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R E V E N U E R E V I E W

Quarterly
Revenue Report
for the
State of Michigan

MAY 2004

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>2nd Qtr FY 2002-03</u>	<u>2nd Qtr FY 2003-04</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$3,742.6 million	\$3,938.0 million	5.2%	1.1%

Revenue collections for second quarter (February–April) fiscal year (FY) 2003-04 were \$195.4 million or 5.2% higher than second quarter FY 2002-03 collections. This was a marked improvement from the 2.2% decline posted in the first quarter of FY 2003-04. Revenue for fiscal year-to-date (FYTD) totaled \$8.7 billion—up \$90.2 million or 1.1% from the first two quarters of FY 2002-03.

INCOME TAX (NET)

<u>2nd Qtr FY 2002-03</u>	<u>2nd Qtr FY 2003-04</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$974.4 million	\$1,052.3 million	8.0%	1.8%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 80% of total 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 2003-04 were \$77.9 million or 8.0% higher than second quarter FY 2002-03 collections. The second quarter increase followed a 1.3% decline in the first quarter. Withholding payments were up 3.0%, quarterly and annual payments increased 9.4%, and refunds were up 1.0%. Net income tax collections for FYTD totaled \$2.9 billion—up \$52.6 million or 1.8% from the first two quarters of FY 2002-03.

SALES AND USE TAXES

<u>2nd Qtr FY 2002-03</u>	<u>2nd Qtr FY 2003-04</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$1,768.7 million	\$1,827.3 million	3.3%	0.4%

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 2003-04 were \$58.6 million or 3.3% higher than the year-ago quarter. Sales tax due to motor vehicle sales decreased 7.8%; all other sales tax collections were up 5.2% in the second quarter FY 2003-04 relative to the year-ago second quarter. Sales and Use tax collections for FYTD totaled \$3.7 billion—up \$15.2 million or 0.4% from the first two quarters of FY 2002-03.

SINGLE BUSINESS AND INSURANCE TAXES

<u>2nd Qtr FY 2002-03</u>	<u>2nd Qtr FY 2003-04</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$493.8 million	\$563.8 million	14.2%	1.3%

Single Business and Insurance taxes are applied to the value added of business activities. For second quarter FY 2003-04, Single Business and Insurance tax collections were \$70.0 million or 14.2% above the year-ago second quarter. Single Business and Insurance tax collections for FYTD totaled \$1.0 billion—up \$12.9 million or 1.3% from the first two quarters of FY 2002-03.

OTHER REVENUE

<u>2nd Qtr FY 2002-03</u>	<u>2nd Qtr FY 2003-04</u>	<u>2nd Qtr % Change</u>	<u>YTD % Change</u>
\$505.7 million	\$494.6 million	-2.2%	1.0%

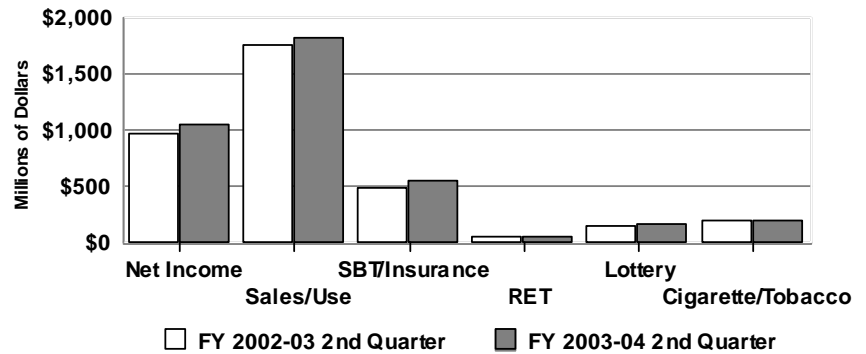
Other revenue—which includes primarily the Real Estate Transfer (RET) tax, the Cigarette/Tobacco tax, and revenue from the Lottery—for second quarter FY 2003-04 was down \$11.1 million or 2.2% from the second quarter of FY 2002-03. Other revenue for FYTD totaled \$1.0 billion—up \$9.5 million or 1.0% from the first two quarters of FY 2002-03.

