



Michigan's  
Revenue and  
Budget Outlook  
for FY2026

# Michigan's Revenue and Budget Outlook for FY2026

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Citizens Research Council of Michigan

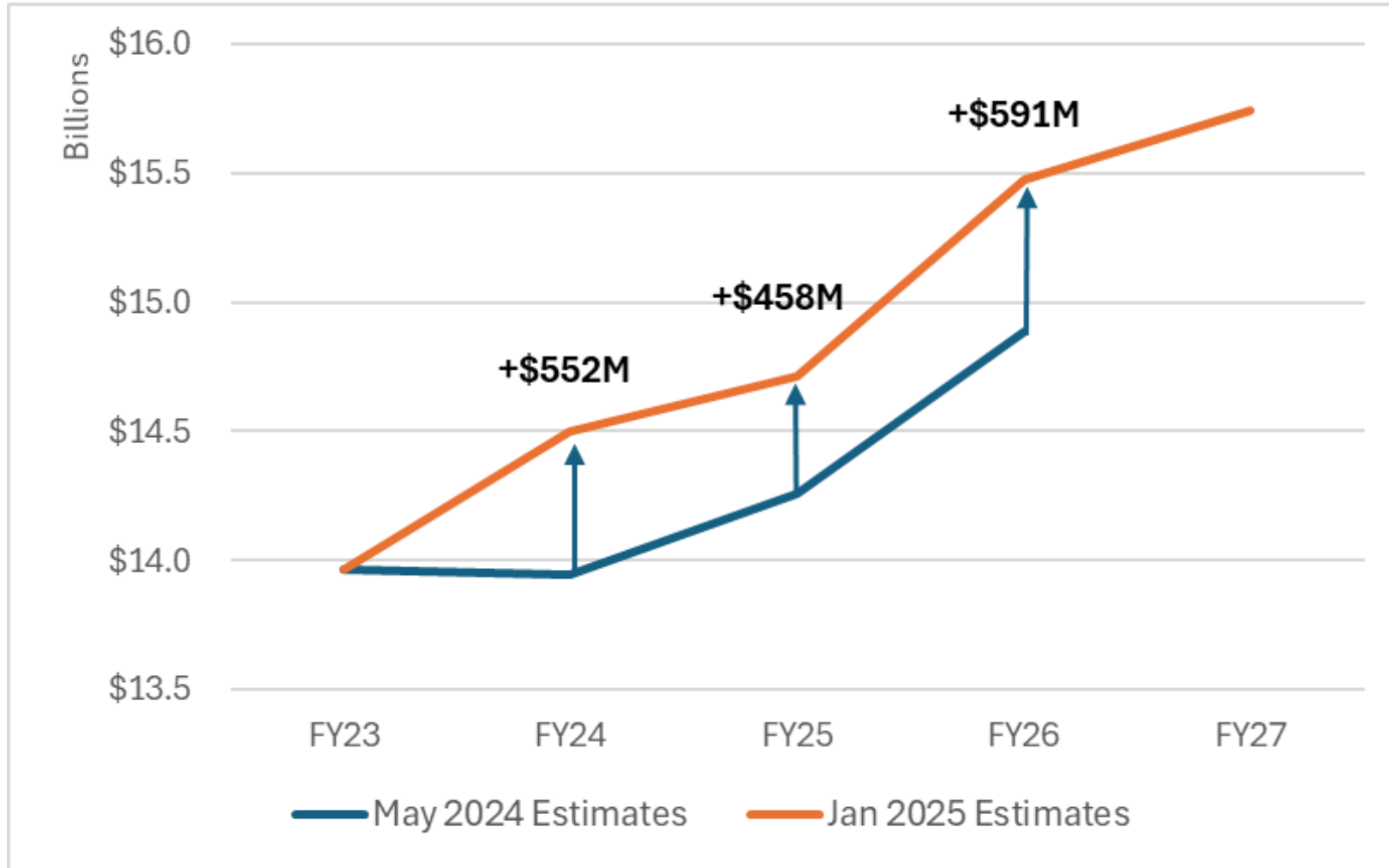
MSU IPPSR Public Policy Forum  
February 4, 2024

