

# MONTHLY REVENUE REPORT

## March 2007

Michigan's major General Fund and School Aid Fund taxes generated \$980.7 million in March, which was down 5.0% from the year-ago level. This marks the fifth consecutive month that tax collections have fallen below their year-ago level. Among the major taxes, collections were up in March for the income and casino taxes; however, these gains were more than offset by declines in the sales, use, single business, tobacco, insurance, State education, real estate transfer, and severance taxes. Based on a three-month moving average to help smooth out the monthly noneconomic volatility in collections, tax collections in March were still down 2.6%.

So far in FY 2006-07, General Fund and School Aid Fund tax collections are down 2.4% and compared with the Senate Fiscal Agency's monthly breakdown of the January consensus revenue estimates, actual tax collections are already trailing the estimates in the range of \$20.0 million to \$30.0 million. Whether this downward trend in tax collections continues will depend a lot on tax collections in April. April is always a big month for tax collections because annual and quarterly payments are due for both the income and single business taxes, but this year sales tax collections are expected to be up sharply in April due in large part to noneconomic timing factors. If these key tax collections come in weaker than is consistent with the January consensus revenue estimates, then further downward revisions in the revenue estimates will certainly be necessary.

Income tax revenue totaled \$155.6 million in March, which was up 46.7% from last year's level. This large increase was due to an increase in gross collections coupled with a reduction in refunds. Gross collections were up 5.6% due largely to a 5.8% increase in withholding payments. Withholding payments have been up for five consecutive months. Income tax refunds declined in March to \$470.2 million from \$486.6 million last year in March. On a fiscal year-to-date basis, net income tax collections are up 2.3%.

Sales tax receipts totaled \$469.3 million, which was down 10.3% from the year-ago level. While sales tax collections were expected to be down in March due to a noneconomic shift in the timing of sales tax collections, the actual decline was about twice as large as had been expected. Sales tax collections have fallen below year-ago levels in four of the past five months, which is in sharp contrast to the increases that have been realized in income tax collections. This weakness in sales tax collections is probably due in large part to the weakness in Michigan's labor market and the slowdown in the housing sector. The weakness in Michigan's labor market has caused workers to lose their jobs, be underemployed, or feel less secure about their jobs. These all translate into consumers' being more cautious financially, which has a negative impact on sales tax receipts. In addition, when new and existing home sales are down, consumers also tend to spend less on big-ticket household goods such as appliances and carpeting, and this also has negative repercussions on sales tax revenue. So far in FY 2006-07, sales tax collections are down 3.9% from last year's level.

Single business tax collections totaled \$70.4 million in March, which was down 15.7% from the March 2006 level. Using a three-month moving average to help smooth out the volatility that characterizes single business tax monthly collections, these business tax receipts were down 7.3% in March. The decline in March marks the seventh time in the past eight months that single business tax revenue has fallen below the year-ago level. Single business tax collections so far in FY 2006-07 are down 11.7%.

Real estate transfer tax collections fell 32.5% in March to \$14.1 million. This marked the lowest monthly level for this tax since January 2002 when collections fell to \$13.3 million, and clearly reflects the significant slowdown in the housing 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 March 2007, along with their fiscal year-to-date collections and growth rates. Also presented are the consensus revenue estimates for FY 2006-07, which were adopted at the January 2007 Consensus Revenue Estimating Conference.



