

ILLINOIS DEPARTMENT OF REVENUE MONTHLY REVENUE REPORT

September

Research Division

Fiscal Year 2012

<http://tax.illinois.gov/AboutIdor/TaxResearch/TaxResearch.htm>

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 forecasts. The current forecasts are those contained in the Governor's Fiscal Year 2012 Operating Budget, updated to reflect a lag in withholding receipts and the effect of federal bonus depreciation and through action by the Council of Economic Advisors on October 6.

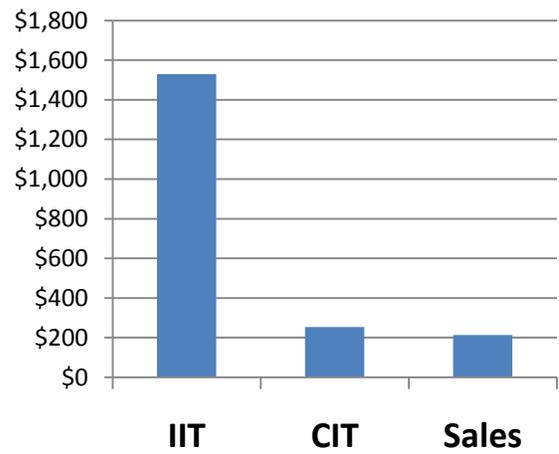
Fiscal Year 2012 revenue receipts through September for individual income, corporate income, and sales taxes ("big three" revenue sources) are \$6,057.5 million. Those receipts are \$1,995.7 million above last year and \$42.4 million above the current forecast.

Individual income tax receipts are \$3,663.8 million. The total is \$1,528.9 million above last year and \$9.8 million above the current forecast.

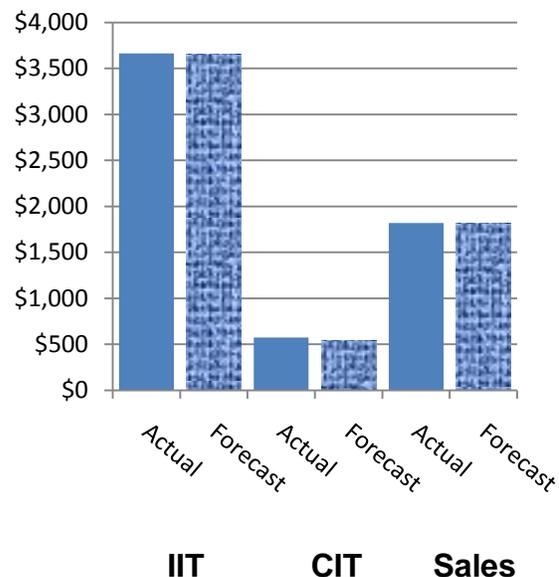
Corporate income tax receipts are \$574.0 million. The total is \$252.8 million above last year and \$32.6 million above the current forecast.

Sales tax receipts are \$1,819.7 million. The total is \$214.0 million above last year and the same as the current forecast.

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



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



FEATURE OF THE MONTH

Factors Leading to Revisions in FY 2012 Forecasts

We revised the forecasts for both individual and corporate income taxes in late FY 2011 to reflect two issues that emerged after February. Discussion of these adjustments can be found in the July Monthly Research Report.

First, a delay in implementing Individual Income Tax (IIT) rate increase reduced the number of weeks in FY 2011 during which withholdings were made at the higher tax rate. The original IIT forecast did not reflect this lag in withholding collections. After a few months, we estimated that \$377 million would be shifted from FY 2011 to FY 2012.

Second, the State of Illinois did not pass legislation to decouple from the federal 100 percent expensing provision. Using national estimates of the tax provision, we estimated the impact on Illinois' FY 2012 tax collections: a \$310 million reduction in Corporate Income Tax and a \$260 million reduction in Individual Income Tax.

In this report, we make three additional changes, restating FY 2012 forecasts for sales, gaming and motor fuel taxes. Explanations for these revisions are included in the body of the report.

