

ILLINOIS DEPARTMENT OF REVENUE MONTHLY REVENUE REPORT

July

Fiscal Year 2012

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Research Division

This report analyzes the major revenues the Illinois Department of Revenue (IDOR) Research Division forecasts. It examines how actual revenues compare with the previous year and with current FY 2012 estimates. The current estimates are those contained in the Governor's Fiscal Year 2012 Operating Budget.

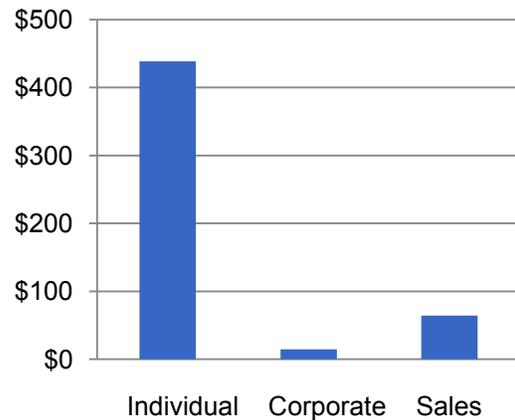
Fiscal Year 2012 revenue receipts in July for individual income, corporate income, and sales taxes ("big three" revenue sources) are \$1,754.8 million. Those receipts are \$518.1 million above last year and \$15.1 million above the current estimate.

Individual income tax receipts are \$1,087.3 million. The total is \$439.0 million above last year and \$25.4 million below the current estimate.

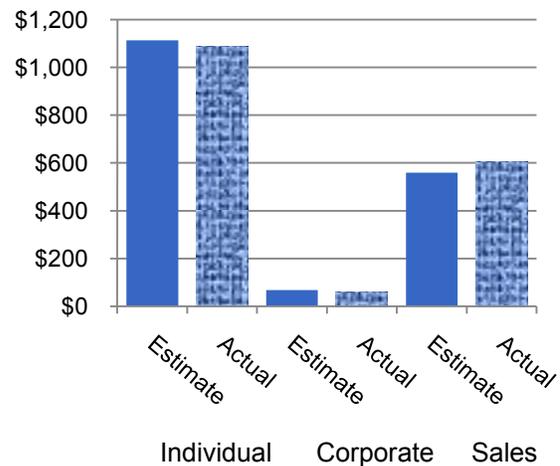
Corporate income tax receipts are \$61.7 million. The total is \$14.9 million above last year and \$6.4 million below the current estimate.

Sales tax receipts are \$605.8 million. The total is \$64.2 million above last year and \$46.9 million above our estimates.

**Increase in Year-to-Date Revenues
FY 2011 and FY 2012 (in millions)**



**FY 2012 Year-to-Date Revenues versus
Forecasts (in millions)**



BACKGROUND

At the start of each fiscal year, we re-evaluate the revenue estimates we developed for the Governor's Operating Budget. We do this not only in light of what has happened since we produced the estimates more than six months ago, but also in light of current economic conditions and the latest forecasts. Fiscal year 2011 receipts generally performed better than or as expected. As recently as June, the consensus economic outlook was for a moderate but accelerating recovery. However, the economic outlook has become more pessimistic and more uncertain in recent weeks.

Gross Domestic Product data released in late July showed the U.S. economy grew by less than 1.0 percent in the first half of 2011, much less than previously expected. In June, personal consumption expenditures, which are the most important element of the U.S. economy, posted their largest month-to-month decline in nearly two years. Consumer confidence also fell in June, and although it improved slightly in July, the recent U.S. credit downgrade and stock market volatility portend another drop in August. Business confidence is not doing any better. Many businesses are concerned about growth and choosing to build up cash rather than invest. Overall, private consumption and investment appear less and less capable of sustaining the recovery.

Government, meanwhile, appears unable to pick up much, if any, slack. In terms of fiscal policy, budget problems at all levels of government are leading to reduced spending, and political support for additional federal fiscal stimulus has diminished among some politicians, as illustrated by the recent fight over raising the federal debt limit. Monetary policy, on the other hand, is limited with the federal funds rate already close to zero.¹ In any case, the economy needs more demand at this stage, not more liquidity.

