



Michigan REVENUE REPORT

State revenue collections continued very weak in October (September activity). Personal income tax withholding collections fell 6.9 percent from the year-ago level; however, there were four Fridays (paydays) this year and five in September 1989. Adjusted for this difference, collections were an estimated 1.1 percent below the 1989 level. This probably overstates the weakness in the economy. A better measure would be September and October collections together, which increased 2.6 percent above the year-ago level.

Sales and use tax collections in October fell 0.6 percent below October 1989 collections, due mainly to a 16.3 percent decline in motor vehicle collections. Excluding motor vehicles, collections increased 3.1 percent, which is about in line with increases in recent months.

Single business tax collections increased 3.4 percent in October. An accurate reading on this quarter, however, will not be possible until November collections are received, as the quarterly payment is due on October 31, and a change in the collection pattern can distort one month's collections.

Lottery collections fell 15.5 percent in September after jumping sharply in August due to a large Lotto jackpot.

In last month's *Revenue Report* we estimated that general fund and school aid fund taxes would fall about \$150 million below the latest budget estimates. Collections for FY 1989-90 are now complete, except for accruals, and it appears that the revenue shortfall could be slightly larger than we estimated. On November 14, the Senate Fiscal Agency estimated a total shortfall of \$373 million. However, the year will not end with an official deficit, as accounting adjustments, such as accruing annual income tax payments, will be used to offset the revenue shortfall and department overexpenditures.

Table 1. Monthly Tax Collections

Dollars in Thousands

Type of Revenue	Preliminary October 1990	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1989-90 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$340,077	-1.1% ^a	\$1,022,290	4.4%	\$4,139,752	3.4%
Quarterly and Annual Payments	12,555	1.8	131,312	5.6	817,557	2.3
Gross Personal Income Tax	352,632	-1.0 ^a	1,153,602	4.6	4,957,309	3.2
Less: Refunds	-8,734	-57.0	-44,235	-22.2	-1,042,521	8.4
Net Personal Income Tax	343,898	2.4 ^a	1,109,367	5.9	3,914,788	1.9
Sales and Use Taxes	274,528	-0.6	815,168	1.6	3,153,324	3.1
Motor Vehicles	44,035	-16.3	138,902	-7.5	498,013	-4.5
Single Business Tax	156,361	3.4	401,824	-1.6	1,815,850	-3.6
Cigarette Tax	20,633	-11.7	65,478	-6.9	257,537	-3.8
Public Utility Taxes	0	—	62,696	16.9	142,240	5.2
Oil and Gas Severance	4,617	4.1	12,435	5.8	45,829	5.9
Lottery ^b	37,704	-15.5	130,501	14.4	487,100	3.6
Penalties and Interest	987	NM	12,601	8.7	66,535	6.1
SUW—Annuals and Undistributed ^c	5,624	NM	13,893	NM	29,757	104.5
Other Taxes ^d	33,585	20.4	67,297	19.3	360,517	-2.7
TOTAL TAXES (GF & SAF)^e	\$877,937	1.6%	\$2,727,977	4.5%	\$10,271,477	1.2%
Motor Fuel Tax ^f	\$55,249	-1.1% ^a	\$178,464	-0.9%	\$694,362	0.3%

SOURCE: Data supplied by Michigan Department of Treasury.

NM=not meaningful

^aAdjusted to reflect difference in number of Fridays (paydays).

^bLottery collections run one month behind other tax collections due to a reporting lag; September 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 fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

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

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

^eExcluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

Tax Capacity and Tax Effort

The Advisory Commission on Intergovernmental Relations (ACIR) recently issued 1988 tax capacity and tax effort measures for the fifty states—the first update since 1985.

Tax capacity is the dollar amount of revenue that each state would raise if it applied a nationally uniform set of tax rates to a common set of tax bases. This is then indexed to the national average. For example, a tax capacity index of 95 indicates that a state's ability to raise revenue, given average tax rates, is 5 percent below the average for all states.

Tax effort measures how much a state chooses to exploit its potential tax bases relative to other states. An index of 115, for example, indicates that the state's tax effort is 15 percent above the national average.

Table 2 presents tax effort and tax capacity indexes for 1985 and 1988 for the 21 most populous states. Michigan's 1988 tax effort index of 112 is third highest (tied with Minnesota) among the states shown. The 8-point decline from 1985 is due mainly to the reduction in the personal income tax rate. Michigan's tax effort continues to be well above average for the property tax (157) and personal income tax (115) and well below average for the sales tax (76). As can be seen, tax effort declined in the majority of the most populous states between 1985 and 1988. Michigan's 1988 tax capacity index is 95, meaning that the state's revenue raising ability is about 5 percent below the national average. The state's index moved up only one percentage point from its 1985 position.

Tax capacity is tied largely to the strength of the economy. The strong growth in New England (until recently) is reflected in the 16-point increase in Massachusetts' index between 1985 and 1988, and the collapse of the economies of the energy states during this period is reflected in the 17-point drop in Texas and the 14-point decline in Louisiana.

One might conclude from Michigan's tax indices that John Engler's pledge to strengthen the economic base and reduce taxes is on target.

*Table 2. Tax Capacity and Tax Effort Indices, 1985 and 1988,
Michigan and Selected States
(ranked in order of 1988 tax effort)*

State	Tax Effort		Percentage Point Change	Tax Capacity		Percentage Point Change
	1985	1988		1985	1988	
New York	156	152	-4	101	109	8
Wisconsin	128	119	-9	89	90	1
Minnesota	119	112	-7	101	104	3
MICHIGAN	120	112	-8	94	95	1
Maryland	101	108	7	105	109	4
Illinois	106	102	-4	96	99	3
Washington	95	102	7	101	98	-3
New Jersey	105	101	-4	117	124	7
Pennsylvania	102	97	-5	89	94	7
Ohio	103	97	-5	91	91	—
Massachusetts	106	94	-12	113	129	16
California	94	94	—	120	116	-4
North Carolina	93	93	—	86	91	5
Indiana	96	93	-3	87	87	—
Virginia	87	91	4	98	104	6
Louisiana	93	90	-3	97	83	-14
Georgia	90	89	-1	90	94	4
Texas	76	88	12	111	96	-17
Missouri	84	86	2	91	90	-1
Tennessee	82	83	1	83	84	1
Florida	76	82	6	103	104	1

SOURCE: ACIR, *State Fiscal Capacity and Effort*, M-170, Washington D.C., 1990.