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R E V E N U E

REVIEW

Quarterly
Revenue Report
for the
State of Michigan

MAY 2010

House Fiscal Agency
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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>2nd Qtr FY 2008-09</u>	<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$3,553.6 million	\$3,115.4 million	-12.3%	-6.1%

Revenue collections for second quarter (February–April) of fiscal year (FY) 2009-10 were lower than second quarter FY 2008-09 collections by \$438.2 million or 12.3%. Much of the decrease relative to a-year-ago was due to higher income tax refunds and lower business tax collections. Fiscal-year-to-date (FYTD) revenue was down \$537.7 million or 6.1%.

INCOME TAX (NET)

<u>2nd Qtr FY 2008-09</u>	<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$578.8 million	\$232.4 million	-59.9%	-18.9%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 81% of gross income tax collections. Annual and quarterly payments are based on self-employment earnings and other income sources, such as capital gains.

Net income tax collections (which include income tax refunds) for second quarter FY 2009-10 were lower than second quarter FY 2008-09 collections by \$346.5 million or 59.9%. Withholding payments were down 0.2%, quarterly and annual payments were down 15.4%, and refunds were up 14.7%. Net income tax collections FYTD were \$2.2 billion—down \$511.5 million or 18.9% from a year ago.

SALES AND USE TAXES

<u>2nd Qtr FY 2008-09</u>	<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$1,726.7 million	\$1,770.2 million	2.5%	2.1%

Sales tax collections are derived from the sale of taxable items such as motor vehicles, furniture, apparel, food consumed at restaurants, and other general merchandise. The use tax is applied to telephone services, leased motor vehicles, hotels and motels, gas and electric utilities, and remote sales.

Sales and use tax collections for second quarter FY 2009-10 were higher than the year-ago quarter by \$43.5 million or 2.5%. Sales tax due to motor vehicle sales decreased 1.5%; all other sales tax collections were up 3.8% in second quarter FY 2009-10 relative to the year-ago second quarter. Sales and use tax collections FYTD were \$3.6 billion—up \$75.5 million or 2.1% from a year ago.

BUSINESS AND INSURANCE TAXES

<u>2nd Qtr FY 2008-09</u>	<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$699.0 million	\$565.7 million	-19.1%	-9.2%

Michigan business tax (MBT) is applied to gross receipts less purchases from other firms and business income or net profit. The insurance tax is based on insurance premiums. For second quarter FY 2009-10, business tax collections were below the year-ago second quarter by \$133.3 million or 19.1%. Business tax collections FYTD were \$1.2 billion—down \$120.7 million or 9.2% from a year ago.

OTHER REVENUE

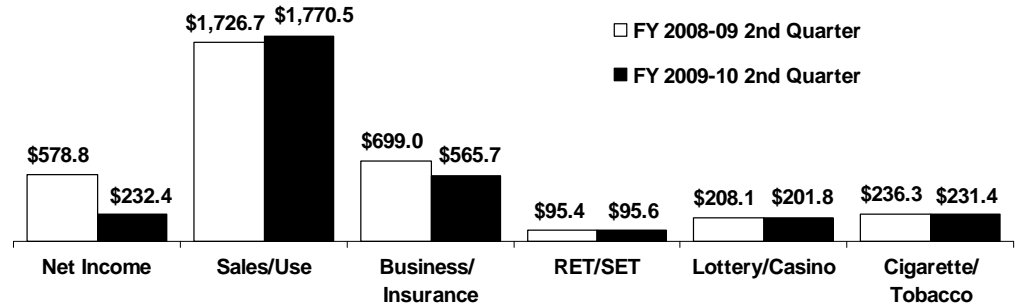
<u>2nd Qtr FY 2008-09</u>	<u>2nd Qtr FY 2009-10</u>	<u>2nd Qtr Change</u>	<u>YTD Change</u>
\$549.1 million	\$547.2 million	-0.3%	1.4%

Other revenue collections—primarily state education tax, real estate transfer tax, tobacco tax, and lottery revenue—for second quarter FY 2009-10 were down \$1.9 million or 0.3% from the second quarter of FY 2008-09. Other revenue collections FYTD were \$1.3 billion—up \$18.9 million or 1.4% from a year ago.

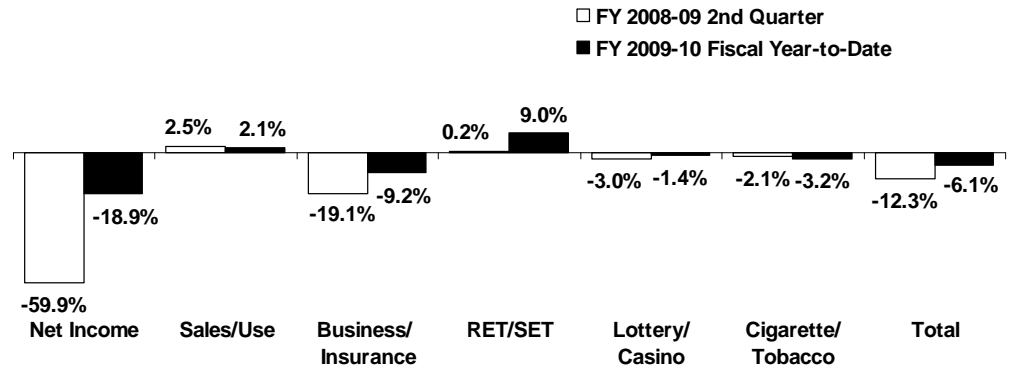
State of Michigan Revenue: 2nd Quarter Comparison
(Millions of Dollars)

Improvement in withholding (income tax) and sales tax revenue was largely offset by weakness in Michigan Business Tax revenue.

