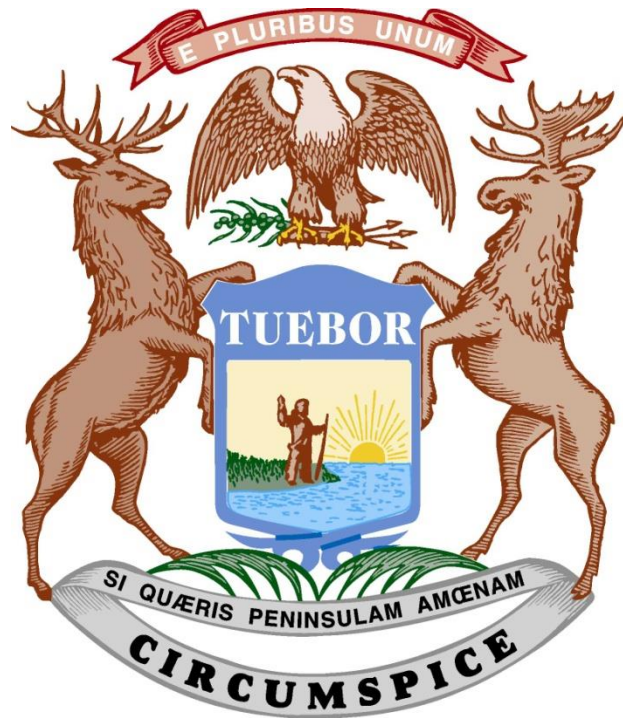


# ECONOMIC AND REVENUE FORECASTS

FY 2023 \* FY 2024 \* FY 2025



## CONSENSUS REVENUE ESTIMATING CONFERENCE (CREC)

MAY 19, 2023

# OUTLINE

- **Recent Economic and Revenue Updates**  
Eric Bussis, Department of Treasury
- **Revenue Estimates for Major Taxes**  
Jim Stansell, House Fiscal Agency
- **Revenue Estimates by Fund**  
David Zin, Senate Fiscal Agency

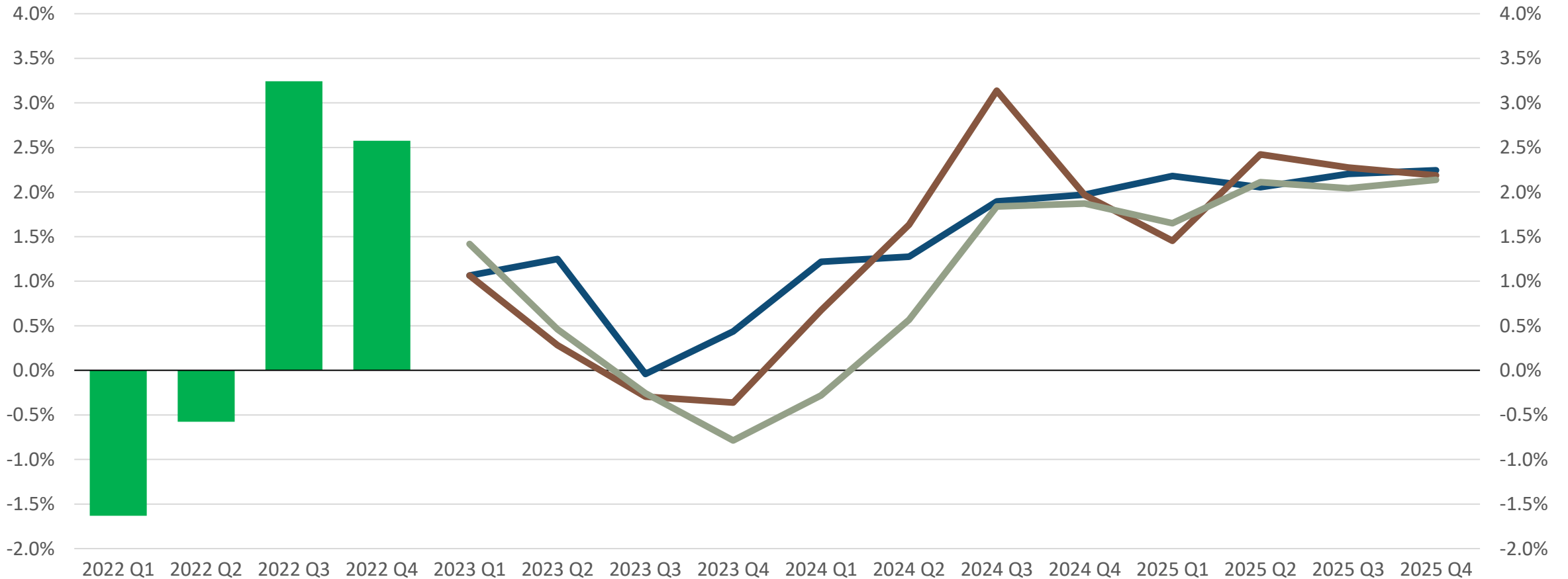
# ECONOMIC OUTLOOK

- U.S. Economy
  - Real GDP will grow at progressively slower rates through 2024, before improving in 2025
  - Wage and salary employment growth will slow through 2024, gradually improving in 2025
  - Inflation is currently high, but is expected to slow over the next three years, with inflation around 4.5% in 2023 and the pace of increase slows to 3.0% in 2025
- Michigan Economy
  - Michigan's unemployment rate is forecast to trend slightly above the national rate through 2025
    - Forecast to increase from 4.3% in 2023 to 4.8% in 2024
  - Michigan wage and salary employment growth is expected to follow a similar path as the nation
  - Michigan wage and salary income growth is expected to be similar to national growth

# Agency Forecasts Predict a Slowing Economy in 2023

## Quarterly Real GDP

Actual SFA HFA Admin.



