

ILLINOIS DEPARTMENT OF REVENUE MONTHLY REVENUE REPORT

July

Research Division

Fiscal Year 2013

<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 2013 forecasts.

Fiscal Year 2013 revenue receipts in July for individual income, corporate income, and sales taxes ("big three" revenue sources) are \$1,869.2 million. Those receipts are \$114.4 million above last year and \$1.6 million above current estimate.

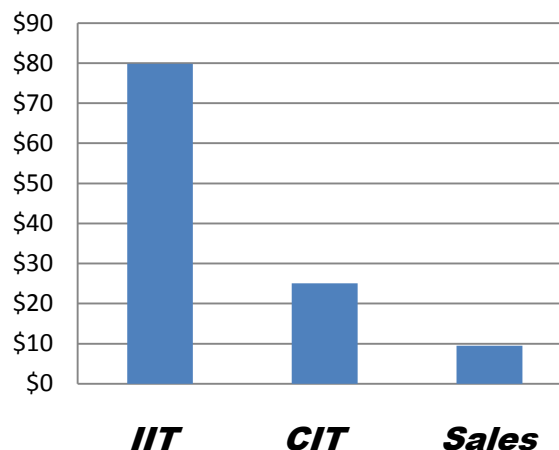
Individual income tax receipts are \$1,167.2 million. The total is \$79.8 million above last year and \$14.3 million below the current estimate.

Corporate receipts are \$86.8 million. The total is \$25.1 million above last year and \$18.9 million above the current estimate.

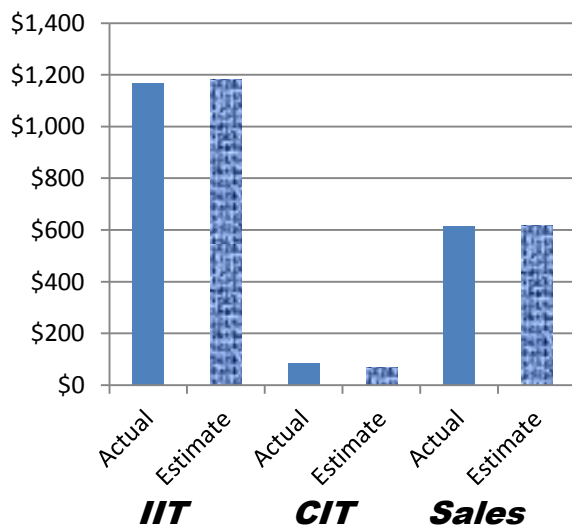
Sales tax receipts are \$615.2 million. The total is \$9.5 million above last year and \$3.0 million below our estimates.

TECHNICAL NOTE: THE SUM OF INDIVIDUAL TAX COMPONENTS MAY NOT EQUAL THE TOTAL DUE TO ROUNDING.

**Increase in Year-to-Date Revenues
FY 2012 and FY 2013 (in millions)**



**FY 2013 Year-to-Date Revenues versus
Forecasts (in millions)**



BACKGROUND

The Illinois Department of Revenue's Research Office is responsible for providing annual forecasts and preparing monthly analyses on year-to-date performance for the following taxes:

- Individual income tax
- Corporate income tax
- State sales and use tax
- Telecommunications tax
- Electricity tax
- Gas tax
- Cigarette taxes
- Tobacco products tax
- Estate tax
- Liquor tax
- Insurance tax
- Franchise tax and fees
- Hotel tax
- Motor fuel taxes
- Underground storage tank tax
- Real estate transfer tax

The focus of this first report of FY 2013 is to compare FY 2012 actual receipts with the FY 2013 revenue forecasts contained in the Governor's FY 2013 Operating Budget. In a few instances this comparison would seem to indicate that a revision is needed. Given the high level of uncertainty in short-term fiscal policy direction, we feel it prudent to hold off on making recommended revisions to our FY 2013 forecasts at this time. Significant federal tax increases and spending cuts are scheduled to take effect in calendar year 2013. The Congressional Budget Office projects that if these spending cuts and tax increases are implemented as planned, the national economy will contract in the first half of calendar year 2013, which is the second half of Illinois' fiscal year 2013. Illinois' revenue forecasts for fiscal year 2013, prepared months ago, do not reflect these federal changes. Instead, they reflect the view that federal policymakers will take action to delay the spending cuts and tax increases in light of the economy's vulnerability.

