

MONTHLY REVENUE REPORT

September 2000

In September 2000, revenue collected from 12 of Michigan's major General Fund and School Aid Fund earmarked taxes totaled \$1.66 billion. These September collections were 2.1% below last year's level and marked the continuation of a very volatile period in tax collections during which monthly revenues have fallen below their year-ago levels four out of the past six months. After topping year-ago collections by 6.2% during the first five months of FY 1999-2000, revenues were up only 1.9% from April to September, and from June to September collections actually were down 0.6% compared with the same period last year. This slowdown in the growth of revenue collections can be attributed to more modest economic growth and to the ongoing reductions in the income tax and single business tax rates. On a fiscal year-to-date basis, revenue collected from these 12 major taxes is up 3.8% from the comparable year-ago level.

While FY 1999-2000 ended on September 30, the fiscal year is not yet over for tax collections. Tax liabilities incurred before October 1, but not paid until October and November will be accrued back to FY 1999-2000. As a result, for most taxes, a large portion of the revenue received in October will be accrued back to FY 1999-2000, and for some taxes, such as the single business and State education property taxes, a portion of November collections will also likely be accrued back to FY 1999-2000.

Gross income tax collections totaled \$688 million in September, which was up only 0.1% from last year. The amount of income tax withheld directly from workers' earnings dipped below the year-ago level by 3.3%. This was due to a slowdown in the growth of payroll employment during the summer months compared with last year and the decline in the tax rate to 4.2% from 4.4% last year. Helping make up for the decline in withholding payments was a 10.4% increase in quarterly estimated payments. A good portion of this increase was probably due to gains realized from the stock market. So far this fiscal year, gross income tax collections are up 4.3%, which is very close to the FY 1999-2000 consensus estimated growth rate of 4.2%.

Sales tax collections were essentially unchanged in September from last year's level as they totaled \$506 million, compared with \$504 million one year ago. The slowdown in sales tax growth has been very abrupt. At the end of May, sales tax collections on a fiscal year-to-date basis were up 10.3%, but during June through September, sales tax collections topped last year's total by only 1.3%. In sharp contrast to this overall weak growth in sales tax collection is the fact that sales tax collections from gasoline sales were up considerably in recent months due to the steep increase in gasoline prices. As a result, consumers and businesses must have cut back their spending in other areas during the past few months, including their spending on motor vehicles. Sales tax collections derived from motor vehicle transactions were down 2.2% in September and down 0.9% since June. On a fiscal year-to-date basis, sales tax collections are up 6.8%, which is very close to the FY 1999-2000 consensus estimated growth rate of 6.9%.

Single business and insurance tax collections totaled \$96 million in September, which was up 9.1% from last year. So far this fiscal year, the revenue from these business taxes trails the year-ago level by 3.4%. This decline is due largely to the ongoing cut in the single business tax rate, which fell from 2.3% to 2.2% in 1999 and to 2.1% in 2000. In fact, the timing of these tax cuts actually has understated the true strength in single business tax collections so far in FY 1999-2000. The reduction in the single business tax rate to 2.2% in 1999 was enacted in July, but was made retroactive to January. As a result, some of the impact of the tax cut that became effective in FY 1998-99 was not actually reflected in lower payments by taxpayers until FY 1999-2000. As a result, accounting adjustments will be made to get the impact of the tax cut in the proper fiscal year. Once these accounting adjustments are made, single business and insurance tax collections may very well exceed the consensus estimate for FY 1999-2000.

The table on the back of this report identifies the 12 major taxes included in this report, and provides their respective revenue levels and growth rates for September 2000, along with their fiscal year-to-date revenue collections and growth rates. Also presented are the taxes' respective consensus revenue estimates for FY 1999-2000.

