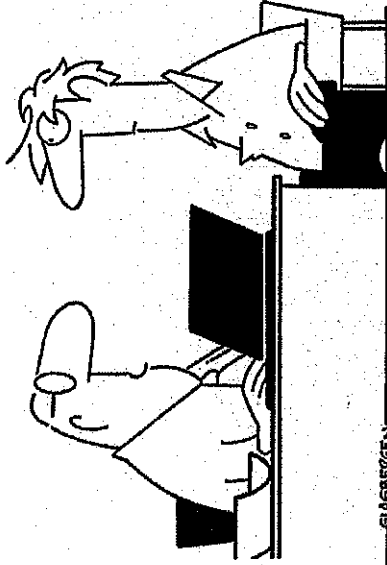


**FY 2021 Economic Forecast and  
Revenue Estimate**  
Illinois House Revenue and Finance Committee  
March 5, 2020

Marty M Johnson, MBA  
Chief Economist, Office of  
Fiscal and Economic Research  
Illinois Department of  
Revenue

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## Taxes Prepared



GLASBERGEN

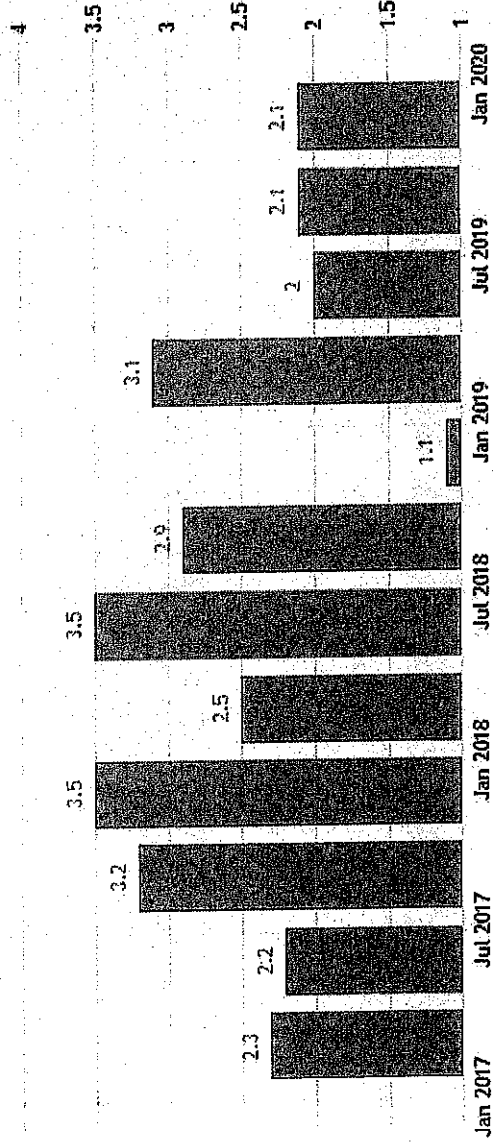
"Our ads promise you the biggest tax refund possible, so we're instructing your employer to withhold 300% of your paycheck this year."



FARCUS  
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JAMES H. JESS / COCKRUM

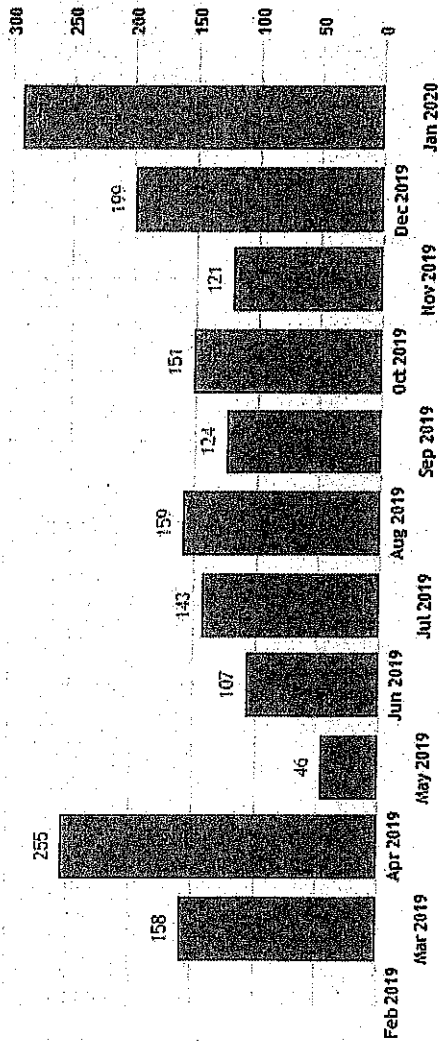
"You gave away 60 billion toys and didn't get one receipt?!"