FY 2012 Forecasts (\$ millions)	Original	Revised
Sales tax	\$6,586	\$6,910
Gaming transfers to general funds	\$501	\$451
Motor Fuel Taxes	\$1,340	\$1,311

TECHNICAL NOTE

The sum of individual taxes may not equal the total due to rounding.

➤ Individual Income Tax (IIT)

Actual IIT first quarter receipts came in 0.3 percent above our forecast. Our original conservative forecast, made in November 2010, factors in weak underlying economic growth. At this time, we see no evidence to suggest a revision to the current FY 2012 IIT forecast.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$3,663.8	\$3,654.0	\$9.8	0.3%
FY 2011	FY 2012	\$ Difference	% Difference
\$2,134.9	\$3,663.8	\$1,528.9	71.6%

Components Year-to-Date (\$ millions)

	Actual	Estimate	\$ Difference	% Difference
Withholding	\$3,228.1	\$3,172.5	\$55.6	1.8%
Estimated and final	\$435.7	\$481.4	-\$45.8	-9.5%
Total	\$3,663.8	\$3,654.0	\$9.8	0.3%

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.

First quarter withholdings came in as expected. In line with modest employment growth forecasts, we anticipate continued slow withholding growth for the remainder of the fiscal year.

Non-withholdings came in 9.5 percent below our forecast for the quarter, mostly because of estimated payments. Our forecast for September estimated payments was \$379.6 million while actual collections totaled \$326.1 million. We must point out, however, that non-withholding collections in the first quarter of the fiscal year account for less than 15 percent of the year's total.

➤ Corporate income tax (CIT)

September is the first month in the fiscal year where we receive significant CIT revenue. This month's receipts are primarily from the third estimated payment for tax year 2011. Actual September receipts were \$20.3 million (4.4 percent) above forecast. At this time the accuracy of our FY 2011 forecast (less than \$1 million below actual) and year-to-date performance suggest that our current FY 2012 forecast is in line with baseline domestic corporate profit forecasts. Current domestic corporate profit forecasts translate into underlying economically based CIT growth of 5.7 percent.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$ 574.0	\$ 541.4	\$ 32.6	6.0 %
FY 2011	FY 2012	\$ Difference	% Difference
\$ 321.2	\$ 574.0	\$ 252.8	78.7 %

➤ Sales Tax

In light of both revenue performance during FY 2011 and the first quarter of FY 2012 and changes in underlying economic assumptions, we are revising the forecast for sales tax as reported in the FY 2012 Operating Budget Book. The original forecast was \$6,586 million. The revised forecast for FY 2012 is \$6,910 million.

The first quarter ended \$173 million above the year-to-date original forecast and \$214 million above the first quarter of FY 2011. Some of this growth is related to not having a sales tax holiday this year. The August 2010 holiday reduced receipts in the first quarter of FY 2011 by about \$18 million. In addition, a large increase in the prepaid sales tax rate on motor fuels has accelerated the collection of tax that occurred later last year. This acceleration is not a real increase in receipts, but simply a shifting of receipts forward in time. We have adjusted our forecast for future months to account for this change in cash flow. Higher motor fuel prices were a large contributor to growth in the first quarter, no doubt helped by the department's ongoing efforts to reduce fraudulent underreporting of taxable motor fuel sales by fuel retailers. Spending on all other taxable goods increased significantly as well, despite record lows in consumer sentiment.

We expect growth to moderate considerably as we move into the second quarter of the fiscal year and become weaker still during the second half of FY 2012.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$1,819.7	\$1,819.7	\$0.0	0.0%
FY 2011	FY 2012	\$ Difference	% Difference
\$1,605.7	\$1,819.7	\$214.0	13.3%

Year-to-Date (\$ millions)

	FY 2011	FY 2012	\$ Difference	% Difference
Vehicles	\$232.9	\$250.0	\$17.2	7.4%
Motor fuel*	\$163.6	\$225.2	\$61.6	37.7%
All else	\$1,209.2	\$1,344.4	\$135.2	11.2%
Total	\$1,605.7	\$1,819.7	\$214.0	13.3%

*Estimated. IDOR does not have actual data on sales tax.