# REVENUE UPDATES SINCE JANUARY CREC

- FY 2023 collections are tracking slightly below January CREC 2023 estimates
  - Withholding, sales, and use tax on track with the January forecast
  - Revenue from Individual Income Tax payments, excluding withholding, fell short of target by more than \$450 million
  - Revenue collections boosted by Corporate Income Tax collections, exceeding target by more than \$100 million
  
- Multiple tax policy and tax rate changes have taken effect, which will be included in the CREC revenue estimates

# INCOME TAX RATE UNDER MCL 206.51(1)

Beginning with tax year 2023, the income tax rate is reduced if General Fund-General Purpose revenue growth exceeds defined levels

The reduction calculation uses General Fund-General Purpose revenue as published in the Annual Comprehensive Financial Report (ACFR)

- With the publication of the FY 2022 ACFR, this calculation and rate can now be determined
- Under the calculation, the Individual Income Tax Rate for tax year 2023 is 4.05%, down from the 4.25% rate for 2022

Statute states that the rate will be set at the consensus conference

# TAX CHANGES IMPACT REVENUE COLLECTIONS

Legislation enacted since the January conference will lower revenue estimates

Combined impact will lower GF-GP and SAF Revenue (values in millions):

	FY 2023	FY 2024	FY 2025
Individual Income Tax Rate Trigger	-\$428.2	-\$218.7	
PA 4: Corporate Income Tax Earmarks	-\$600.0	-\$600.0	-\$600.0
PA 4: Earned Income Tax Credit		-\$768.0	-\$384.0
PA 4: Retirement Taxation Changes		-\$281.0	-\$350.0
PA 20, 21, 29: Delivery & Installation Exemption	-\$18.0	-\$62.9	-\$63.8
<b>Total Tax Policy Impacts on Revenue</b>	<b>-\$1,046.2</b>	<b>-\$1,930.6</b>	<b>-\$1,397.8</b>