➤ Individual Income Tax (IIT)

FY 2012 results were above forecast, with most of this growth being realized in the last few months of the fiscal year. One reason was that the state's wages and salaries were higher than initially assumed. Additionally, some of the unanticipated growth was due to taxpayers adjusting their W-4 forms to have more of their income withheld. This increase in withholding will put upward pressure on demand for refunds during the 2012 tax season.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$1,167.2	\$1,181.5	-\$14.3	-1.2%
FY 2012	FY 2013	\$ Difference	% Difference
\$1,087.4	\$1,167.2	\$79.8	7.3%

The base FY 2013 forecast was originally developed at the end of calendar 2010. Our basic underlying assumption then was a relatively conservative economic outlook for the state labor market. This view and forecast was later ratified by the Council of Economic Advisors (CEA). This base forecast was subsequently modified to account for policy changes that went into effect after the original forecast was developed.

The 2013 Operating Budget Book forecast for FY 2013 is \$16,922.4 million, which includes the following adjustments.¹

- A \$163.0 million revenue reduction due to the impact of not decoupling from federal bonus depreciation
- \$56.0 million downward adjustment due to the increase in earned income credit
- \$30.0 million downward adjustment because of the increase in the value of the personal exemption
- Changes to the Economic Development for a Growing Economy (EDGE) tax credit will have a negative effect of \$15.0 million this fiscal year

Recent data from IHS Global Insight indicates that wages and salaries have been performing better than anticipated.² However, given the increased uncertainty in the international and national economic outlook, we consider it prudent to wait for additional economic data before revising the 2013 IIT forecast. After the first quarter of FY 2013, when we will have received the first estimated payment of the fiscal year, we will review the FY 2013 IIT estimate.

In spite of these concerns, as we begin FY 2013, July receipts came very close to our estimate for the month.

Components Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Withholding	\$1,099.0	\$1,135.2	-\$36.2	-3.2%
Estimated and final	\$68.2	\$46.2	\$22.0	47.6%
Total	\$1,167.2	\$1,181.5	-\$14.3	-1.2%

Withholding and estimated and final payments are derived from IDOR collection data and in-transit fund data.

¹ Some difference is due to rounding.

² IHS Global Insight, June 2012 data release.

➤ Corporate Income Tax (CIT)

FY 2012 Corporate Income Tax receipts came in at \$2,983.0 million, \$130.3 million above forecast.

The current FY 2013 forecast is lower than actual FY 2012, standing at \$2,921.0 million. This total is comprised of:

- \$1,960 million baseline revenue
- \$940 million associated with the rate increase
- \$232 million associated with limited use of Net Operating Losses
- \$191 million reduction associated with not decoupling from the federal bonus depreciation
- \$20 million reduction associated with the FY 2011 Amnesty program

Year-to-Date comparison (\$ millions)

Actual	Estimate	\$ Difference	% Difference
\$86.8	\$67.9	\$18.9	27.8%
FY 2012	FY 2013	\$ Difference	% Difference
\$61.7	\$86.8	\$25.1	40.7%

FY 2012 CIT performance exceeded our expectations for reasons we do not currently fully understand. Most of the unanticipated revenue was received in June 2012. We will wait until the first estimated payment of FY 2013 is received and then meet with the Governor's Council of Economic Advisors to review current economic indicators and forecasts to ascertain whether or not a revision is warranted.

➤ Sales & Use Tax

The first month of FY 2013 was 1.6 percent above last July and just a hair below forecast, although well within the range of forecasting error. July posted the weakest month of year-over-year growth since September 2010, and although we expected this weaker growth, it underscores the fact, discussed in last month's report, that the post-recession boom in sales and use tax receipts is behind us.

Year-to-Date comparison (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$615.2	\$618.2	-\$3.0	-0.5%
FY 2012	FY 2013	\$ Difference	% Difference
\$605.8	\$615.2	\$9.5	1.6%

The component table for July shows strong growth in the receipts from motor vehicles, while receipts from motor fuel sales fell because of lower prices.

Although FY 2012 ended \$80 million above forecast, it is too early to conclude that the forecast for FY 2013 should be revised upward accordingly. Indeed, there are reasons to be cautious as we move into the new fiscal year. Consumers are sending mixed signals about their willingness to spend. Consumer sentiment fell in July

Year-to-Date Comparison (\$ millions)				
	FY 2012	FY 2013	\$ Difference	% Difference
Vehicles	\$76.9	\$86.8	\$10.0	13.0%
Motor fuel*	\$69.9	\$62.4	-\$7.5	-10.7%
All else	\$459.0	\$465.9	\$7.0	1.5%
	\$605.8	\$615.2	\$9.5	1.6%

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

to its lowest level in 2012, according to the Thompson Reuter's/University of Michigan Consumer Sentiment Index. The survey used to compute the index found consumers had lower expectations of future economic conditions. This is worrisome because current spending decisions are heavily influenced by future expectations. On the other hand, July retail sales at the national level rose by the largest amount in five months, ending a three-month streak of month-to-month declines. We can better determine how taxable consumption is trending given these mixed signals by monitoring receipts over the first quarter (July-September). This will also enable us to incorporate back-to-school shopping results into our analysis.

