

ILLINOIS DEPARTMENT OF REVENUE MONTHLY REVENUE REPORT

September

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.

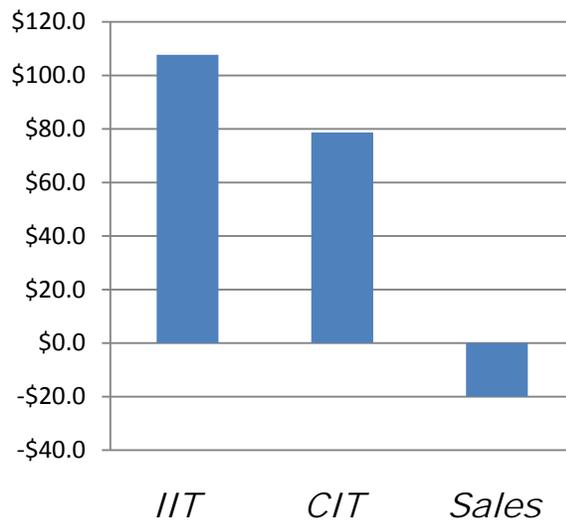
Fiscal Year 2013 revenue receipts in September for individual income, corporate income, and sales taxes ("big three" revenue sources) are \$6,223.9 million. Those receipts are \$166.4 million above last year and \$20.9 million above current estimate.

Individual income tax receipts are \$3,771.5 million. The total is \$107.7 million above last year and \$86.1 million below the current estimate.

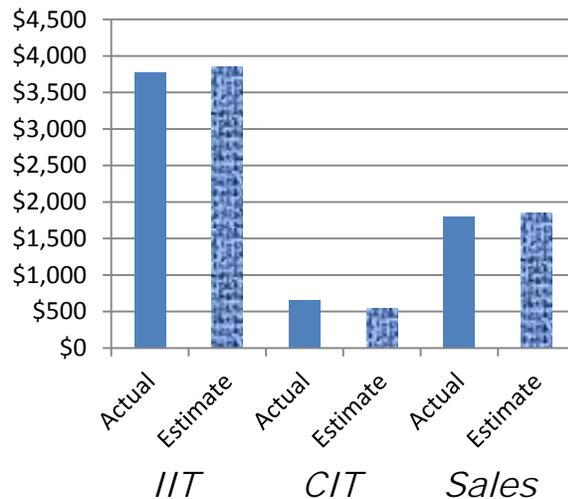
Corporate receipts are \$652.7 million. The total is \$78.7 million above last year and \$112.7 million above the current estimate.

Sales tax receipts are \$1,799.7 million. The total is \$19.9 million below last year and \$47.5 million below our estimates.

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



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



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

FEATURE

For many years, the research monthly report has been circulated within the department. Toward the end of Fiscal Year (FY) 2011 we made the decision to make the report public in order to share our insight on how the economy and/or various policy and administrative issues were impacting the state's major tax revenue streams. Our policy was, and continues to be, comparing our monthly revenue estimates with actual receipts as well as receipts for the same period a year earlier.

The forecasts that we compare to actual receipts are those forecasts initially developed internally that are then vetted and approved by the Governor's Council of Economic Advisors (CEA). In some instances, the forecasts approved by the CEA may deviate from those eventually adopted the legislature and signed into law by the Governor.

In comparing our forecasts with estimates adopted in the Fiscal Year 2013 budget, we find a difference of \$146.3 million in gross individual income tax, \$16 million in utility taxes, and \$8 million in franchise tax and fees deposited in the general fund. For these three sources, the Department's forecast is less pessimistic than those contained in the operating budget as signed into law. These deviations total \$172.3 million.

In addition, we have adjusted the Cigarette Tax and the Other Tobacco Products (OTP) tax forecast for FY 2013 because of legislation passed by the General Assembly and signed into law by the governor which took effect on June 24, 2012. This legislation increased the Cigarette Tax from \$0.98 to \$1.98 per pack, increased the OTP tax rate from 18 percent to 36 percent, and made several definitional changes to components that had previously been considered OTPs.

