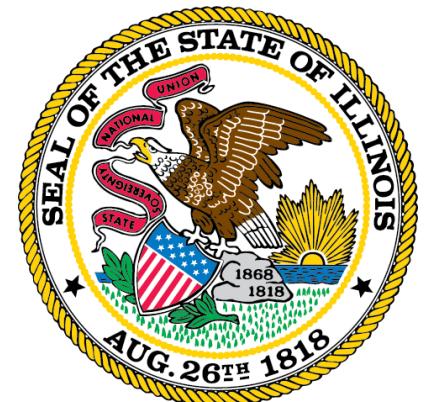


House Revenue & Finance Committee

FY 2023 Revenue Forecasts

February 24, 2022



FY22 Estimates & FY23 Forecasts

Select Sources (Receipts; \$ Millions)	FY21 Actual	FY22 Estimate	FY23 Forecast
Individual Income Tax			
Total Gross Receipts	\$26,350	\$25,234	\$26,277
Refund Fund Rate	9.00%	9.25%	9.25%
Net General Funds Receipts	\$22,525	\$21,512	\$22,401
Sales Taxes			
Net General Funds Receipts	\$9,368	\$10,036	\$9,909
Corporate Income Tax			
Total Gross Receipts	\$4,451	\$5,933	\$5,582
Refund Fund Rate	14.00%	15.00%	14.50%
Net General Funds Receipts	\$3,563	\$4,698	\$4,446
Utility Taxes (General Funds)	\$752	\$743	\$720
Telecommunications	\$237	\$213	\$185
Electricity	\$366	\$375	\$379
Natural Gas	\$148	\$155	\$157
Cigarette Tax (All Funds)	\$854	\$825	\$805
Cigarette Tax (General Funds)	\$281	\$271	\$265
Liquor Tax (General Funds)	\$177	\$182	\$184
Estate (General Funds)	\$450	\$415	\$379
Hotel Tax (All Funds)	\$93	\$187	\$250
Adult-Use Cannabis Taxes (All Funds)	\$177	\$280	\$380
Insurance Tax/Fees (Gen. Funds)	\$480	\$438	\$447
Corp. Franchise Tax/Fees (Gen. Funds)	\$322	\$271	\$267

