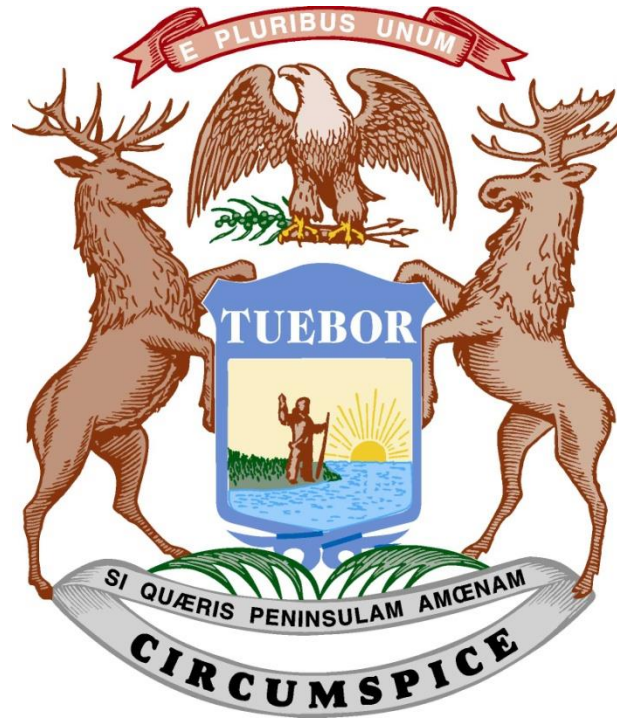


Economic and Revenue Forecasts

FY 2022 * FY 2023 * FY 2024



Consensus Revenue Estimating Conference

May 20, 2022

Outline

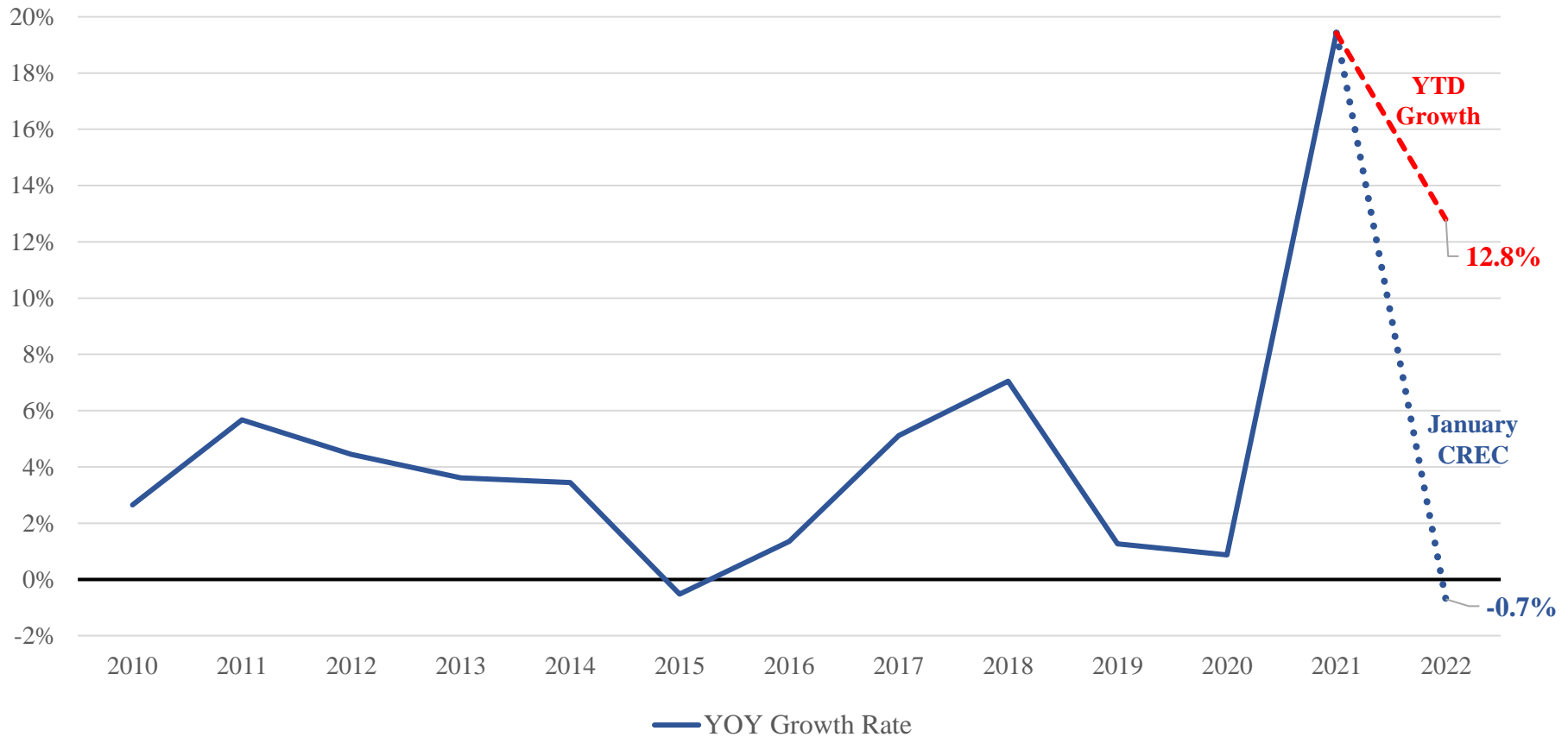
- **Recent Revenue Updates**
David Zin, Senate Fiscal Agency
- **Revenue Estimates for Major Taxes**
Eric Bussis, Department of Treasury
- **Revenue Estimates by Fund**
Jim Stansell, House Fiscal Agency

FY 2022 Revenue Updates

- Economic outlooks expect continued growth
- Significant revenue increases since January CREC
 - Sales and Use Tax continued growth
 - Large April filing surprise for Individual Income Tax Annual payments and Sales Tax collections
 - Individual Income Tax Withholding on track for decade-high growth
 - Business tax payments increase above estimate
 - Retroactive Flow-Through Entity Tax collections shift payments

