Quarterly Revenue Report: Fiscal Year 2014-Q4

Tax Revenue Research Updates by Quarter Including Monthly Revenue Table

Illinois Department of Revenue

Table of Contents

Economic Reports **Page**

National Economy 3

Illinois Economy 4

Income Tax Reports

Individual Income Tax (IIT) 6

Corporate Income Tax (CIT) 8

Sales & Excise Tax Reports

Sales & Use Tax 9

Public Utilities Taxes 11

Liquor Tax 13

Motor Fuel Taxes 14

Other Tobacco Products Tax 15

Cigarette and Cigarette Use Taxes 16

Hotel Tax Operators Occupation Tax (HOOT) 17

Estate Tax 18

Real Estate Transfer Tax (RETT) 19

Appendix

Comparison with Last Fiscal Year and IDOR Forecasts 22

U.S. and Illinois Employment 23

Acknowledgements 24

List of Table and Charts

Charts **Page**

1. Illinois Housing Sector 4
2. Corporate Income Tax Year-to-Date: CIT vs. Forecast 8
3. State Sales Tax from In-State Vehicle Sales by Illinois Dealers 10
4. Natural Gas Tax Receipts per Year 12
5. Natural Gas Tax Receipts vs. Illinois Temperature 12
6. Motor Fuel Tax Revenue: Percentage Change in Taxable Gallonage 14
7. Real Estate Transfer Tax: Receipts by Year 19
8. Negative Equity Share 20
9. Foreclosure Inventory 21

Tables

1. Index of Leading Economic Indicators: Midwest Region 5
2. Individual Income Tax: Components Year-to-Date 7
3. Sales and Use Tax Revenue: Year-to-Date Comparison 9
4. Liquor Tax Revenue: Year-to-Date 13
5. Cigarette and Cigarette Use Tax Revenue Year-to-Date 16
6. Hotel Operators' Occupation Tax Revenue Year-to-Date 17
7. Estate Tax Revenue Year-to-Date 18

A-1. Comparisons with Last Fiscal Year and with IDOR Forecast............ 22

A-2. Comparisons with HR389 Forecast 22

A-3. U.S. and Illinois Labor Market Report 23

A-4. Illinois Wage and Salary and Employment Report 23

National Economy

According to the Bureau of Economic Analysis (BEA), U.S. Real Gross Domestic Product (RGDP) decreased at an annualized rate of 2.9 percent in the first quarter calendar year of 2014, which is the largest decrease since the last recession.[1] Originally the BEA had estimated an annualized decrease of 1.0 percent.

The 2.9 percent decrease in RGDP reflects the negative contributions from private inventory investment, residential and non-residential fixed investment, net exports and government spending. Given the magnitude of the first quarter of the decline and the RGDP forecast for the remainder of the year, IDOR economists think it is unlikely that calendar year 2014 RGDP growth will exceed the 1.9 percent growth experienced in calendar year 2013.

Although real federal government consumption expenditures and gross investment increased 0.6 percent in the first quarter of calendar year 2014, total government spending declined 0.8 percent. The overall decline is due to real state and local government consumption expenditures and gross investment decreasing by 1.7 percent.

Conversely, personal consumption expenditures increased 1.0 percent in the first quarter of calendar year 2014. Within personal consumption, durable goods increased by 1.2 percent, nondurable goods decreased 0.3 percent and services increased 1.5 percent.

According to the Bureau of Labor Statistics (BLS), 288,000 jobs were added to the total non-farm payrolls during the month of June.[2] The industry sectors leading employment gains are professional and business services, retail trade, food services and drinking places, and healthcare. The increase in total non-farm payroll is the primary reason the U.S. unemployment rate decreased from 6.3 to 6.1 percent.

Based on the improvement in the labor market, the Federal Open Market Committee (FOMC) of the Federal Reserve Bank (FED) has indicated that it will taper its purchases of government bonds.[3] Known as quantitative easing, this program will come to a close by autumn. The FED however, also indicated that economic conditions may warrant keeping interest rates low for an extended period of time to meet its duel mandate of maximum employment and price stability.

[1] Bureau of Economic Analysis, News release, June 25, 2014.
[2] Bureau of Labor Statistics, News release, July 3, 2014.
[3] Board of Governors of the Federal Reserve System, Press release, June 18, 2014.

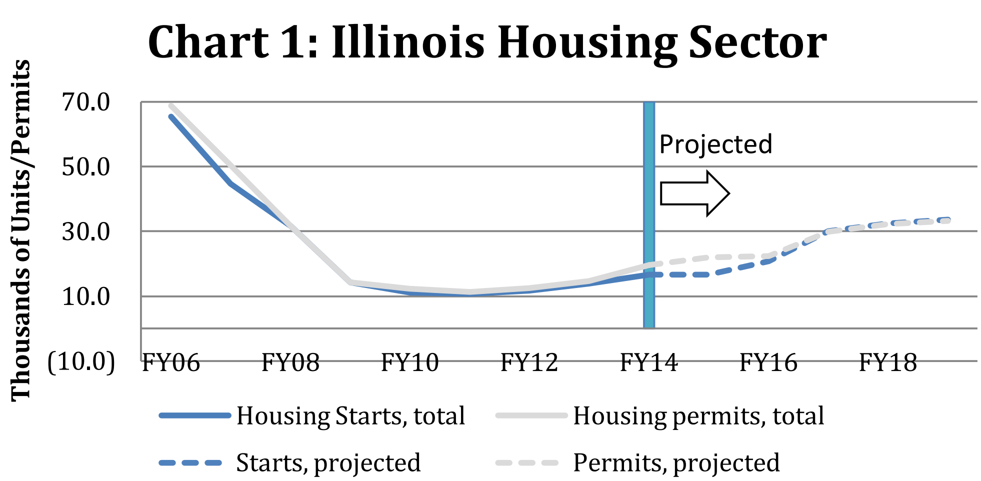
Illinois Economy

Despite the struggles of the national economy, the Illinois economy is improving rapidly – from declining unemployment, to an expanding housing market, to gaining expectations for positive economic growth.

According to preliminary data from the Local Unemployment Area Statistics, the Illinois unemployment rate decreased to 7.5 percent in May 2014 – the lowest level since 2008.[4] This reading positively compares to the 7.9 percent in April 2014. But what is more noteworthy is the substantial improvement since May 2013's unemployment rate of 9.2 percent. The Illinois Department of Employment Security estimated that more than 19,000 jobs were added to the state economy in the 12 months prior to and including May 2014.[5]

The largest contribution to employment gains came from the professional and business services sector, educational and health services and government. Despite the growth in these industries, the manufacturing sector experienced its largest one month job loss since May 2010.

After the last recession and the housing market meltdown, the Illinois housing market experienced a slow recovery in fiscal year 2012. The recovery has produced an increase in housing starts of an estimated almost 20 percent in fiscal year 2014, while housing permits grew more than 33 percent in the same period.[6] However, the fiscal year 2014 investment in the housing sector pales in comparison to pre-recession levels. According to IHS Economics, a reputable economic data provider and forecaster, the five-year outlook for the housing sector is one of sustained growth. Illinois housing starts are expected to increase 16.3 percent per year on average in the next five fiscal years. Housing permits are expected to increase by an annual average of 11.8 percent over the next five fiscal years.



Source: U.S. Census Bureau and IHS Economics

---

4 Bureau of Labor Statistics, Local Area Unemployment Statistics, May 2014.
5 Illinois Department of Employment Security, Current Employment Statistics, May 2014.
6 IHS Economics, baseline forecast, June 2014.