➤ Estate Tax

FY 2012 estate tax receipts are down significantly since the Illinois Estate Tax was repealed from January 1, 2010 through December 31, 2010. The Illinois Estate Tax was reinstated on January 1, 2011. Illinois Estate Tax receipts may show an uptick in October as receipts are generated from the reinstated tax. Estate tax receipts are expected to return to pre-repeal levels starting in November 2011.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$4.0	\$5.8	-\$1.8	-30.7%
FY 2011	FY 2012	\$ Difference	% Difference
\$89.8	\$4.0	-\$85.8	-95.5%

➤ Tobacco Products Tax

Long Term Care Fund

The level of tax receipts exceeds forecast by \$1.7 million in the first quarter.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$7.7	\$6.0	\$1.7	28.1%
FY 2011	FY 2012	\$ Difference	% Difference
\$7.1	\$7.7	\$0.7	9.4%

➤ Cigarette Taxes

Over the last two months, cigarette tax receipts have closely mirrored our forecast. However, year-to-date receipts are running below forecast due to a below average July. Given the amount of time remaining in the fiscal year and the general return to trend there is no reason to think cigarette taxes will not meet the forecast.

Year-to-Date (\$ millions)	*Includes the General Revenue Fund			
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$125.8	\$133.9	-\$8.1	-6.1%
General Revenue Fund	\$87.9	\$88.8	-\$0.9	-1.0%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$140.1	\$125.8	-\$14.3	-10.2%
General Revenue Fund	\$88.3	\$87.9	-\$0.4	-0.5%

➤ Liquor Tax

Liquor tax receipts for the first quarter of FY 2012 were slightly greater than the year-to-date forecast in the FY 2012 Operating Budget Book, posting modest growth over the first quarter in FY 2011.

Year-to-Date (\$ millions)	*Includes the General Revenue Fund			
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$73.1	\$71.2	\$1.9	2.7%
General Revenue Fund	\$43.0	\$42.5	\$0.5	1.3%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$70.7	\$73.1	\$2.4	3.3%
General Revenue Fund	\$41.7	\$43.0	\$1.3	3.2%

➤ Hotel Operator's Occupation Tax (HOOT)

Hotel tax continues to exceed expectations. The average room rate in the Chicago market is the primary economic driver in the forecast. Average room rate were very close to forecast in July and August and thus don't appear to be the cause of increased revenue. Occupancy rates are up compared with last year of 1.8 percent per month in July and August.¹ Other factors outside of the Chicago market may also be contributing to the discrepancy.

Year-to-Date (\$ millions)		*Includes the General Revenue Fund		
	Actual	Estimate	\$ Difference	% Difference
All Funds*	\$65.8	\$62.5	\$3.3	5.2%
General Revenue Fund	\$11.1	\$10.0	\$1.1	11.2%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$58.1	\$65.8	\$7.7	13.2%
General Revenue Fund	\$7.5	\$11.1	\$3.6	47.3%

➤ Public Utilities Taxes

Telecommunications: Large taxpayers continue to overpay their taxes and are accumulating credit. No large credit amounts have been used thus far during the fiscal year. However, we will continue to monitor payment and return data and will adjust expectations accordingly.

Electricity: Electricity receipts continue to be greater than forecast because Illinois continues to experience more cooling degree days (CDD) than normal and compared to last year. For the month of July

(the month associated with September receipts, due to a two-month lag between consumption and receipts), Illinois experienced 54.0 percent more CDDs than normal and 73.0 percent more CDDs than last year. The warmer than normal temperatures resulted in an increase in demand for electricity to cool homes, offices and other buildings.