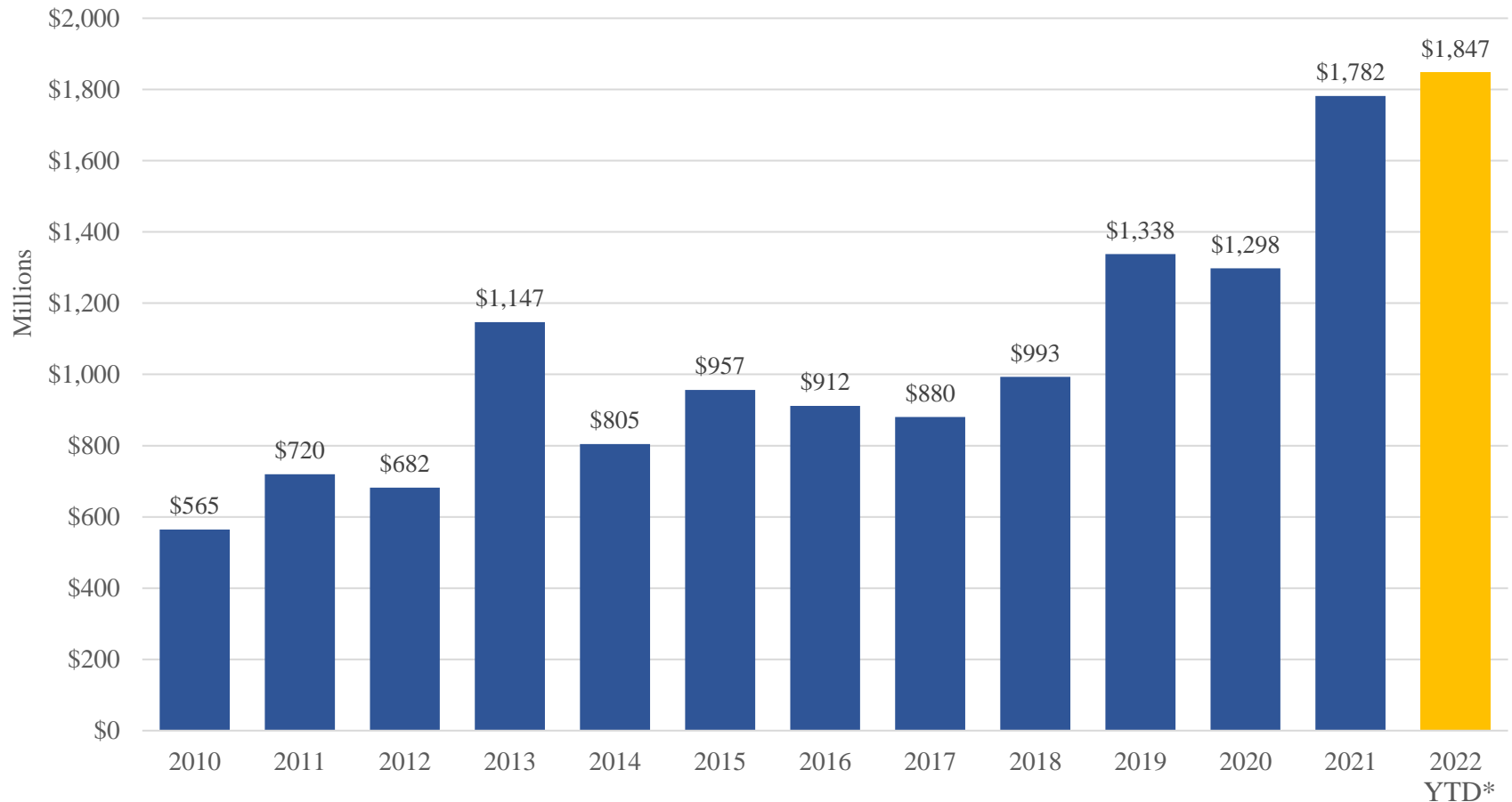
Sales and Use Growth Rate

Sales and Use Fiscal Year-Over-Year Growth Rate



Income Tax Annual Payments

Individual Income Tax: Annual Payments, Fiscal Year

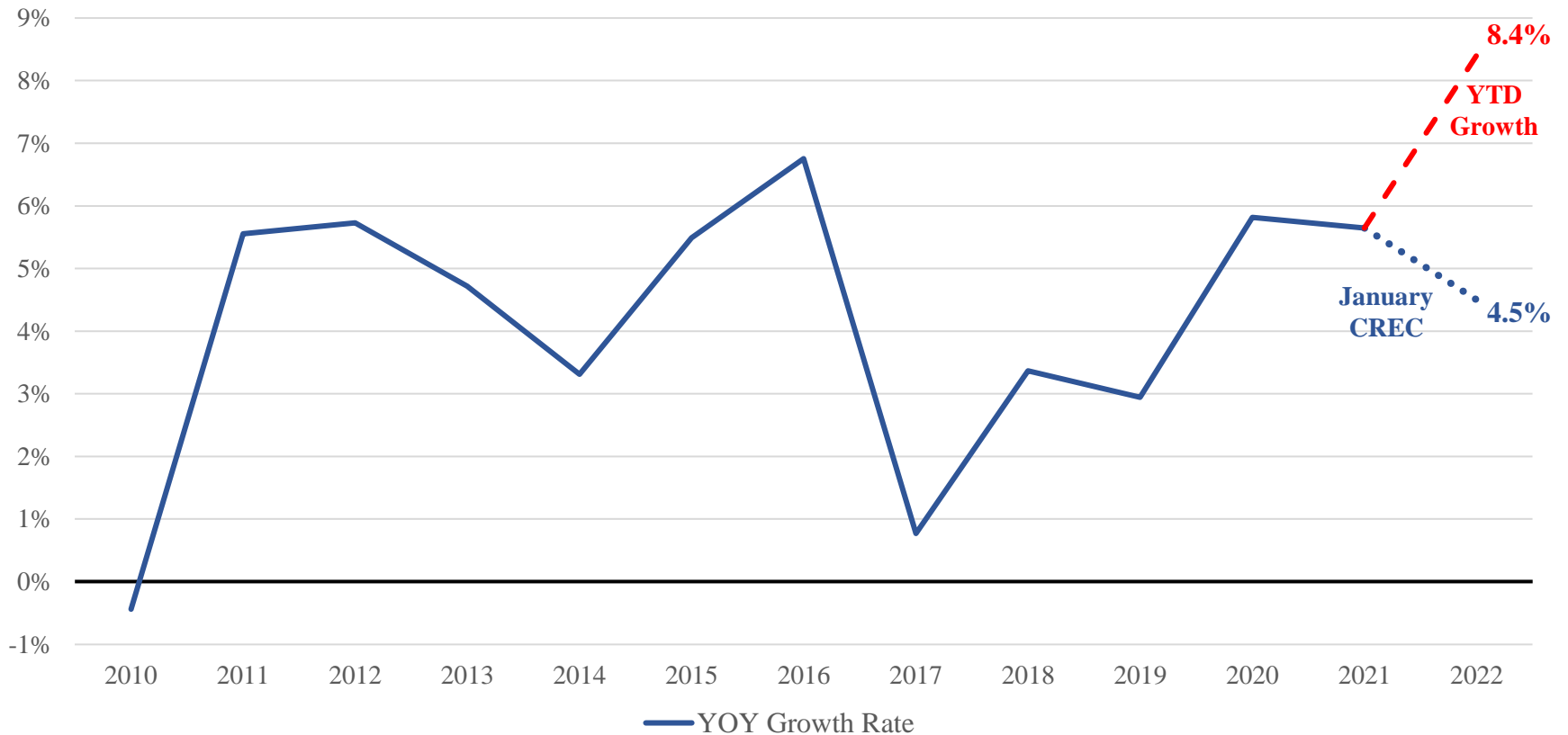


*FY 2022 year-to-date includes an estimate of IIT Annual Payments submitted through FTE

5

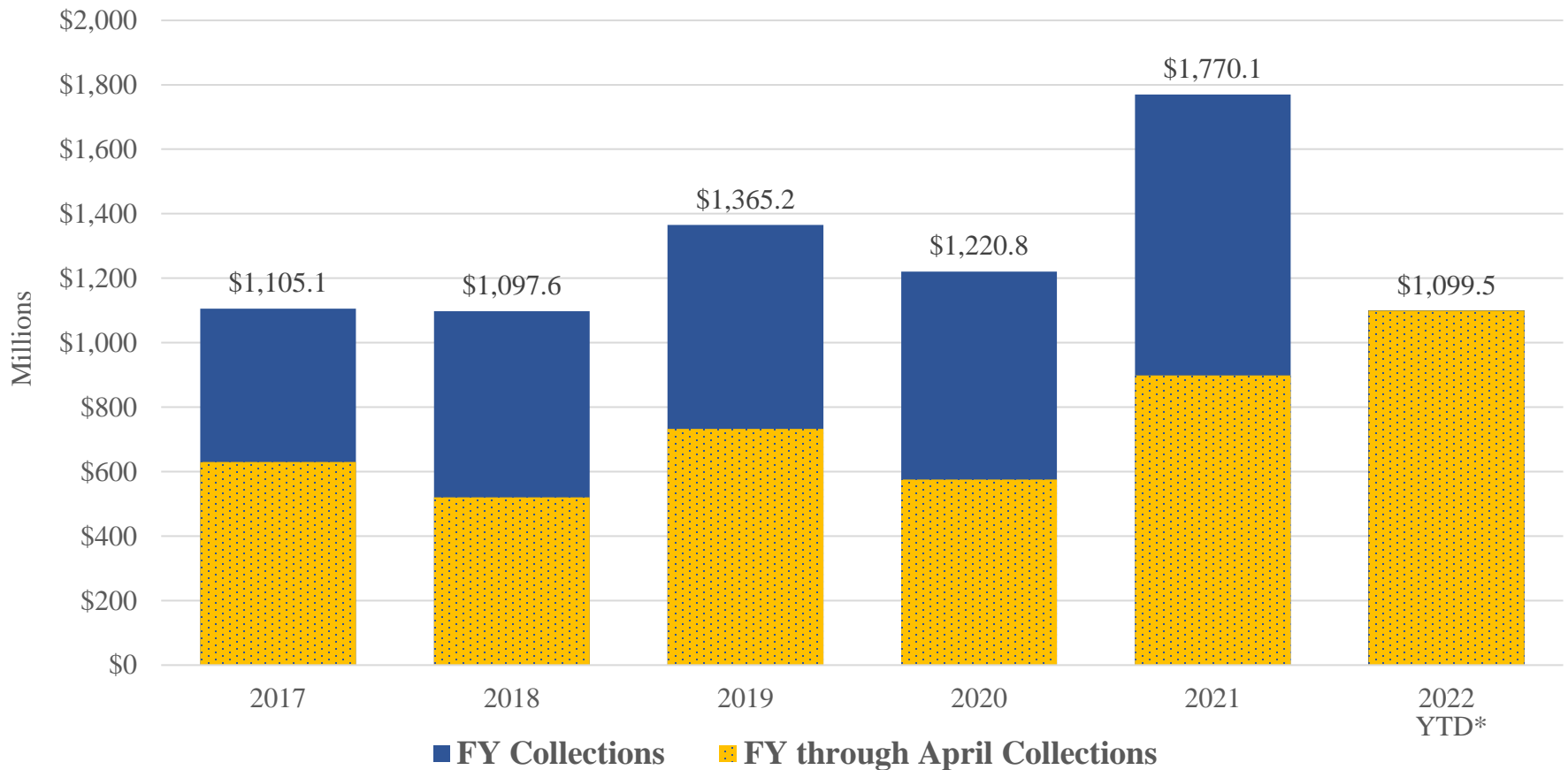
Income Tax Withholding Growth Rate

Income Tax Withholding Fiscal Year-Over-Year Growth Rate



Increased Business Tax Payments (Fiscal YTD)