For further detail and in-depth analysis of the housing market in Illinois, please reference the Real Estate Transfer Tax section of this report.

According to the Philadelphia Federal Reserve Bank Index of Leading Economic Indicators, the Illinois economy is expected to expand at a rate of 2.5 percent for the next six months.[7] Illinois' Leading Index is first among Midwestern states. The following table enumerates the growth rate for each Midwestern state.

Table1: Index of Leading Economic Indicators: Midwest Region

State	6-Month Economic Growth Rate Forecast
Illinois	2.5%
Ohio	2.3%
Nebraska	1.9%
North Dakota	1.7%
Indiana	1.5%
Iowa	1.5%
Wisconsin	1.4%
Minnesota	1.1%
Michigan	0.9%
Kansas	0.6%
South Dakota	0.5%

SOURCE: Federal Reserve Bank of Philadelphia

[7] The leading index for each state predicts the six-month growth rate of the state's coincident index. In addition to the coincident index, the models include other variables that lead the economy: state-level housing permits (1 to 4 units), state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. A time-series model (vector auto-regression) is used to construct the leading index. Current and prior values of the forecast variables are used to determine the future values of the index. Federal Reserve Bank of Philadelphia, "State Leading Indexes," Retrieved 7/11/2014 from http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/leading/

Individual Income Tax (IIT)

For fiscal year 2014, Individual Income Tax revenue performed better than initially estimated. The IIT receipts were 2.1 percent above the IDOR revised forecast, and 3.8 percent higher than the HR389 estimate. The above-forecast in IIT revenue is explained by the non-withholdings component of IIT. The withholdings portion of IIT receipts proved to stay right on course with the forecast.

Withholding Receipts (WIT)

Fiscal year 2014 withholding receipts performed very close to IDOR's forecast, with the fiscal year ending just 0.6 percent above the estimate. Withholdings ended the fiscal year 3.3 percent higher than the total for fiscal year 2013.

Withholding receipts depend primarily on wage income, which relies on Illinois' employment numbers. In fiscal year 2014, Illinois' employment percentage grew modestly, which IDOR anticipated when calculating the WIT projections. IHS Economics, a data provider firm, released data in June 2014 indicating that Illinois employment grew 0.7 percent during the fiscal year, with a wage disbursement growth of 2.0 percent.

The latest employment statistics from the Illinois Department of Employment Security confirm that professional and business services, education and health services and leisure and hospitality sectors drive the majority of increased employment opportunities. The most job losses are reported in the manufacturing sector.

Non-withholding receipts (non-WIT)

The 2014 fiscal year's non-withholding receipts – including but not limited to non-wage income such as capital gains, dividends, interest and rental income – performed considerably better than expected. While the IDOR forecast predicted a 16.2 percent decrease in non-WIT receipts, the decrease was ultimately only 9.4 percent. The lesser decrease in non-WIT receipts equates to an additional $285.6 million in total individual income taxes.

Non-withholdings receipts performed better than anticipated because of strong capital gains realizations. The evidence of the strong capital gains realizations is a 24 percent annual increase in the S&P 500 through April 2014.

Table 2: Individual Income Tax: Components Year-to-Date

Components Year-to-Date ($ millions)				
	Actual	**Forecast**	**$ Difference**	**% Difference**
Withholding	**$14,571.4**	**$14,482.2**	**$89.1**	**0.6%**
Non-Withholding	**$3,816.3**	**$3,530.8**	**$285.6**	**8.1%**
Total	**$18,387.7**	**$18,013.0**	**$374.7**	**2.1%**
	FY 2013	**FY 2014**	**$ Difference**	**% Difference**
Withholding	**$14,112.3**	**$14,571.4**	**$459.1**	**3.3%**
Non-Withholding	**$4,211.6**	**$3,816.3**	**-$395.2**	**-9.4%**
Total	**$18,323.8**	**$18,387.7**	**$63.9**	**0.3%**

SOURCE: Illinois Department of Revenue

Note: Payment totals match the Comptroller's receipts. Withholding and estimated and final payments are derived from IDOR collection data and in-transit fund data. Totals may not equal individual components due to rounding. Receipts above are before the income tax refund fund diversion.

Corporate Income Tax (CIT)

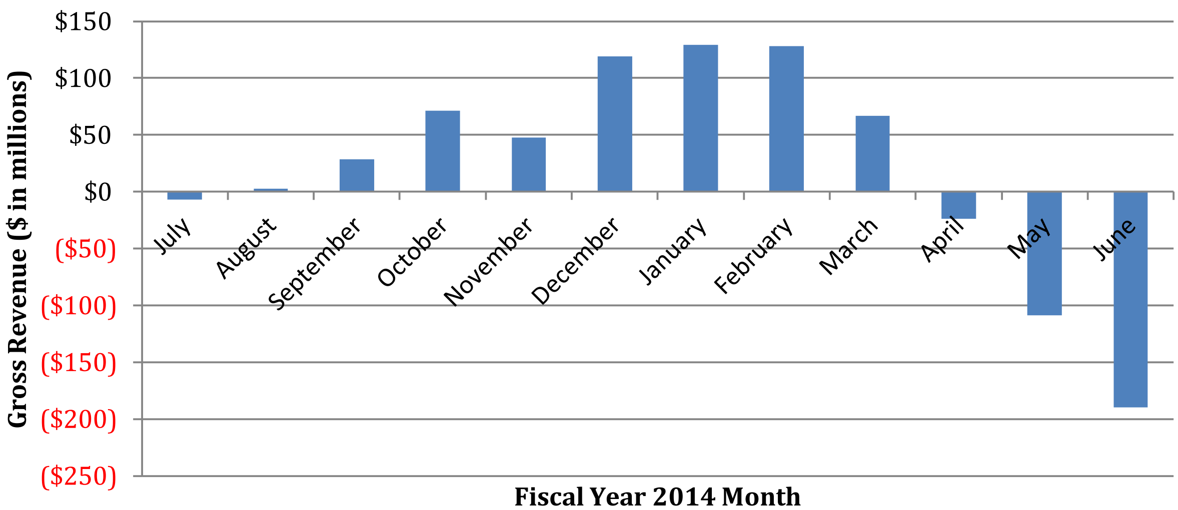
Through the first three quarters of fiscal year 2014, gross Corporate Income Tax (CIT) revenue was on track to beat IDOR's revised forecast, and was up $185.3 million, or 8.4 percent over the same period in fiscal year 2013. In the final quarter of fiscal year 2014, CIT gross receipts fell $224.5 million, or 15.2 percent, from the level reported for the same quarter of fiscal year 2013. As a result, gross CIT finished the year at $3,640 million, which equates to $39.2 million (1.1 percent) below last year.

The graph below shows the CIT cumulative performance as compared to forecast for Fiscal Year 2014. April marks the point at which the actual receipts fell below forecast for the first time, and the trend continued to finish the year $190.0 million below forecast.

One possible explanation for the slowdown in the third quarter of fiscal year 2014 is due in part to a weather-related decline in consumption spending. The lack of spending had an impact on businesses' outlook for the remainder of the fiscal year. Gross Domestic Product, according to the Bureau of Economic Analysis, shrank by 2.9 percent in the third quarter of fiscal year 2014. In June 2014, consulting firm IHS Economics' revised the fiscal year 2014 corporate profits growth to 1.5 percent compared to a prior forecast of 6.2 percent, released in December 2013. Looking ahead, IHS Economics projects a rebound in fiscal year 2015, with a profits growth of 6.2 percent.

