

MICHIGAN REVENUE REPORT

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

DR. GERALD FAVERMAN, Chairman of the Board

ROBERT J. KLEINE, Editor

Volume 3, Number 12 December 1986

Revenue collections for fiscal year 1986-87 were off to a slow start in November (October activity). Although personal income tax withholding increased 5.9 percent above the year-ago level, an improvement over the last two months, sales and use tax collections increased only 2.3 percent, despite a 10 percent increase in motor vehicle collections. Single business tax (SBT) collections edged up 3.3 percent. Sales and use tax collections are expected to increase at a relatively slow pace throughout the fiscal year because consumption is predicted to be one of the weakest sectors of the economy. Income tax withholding is expected to increase between 4 and 6 percent and SBT collections less than 5 percent in the current fiscal year.

Although a substantial balance will be carried forward from fiscal year 1985-86 (estimated at about \$163 million by the Senate Fiscal Agency), slow revenue growth and supplemental spending needs portend a tight budget in the current fiscal year and in fiscal year 1987-88.

(over)

TABLE 1
Monthly Tax Collections
(dollars in thousands)

Type of Revenue	Preliminary November 1986	% 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 ^a	\$310,660	5.9%	\$ 862,577	4.5%	\$310,660	5.9%
Quarterly and Annual Payments ^a	3,299	8.9	85,665	17.1	3,299	8.9
Gross Personal Income Tax ^a	313,959	5.9	948,242	5.5	313,959	5.9
Less: Refunds	-10,272	-43.9	-24,910	-48.7	-10,272	-43.9
Net Personal Income Tax ^a	303,687	9.4	923,332	8.6	303,687	9.4
Sales and Use Taxes	214,616	2.3	688,193	6.0	214,616	2.3
-Motor Vehicles	38,777	10.0	143,880	16.9	38,777	10.0
Single Business Tax	155,419	3.3	365,675	13.6	155,419	3.3
Cigarette Tax	20,301	-5.6	60,649	-3.7	20,301	-5.6
Public Utility Taxes	5,443	NM	5,460	NM	5,443	NM
Lottery ^b	35,255	11.1	103,451	12.6	35,255	11.1
Penalties and Interest	4	NM	NA	-	4	NM
SUW—Annuals and Undistributed ^c	8,418	76.4	9,946	99.4	8,418	76.4
Other Taxes ^d	19,529	22.5	39,778	21.9	19,529	22.5
TOTAL TAXES (GF-GP & SAF) ^e	\$762,672	7.2%	\$2,196,484	9.1%	\$762,672	7.2%
Motor Fuel Tax ^f	\$ 53,928	4.8%	\$ 164,394	2.2%	\$ 53,928	4.8%

NA = Not available
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. On an unadjusted basis, November withholding collections declined 4.5 percent from the year-ago level.

^bLottery collections run one month behind other tax collections due to a reporting lag. Therefore, October lottery collections are included in this month's report. The State share of lottery collections is estimated to be 41.9 percent, based on the average profit to the State for fiscal year 1985-86. The percentage increase is calculated on gross sales for the month.

^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 shown little growth in recent years. One exception is the insurance premiums tax, which increased about 26 percent in fiscal year 1985-86 and 14 percent in the previous fiscal year.

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

A SERVICE OF

PUBLIC SECTOR CONSULTANTS, inc.

KNAPP'S CENTRE • 300 S. WASHINGTON SQUARE • SUITE 401 • LANSING, MI 48933 • (517) 484-4954

Monthly Focus: Sales Tax

Sales tax collections in fiscal year 1985-86 increased 6.4 percent above the year-ago level, a significant drop from the 10.6 percent increase in fiscal year 1984-85. Collections from the use tax, a companion to the sales tax, moved in the opposite direction, increasing 11.4 percent in fiscal year 1985-86 compared with a 7.4 percent increase in fiscal year 1984-85.

Based on data for the October 1985 to August 1986 period, the latest available, the strongest sales categories by type of establishment were building, hardware, and lumber (+14.2 percent), furniture (+12.8 percent), miscellaneous retail (+12.8 percent), and motor vehicle dealers (+10.6 percent). In the miscellaneous retail category, collections from sporting goods (+21.3 percent) and beer and liquor stores (+17.4 percent) were particularly strong. The weakest categories were gasoline stations (-6.1 percent), general merchandise (-1.7 percent), and gas and electricity (+3.4 percent).

The slowdown of the growth rate in sales tax collections was concentrated in two areas: general merchandise and automotive. As shown in Table 2, general merchandise sales increased a robust 8.9 percent during the October to August period a year ago compared with a 1.7 percent decline in the latest period. Automotive sales increased 19.6 percent during the same period a year ago compared with a 5.8 percent increase in the latest period. Sales tax collections from gasoline stations (-6.1 percent) were particularly weak compared with the year-ago period (+12 percent).

The decline in the rate of growth in sales tax collections was much sharper than the decline in the rate of growth of Michigan personal income, which declined about one percentage point. This was due to several factors: (1) a slowdown in debt accumulation, (2) increased expenditures for nontaxable items such as housing, automobile insurance, and services, and (3) reduced purchases of goods not paid for out of current income, such as automobiles.

Sales tax collections are expected to increase no more than 5 percent in the current fiscal year as personal income growth is forecast to increase less than 4 percent, motor vehicle sales are predicted to decline at least 10 percent, and consumers will be less likely to take on new commitments as the consumer-debt-to-income ratio is near an all-time high.

TABLE 2
Sales Tax Collections by Business Category,
October 1985-August 1986

Category	Amount (000)	% of Total	% Change from Same Period One Year Ago	% Change October 1984- August 1985 from October 1983-August 1984
Building, Hardware, and Lumber	\$ 122,666	5.9%	14.2%	13.7%
General Merchandise	172,317	8.3	-1.7	8.9
Food	301,001	14.5	5.1	8.6
Automotive	589,115	28.4	5.8	16.7
-Motor Vehicle Dealers	385,209	18.6	10.6	19.6
-Gasoline Stations	156,259	7.5	-6.1	12.0
Apparel	88,490	4.3	8.6	7.6
Furniture	91,631	4.4	12.8	13.1
Miscellaneous Retail	209,372	10.1	12.1	8.9
Nonretail	495,946	24.0	8.2	5.1
-Gas and Electricity	194,265	9.3	3.4	2.7
TOTAL	\$2,079,539	99.9%	7.1%	10.4%

SOURCE: Michigan Department of Treasury, *Monthly Research and Statistical Bulletin*, September 30, 1986, Lansing, Table 2.