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- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
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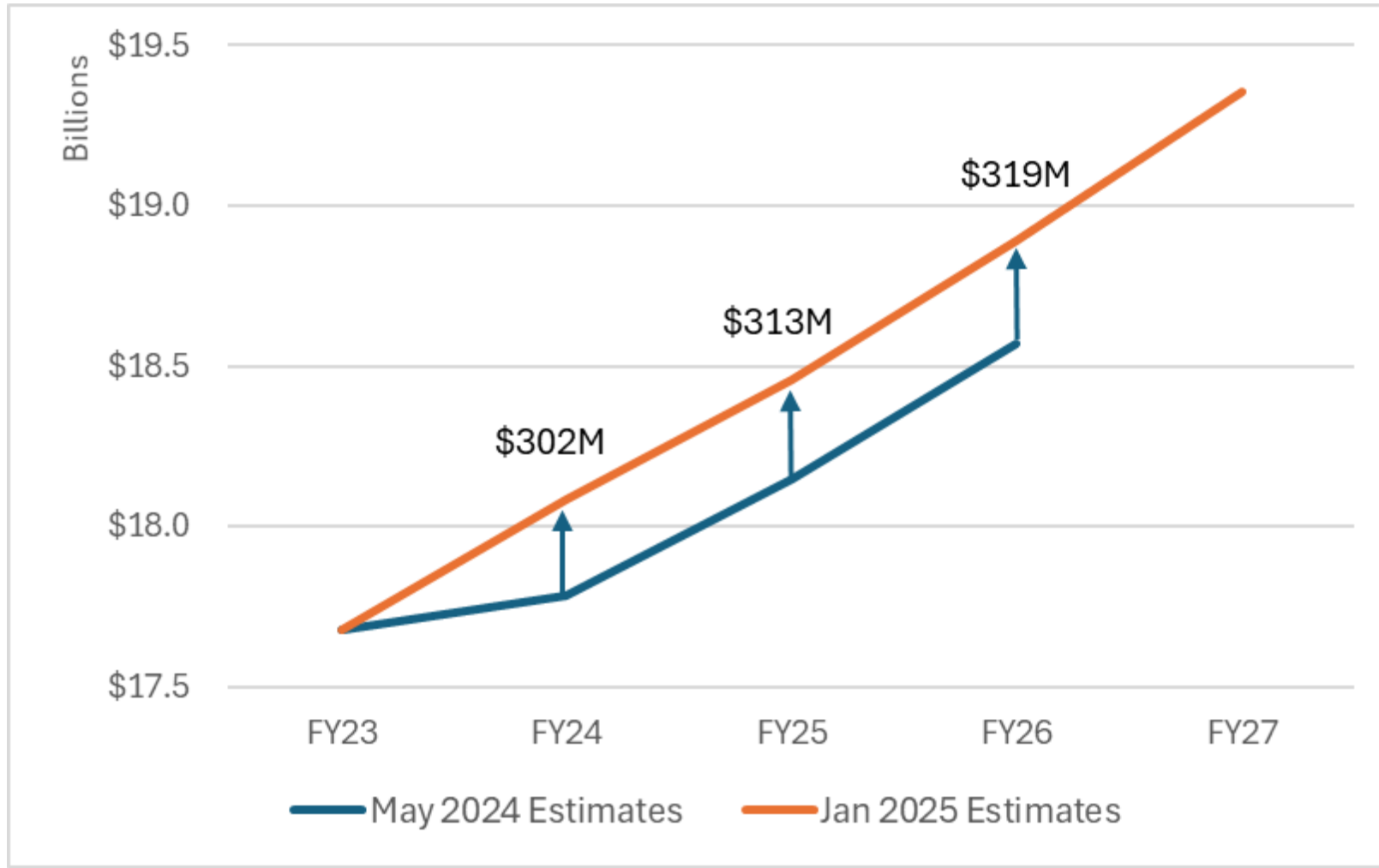
# January Consensus Revenue Conference: Behind the Numbers

# General Fund/General Purpose Revenue



- Note the adjustments are really all about what happened in FY2024
- Revenue in FY2024, which just ended, was \$552M higher than what was projected in May (4.0% bump)
- Trend growth in the out years looks very much like the May forecast

