

ILLINOIS DEPARTMENT OF REVENUE MONTHLY REVENUE REPORT

August

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

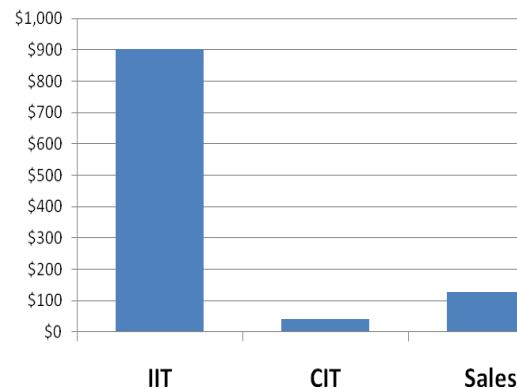
Fiscal Year 2012 revenue receipts through August for individual income, corporate income, and sales taxes ("big three" revenue sources) are \$3,553.8 million. Those receipts are \$1,071.6 million above last year and \$90.1 million above the current forecast.

Individual income tax receipts are \$2,231.5 million. The total is \$903.4 million above last year and \$19.4 million below the current forecast.

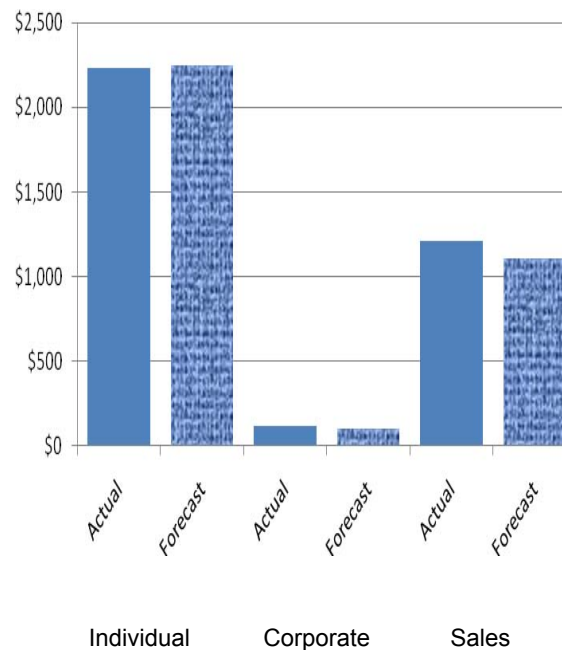
Corporate income tax receipts are \$115.6 million. The total is \$40.8 million above last year and \$12.3 million above the current forecast.

Sales tax receipts are \$1,206.7 million. The total is \$127.4 million above last year and \$97.2 million above 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)**



BACKGROUND

For the first two months of Fiscal Year 2012 our tax revenue forecasts are coming in \$62.6 million (1.4 percent) above budget. When we have received the first quarter of FY 2012 receipts, we will meet with the Governor's Council of Economic Advisors to discuss any potential forecast revisions.

Over the last six months, economists have been revising their baseline forecasts down and have also decreased the probability of meeting these forecasts. While our underlying economic forecast was more conservative than baseline, it did not contemplate a double dip recession. In their August forecasts, IHS Global Insight assigned a 40 percent probability to a double dip recession occurring (see table below).

Probability Assigned to Economic Outlook Scenarios from April – August, 2011

	April 2011	June 2011	August 2011
Pessimistic	20%	25%	40%
Baseline	60%	55%	50%
Optimistic	20%	20%	10%

TECHNICAL NOTE

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

➤ Individual Income Tax (IIT)

Growth in receipts is driven primarily by the recent tax rate increase. Our projection in the Governor's FY 2012 Operating Budget Book forecasts a 2.7 percent underlying growth in IIT receipts during FY 2012. In the first two months of the fiscal year, actual receipts stand 0.9 percent (\$19.4 million) below our forecast.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$2,231.5	\$2,250.9	-\$19.4	-0.9%
FY 2011	FY 2012	\$ Difference	% Difference
\$1,328.1	\$2,231.5	\$903.4	68.0%

Components Year-to-Date (\$ millions)

	Actual	Forecast	\$ Difference	% Difference
Withholding	\$2,139.0	\$2,167.7	-\$28.7	-1.3%
Estimated and final	\$92.5	\$83.2	\$9.3	11.2%
Total	\$2,231.5	\$2,250.9	-\$19.4	-0.9%

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.