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

## United States: GDP Growth Rate

- US Economy maintained solid growth through the second half of 2019
- Annualized growth for 2019: just under 2.3%
- Consumer and business spending has begun to weaken
- Economic growth forecast to decelerate: 2.3 percent in 2020, 1.8 percent in 2021



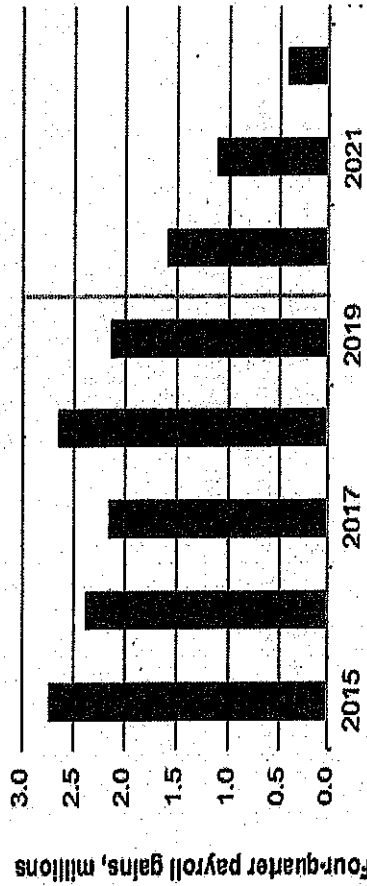
SOURCE: TRADINGECONOMICS.COM | AUTOMATIC DATA PROCESSING, INC.

## United States : Monthly change in Nonfarm Employment

- Employers added 195,000 jobs a month from March 2010 through January 2019
- Employment opportunities for the forecast period won't be the same as the recent past: shortage of workers
- US Employment is projected to rise 0.7 percent in 2020, 0.3 percent in 2021

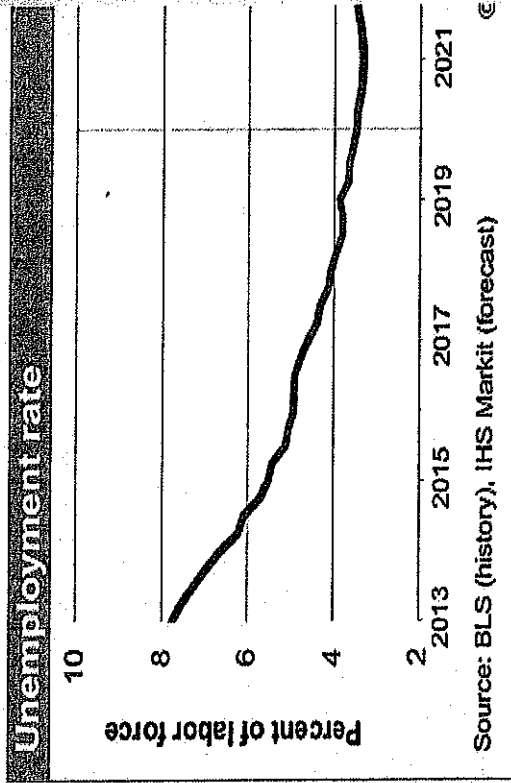
After a record 111 consecutive months of job growth, pace of hiring is expected to slow in 2020