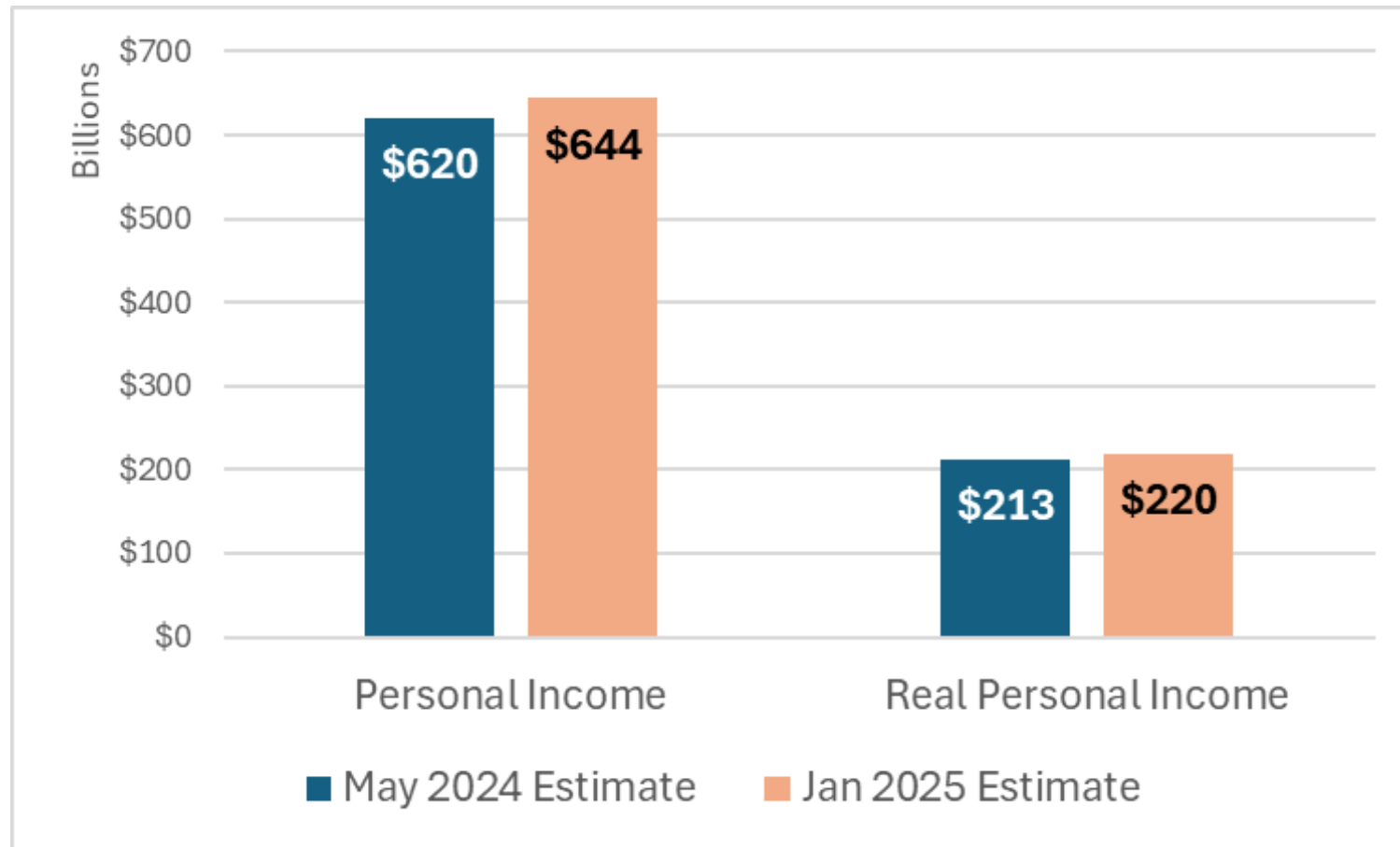
# School Aid Fund Revenue



- Same story for the School Aid Fund
- Revenue for FY2024 was about \$302M higher than May projections (1.7% bump)
- That revenue bump is largely carried forward into the out years