Underscoring the recent shift in outlook, the June reading of the Federal Reserve's Leading Index for Illinois, a composite measure that predicts changes in economic conditions, was negative for the first time since October 2009. More time is needed to tell whether this is a blip or the beginning of a new downward trend.

As we begin to re-evaluate our revenue estimates, the key element is going to be more time. Current economic conditions are simply too unstable and uncertain to provide a sound basis for revised estimates. We therefore intend to monitor receipts and economic conditions through the first quarter of fiscal year 2012 before recommending any further revisions to the FY 2012 forecasts.

TECHNICAL NOTE

Due to rounding of some receipt numbers, there may be some variations in the dollar and percentage amounts shown in report tables.

¹ In June 2011 the Federal Reserve Bank completed its second round of purchasing long-dated treasury securities –

➤ Individual Income Tax (IIT)

The recent tax rate increase explains most of the growth in July receipts.

For FY 2012, we expect to receive \$377.0 million in additional final payments due to the lag in January and February 2011's withholding payments associated with the 2011 tax increase. We also expect a \$260.0 million reduction due to the impact of not decoupling from federal bonus depreciation. We anticipate both these phenomena will be reflected in receipts associated with the 2011 tax return filed in April.

These factors cause an upward revision in the FY 2012 forecast from \$16,389.0 million to \$16,506.0 million.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$1,087.3	\$1,112.7	-\$25.4	-2.3%
FY 2011	FY 2012	\$ Difference	% Difference
\$648.3	\$1,087.3	\$439.0	67.7%

Components Year-to-Date (\$ millions)

	Actual	Estimate	\$ Difference	% Difference
Withholding	\$1,026.3	\$1,076.0	-\$49.7	-4.6%
Estimated and final	\$61.0	\$36.7	\$24.3	66.2%
Total	\$1,087.3	\$1,112.7	-\$25.4	-2.3%

** Payment totals match the Comptroller's receipts. Withholding, estimated and final payments are derived from IDOR collection data and in-transit fund data.*

In forecasting FY 2012 withholding receipts back in November, we assumed a relatively conservative economic outlook for the state labor market. After obtaining input from economists at the Illinois Department of Employment Security (IDES), we forecast a 3.2 percent growth in FY 2012 wages and salaries. This was in contrast to the 3.9 percent growth forecast by IHS Global Insight (IHS) at that time.² A 3.2 percent wage and salary forecast led us to forecast a 2.3 percent growth in withholdings for FY 2012.

IDES economists have since improved their outlook of the Illinois labor market. Based on their data, we were relatively confident up until July that wages and salaries would grow at a higher rate than we anticipated in November 2010. The more recent employment forecasts suggest wages and salaries may grow at 4.0 percent in FY 2012; this compares to the current IHS forecast of 4.2 percent.³

The outlook for variables relevant to forecasting non-withholding has also improved. In November, IHS forecasted that dividends, interest, and rents would decline by 1 percent in FY 2012. IHS now forecasts dividends, interest, and rents to grow at 6 percent.⁴

However, given the recent increased turmoil in the international and national economic environment, we consider it prudent to wait for additional economic data before considering whether a revision of our IIT forecast for FY 2012 is necessary. After the first quarter of FY 2012, when we will have received the first estimated payment of the fiscal year, we will review the FY 2012 IIT estimate.

² IHS Global Insight, November 2010 data release.

³ IHS Global Insight, July 2011 data release.

⁴ IHS Global Insight, July 2011 data release.

➤ Corporate income tax (CIT)

FY 2011 receipts came in at \$2,287.7 million, which was within \$1 million of our estimate.

Our FY 2012 forecast is higher at \$2,853.0 million. This total is comprised of:

- \$2,000.0 million of baseline revenue
- \$917.0 million associated with the 2011 tax rate increase
- \$275.0 million associated with Net Operating Loss Suspension
- \$310.0 million reduction associated with not decoupling from the federal bonus depreciation
- \$29 million in depressed revenue associated with the FY 2011 amnesty program.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$61.7	\$68.1	-\$6.4	-9.4%
FY 2011	FY 2012	\$ Difference	% Difference
\$46.8	\$61.7	\$14.9	31.8%

Given that FY 2011 CIT performance met our expectations (and that we developed the FY 2012 forecast using conservative assumptions), we are not recommending any revision at this time.