Payroll gains to slow markedly over 2020-2021



Source: BLS (history), IHS Markit (forecast) © 2020 IHS

# United States: Unemployment Rates

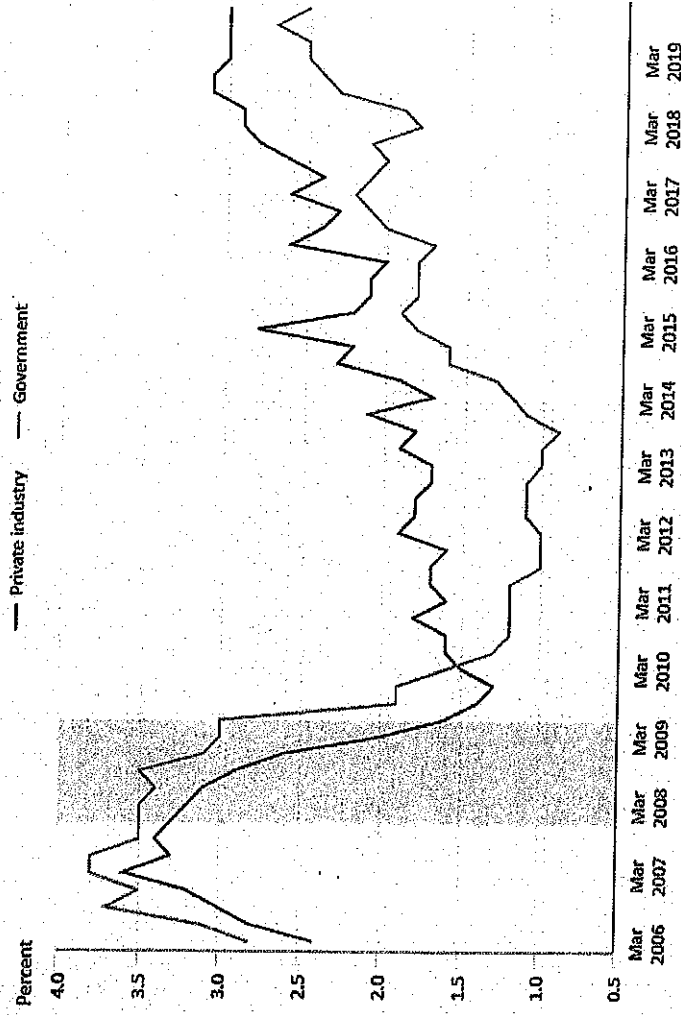


- The US unemployment rate is forecast to slip 0.2 percentage point from 3.6% in January to about 3.4% by the middle of this year.
- Looking ahead, the unemployment rate is expected to remain at the 3.4% level throughout 2021

## Wages and Salaries

- Wages and salaries across the US increased 2.7 percent in 2019 compared with an increase of 3.1 percent in 2018
- Average per-hour compensation will hit 3.2 percent growth in 2020, and 3.3 percent in 2021

Wages and salaries in private industry and state and local government, 12-month percent change, not seasonally adjusted

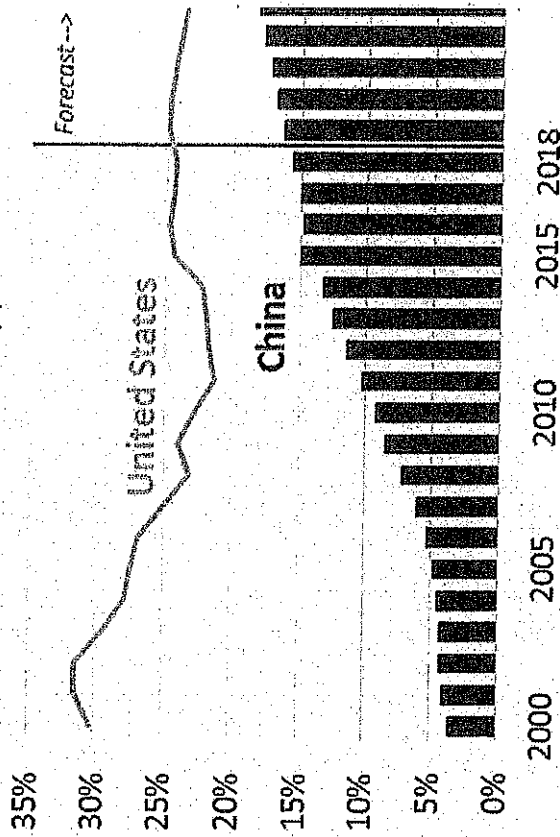


# Risks to Forecast for the US Economy

## Global Trade Tensions:

Tensions remain among US trading partners  
World's two largest economies, US and China

Share of World GDP, \$USD Basis



## Coronavirus Impact:

Premature to quantify potential impact to US economy

The epicenter of the outbreak is expected to be heavily affected by the epidemic

The rest of the world isn't shielded from the virus' impacts:

- business travel and tourism are affected
- many companies are facing supply chain disruptions due to their reliance on China

US Economists keeping close watch on several indicators:

- Consumer confidence
- Wealth effects from market reactions
- Supply chain interruptions