# What Drove FY24 Revisions? The Income Tax

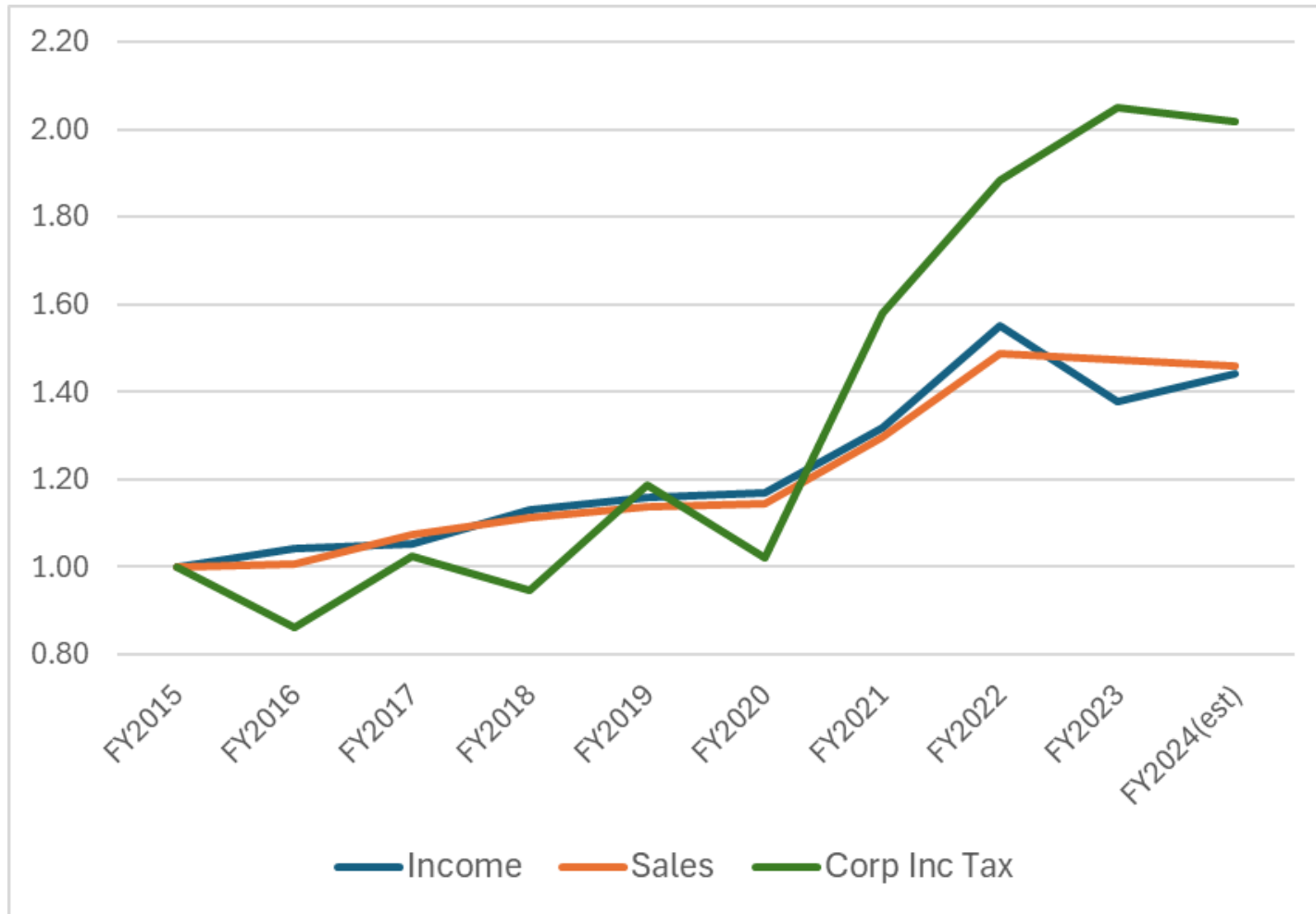
## Michigan Income in Calendar Year 2024



- Michigan personal income in 2024 (both in actual dollars and in inflation-adjusted dollars) was revised upward in economic forecasts
- Personal income jumped 3.8%
- Inflation-adjusted personal income jumped 3.0%