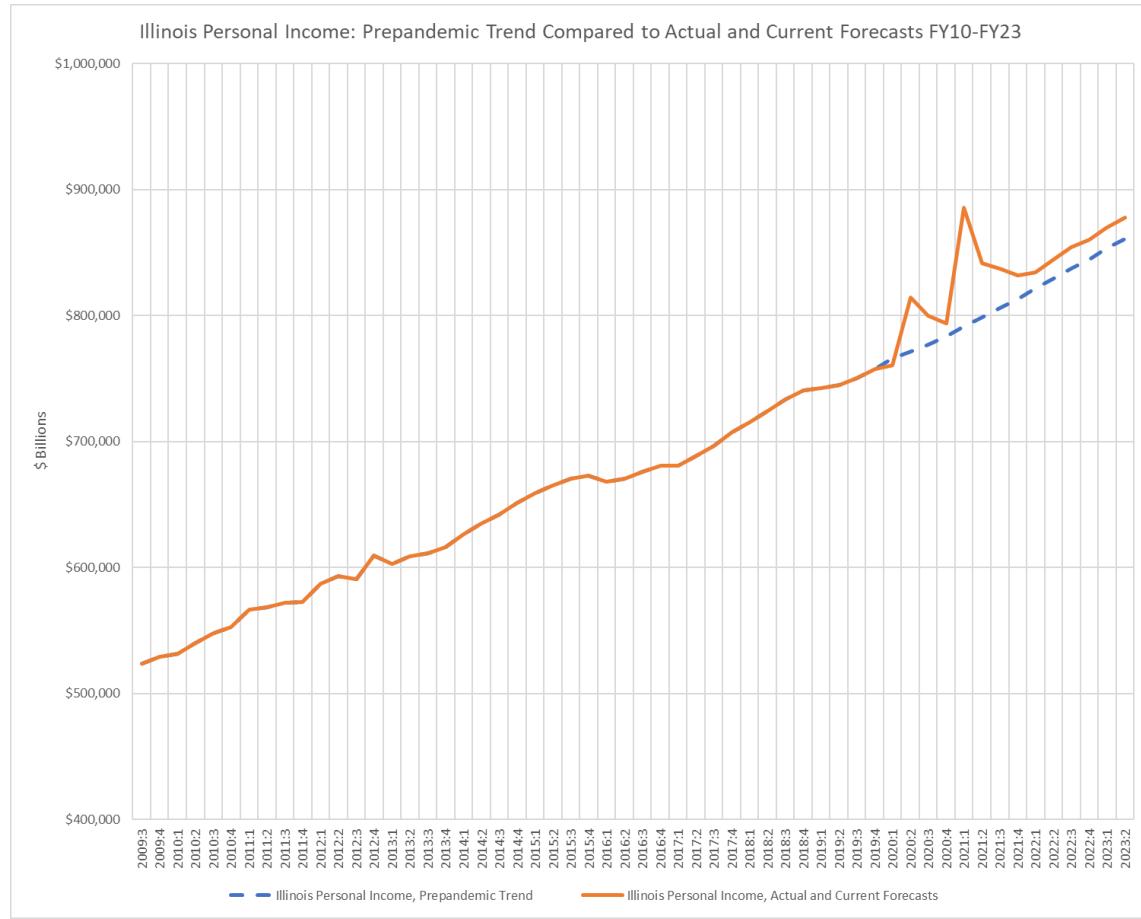
FY21 vs. FY22 Receipts: Year To Date

Select Sources (Receipts; \$ Millions)	FY21 July-January	FY22 July-January	\$ Change	% Change
Individual Income Tax				
Net General Funds Receipts	\$11,836	\$12,396	\$560	4.7%
Sales Taxes				
Net General Funds Receipts	\$5,373	\$6,127	\$754	14.0%
Corporate Income Tax				
Net General Funds Receipts	\$1,583	\$2,401	\$819	51.7%
Utility Taxes (General Funds)	\$418	\$417	(\$1)	-0.1%
Telecommunications	\$140	\$118	(\$21)	-15.4%
Electricity	\$218	\$232	\$14	6.3%
Natural Gas	\$60	\$67	\$7	12.1%
Cigarette Tax (General Funds)	\$168	\$150	(\$19)	-11.0%
Liquor Tax (General Funds)	\$111	\$117	\$6	5.5%
Estate (General Funds)	\$281	\$346	\$66	23.4%
Hotel Tax (All Funds)	\$48	\$144	\$96	198.0%
Adult-Use Cannabis Taxes (All Funds)	\$87	\$154	\$67	77.6%
Insurance Tax/Fees (Gen. Funds)	\$215	\$130	(\$85)	-39.4%
Corp. Franchise Tax/Fees (Gen. Funds)	\$282	\$195	(\$87)	-30.8%

Pandemic Distortions Boost Receipts

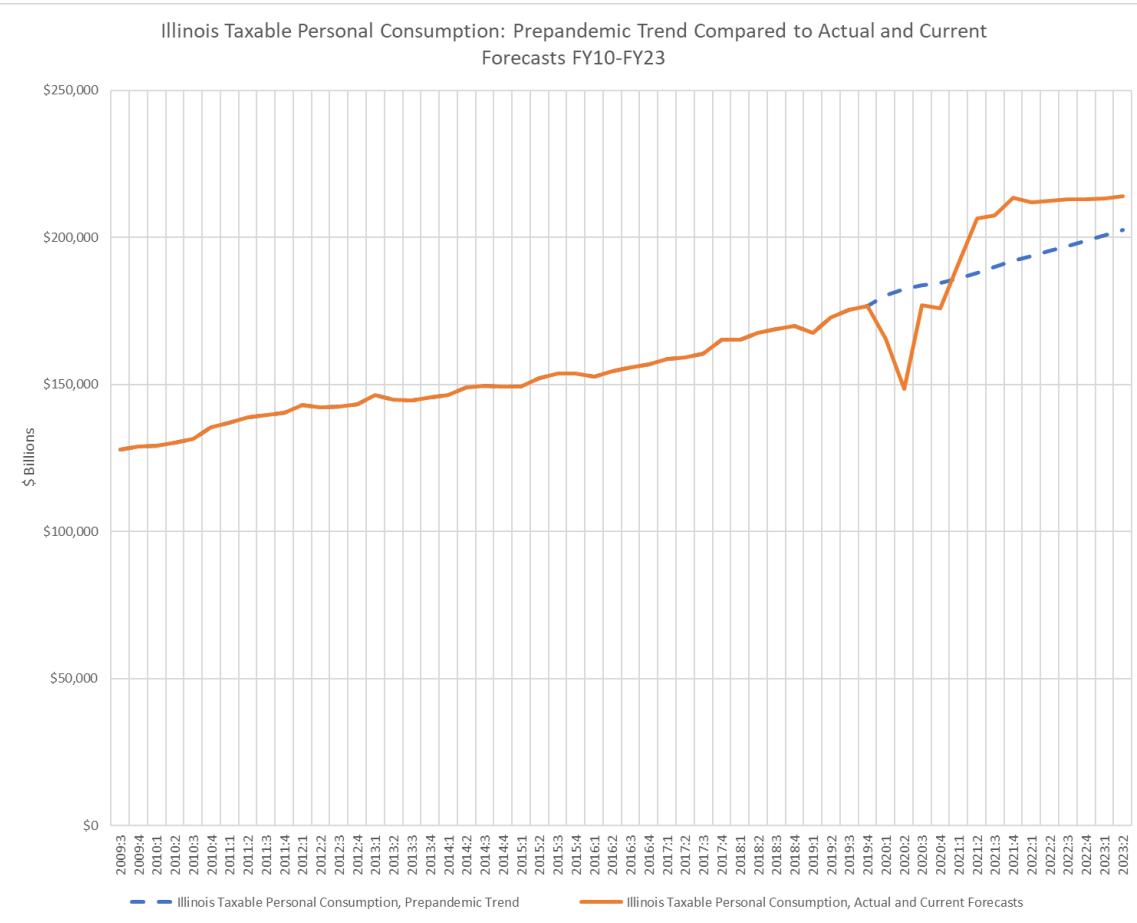
- The pandemic has temporarily distorted the economy in ways that have increased tax receipts above pre-pandemic trends. For example...
 - Temporary economic boost from federal fiscal stimulus to individuals and businesses.
 - Increased taxable goods consumption due to pandemic lifestyle changes.
- FY22 will see strong receipts as a result.
- In FY23, we expect a gradual transition to a more normal economy with revenue growth closer to prior trends, or below trend in some cases.
- A closer look at some of the main economic drivers will help illustrate this.

