



Michigan REVENUE REPORT

October revenue collections (September activity) showed little strength. In the second consecutive weak performance, personal income tax withholding collections increased only 2.5 percent above the level for the same month a year ago. Sales and use tax collections were flat due to a 24.1 percent decline in motor vehicle collections; year-ago auto collections were inflated due to incentive programs. However, nonmotor vehicle collections increased a robust 8.5 percent above the year-ago level. Single business tax (SBT) collections in October were 24.1 percent below the year-ago level, largely because one-time amnesty payments were included in last year's figures.

Collections for fiscal year 1986-87 are complete except for year-end accruals, which have not been reported as of this writing. General and school aid fund collections included in this report fell about \$375 million short of the estimate made by the Department of Management and Budget (DMB) last January. This shortfall could be reduced somewhat by accruals.

The largest shortfalls were \$57.2 million in sales and use taxes, \$162 million in SBT collections, and \$82 million in lottery receipts. Personal income tax withholding payments fell about \$40 million short of the DMB estimate, but this was more than offset by lower refunds and \$105 million more than estimated in quarterly and annual payments.

(over)

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary October 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	\$283,179	2.5%	\$859,213	3.9%	\$3,558,771 ^a	3.9%
Quarterly and Annual Payments	9,904	20.5	102,181	9.8	583,124 ^a	18.0
Gross Personal Income Tax	293,083	3.0	961,394	4.5	4,141,895 ^a	5.7
Less: Refunds	-8,612	3.8	-63,913	102.0	-1,008,566	5.6
Net Personal Income Tax	284,471	3.0	897,481	1.0	3,133,329 ^a	5.7
Sales and Use Taxes	245,376	0	716,282	3.2	2,732,043	2.9
-Motor Vehicles	48,470	-24.1	134,792	-10.3	466,077	-4.0
Single Business Tax	110,277	-21.1	281,242	-30.1	1,443,266	-4.2
Cigarette Tax	21,183	3.8	62,988	2.2	235,633	-0.9
Public Utility Taxes	76	NM	55,160	4.6	121,725	6.1
Oil and Gas Severance	4,024	10.5	12,698	12.8	48,358	-14.4
Lottery ^b	34,681	3.7	106,260	8.3	407,250	-1.9
Penalties and Interest	-95	NM	11,146	36.2	54,248	22.8
SUW—Annuals and Undistributed ^c	6,187	NM	6,185	NM	20,519	94.6
Other Taxes ^d	21,675	89.2	36,712	27.8	239,805	20.4
TOTAL TAXES (GF & SAF)^e	\$727,855	-0.5%	\$2,287,599	-0.9%	\$8,436,176	2.8%
Motor Fuel Tax ^f	\$54,222	4.1%	\$165,972	0.8%	\$666,377	1.9%

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, September lottery collections are included in this month's report. The percentage changes for the month and the past three months are 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 39.1 percent as of July 31, 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.

Despite the large revenue shortfall, there will be a small surplus in FY 1985-86 due to the carryover of a \$152.6 million surplus from the previous fiscal year and several one-time fiscal adjustments. The FY 1987-88 revenue outlook will be discussed in next month's *Revenue Report*.

Monthly Focus:
Michigan Personal Income Growth During the Current Economic Expansion

The current economic expansion is approaching sixty months duration, the second longest since World War II. Michigan has done well during the expansion, about the same relative to national growth as in the 1975-80 recovery but not as well as in the 1970-73 recovery period when Michigan personal income increased nearly 16 percent faster than U.S. personal income. (See Exhibit 2.)

Michigan nonfarm personal income grew 37.5 percent from the third quarter of 1982 to the second quarter of 1987, outpacing growth in the other Great Lakes states and ranking twenty-first nationally. The strongest sectors were construction and services, which increased 69.5 percent and 45.8 percent, respectively. A disquieting note is that Michigan personal income growth increased only 3.1 percent from the second quarter of 1986 to the second quarter of 1987, last among the Great Lakes states and well below the U.S. average of 5.1 percent.

Michigan personal income will continue to increase more slowly than the national and the Great Lakes averages for at least the next two years.¹ This means slower revenue growth for the state and constrained state budgets.

Table 2. Personal Income Growth:
Third Quarter 1982-Second Quarter 1987, Michigan and Selected States

	Percentage Change 3rd Quarter 1982- 2nd Quarter 1987	Index of Percentage Change in Nonfarm Personal Income (U.S. = 100)	Rank Among States	Percentage Change 2nd Quarter 1986- 2nd Quarter 1987
MICHIGAN	37.5%	99	21	3.1%
Indiana	32.9	87	28	4.5
Illinois	31.6	83	33	3.8
Ohio	32.3	85	30	5.1
Wisconsin	31.5	83	34	4.9
New York	41.9	110	17	6.6
Minnesota	36.6	96	23	2.6
Florida	53.3	140	4	7.8
Texas	27.6	73	40	1.9
California	46.2	122	8	6.3
Arizona	57.6	152	1	5.7
Wyoming	-0.5	-1	50	-5.1
U.S.	38.0%	100	—	5.1%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, *News*, October 15, 1987.

¹In April, the U.S. Department of Commerce reported Michigan per capita personal income at \$14,064, 97.3 percent of the U.S. average, ranking Michigan twentieth among the states. In August, the department revised Michigan per capita income upward to \$14,775, 100.9 percent of the U.S. average and seventeenth in the nation.