# A Revenue Forecaster's Dilemma

## Recent Revenue Growth for Three Major Michigan Taxes

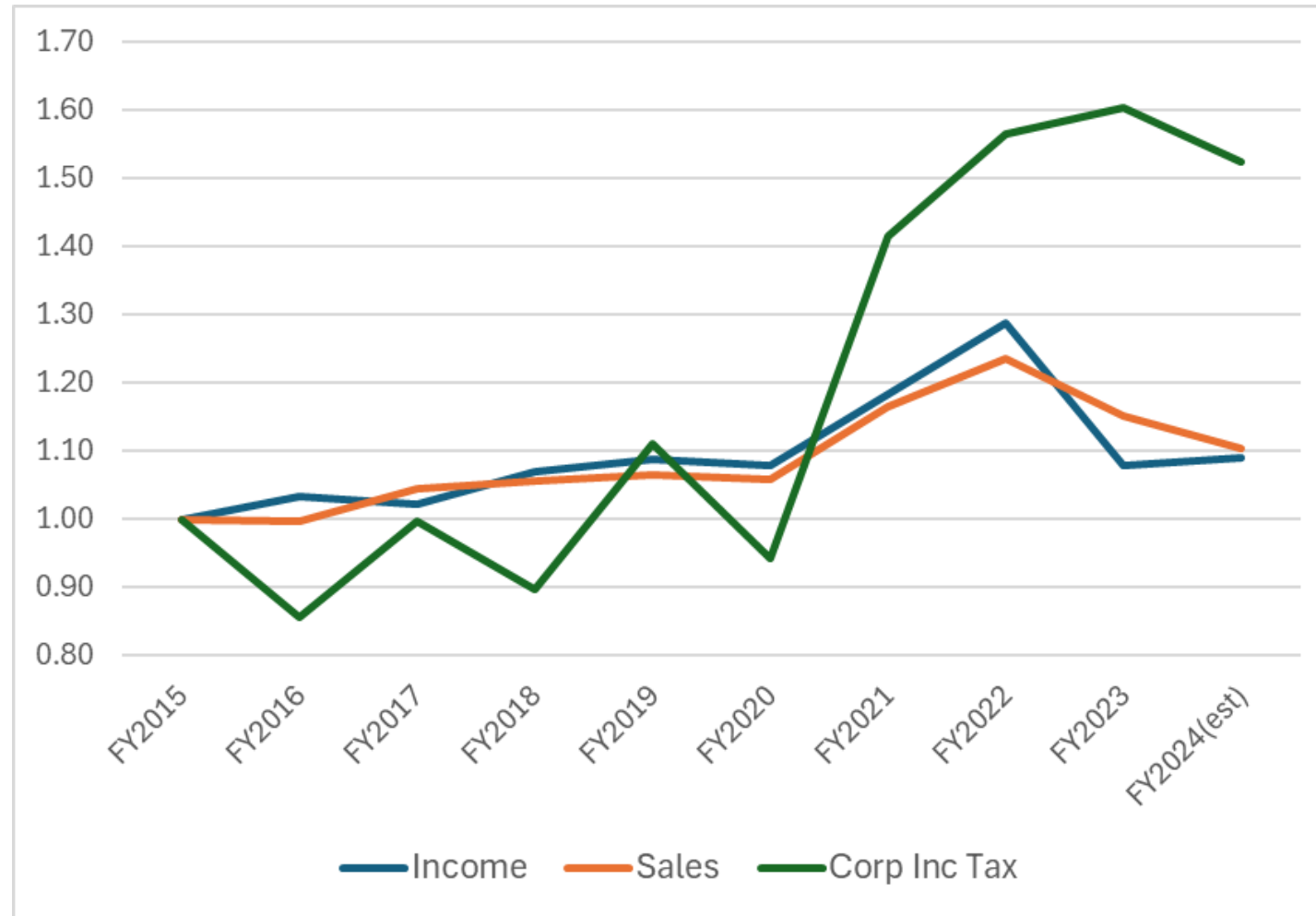


- Inflation provides artificial boosts to all revenue streams
- Income Tax
  - COVID stimulus
  - Major tax cuts
- Sale Tax
  - Consumer shift from non-taxable services to taxable goods
- Corporate Income Tax
  - Do we go back to trend?



# Revenue Growth Adjusted for Inflation

## Inflation-Adjusted Revenue Growth for Three Major Michigan Taxes



- Income Tax is largely back to old trend, BUT remember the tax cuts (close to \$1B)
- Sale Tax growth is largely back to trend after inflation adjustment
- CIT is still well above the previous growth trend even after controlling for inflation

