

Supplement to The Michigan Economic Outlook for 2025–2027: The State Tax Revenue Outlook¹

Jacob T. Burton, Gabriel M. Ehrlich, and Michael R. McWilliams
University of Michigan

Michigan's most recent Consensus Revenue Estimating Conference (CREC) took place on May 16 in Lansing, during which state officials agreed on revenue forecasts for fiscal years 2025–27. Officials expect combined General Fund General Purpose (GFGP) and School Aid Fund (SAF) revenue growth to slow from 2.4 percent in fiscal 2024 to 1.3 percent in fiscal 2025 before accelerating to 3.1 percent in fiscal 2026 and then easing back to 2.0 percent in fiscal 2027. Not surprisingly, much of the discussion at CREC focused on the potential effects of federal trade policy and overall economic uncertainty on state revenue collection. While state officials (and we at RSQE) expect revenue growth to stay positive through 2027, revenue projections have dropped considerably over the past few months. Since the preliminary CREC held in January, the state's official projections for combined revenues have dropped by \$140 million for fiscal 2025, \$320 million for fiscal 2026, and \$360 million for fiscal 2027.

Our forecast has also been impacted by the evolving tariff policies and the expanded level of economic uncertainty. In our [economic forecast](#) released on May 16, we estimate that the combined impact of the tariffs on steel, aluminum, and the auto sector will result in 13,000 fewer jobs than otherwise expected by 2027. Along with weak payroll job growth and rising inflation from tariff pass-through, we

¹ Following the approach we introduced last year, we released our May 2025 economic forecast contemporaneously with the state's May Consensus Revenue Estimating Conference (CREC) on May 16, 2025. This report on the state's tax revenue outlook serves as a supplement to our economic outlook and draws on information released at CREC. Both reports are publicly available on our website at <https://lsa.umich.edu/econ/rsqe/forecasts/michigan-forecast.html>.

project the state's unemployment rate to rise to 6.0 percent by the first quarter of 2026 before gradually declining to 5.8 percent by the end of 2027.

Those economic headwinds translate directly into weaker state tax revenue collections, but we caution that the policy landscape remains fluid and complex.² Much uncertainty remains about the fate of the reciprocal tariffs that were recently invalidated by the U.S. Court of International Trade and what measures, if any, might replace them. Still, it is important to recognize that we are not forecasting an outright recession, although we acknowledge that the risk has risen recently.