Natural gas: Natural gas receipts are currently lagging slightly behind our forecast. However, the year-to-date receipts for the first three months of the fiscal year typically only represent about 12.0 percent of the total year's receipts. We will be able to make a much better comparison of actual to forecast receipts after we have receipts associated with a few months during the heating season, when natural gas demand increases as customers use it to heat homes and office buildings. Over half of the annual natural gas receipts are collected in the four month period January through April.

Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Telecommunications	\$135.2	\$127.3	\$7.9	6.2%
Electricity	\$115.0	\$107.2	\$7.8	7.3%
Natural gas	\$16.8	\$19.5	-\$2.7	-13.8%
	\$267.0	\$253.9	\$13.0	5.1%
	FY 2011	FY 2012	\$ Difference	% Difference
Telecommunications	\$143.0	\$135.2	-\$7.8	-5.5%
Electricity	\$109.1	\$115.0	\$5.9	5.4%
Natural gas	\$12.9	\$16.8	\$3.9	30.1%
	\$265.0	\$267.0	\$2.0	0.7%

¹ Chicago Convention and Tourism Bureau, Monthly Occupancy.
http://www.choosechicago.com/media/statistics/hotel_industry/Pages/monthly_occupancy.aspx

➤ Motor Fuel Taxes

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

The FY 2012 Operating Budget Book forecast of \$1,340 million for overall MFT has been reduced to \$1,311 million, which is an overall reduction of \$29 million for FY 2012.

Regular MFT: The FY 2012 Operating Budget Book forecast of \$1,129 million for regular MFT has been increased to \$1,160 million, for a revised increase of \$31 million.

FY 2012 year-to-date regular motor fuel taxes are \$10.3 million above the original forecast that appears in the Governor's 2012 Operating Budget. The original forecast is too low primarily because the FY 2012 for IFTA was significantly overstated (discussed below), leaving insufficient receipts to allocate to regular MFT.

IFTA: The FY 2012 Operating Budget Book forecast of \$143 million has been reduced to \$83 million, which is a downward revision of \$60 million. The original forecast was based on the assumption that IDOR receives the "gross" IFTA receipts. However, due to a change in collection method, IDOR now retains the "net" IFTA receipts, after payments are made to other IFTA jurisdictions. Note that this is only an accounting change and does not affect the amount of money available to spend.

The revised forecast is consistent with the EIA's forecast for a slight reduction in total finished diesel supplied in FY 2012 nationwide.

UST: The year-to-date receipts are very close to the original budget forecast for FY 2012. Therefore, the FY 2012 Operating Budget Book forecast of \$68 million has been retained.

Year-to-Date (\$ millions)		Regular MFT	
Actual	Forecast	\$ Difference	% Difference
\$293.3	\$293.3	\$0	0%
FY 2011	FY 2012	\$ Difference	% Difference
\$304.9	\$293.3	-\$11.6	-3.8%

Year-to-Date (\$ millions)		IFTA	
Actual	Forecast	\$ Difference	% Difference
\$20.0	\$20.0	\$0	0%
FY 2011	FY 2012	\$ Difference	% Difference
\$19.8	\$20.0	\$0.2	1.0%

Year-to-Date (\$ millions)		UST	
Actual	Forecast	\$ Difference	% Difference
\$17.6	\$19.0	-\$1.3	-7.0%
FY 2011	FY 2012	\$ Difference	% Difference
\$19.3	\$17.6	-\$1.7	-8.6%

➤ Real Estate Transfer Tax (RETT)

According to the Illinois Association of Realtors (IAR), August home sales in Illinois were up 25.9 percent from last August, but the median price declined 5.4 percent for the same period. Consistent with our RETT forecast, Regional Economics Applications Laboratory (REAL) at the University of Illinois forecasts that this trend will continue at least through November.

