



# Michigan REVENUE REPORT

The Michigan economy is beginning to show signs of weakness, and this is reflected in key revenue sources. As stated last month, however, there is no indication that revenues will fall below current budget projections.

Personal income tax withholding in July (June activity) increased 10.5 percent above July 1988, but there were five paydays (Fridays) this year and only four last year. On an adjusted basis, collections rose only 4.1 percent above the year-ago level, one of the smallest monthly increases in the current fiscal year. (See Table 1.)

Sales and use tax collections grew only 4 percent in July, as sales were dragged down by a decline of 3.1 percent in motor vehicle collections. For the first six months of the fiscal year, sales and use tax collections increased 7 percent above the year-ago level, but in the last three months they were only 4.1 percent higher. This weakness is expected to continue for the remainder of this fiscal year and into the next.

Single business tax revenue jumped 52.1 percent above the year-ago level, but this was almost certainly due to a change in the collection pattern; more payments due on July 31 fell into July this year than last. Collections from this major revenue source have slowed in recent months but still are ahead of budget projections.

Lottery sales (preliminary data) rose 2.9 percent in June, the third consecutive monthly increase, but this trend is about to end; sales for the first 24 days in July were about 6 percent below the year-ago level. The July downturn signals the beginning of a weak last quarter compared to last year; sales in August and September 1988 were very high due to a large Lotto jackpot in August and a record jackpot in September. Lottery sales were down 2.1 percent in the first six months of the fiscal year but had risen 3.7 percent in the last three months (April-June).

*Table 1. Monthly Tax Collections*

*Dollars in Thousands*

Type of Revenue	Preliminary July 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 <sup>a</sup>	\$364,641	4.1% <sup>a</sup>	\$973,561	5.8%	\$3,018,814	6.1
Quarterly and Annual Payments	11,598	72.5	269,799	65.2	672,646	16.1
Gross Personal Income Tax	376,239	5.4 <sup>a</sup>	1,243,360	14.8	3,691,060	7.8
Less: Refunds	-13,954	38.5	-246,264	73.1	-904,477	6.4
Net Personal Income Tax	362,285	4.4 <sup>a</sup>	997,096	6.0	2,786,583	8.2
Sales and Use Taxes	277,531	4.0	789,646	4.1	2,255,497	5.9
-Motor Vehicles	50,433	-3.1	149,095	0.3	371,278	4.8
Single Business Tax	180,199	52.1	586,934	7.2	1,474,261	10.9
Cigarette Tax	23,807	-3.1	67,901	-2.7	197,381	-5.1 <sup>b</sup>
Public Utility Taxes	16,801	10.0	16,908	8.6	81,554	6.2
Oil and Gas Severance	3,769	6.3	11,360	3.6	31,514	-6.5
Lottery <sup>c</sup>	36,083	2.9	118,670	3.7	357,884	0.9
Penalties and Interest	714	NM	13,277	6.4	45,825	-2.9
SUW—Annuals and Undistributed <sup>d</sup>	8,674	263.8	9,668	203.5	24,241	65.4
Other Taxes <sup>e</sup>	13,460	36.5	75,032	26.2	313,147	39.8
TOTAL TAXES (GF & SAF) <sup>f</sup>	\$924,278	12.2 <sup>a</sup>	\$2,686,492	6.1	\$7,567,807	8.8
Motor Fuel Tax <sup>g</sup>	\$58,542	-0.1%	\$171,832	0%	\$509,043	0.8%

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 four-cent increase on January 1, 1988.

<sup>c</sup>Lottery 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 40.7 percent, based on the average profit to the state for FY 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>General fund and school aid fund. Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury. These taxes account for less than 3 percent of GF and SAF revenue and have shown little growth in recent years.

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

## Michigan Sales Tax

Table 2 shows sales tax collections by type for the first six months of FY 1988-89, the latest data available. Among the major categories, the largest increases were in miscellaneous retail (10.7 percent); building, lumber, and hardware (9.2 percent), and food (8.5 percent). In the miscellaneous retail category the strongest gains were registered by sporting goods stores (34.3 percent); coal, fuel, and ice dealers (16.9 percent); and antique and pawn shops (13.7 percent). The building, lumber, and hardware category has shown very strong growth for several years due to the six-year construction boom in Michigan—39.7 percent from FY 1985 to FY 1988. (Refer to Table 2.) In the food category, sales at grocery stores and specialty food stores increased faster than sales by restaurants, taverns, and caterers: 10 percent compared with 7.1 percent.

The slowest growth was in general merchandise (0.3 percent), which has been the weakest category for the last three years, followed by nonretail (2.3 percent) and automotive (3.1 percent), which was dragged down by a decline of 2.7 percent in sales at gasoline stations. New and used car dealers' sales increased 4.9 percent. In the nonretail category, business services have been the major growth area, rising 30.1 percent from October 1988 to March 1989 and 153.2 percent between FY 1985 and FY 1988. A portion of this increase is due to the new tax on computer software that took effect in 1988.

A final note of interest is that from 1985 to 1988 Michigan personal income grew 19.8 percent, while sales tax collections rose only 16 percent. It appears that the responsiveness of the Michigan sales tax to income is declining. A major reason is that spending on services is increasing faster than spending on goods, and most services are exempt from the Michigan sales tax.

*Table 2. State Tax Collections by Category  
October 1988-March 1989*

Category	Amount (millions)	Percentage Change from Year-Ago Period	Percentage Change, FY 1985-1988
Building, lumber, and hardware	\$80.6	9.2%	39.7%
General merchandise	89.6	0.3	-11.9
Food	194.5	8.5	19.6
Automotive	291.6	3.1	4.6
Gasoline stations	71.8	-2.7	-17.8
Apparel	61.0	8.1	20.9
Furniture	61.0	5.4	28.0
Miscellaneous retail	141.5	10.7	25.2
Nonretail	333.1	2.3	25.9
Business services	47.5	30.1	153.2
Gas and electricity	115.6	-0.2	5.7
TOTAL	\$1,252.9	5.0%	16.0

SOURCE: Michigan Department of Treasury, *Monthly Research and Statistical Bulletin*, April 30, 1989.