Fiscal year-to-date, GF/GP revenue is down \$80 million, and SAF revenue is up \$100 million from HFA target estimates—which are based on the January 2010 consensus.



State of Michigan Revenue: % Change From Prior Year



Revenue Quarterly Review: 2nd Quarter (February–April) FY 2009-10
(Millions of Dollars)

	% Change From		Change From			FY 2009-10 January Consensus Forecast Growth
	FY 2009-10 2nd Quarter	Year-Ago 2nd Quarter	FY 2009-10 Year-to-Date	Previous Fiscal Year-to-Date	FY 2009-10 Fiscal Year-to-Date	
Annual Income Tax	\$430.6	-17.6%	\$461.5	(\$86.6)	-15.8%	-12.5%
Quarterly Income Tax	84.0	-2.1%	275.9	(54.9)	-16.6%	-9.2%
Withholding	1,660.5	-0.2%	3,475.2	(110.3)	-3.1%	-4.6%
Subtotal	2,175.2	-4.3%	4,212.5	(251.8)	-5.6%	-5.6%
Income Tax Refunds	1,942.8	14.7%	2,018.1	259.7	14.8%	5.9%
Net Income Tax	232.4	-59.9%	2,194.4	(511.5)	-18.9%	-9.9%
Sales Tax	1,485.2	3.0%	3,053.0	37.7	1.2%	-3.2%
Use Tax	284.9	-0.1%	557.6	37.8	7.3%	2.7%
Subtotal	1,770.2	2.5%	3,610.6	75.5	2.1%	-2.3%
Single Business Tax	8.2	-117.4%	31.5	125.3	-133.5%	-183.0%
Michigan Business Tax	485.6	-27.9%	1,026.5	(244.7)	-19.3%	-1.4%
Insurance Tax	71.9	-1.5%	135.3	(1.2)	-0.9%	3.8%
Subtotal	565.7	-19.1%	1,193.2	(120.7)	-9.2%	-2.6%
Casino Wagering	25.1	-10.9%	55.1	(1.7)	-3.0%	-9.7%
Cigarette and Tobacco Tax	231.4	-2.1%	482.2	(16.2)	-3.2%	-6.0%
Lottery Transfer	176.7	-1.8%	349.9	(4.2)	-1.2%	-2.3%
Industrial/CommFacility Taxes	18.3	97.3%	27.6	6.4	30.5%	-21.5%
Real Estate Transfer Tax	25.7	10.7%	57.0	4.5	8.5%	1.4%
State Education Tax	69.9	-3.1%	363.4	30.1	9.0%	-8.1%
Subtotal	547.2	-0.3%	1,335.1	18.9	1.4%	-6.4%
TOTAL	\$3,115.4	-12.3%	\$8,333.3	(537.7)	-6.1%	-5.5%

House Fiscal Agency: Economic/Revenue Overview

U.S. Economy

** Gross Domestic Product or GDP grew 3.2% in the first quarter of 2010 – down from the 5.6% pace in the fourth quarter of 2009. The main contributors to the first quarter growth were consumer spending and inventories. Construction spending continued to drag down economic activity and state and local government spending declined the most in almost 30 years.

** Light motor vehicle sales decreased in April to a seasonally adjusted annual rate of 11.2 million units; this is above the March level of 11.8 million units. Compared to a year-ago, car sales were up 15.4% and light truck sales were up 24.8%. April sales for Ford increased 24.9%, for GM increased 6.4%, and for Chrysler increased 24.8% from a year-ago.

** Manufacturing, as measured by the ISM index, increased 0.8 points to 60.4 in April – the highest level since June 2004. Production, orders, and employment all led to the manufacturing increase. The non-manufacturing services industries index remained flat at 55.4 in April; the highest level since May 2006. Both indices point to higher economic activity.

** National nonfarm employment increased by 290,000 in April following an increase of 230,000 in March. The April employment gain was the best reading since March 2006. Job gains occurred in construction, manufacturing, business and professional services, education and health services, leisure and hospitality, and federal government (due to temporary hiring of census workers).

Michigan Economy

** Michigan nonfarm employment decreased by 10,000 in March, after a decrease of 16,000 jobs in February. Job gains in professional and business services were offset by losses in construction, financial activities, education and health services, leisure and hospitality services and government.

** In March, Michigan's unemployment rate was 14.1%; while the national unemployment rate was 9.7%. In March, Michigan had the highest unemployment rate in the nation, followed by Nevada at 13.4%, Rhode Island at 12.6%, California at 12.6%, and Florida at 12.3%.

State Revenue

** Based on HFA target estimates and revenue data through April, revenue is down \$80 million for the General Fund/General Purpose and is up \$100 million for the School Aid Fund. Target estimates are based on the January 2010 consensus estimates.

** According to the Rockefeller Institute, state tax revenue (personal income, corporate income, and sales tax) in the October – December 2009 period, declined 4.1% compared with the same period a year ago – the fifth consecutive quarterly decline. Total tax revenue declined in 43 states, while New England reported a slight increase and the Southwest had the steepest decline.