We intend to monitor receipts and the federal fiscal policy debate over the first quarter of fiscal year 2013 before considering whether a forecast revision is warranted.

➤ Public Utilities Taxes

Telecommunications –

Revenues for FY 2012 came in slightly above forecast, net of accounting changes discussed in previous monthly reports. The FY 2013 forecast for telecom receipts is \$525.0 million, a 3.0 percent increase over the forecast for FY 2012. The forecast assumes continued growth in wireless services will offset losses related to the reduced number of landlines.

Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Telecommunications	\$33.4	\$42.7	-\$9.4	-21.9%
Electricity	\$32.7	\$33.5	-\$0.8	-2.3%
Natural gas	\$4.3	\$7.5	-\$3.2	-42.2%
	FY2012	FY 2013	\$ Difference	% Difference
Telecommunications	\$42.8	\$33.4	-\$9.4	-22.0%
Electricity	\$32.5	\$32.7	\$0.3	0.8%
Natural gas	\$6.2	\$4.3	-\$1.8	-29.9%

July telecom receipts came in at \$33.4 million, \$9.4 million below forecast. Approximately \$0.6 million of this difference is due to technical accounting changes affecting the first deposits of the fiscal year.

Electricity – FY 2012 finished the year approximately 4.6 percent below forecast. The FY 2013 forecast assumes no growth over the FY 2012 forecast.

Receipts for July 2013 were \$32.7 million, slightly below forecast.

Natural Gas – Natural gas receipts closed FY 2012 at 11.5 percent below forecast because of warmer than normal weather in February, March and April. The FY 2013 forecast assumes 3 percent growth over the FY 2012 forecast. Natural Gas receipts were \$4.3 million in July, \$3.2 million below forecast.

➤ Cigarette Taxes

FY 2012 receipts came in at \$577.4 million, \$53.4 million over forecast. The higher than anticipated revenue was the result of the Temporary Restraining Order (TRO) obtained by cigarette distributors that prohibited the Illinois Department of Revenue from limiting stamp

Year-to-Date (\$ millions)	*Includes general revenue funds			
	Actual	Forecast	\$ Difference	% Difference
All Funds	\$28.5	\$65.0	-\$36.5	-56.2%
General Revenue Fund	\$12.4	\$29.6	-\$17.2	-58.0%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds	\$34.5	\$28.5	-\$6.0	-17.4%
General Revenue Fund	\$29.2	\$12.4	-\$16.8	-57.4%

purchases before the effective date of the tax increase. Our original estimate of revenue increase as a result of the provisions in P.A. 97-0688 for FY 2013 was \$339 million for the Cigarette & Use Tax and \$11 million for the Tobacco Products Tax for a combined increase of \$350 million. We expect the effect of distributor stamp hoarding to negatively impact cigarette tax receipts dropping the incremental additional revenue received in FY 2013 to an estimated \$237 million. July receipts reflect the diminished sales of cigarette stamps by distributors who bought well above their normal monthly purchase in June.

➤ Tobacco Products Tax

Long Term Care Fund

FY 2012 receipts came in at forecast. The original FY 2013 forecast was \$29 million. However, P.A. 97-0688 made significant changes to the taxation of tobacco products. First, the rate increased from 18 to 36 percent effective July 1, 2012. Second, little cigars were reclassified as cigarettes. Third, the new Cigarette Machine Operators' Occupation Tax Act now requires retail establishments with roll-your-own (RYO) machines to obtain a cigarette machine operator license and charge a tax on RYO cigarettes comparable to the rate on manufactured cigarettes. Finally, taxation of moist snuff went from a percent of the wholesale price to a weight based tax effective January 1, 2013. The combined impact of these changes is to increase the FY 2013 forecast from \$29 million to \$40 million.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$2.9	\$2.7	\$0.2	7.4%
FY 2012	FY 2013	\$ Difference	% Difference
\$2.7	\$2.9	\$0.2	7.4%

July receipts actually reflect June sales as distributors file their Tobacco Products Return with payment on July 15th. Receipts and the updated forecast reflecting the increased rate to 36 percent of wholesale price will be reflected in the August monthly report.

➤ Estate Tax

FY 2012 receipts came in at \$234.8, \$19.7 million above forecast. We are forecasting \$242 million in annual receipts for FY 2013.