Illinois Personal Income



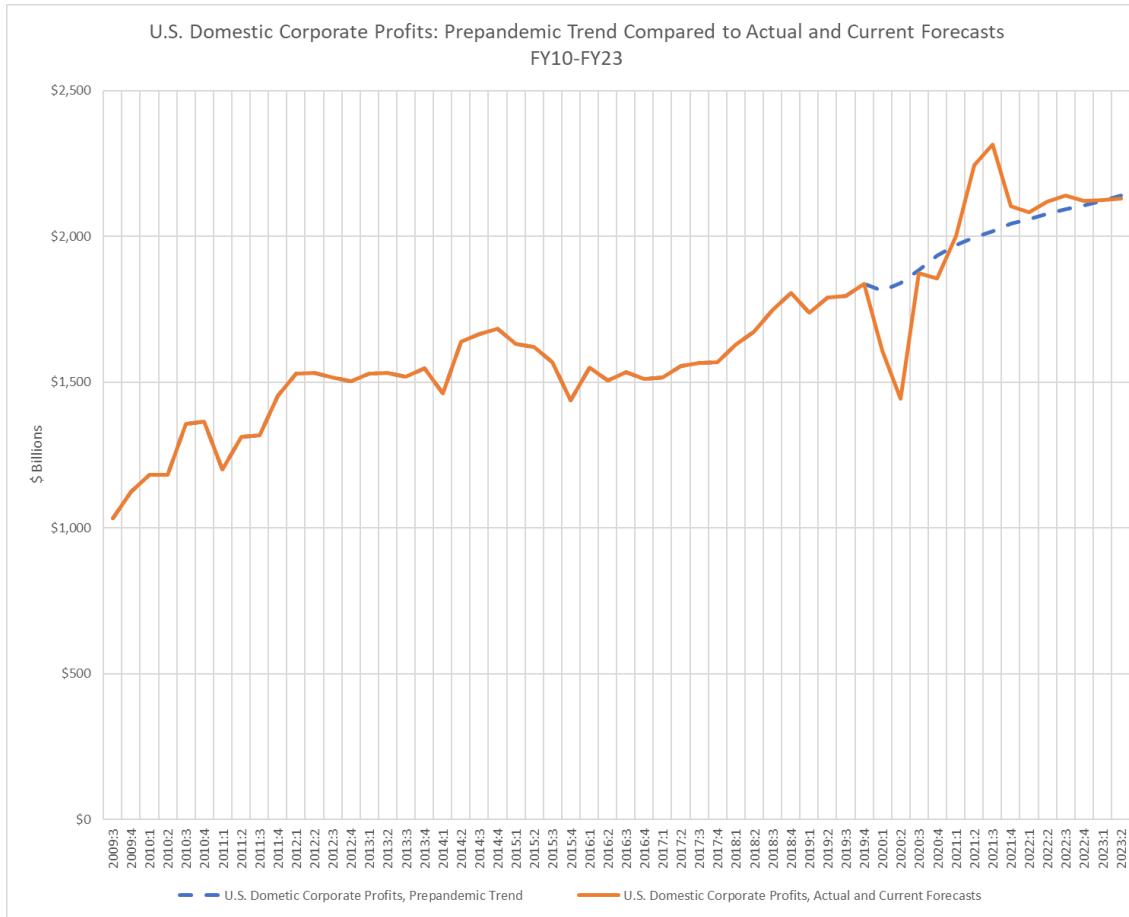
- Although employment declined significantly during the pandemic, personal income increased dramatically because of federal support, such as enhanced unemployment benefits, direct stimulus payments to individuals, and advance payments of the Child Tax Credit authorized under the American Rescue Plan.
- Following the withdrawal of this federal support, Illinois personal income returns to more normal levels of growth in the second half of FY22 and in FY23.
- Forecasts from IHS Markit, Dec. 2021.