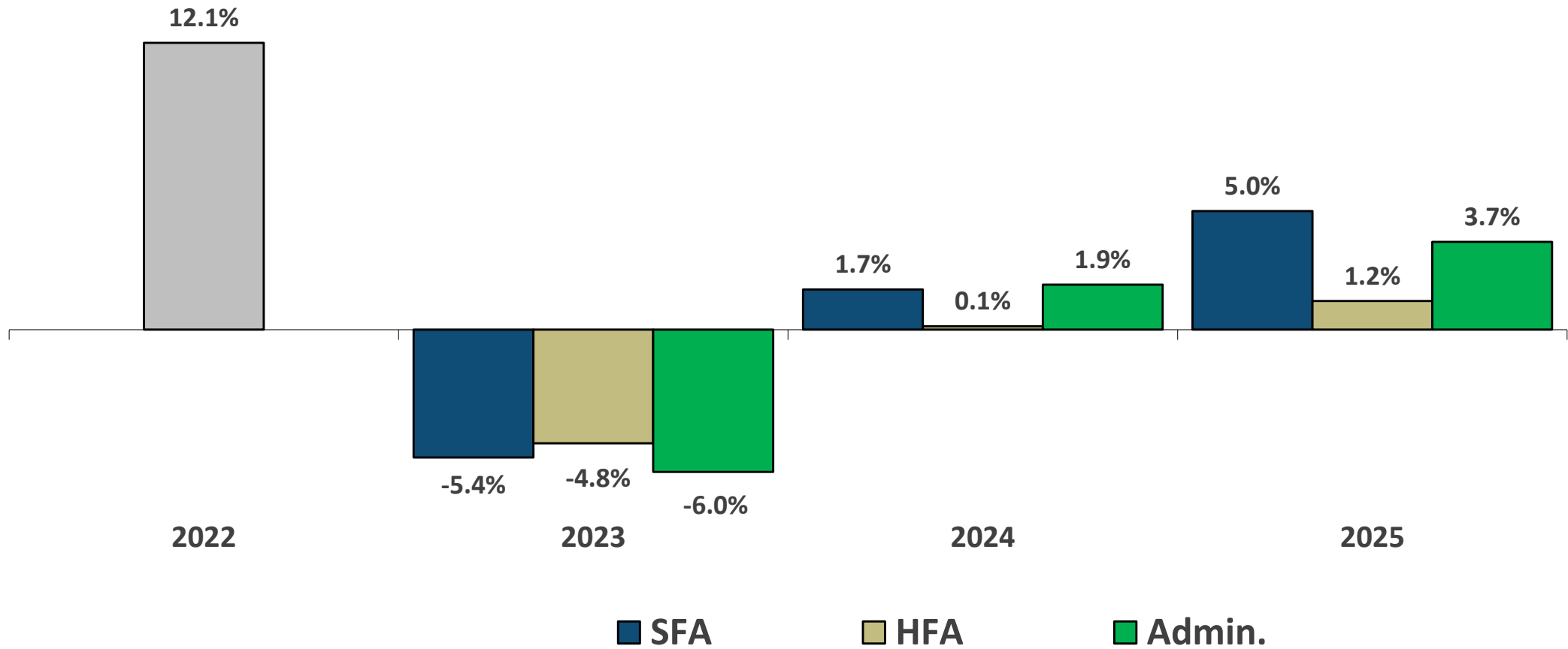
# FORECAST OF MAJOR TAXES

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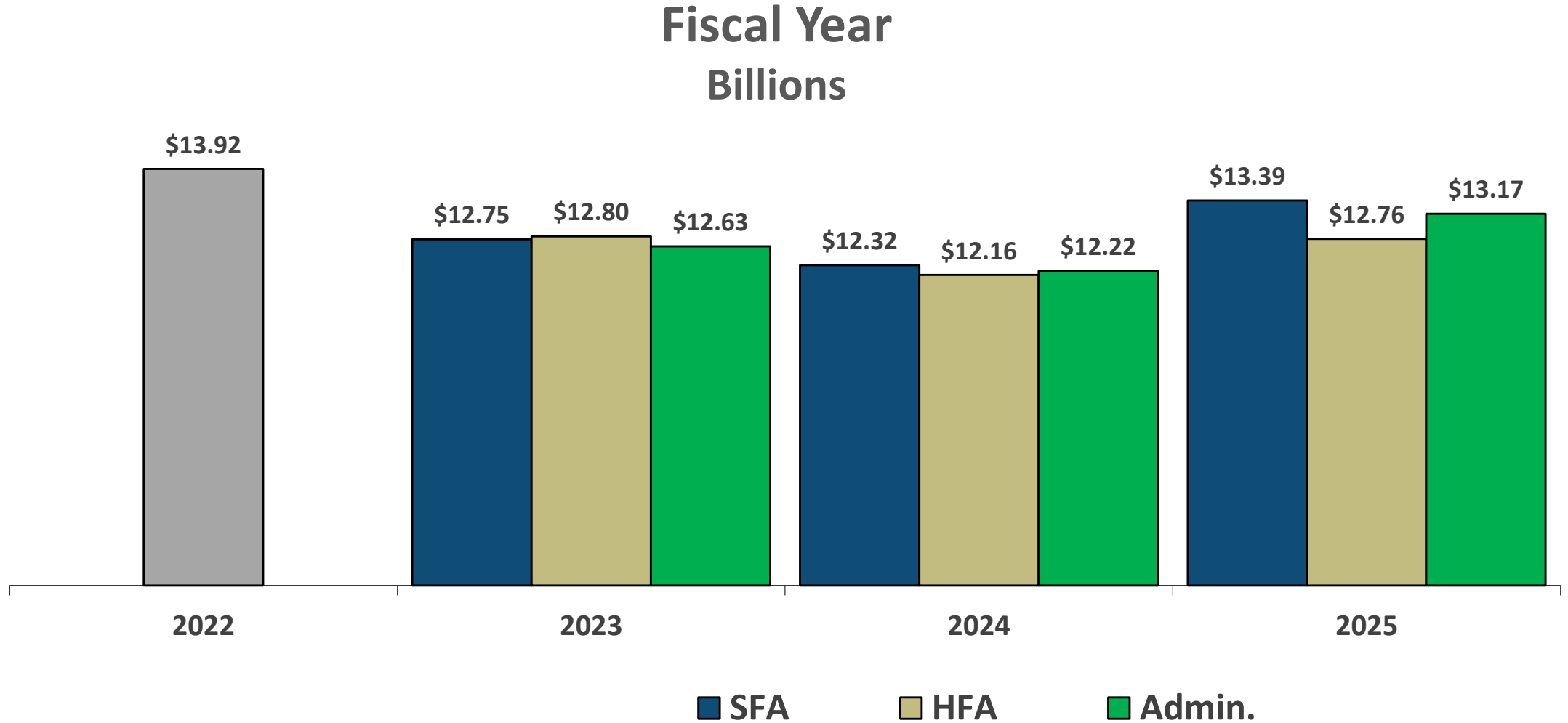