➤ Individual Income Tax (IIT)

Receipts for the first quarter are up over the same period last year. However, they are falling somewhat short of forecast. In spite of this first quarter shortfall, for reasons outlined below we feel confident that we will meet the forecast, barring any dramatic change in economic conditions.

Withholding receipts: September's WIT receipts

came in 5.2 percent below estimate. This significant deviation is explained by a couple of factors. First, September of FY2013 had one collection day fewer than September of fiscal year 2012. In addition, there was a significant amount of in-transit money which will be accounted for in October. Year-to-date growth is -1.8 percent. If we adjust September withholding receipts to account for the above mentioned two factors, the year-to-date growth would be 0.7 percent, slightly above forecast. We expect that the shortfall experienced in September will be made up in October. All in all, year-to-date withholdings payments are 1.3 percent above FY2012 receipts.

The reader should be aware that risks to the forecast have been increasing due to the uncertainty about federal fiscal policy. If the payroll tax cut is not extended, the effect on employment – and hence on withholdings - will be detrimental. This scenario remains very plausible. A “fiscal cliff” scenario would likely have an even worse effect on employment and consequently on IIT revenue. If the later is indeed the case, our FY2013 IIT forecast would decline by close to 1 percentage point.

Non-Withholding receipts: September's receipts came in \$57.3 million or 13.1 percent below the forecast. Year-to-date receipts are 5.3 percent below forecast but 15.4 percent over last fiscal year. It should be noted that, on average, first quarter receipts represent less than 18 percent of all non-withholdings payment. Almost three quarters of total non-withholdings are received in the second part of the fiscal year. In addition, final and estimated payments are by far the most volatile components of IIT revenue. For these two reasons, too much weight should not be given to this current underperformance.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$3,771.5	\$3,857.6	-\$86.1	-2.2%
FY 2012	FY 2013	\$ Difference	% Difference
\$3,663.8	\$3,771.5	\$107.7	2.9%

Components Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Withholding	\$3,272.5	\$3,330.9	-\$58.3	-1.8%
Estimated and final	\$499.0	\$526.8	-\$27.8	-5.3%
Total	\$3,771.5	\$3,857.6	-\$86.1	-2.2%

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.

Corporate Income Tax (CIT)

Receipts for the first quarter were \$652.7 million, 20.9 percent above forecast. Receipts have exceeded forecast for the last two estimated payments paid by calendar-year filers, and for the last four months in a row, as shown in the table below:

Year-to-Date Comparison (\$ millions)			
Actual \$652.7	Estimate \$540.0	\$ Difference \$112.7	% Difference 20.9
FY 2012 \$574.0	FY 2013 \$652.7	\$ Difference \$78.7	% Difference 13.7

Month	Fiscal Year	Forecast (\$ millions)	Actual, (\$ millions)	Difference, (\$ millions)
June	12	\$381.2	\$484.8	\$103.6
July	13	67.9	86.8	18.9
August	13	35.2	67.8	32.6
September	13	436.9	498.1	61.2
Estimated Payment for Calendar Year filers in bold				

The Bureau of Economic Analysis has recently revised historical domestic corporate profits data, the main economic driver used in our forecasting model, necessitating another look at our original forecast for FY2013.

➤ Sales & Use Tax

Based on officially reported numbers, state sales and use tax receipts for the first quarter of fiscal year 2013 were 1.1 percent below the first quarter in fiscal year 2012 and 2.6 percent below forecast year-to-date.

Things are not quite as bad as they appear, however.

An accounting change artificially reduced receipts deposited into the relevant state funds during the first quarter of fiscal 2013 by approximately \$30 million. This

money will instead be receipted in the second quarter. If we adjust the officially reported numbers to reflect this accounting change, first quarter receipts would have been 0.6 percent (\$10.5 million) above the first quarter of fiscal year 2012 and just 0.9 percent (\$17.1 million) below forecast year-to-date. In other words, sufficiently close to forecast to be “on target” year-to-date.

