



# Michigan REVENUE REPORT

The new fiscal year began with continued weakness in state revenue. November collections (October activity) for personal income tax withholding increased only 2.2 percent, which is below the average increase for the past few months. Sales and use tax collections increased 3.1 percent. However, this is misleading as use tax collections increased about 24 percent, most likely the result of a one-time audit payment. Sales tax collections increased only 0.4 percent and, excluding motor vehicles, actually declined 0.5 percent. Motor vehicle collections increased 4.9 percent above the depressed November 1989 level, due in part to strong fleet sales. December collections (November activity) are likely to be weaker. Single business tax collections increased 0.2 percent, a stronger than expected performance. Collections for the last three months increased 5.2 percent, the best quarterly increase in more than a year. There is no indication, however, that underlying business activity has improved. The increase is more likely due to a change in the collection pattern.

Lottery sales also started weakly in the new fiscal year. October sales declined 7 percent, and preliminary November sales were off about 5 percent.

We are projecting revenue growth of about 2 percent in FY 1990-91, and November collections were generally consistent with this estimate.

Table 1 Monthly Tax Collections

Dollars in Thousands

| Type of Revenue                               | Preliminary<br>November 1990 | % Change<br>from<br>Last Year | Past 3 Months'<br>Collections | % Change<br>from<br>Last Year | FY 1990-91<br>Year-to-Date | % Change<br>from<br>Last Year |
|---|------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------|-------------------------------|
| Personal Income Tax:                          |                              |                               |                               |                               |                            |                               |
| Withholding                                   | \$325,608                    | 2.2%                          | \$1,035,254                   | 3.5%                          | \$325,608                  | 2.2%                          |
| Quarterly and Annual Payments                 | 3,964                        | 2.2                           | 123,652                       | 5.9                           | 3,964                      | 2.2                           |
| Gross Personal Income Tax                     | 329,572                      | 2.2                           | 1,158,906                     | 3.8                           | 329,572                    | 2.2                           |
| Less: Refunds                                 | -9,734                       | 19.6                          | -31,766                       | -33.2                         | -9,734                     | 19.6                          |
| Net Personal Income Tax                       | 319,838                      | 1.7                           | 1,127,140                     | 5.4                           | 319,838                    | 1.7                           |
| Sales and Use Taxes                           | 270,954                      | 3.1                           | 817,273                       | 1.0                           | 270,954                    | 3.1                           |
| Motor Vehicles                                | 38,619                       | 4.9                           | 131,373                       | 7.5                           | 38,619                     | 4.9                           |
| Single Business Tax                           | 217,226                      | 0.2                           | 445,498                       | 5.2                           | 217,226                    | 0.2                           |
| Cigarette Tax                                 | 23,011                       | 7.2                           | 66,799                        | -3.1                          | 23,011                     | 7.2                           |
| Public Utility Taxes                          | 16,011                       | 3.1                           | 16,029                        | 3.1                           | 16,011                     | 3.1                           |
| Oil and Gas Severance                         | 5,101                        | 14.7                          | 14,037                        | 13.4                          | 5,101                      | 14.7                          |
| Lottery <sup>a</sup>                          | 40,122                       | -7.0                          | 127,772                       | 3.6                           | 40,122                     | -7.0                          |
| Penalties and Interest                        | 453                          | NM                            | 13,089                        | 3.9                           | 453                        | NM                            |
| SUW—Annuals and Undistributed <sup>b</sup>    | 6,450                        | 199.6                         | 17,146                        | NM                            | 6,450                      | 199.6                         |
| Other Taxes <sup>c</sup>                      | 17,173                       | -11.8                         | 70,229                        | 13.6                          | 17,173                     | -11.8                         |
| <b>TOTAL TAXES (GF &amp; SAF)<sup>d</sup></b> | <b>\$916,339</b>             | <b>1.7%</b>                   | <b>\$2,716,754</b>            | <b>5.3%</b>                   | <b>\$913,339</b>           | <b>1.7%</b>                   |
| Motor Fuel Tax <sup>e</sup>                   | \$53,590                     | -2.9%                         | \$174,377                     | -2.2%                         | \$53,590                   | -2.9%                         |

SOURCE: Data supplied by Michigan Department of Treasury.

NM=not meaningful

<sup>a</sup>Lottery 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.