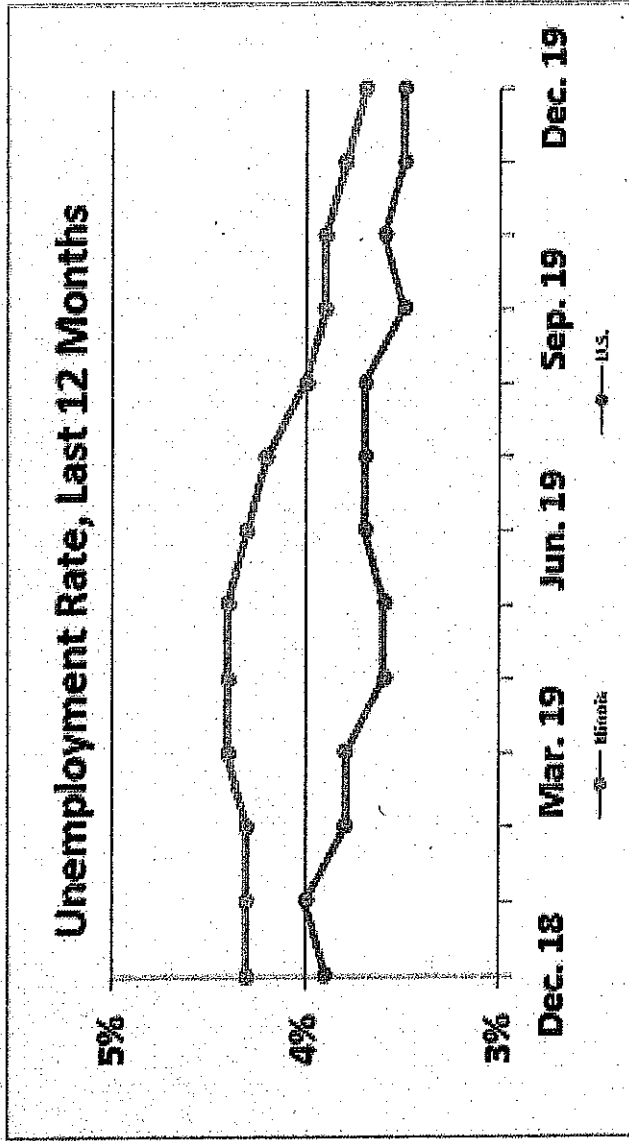


Illinois  
Economic  
Outlook

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# Illinois Economy: Unemployment



	Dec. 19	Nov. 19	Dec. 18	3 Mo. Avg
<b>IL</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.3%</b>	<b>3.8%</b>
<b>U.S.</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.9%</b>	<b>3.5%</b>

## Illinois Economy: Total employment

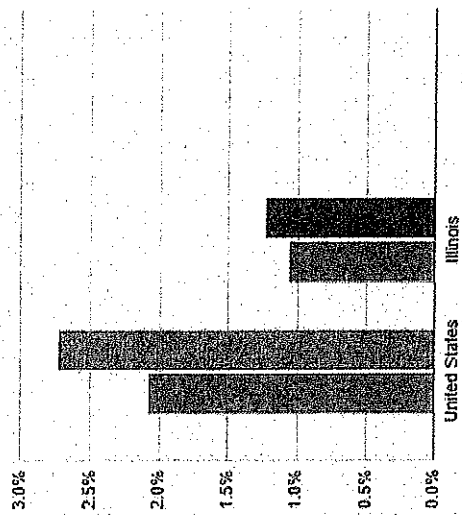
- Through 2023, IHS Markit anticipates Illinois employment will grow at an average annual rate of 0.5%, just slightly below the national rate of 0.8%
- Forecasters expect the tight labor market to translate into decelerating job growth: 1.0 % in FY19, 0.7% in FY20, and 0.3% in FY21.

### IHS Markit (B) Baseline versus (P) Pessimistic Scenario of Illinois Economic Indicators

Fiscal Years 2020-2021

(year-over-year percent changes unless noted)

Indicator	FY20			FY21		
	IHS (B)	IHS (P)	IHS (B)	IHS (B)	IHS (P)	IHS (P)
Real Gross State Product	15	15	17	17	(0.0)	(0.0)
Unemployment Rate (Percent Unemployed)	3.9	3.9	4.1	4.1	4.9	4.9
Employment-Total Non-farm	0.7	0.6	0.3	0.3	(0.0)	(0.0)
Employment-Manufacturing	(0.3)	(0.4)	(2.3)	(2.3)	(1.0)	(1.0)
Wages and Salaries	2.9	2.7	3.9	3.9	2.2	2.2
Personal Income	2.9	2.9	3.2	3.2	1.3	1.3
Retail Sales	3.5	3.3	2.7	2.7	0.5	0.5



**Growth Rate in State Personal Income Through Q3 2019, Adjusted for Inflation**

■ Annual growth rate since Q4 2007 ■ Growth rate over past year

Illinois' personal income growth has been minimal in the last 10 years, growing at an average rate of 1.1 percent per year since late 2007

Though nationally total personal income rose 2.7 percent in the third quarter of 2019, Illinois lagged at 1.2 percent year-over-year growth

Thanks to tight labor markets, forecasters expect income levels to grow at a healthy 2.9 percent clip for FY20, and at 3.2 percent for FY21.

# Illinois Economy: Real Personal Income

# Illinois FY 2020: Year-to-Date Performance

	Actual for the Month		Year-to-Date Actual			Year-to-Date Forecast vs. Actual		
	February FY 2019 Actual	February FY 2020 Actual	FY 2019 YTD Actual	FY 2020 YTD Actual	YTD FY 2020 vs. YTD FY 2019	FY 2020 YTD IDOR Forecasts	YTD FY 2020 vs. YTD IDOR Forecasts	
Revenue Source Receipts (millions)								
Individual Income Tax (All Funds)	\$1,438.8	\$1,687.5	\$13,083.1	\$13,761.2	\$678.1	\$13,741.4	\$19.3	0.1%
Corporate Income Tax (All Funds)	\$46.7	\$42.0	\$1,400.0	\$1,514.6	\$114.6	\$1,499.9	\$14.7	1.0%
Sales Taxes (GRFs)	\$539.5	\$595.7	\$5,606.1	\$5,839.8	\$233.8	\$5,834.8	\$5.0	0.1%
Public Utilities (GRFs)	\$84.8	\$74.6	\$579.7	\$562.0	-\$17.7	\$553.5	\$8.5	1.5%