That said, there are reasons to be concerned as we move into the second quarter. First, the so-called “fiscal cliff” (discussed in our July report) still looms on the horizon. Second, it is widely believed that even if the fiscal cliff is averted, the payroll tax cut in effect since 2011 will not be extended in 2013 regardless of who wins in the presidential race. Not extending the payroll tax cut will have a negative impact on receipts because it will reduce disposable income (*i.e.*, income after taxes) available for consumption—the average American family will lose about \$1,000 in annual income under the higher tax rate—and will certainly hurt consumer confidence. In short, consumers will have less to spend and will feel less like spending what they have. This could undermine the already weak receipts growth observed so far.

Year-to-Date Comparison (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$1,799.7	\$1,847.2	-\$47.5	-2.6%
FY 2012	FY 2013	\$ Difference	% Difference
\$1,819.7	\$1,799.7	-\$19.9	-1.1%

Year-to-Date Comparison (\$ millions)				
	FY 2012	FY 2013	\$ Difference	% Difference
Vehicles	\$ 249.9	\$ 265.1	\$15.2	6.1%
Motor fuel*	\$ 207.6	\$ 194.5	-\$13.1	-6.3%
All else	\$1,362.2	\$1,340.1	-\$22.1	-1.6%
	\$1,819.7	\$1,799.7	-\$19.9	-1.1%

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

➤ Public Utilities Taxes

Telecommunications – First quarter receipts came in below last year and slightly below forecast.

Electricity – First quarter receipts were 1.8 percent above forecast.

Natural Gas – September receipts were \$1.3 million, below the forecast of \$4.2 million for the month. Year-to-date natural gas is \$8.6 million

below forecast. Almost half of the deviation from the year-to-date forecast can be explained by two factors. First, several large taxpayers have been using built-up credits in lieu of making payments. In September, the use of credits accounted for approximately \$1.6 million in lower revenue. Second, the final accelerated payment for the month of September was deposited in October, moving that revenue to a different month. These accelerated payments total \$1.8 million in lower revenue.

Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Telecommunications	\$125.0	\$128.9	-\$3.8	-3.0%
Electricity	\$112.5	\$110.5	\$2.0	1.8%
Natural gas	\$8.1	\$16.7	-\$8.6	-51.7%
	FY 2012	FY 2013	\$ Difference	% Difference
Telecommunications	\$135.2	\$125.0	-\$10.2	-7.5%
Electricity	\$115.0	\$112.5	-\$2.5	-2.2%
Natural gas	\$16.8	\$8.1	-\$8.8	-52.0%

➤ Cigarette Taxes

As expected, first quarter receipts were lower than forecast due to distributor stamp hoarding. Based on our recent experience of hoarding when we raised the liquor tax, we expect the hoarding effect to fade next month and for receipts to improve and track with our pre-hoarding estimate.

Year-to-Date (\$ millions)		*Includes general revenue funds		
	Actual	Forecast	\$ Difference	% Difference
All Funds	\$143.1	\$213.0	-\$69.9	-32.8%
General Revenue Fund	\$67.0	\$88.8	-\$21.8	-24.5%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds	\$125.8	\$143.1	\$17.3	13.8%
General Revenue Fund	\$88.3	\$67.0	-\$21.3	-24.1%

➤ Tobacco Products Tax

Fiscal year 2013 first quarter receipts are running slightly ahead of forecast.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$11.7	\$11.0	\$0.7	6.4%
FY 2012	FY 2013	\$ Difference	% Difference
\$7.7	\$11.7	\$4.0	51.9%

➤ Estate Tax

First quarter receipts are ahead of forecast because of changes in the reporting of receipts from counties to the Illinois State Treasurer.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$94.0	\$60.6	\$33.4	55.1%
FY 2012	FY 2013	\$ Difference	% Difference
\$4.1	\$94.0	\$89.9	2192.7%

➤ Liquor Tax

Receipts for the first quarter of fiscal year 2013 were 0.6 percent below the first quarter last year and about 1.0 percent above forecast year-to-date.