CIT and MBT Excluding MEGA and MBT Credits

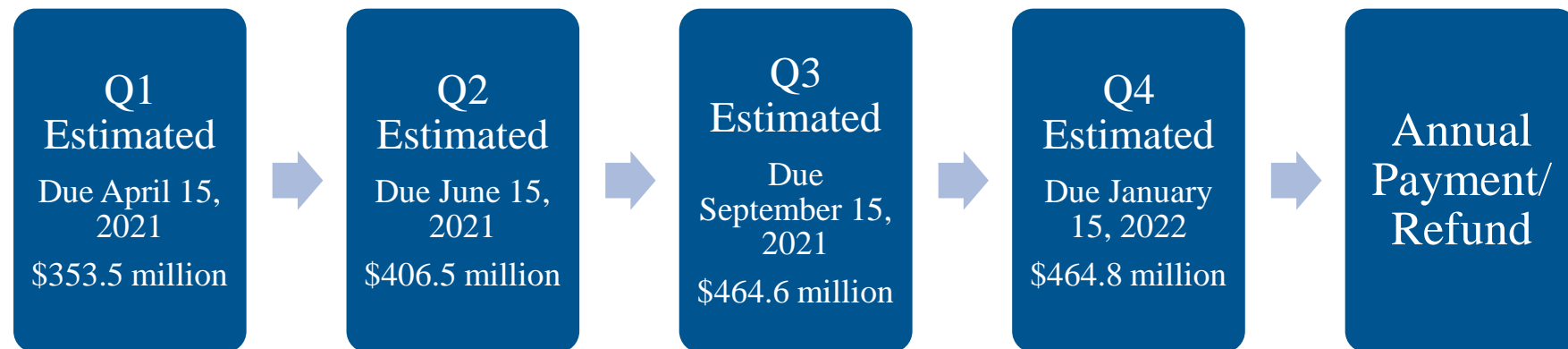


*FY 2022 year-to-date includes revenue prior to MEGA and MBT credits.

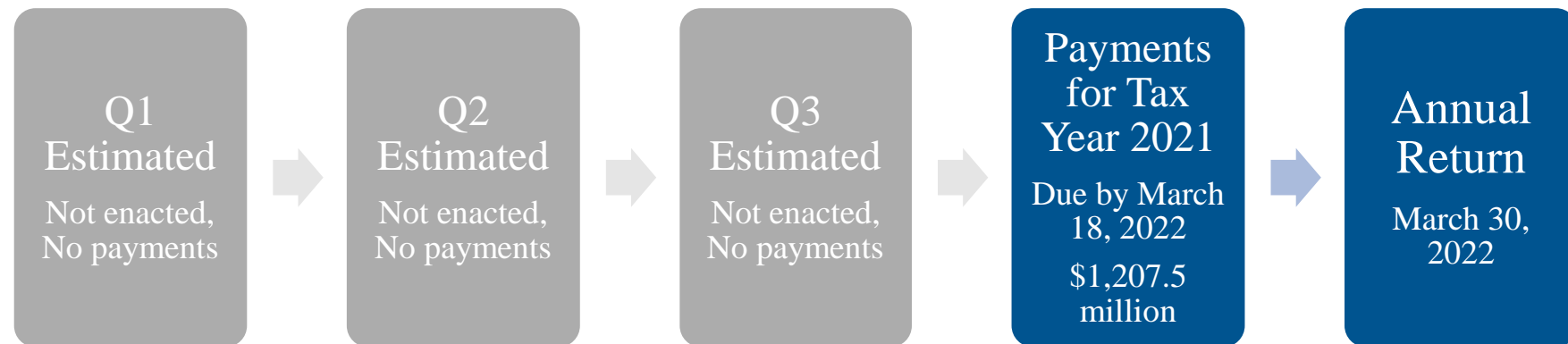
Flow-Through Entity Tax: Retroactive Impact

On December 21, 2021, FTE was enacted retroactively, back to the beginning of Tax Year 2021