August withholding receipts increased 69.4 percent compared with August 2010 and 1.9 percent compared with our forecast.

Non-withholding receipts are 36.4 percent above August 2010 and 32.2 percent below the month's forecast. Not too much can be read into non-withholdings receipts at this time as the majority of non-withholdings are receipted in the four months when estimated payments are due: September, January, April and June. At the end of September, after we receive the first estimated payment of the fiscal year, we will have a better reading on how non-withholding payments are performing compared with our forecast.

We are monitoring economic conditions closely as the employment outlook has deteriorated over the last few months. The latest forecasts from I H S Global Insight (IHS) reflect this increased pessimism. For example, in July IHS projected a 4.2 percent baseline growth in wages and salaries for FY 2012. In August they revised that expectation down to 3.1 percent.

We based our forecast on a more conservative labor market outlook than IHS projections available at the time we developed our FY 2012 IIT forecast.

We will evaluate the need to revise our FY 2012 forecast as we gather more data. For now, our conservative view of the state economy seems to be the right one.

➤ Corporate income tax (CIT)

The first two months of CIT receipts account for less than 4.0 percent of annual receipts and, as such, can exhibit extreme volatility when compared to monthly forecasts. The year-to-date figures indicate that we are slightly above forecast. The first estimated payments of the fiscal year are due in September. We anticipate that approximately 15 percent of annual CIT receipts will be received in September, giving us a clearer picture of how receipts are performing compared to the forecast.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$ 115.6	\$ 103.4	\$ 12.3	11.9 %
FY 2011	FY 2012	\$ Difference	% Difference
\$ 74.8	\$ 115.6	\$ 40.8	54.6%

➤ Sales Tax

Retail sales data at the national level suggests slightly more than half of the observed growth in state sales tax year to date is real growth, with the remainder explained by higher prices, particularly higher motor fuel prices. While the growth seems impressive, we must consider that state sales tax receipts this time last fiscal year were extremely weak. In fact, receipts this time last fiscal year were barely above levels observed during the worst stretch of the recession in 2009. So, while the percentage growth is relatively high, it comes on a dramatically reduced base.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$1,206.7	\$1,109.5	\$97.2	8.8%
FY 2011	FY 2012	\$ Difference	% Difference
\$1,079.3	\$1,206.7	\$127.4	11.8%

Although growth continues, there are signs of increasing consumer pessimism. The Thomson Reuters/University of Michigan index of consumer sentiment fell from 63.7 in July to 54.9 in August—the lowest level since May 1980. Increased consumers pessimism could lead to precautionary spending cuts in the short term. Meanwhile, the labor market remains persistently weak, which raises concerns about long term growth. The August national employment report showed that the national economy failed to add any jobs for the first time in almost a year. A weak labor market will keep more people unemployed and limit wage growth, neither of which bodes well for strong consumer spending.

Year-to-Date (\$ millions)

	FY 2011	FY 2012	\$ Difference	% Difference
Vehicles	\$156.8	\$165.8	\$9.1	5.8%
Motor fuel*	\$109.1	\$151.0	\$42.0	38.5%
All else	\$813.5	\$889.8	\$76.3	9.4%
Total	\$1,079.3	\$1,206.7	\$127.4	11.8%

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

➤ Tobacco Products Tax

Long Term Care Fund

Receipts continue to come in substantially higher than both last year and our forecast. It is too early in the fiscal year to determine if the increase represents a general trend or a temporary phenomenon.

Year-to-Date (\$ millions)			
Actual	Forecast	\$ Difference	% Difference
\$ 5.3	\$ 4.0	\$ 1.3	33.8%
FY 2011	FY 2012	\$ Difference	% Difference
\$ 4.5	\$ 5.3	\$ 0.8	16.9%

➤ Cigarette Taxes

Although receipts were below our forecast again in August, the month was not nearly as disappointing as July. We believe that the decline in receipts is temporary and this month's significant deceleration is evidence that tax receipts should return to normal.

Year-to-Date (\$ millions)	*Includes the General Revenue Fund			
	Actual	Forecast	\$ Difference	% Difference
All Funds*	\$79.8	\$93.5	-\$13.7	-14.6%
General Revenue Fund	\$58.7	\$59.2	-\$0.5	-0.8%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$89.6	\$79.8	-\$9.7	-10.9%
General Revenue Fund	\$58.4	\$58.7	\$0.3	0.5%

➤ Liquor Tax

Year-to-date receipts are coming in less than \$1.0 million above budget.