Illinois Taxable Consumption



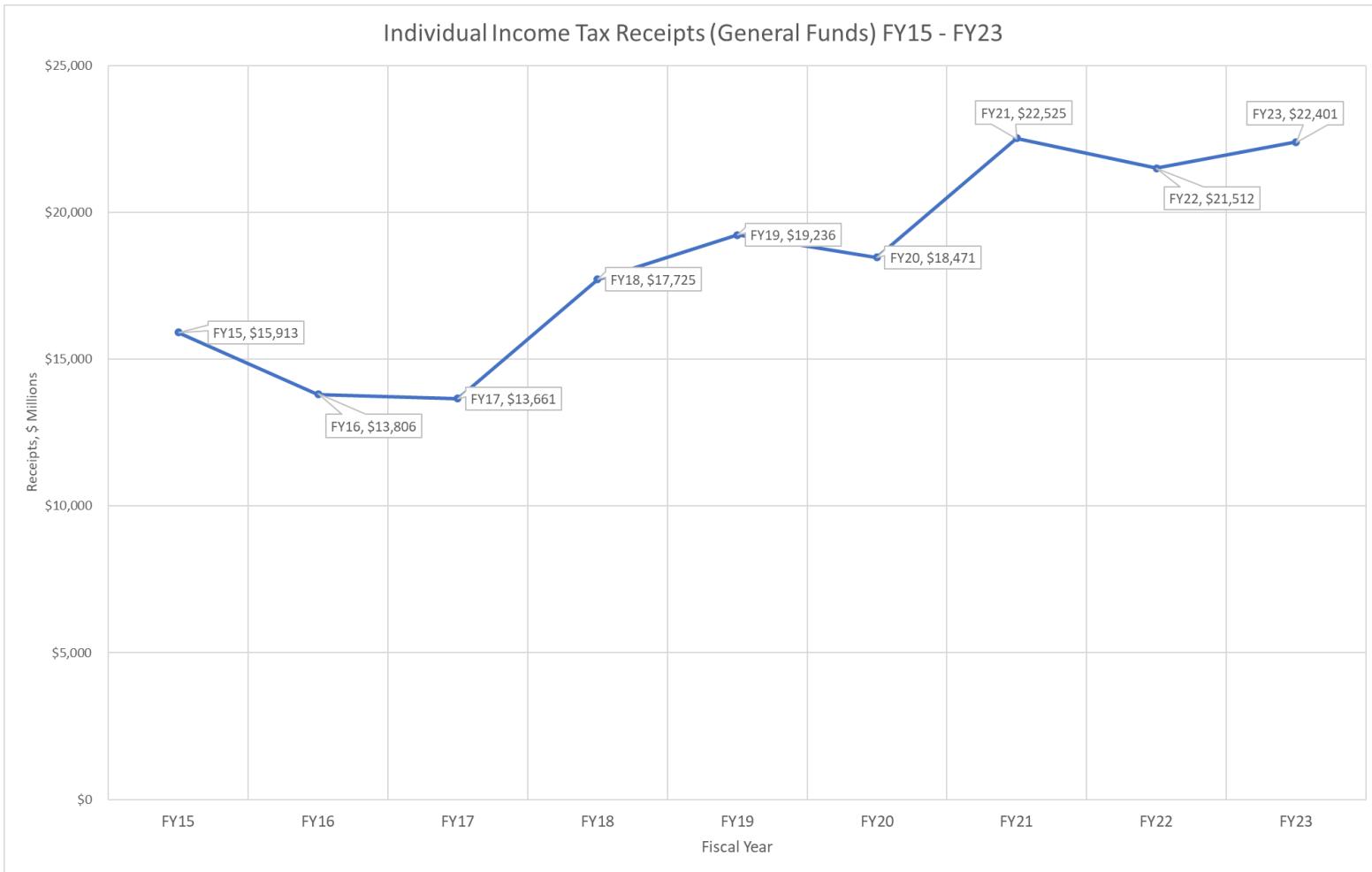
- Taxable consumption plunged early in the pandemic, followed by a large increase driven by pent-up demand, federal stimulus, and a spending shift from non-taxable services to taxable goods.
- Illinois does not tax most services, so this shift increases sales tax receipts.
- Levels remain above the pre-pandemic trend in FY22 and FY23, but growth flattens out as spending gradually shifts back to services and as stimulus effects fade.
- Forecasts from IHS Markit, Dec. 2021.

U.S. Domestic Corporate Profits



- Federal fiscal stimulus and increased economic activity have led to strong corporate profits.
- The shift in consumption from services to goods has benefited large corporations.
- Domestic corporate profits are projected to return to more normal levels over the forecast period.
- CIT final payments lag economic activity, so there is a delay between recorded profits and tax receipts.
- Forecasts from IHS Markit, Dec. 2021.

Individual Income Tax (IIT)



Individual Income Tax (IIT) Year To Date

ALL IIT				
<u>(Year-To-Date Receipts; \$ Millions)</u>	<u>FY21 July-January</u>	<u>FY22 July-January</u>	<u>\$ Change</u>	<u>% Change</u>
Total Gross Receipts	\$13,846	\$14,541	\$695	5.0%
Net General Funds Receipts	\$11,836	\$12,396	\$560	4.7%
IIT BY COMPONENT				
<u>(Year-To-Date Receipts; \$ Millions)</u>	<u>FY21 July-January</u>	<u>FY22 July-January</u>	<u>\$ Change</u>	<u>% Change</u>
Withholdings	\$10,774	\$12,472	\$1,698	15.8%
Non-Withholdings	\$3,072	\$2,069	(\$1,003)	-32.7%
Total Gross Receipts	\$13,846	\$14,541	\$695	5.0%