2021 Individual Income Tax



2021 Flow-Through Entity Tax



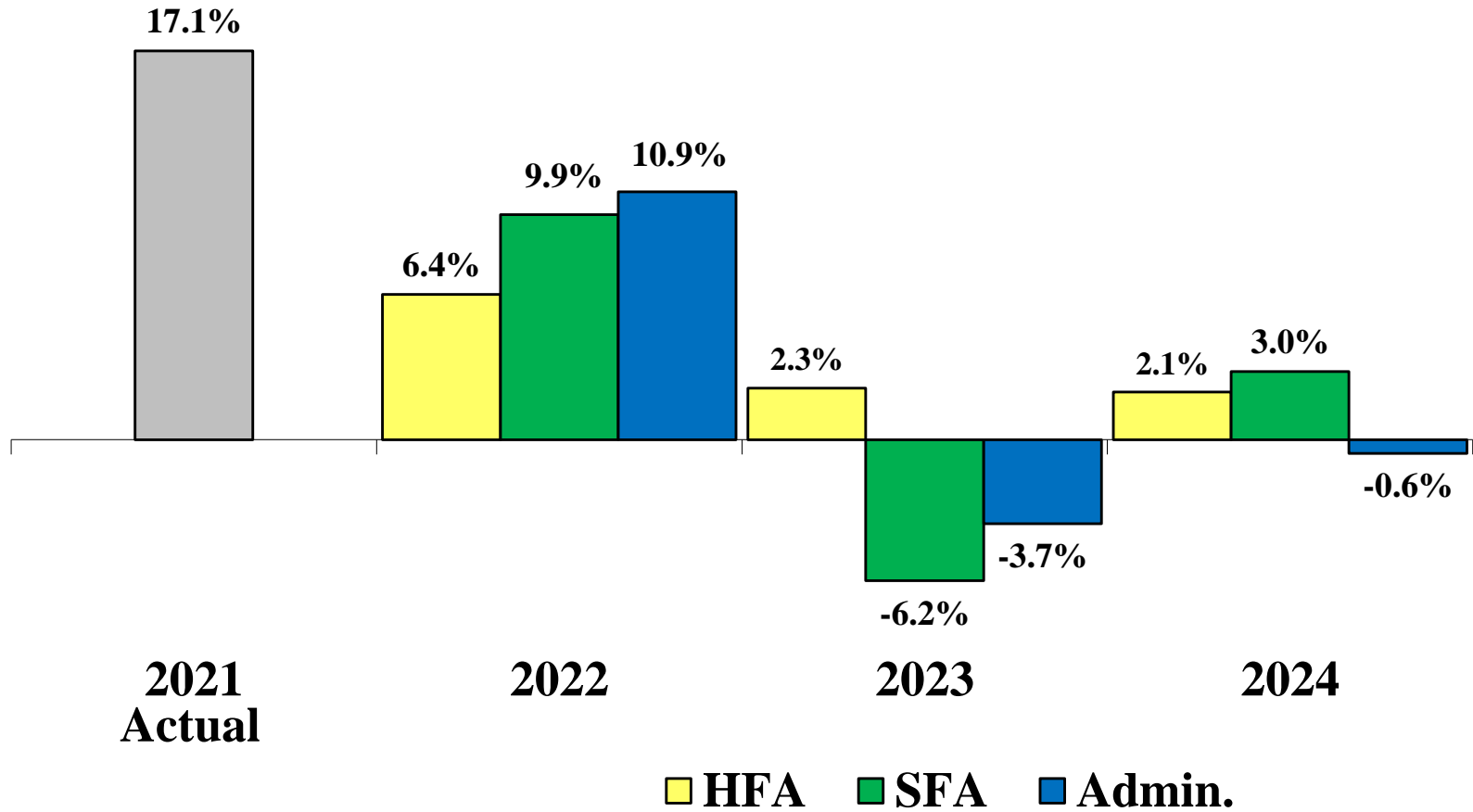
FORECAST OF MAJOR TAXES

Revenue Outlook

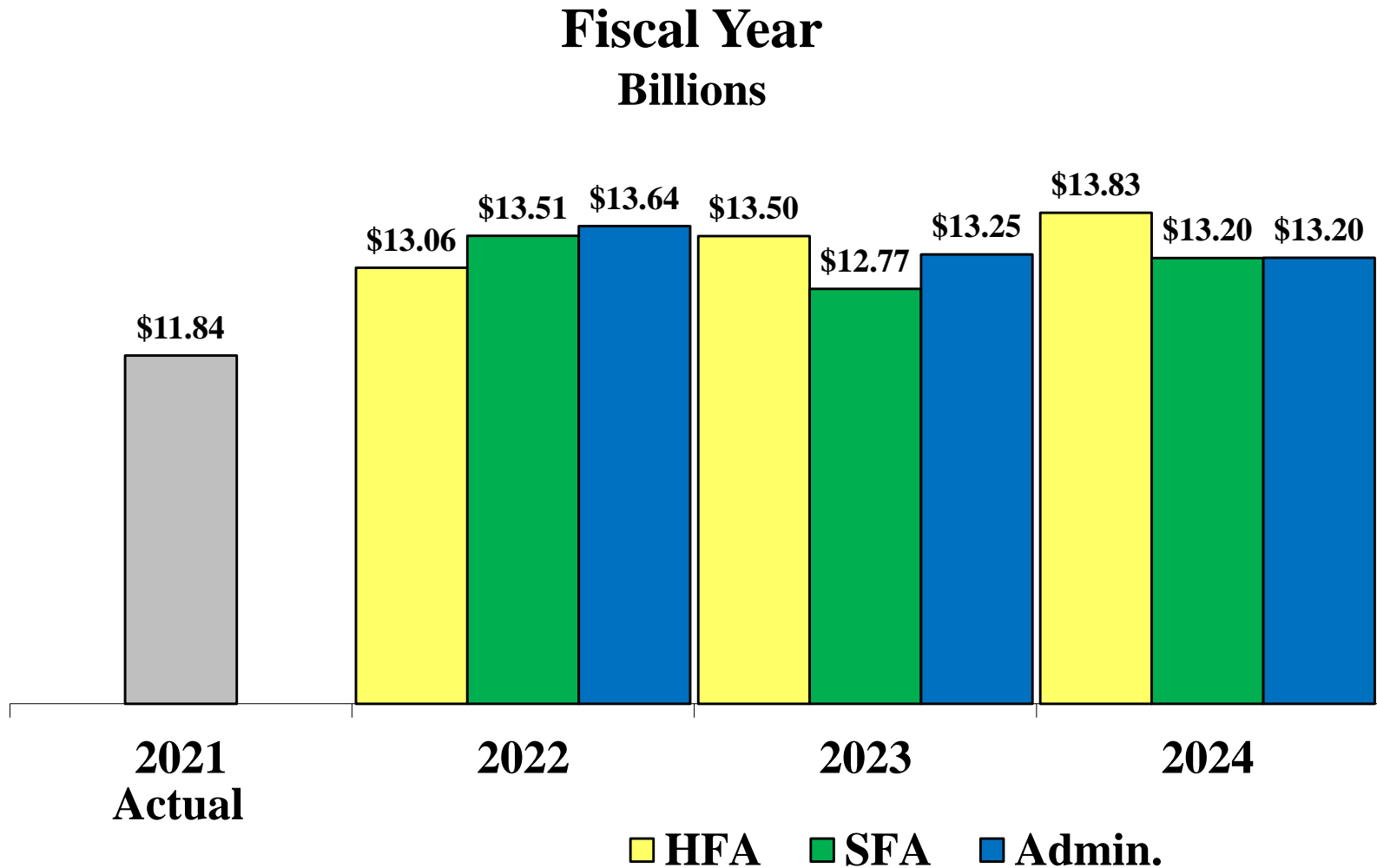
- CREC estimates always assume current Federal and State law
- State revenues illustrate the continuing disconnect between collections and economic activity
- Outlook expects a gradual return to normal spending patterns