Year-to-Date (\$ millions)	*Includes the General Revenue Fund			
	Actual	Forecast	\$ Difference	% Difference
All Funds*	\$49.8	\$49.0	\$0.8	1.7%
General Revenue Fund	\$29.3	\$29.2	\$0.1	0.4%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$49.1	\$49.8	\$0.8	1.6%
General Revenue Fund	\$28.9	\$29.3	\$0.5	1.6%

➤ Hotel Operator's Occupation Tax (HOOT)

Receipts outpaced the forecast for the second month this fiscal year. We use the twelve-month moving average of HOOT receipts to remove seasonality and look only at the general trend of the tax over the last year. This analysis indicates that monthly tax receipts have been growing by an average of 1.2 percent since receipts began their recovery in August 2010. That rate has accelerated in the last two months and now exceeds 2.3 percent, higher than what was anticipated at the time we developed the FY 2012 forecast for the Governor's FY2012 Operating Budget. Economic data needs to be examined to determine the causes of the emerging trend and assess the trends sustainability. However, FY 2012 data on occupancy rates and room rates is not currently available. As new information is released, the trends will be further analyzed and forecasts will be revised as needed.

Year-to-Date (\$ millions)		*Includes the General Revenue Fund		
	Actual	Forecast	\$ Difference	% Difference
All Funds*	\$45.7	\$39.9	\$5.7	14.4%
General Revenue Fund	\$8.1	\$6.0	\$2.1	35.7%
	FY 2011	FY 2012	\$ Difference	% Difference
All Funds*	\$37.1	\$45.7	\$8.6	23.1%
General Revenue Fund	\$4.4	\$8.1	\$3.7	84.5%

➤ Public Utilities Taxes

Telecommunications:

Receipts continue to come in above forecast. See last month's report for more detail.

Weather Patterns and their Effect on Electricity and Natural Gas Excise Tax Receipts

There is a two-month lag between consumption of electricity and natural gas, and when IDOR receives tax receipts for these revenue sources. Therefore, tax receipts for the months of July and August are associated with the consumption that occurred in May and June. May 2011 had more cooling and heating degree days than normal. June 2011 had more cooling but fewer heating degree days than normal. Year-to-date tax receipts have been impacted accordingly.

Year-to-Date (\$ millions)				
	Actual	Forecast	\$ Difference	% Difference
Telecommunications	\$90.3	\$83.3	\$7.0	8.4%
Electricity	\$75.1	\$67.0	\$8.1	12.0%
Natural gas	\$12.5	\$14.1	-\$1.6	-11.1%
	\$178.0	\$164.5	\$13.5	8.2%
	FY 2011	FY 2012	\$ Difference	% Difference
Telecommunications	\$88.3	\$90.3	\$2.0	2.3%
Electricity	\$61.7	\$75.1	\$13.4	21.7%
Natural gas	\$8.2	\$12.5	\$4.4	53.7%
	\$158.2	\$178.0	\$19.8	12.5%

Electricity: The periods where warmer than normal temperatures persisted resulted in an increase in demand for electricity to cool homes, offices and other buildings. Total Cooling Degree Days were 9.5 percent above the 30-year normal for May and June.

Natural gas: Heating Degree Days are 3.0 percent higher than normal. This colder than normal weather caused an increase in demand for natural gas to heat homes, offices and other buildings.

➤ Lottery

Common School Fund (CSF) Transfers

FY 2012 lottery sales are up \$28.5 million or 8.5 percent over total FY 2011 comparable sales. Instant ticket sales are up \$30.5 million (16.1 percent) while traditional lotto style online games sales are down -\$1.7 million (-1.1 percent). Through August, instant sales represents 59.8 percent of total sales while online sales make up 40.2 percent. Last year at this point, FY 2011 instant sales represented 55.9 percent of total sales while online sales were 44.1 percent. This change in the mix is resulting in lottery sales growth that is higher than growth in transfers. Note that \$7.1 million of the \$7.8 million year-to-date shortfall in transfers is because money that should have been deposited in August was in transit and not recorded by the Comptroller until September. In reality we are within \$1 million of the year-to-date forecast.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$75.9	\$83.7	-\$7.8	-9.3%
FY 2011	FY 2012	\$ Difference	% Difference
\$82.0	\$75.9	-\$6.1	-7.4%