# Baseline Income Tax Growth

## Fiscal Year Growth

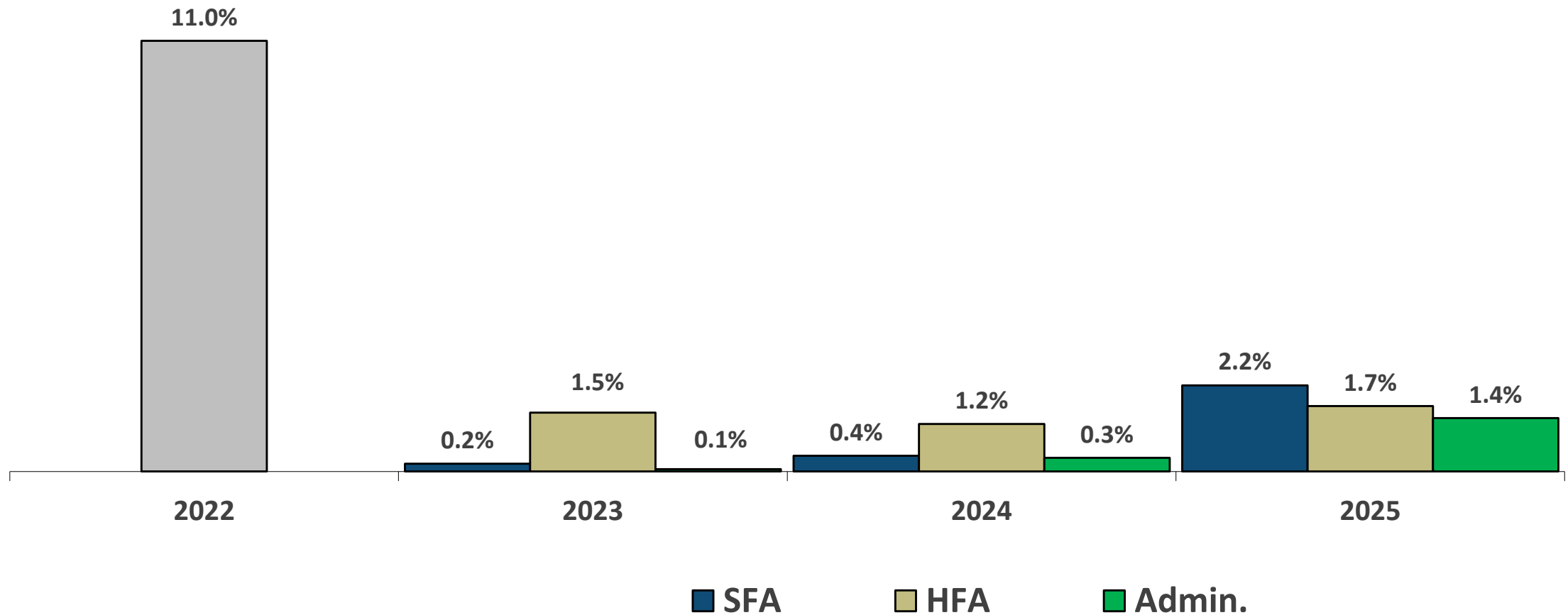


# Net Income Tax Revenue Estimates



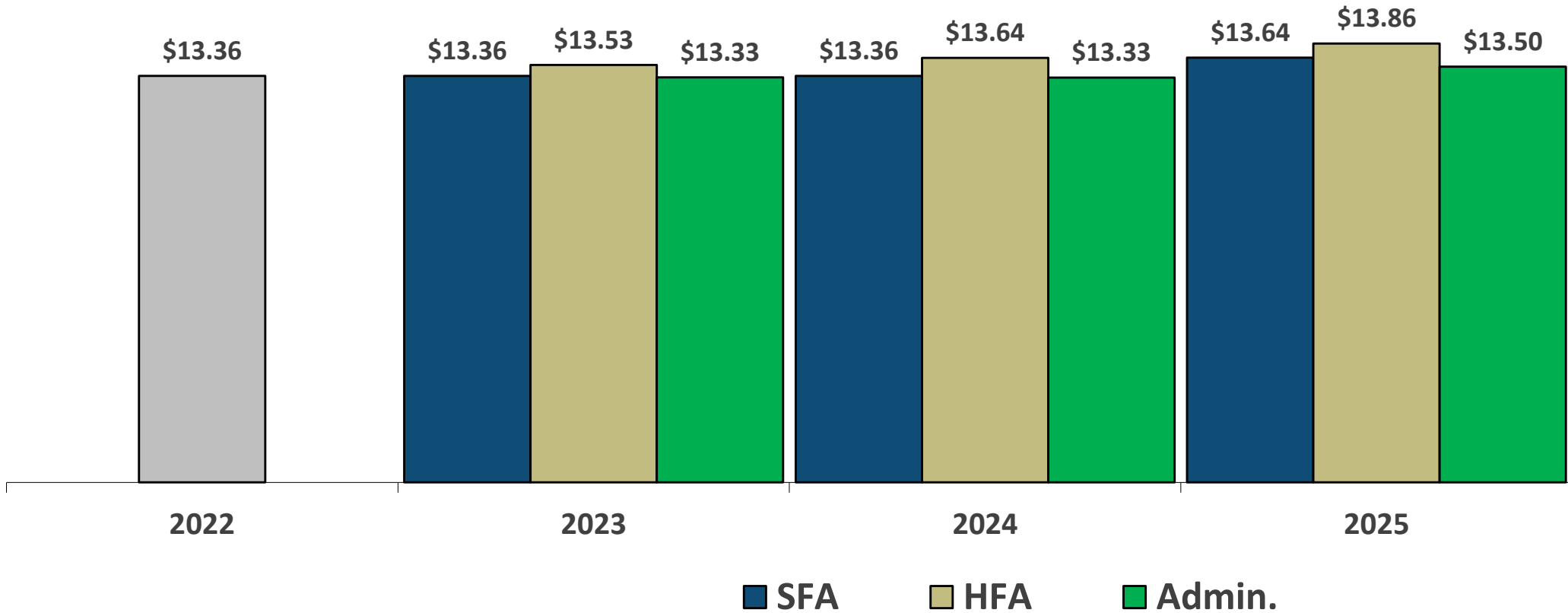