Year-to-Date (\$ millions)			
Actual	Estimate	\$ Difference	% Difference
\$11.7	\$11.4	\$0.3	2.7%
FY 2011	FY 2012	\$ Difference	% Difference
\$10.2	\$11.7	\$1.5	15.2%

➤ Lottery

Common School Fund (CSF) Transfers

Lottery Common School Fund transfers are close to forecast. Due to a delay in posting the final transfer of funds from the Lottery Fund to the Common School Fund August, transfers were artificially understated.

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$135.2	\$137.7	-\$2.5	-1.8%
FY 2011	FY 2012	\$ Difference	% Difference
\$134.9	\$135.2	\$0.3	0.2%

➤ Riverboat gaming

Education Assistance Fund and General Revenue Fund Transfers

We are revising the annual forecast down by \$50 million, from \$501 million to \$451 million. Fifteen percent of Adjusted Gross Receipts from the new Rivers Casino in Des Plaines is dedicated to the Horse Racing Equity Fund. However, the Governor's FY 2012 Operating Budget forecast does not account for this \$50 million in funds transferrable to the Education Assistance Fund.

On net, casinos are performing according to expectations. Downstate casinos are doing a little better than forecast (mostly Rock Island and East Peoria) and the original four Chicago area casinos are experiencing a bit more of a decline from the Rivers Casino than we expected with the distribution being a bit different than expectation. Elgin is diluted to a greater degree than expected while contrary to expectation Aurora has been impacted very little. The total dilution between both west suburban casinos is in line with forecast. Both casinos in south suburban Joliet have also lost revenue to Rivers Casino. This was not expected because the distance between Joliet and the Rivers Casino was thought to be too great. The declines at the Joliet casinos offset all of the growth at the downstate casinos. Even though the dilution is less in total dollars, the tax impact is approximately equal because the larger Joliet casinos pay a higher effective tax rate. The Rivers Casino is performing according to expectations.

We collected data on vehicle license plates and city stickers over a 3 day period to determine average distance traveled by Rivers Casino patrons. Preliminary results indicate that 90 percent of casino patrons travel less than 25 miles to gamble at the casino. City of Chicago residents account for 35 percent of casino patrons. Out-of- state visitors account of 5.5 percent of casino patrons. Wisconsin is the most highly represented state with 56 percent of out of state visits. Visitors from other states in our sample include Indiana, Ohio, Virginia, Missouri and Oklahoma.

IDOR staff has researched the impact that Rivers Casino has had on northwest Indiana casinos in Hammond, East Chicago, Gary and Michigan City. None of the northwest Indiana casinos demonstrated a significant decline in admissions following the opening of the Rivers Casino. Ameristar, Majestic Star 1 and 2, and Blue Chip experienced small declines in wagering (less than 5 percent) after controlling for the historical revenue trend. The decline is too small to know whether or not it is associated with Rivers Casino. The decline in wagering at Horseshoe is much more substantial. Horseshoe revenues have declined 14 percent below trend. What is most interesting is that electronic

Year-to-Date (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$167.6	167.6	\$0.0	0.0%
FY 2011	FY 2012	\$ Difference	% Difference
\$80.0	\$167.6	\$87.6	109.5%

gaming did not decline at all in at Ameristar or Blue Chip casinos. Majestic Star experienced fairly uniform small reductions between table games and electronic games. Electronic gaming at Horseshoe declined 10 percent while table game wagering declined 27 percent. Table games at Ameristar and Blue Chip declined 25 percent and 23 percent respectively. The working hypothesis is that higher income table game players from the north side of Chicago are choosing to travel the shorter distance to the Rivers casino for gambling. It is not known whether this trend will hold up over time.