➤ Sales

State sales and use tax receipts for July posted strong growth compared to both last July and the Year-to-Date estimate.

The outlook for consumer spending has deteriorated over the last few weeks. As mentioned in the introduction, personal consumption expenditures in June posted their largest month-to-month decline in nearly two years and consumer confidence continues to struggle. Reflecting the mounting uncertainty and pessimism, forecasts for Illinois retail sales have been revised downward by major forecasting houses each month since April 2011. We expect additional downward revisions in coming months.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$605.8	\$558.9	\$46.9	8.4%
FY 2011	FY 2012	\$ Difference	% Difference
\$541.6	\$605.8	\$64.2	11.8%

When we revisit our FY 2012 estimates at the end of the first quarter, sales tax estimates will be revised to reflect FY 2011's higher than anticipated total receipts.

Year-to-Date (\$ millions)				
*Estimated. IDOR does not have actual motor fuel sales tax data.				
	FY 2011	FY 2012	\$ Difference	% Difference
Vehicles	\$76.0	\$76.6	\$0.6	0.8%
Motor fuel*	\$53.4	\$74.4	\$21.0	39.3%
All else	\$412.3	\$454.8	\$42.6	10.3%
	\$541.6	\$605.8	\$64.2	11.8%

➤ Estate Tax

The Illinois Estate Tax was not in effect from January 1, 2010 through December 31, 2010. It was reinstated on January 1, 2011. There is a nine-month lag between the death of the decedent and when the estate tax return and tax is due. Illinois Estate Tax revenues are expected to return to normal by November 2011.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$1.8	\$1.9	-\$0.1	-6.5%
FY 2011	FY 2012	\$ Difference	% Difference
\$23.9	\$1.8	-\$22.1	-92.5%

➤ Tobacco Products Tax

Long Term Care Fund

July receipts exceeded our forecast and last year's July receipts, but the variation is within the margin of error.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$2.7	\$2.0	\$0.7	33.5%
FY 2011	FY 2012	\$ Difference	% Difference
\$2.3	\$2.7	\$0.4	16.0%

➤ Cigarette Taxes

July's decline in receipts is most likely attributable to distributors using their accumulated inventory of stamps. We expect receipts to return to normal in the coming months.

Year-to-Date (\$ millions)	*Includes the General Revenue Fund			
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$34.5	\$51.3	-\$16.8	-32.7%
General Revenue Fund	\$29.2	\$29.6	-\$0.4	-1.3%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$42.7	\$34.5	-\$8.2	-19.3%
General Revenue Fund	\$29.2	\$29.2	\$0.0	0.0%

➤ Liquor Tax

Receipts are up slightly compared to the same period last fiscal year and the Year-to-Date estimate.

Year-to-Date (\$ millions)		*Includes the General Revenue Fund		
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$30.0	\$28.1	\$1.9	6.7%
General Revenue Fund	\$17.7	\$16.8	\$0.9	5.3%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$29.6	\$30.0	\$0.3	1.1%
General Revenue Fund	\$17.5	\$17.7	\$0.2	1.1%

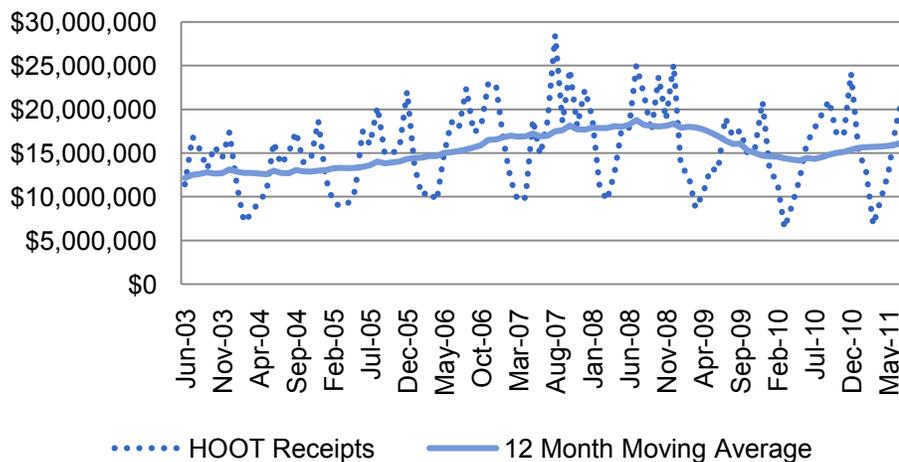
➤ Hotel Operator's Occupation Tax (HOOT)

Receipts were strong this month and well within reasonable range of our forecast.