Effective July 1, 2012, as a result of P.A. 97-0732, all payments of the Estate Tax are made directly to the Illinois State Treasurer and not to the individual

counties. Counties had been reporting estate taxes with a one month lag while reporting to the treasurer occurs in real time. As a result, July receipts actually represent two months of payments.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$51.5	\$20.2	\$31.3	155.0%
FY 2012	FY 2013	\$ Difference	% Difference
\$1.8	\$51.5	\$49.7	2,761.1%

➤ Liquor Tax

Liquor tax receipts for July were 4.4 percent lower than last July and 3.8 percent below forecast. Liquor tax receipts often exhibit month-to-month volatility, so one should not read too much into the performance of any single month. Instead, it is best to evaluate liquor tax receipts on a quarterly basis.

Year-to-Date (\$ millions)	*Includes general revenue funds			
	Actual	Forecast	\$ Difference	% Difference
All Funds	\$28.9	\$30.2	-\$1.3	-4.4%
General Revenue Fund	\$17.0	\$17.8	-\$0.8	-4.5%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds*	\$30.0	\$28.9	-\$1.1	-3.8%
General Revenue Fund	\$17.7	\$17.0	-\$0.7	-3.8%

➤ Hotel Operator's Occupation Tax (HOOT)

FY 2012 receipts came in at \$210 million, slightly ahead of forecast. We anticipate modest growth of 2.9 percent in FY 2013.

July HOOT receipts came in \$1.3 million or 6.1 percent below forecast and \$1.7 million or 7.8 percent below July of 2012.

Year-to-Date (\$ millions)	*Includes general revenue funds			
	Actual	Forecast	\$ Difference	% Difference
All Funds*	\$20.0	\$21.3	-\$1.3	-6.1%
General Revenue Fund	\$2.7	\$3.7	-\$1.0	-26.2%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds*	\$21.7	\$20.0	-\$1.7	-7.8%
General Revenue Fund	\$3.6	\$2.7	-\$0.9	-24.7%

➤ Motor Fuel Taxes

Year-to-Date (\$ millions) IFTA				Year-to-Date (\$ millions) Regular MFT			
Actual	Forecast	\$ Difference	% Difference	Actual	Forecast	\$ Difference	% Difference
\$3.1	\$5.5	-\$2.3	-42.4%	\$98.0	\$99.0	-\$0.9	-0.9%
FY 2012	FY 2013	\$ Difference	% Difference	FY 2012	FY 2013	\$ Difference	% Difference
\$5.3	\$3.1	-\$2.2	-40.8%	\$96.4	\$98.0	\$1.7	1.7%

Year-to-Date (\$ millions) UST			
Actual	Forecast	\$ Difference	% Difference
\$5.8	\$6.0	-\$0.1	-2.3%
FY 2012	FY 2013	\$ Difference	% Difference
\$5.8	\$5.8	\$0.0	0.4%

Combined motor fuel tax receipts (regular MFT, IFTA, and UST) for July were 0.5 percent (-\$0.5 million) below last July and 3.1 percent below forecast (-\$3.4 million).

➤ Real Estate Transfer Tax (RETT)

FY 2012 receipts came in at \$42 million; \$2 million above forecast. For FY 2013, we are forecasting \$43 million in annual receipts. Housing market news remains mixed. Freddie Mac reported that average monthly interest rates on 30 year fixed rate mortgages fell to 3.55 percent, increasing the affordability of homes. At the same time, Realty Trac reported July's 2012 foreclosure filings in Illinois rose by 29.6 percent over July 2011. The rise in foreclosure activity highlights the effect of last year's delay in filings associated with the fallout over "robo-signing" done by lenders. Inventories of foreclosed homes on the market will remain high, keeping prices depressed.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$4.3	\$4.5	-\$0.2	-4.4%
FY 2012	FY 2013	\$ Difference	% Difference
\$4.2	\$4.3	\$0.1	2.4%

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July and Year-to-Date Receipts and Forecasts (\$ in millions)