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<http://tax.illinois.gov/AboutIdor/TaxResearch/TaxResearch.htm>

FY12 YTD Through the end of September 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)	\$2,134.9	\$3,663.8	\$1,528.9	71.6%		\$3,654.0	\$9.8	0.3%		\$11,187	\$10,219	\$9,430	\$12,302	\$16,506
Corporate Income Tax (CIT)	\$321.2	\$574.0	\$252.8	78.7%		\$541.4	\$32.6	6.0%		\$2,201	\$2,073	\$1,649	\$2,286	\$2,853
Sales Tax (GRF only)	\$1,605.7	\$1,819.7	\$214.0	13.3%		\$1,819.7	\$0.0	0.0%		\$7,215	\$6,773	\$6,308	\$6,833	\$6,910
Public Utilities	\$265.0	\$267.0	\$2.0	0.7%		\$253.9	\$13.0	5.1%		\$1,157	\$1,168	\$1,089	\$1,147.2	\$1,082
Telecommunications	\$143.0	\$135.2	(\$7.8)	-5.5%		\$127.3	\$7.9	6.2%		\$579	\$593	\$549	\$586.9	\$509
Electricity	\$109.1	\$115.0	\$5.9	5.4%		\$107.2	\$7.8	7.3%		\$410	\$403	\$381	\$401	\$409
Gas	\$12.9	\$16.8	\$3.9	30.1%		\$19.5	(\$2.7)	-13.8%		\$168	\$172	\$158	\$159	\$164
Lottery	\$134.9	\$135.2	\$0.3	0.2%		\$137.7	(\$2.5)	-1.8%		\$657	\$625	\$625	\$632	\$645
Riverboat Gaming	\$80.0	\$167.6	\$87.6	109.5%		\$167.6	\$0.0	0.0%		\$564	\$430	\$431	\$324	\$451
Estate Tax	\$89.8	\$4.0	(\$85.8)	-95.5%		\$5.8	(\$1.8)	-30.7%		\$373	\$288	\$243	\$122	\$182
Cigarette (All Funds)	\$140.1	\$125.8	(\$14.3)	-10.2%		\$133.9	(\$8.1)	-6.1%		\$592	\$564	\$558	\$561	\$532
Tobacco Products	\$7.1	\$7.7	\$0.7	9.4%		\$6.0	\$1.7	28.1%		\$21	\$21	\$24	\$27	\$24
PP Replacement Tax	\$176.2	\$217.3	\$41.1	23.3%		\$207.7	\$9.6	4.6%		\$1,486	\$1,264	\$1,013	\$1,334	\$1,201
Regular Motor Fuel Tax	\$304.9	\$293.3	(\$11.6)	-3.8%		\$293.3	\$0.0	0.0%		\$1,117	\$1,249	\$1,165	\$1,158	\$1,160
Motor Fuel - IFTA	\$19.8	\$20.0	\$0.2	1.0%		\$20.0	\$0.0	0.0%		\$146	\$144	\$103	\$85	\$83
Ug. Storage Tank	\$19.3	\$17.6	(\$1.7)	-8.6%		\$19.0	(\$1.3)	-7.0%		\$71	\$75	\$71	\$71	\$68
Liquor (GRF only)	\$41.7	\$43.0	\$1.3	3.2%		\$42.5	\$0.5	1.3%		\$158	\$158	\$159	\$157	\$162
Insurance Tax	\$83.8	\$81.9	(\$1.9)	-2.3%		\$82.1	(\$0.2)	-0.3%		\$295	\$334	\$322	\$316	\$316
Franchise Tax & Fees	\$58.0	\$53.6	(\$4.4)	-7.6%		\$53.1	\$0.5	0.9%		\$225	\$201	\$208	\$207	\$204
Real Estate Transfer Tax	\$10.2	\$11.7	\$1.5	15.2%		\$11.4	\$0.3	2.7%		\$77	\$46	\$40	\$38	\$35
Private Vehicle Use (GRF only)	\$7.9	\$7.9	(\$0.0)	-0.2%		\$8.7	(\$0.8)	-9.2%		\$32	\$27	\$30	\$30	\$32
Hotel Tax (All Funds)	\$58.1	\$65.8	\$7.7	13.2%		\$62.5	\$3.3	5.2%		\$219	\$203	\$173	\$192	\$209