Below is the Year-to-Date difference from forecast by month.

**Chart 2: Corporate Income Tax
Year to Date: CIT vs. Forecast**



SOURCE: Illinois Department of Revenue

Sales & Use Tax

Final state sales and use tax receipts for fiscal year 2014 were 4.4 percent above fiscal year 2013's receipts, and just 0.9 percent above the IDOR forecast.

A portion of this growth was caused by a one-time accounting adjustment that shifted the timing of some deposits from fiscal year 2013 to fiscal year 2014. Fiscal year 2014 growth would have been about 3.5 percent if not for this shift.

Regardless of which growth rate is considered, state sales and use tax performed well above the level of price inflation during fiscal year 2014. The Consumer Price Index (CPI) for all urban consumers and all items increased just 1.5 percent during the first 11 months of fiscal year 2014.[8] Job gains, personal income growth, and housing market improvements during the fiscal year, all contributed to conditions for increased real taxable consumption.

Table 3: Sales and Use Tax Revenue: Year-to-Date Comparison

Year-to-Date Comparison **($ millions)**

	FY 2013	FY 2014	$ Difference	% Difference
Vehicles	$1,058.8	$1,158.5	$99.7	9.4%
Motor fuel*	$786.3	$773.7	-$12.5	-1.6%
All else	$5,509.4	$5,743.2	$233.8	4.2%
Total	**$7,354.5**	**$7,675.4**	**$321.0**	**4.4%**

****Estimated. IDOR does not have actual data on sales/use tax from motor fuel.***

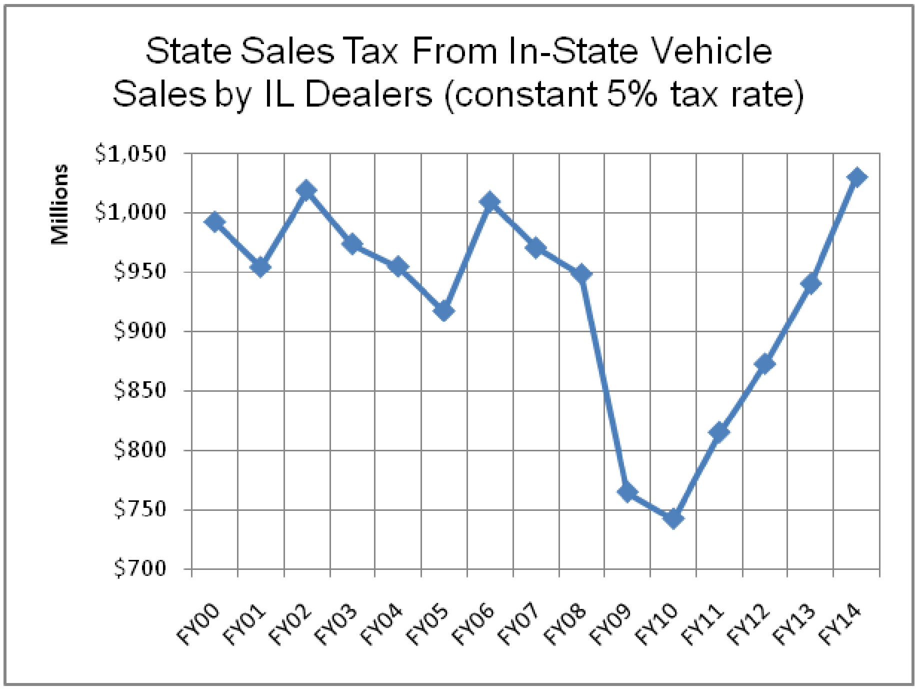
SOURCE: Illinois Department of Revenue

Driven by low interest rates and consumers' need to replace aging vehicles (the average age of cars operating in the U.S. is hovering in record territory at over 11 years old)[9], motor vehicle sales posted their fourth consecutive year of robust growth. In fact, motor vehicle sales accounted for more than one-third of overall growth after adjusting for the aforementioned deposits shift. Preliminary data for in-state sales by Illinois vehicle dealers show that the associated state sales tax revenue in fiscal year 2014 exceeded pre-recession levels for the first time since the end of the last recession in June 2009 (see graph on next page).

[8] The Bureau of Labor Statistics will not release CPI figures for June 2014 until July 22, 2014.

[9] "Average Car On The Road Still Getting Older, But For The Right Reasons" Forbes Magazine, 06/30/2014. <http://www.forbes.com/sites/jimhenry/2014/06/30/average-car-on-the-road-still-getting-older-but-for-the-right-reasons/>

Chart 3: Sales Tax from In-State Vehicle Sales



SOURCE: Illinois Department of Revenue

Finally, lower average motor fuel prices offset a modest increase in consumption during fiscal year 2014, which caused a small decline in the associated sales and use tax.

Public Utilities Taxes

Overall, fiscal year 2014 Public Utility tax revenue declined by $19.9 million, or 1.9 percent, compared with fiscal year 2013. The Telecommunications Excise Tax accounted for the decline, while the Electricity Excise Tax grew modestly over last year, and the Natural Gas Tax rebounded strongly from fiscal year 2013 due to relatively colder weather in early 2014.

Telecommunications – The Telecommunications Excise Tax revenue finished the year at $422.3 million in General Revenue Funds, down from $491.4 million in fiscal year 2013. The decline stems from the continued erosion of the tax base as consumers continue to switch from land line services to using only cell phones, and other digital and smart devices. According to the Centers for Disease Control, 38.0 percent of Illinois adults used only cell phone services in 2012, an increase of 35.2 percent over the prior year. In addition to the continued decline in the tax base, in late fiscal year 2014 the Department of Revenue issued credit memos to telecommunications taxpayers who previously collected tax on services that were not taxable under Illinois law. The credit memos had an estimated General Revenue Fund negative impact of $35 million. Preliminary figures suggest that nearly all of the $35 million in credit memos was used in fiscal year 2014.

Natural Gas – Natural Gas Tax revenue bounced back to $188.4 million, an increase of 30.9 percent over receipts of $143.9 million in fiscal year 2013. Colder weather, which induces the demand for heat, accounted for the vast majority of the Natural Gas revenue performance increase relative to forecast. According to the National Oceanic and Atmospheric Administration (NOAA), through May 2014, Illinois experienced 14.0 percent more heating degree days than normal during fiscal year 2014. A heating degree day is a measure of building heating demand derived from the air temperature. According to the Energy Information Administration (EIA), 80.4 percent of Illinois residences are heated by natural gas, thus colder weather affects Natural Gas Tax receipts more than tax receipts from other energy sources.