# Economic Uncertainty Going Forward

*From U-M RSQE presentation to CREC*

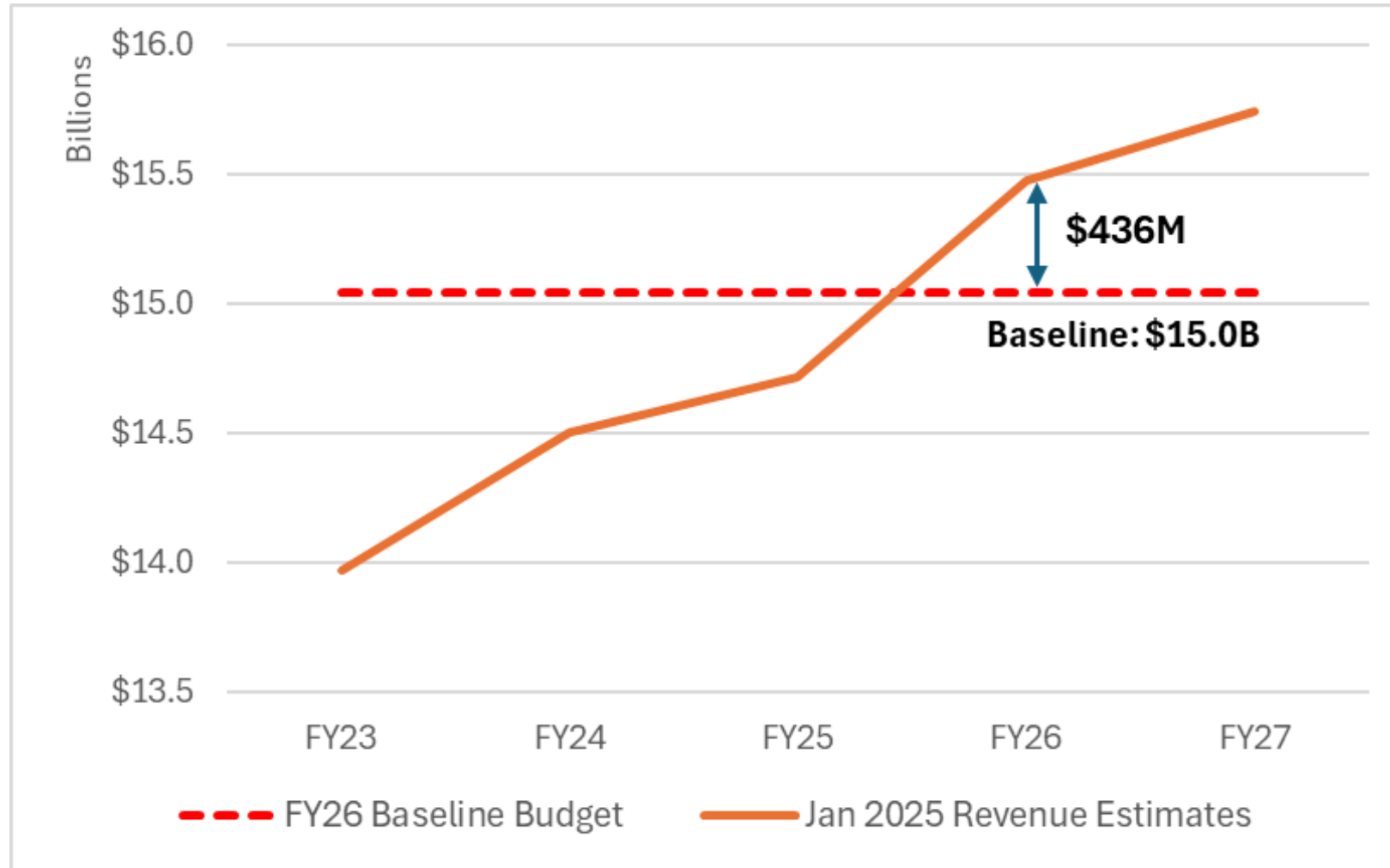
## Key Policy Implications of the Federal Elections

- TCJA largely extended (was our baseline already)
- Higher SALT deduction cap
- 15% Corporate rate for domestic manufacturing
- Sizeable tax cut on Social Security benefits, tips, and overtime income
- \$7,500 EV tax credit gone soon, most IRA provisions expire on schedule
- Tariffs on imports from China will jump in 2026, eventually ~triple
  - Limited retaliation from China through 2026
  - No significant/lasting new tariffs on the rest of the world
- A deportation program of limited scope