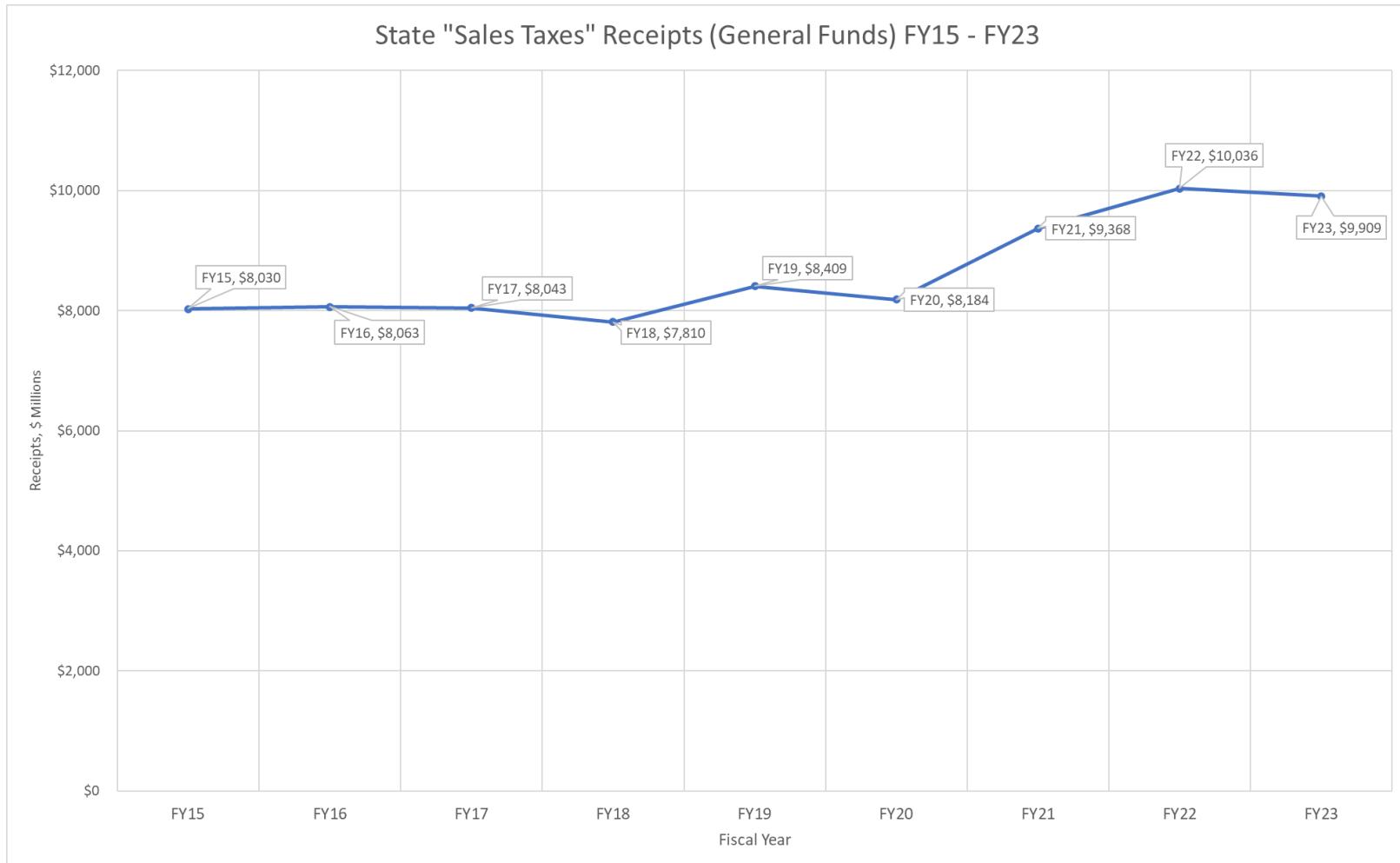
- FY21 receipts were artificially high because the one-time 2020 filing extension shifted an estimated \$1 billion in IIT payments from FY20 to the first half of FY21. This explains the large non-withholdings decline in the chart above.
- The observed withholdings growth is a combination of underlying economic growth and TY21 payments for the new pass-through entity tax.

Individual Income Tax (IIT) Forecast

(Fiscal Year Receipts; \$ Millions)	FY21 Actual	FY22 Estimate	\$ Change	% Change	FY23 Forecast	\$ Change	% Change
Total Gross Receipts	\$26,350	\$25,234	(\$1,116)	-4.2%	\$26,277	\$1,043	4.1%
Refund Fund Rate	9.00%	9.25%			9.25%		
Net General Funds Receipts	\$22,525	\$21,512	(\$1,013)	-4.5%	\$22,401	\$889	4.1%

- The estimated decline in FY22 primarily reflects the one-time 2020 filing extension, which shifted an estimated \$1 billion in IIT payments from fiscal year 2020 to the first half of FY21. Subtracting these shifted payments from FY21 yields estimated FY22 growth of \$12 million, or 0.1%.
- The FY22 estimate also reflects the end of enhanced unemployment benefits in the first quarter of FY22, as well as FY22's higher refund rate, both of which put downward pressure on FY22 net general funds receipts.
- The most recent projections from IHS Markit point to a steady improvement in Illinois' labor market and general economic conditions through FY23, although Illinois' total nonfarm employment is not expected to return to pre-pandemic levels until the second half of FY25

State “Sales Taxes”



