

MONTHLY REVENUE REPORT

September 2004

The news on tax collections in September was not good. The revenue collected from Michigan's major taxes earmarked to the General Fund and School Aid Fund totaled \$1.5 billion in September, which was down 3.1% from the year-ago level. These tax collections for September exclude the revenue from the State education property tax, because a new collection pattern that went into effect this year makes it impossible to make meaningful comparisons with last year's collections. The decline in September collections was the steepest monthly decline experienced since November 2003 when tax collections fell 3.4%. Taxes experiencing a decline in September included the income, sales, single business, insurance, estate, and severance taxes. This weakness in September tax collections was due in part to the unexpected pause in economic activity during the past couple of months. September tax collections had been expected to come in about even with last year's level.

On a fiscal year-to-date basis, tax collections are up from the comparable year-ago level by 1.3%; however, given the weak level of collections in September, tax collections to date are below the estimated level by about \$50 million. While Michigan's fiscal year ended on September 30, tax revenue collected in October and November that became a liability before the end of September will be accrued back to FY 2003-04.

Net income tax revenue (gross collections less refunds) declined 7.0% in September to \$580 million. This was only the third time in the past 12 months that income tax revenue fell below the year-ago level. Gross income tax collections (withholding, quarterly, and annual payments) were down 5.3% in September; however, about half of this decline is attributable to the fact that the tax rate is 0.1 percentage point lower now than it was last year at this time. Income tax refunds topped the year-ago level by 27.3%. So far in FY 2003-04, net income tax collections are up about 1.3%, which is running ahead of the 1.1% consensus estimate for FY 2003-04. At least some of this fiscal year-to-date growth is due to the slower processing of income tax refunds this year compared with last year; therefore, as outstanding refunds are processed and accounted for during the year-end bookclosing period, the gain in net income tax collections is expected to diminish.

Sales tax collections totaled \$553 million in September, which was down 4.9% from last year. Sales tax collections from motor vehicle transactions were down 7.1%, while the sales tax collected from all other taxable retail sales was down 4.5%. On a fiscal year-to-date basis, sales tax revenue is up 0.6%, which is trailing the consensus estimate for FY 2003-04 of 1.4% growth.

Single business tax revenue totaled \$107 million, which was down 1.7% from the year-ago level. After being up 4.0% during the first five months of FY 2003-04, fiscal year-to-date single business tax collections were down 3.2% by the end of September.

Taxes that posted increases in collections in September compared with their year-ago levels included the tobacco, State education, and real estate transfer taxes. Tobacco tax collections were up 31.1%, but this increase was due to the higher tax rates that went into effect July 1, 2004. State education property tax revenue was up 27.2%, but this increase reflected the new collections pattern in effect this year. Real estate transfer tax collections topped last year's level by 40.1%, which reflects a continuing active real estate market.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for September 2004, along with their fiscal year-to-date revenue collections and growth rates. Also presented are the revenue estimates for FY 2003-04, which were adopted at the May 2004 Consensus Revenue Estimating Conference.