# Illinois FY 2021 Forecast Key Revenue Sources\*

	FY17	FY18	FY19	FY20 Estimate	FY21 Forecast
<b>(\$ millions)</b>					
<b>Individual Income Tax</b> (net receipts into General Revenue Fund)	\$13,661	\$17,726	\$19,236	\$19,435	\$20,126
<b>Corporate Income Tax</b> (net receipts into General Revenue Funds)	\$1,332	\$2,017	\$2,389	\$2,490	\$2,489
<b>Sales Taxes</b> (net receipts into General Revenue Funds)	\$8,043	\$7,810	\$8,409	\$8,740	\$9,038
<b>Public Utility Taxes:</b>					
Telecommunications	\$345	\$341	\$294	\$295	\$275
Electricity	\$391	\$385	\$397	\$389	\$391
Natural Gas	\$149	\$170	\$172	\$162	\$162
<b>Cannabis Cultivation Privilege Tax</b> (All Funds Revenues)	-	-	-	\$6**	\$27**
<b>Cannabis Purchaser Excise Tax</b> (All Funds Revenues)	-	-	-	\$22**	\$100**

\* As presented in the Governor's Budget Book; includes amnesty receipts. \*\*All receipts deposited into the Cannabis Regulation fund

# INDIVIDUAL INCOME TAXES

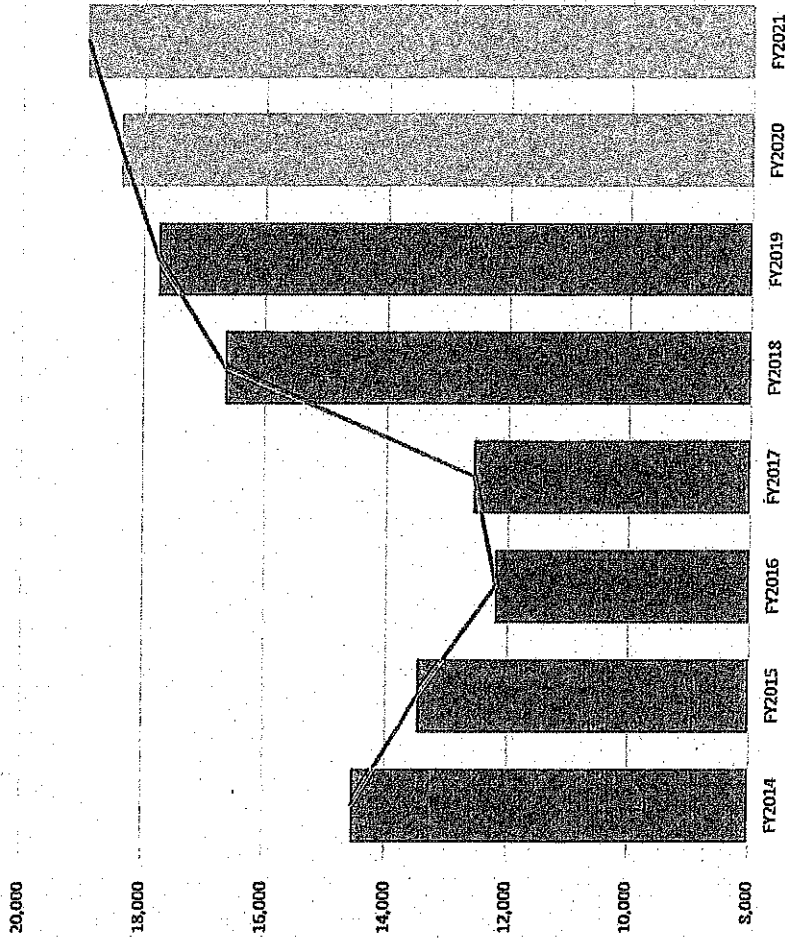
ILLINOIS DEPARTMENT OF REVENUE

## Illinois Individual Income Taxes:

Individual income tax (IIT) receipts have two main components:

Withholding receipts are driven mainly by wage and salary disbursement. Roughly 80 percent of all individual income tax payments come in the form of withholdings.