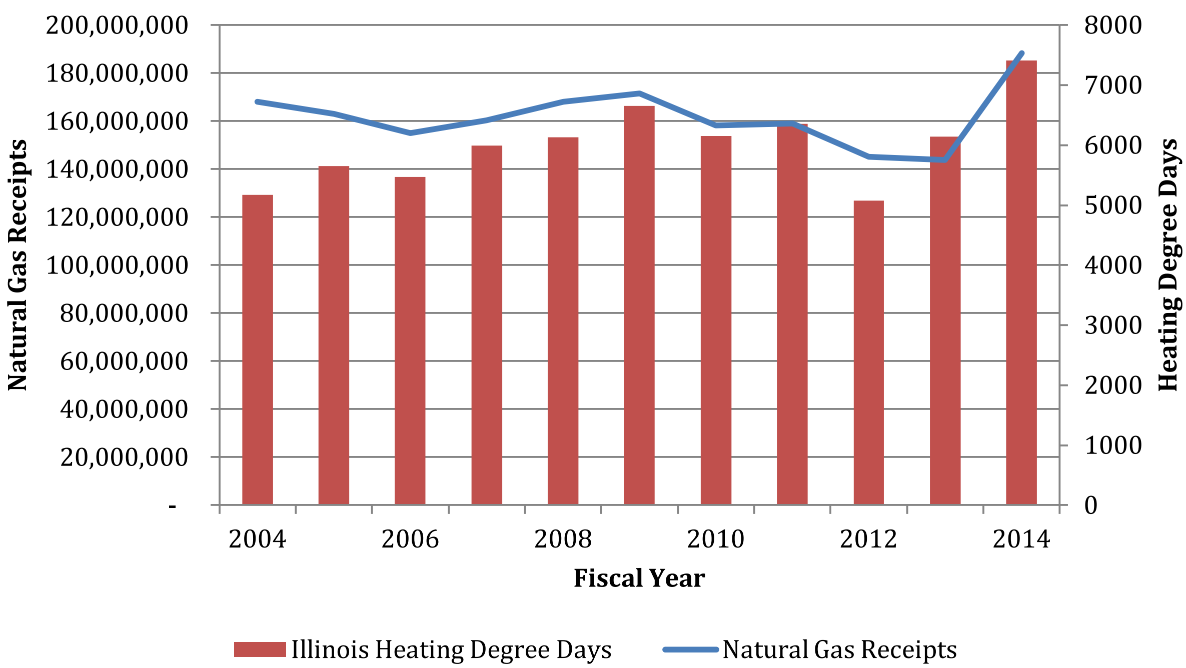
There is an important difference between fiscal years 2013 and 2014's weather temperatures, and therefore natural gas consumption and tax revenue. Fiscal year 2013 was notably warmer than normal, and fiscal year 2014 year was substantially colder than normal. The change from a warmer than normal to a colder than normal weather year, causes an exaggerated change in natural gas tax receipts over the typical growth trend. Natural Gas Tax receipts as compared to the historical trend are illustrated in the graph below.

Electricity – Electricity Excise Tax receipts were $402.5 million in fiscal year 2014, an increase of $4.6 million or 1.2 percent over fiscal year 2013. According to the Energy Information Administration (EIA), retail sales of electricity in Illinois were up 1.9 percent between January and April 2014, after months of weak or negative growth. The increase in Electricity Excise Tax receipts are similarly influenced by weather patterns, as described above in the Natural Gas explanation, however it is less sensitive to downward changes in temperature.

Chart 4: Natural Gas Tax Receipts

SOURCE: Illinois Department of Revenue

Chart 5: Natural Gas Tax Receipts vs. Illinois Temperature



SOURCE: Illinois Department of Revenue & National Oceanic and Atmospheric Administration (NOAA)

Liquor Tax

Final Liquor tax General Revenue Fund receipts were 0.2 percent lower than last fiscal year, as well as 0.9 percent below the IDOR forecast, and 0.2 percent below the forecast in HR389. Preliminary statistics for the first eleven months of fiscal year 2014 show that consumption of all three taxable categories of alcohol declined compared to the same period in fiscal year 2013. Beer declined 0.1 percent, wine declined 1.4 percent, and spirits declined 0.1 percent. Tax returns for fiscal year 2014 will be finalized during the next six to eight months, at which point IDOR can offer more detailed information about taxable consumption.

Table 4: Liquor Tax Revenue: Year-to-Date

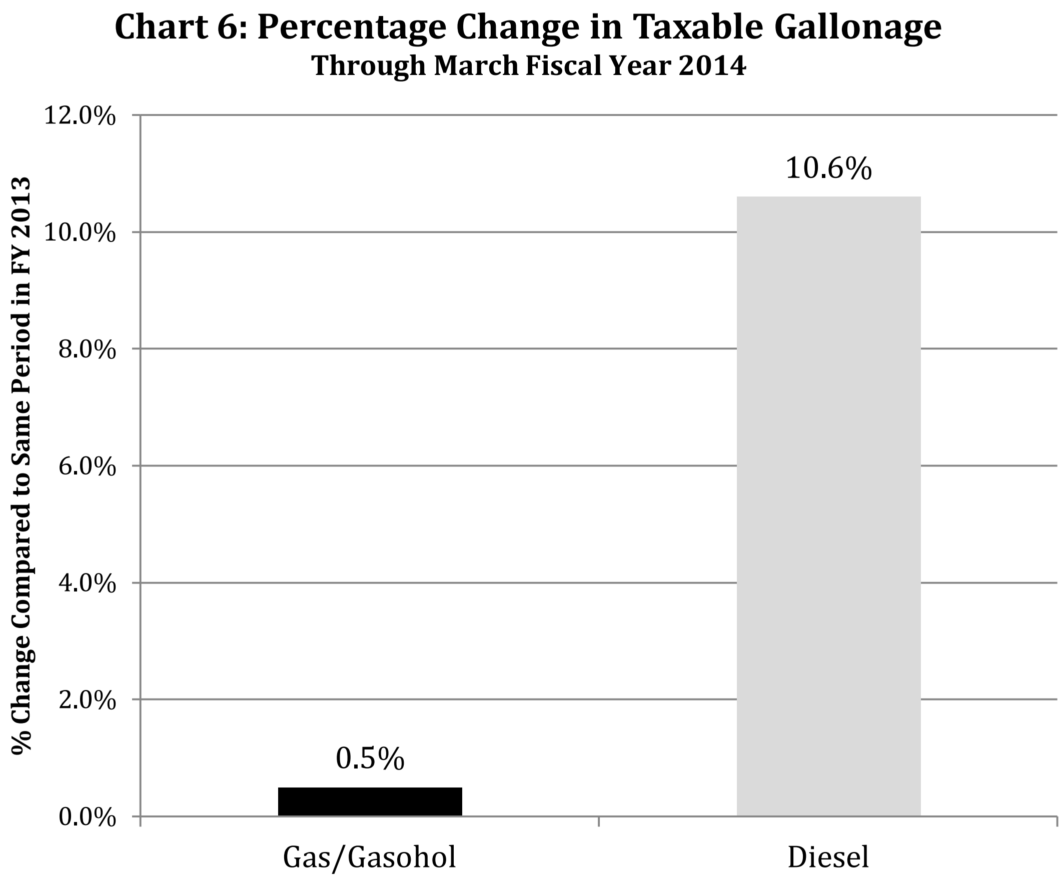
Year-to-Date ($ millions)	***Includes General Revenue Fund**			
	Actual	**IDOR Forecast**	**$ Difference**	**% Difference**
All Funds*	**$279.6**	**$281.9**	**-$2.3**	**-0.8%**
General Revenue Fund	**$164.5**	**$166.0**	**-$1.5**	**-0.9%**
	Actual	**HR 389 Forecast**	**$ Difference**	**% Difference**
General Revenue Fund	**$164.5**	**$165.0**	**-$0.5**	**-0.3%**
	FY 2013	**FY 2014**	**$ Difference**	**% Difference**
All Funds*	**$279.9**	**$279.6**	**-$0.3**	**-0.1%**
General Revenue Fund	**$164.8**	**$164.5**	**-$0.3**	**-0.2%**

SOURCE: Illinois Department of Revenue

Motor Fuel Taxes

Combined motor fuel tax receipts (regular MFT, International Fuel Tax Agreement or IFTA, and Underground Storage Tank or UST) for fiscal year 2014 were 2.7 percent ($34.2 million) higher than fiscal year 2013's receipts and 1.8 percent ($22.7 million) above IDOR's forecast.