Jay Wortley, Senior Economist

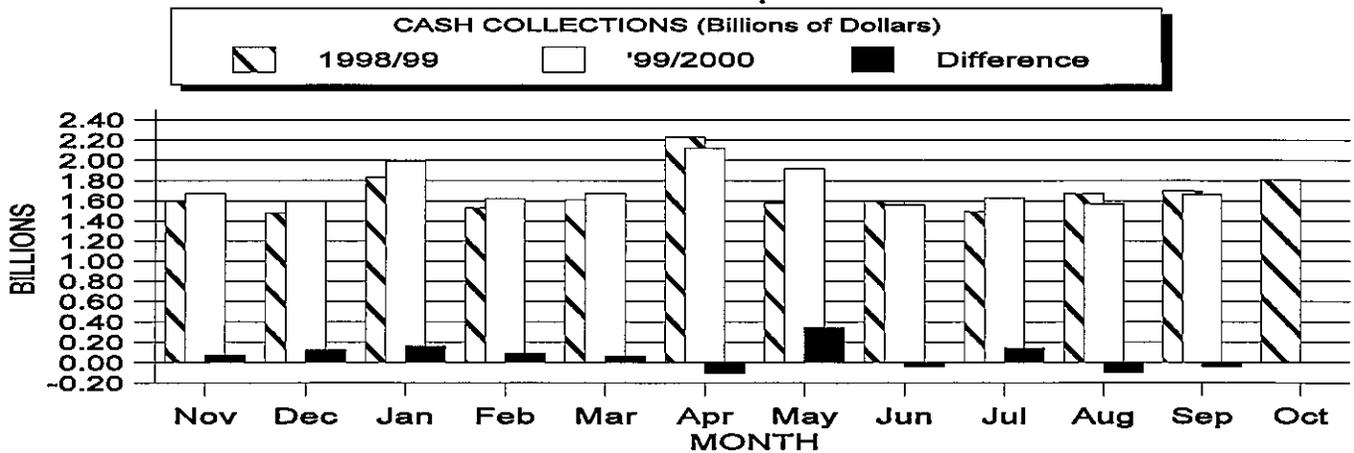


**MICHIGAN REVENUE UPDATE
SEPTEMBER 2000
(dollars in millions)**

Type of Revenue	September Collections		FY 1999-2000 To Date ²⁾		FY 1999-2000 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 1998-99
Income Tax						
Withholding	\$484.0	(3.3)%	\$6,159.8	3.2%	\$6,821.8	4.2%
Quarterly Payments	192.7	10.4	855.0	7.4	815.5	0.8
Annual Payments	11.5	(7.3)	765.5	10.3	770.0	8.4
Gross Income Tax	688.2	0.1%	7,780.3	4.3%	\$8,407.3	4.2%
Sales Tax	506.1	0.4	5,751.1	6.8	6,306.2	6.9
Use Tax	108.6	(8.2)	1,227.6	3.3	1,372.0	7.0
Tobacco Tax	61.4	11.0	554.1	(1.2)	598.8	(2.7)
Single Business & Insurance Taxes	95.6	9.1	2,257.0	(3.4)	2,406.3	(0.5)
State Education Property Tax	164.4	(10.5)	1,034.7	5.5	1,359.8	6.8
Real Estate Transfer Tax	22.8	(39.5)	224.2	(2.7)	264.0	0.9
Estate/Inheritance Tax	10.5	(51.4)	152.9	(7.6)	187.0	6.9
Oil & Gas Severance Tax	4.9	53.1	40.3	87.4	36.0	53.8
Total	\$1,662.5	(2.1)%	\$19,022.2	3.8%	\$20,937.4	4.6%
Addendum:						
Gross Lottery Sales ⁴⁾	\$146.7	11.2%	\$1,690.6	(2.3)%	\$1,719.8	(1.6)%
Net Lottery to School Aid ⁴⁾	\$ 52.0	(0.9)%	\$ 612.5	(0.6)%	\$ 609.0	(2.0)%

- 1) Total collections are unadjusted cash collections unless otherwise noted.
- 2) FY 1999-2000 year-to-date collections begin with November 1999 collections to reflect accrual accounting.
- 3) Consensus estimates adopted May 19, 2000. These estimates reflect the impact of enacted tax reductions.
- 4) Lottery revenue is not accrued, so FY 1999-2000 lottery revenue includes October 1999 to September 2000.

**Actual Revenue Collections for 12 Major State Taxes*
November 1998 to September 2000**



*Comparison of actual collections. The 12 taxes include the income (withholding, quarterly payments and annual payments), sales, use, tobacco, SBT, insurance retaliatory, estate, oil and gas severance, State education, and real estate transfer taxes.