Baseline Income Tax Growth

Fiscal Year Growth

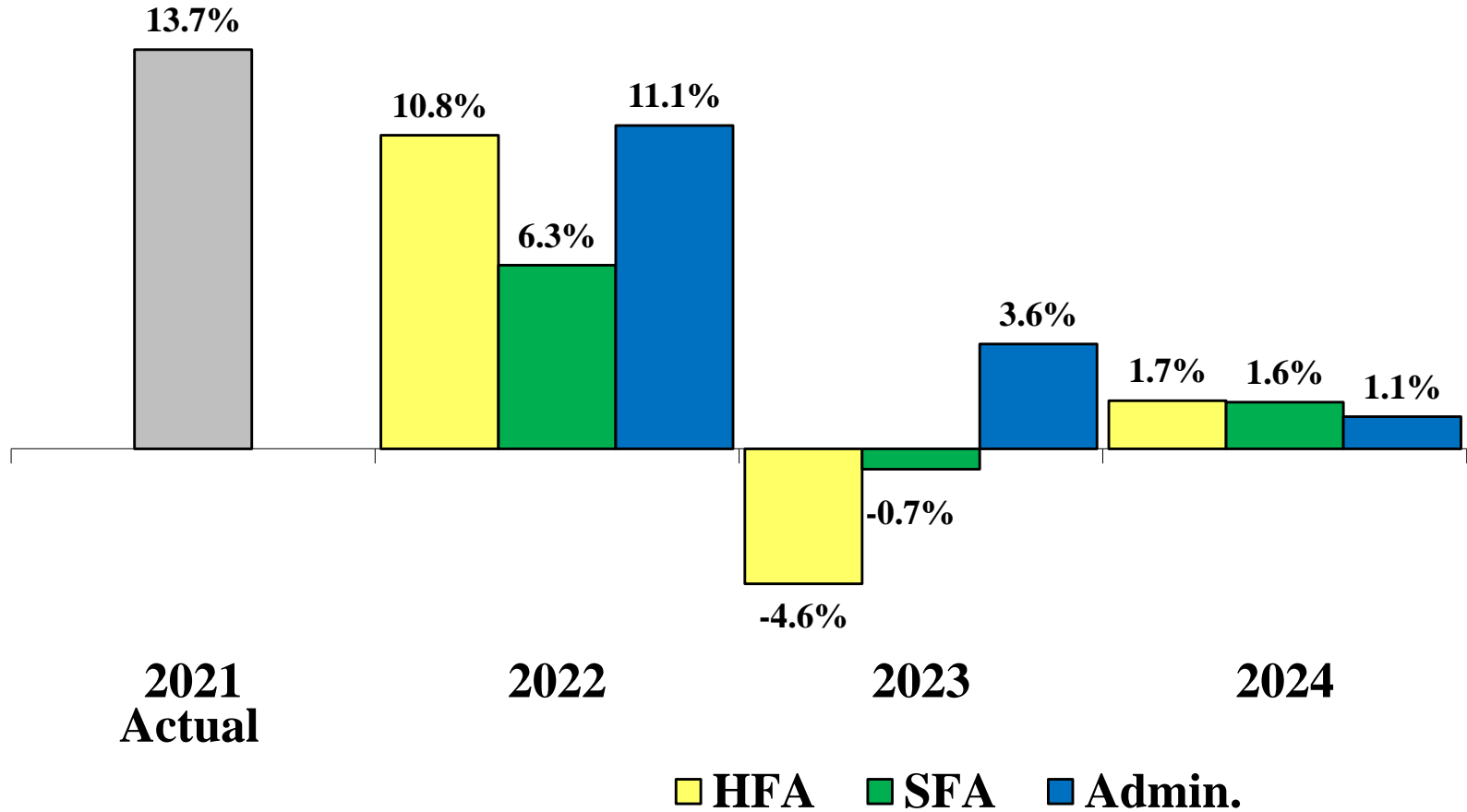


Net Income Tax Revenue Estimates

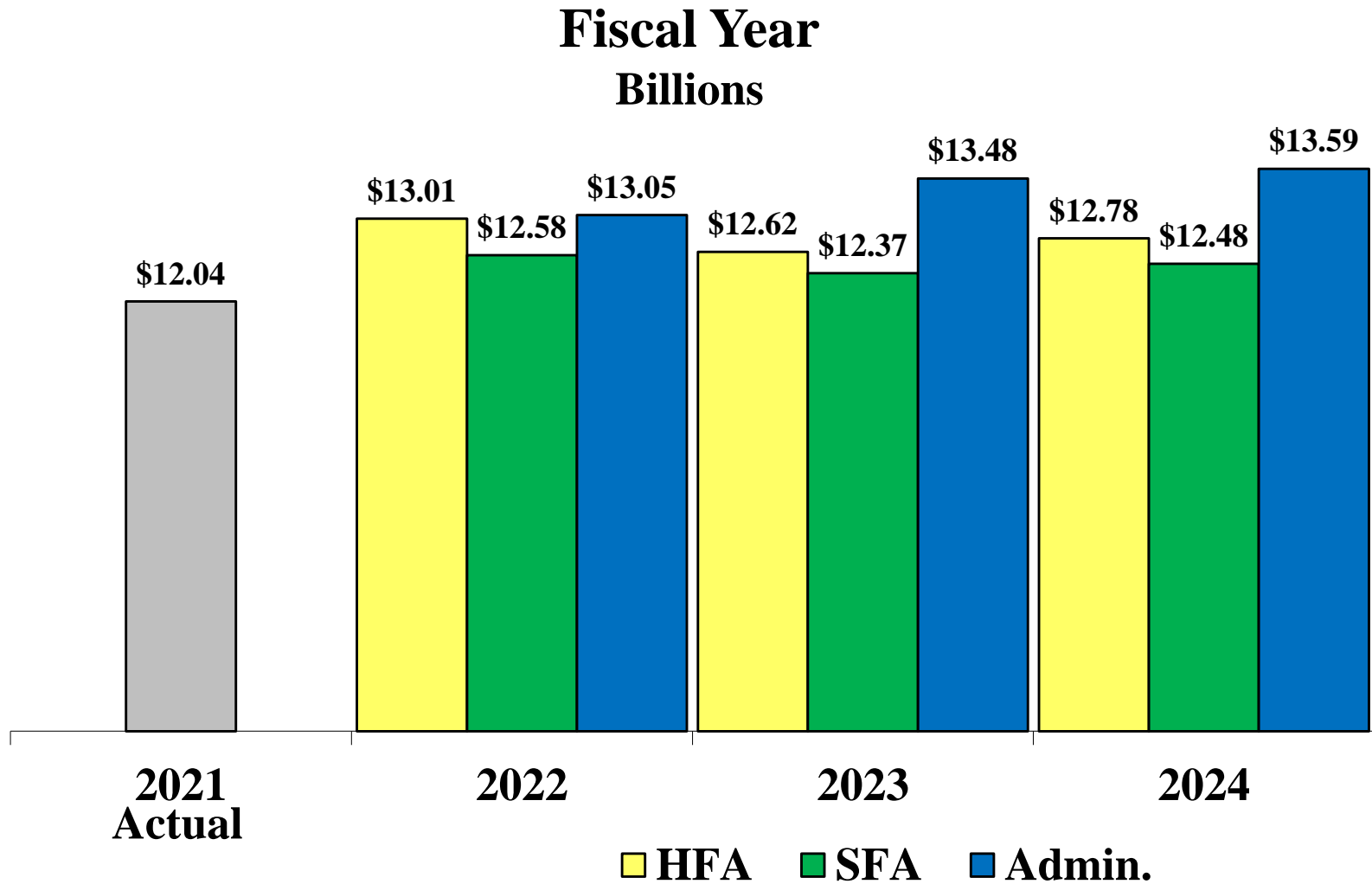


Baseline Sales Tax Growth

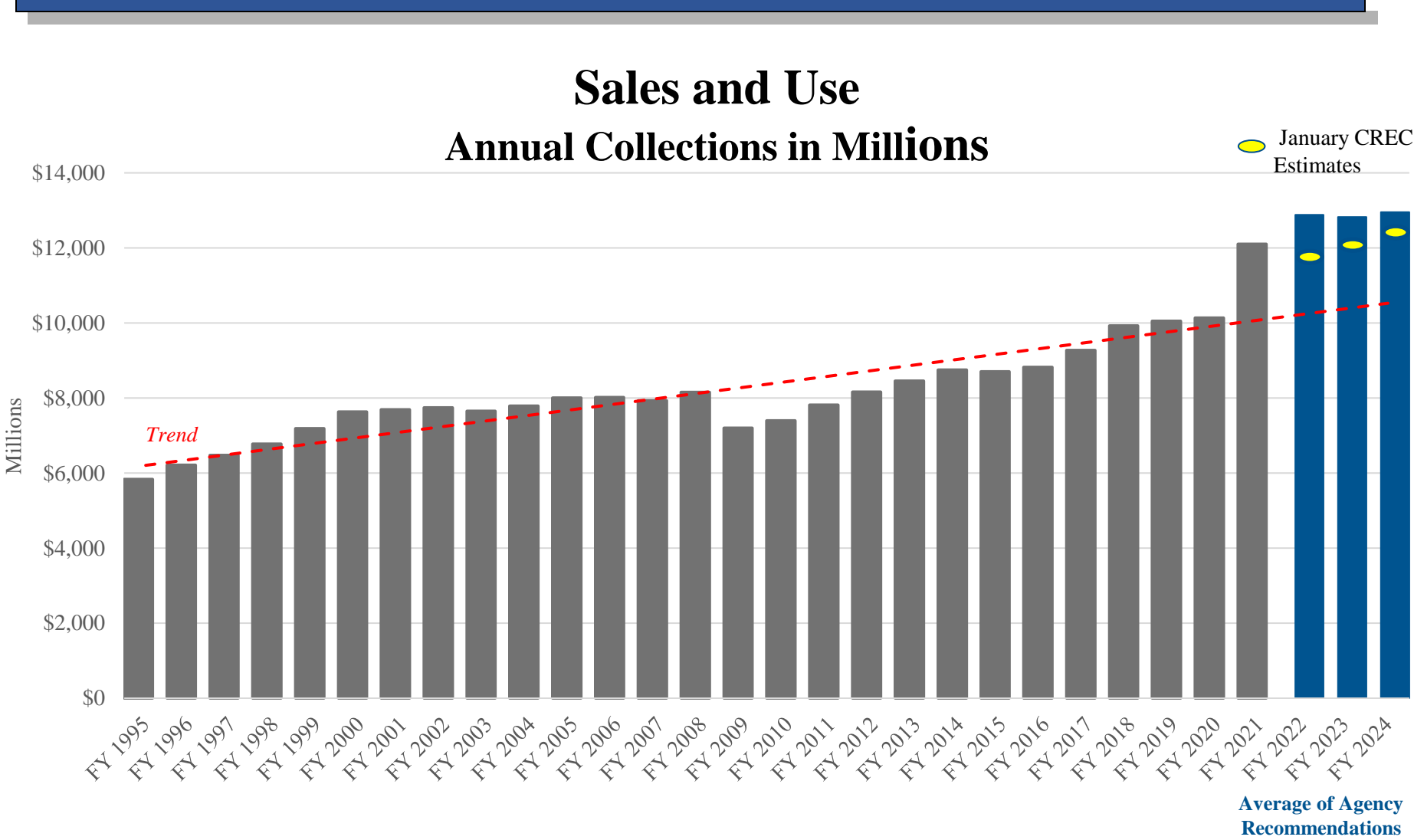
Fiscal Year Growth



Net Sales and Use Tax Revenue Estimates

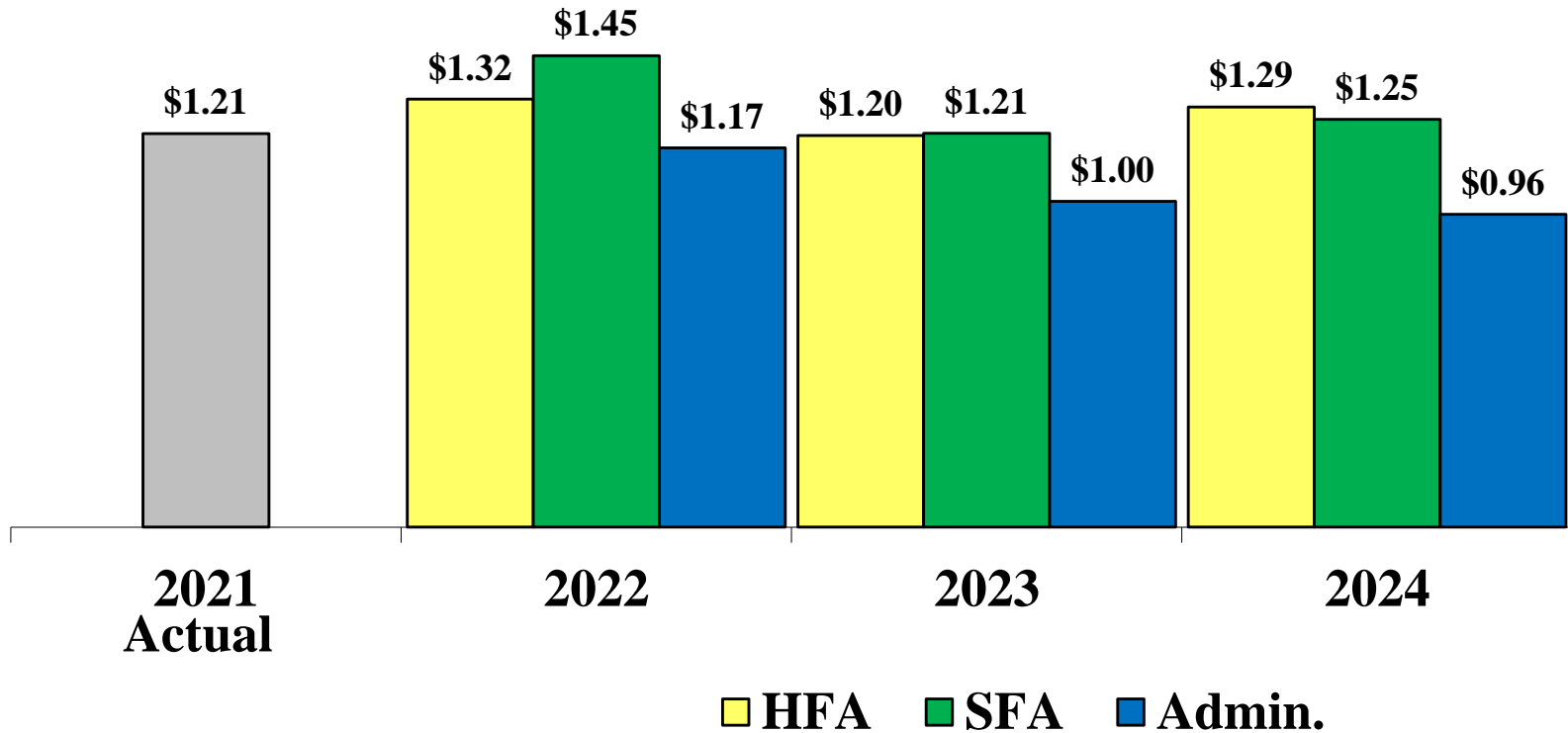


Consumption Taxes Reach Records



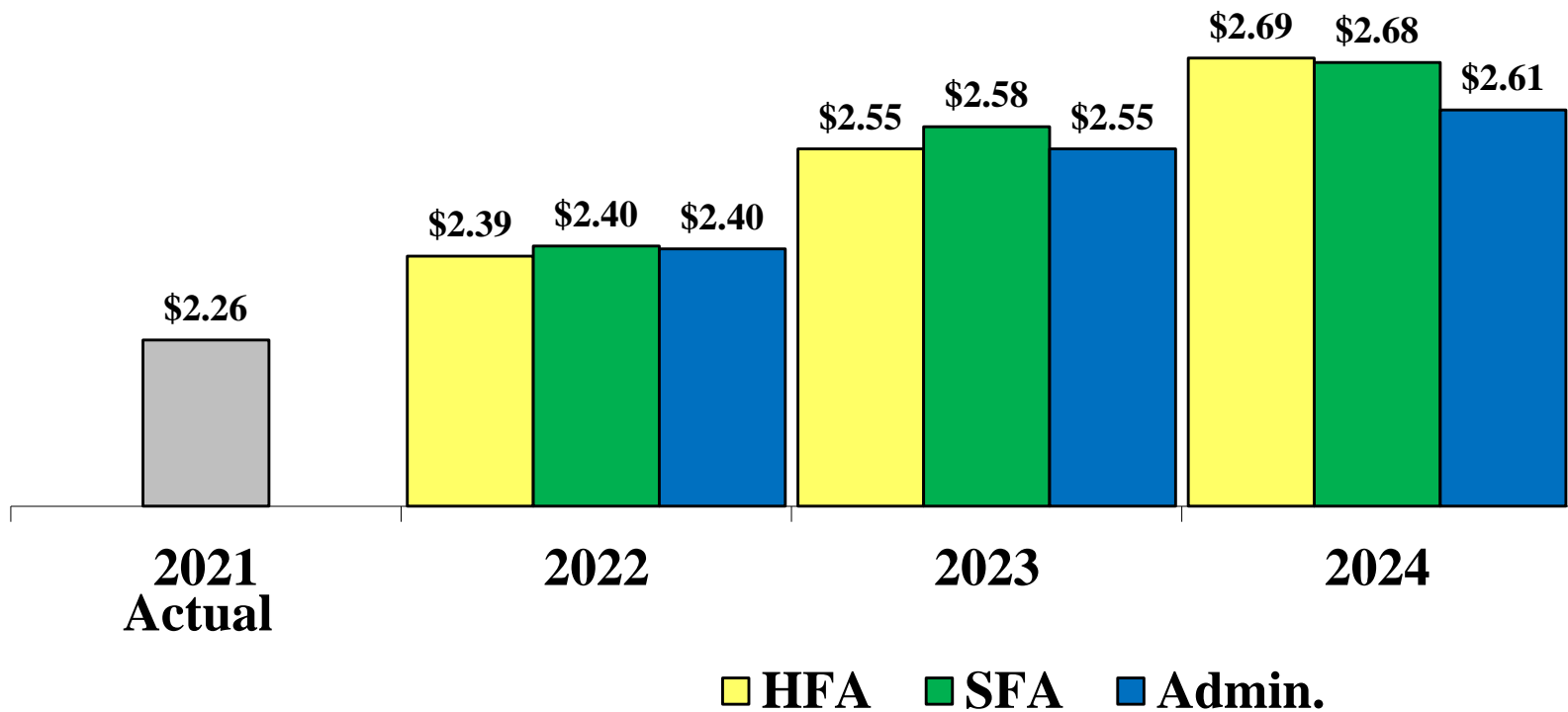