State “Sales Taxes” Year To Date

<u>(Year-To-Date Receipts; \$ Millions)</u>	<u>FY21 July-January</u>	<u>FY22 July-January</u>	<u>\$ Change</u>	<u>% Change</u>
Net General Funds Receipts	\$5,373	\$6,127	\$754	14.0%

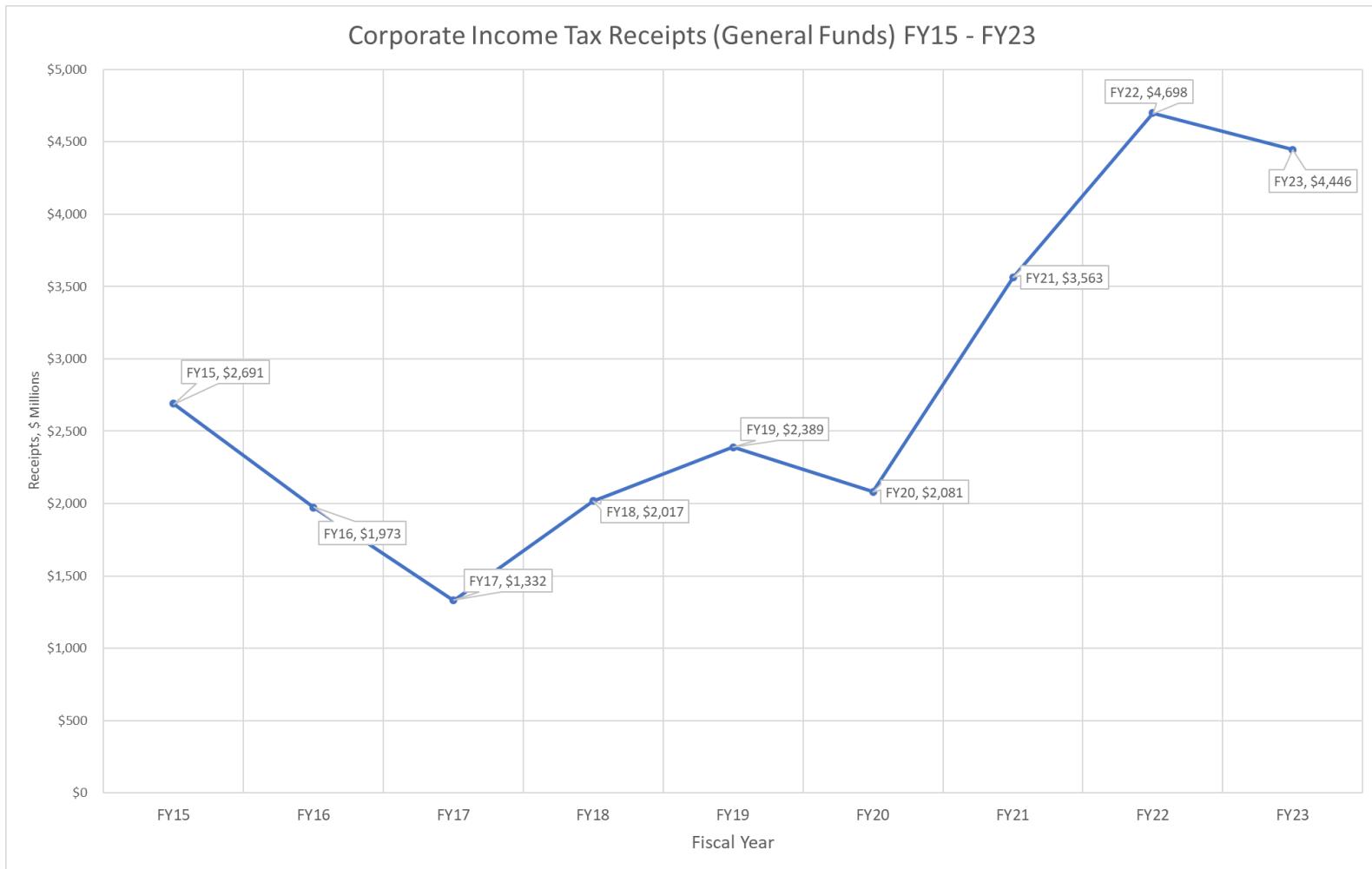
- Sales taxes have been very strong during most of the pandemic because consumers have had more money to spend and have spent more of their money on taxable goods than normal.
- Federal fiscal stimulus, especially direct payments to taxpayers and expanded unemployment benefits, increased disposable personal income above pre-pandemic levels.
- At the same time, consumers have reallocated spending from non-taxable services to taxable goods because of lifestyle changes during the pandemic. More money spent on taxable goods increases tax receipts.

State “Sales Taxes” Forecast

FISCAL YEAR FORECASTS							
(Fiscal Year Receipts; \$ Millions)	FY21 Actual	FY22 Estimate	\$ Change	% Change	FY23 Forecast	\$ Change	% Change
Net General Funds Receipts	\$9,368	\$10,036	\$668	7.1%	\$9,909	(\$127)	-1.3%

- The positive consumption effects of federal fiscal stimulus have mostly passed, and the shift of spending from services to goods is projected to begin gradually reversing itself over the forecast period.
- Sales taxes are expected to have slower growth in the second half of FY22, followed by a slight decline in FY23.
- This decline is impacted by a statutory increase in the Road Fund’s share of state sales taxes from motor fuels in FY23. The incremental increase from a 16% share to a 32% share reduces deposits to state general funds by a projected \$109 million.
- Despite the expected small decline in FY23, sales taxes remain strong. The FY23 general funds forecast is \$540 million higher than in FY19, the last pre-pandemic fiscal year.