# Baseline Sales and Use Taxes Growth

## Fiscal Year Growth



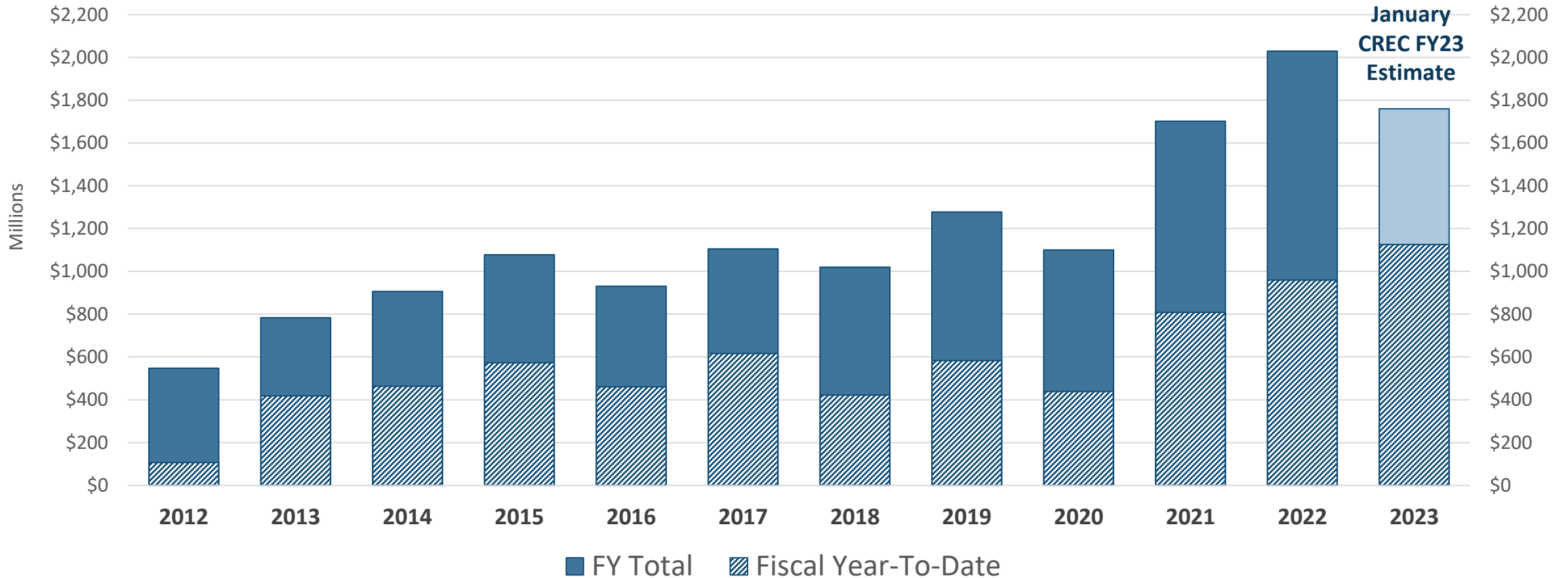
# Net Sales and Use Taxes Revenue Estimates

