



# Michigan REVENUE REPORT

It's the same old song again, as state revenues continue to surge. Personal income tax withholding collections for October (adjusted for one more payday in September 1988 than in September 1987) increased 17.5 percent. This large increase is almost certainly due to a quirk in the collection process and is not a sign that the Michigan economy has moved into a higher gear.

October sales and use tax collections (September activity) increased a more believable 4.5 percent, as motor vehicle collections stalled, dipping 3.8 percent below the year-ago level.

October single business tax collections increased 60.9 percent above the year-ago level, but this large gain was due mostly to a change in the collection pattern from one year ago. The quarterly payment is due October 31; in some years a larger share is credited to October and in other years to November.

Collections for FY 1987-88 are now largely complete, except for accrual adjustments, which will be reported in mid-November. As summarized in Table 2, the year was much better than almost anyone expected.

General and school aid fund tax collections are now estimated at \$9,587 million, \$357 million above the January Department of Management and Budget (DMB) estimate, \$241 above the DMB estimate presented in their September report to the legislature, and \$192.7 million above the October DMB estimate. Public Sector Consultants' January estimate was slightly below the January DMB estimate. *(over)*

**Table 1. Monthly Tax Collections**

*Dollars in Thousands*

Type of Revenue	Preliminary October 1988	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1987-88 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$355,021	17.5% <sup>a</sup>	\$948,989	8.1% <sup>a</sup>	\$3,801,533	6.4% <sup>a</sup>
Quarterly and Annual Payments	11,196	13.0	112,885	9.2	697,497	19.9
Gross Personal Income Tax	366,217	17.4	1,061,844	8.2	4,499,030	8.3
Less: Refunds	-11,759	36.5	-40,885	-12.6	-892,041	-11.5
Net Personal Income Tax	354,458	16.8	1,020,989	9.2	3,606,989	14.7
Sales and Use Taxes	256,377	4.5	758,648	5.9	2,887,394	5.7
-Motor Vehicles	46,626	-3.8	138,114	2.6	492,115	5.6
Single Business Tax	151,117	60.9	422,239	53.7	1,753,856	22.2
Cigarette Tax <sup>b</sup>	22,970	8.4	70,879	12.5	263,858	12.0
Public Utility Taxes	—	—	49,951	-9.4	126,753	4.2
Oil and Gas Severance	3,117	-22.5	9,958	-21.6	43,652	-9.7
Lottery <sup>c</sup>	49,150	38.2	134,794	27.3	485,000	19.1
Penalties and Interest	109	NM	14,791	32.8	74,426	37.2
SUW—Annuals and Undistributed <sup>d</sup>	5,993	-3.2	7,967	NM	16,821	-18.0
Other Taxes <sup>e</sup>	13,904	-35.9	29,137	-22.0	231,479	-3.5
TOTAL TAXES (GF & SAF) <sup>f</sup>	\$857,196	17.1%	\$2,598,436	15.4%	\$9,503,183	12.1%
Motor Fuel Tax <sup>g</sup>	\$60,699	11.9%	\$179,957	8.7%	\$692,786	4.5%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Withholding is adjusted to reflect difference in number of Fridays (paydays) in a month.

<sup>b</sup>Adjusted for the 4-cent increase on January 1, 1988, the percentage changes are: October, -8.9 percent; past three months, -5.5 percent; year-to-date, -1.6 percent.

<sup>c</sup>Lottery 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 State share of lottery collections is estimated to be 40.8 percent, based on the average profit to the State for the fiscal year period ending July 31. 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, corporate organization, and industrial and commercial facilities taxes.

<sup>f</sup>Excluded 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 and SAF revenue and usually have shown little growth in recent years.

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

A significant portion of these revenues may not show up on the bottom line due to higher spending requirements and accounting adjustments to reflect future liabilities for tax refunds. The final year-end balance, however, should still exceed \$100 million.

**Table 2. Summary of FY 1987-88 Revenue Estimates for General and School Aid Fund Taxes (in millions)**

	DMB Estimate (January 1988)	DMB Estimate (October 1988)	SFA Estimate (January 1988)	Current PSC Estimate
Income tax	\$3,370.9	\$3,498.2	\$3,330.0	\$3,590.0
Sales and use tax	2,838.6	2,845.5	2,833.6	2,890.0
Single business tax	1,619.6	1,670.8	1,552.0	1,725.0
Other taxes	979.0	894.8	996.5	897.0
Lottery taxes	421.7	485.0	427.0	485.0
TOTAL (GF & SAF)	\$9,229.8	\$9,394.3	\$9,139.1	\$9,587.0

### **Monthly Focus: Michigan Personal Income**

Michigan personal income increased 2.1 percent from the first quarter of 1988 to the second quarter of 1988 compared with an increase of 2 percent nationwide. (See Table 3.) Michigan outpaced the other Great Lakes states for the second consecutive quarter, but trailed 24 other states in personal income growth.

Compared with one year ago, Michigan personal income rose 7.4 percent, trailing Indiana, Illinois, and Wisconsin among the Great Lakes states and ranking 25th nationally. The increase was paced by a 17.5 percent increase in construction payrolls and a 12 percent gain in nondurable goods manufacturing payrolls. The services (9.8 percent) and government (8.9 percent) sectors also recorded above-average increases. Durable goods manufacturing payrolls increased only 3.9 percent.

These income gains are higher than were projected when 1988 economic forecasts were prepared late last year. The strong gains are due largely to the construction boom in southeast Michigan (Oakland, Macomb, and Washtenaw counties in particular) and, as discussed in last month's *Revenue Report*, to the heavy use in the motor vehicle industry of overtime, which is substituting for the hiring of new workers.

The second-quarter income data provide more evidence of the unexpected strength of the Michigan economy. Income gains are likely to be smaller in the second half of 1988, but there is no sign that the economic recovery that began in November 1982 is near its end.

**Table 3. Personal Income Growth, Michigan and Selected States, Second Quarter 1988**

State	Percentage Change from First Quarter 1988 to Second Quarter 1988	Percentage Change from Second Quarter 1987 to Second Quarter 1988
Florida	2.8%	8.9%
Arizona	2.5	6.2
California	2.5	7.6
Massachusetts	2.3	9.9
New York	2.3	8.7
Pennsylvania	2.2	7.9
MICHIGAN	2.1	7.4
Ohio	2.0	7.0
Wisconsin	1.7	7.5
Illinois	1.1	8.2
Indiana	0.7	8.2
Minnesota	0.3	7.9
U.S.	2.0	7.7

SOURCE: U.S. Department of Commerce, *News*, October 18, 1988.