Corporate Income Tax (CIT)



Corporate Income Tax (CIT) Year To Date

<u>(Year-To-Date Receipts; \$ Millions)</u>	<u>FY21 July-January</u>	<u>FY22 July-January</u>	<u>\$ Change</u>	<u>% Change</u>
Net General Funds Receipts	\$1,583	\$2,401	\$819	51.7%

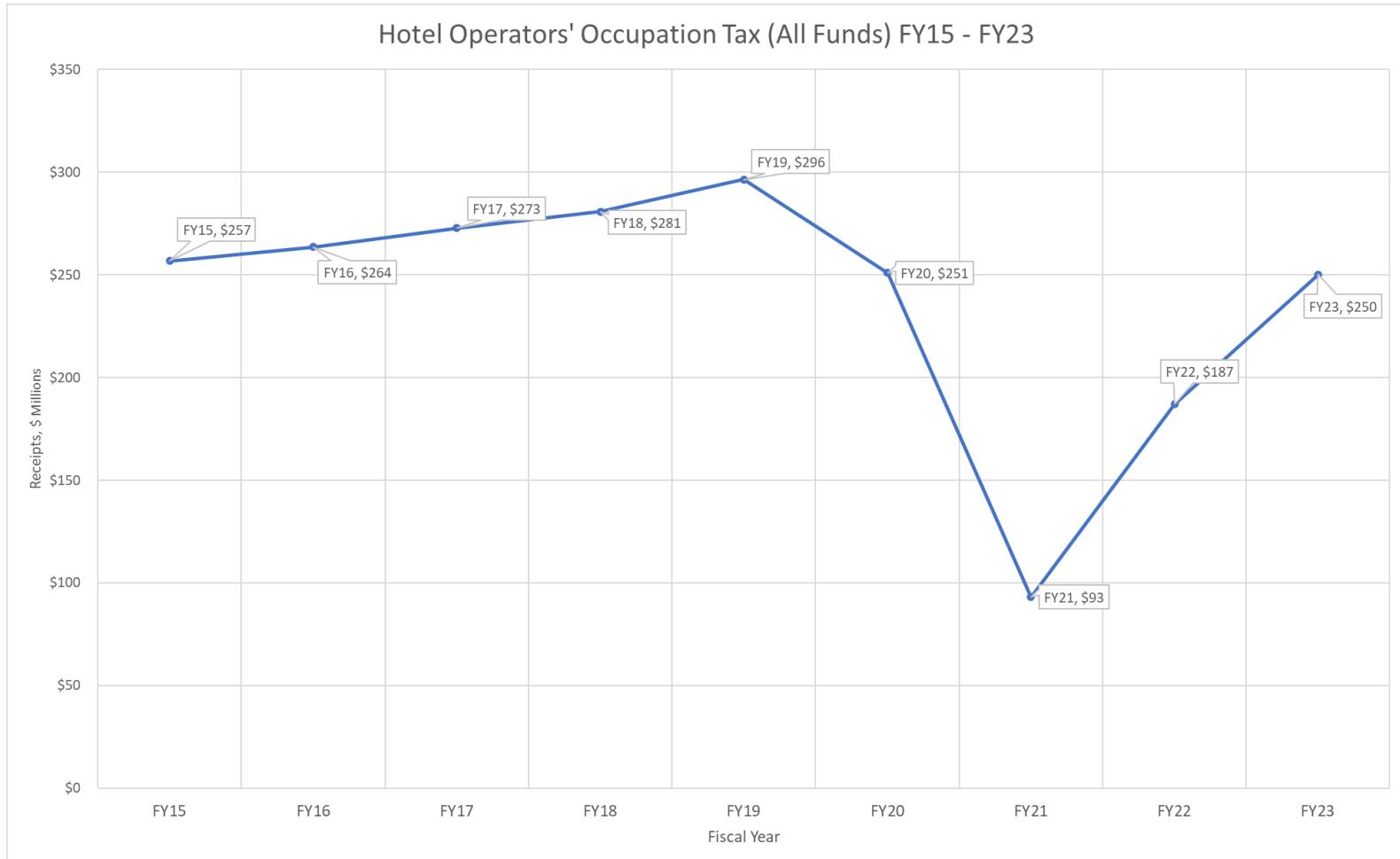
- FY21 receipts were artificially high because the one-time 2020 filing extension shifted an estimated \$240 million in net CIT payments from FY20 to the first half of FY21. Subtracting these payments from FY21 puts year-to-date growth at \$1,059 million, or 78.9%.
- CIT receipts have been very strong because federal fiscal stimulus and increased economic activity have led to strong corporate profits.
- The aforementioned shift in consumption from services to goods has also benefited large corporate taxpayers.