Data on taxable gallonage through March of fiscal year 2014 show that growth rates for gasoline/gasohol and diesel differ considerably. Gasoline/gasohol gallonage, which accounts for about 77 percent of the taxable fuel through March, increased 0.5 percent compared to the same period in fiscal year 2013. In contrast, diesel gallonage, which accounted for about 23 percent of taxable fuel through March, increased 10.6 percent during the same period.



SOURCE: Illinois Department of Revenue

Other Tobacco Products Tax

The end of the fiscal year saw a significant drop in revenue from the tobacco products tax. Receipts performed 5.3 percent below the estimated amount of $38 million, which was 16.3 percent below last year's final revenue level. Some of the reasoning for the difference hinges on the timing of tax rate changes in fiscal year 2013. As mentioned in this year's previous reports, a change to the Tobacco Products Tax made at the beginning of last fiscal year brought the Tobacco Products Tax up from 18 percent to 36 percent. This change also included the creation of a separate, new tax for moist snuff at $0.30 per ounce, which took effect half way through that year. As a result, fiscal year 2014 is the first full year to include these new tax rates and receipts.

There is no way to precisely explain the effect of the tax rate changes on tobacco product consumption, but there are parameters and inferences that IDOR uses to analyze the total receipts and its changes. According to national data compiled by McLane Co., a national wholesale tobacco distribution company, 57 percent of Other Tobacco Products (OTP) dollar sales are comprised of moist snuff categorized brands. As the Illinois retail tobacco products market is similar to the rest of the nation, about 57 percent of the state's tax base received a significant tax cut when the new rates took effect. Given the size of this particular segment and its new lower tax rate, much of the 16.3 percent decrease in year over year receipts is likely explained by these tax rate changes. The Tobacco Products Tax fiscal year estimate was reduced from $41 million to $38 million midway through the year in order to account for the effect this likely had on receipts.

Please reference the Tobacco Products Tax section of the fiscal year 2014 quarterly reports for further explanation of these changes. While receipts missed there estimate by 5.3 percent or $2 million, the Department of Revenue will wait until receipts come in for the first quarter of 2015 before considering any revisions to the 2015 forecast.

While the tax change in 2013 may have played a significant role in 2014's receipts, it's important to note that electronic cigarettes (e-cigarettes) remain an upcoming risk to the 2015 forecast for tobacco products. With e-cigarettes (a product currently subject to sales tax, but not taxed as a cigarette or tobacco product) on the market, there are two additional purchasing actions happening. First, e-cigarette users may now have a "go-to" add-on purchase. Research performed by Management Sciences Associates, a retail consultant group focused on data regarding gas stations and convenience stores, showed that for every consumer who purchases an e-cigarette product, the top add-on item if purchased, is premium cigarettes such as Marlboro or Parliament brands. The second action is that preliminary research shows that e-cigarette purchasers may opt to purchase less Other Tobacco Products (OTP), due to having the e-cigarette option. Historically, research has shown that consumers of traditional cigarettes tend to also purchase an OTP (such as snuff and nicotine gum) to use when unable to smoke (such as at the office or on an airplane).Both of these actions imply that many consumers now use both traditional cigarettes and e-cigarettes for their nicotine consumption, where before they may have used a traditional OTP instead. As a result, as e-cigarettes continue to grow in popularity and more consumers make this substitution, this trend may risk cannibalizing sales of traditional tobacco products which would decrease the taxable base.

Cigarette and Cigarette Use Taxes

At the close of the fiscal year, cigarette tax receipts performed close to expectation, with minor differentiation: actual receipts came in 1.5 percent below the estimate. However, compared to fiscal year 2013, receipts grew by 1.3 percent, a modest increase, which should be noted, was expected. Stamp sales this year reflected a return to normal purchasing behavior following the previous year's tax rate change of one whole dollar from $0.98 to $1.98 per pack of 20 cigarettes, when stockpiling related to the tax increase had a limiting affect on stamp sales.

An additional point of note is that a tax rate change on cigarettes, much like on tobacco products, may typically drive consumers to substitute one product for another to save money. Cigarette tax receipts are affected differently by this substitution than the Tobacco Products receipts are. Tobacco Products consumers may change brand or product type after a tax increase in order to reduce their out of pocket cost. These changes, if made by a majority of consumers, would reduce the tax base which would mean a reduction of revenues. Cigarette consumers are more likely to substitute a higher end brand of cigarettes with a lower quality brand in order to save money, instead of substituting cigarettes with a lower cost tobacco product. While this change in brand may save the consumer money, the cigarette tax assessed per pack (now $1.98) is the same regardless of brand or price. IDOR sees the same amount of revenue from this purchase.

The most recent data provided by IRI consultants, a market research firm, show cigarette unit sales decreased two percent nationally during the past year. This data is from a survey of retail sales made predominately by gas stations and convenience stores. While these types of retailers are not the only source of legal cigarette sales, they are where the majority of transactions occur. A two percent decrease is significant compared with previous years. While a portion of this decrease may be explained by any number of consumer changes due to an evolving cigarette market, the overall decrease is congruent with our standing assumption of a two percent annual decline due to a series of different factors. These include people successfully quitting smoking, switching from cigarettes to a tobacco product or electronic cigarette, and people who continue to smoke but purchase contraband cigarettes to avoid the tax. As the national cigarette market continues to shrink, the Department expects fiscal year 2015's numbers to return to an overall trend of annual decreases in revenues.

Table 5: Cigarette and Cigarette Use Tax Revenue Year-to-Date

Year-to-Date ($ millions)	*Includes the General Revenue Fund			
	Actual	**Estimate**	**$ Difference**	**% Difference**
All Funds*	**$823.8**	**$836.0**	**-$12.2**	**-1.5%**
General Revenue Fund	**$353.5**	**$355.0**	**-$1.5**	**-0.4%**
	FY 2013	**FY 2014**	**$ Difference**	**% Difference**
All Funds*	**$813.4**	**$823.8**	**$10.4**	**1.3%**
General Revenue Fund	**$353.5**	**$353.5**	**$0.0**	**0.0%**

SOURCE: Illinois Department of Revenue

Hotel Operators' Occupation Tax (HOOT)

Hotel Operators' Occupation Tax (HOOT) receipts increased 2.8 percent over the previous year. Notwithstanding the increase over the prior year, the HOOT receipts performed 1.2 percent below forecast.

While growth in the hotel market warranted an upward revision to the estimate, the unusually cold and snowy winter imposed a negative effect on hotel activity. Had the winter been warmer, hotel activity would likely have exceeded the December 2013 upward revision.

The Chicago hotel market, while not the only market in the state, makes up 50 percent of the tax base and thus is a major driver of state hotel tax revenues. Both the average daily room rate and occupancy rate for the city hotels during the winter season dropped 3.4 percent and 5.8 percent respectively compared to the same time in fiscal year 2013. Although the winter temperatures did limit hotel activity the state still saw an overall growth in receipts driven by hotel markets outside of Chicago.

The sizable year-over-year difference in the General Revenue Fund portion of tax revenue is not expected to recur in fiscal year 2015. The fiscal year 2013 compared to 2014 difference was a result of IDOR conforming to statutory distribution of funds. Beginning fiscal year 2014, the Illinois Sports Facility Fund (225) received $42.7 million in the advance account. Before this change in 2013, the advance account received $33.1 million. The Illinois Sports Facility Fund receives revenues before the GRF in the distribution of the tax revenues. As such, GRF received less revenue this year as a result of the accounting change.