Year-to-Date (\$ millions)		*Includes general revenue funds		
	Actual	Forecast	\$ Difference	% Difference
All Funds	\$73.5	\$72.8	\$0.8	1.1%
General Revenue Fund	\$43.3	\$42.9	\$0.4	0.9%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds*	\$73.1	\$73.5	\$0.5	0.6%
General Revenue Fund	\$43.0	\$43.3	\$0.3	0.6%

➤ Hotel Operator's Occupation Tax (HOOT)

First quarter receipts are running slightly ahead of forecast.

In early October, Vail Brown of STR Global predicted that hotel demand would increase nationally by a modest 2 percent for the rest of calendar year 2012.

Year-to-Date (\$ millions)		*Includes general revenue funds		
	Actual	Forecast	\$ Difference	% Difference
All Funds*	\$65.5	\$65.1	\$0.4	0.6%
General Revenue Fund	\$10.3	\$11.6	-\$1.3	-11.2%
	FY 2012	FY 2013	\$ Difference	% Difference
All Funds*	\$65.7	\$65.5	-\$0.2	-0.3%
General Revenue Fund	\$11.1	\$10.3	-\$0.8	-7.2%

➤ Motor Fuel Taxes

Year-to-Date (\$ millions) IFTA			
Actual	Forecast	\$ Difference	% Difference
\$19.3	\$20.5	-\$1.2	-6.1%
FY 2012	FY 2013	\$ Difference	% Difference
\$20.0	\$19.3	-\$0.7	-3.5%

Year-to-Date (\$ millions) Regular MFT			
Actual	Forecast	\$ Difference	% Difference
\$292.8	\$301.1	-\$8.3	-2.8%
FY 2012	FY 2013	\$ Difference	% Difference
\$293.2	\$292.8	-\$0.4	-0.1%

Year-to-Date (\$ millions) UST			
Actual	Forecast	\$ Difference	% Difference
\$17.5	\$18.1	-\$0.7	-3.7%
FY 2012	FY 2013	\$ Difference	% Difference
\$17.6	\$17.5	-\$0.2	-1.1%

Combined motor fuel tax receipts (regular MFT, IFTA, and UST) for the first quarter of fiscal year 2013 were 0.4 percent (\$1.3 million) below the same period last year and 3.0 percent (\$10.2 million) below forecast year-to-date.

➤ Real Estate Transfer Tax (RETT)

First quarter receipts are on track with the forecast.

RealtyTrac reported that third quarter calendar year 2012 foreclosure activity dropped nationally 13 percent from third quarter 2011 to a five year low. As a judicial foreclosure state, Illinois continues to buck the national trend with third quarter calendar year 2012 foreclosure activity up 31 percent over 2011. This increase casts a pall over the state's hope for a strong recovery in the real estate market.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$13.4	\$13.4	\$0.0	0.0%
FY 2012	FY 2013	\$ Difference	% Difference
\$11.8	\$13.4	\$1.6	13.6%