Figure 1
Michigan Tax Revenues, General and School Aid Funds

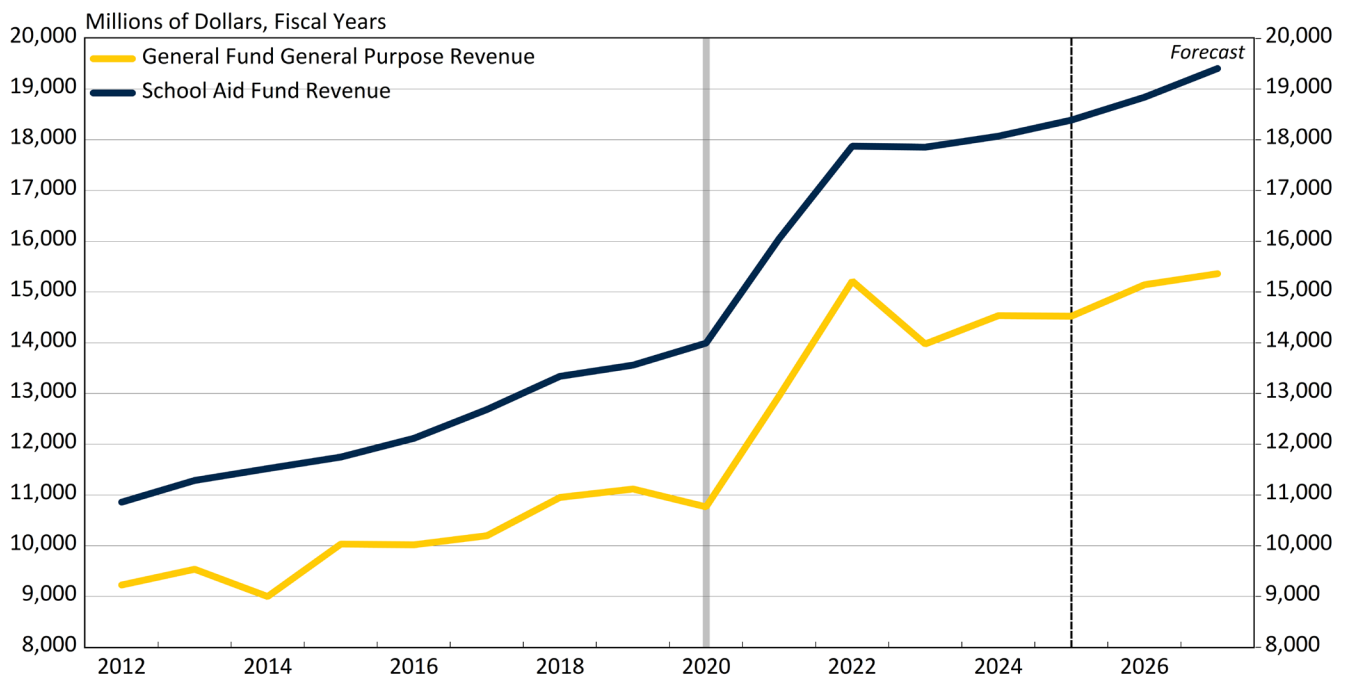


Figure 1 shows the history and our forecast of total GFGP and SAF revenues. In aggregate, our outlook is quite close to the official CREC forecast—we project combined GFGP and SAF revenue growth of 0.9 percent in fiscal 2025, 3.2 percent in fiscal 2026, and 2.3 percent in fiscal 2027. Despite rising personal income tax revenue in fiscal 2025, overall growth is limited by flat sales and use tax revenue as well as declining business tax and nontax revenue. Personal income tax revenue moderates in fiscal

² Our forecast does not incorporate changes to trade policy since we finalized the assumptions for our Michigan economic outlook in early May 2025.

2026 and 2027 as sales and use tax revenue strengthens. Skyrocketing business tax revenue is partially responsible for the improvement of the bottom line in fiscal 2026, although much of that growth reflects the relaxation of several earmarks to the Corporate Income Tax. While the path forward is undeniably more uncertain than we anticipated earlier this year, the state's underlying economic and revenue fundamentals continue to support steady, if modest, growth.

We now describe the components of our state revenue forecast in more detail. Table 1 breaks down the recent history as well as our forecast for fiscal years 2025–27. The upper portion details GFGP revenues, and the lower portion summarizes SAF revenues.

Net Personal Income Tax Revenue

- Following the extraordinary volatility during and after the pandemic, net personal income tax revenue grew by a solid 5.1 percent in fiscal 2024 as the economy continued to expand and the effects of earlier tax law changes stabilized. Improved withholding collections, lower refunds, and a rebound in quarterly payments drove the recovery.
- We forecast net personal income tax revenue to grow another 5.0 percent in fiscal 2025. Growth of withholding and quarterly revenues accelerates, and annual and flow-through entity revenues regain momentum despite the economic headwinds from tariff policy. Withholding is projected to grow by 5.7 percent as Michigan's labor market continues to add jobs in non-cyclical industries such as private education and health services despite the pressure from the tariffs.
- Net personal income tax growth moderates to 1.7 percent in fiscal 2026 and 1.3 percent in fiscal 2027 as the full effects of tariff policy weigh on the state economy. All components of the income tax grow at a slower pace in fiscal 2026. Withholding growth ticks up slightly in fiscal 2027 but not enough to outweigh continued softening from quarterly and flow-through payments, a slight acceleration in refunds, and a small decline in annual payments.

Consumption Tax Revenue

- GFGP consumption tax revenue in Michigan is driven by distributions from the sales and use taxes, with smaller contributions from excise taxes on cigarettes and alcohol.
- Consumption tax revenue allocated to the General Fund fell by 4.8 percent in fiscal 2024 as all components experienced a decline except for the excise tax on alcohol. Most of the drop came from the sales and use tax contributions as consumers continued to shift spending back to services.
- We expect gross sales and use tax revenue to stay flat in fiscal 2025 due to the ongoing transition of consumer spending patterns from goods to services and moderating economic growth resulting from trade policy. Gross sales and use tax revenue picks back up with 2.0 percent growth in fiscal 2026 and 3.5 percent in fiscal 2027.

- Combining the General Fund's share of gross sales and use tax revenue with the excise taxes on cigarettes and alcohol, we forecast GFGP consumption tax revenue to grow by 1.5 percent in fiscal 2025, 1.8 percent in fiscal 2026, and 4.3 percent in fiscal 2027.