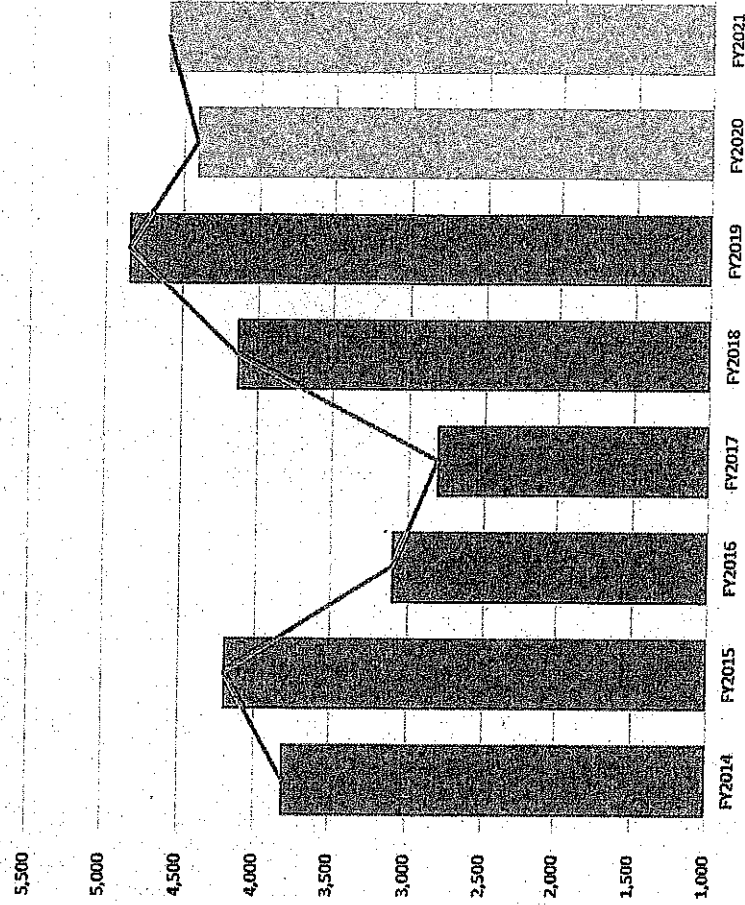
Gross WIT Receipts FY2014-FY2021





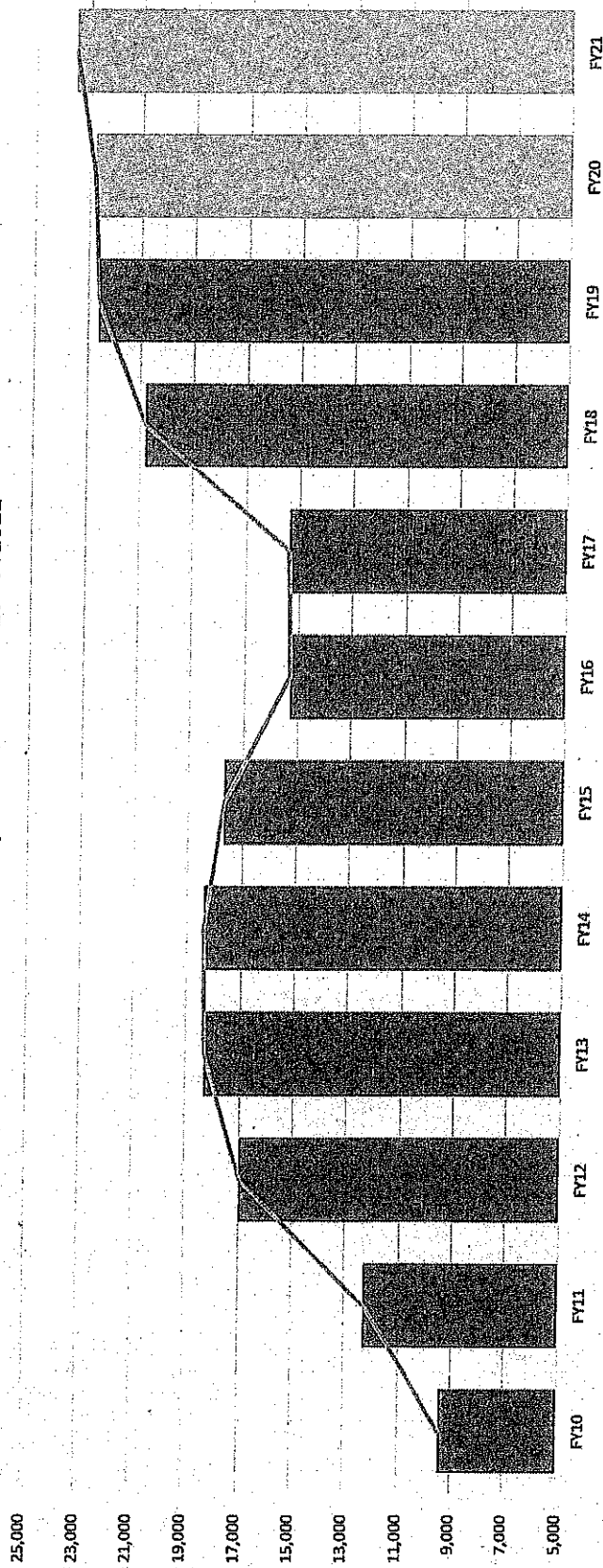
Illinois Individual  
Income Taxes:  
Non-withholding payments  
depend mostly on variables  
such as capital gains,  
proprietor's income,  
dividends, interest and rental  
income.