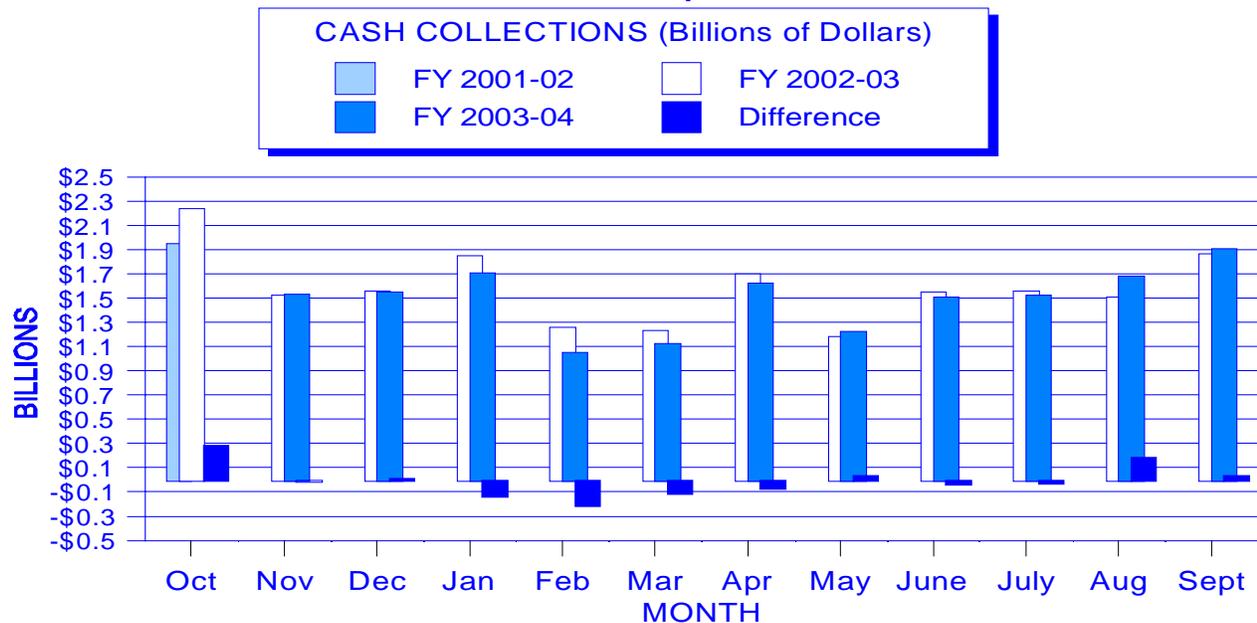
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**MICHIGAN REVENUE UPDATE
SEPTEMBER 2004
(dollars in millions)**

Type of Revenue	September Collections		FY 2003-04 to Date ²⁾		FY 2003-04 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 2002-03
Gross Income Tax	\$ 620.3	(5.3)%	\$6,883.5	1.0%	\$7,516.2	2.1%
Refunds	(40.1)	27.3	(1,517.5)	0.2	(\$1,640.9)	5.8
Net Income Tax	\$ 580.2	(7.0)%	\$5,366.0	1.3%	\$5,875.3	1.1%
Sales Tax	553.3	(4.9)	5,897.4	0.6	6,514.2	1.4
Motor Vehicles	81.9	(7.1)	830.6	(13.0)	---	---
All Other Sales Tax	471.4	(4.5)	5,066.8	3.3	---	---
Use Tax	113.4	1.2	1,205.3	6.8	1,284.6	4.5
Tobacco Taxes ⁴⁾	103.7	31.1	854.3	4.6	943.8	5.9
Single Business Tax	107.0	(1.7)	1,595.9	(3.2)	1,835.1	(0.4)
Insurance Tax	0.5	(64.3)	204.0	(0.6)	247.0	6.9
State Education Property Tax	397.0	27.2	851.5	(38.5)	1,745.2	(18.0)
Real Estate Transfer Tax	31.8	40.1	291.5	23.3	297.7	8.1
Estate/Inheritance Tax	3.6	(69.0)	74.8	(22.2)	65.0	(34.1)
Casino Wagering Tax	15.0	2.7	95.8	5.7	98.5	8.4
Oil & Gas Severance Tax	5.4	(14.3)	45.8	(8.6)	56.0	16.9
Total	\$1,910.9	2.0%	\$16,482.3	(2.0)%	\$18,962.4	(0.6)%
Excluding State Education	\$1,513.9	(3.1)%	\$15,630.8	1.3%	\$17,217.2	1.6%
Addendum:						
Gross Lottery Sales ⁵⁾	\$164.0	18.7%	\$1,973.6	17.4%	\$1,865.9	10.9%
Net to School Aid Fund ⁵⁾	\$ 52.5	7.3%	\$ 643.7	10.1%	\$ 637.0	8.7%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
- 2) FY 2003-04 year-to-date collections begin with November 2003 collections to reflect accrual accounting.
- 3) Includes: 1) consensus revenue estimates adopted May 18, 2004, 2) revenue expected from expanded effort to collect delinquent taxes, and 3) revenue from the recent tobacco tax increase.
- 4) Tobacco tax revenue includes the revenue generated from the tax increase effective July 1, 2004.
- 5) Lottery revenue is not accrued, so FY 2003-04 lottery revenue will include October 2003 to September 2004.

**Actual Revenue Collections for Major State Taxes*
October 2002 to September 2004**



*Comparison of actual collections. Major taxes include the net income (gross collections less refunds), sales, use, tobacco (cigarette tax and other tobacco products tax), SBT, insurance retaliatory, estate, oil and gas severance, State education, real estate transfer, and casino wagering taxes.