<sup>b</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>c</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>d</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

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

*State Revenues and Expenditures,  
FY 1988-89*

There will be close scrutiny of state government revenues and expenditures over the next year or two as John Engler attempts to deal with a large budget deficit, reduce property taxes, and put his stamp on state spending and taxing policies.

Changes in spending and taxing policies should be based on equity, efficiency, and political considerations. However, policy makers also usually are interested in how their taxing and spending levels compare with other states.

The U.S. Department of Commerce recently released state revenue and expenditure data for fiscal year 1988-89. These data are summarized in Table 2. The table includes Michigan revenues and expenditures per \$1,000 of personal income and per capita, Michigan's rank among the 50 states, and the U.S. average for each category. The personal income measure is probably a better gauge of a state's relative position because it adjusts for the wealth of a state. For example, you would expect personal income tax collections to be higher in a rich state than in a poor state.

In terms of total revenues, Michigan is slightly above the national average on both measures, but ranks 30th on a per capita basis (\$2,449 per person) and 21st on the basis of personal income (\$148.47 per \$1,000 of income). The state ranks relatively low on general sales and motor fuel taxes and above average on individual income taxes.

Michigan's total state government expenditures are \$2,252 per capita, 6.2 percent above the national average and 19th highest among the states. Expenditures per \$1,000 of personal income are \$136.54, 5 percent above the national average, and 31st among the states.

Michigan ranks very high on spending for corrections (3), health and hospitals (3), and public welfare (7), and fairly high on higher education spending (20). (Ranks are based on personal income measure.)

Michigan ranks low on spending for total education (36), mainly because of below-average support for K-12 education, highways (46), and interest on debt (35).

Given the priorities of the Engler administration, Michigan is likely to rank higher on education spending and lower on human services spending by 1994.

*Table 2. Michigan State Government Revenue and Expenditures, Per \$1,000 of Personal Income, Per Capita, and Rank among States, FY 1988-89*

|                                | Per \$1,000 of<br>Personal Income | Rank      | U.S.<br>Average | Per Capita     | Rank      | U.S.<br>Average |
|--------------------------------|-----------------------------------|-----------|-----------------|----------------|-----------|-----------------|
| <b>Revenues</b>                |                                   |           |                 |                |           |                 |
| Individual income <sup>a</sup> | \$24.78                           | 20        | \$21.95         | 409            | 15        | 358             |
| General sales <sup>b</sup>     | 20.45                             | 33        | 23.12           | 337            | 24        | 377             |
| Motor fuel                     | 4.55                              | 34        | 4.46            | 75             | 34        | 73              |
| Total taxes                    | 72.74                             | 26        | 70.31           | 1,200          | 16        | 1,147           |
| Federal aid                    | 27.66                             | 28        | 26.79           | 456            | 23        | 437             |
| <b>TOTAL REVENUE</b>           | <b>\$148.47</b>                   | <b>30</b> | <b>\$145.20</b> | <b>\$2,449</b> | <b>21</b> | <b>\$2,369</b>  |
| <b>Expenditures</b>            |                                   |           |                 |                |           |                 |
| Education                      | \$39.85                           | 36        | \$42.87         | \$657          | 30        | \$699           |
| -Higher education              | 19.42                             | 20        | 15.25           | 320            | 11        | 249             |
| Public welfare                 | 29.39                             | 7         | 22.96           | 485            | 7         | 375             |
| Health and hospitals           | 14.93                             | 3         | 9.55            | 246            | 6         | 156             |
| Highways                       | 8.60                              | 46        | 10.57           | 142            | 46        | 172             |
| Police                         | 1.17                              | 26        | 1.17            | 19             | 20        | 19              |
| Corrections                    | 5.42                              | 3         | 3.72            | 89             | 5         | 61              |
| Interest on debt               | 3.54                              | 35        | 5.04            | 58             | 36        | 82              |
| General expenditures           | 121.80                            | 31        | 116.16          | 2,009          | 16        | 1,895           |
| <b>TOTAL EXPENDITURES</b>      | <b>\$136.54</b>                   | <b>31</b> | <b>\$129.98</b> | <b>\$2,252</b> | <b>19</b> | <b>\$2,120</b>  |

SOURCE: U.S. Department of Commerce, Bureau of the Census, State Government Finances, FY 1988-89.

<sup>a</sup> Forty states have a broadbased individual income tax.

<sup>b</sup> Forty-five states have a general sales tax.