Business Tax Revenue

- Business tax revenue comes primarily from the state's corporate income tax (CIT), insurance company premiums, and oil and gas severance tax payments. Certain businesses continue to pay taxes and claim credits under the previous Michigan Business Tax (MBT) instead of the CIT. Variability in the timing of when MBT refunds are claimed can lead to swings in the state's overall business tax revenue. All business tax revenue accrues to the General Fund.
- Business tax revenue grew by 6.6 percent in fiscal 2024 despite a small drop in CIT payments, although most of that growth was due to a reduction in MBT refunds.
- Although we expect CIT revenue to return to growth this year, overall business tax revenue is projected to decline by 6.3 percent as MBT refunds bounce back to normal levels.
- CIT revenue rises sharply in fiscal 2026 as several earmarks expire. Continued growth of insurance company premiums also helps as total business revenue jumps by 34.8 percent for the fiscal year.
- Growth moderates to 3.0 percent in fiscal 2027 with small contributions from all business tax components despite an expected increase in MBT refunds.

Total General Fund Revenue

- Total GFGP revenue grew by 4.0 percent in fiscal 2024 with gains from the personal income tax and business taxes outweighing declines in consumption tax revenue and nontax revenue.
- Based on our projections of the individual components, we expect total GFGP revenue to stay flat in fiscal 2025 as positive contributions from income and consumption taxes are offset by the decline in business tax revenue and a drop in nontax revenue.
- Despite a widespread moderation across most revenue sources in fiscal 2026, the expiration of the CIT earmarks helps total GFGP revenue rise by 4.3 percent. After that adjustment, growth slows to 1.4 percent in fiscal 2027 as trade policy continues to weigh on the economy.
- Our forecast puts total GFGP revenue over \$4.2 billion, or 38.2 percent, higher in fiscal 2027 than in fiscal 2019. After adjusting for inflation, however, the growth from fiscal 2019–27 is a mere 2.5 percent, producing average real growth of just 0.3 percent per year.

Total School Aid Fund Revenue

- About half of total SAF revenue comes from sales and use tax collections, while one-fifth derives from the personal income tax, and about one-seventh comes from the state education property tax. Other taxes, such as the real estate transfer tax, liquor tax, casino tax, and tobacco tax, as well as lottery transfers, all contribute smaller amounts.
- Total SAF revenue was limited to growth of just 1.2 percent in fiscal 2024 as strong returns from the state education property tax, the real estate transfer tax, and casino taxes were partially offset by declines in sales tax revenue and lottery transfers.

- Revenues related to the housing market continue to stay strong, by and large, over the forecast horizon, while disbursements from the income tax also contribute to growth. Recovering gross sales and use tax revenue, however, provides the most oomph.
- We project total SAF revenue to expand by 1.7 percent in fiscal 2025, 2.4 percent in fiscal 2026, and 3.0 percent in fiscal 2027.
- Total SAF revenue is forecast to finish fiscal 2027 over \$5.8 billion, or 43.1 percent, higher than in fiscal 2019. After adjusting for inflation, that growth is reduced to only 6.1 percent, translating to average real growth of 0.7 percent per year from fiscal 2019 to 2027.

Table 1
State Revenues by Fiscal Year
(Millions of dollars, except as noted)

	Actual	RSQE Forecast		
	2024	2025	2026	2027
<u>General Fund General Purpose</u>				
Personal income tax	8,336	8,795	8,907	8,984
(% change)	(7.4)	(5.5)	(1.3)	(0.9)
Consumption taxes	3,020	3,065	3,119	3,253
(% change)	(-4.8)	(1.5)	(1.8)	(4.3)
Sales	1,583	1,678	1,719	1,777
Use	1,188	1,141	1,157	1,233
Other consumption	249	246	244	243
Business taxes	1,776	1,664	2,243	2,310
(% change)	(6.6)	(-6.3)	(34.8)	(3.0)
MBT/SBT/Corporate income	1,217	1,096	1,658	1,708
Other business	559	569	585	602
Other GFGP taxes	219	214	219	223
GFGP tax revenue	13,351	13,738	14,488	14,770
(% change)	(4.5)	(2.9)	(5.5)	(2.0)
Nontax revenue	1,186	789	658	593
GFGP revenue	14,536	14,527	15,146	15,364
(% change)	(4.0)	(-0.1)	(4.3)	(1.4)
<u>School Aid Fund</u>				
SAF taxes	16,825	17,235	17,685	18,260
(% change)	(1.9)	(2.4)	(2.6)	(3.3)
Lottery transfer	1,249	1,155	1,155	1,146
(% change)	(-7.6)	(-7.5)	(0.0)	(-0.8)
Earmarked state SAF revenue	18,074	18,390	18,840	19,406
(% change)	(1.2)	(1.7)	(2.4)	(3.0)
<u>Addendum</u>				
Combined GFGP and SAF revenue	32,611	32,917	33,986	34,769
(% change)	(2.4)	(0.9)	(3.2)	(2.3)
Gross sales and use taxes	13,342	13,346	13,617	14,090
(% change)	(-0.3)	(0.0)	(2.0)	(3.5)

RSQE: May 2025