Weakness in sales tax revenue was offset by growth in use tax, annual and quarterly income tax payments, and the real estate transfer tax.

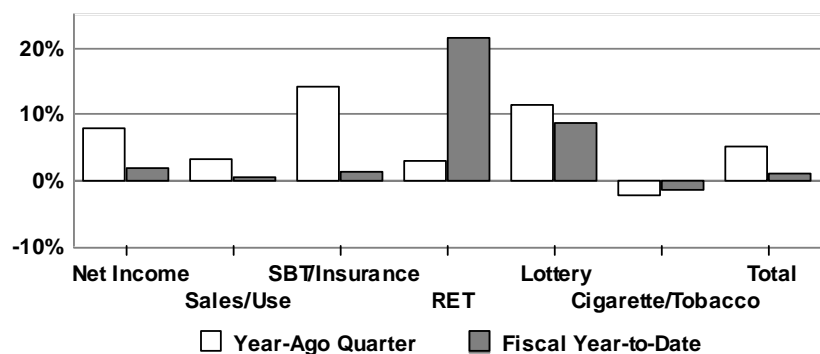
Revenue, without SET, was up 5.2% from the year-ago quarter, and up 1.1% on a fiscal-year-to-date basis.

Revenue growth must accelerate in the second half of the year to meet the January consensus forecast of 1.7% for FY 2003-04.

**State of Michigan Revenue
2nd Quarter Comparison**



**State of Michigan
% Change from Year-Ago 2nd Quarter and Fiscal Year-to-Date**



Revenue* Quarterly Review: 2nd Quarter (February-April) FY 2003-04 (Millions of Dollars)

	FY 2003-04 2nd Quarter	Percent Change from Year-Ago 2nd Quarter	FY 2003-04 Year-to-Date	Change from Previous Fiscal Year-to-Date		FY 2003-04 January Consensus Forecast Growth
				Dollar	Percent	
Annual Income Tax	\$386.9	10.2%	\$406.3	\$39.1	10.6%	0.1%
Quarterly Income Tax	104.8	6.4%	316.6	5.6	1.8%	0.6%
Withholding	1,588.4	3.0%	3,289.5	(2.4)	-0.1%	1.4%
Subtotal	2,080.1	4.4%	4,012.4	42.3	1.1%	1.3%
Income Tax Refunds	1,027.8	1.0%	1,106.6	(10.3)	-0.9%	5.6%
Net Income Tax	1,052.3	8.0%	2,905.8	52.6	1.8%	0.2%
Sales Tax	1,508.7	3.0%	3,103.1	(11.2)	-0.4%	3.1%
Use Tax	318.6	4.6%	624.0	26.4	4.4%	2.3%
Subtotal	1,827.3	3.3%	3,727.1	15.2	0.4%	3.0%
Single Business Tax	482.5	11.0%	903.1	(0.5)	-0.1%	1.9%
Insurance Tax	81.3	37.3%	137.9	13.4	10.8%	6.9%
Subtotal	563.8	14.2%	1,041.0	12.9	1.3%	2.5%
Inheritance/Estate Tax	14.5	-53.1%	35.7	(23.7)	-39.9%	-29.0%
Cigarette/Tobacco Tax	202.6	-2.3%	419.7	(5.6)	-1.3%	-1.6%
Lottery	165.8	11.4%	324.9	25.8	8.6%	8.4%
Industrial/Comm/Facility Taxes	48.9	-15.3%	77.0	(12.6)	-14.1%	3.0%
Real Estate Transfer (RET) Tax	62.8	3.1%	144.9	25.6	21.5%	-0.3%
Subtotal	494.6	-2.2%	1,002.2	9.5	1.0%	0.5%
TOTAL*	\$3,938.0	5.2%	\$8,676.1	\$90.2	1.1%	1.7%

*State Education Tax (SET) is not included due to the accelerated collection.

NOTE: Consensus revenue figures reflect enacted tax changes. All revenue, except for Lottery, is on an accrual basis and begins with November collections.