Table 6: Hotel Operators' Occupation Tax Revenue Year-to-Date

Year-to-Date ($ millions)	***Includes the General Revenue Fund**			
	Actual	**Estimate**	**$ Difference**	**% Difference**
All Funds*	**$227.2**	**$230.0**	**-$2.8**	**-1.2%**
General Revenue Fund	**$37.5**	**$39.3**	**-$1.8**	**-4.6%**
	FY 2013	**FY 2014**	**$ Difference**	**% Difference**
All Funds*	**$221.0**	**$227.2**	**$6.2**	**2.8%**
General Revenue Fund	**$44.7**	**$37.5**	**-$7.2**	**-16.1%**

SOURCE: Illinois Department of Revenue

Estate Tax

For the second year in a row, a greater number of estates transferred to heirs than historical trends would suggest. While there is an assumed level of variability in the performance of the estate tax, activity like this sustained for two years now may suggest a change in overall historical trends. IDOR will continue to watch receipts closely in 2015 to determine if this overall change is occurring. Fiscal year 2014 Estate Tax revenue saw a surprising and noteworthy increase, considerably higher than expected. Estate tax General Revenue Fund (GRF) receipts for fiscal year 2014 came in 63.4 percent, or $107.3 million, above the Department's original estimate of $169.2 million. Compared with the previous year, GRF receipts fell by 5.7 percent to a $16.8 million decrease. GRF receipts came in 31.7 percent above the HR 389 estimate. The significant difference between GRF receipts and the IDOR estimate is due to an above average increase in the number and the monetary size of unanticipated, taxable estate transactions resulting from transfers occurring in fiscal year 2014. This occurred primarily during the second quarter of the fiscal year.

Table 7: Estate Tax Revenue Year-to-Date

Year-to-Date Comparison ($ millions)				
	Actual	IDOR Forecast	$ Difference	% Difference
All Funds	$294.1	$180.0	$114.1	63.4%
General Revenue	$276.5	$169.2	$107.3	63.4%
	Actual	HR 389 Forecast	$ Difference	% Difference
All Funds	$294.1	$223.4	$70.7	31.6%
General Revenue	$276.5	$210.0	$66.5	31.7%
	FY2013	FY2014	$ Difference	% Difference
All Funds	$309.4	$294.1	-$15.3	-4.9%
General Revenue	$293.3	$276.5	-$16.8	-5.7%

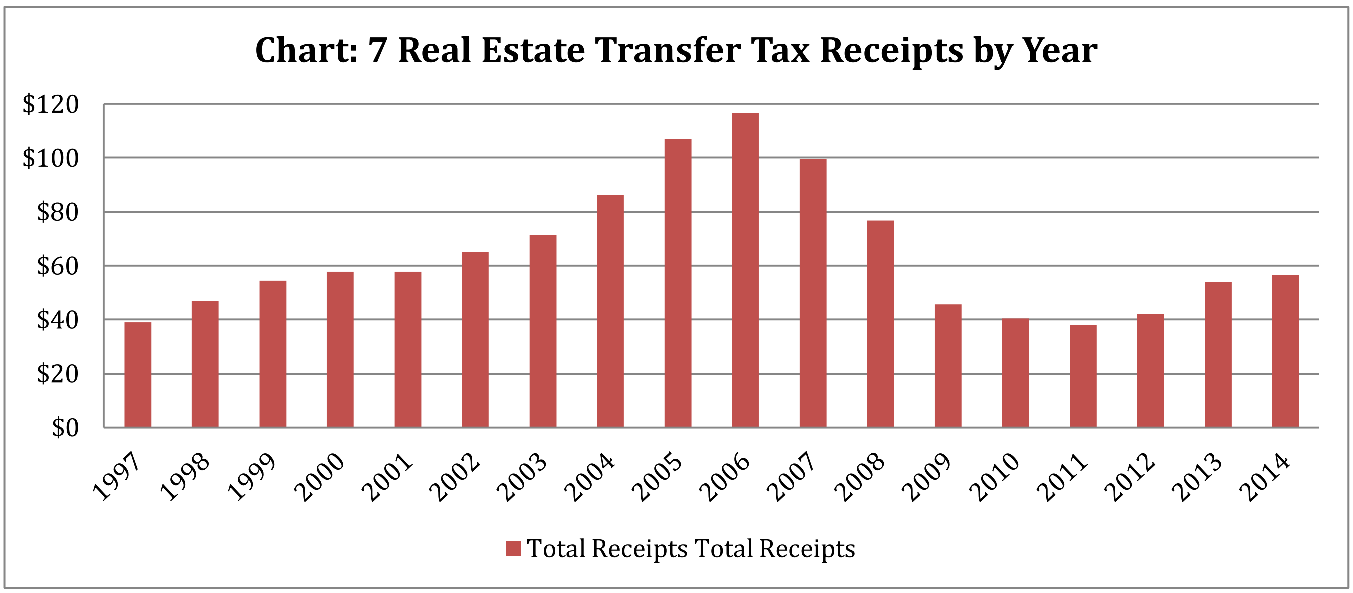
SOURCE: Illinois Department of Revenue

Real Estate Transfer Tax (RETT)

Year end Real Estate Transfer Tax revenue for fiscal year 2014 produced $56.6 million, which was 5.7 percent short of the revised forecast of $60.0 million. Fiscal year 2014 receipts were 4.8 percent higher than fiscal 2013.

Yearly RETT Trends

Fiscal year 2014 receipts continue to be well below fiscal year 2006, when the housing market was at its height with RETT receipts hitting $116.6 million. The bubble in 2006 was caused by, among other factors, relatively low interest rates, speculative buying, and questionable lending practices. The bubble began to burst in 2007 when declining real estate values and high mortgage delinquency rates led to the collapse of the subprime mortgage market. The combined effects of the subprime market collapse and the resulting recession created a housing market meltdown, which was reflected in steep declines in RETT receipts to a new low of $38.0 million in fiscal year 2011. For the last three fiscal years 2012, 2013 and 2014, RETT has shown a recovering of receipts, mirroring the early 2000's levels.



SOURCE: Illinois Department of Revenue

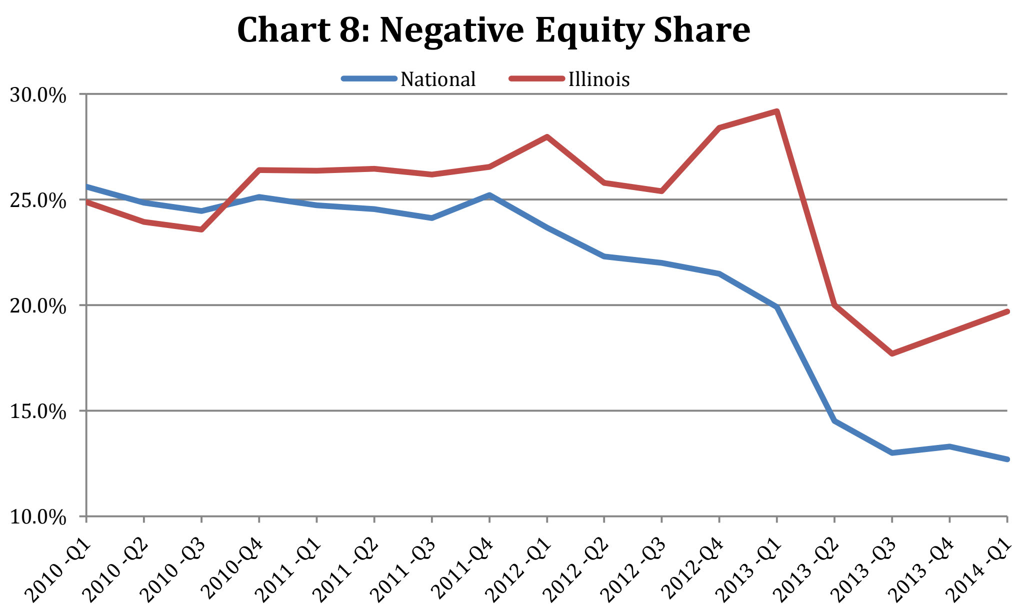
Market Factor Impact on RETT Receipts

Negative Equity Share:

The relatively slow growth in RETT receipts for the last three fiscal years is reflective of an Illinois housing market which continues to lag the national recovery. One reason for this continued slow growth is the percentage of Illinois homes in negative equity.