Gross Non-WIT Receipts FY2014-FY2021



# IIT Revenue History and Forecast, FY10 – FY21 (\$ millions)

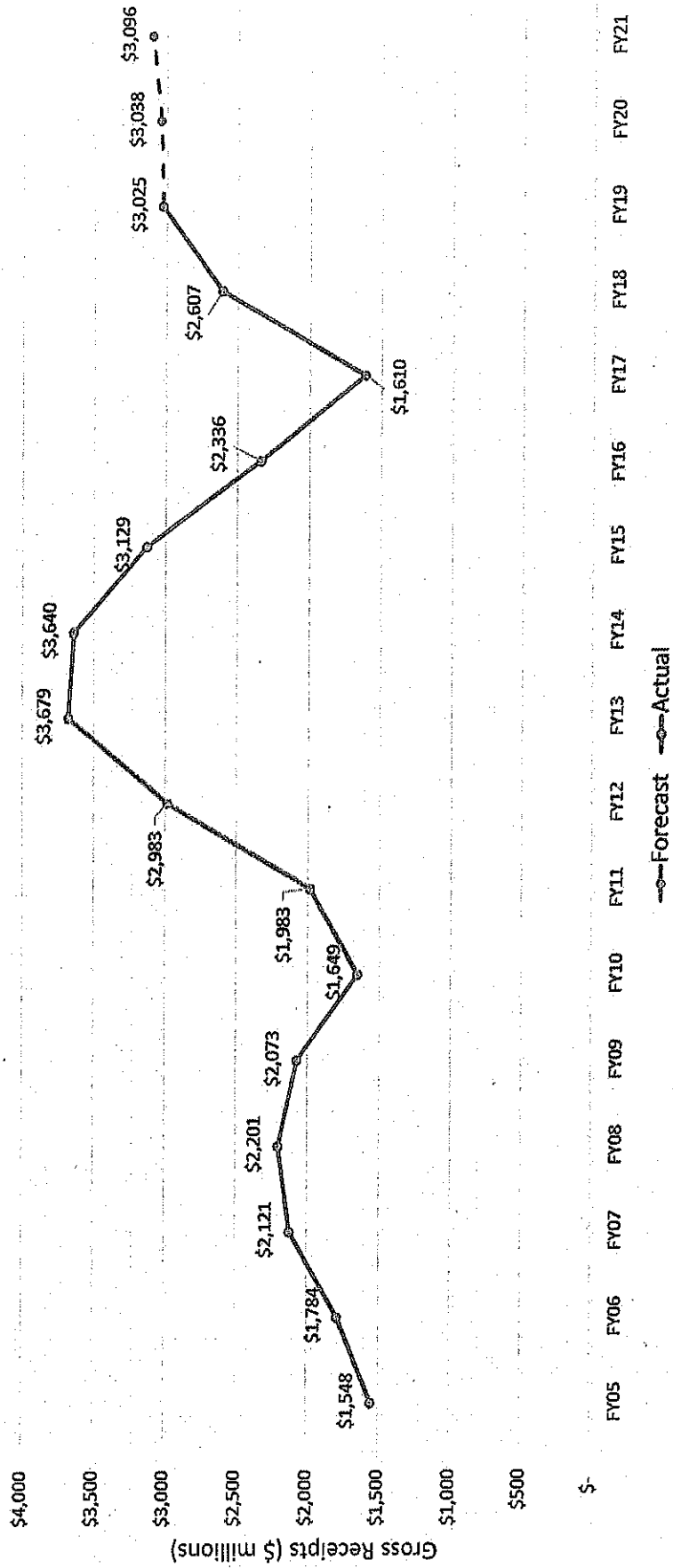
IIT Revenue history and forecast FY2010 - FY2021



# CORPORATE INCOME TAXES

ILLINOIS DEPARTMENT OF REVENUE

# Gross CIT Receipts, FY05 - FY21 (net of amnesty)



# Illinois Public Act 101-0008 Potential Revenues

Total Additional Receipts from PA 101-0008 (\$ millions)	FY21
General Funds Receipts - Individual Income Tax <sup>1</sup>	\$1,433
General Funds Receipts - Corporate Income Tax <sup>1</sup>	\$102
Pension Contribution	(\$100)
Net General Funds Receipts	\$1,435
<sup>1</sup> Net of deposits to the Refund Fund and LGDF.	