Monthly receipts have been increasing at an average rate of 1.1 percent for the last year. This is slightly better than the average 0.7 percent growth experienced between the previous two recessions.

Year-to-Date (\$ millions)		*Includes the General Revenue Fund		
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$21.7	\$19.2	\$2.5	13.1%
General Revenue Fund	\$3.6	\$2.7	\$0.9	34.7%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$17.7	\$21.7	\$4.0	22.4%
General Revenue Fund	\$1.9	\$3.6	\$1.7	92.2%

HOOT Trend



➤ Public Utilities Taxes

Telecommunications:

The FY 2012 forecast is based on the assumption that taxpayers would reduce their estimated payments when they stopped collecting and remitting the tax on wireless services covered by the Federal Internet Tax Freedom Act.⁵ Since we made the forecast, we have found that taxpayers continue to overestimate payments and are accumulating credit. If these taxpayers use their credit balances in FY 2012, this will place downward pressure on receipts. We will continue to monitor payment and return data and adjust expectations accordingly.

Year-to-Date (\$ millions)				
	Actual	Estimate	\$ Difference	% Difference
Telecommunications	\$42.8	\$44.7	-\$1.9	-4.2%
Electricity	\$32.5	\$36.8	-\$4.3	-11.7%
Natural gas	\$6.2	\$7.2	-\$1.1	-14.6%
	\$81.4	\$88.6	-\$7.2	-8.2%
	FY 2011	FY 2012	\$ Difference	% Difference
Telecommunications	\$50.4	\$42.8	-\$7.6	-15.1%
Electricity	\$32.1	\$32.5	\$0.4	1.2%
Natural gas	\$5.6	\$6.2	\$0.6	10.8%
	\$88.1	\$81.4	-\$6.6	-7.5%

Electricity: The FY 2012 forecast assumes a slight increase in demand compared to FY 2011. Monthly receipts can be unpredictable but exhibit predictability when analyzed quarterly. We prefer one full quarter of receipts data to make a relevant comparison of receipts.

Natural gas: The FY 2012 estimate assumes a slight increase in demand for natural gas. July 2012 receipts are approximately 11 percent greater than July 2011, but slightly less than our FY 2012 forecasted receipts.

➤ Lottery

Common School Fund (CSF) Transfers

Lottery performance was below expectations in terms of both sales and transfers to the Common School Fund. Total sales through the end of July are -\$13.9 million (-6.7 percent) below forecast. Instant sales exceeded forecast by \$4.4 million (3.9 percent). Online ticket sales fell short of the forecast by \$18.3 million (-19.1 percent).⁶ Lotto and Little Lotto are the only online games performing above forecast, exceeding estimates by 26.7 percent and 9.4 percent respectively. All other online games are below forecast by margins greater than 23 percent.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$41.0	\$47.7	-\$6.7	-14.0%
FY 2011	FY 2012	\$ Difference	% Difference
\$46.7	\$41.0	-\$5.7	-12.2%

⁶ Online tickets are not Internet-based games. Online tickets are traditional number drawing games such as Lotto, Pick-4 and Mega Millions.

➤ Riverboat gaming

Education Assistance Fund Transfers

Des Plaines' Rivers Casino opened on July 18, 2011 activating Illinois long-dormant 10th casino license. Admissions for the 13 operational days topped 270,000 and exceeded admissions at Elgin's Grand Victoria Casino – the Chicago area's most successful casino to date – by nearly 98,000 patrons. While admissions were very high at Rivers Casino, the Adjusted Gross Receipts (AGR) per admission was just \$65. Their AGR per admission is far below the statewide average (\$92) and substantially below the Grand Victoria Casino (\$133 in July). This is expected early in the life cycle of the casino when many patrons go to walk around, eat, and wager a few dollars because of the novelty. These patrons are not long-term casino patrons and draw down the average amount wagered.