## Fiscal Year Billions



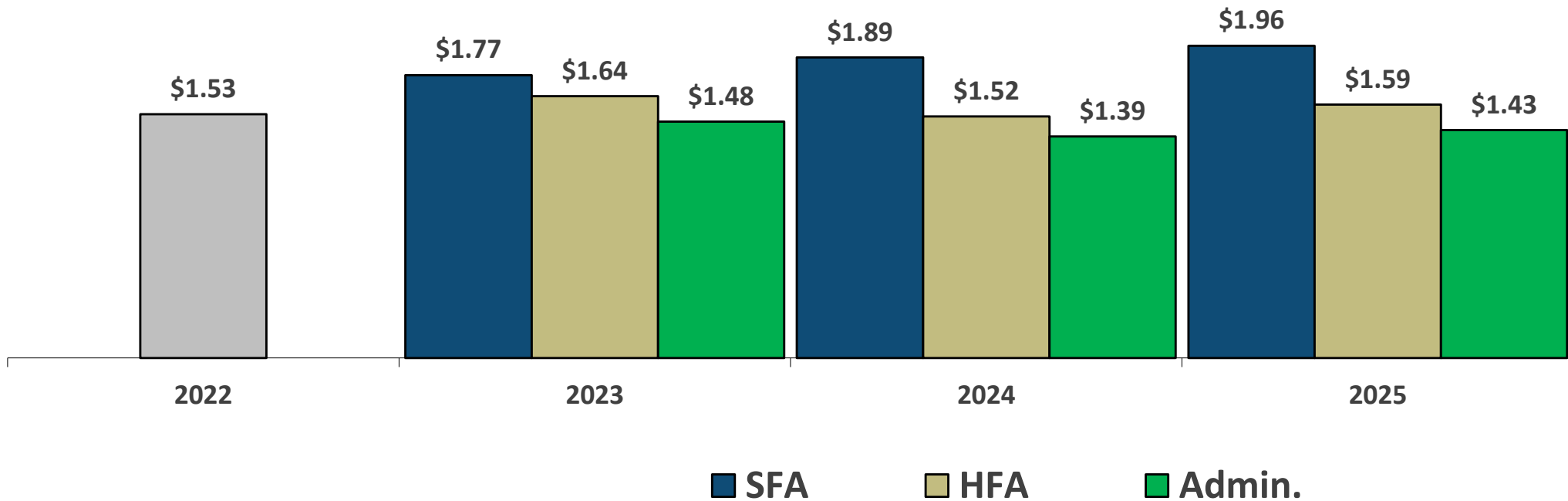
# Increased Business Tax Payments

## Corporate Income Tax Collections Fiscal Year Total and Fiscal Year-To-Date through April



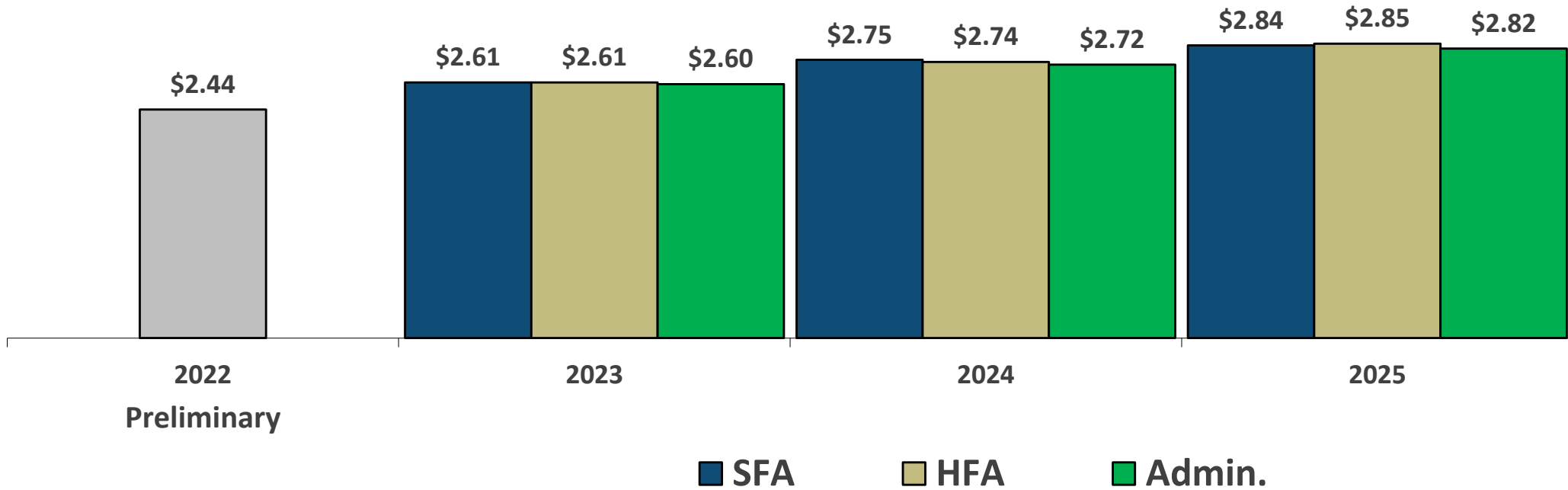
# Net CIT/MBT Revenue Estimates

Fiscal Year  
Billions



# Net SET Revenue Estimates

## Fiscal Year Billions



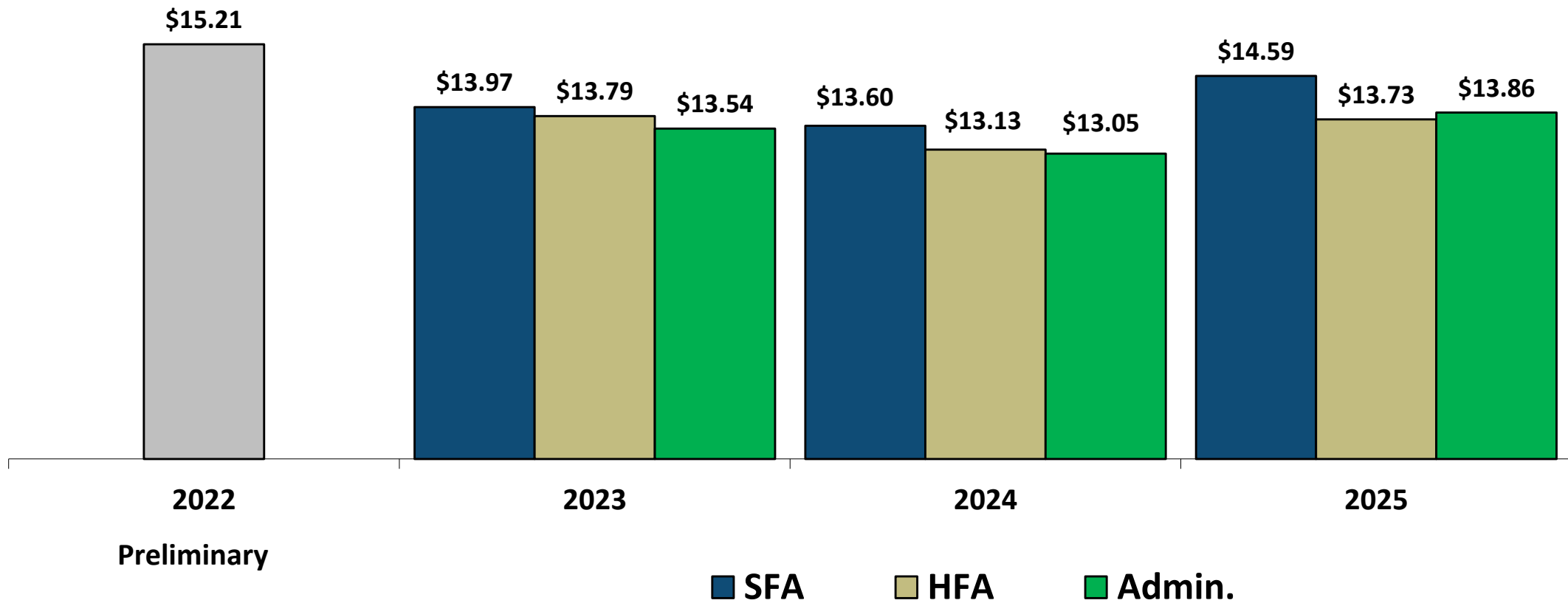
# FORECAST OF GF-GP AND SCHOOL AID FUND

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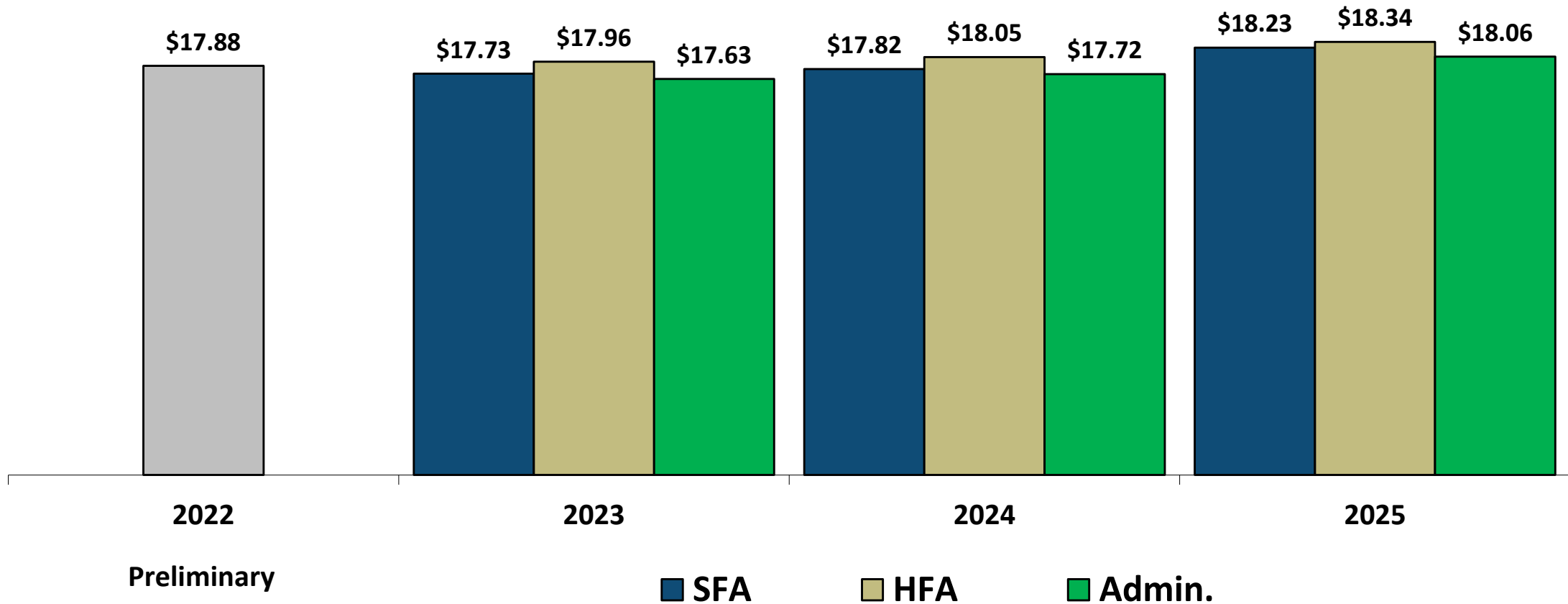
# GF-GP Net Revenue Estimates

## Fiscal Year Billions



# School Aid Fund Net Revenue Estimates

Fiscal Year  
Billions



# Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2023			FY 2024			FY 2025		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	\$13,968.1	\$13,793.0	\$13,542.4	\$13,599.7	\$13,129.2	\$13,048.8	\$14,588.6	\$13,727.7	\$13,859.6
School Aid Fund	\$17,730.7	\$17,960.3	\$17,629.4	\$17,821.4	\$18,050.7	\$17,721.4	\$18,230.0	\$18,343.3	\$18,058.4

Difference from January Consensus Estimates									
	FY 2023			FY 2024			FY 2025		
	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
GF-GP	-\$809.8	-\$984.8	-\$1,235.5	-\$1,492.5	-\$1,963.0	-\$2,043.4	-\$956.9	-\$1,817.9	-\$1,685.9
School Aid Fund	\$95.6	\$325.0	-\$5.7	-\$24.6	\$204.6	-\$124.6	-\$27.6	\$85.7	-\$199.2
<b>Combined*</b>	-\$714.2	-\$659.8	-\$1,241.2	-\$1,517.1	-\$1,758.4	-\$2,168.0	-\$984.5	-\$1,732.1	-\$1,885.1

\*Revenue collections are forecast to decline primarily due to tax rate reductions, tax cuts, tax incentives, with a mild economic downturn expected to have a contributing effect.

