9
Plains	5.9	2.7
Southeast	4.6	1.9
Southwest	0.3	1.5
Rocky Mountain	2.0	0.5
Far West	5.8	1.6
United States	4.6	1.7

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *News*, July 20, 1987.