➤ Riverboat gaming

Education Assistance Fund and General Revenue Fund Transfers

The first full month of data now available on the new Rivers Casino in Des Plaines shows that the new casino generated over \$34 million in adjusted gross receipts (AGR) in August. However, it is too early to tell whether revenues will continue to exceed forecast at Rivers and if cannibalization rates will continue to increase at other Chicago area casinos. The Governor's FY2012 Operating Budget Book forecast anticipated 12.5 percent cannibalization from the Elgin Grand Victoria Casino and Aurora-Hollywood Casino. Revenue has not declined nearly as much as expected at Aurora while Elgin revenues have declined twice as much as expected. Joliet Harrah's and Joliet-Hollywood were not expected to be impacted by Rivers because the casinos are separated by over 40 miles. Initial indications are that Rivers may be negatively impacting them as well. Until there is more data available, it is impossible to separate economic from cannibalization effects on the four original Chicago area casinos. The status of casino revenue will continue to be monitored over the coming months.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$126.0	\$156.2	-\$30.3	-19.4%
FY 2011	FY 2012	\$ Difference	% Difference
\$60.0	\$126.0	\$66.0	109.9%

➤ Estate Tax

FY 2012 receipts are down significantly because the tax was not in effect from January 1, 2010 through December 31, 2010. The Illinois Estate Tax was reinstated on January 1, 2011. There is a nine-month lag between the death of the decedent and when the tax is due. Receipts are expected to generate approximately \$21.8 million per month beginning in November 2011.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$3.3	\$3.9	-\$0.6	-14.3%
FY 2011	FY 2012	\$ Difference	% Difference
\$53.4	\$3.3	-\$50.1	-93.8%

➤ Real Estate Transfer Tax (RETT)

According to the Illinois Association of Realtors (IAR), July home sales in Illinois were up 18.4 percent from last July, while the median price declined 3.8 percent for the same period. IAR indicates that the majority of sales are coming from first-time and investment buyers in the under \$200,000 price range. In order for growth in upper price bracket real estate to occur, the economy will need to achieve sustained growth in the job market, and restore consumer confidence.

The economic factors suggest that a large increase in RETT receipts should not be expected in the foreseeable future. We should expect a modest increase in receipts as first-time buyers and investors take advantage of low interest rates and depressed home prices.

Year-to-Date (\$ millions)

Actual	Forecast	\$ Difference	% Difference
\$7.9	\$8.0	-\$0.1	-1.1%
FY 2011	FY 2012	\$ Difference	% Difference
\$6.7	\$7.9	\$1.2	18.0%

➤ Motor Fuel Tax

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

Year-to-Date (\$ millions) Regular MFT

Actual	Forecast	\$ Difference	% Difference
\$193.2	\$191.7	\$1.6	0.8%
FY 2011	FY 2012	\$ Difference	% Difference
\$202.1	\$193.2	-\$8.9	-4.4%

Year-to-Date (\$ millions) IFTA

Actual	Forecast	\$ Difference	% Difference
\$12.9	\$17.4	-\$4.6	-26.2%
FY 2011	FY 2012	\$ Difference	% Difference
\$10.3	\$12.9	\$2.5	24.4%

Consistent with our forecast, slow economic growth and high motor fuel prices continue to depress demand for motor fuels. Motor fuels tax receipts have declined commensurately.

IFTA receipts continue to be below forecast because of an accounting change.

Year-to-Date (\$ millions) UST

Actual	Forecast	\$ Difference	% Difference
\$11.6	\$13.2	-\$1.6	-11.8%
FY 2011	FY 2012	\$ Difference	% Difference
\$13.1	\$11.6	-\$1.5	-11.2%

Illinois Department of Revenue, Research Division

Director of Research: Natalie Davila

Research Analysts: Andy Chupick
Phil Manheim
Tom Regan
Hector Vielma
Hans Zigmund