Rivers Casino earned \$17.5 million in AGR during its operational days. This sum topped all casinos statewide except Harrah's Joliet Casino and Grand Victoria Casino when compared with their full 31 days of operation. When we prepared our forecast, Rivers was expected to operate the entire month of July. Had the casino been in operation for the entire month, AGR tax transferred to the education assistance fund would have equaled the forecast.

The state is scheduled to receive a \$72.5 million payment from River's Casino when the Illinois Gaming Board grants the permanent license at their August meeting. Until then, the casino is operating under a temporary permit. The payment will be deposited into the General Revenue Fund in August.

The general health of the casino gaming industry continues to improve statewide. Six of the nine casinos operational during FY 2011 posted increased AGR in July compared with a year ago while only two experienced increased attendance.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$35.4	38.0	-2.6	-6.7%
FY 2011	FY 2012	\$ Difference	% Difference
\$30.0	\$35.4	\$5.4	18.0%

➤ Real Estate Transfer Tax

The Illinois Association of Realtors (IAR) expects third calendar quarter 2011 sales volumes to exceed third quarter 2010 sales volumes by 30 percent.⁷ A large percentage increase in sales volume may be a reflection that the third quarter of 2010 marked a low point for the market. First quarter FY 2012 receipts will bear out whether to expect an increase in sales volume and whether to revise our estimate upward.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$4.2	\$3.7	\$0.5	13.5%
FY 2011	FY 2012	\$ Difference	% Difference
\$3.2	\$4.2	\$1.0	32.5%

⁷ Illinois Association of Realtors News Release, July 22, 2011

➤ Motor Fuel Tax

Motor Fuel Tax (Regular MFT), International Fuel Tax Agreement (IFTA) and Underground Storage Tank (UST) Tax.

Year-to-Date (\$ millions) Regular MFT			
Actual	Estimate	\$ Difference	% Difference
\$96.4	\$97.6	-\$1.1	-1.2%
FY 2011	FY 2012	\$ Difference	% Difference
\$100.9	\$96.4	-\$4.4	-4.4%

Year-to-Date (\$ millions) IFTA			
Actual	Estimate	\$ Difference	% Difference
\$5.3	\$8.2	-\$2.9	-35.1%
FY 2011	FY 2012	\$ Difference	% Difference
\$4.9	\$5.3	\$0.5	9.3%

Motor fuel receipts finished FY 2011 below our revised estimate. This is due to an accounting change that significantly reduced the amount of receipts IDOR collected from IFTA taxpayers. However, the “net” amount of IFTA receipts available to spend is effectively the same as it was before the change in treatment.⁸

Year-to-Date (\$ millions) UST			
Actual	Estimate	\$ Difference	% Difference
\$5.8	\$7.7	-\$1.9	-24.6%
FY 2011	FY 2012	\$ Difference	% Difference
\$6.3	\$5.8	-\$0.4	-7.0%

Illinois Department of Revenue, Research Division

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⁸ IFTA specifies how jurisdictions collect and report motor fuel use tax from transportation companies (*i.e.*, motor carriers) that use the highway system. Motor carriers complete an IFTA return in their “home” jurisdiction. IFTA then determines what each jurisdiction owes or is owed, based on the travel in each jurisdiction.

Accounting and administrative changes in IFTA have led to a change in how IFTA receipts are reported has resulted in IDOR collecting considerably less money. While the “net” amount of IFTA receipts (what IDOR keeps) is effectively the same, we used “gross” receipts as basis for our estimate. Prior to this change, IDOR received funds and made payments to each jurisdiction from the Illinois based motor carrier’s IFTA return. Therefore, the “gross” amount of IFTA receipts was the amount IDOR received. Under the new method, each jurisdiction either receives or issues a payment based on its relative balance, but not both. For example, if Missouri owes more to Illinois than Illinois owes to Missouri, Missouri would send IDOR a payment for the “net” amount. Unlike the old method, Illinois would no longer send a payment for what Illinois owes to Missouri.