Net CIT/MBT Revenue Estimates

Fiscal Year
Billions



Net SET Revenue Estimates

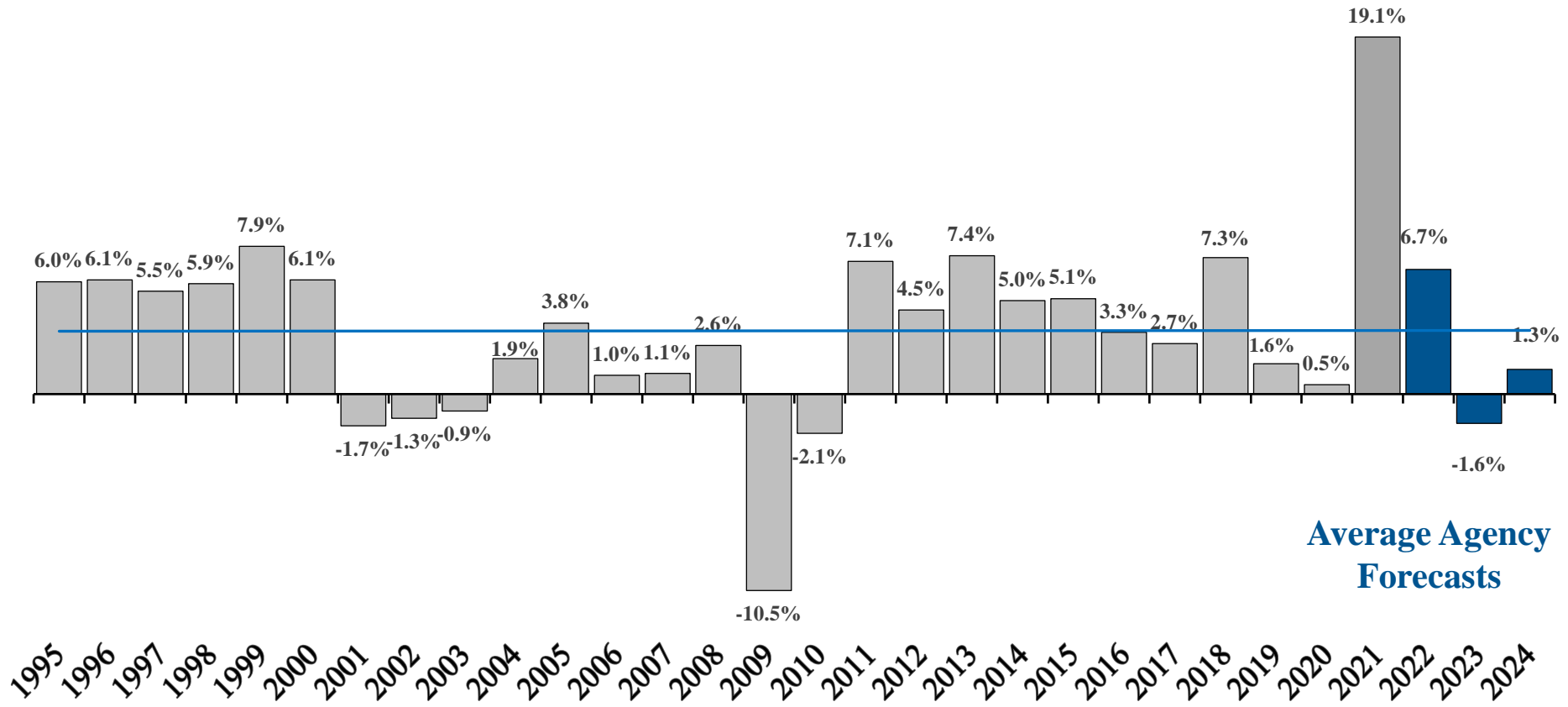
Fiscal Year
Billions



FORECAST OF GF-GP AND SCHOOL AID FUND

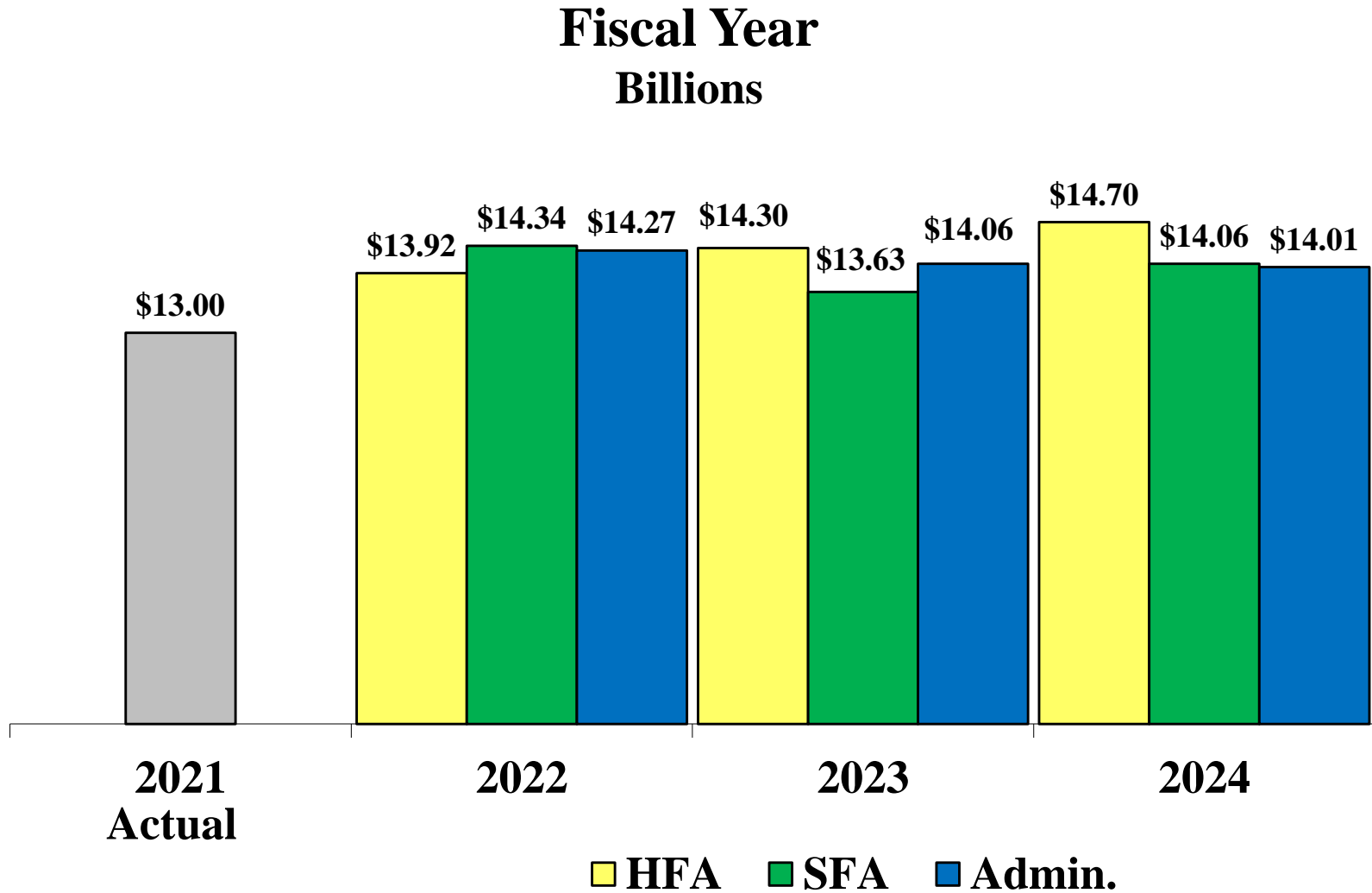
GF-GP and School Aid Revenue

Baseline Growth Rates Before Tax Changes



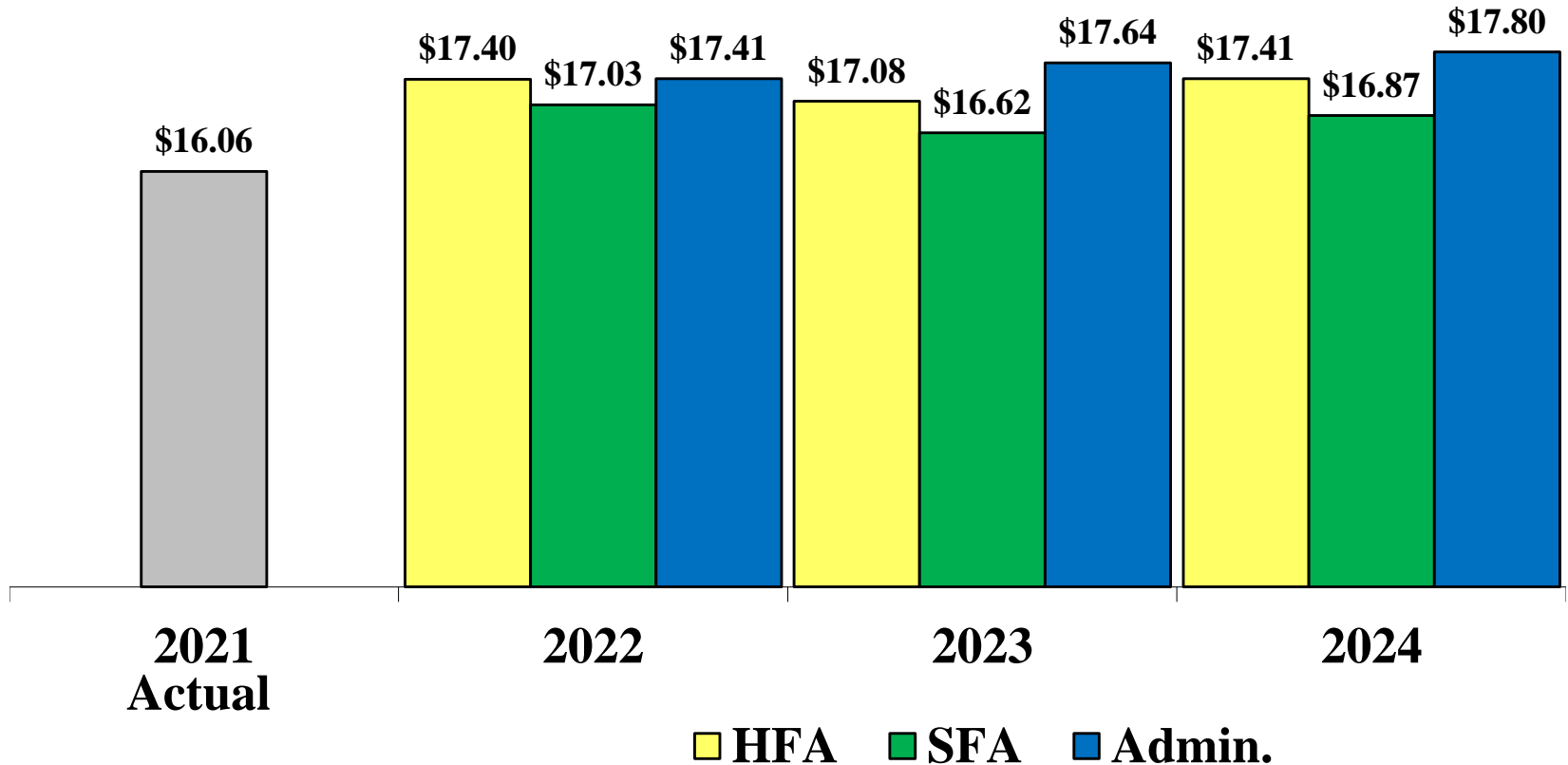
Average Agency
Forecasts

GF-GP Net Revenue Estimates



School Aid Fund Net Revenue Estimates

Fiscal Year
Billions



Revenue Forecast Comparison

Total Revenue (Values in Millions)									
	FY 2022			FY 2023			FY 2024		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	\$13,921.0	\$14,339.0	\$14,268.6	\$14,304.5	\$13,631.4	\$14,063.2	\$14,703.5	\$14,064.7	\$14,010.9
School Aid Fund	\$17,387.5	\$17,028.0	\$17,408.9	\$17,072.3	\$16,620.3	\$17,637.0	\$17,407.1	\$16,871.6	\$17,798.8

