

MICHIGAN REVENUE REPORT

A monthly publication of the **FISCAL AWARENESS SERVICE**

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Volume 3, Number 1 December 1985

Revenue growth was surprisingly strong in November (October activity), as total general fund-general purpose (GF-GP) and school aid fund (SAF) taxes increased 14.1% above the year-ago period. Withholding income tax collections increased 15.7% compared with only a 5.5% increase the previous month. This revenue source has been quite unstable in recent months for reasons that are unclear. The three-month increase of 9.9% is a better measure of the current strength of withholding collections.

Sales and use tax collections increased 10.3% above the year-ago level, about in line with recent months. The growth in motor vehicle collections slowed moderately in November and will slow even more sharply in the next few months, reflecting the current weakness in automobile sales.

(over)

Monthly Tax Collections (dollars in thousands)

| Type of Revenue | Preliminary November 1985 | % Change from Last Year | Past 3 Months Collections | % Change from Last Year | FY 1985-86 Year-to-Date | % Change from Last Year |
|--|------------------------------|-------------------------------|------------------------------|-------------------------------|----------------------------|-------------------------------|
| Personal Income Tax | | | | | | |
| Withholding ^a | \$306,640 | 15.7 | \$897,835 | 9.9 | \$306,640 | 15.7 |
| Quarterly and Annual Payments ^a | 3,360 | -26.5 | 80,610 | 7.7 | 3,360 | -26.5 |
| SAFRA ^b | 15,051 | 14.3 | 45,494 | 9.5 | 15,051 | 14.3 |
| Gross Personal Income Tax ^a | 325,051 | 15.0 | 1,023,939 | 9.7 | 325,051 | 15.0 |
| Less: Refunds | -18,301 | 17.4 | -48,468 | 5.6 | -18,301 | 17.4 |
| Net Personal Income Tax ^a | 306,750 | 14.8 | 975,471 | 9.9 | 306,750 | 14.8 |
| Sales and Use Taxes | 211,190 | 10.3 | 654,362 | 12.4 | 211,190 | 10.3 |
| -Motor Vehicles | 35,221 | 16.2 | 122,753 | 27.3 | 35,221 | 16.2 |
| Single Business Tax | 171,382 | -3.5 | 317,984 | 18.9 ^c | 171,382 | -3.5 |
| Cigarette Tax | 21,508 | 0.8 | 62,241 | -0.8 | 21,508 | 0.8 |
| Public Utility Taxes ^d | 54,834 | NM | 55,443 | NM | 54,834 | NM |
| Oil and Gas Severance Tax | 5,048 | -27.5 | 17,533 | -10.7 | 5,048 | -27.5 |
| Lottery ^e | 30,890 | 12.7 | 88,296 | 21.3 | 30,890 | 12.7 |
| Penalties and Interest | -178 | NM | 8,330 ^f | -2.3 | -178 | NM |
| Other Taxes ^g | 14,816 | 39.5 | 31,775 | 8.3 | 14,816 | 39.5 |
| TOTAL TAXES (GF-GP & SAF)^h | \$816,240 | 14.1 | \$2,123,139 | 10.2 | \$816,240 | 14.1 |
| Motor Fuel Tax ⁱ | \$51,459 | -0.8 | \$155,943 | -0.3 | \$51,549 | -0.8 |

NA = Not available
NM = Not meaningful

^aThe Personal Income Tax rate dropped from 6.1% to 5.35% on September 1, 1984. The percentage change for the past three months collections has been adjusted accordingly. The unadjusted change in withholding collections was -1.3% for the past three months collections.

^bState accounting and fiscal responsibility account.

^cThis increase is inflated due to large refunds to financial institutions resulting from a court decision. If an adjustment is made for these refunds, the three-month increase in the single business tax is 1.5%.

^dNovember 1985 public utility tax collections cannot be compared to November 1984 public utility tax collections. Public utility tax collections were credited in November this year, while last year they were credited in December.

^eLottery collections run one month behind other tax collections due to a reporting lag. Therefore, October lottery collections are contained in this month's report. The State share of lottery collections is estimated to be 40.8%, based on the average profit to the State for FY 1984-85.

^fThe past three months penalty and interest collections exclude November and cover the August through October period.

^gIncludes intangibles, inheritance, and industrial and commercial facilities taxes.

^hExcluded 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% of GF-GP and SAF revenue and have shown little growth in recent years.

ⁱThe motor fuel tax is restricted to the Transportation Fund.

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The single business tax declined 3.5% in November due to a large refund to a major automobile company. Excluding refunds, revenues from this source increased 4.9% above the year-ago level.

Monthly Focus: FY 1985-86 Revenue Estimates

As reported, revenues for fiscal year (FY) 1986 are off to a strong start. Will this strength continue or will revenue growth slow in the coming months? This is the question that revenue estimators must answer. There are three major sources of state revenue estimates (excluding Public Sector Consultants, Inc.): the University of Michigan (RSQE), the Department of Management and Budget (DMB), and the Senate Fiscal Agency (SFA). What do these estimators foresee for FY 1986? Generally, continued growth is forecast, but at about one-half the FY 1985 rate.

The Department of Management and Budget, which prepares the official estimates for the State, is projecting GF-GP and SAF revenues of \$7,807 million, an adjusted 7.4% increase above their original FY 1985 estimate.¹ However, their FY 1985 estimate was about \$215 million below actual collections. If the DMB projected growth rate is applied to actual FY 1985 collections, one arrives at an estimate of \$8,056 million. The DMB estimate was made last January and has not been updated; the expected revised estimate may assume lower growth rates for FY 1986.

The SFA issued its latest estimate for FY 1986 on September 18. Their estimate is \$8,013 million, an adjusted 7% above their FY 1985 estimate, which was very close to actual collections.

The University of Michigan is more pessimistic than the DMB and SFA. While it does not forecast total GF-GP revenue or the SAF, the University of Michigan is estimating only a 5% increase for GF-GP taxes. This compares with an estimate of a 7.2% increase by both the DMB and SFA. The University of Michigan estimate translates into about \$130 million less in revenue than the other two estimates.

All of these estimates assume that the income tax rate will not be rolled back during FY 1986. If the rate is rolled back, revenue will be reduced by about \$33 million a month.

What do these revenue estimates tell us about the budget surplus for FY 1986? It will be substantial, even if one uses the low-end estimate prepared by the University of Michigan. The SFA is expecting a surplus of more than \$400 million (assuming about \$150 million is carried forward from FY 1985). The other two organizations have not published an estimate of the surplus.

Public Sector Consultants, Inc. is expecting a surplus of between \$200 and \$250 million in FY 1986, although this is beginning to look a little conservative given the strength of state revenues in recent months. These estimates increase the chances of an early rollback of the income tax rate.

¹The percentage change is adjusted for the planned transfer in FY 1986 of \$98 million of cigarette tax revenues from the state accounting and fiscal responsibility account to the general fund.