Corelogic, a prominent industry data and analytics firm, issues a quarterly equity report on the percentage of mortgaged homes with negative equity. The report defines negative equity as a borrower who owes more on a home than it is worth often referred to as being "underwater." Nationally, the percent of mortgaged homes "underwater," hit a high of 25.6 percent in the first quarter of 2010. Illinois experienced a 24.9 percent share of homes in the underwater category.

The improving housing market, first signaled in the first quarter of calendar year 2011, helped to lower the nation's negative equity to 12.7 percent by the first quarter of calendar year 2014. Unfortunately, Illinois did not entirely mirror the national trend. The percent of mortgaged homes with negative equity actually grew to 29.2 percent in the first quarter of 2013. The Illinois negative equity rate fell dramatically in the second quarter of 2013 from 29.2 percent to 20.2 percent. The downward trend stalled, and as a result, the gap between the national and Illinois rates widened. Corelogic currently ranks Illinois as fifth in the nation with a negative equity rate of 19.7 percent, which is a full five percentage points higher than the national rate. High negative equity rates are a contributing factor in the current tight inventory of homes available on the market as potential home sellers stay out of the market.

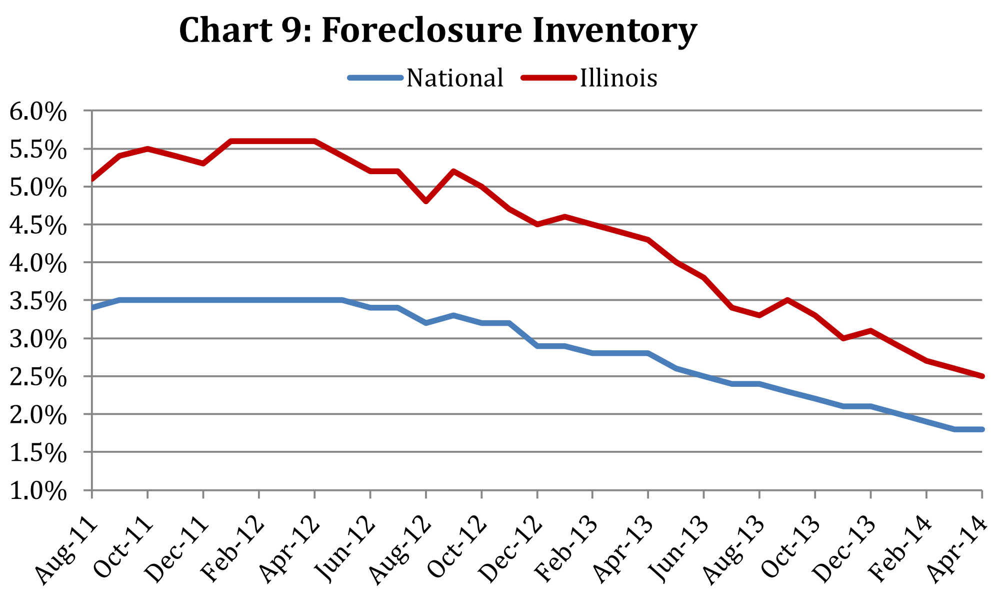


SOURCE: CORE LOGIC

Foreclosure Inventory:
Corelogic defines foreclosure inventory as the share of mortgage homes that have been placed in the process of foreclosure by the lender. The analytics firm releases a monthly National Foreclosure Report which tracks foreclosure inventory at the national and state level. Because foreclosures in Illinois are judicial, meaning they are administered through the courts, the process period for the completion of foreclosures is longer than non-judicial states. The longer process is a key factor in keeping Illinois' foreclosure inventory higher than the national average that includes non-judicial states. The national pre-crisis foreclosure level was 0.6 percent. At the height of the housing crisis, the national monthly foreclosure rate hovered around 3.5 percent, while the Illinois rate was around 5.5 percent from August 2011 through May of 2012. As conditions in the housing market improved, both the nation and the Illinois rates began a slow but steady decline in August of 2012, to where the latest April 2014 report shows the Illinois rate at 2.8 percent, while nationwide the foreclosure rate was 1.8 percent. The continued reductions in the foreclosure inventory in Illinois will have a positive effect on housing prices due to sales of distressed homes becoming a smaller share of the total market.

Home Sales Trend:
In the 2014 calendar year first quarter, the Illinois Association of Realtors' Illinois Housing Market Update report showed that sales decreased 7.8 percent over first quarter 2013. This drop in sales is reflective of the tight inventory of homes on the market creating upward pressure on prices. At the same time the median priced home increased 4.7 percent over the same time period. In this current market, buyers have fewer properties to choose from and sellers are getting more money for their properties. The trend of lower sales with increasing prices continues in the association's monthly report for May 2014. The report states that home sales were down 9.4 percent compared to a year ago, with the median price increasing by 8.3 percent.

Corelogic also publishes a monthly Home Price Index Report, which recently revealed how current prices at the national and state level compare to the peak value in 2006. The analytics firm's most recent report on the topic shows nationally that home prices were 13.5 percent below their peak level set in April 2006. In contrast however, Illinois home prices were still 22.2 percent below their November 2006 peak.



SOURCE: CORE LOGIC

U.S. and Illinois Employment

Table A-3: U.S. & Illinois Labor Market Report

U.S.	May	April	May	Change from April		Change from year ago	
(Seasonally adjusted, thousands)	2014	2014	2013	Number	Percent	Number	Percent
Labor Force	155,613	155,421	155,609	192	0.1%	4	0.0%
Employment	145,814	145,669	143,919	145	0.1%	1,895	1.3%
Unemployment	9,799	9,753	11,690	46	0.5%	-1,891	-16.2%
Unemployment Rate	6.3	6.3	7.5	0.0	0.0%	-1.2	-16.0%

Illinois	May	April	May	Change from April		Change from year ago	
(Seasonally adjusted)	2014	2014	2013	Number	Percent	Number	Percent
Labor Force	6,551,200	6,565,700	6,554,600	-14,500	-0.2%	-3,400	-0.1%
Employment	6,058,800	6,049,800	5,953,800	9,000	0.1%	105,000	1.8%
Unemployment	492,400	516,000	600,800	-23,600	-4.6%	-108,400	-18.0%
Unemployment Rate	7.5	7.9	9.2	-0.4	-5.1%	-1.7	-18.5%

SOURCE: Bureau of Labor Statistics, Illinois Department of Employment Security (Household data)