Difference from January Consensus Estimates									
	FY 2022			FY 2023			FY 2024		
	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>	<u>HFA</u>	<u>SFA</u>	<u>Admin.</u>
GF-GP	\$1,471.6	\$1,889.3	\$1,818.9	\$1,412.7	\$739.3	\$1,171.1	\$1,389.6	\$750.4	\$696.6
School Aid Fund	\$1,309.1	\$949.8	\$1,330.7	\$825.5	\$373.7	\$1,390.4	\$849.0	\$313.9	\$1,241.1
Combined	\$2,780.6	\$2,839.1	\$3,149.6	\$2,238.2	\$1,113.0	\$2,561.5	\$2,238.6	\$1,064.3	\$1,937.7

Income Tax Rate under MCL 206.51(1)

MCL 206.51(1) limits General Fund revenue growth to a factor of inflation from FY 2021 levels. If revenues surpass the limit, reductions in the individual income tax rate are triggered.

- Based on revenue and inflation growth in the three forecasts, rate cuts are not expected for the forecast horizon

Budget Stabilization Fund

Both pay-ins and pay-outs require an appropriation

The agency estimates calculate:

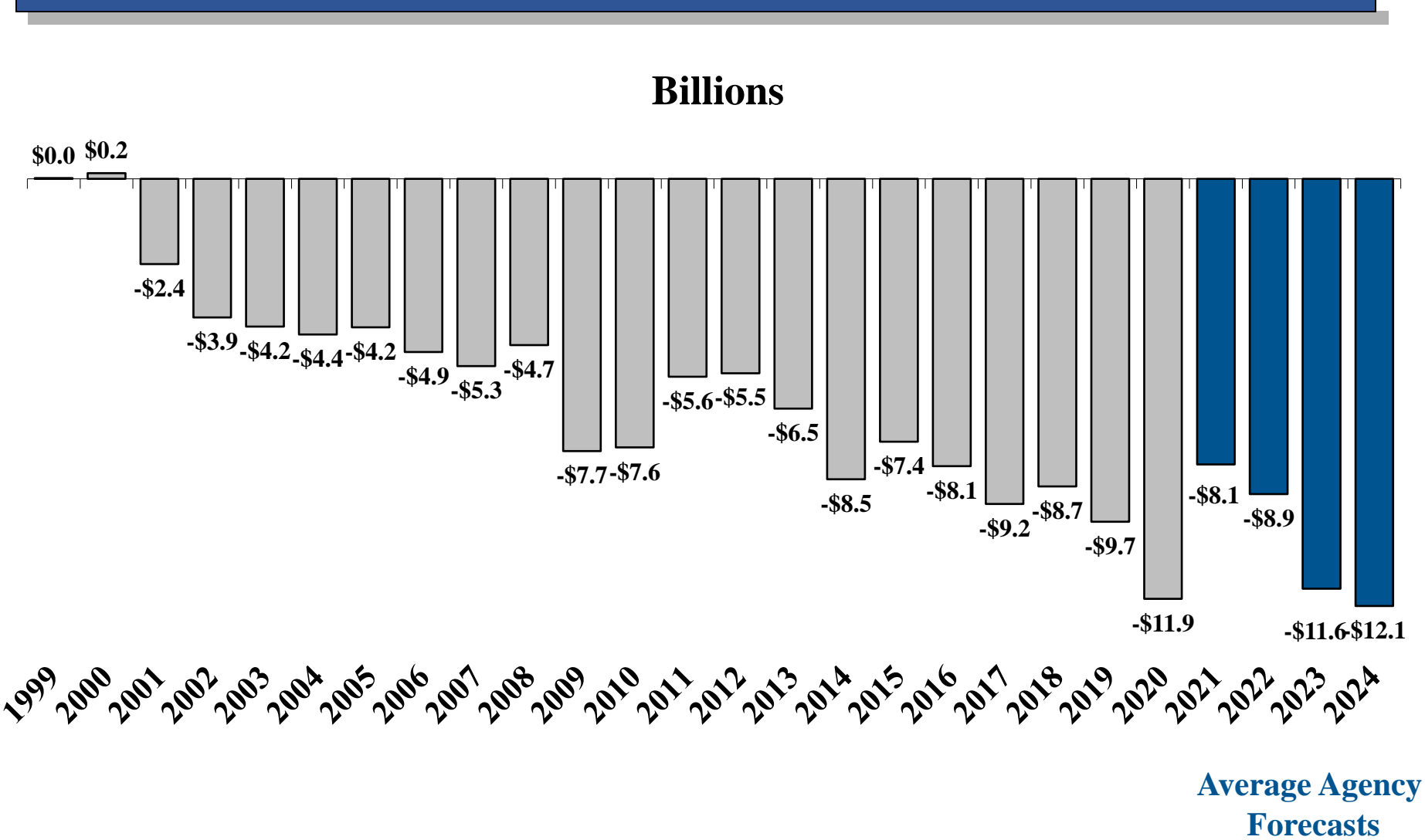
Pay-ins

- Pay-in between \$36.4 and \$39.0 million in FY 2022
- No pay-in during FY 2023
- Pay-in between \$0 and \$11.3m in FY 2024

Pay-outs

- Pay-out between \$0 and \$345.7 million in FY 2022
- No pay-outs during FY 2023 & FY 2024

Constitutional Revenue Limit Calculation



Forecast Risks

Economy

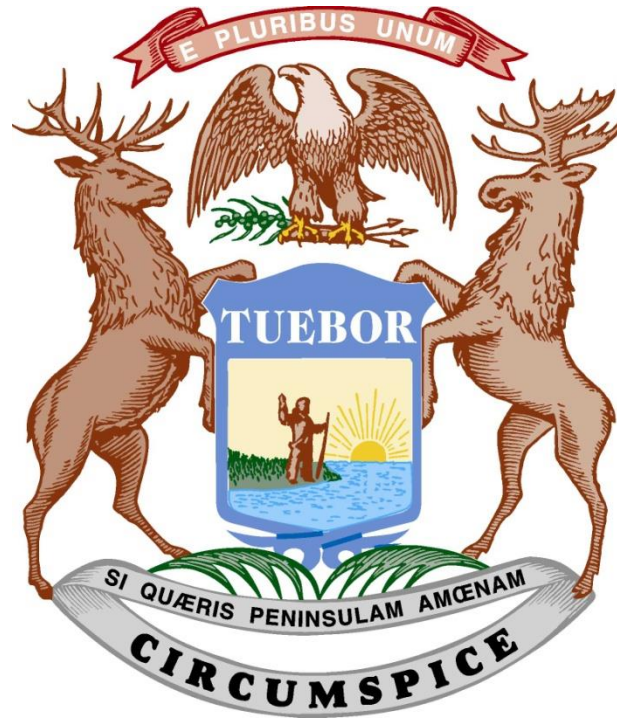
- Shifting monetary policy and the timing of Federal Reserve rate changes could help ease or hasten the economic downturn
- International issues resulting from Russia, China, and sanctions could derail the economy
- Uncertainty from the path of the pandemic remains a risk
- Inflation and gas prices may impact consumer spending

Michigan Tax Revenue

- When, and how quickly, both incomes and spending return to normal
- How quickly inflation is contained and how it ends up affecting economic activity

Economic and Revenue Forecasts

FY 2022 * FY 2023 * FY 2024



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