FY12 YTD Through the end of July 2011 (\$ millions)

Revenue Source Receipts	FY 2011 YTD	FY 2012 YTD	YTD FY 2012 vs. YTD FY 2011			FY 2012 YTD Estimates	YTD FY 2012 vs. YTD Estimates			FY 2008 Total	FY 2009 Total	FY 2010 Total	FY 2011 Total	FY 2012 Estimate
Individual Income Tax (IIT)	\$648.3	\$1,087.3	\$439.0	67.7%		\$1,112.7	(\$25.4)	-2.3%		\$11,187	\$10,219	\$9,430	\$12,302	\$16,506
Corporate Income Tax (CIT)	\$46.8	\$61.7	\$14.9	31.8%		\$68.1	(\$6.4)	-9.4%		\$2,201	\$2,073	\$1,649	\$2,286	\$2,853
Sales Tax (GRF only)	\$541.6	\$605.8	\$64.2	11.8%		\$558.9	\$46.9	8.4%		\$7,215	\$6,773	\$6,308	\$6,833	\$6,586
Public Utilities	\$88.1	\$81.4	(\$6.6)	-7.5%		\$88.6	(\$7.2)	-8.2%		\$1,157	\$1,168	\$1,089	\$1,147.2	\$1,082
Telecommunications	\$50.4	\$42.8	(\$7.6)	-15.1%		\$44.7	(\$1.9)	-4.2%		\$579	\$593	\$549	\$586.9	\$509
Electricity	\$32.1	\$32.5	\$0.4	1.2%		\$36.8	(\$4.3)	-11.7%		\$410	\$403	\$381	\$401	\$409
Gas	\$5.6	\$6.2	\$0.6	10.8%		\$7.2	(\$1.1)	-14.6%		\$168	\$172	\$158	\$159	\$164
Lottery	\$46.7	\$41.0	(\$5.7)	-12.2%		\$47.7	(\$6.7)	-14.0%		\$657	\$625	\$625	\$632	\$645
Riverboat Gaming	\$30.0	\$35.4	\$5.4	18.0%		\$38.0	(\$2.6)	-6.7%		\$564	\$430	\$431	\$324	\$501
Estate Tax	\$23.9	\$1.8	(\$22.1)	-92.5%		\$1.9	(\$0.1)	-6.5%		\$373	\$288	\$243	\$122	\$182
Cigarette (All Funds)	\$42.7	\$34.5	(\$8.2)	-19.3%		\$51.3	(\$16.8)	-32.7%		\$592	\$564	\$558	\$561	\$532
Tobacco Products	\$2.3	\$2.7	\$0.4	16.0%		\$2.0	\$0.7	33.5%		\$21	\$21	\$24	\$27	\$24
PP Replacement Tax	\$26.7	\$34.5	\$7.8	29.2%		\$29.6	\$4.9	16.4%		\$1,486	\$1,264	\$1,013	\$1,334	\$1,201
Regular Motor Fuel Tax	\$100.9	\$96.4	(\$4.4)	-4.4%		\$97.6	(\$1.1)	-1.2%		\$ 1,117	\$ 1,249	\$ 1,165	\$ 1,158	\$1,129
Motor Fuel - IFTA	\$4.9	\$5.3	\$0.5	9.3%		\$8.2	(\$2.9)	-35.1%		\$146	\$144	\$103	\$85	\$143
Ug. Storage Tank	\$6.3	\$5.8	(\$0.4)	-7.0%		\$7.7	(\$1.9)	-24.6%		\$71	\$75	\$71	\$71	\$68
Liquor (GRF only)	\$17.5	\$17.7	\$0.2	1.1%		\$16.8	\$0.9	5.3%		\$158	\$158	\$159	\$157	\$162
Insurance Tax	\$3.9	\$3.8	(\$0.1)	-2.6%		\$5.2	(\$1.4)	-26.7%		\$295	\$334	\$322	\$316	\$316
Franchise Tax & Fees	\$12.3	\$13.3	\$1.0	8.1%		\$13.2	\$0.1	1.1%		\$225	\$201	\$208	\$207	\$204
Real Estate Transfer Tax	\$3.2	\$4.2	\$1.0	32.5%		\$3.7	\$0.5	13.5%		\$77	\$46	\$40	\$38	\$35
Private Vehicle Use (GRF only)	\$2.6	\$2.4	(\$0.2)	-6.8%		\$2.8	(\$0.4)	-13.4%		\$32	\$27	\$30	\$30	\$32
Hotel Tax (All Funds)	\$17.7	\$21.7	\$4.0	22.4%		\$19.2	\$2.5	13.1%		\$219	\$203	\$173	\$192	\$209