RSQE: January 2025

# What Does It Mean for the Upcoming Budget?

# GF/GP Budget has \$436M revenue surplus...



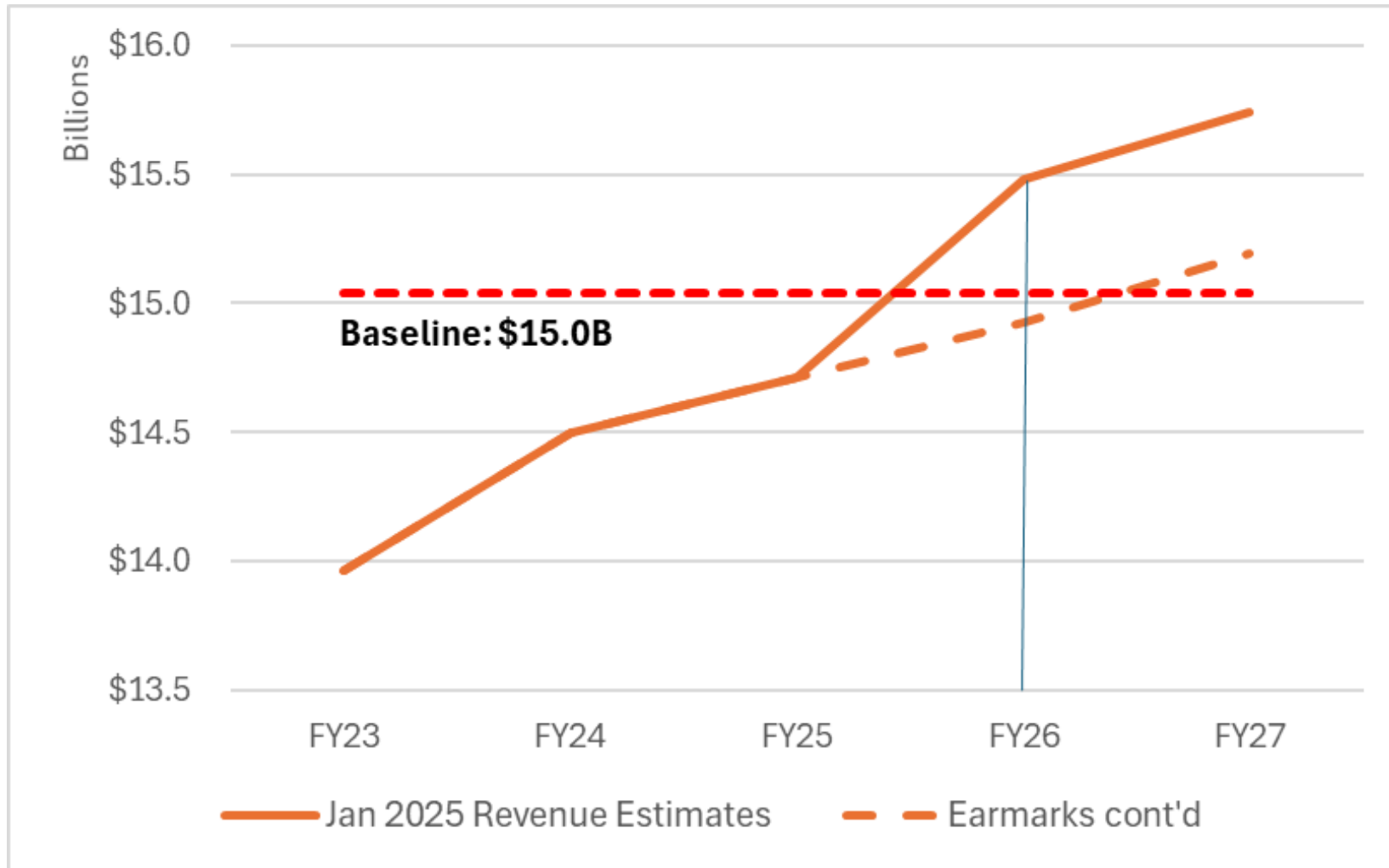
Senate Fiscal Agency analysis estimates FY26 baseline budget of just over \$15B

Room for growth = \$436M, about 2.9%

“Baseline” includes:

- Ongoing FY25 GF/GP appropriations
- Discretionary revenue sharing
- Inflationary adjustments (e.g., state payroll, DHHS caseload programs)
- Cost of new R&D tax credits