# Revenue Forecast Difference from January - Breakdown

Difference from January Consensus Estimates (Values in Millions)									
	FY 2023			FY 2024			FY 2025		
<u>Revenue Difference</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>	<u>SFA</u>	<u>HFA</u>	<u>Admin.</u>
Due to Policy Changes Enacted Since January	-\$1,046.2	-\$1,046.2	-\$1,046.2	-\$1,930.6	-\$1,930.6	-\$1,930.6	-\$1,397.8	-\$1,397.8	-\$1,397.8
Due to Economic Conditions	\$332.0	\$386.4	-\$195.1	\$413.5	\$172.2	-\$237.4	\$413.3	-\$334.3	-\$487.3
<b>Total Revenue Difference from January Consensus</b>	<b>-\$714.2</b>	<b>-\$659.8</b>	<b>-\$1,241.2</b>	<b>-\$1,517.1</b>	<b>-\$1,758.4</b>	<b>-\$2,168.0</b>	<b>-\$984.5</b>	<b>-\$1,732.1</b>	<b>-\$1,885.1</b>

# Budget Stabilization Fund

## Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

### *Pay-ins*

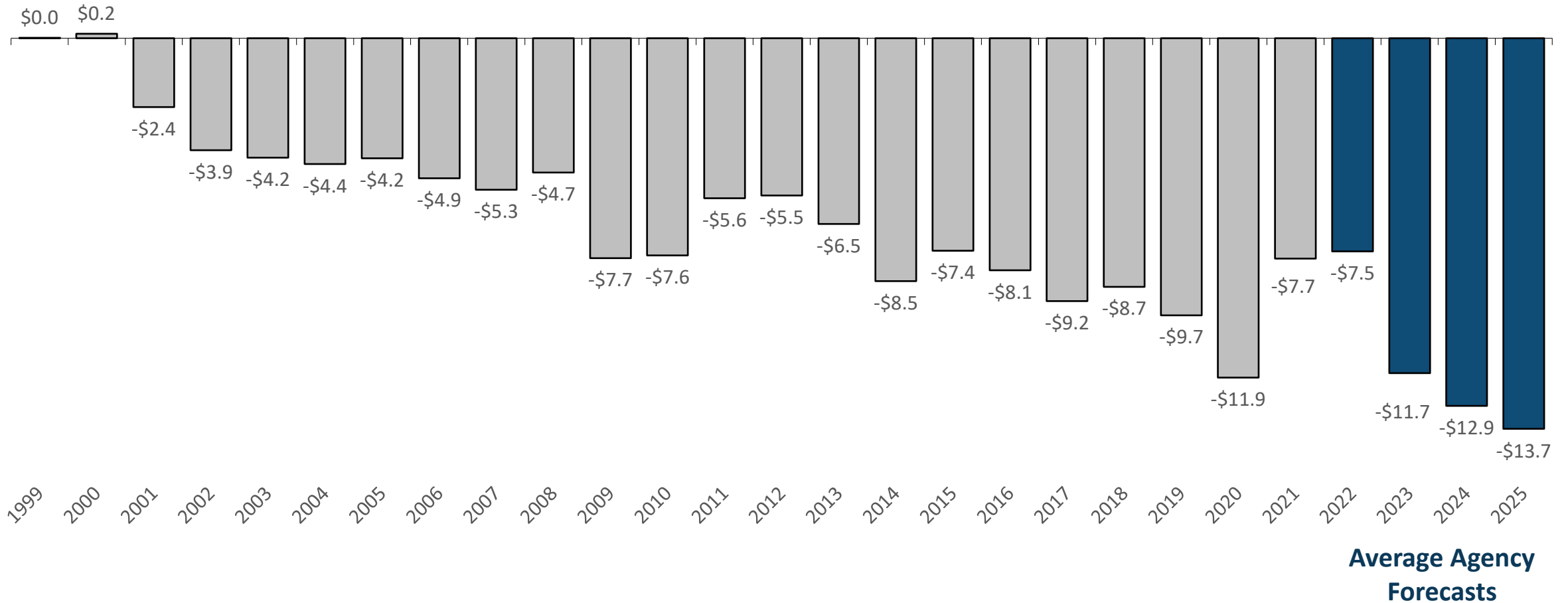
- No pay-ins during FY 2023, FY 2024 and FY 2025

### *Pay-outs*

- Pay-outs during
  - FY 2023 estimated to be between \$0 and \$397 million
  - FY 2024 estimated to be between \$0 and \$397 million
  - No payouts during FY 2025

# Constitutional Revenue Limit Calculation

## Amount Under/Over the Constitutional Revenue Limit Billions



# MACROECONOMIC FORECAST RISKS

- Shifting monetary policy and the timing of Federal Reserve rate changes could help ease or hasten the economic downturn
- The projected economic slowdown may be of greater severity and duration than expected
- Inflation, gas prices, and the resumption of student loan payments may significantly impact consumer spending
- Financial shocks due to banking sector or government spending disruptions

# MICHIGAN TAX REVENUE FORECAST RISKS

- When, and how quickly, both incomes and spending return to normal
- How quickly inflation is contained and the impact to economic activity
- Potential changes to the revenue accrual process and standards
- Development tax incentives outside CREC
  - Projects have been approved for Transformational Brownfield and Good Jobs for Michigan incentives, which will reduce revenue in the future
  - Estimates are not included in the CREC, due to the uncertainty around timing
  - Projects approved by the Michigan Strategic Fund include:
    - Six Good Jobs for Michigan projects will reimburse the company in the amount of their employees' withholding, which will lower revenue by \$188.4 million
    - Three Transformational Brownfield Projects will lower revenue by \$798.9 million, just below the current cap of \$800 million allowed



# ECONOMIC AND REVENUE FORECASTS

FY 2023 \* FY 2024 \* FY 2025



## CONSENSUS REVENUE ESTIMATING CONFERENCE

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MAY 19, 2023