Revenue Source Receipts	July FY2012	July FY2013	FY 2012 YTD	FY 2013 YTD	YTD FY 2013 vs. YTD FY 2012		FY 2013 YTD Forecasts	YTD FY 2013 vs. YTD Forecasts		FY 2009 Total	FY 2010 Total	FY 2011 Total	FY 2012 Total	FY 2013 Estimate
Individual Income Tax (IIT)	\$1,087.4	\$1,167.2	\$1,087.4	\$1,167.2	\$79.8	7.3%	\$1,181.5	-\$14.3	-1.2%	\$10,219.4	\$9,429.8	\$12,301.8	\$16,999.8	\$16,922.4
Corporate Income Tax (CIT)	\$61.7	\$86.8	\$61.7	\$86.8	\$25.1	40.7%	\$67.9	\$18.9	27.8%	\$2,072.5	\$1,648.9	\$2,285.7	\$2,983.0	\$2,921.0
Sales Tax (GRFs)	\$605.8	\$615.2	\$605.8	\$615.2	\$9.5	1.6%	\$618.2	-\$3.0	-0.5%	\$6,772.8	\$6,308.0	\$6,833.0	\$7,225.6	\$7,335.0
Public Utilities (GRFs)	\$81.4	\$70.4	\$81.4	\$70.4	-\$11.0	-13.5%	\$83.7	-\$13.3	-15.9%	\$1,167.8	\$1,089.2	\$1,147.2	\$994.7	\$1,101.0
Telecommunications	\$42.8	\$33.4	\$42.8	\$33.4	-\$9.4	-22.0%	\$42.7	-\$9.4	-21.9%	\$593.3	\$549.5	\$586.9	\$459.6	\$525.0
Electricity	\$32.5	\$32.7	\$32.5	\$32.7	\$0.3	0.8%	\$33.5	-\$0.8	-2.3%	\$402.9	\$381.4	\$401.2	\$390.0	\$409.0
Gas	\$6.2	\$4.3	\$6.2	\$4.3	-\$1.8	-29.8%	\$7.5	-\$3.2	-42.2%	\$171.5	\$158.3	\$159.1	\$145.2	\$167.0
Estate Tax (GRFs)	\$1.8	\$51.5	\$1.8	\$51.5	\$49.7	2761.1%	\$20.2	\$31.3	155.0%	\$287.7	\$243.4	\$122.2	\$234.8	\$242.0
Cigarette (All Funds)	\$34.5	\$28.5	\$34.5	\$28.5	-\$6.0	-17.4%	\$65.0	-\$36.5	-56.2%	\$564.0	\$557.8	\$560.8	\$577.4	\$853.0
Tobacco Products	\$2.7	\$2.9	\$2.7	\$2.9	\$0.2	7.4%	\$2.7	\$0.2	7.4%	\$21.4	\$24.0	\$27.4	\$29.0	\$40.0
Regular Motor Fuel Tax	\$96.4	\$98.0	\$96.4	\$98.0	\$1.7	1.7%	\$99.0	-\$0.9	-0.9%	\$1,248.6	\$1,165.4	\$1,157.6	\$1,145.3	\$1,176.0
Motor Fuel - IFTA	\$5.3	\$3.1	\$5.3	\$3.1	-\$2.2	-40.8%	\$5.5	-\$2.3	-42.4%	\$144.0	\$103.0	\$84.9	\$75.1	\$77.0
Ug. Storage Tank	\$5.8	\$5.8	\$5.8	\$5.8	\$0.0	0.4%	\$6.0	-\$0.1	-2.3%	\$74.8	\$70.8	\$71.2	\$69.5	\$71.0
Liquor (GRF)	\$17.7	\$17.0	\$17.7	\$17.0	-\$0.7	-3.8%	\$17.8	-\$0.8	-4.5%	\$157.6	\$158.5	\$157.4	\$164.4	\$163.0
Insurance Tax (GRFs)	\$3.9	\$3.3	\$3.9	\$3.3	-\$0.6	-14.4%	\$4.4	-\$1.1	-25.8%	\$334.3	\$322.4	\$316.1	\$344.6	\$285.0
Franchise Tax (Corp Division)	\$13.3	\$13.6	\$13.3	\$13.6	\$0.3	2.2%	\$13.2	\$0.3	2.5%	\$201.5	\$208.0	\$207.3	\$191.6	\$203.0
Real Estate Transfer Tax	\$4.2	\$4.3	\$4.2	\$4.3	\$0.1	2.4%	\$4.5	-\$0.2	-4.4%	\$45.6	\$40.3	\$38.0	\$42.0	\$43.0
Private Vehicle Use (GRFs)	\$2.4	\$2.1	\$2.4	\$2.1	-\$0.3	-11.4%	\$2.6	-\$0.5	-18.3%	\$27.3	\$30.2	\$30.3	\$28.7	\$29.0
Hotel Tax (All Funds)	\$21.7	\$20.0	\$21.7	\$20.0	-\$1.7	-7.8%	\$21.3	-\$1.3	-6.1%	\$203.3	\$173.1	\$191.7	\$207.9	\$216.0