Table A-4: Illinois Wage and Salary and Employment Report

Industry Title	May	April	May	Change from April		Change from year ago	
	2014	2014	2013	Number	Percent	Number	Percent
Total Nonfarm	5,804,000	5,806,600	5,784,800	-2,600	0.0%	19,200	0.3%
Mining	9,800	9,700	9,600	100	1.0%	200	2.1%
Construction	194,200	192,100	188,600	2,100	1.1%	5,600	3.0%
Manufacturing	569,100	570,700	580,500	-1,600	-0.3%	-11,400	-2.0%
Trade, Transportation, & Utilities	1,163,800	1,162,200	1,161,500	1,600	0.1%	2,300	0.2%
Information	96,900	97,100	99,400	-200	-0.2%	-2,500	-2.5%
Financial Activities	365,300	366,800	368,100	-1,500	-0.4%	-2,800	-0.8%
Professional and Business Services	888,700	895,000	882,100	-6,300	-0.7%	6,600	0.7%
Educational and Health Services	882,300	879,600	874,400	2,700	0.3%	7,900	0.9%
Leisure and Hospitality	550,500	550,300	545,000	200	0.0%	5,500	1.0%
Other Services	249,900	252,400	249,500	-2,500	-1.0%	400	0.2%
Government	833,500	830,700	826,100	2,800	0.3%	7,400	0.9%

SOURCE: Bureau of Labor Statistics, Illinois Department of Employment Security (Establishment data)

Illinois Department of Revenue

Research Division

June Monthly Revenue Report
FY 2014

Table A-1. Comparisons with Last Fiscal Year and with IDOR Forecasts

Revenue Source Receipts (millions)	Actual for the Month: June FY2013 Actual	Actual for the Month: June FY2014 Actual	Year-to-Date Actual: FY 2013 YTD Actual	Year-to-Date Actual: FY 2014 YTD Actual	Year-to-Date Actual: YTD FY 2014 vs. YTD FY 2013		Year-to-Date Forecast vs. Actual: FY 2014 YTD IDOR Forecasts	Year-to-Date Forecast vs. Actual: YTD FY 2014 vs. YTD IDOR Forecasts		Year: FY 2012 Total	Year: FY 2013 Total	Year: FY 2014 IDOR Estimate
Individual Income Tax (All Funds)	$1,553.1	$1,679.8	$18,323.8	$18,387.7	$63.9	0.3%	$18,013.0	$374.7	2.1%	$16,999.8	$18,323.8	$18,013.0
Corporate Income Tax (All Funds)	$518.8	$462.7	$3,679.2	$3,640.0	-$39.2	-1.1%	$3,830.0	-$190.0	-5.0%	$2,983.0	$3,679.1	$3,830.0
Sales Tax (GRFs)	$658.9	$690.4	$7,354.5	$7,675.4	$321.0	4.4%	$7,610.0	$65.4	0.9%	$7,225.6	$7,354.5	$7,610.0
Public Utilities (GRFs)	$76.8	$55.1	$995.9	$1,013.3	$17.3	1.7%	$1,006.0	$7.3	0.7%	$994.7	$1,033.0	$1,006.0
Telecommunications	$37.2	$19.5	$454.2	$422.3	-$31.8	-7.0%	$430.0	-$7.7	-1.8%	$459.6	$491.4	$430.0
Electricity	$28.0	$26.9	$397.9	$402.5	$4.6	1.2%	$409.0	-$6.5	-1.6%	$390.0	$397.8	$409.0
Gas	$11.6	$8.7	$143.9	$188.4	$44.5	30.9%	$167.0	$21.4	12.8%	$145.2	$143.8	$167.0
Estate Tax (GRF)	$20.0	$24.9	$293.3	$276.5	-$16.8	-5.7%	$169.2	$107.3	63.4%	$234.8	$293.3	$169.2
Cigarette (All Funds)	$86.8	$68.2	$813.4	$823.8	$10.4	1.3%	$836.0	-$12.2	-1.5%	$577.4	$813.4	$836.0
Tobacco Products	$3.4	$3.1	$43.0	$36.0	-$7.0	-16.3%	$38.0	-$2.0	-5.3%	$29.0	$43.0	$38.0
Regular Motor Fuel Tax	$93.7	$106.8	$1,123.3	$1,157.0	$33.7	3.0%	$1,133.4	$23.5	2.1%	$1,145.3	$1,123.3	$1,133.4
Motor Fuel - IFTA	$5.1	$1.1	$67.6	$66.2	-$1.4	-2.0%	$68.3	-$2.1	-3.1%	$75.1	$67.6	$68.3
Ug. Storage Tank	$4.4	$6.1	$68.6	$70.5	$1.9	2.7%	$69.3	$1.3	1.8%	$69.5	$68.6	$69.3
Liquor (GRF)	$15.3	$14.9	$164.8	$164.5	-$0.3	-0.2%	$166.0	-$1.5	-0.9%	$164.4	$164.8	$166.0
Insurance Tax (GRF)	$63.9	$64.3	$333.9	$332.6	-$1.3	-0.4%	$325.0	$7.6	2.3%	$344.6	$333.9	$325.0
Corp. Franchise Tax (GRF)	$12.1	$12.8	$204.6	$202.6	-$2.0	-1.0%	$203.0	-$0.4	-0.2%	$191.6	$204.6	$203.0
Real Estate Transfer Tax	$5.2	$5.1	$54.0	$56.6	$2.6	4.8%	$60.0	-$3.4	-5.7%	$42.0	$54.0	$60.0
Private Vehicle Use Tax (GRF)	$2.3	$2.6	$25.3	$28.9	$3.6	14.1%	$27.0	$1.9	6.9%	$28.7	$25.3	$27.0
Hotel Tax (All Funds)	$20.1	$19.2	$221.0	$227.2	$6.2	2.8%	$230.0	-$2.8	-1.2%	$207.9	$221.0	$230.0

Table A-2. Comparisons with HR389 Forecasts

Revenue Source Receipts (millions)	FY 2014 YTD Actual	FY 2014 YTD HR389 Forecasts	YTD FY 2014 vs. YTD HR389 Forecasts		FY 2014 HR389 Estimate
Individual Income Tax (All Funds)	$18,387.7	$17,712.7	$675.0	3.8%	$17,713.0
Corporate Income Tax (All Funds)	$3,640.0	$3,391.0	$249.0	7.3%	$3,391.0
Sales Tax (GRFs)	$7,675.4	$7,348.0	$327.4	4.5%	$7,348.0
Public Utilities (GRFs)	$1,013.3	$1,032.0	-$18.7	-1.8%	$1,032.0
Estate Tax (GRF)	$276.5	$210.0	$66.5	31.7%	$210.0
Liquor (GRF)	$164.5	$165.0	-$0.5	-0.3%	$165.0
Insurance Tax (GRFs)	$332.6	$350.0	-$17.4	-5.0%	$350.0
Corp. Franchise Tax (GRF)	$202.6	$203.0	-$0.4	-0.2%	$203.0
Private Vehicle Use Tax (GRF)	$28.9	$27.0	$1.9	6.9%	$27.0

Each month this table will be updated. Each quarter, we will provide a written report.
http://tax.illinois.gov/AboutIdor/TaxResearch/MonthlyRevenueReports.htm

Illinois Department of Revenue
Research Department

Brian A. Hamer
Revenue Director

Hans Zigmund
Director of Research

Andy Chupick
Tax Economist

Patrick Heath
Tax Economist

John Horbas
Tax Economist

Michael Pijan
Research Analyst

Carson Quinn
Chief Editor

Hector Vielma
Macroeconomist