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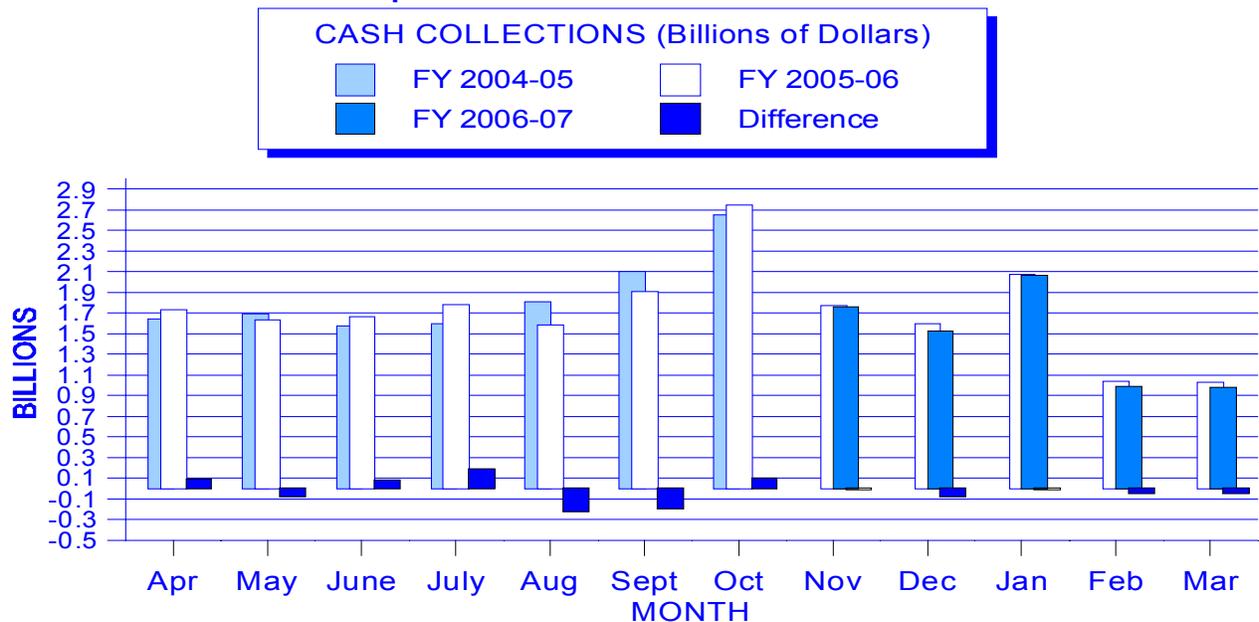
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**MICHIGAN REVENUE UPDATE  
MARCH 2007  
(dollars in millions)**

Type of Revenue	March Collections		FY 2006-07 to Date <sup>2)</sup>		FY 2006-07 Estimate <sup>3)</sup>	
	Total <sup>1)</sup>	% Change From Year Ago	Total <sup>1)</sup>	% Change From Year Ago	Total <sup>1)</sup>	% Change From FY 2005-06
Gross Income Tax	\$ 625.8	5.6%	\$ 3,215.7	2.3%	\$ 7,937.8	1.1%
Refunds	(470.2)	(3.4)	(1,001.5)	2.5	(1,695.7)	4.3
Net Income Tax	\$ 155.6	46.7%	\$ 2,214.2	2.3%	\$ 6,242.1	0.3%
Sales Tax	469.3	(10.3)	2,614.3	(3.9)	6,732.3	1.4
Motor Vehicles	63.3	(2.5)	263.9	1.0	---	---
All Other Sales Tax	406.0	(11.4)	2,350.4	(4.4)	---	---
Use Tax	106.3	(5.8)	558.7	0.3	1,414.5	2.8
Tobacco Taxes	83.7	(3.6)	453.8	(2.8)	1,147.0	(1.9)
Single Business Tax	70.4	(15.7)	566.9	(11.7)	1,870.3	1.5
Insurance Tax	10.0	(6.5)	89.3	(8.8)	226.1	3.0
State Education Property Tax	15.1	(20.5)	414.8	8.3	2,094.5	4.5
Real Estate Transfer Tax	14.1	(32.5)	94.0	(27.4)	244.2	(18.0)
Casino Wagering Tax <sup>4)</sup>	15.0	7.9	82.1	6.5	163.0	4.8
Oil & Gas Severance Tax	5.8	(50.0)	26.2	(41.0)	66.0	(19.0)
Other Taxes <sup>5)</sup>	35.4	(19.2)	168.2	(5.2)	450.2	0.9
<b>Total</b>	<b>\$980.7</b>	<b>(5.0)%</b>	<b>\$7,282.5</b>	<b>(2.4)%</b>	<b>\$20,650.2</b>	<b>1.0%</b>
<b>Addendum:</b>						
Gross Lottery Sales <sup>4)</sup>	\$267.3	15.2%	\$1,198.0	2.9%	\$2,264.5	2.4%
Net to School Aid Fund <sup>4)</sup>	\$ 88.9	29.1%	\$ 387.8	5.4%	\$ 702.0	2.0%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
- 2) FY 2006-07 year-to-date collections begin with November 2006 collections to reflect accrual accounting.
- 3) Consensus revenue estimates adopted at the January 18, 2007, Consensus Revenue Estimating Conference.
- 4) Lottery and casino revenue is not accrued, so FY 2006-07 collections will include October 2006 to September 2007.
- 5) Other Taxes include beer, wine, liquor, industrial facilities, utility facilities, utility property, and estate taxes, and penalties and interest.

**Actual Revenue Collections for Major State Taxes\*  
April 2005 to March 2007**



\*Comparison of actual collections. Major taxes include the beer, casino, estate, income, industrial facilities, insurance, liquor, oil & gas severance, real estate transfer, sales, SBT, State education, tobacco (cigarette & other tobacco products), use, utility property, and wine taxes, and penalties and interest revenue.