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

Revenue Source Receipts	September FY2012	September 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)	\$1,432.2	\$1,427.2	\$3,663.8	\$3,771.5	\$107.7	2.9%	\$3,857.6	-\$86.1	-2.2%	\$10,219.4	\$9,429.8	\$12,301.8	\$16,999.8	\$16,922.4
Corporate Income Tax (CIT)	\$458.4	\$498.1	\$574.0	\$652.7	\$78.7	13.7%	\$540.0	\$112.7	20.9%	\$2,072.5	\$1,648.9	\$2,285.7	\$2,983.0	\$2,921.0
Sales Tax (GRFs)	\$613.0	\$601.5	\$1,819.7	\$1,799.7	-\$19.9	-1.1%	\$1,847.2	-\$47.5	-2.6%	\$6,772.8	\$6,308.0	\$6,833.0	\$7,225.6	\$7,335.0
Public Utilities (GRFs)	\$91.9	\$79.0	\$267.0	\$245.6	-\$21.4	-8.0%	\$256.1	-\$10.5	-4.1%	\$1,167.8	\$1,089.2	\$1,147.2	\$994.7	\$1,101.0
Telecommunications	\$47.5	\$39.0	\$135.2	\$125.0	-\$10.2	-7.5%	\$128.9	-\$3.8	-3.0%	\$593.3	\$549.5	\$586.9	\$459.6	\$525.0
Electricity	\$40.1	\$38.6	\$115.0	\$112.5	-\$2.5	-2.2%	\$110.5	\$2.0	1.8%	\$402.9	\$381.4	\$401.2	\$390.0	\$409.0
Gas	\$4.3	\$1.3	\$16.8	\$8.1	-\$8.8	-52.0%	\$16.7	-\$8.6	-51.7%	\$171.5	\$158.3	\$159.1	\$145.2	\$167.0
Estate Tax (GRFs)	\$0.8	\$18.6	\$4.1	\$94.0	\$89.9	2192.7%	\$60.6	\$33.4	55.1%	\$287.7	\$243.4	\$122.2	\$234.8	\$242.0
Cigarette (All Funds)	\$45.9	\$67.2	\$125.8	\$143.1	\$17.3	13.8%	\$213.0	-\$69.9	-32.8%	\$564.0	\$557.8	\$560.8	\$577.4	\$853.0
Tobacco Products	\$2.4	\$4.4	\$7.7	\$11.7	\$4.0	51.9%	\$11.0	\$0.7	6.4%	\$21.4	\$24.0	\$27.4	\$29.0	\$40.0
Regular Motor Fuel Tax	\$96.8	\$96.3	\$293.2	\$292.8	-\$0.4	-0.1%	\$301.1	-\$8.3	-2.8%	\$1,248.6	\$1,165.4	\$1,157.6	\$1,145.3	\$1,176.0
Motor Fuel - IFTA	\$7.6	\$7.3	\$20.0	\$19.3	-\$0.7	-3.5%	\$20.5	-\$1.2	-6.1%	\$144.0	\$103.0	\$84.9	\$75.1	\$77.0
Ug. Storage Tank	\$5.8	\$6.1	\$17.6	\$17.5	-\$0.2	-1.1%	\$18.1	-\$0.7	-3.7%	\$74.8	\$70.8	\$71.2	\$69.5	\$71.0
Liquor (GRF)	\$13.7	\$14.5	\$43.0	\$43.3	\$0.3	0.6%	\$42.9	\$0.4	0.9%	\$157.6	\$158.5	\$157.4	\$164.4	\$163.0
Insurance Tax (GRFs)	\$63.6	\$44.1	\$81.9	\$66.2	-\$15.6	-19.1%	\$73.1	-\$6.8	-9.4%	\$334.3	\$322.4	\$316.1	\$344.6	\$285.0
Franchise Tax (Corp Division)	\$27.6	\$17.4	\$53.5	\$49.0	-\$4.5	-8.4%	\$53.0	-\$4.0	-7.5%	\$201.5	\$208.0	\$207.3	\$191.6	\$203.0
Real Estate Transfer Tax	\$3.9	\$5.1	\$11.8	\$13.4	\$1.6	13.6%	\$13.4	\$0.0	0.0%	\$45.6	\$40.3	\$38.0	\$42.0	\$43.0
Private Vehicle Use (GRFs)	\$2.2	\$2.2	\$7.9	\$7.6	-\$0.3	-4.0%	\$8.0	-\$0.4	-5.3%	\$27.3	\$30.2	\$30.3	\$28.7	\$29.0
Hotel Tax (All Funds)	\$20.1	\$19.2	\$65.7	\$65.5	-\$0.2	-0.3%	\$65.1	\$0.4	0.6%	\$203.3	\$173.1	\$191.7	\$207.9	\$216.0