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

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

Revenue Source Receipts	FY 2011 YTD	FY 2012 YTD	YTD FY 2012 vs. YTD FY 2011			FY 2012 YTD Estimate s	YTD FY 2012 vs. YTD Estimate s			FY 2008 Total	FY 2009 Total	FY 2010 Total	FY 2011 Total	FY 2012 Estimate
Individual Income Tax (IIT)	\$1,328.1	\$2,231.5	\$903.4	68.0%		\$2,250.9	(\$19.4)	-0.9%		\$11,187	\$10,219	\$9,430	\$12,302	\$16,506
Corporate Income Tax (CIT)	\$74.8	\$115.6	\$40.8	54.6%		\$103.4	\$12.3	11.9%		\$2,201	\$2,073	\$1,649	\$2,286	\$2,853
Sales Tax (General Funds)	\$1,079.3	\$1,206.7	\$127.4	11.8%		\$1,109.5	\$97.2	8.8%		\$7,215	\$6,773	\$6,308	\$6,833	\$6,586
Public Utilities	\$158.2	\$178.0	\$19.8	12.5%		\$164.5	\$13.5	8.2%		\$1,157	\$1,168	\$1,089	\$1,129	\$1,082
Telecommunications	\$88.3	\$90.3	\$2.0	2.3%		\$83.3	\$7.0	8.4%		\$579	\$593	\$549	\$569	\$509
Electricity	\$61.7	\$75.1	\$13.4	21.7%		\$67.0	\$8.1	12.0%		\$410	\$403	\$381	\$401	\$409
Gas	\$8.2	\$12.5	\$4.4	53.7%		\$14.1	(\$1.6)	-11.1%		\$168	\$172	\$158	\$159	\$164
Lottery	\$82.0	\$75.9	(\$6.1)	-7.4%		\$83.7	(\$7.8)	-9.3%		\$657	\$625	\$625	\$632	\$645
Riverboat Gaming	\$60.0	\$126.0	\$66.0	109.9%		\$156.2	(\$30.3)	-19.4%		\$564	\$430	\$431	\$324	\$501
Estate Tax	\$53.4	\$3.3	(\$50.1)	-93.8%		\$3.9	(\$0.6)	-14.3%		\$373	\$288	\$243	\$122	\$182
Cigarette (All Funds)	\$89.6	\$79.8	(\$9.7)	-10.9%		\$93.5	(\$13.7)	-14.6%		\$592	\$564	\$558	\$561	\$532
Tobacco Products	\$4.5	\$5.3	\$0.8	16.9%		\$4.0	\$1.3	33.8%		\$21	\$21	\$24	\$27	\$24
PP Replacement Tax	\$44.3	\$52.6	\$8.3	18.7%		\$52.8	(\$0.2)	-0.4%		\$1,486	\$1,264	\$1,013	\$1,334	\$1,201
Regular Motor Fuel Tax	\$202.1	\$193.2	(\$8.9)	-4.4%		\$191.7	\$1.6	0.8%		\$1,117	\$1,249	\$1,165	\$1,158	\$1,129
Motor Fuel - IFTA	\$10.3	\$12.9	\$2.5	24.4%		\$17.4	(\$4.6)	-26.2%		\$146	\$144	\$103	\$85	\$143
Ug. Storage Tank	\$13.1	\$11.6	(\$1.5)	-11.2%		\$13.2	(\$1.6)	-11.8%		\$71	\$75	\$71	\$71	\$68
Liquor (GRF only)	\$28.9	\$29.3	\$0.5	1.6%		\$29.2	\$0.1	0.4%		\$158	\$158	\$159	\$157	\$162
Insurance Tax	\$15.9	\$18.2	\$2.3	14.5%		\$21.3	(\$3.1)	-14.7%		\$295	\$334	\$322	\$316	\$316
Franchise Tax & Fees	\$27.7	\$26.0	(\$1.7)	-6.1%		\$28.0	(\$2.0)	-7.3%		\$225	\$201	\$208	\$207	\$204
Real Estate Transfer Tax	\$6.7	\$7.9	\$1.2	18.0%		\$8.0	(\$0.1)	-1.1%		\$77	\$46	\$40	\$38	\$35
Private Vehicle Use (GRF only)	\$5.1	\$5.7	\$0.6	11.0%		\$5.8	(\$0.1)	-1.4%		\$32	\$27	\$30	\$30	\$32
Hotel Tax (All Funds)	\$37.1	\$45.7	\$8.6	23.1%		\$39.9	\$5.7	14.4%		\$219	\$203	\$173	\$192	\$209