# ... thanks to expiring CIT earmarks

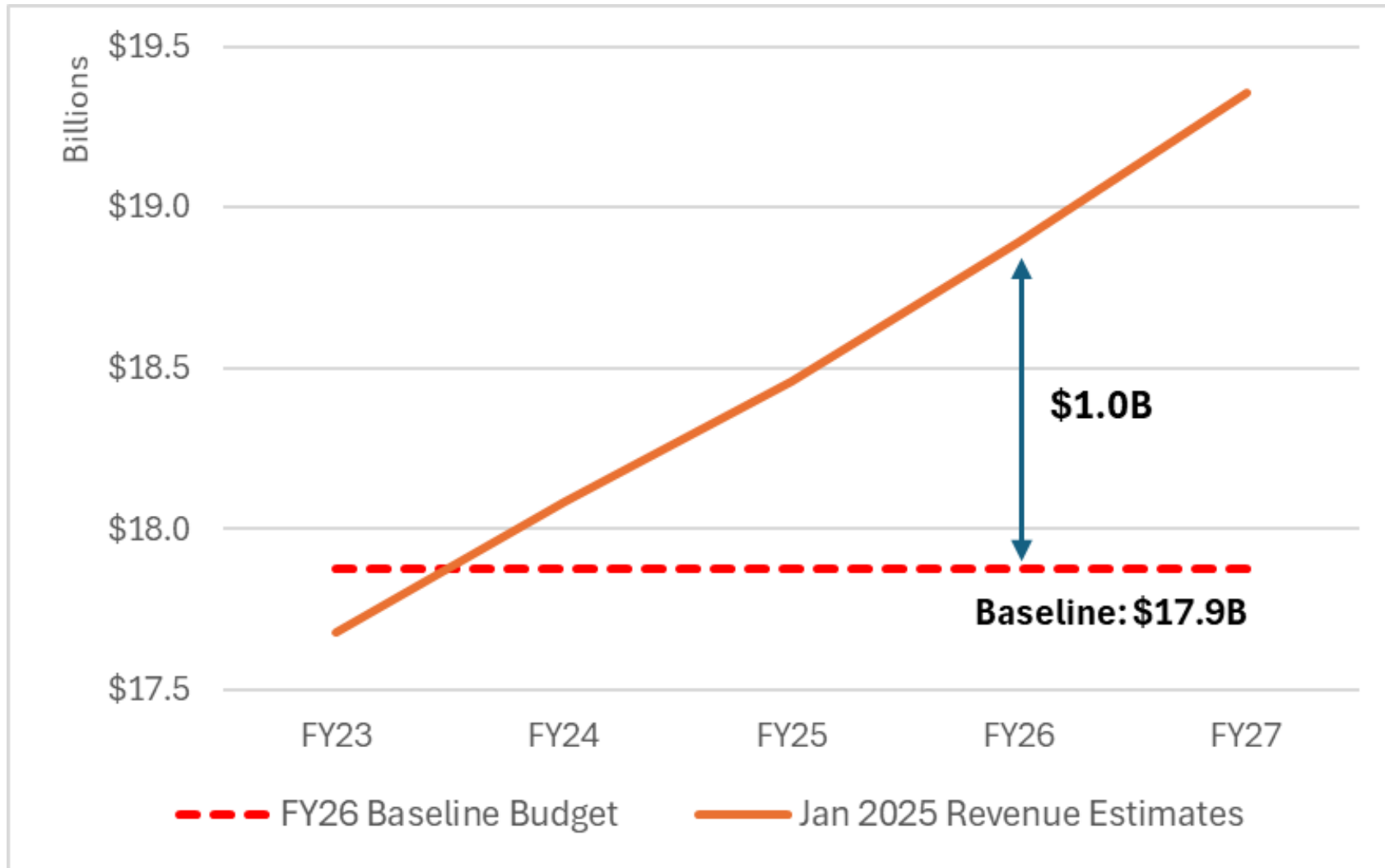


Great majority of the GF/GP revenue growth in FY26 is due to expiring Corporate Income Tax earmarks

Temporary CIT earmarks:

- \$500M to SOAR Fund
- \$50M for placemaking grant program
- Effective in FY23, FY24, and FY25
- In FY26, back to the GF

# School Aid Fund budget has \$1B surplus



Senate Fiscal Agency analysis suggests FY26 baseline is \$17.9B for School Aid Fund appropriations

Room for growth = >\$1.0B, about 5.7%

# What to Watch For: What About the Roads?

House Republican proposal:

- Redirect \$1.7B in existing Corporate Income Tax revenue to roads
- Get an additional \$500M from ending MBT credits to businesses (legal challenges are likely)
- \$900+M from shifting sales tax revenue on gasoline to roads
- Challenge: Plan redirects over \$2.4B in GF/GP revenue, but only \$436M in revenue surplus. Where do you free up \$2B?

Governor Whitmer has signaled she is open to a road funding plan that includes “responsible budget cuts”.

Tomorrow’s budget release will be the first signal from the Governor’s office on what, if any, approach they want to take in devoting additional revenue resources to address the state’s road infrastructure.

# Citizens Research Council of Michigan

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