Corporate Income Tax (CIT) Forecast

(Fiscal Year Receipts; \$ Millions)	FY21 Actual	FY22 Estimate	\$ Change	% Change	FY23 Forecast	\$ Change	% Change
Total Gross Receipts	\$4,451	\$5,933	\$1,482	33.3%	\$5,582	(\$351)	-5.9%
Refund Fund Rate	14.00%	15.00%			14.50%		
Net General Funds Receipts	\$3,563	\$4,698	\$1,135	31.9%	\$4,446	(\$252)	-5.4%

- Corporate profits are projected to decline as positive stimulus effects fade and as the economy rebalances from pandemic distortions, leading to lower CIT receipts in FY23.

Hotel Operators' Occupation Tax



Hotel Operators' Occupation Tax

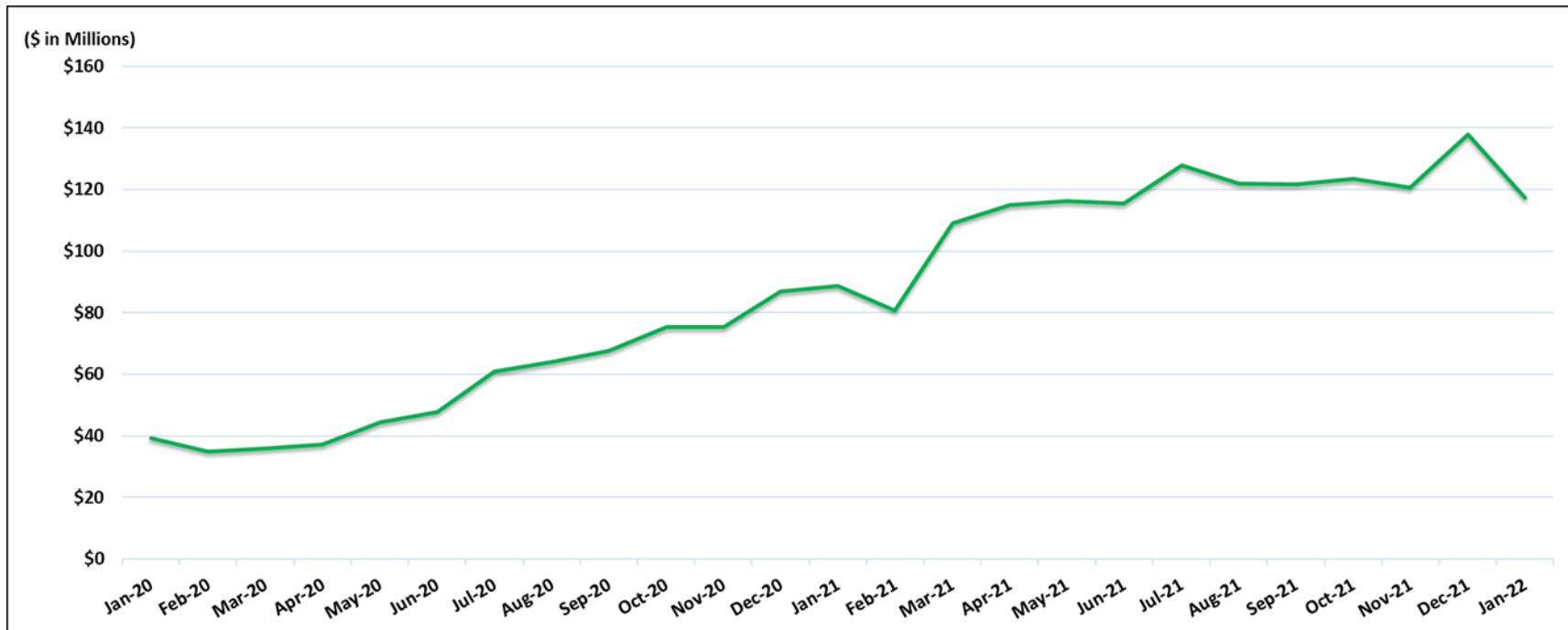
<u>(Year-To-Date Receipts; \$ Millions)</u>	<u>FY21 July-January</u>	<u>FY22 July-January</u>	<u>\$ Change</u>	<u>% Change</u>
All Funds	\$48	\$144	\$96	198.0%

<u>(Fiscal Year Receipts; \$ Millions)</u>	<u>FY21 Actual</u>	<u>FY22 Estimate</u>	<u>\$ Change</u>	<u>% Change</u>	<u>FY23 Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
All Funds	\$93	\$187	\$94	100.7%	\$250	\$63	33.7%

- Hotel Operators' Occupation Tax receipts year to date were up \$96 million, or 198%, but this is still about 30% below the pre-pandemic receipts received during the same period in FY19.
- Receipts will continue improving in FY22 and FY23 but are projected to remain below normal, pre-pandemic levels over the forecast period.

Adult Use Recreational Cannabis Sales

January 2020-January 2022



CY'20 Sales - \$669,084,410.12 CY'21 Sales - \$1,379,088,278.61 CY'22 Sales - \$117,251,759.72
FY'21 Sales - \$1,055,526,261.30 FY'22 Sales (July-January)- \$870,718,410.23

Adult Use Rec Cannabis Reported Tax Amounts

January 2020-January 2022