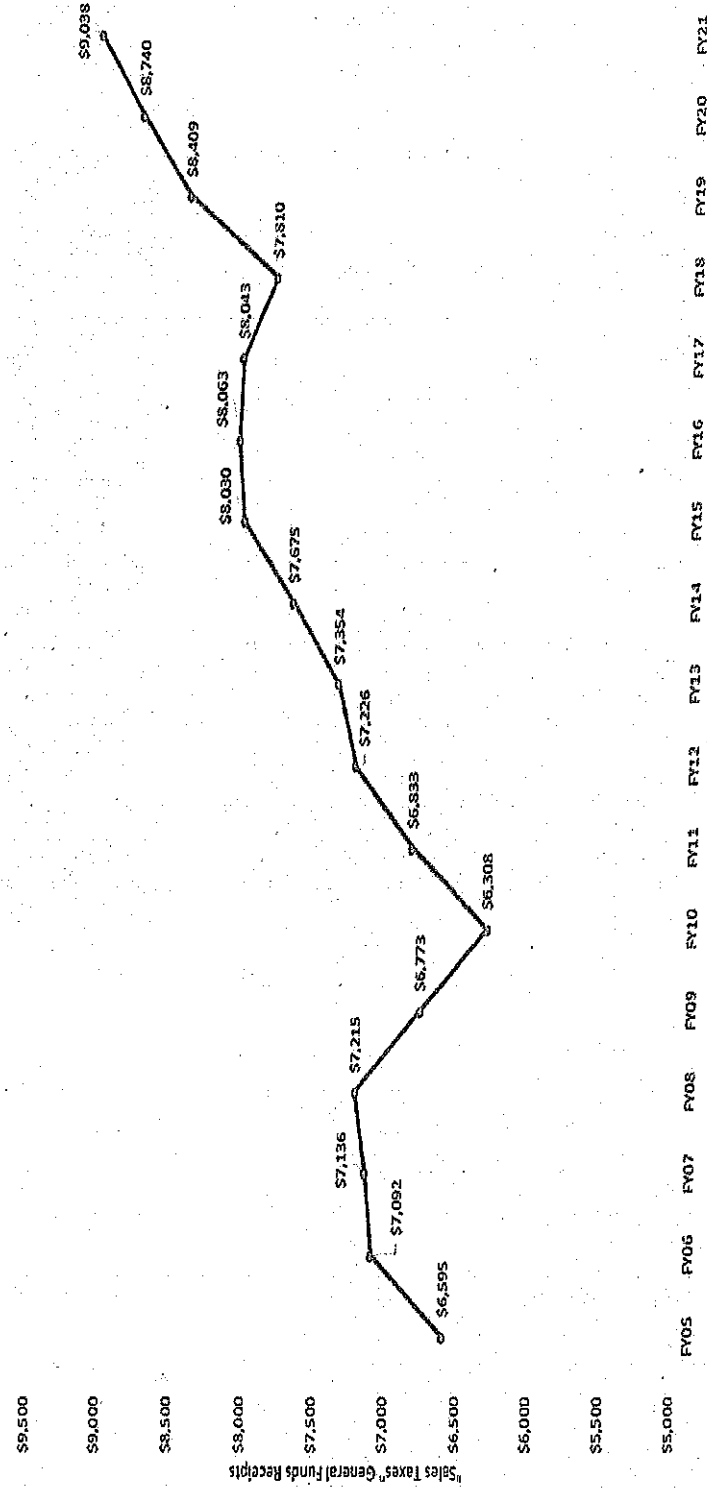
The Act enacts the following changes to Illinois' income tax rates, effective Jan 1, 2021, contingent on the passage of the amendment:

- Filers at or below \$250,000 will have a lower tax bill due to a lowering of the effective tax rate for those households
- Creation of six separate tax brackets
- Top rate of 7.99 percent for net income over \$750,000 for single filers and \$1.0 million for married/joint filers
  - Once income reaches this threshold, entire income is taxed at 7.99 percent rate
- Corporate Income Tax rate to match top Individual Income Tax rate (7.99 percent)

# SALES AND USE TAXES

ILLINOIS DEPARTMENT OF REVENUE

# Illinois Sales & Use Tax FY05 to FY21 (\$ in millions)



# Fiscal Year 2021: Illinois Budget Summary

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o o o o o o o o o o o o

Source (\$ millions)	Actual FY 2018	Actual FY 2019	Estimated FY 2020	Projected FY 2021
<b>Base Revenues</b>				
State Sources: Revenues				
Individual	17,725	19,236	19,435	20,126
Corporate	2,017	2,389	2,490	2,489
Sales Taxes	7,810	8,409	8,740	9,038
Public Utility Taxes	896	863	846	828
Cigarette Taxes	344	361	263	257
Liquor Caltage Taxes	172	172	174	176
Inheritance Tax	358	388	305	310
Insurance Taxes and Fees	432	396	400	400
Corporate Franchise Taxes and Fees	207	237	237	217
Interest on State Funds and Investments	79	145	170	170
Cook County Intergovernmental Transfer	244	244	244	244
Other State Sources	719	710	932	759
<b>Total State Sources: Revenues</b>	<b>31,003</b>	<b>33,560</b>	<b>34,236</b>	<b>35,013</b>
State Sources: Transfers In				
Lottery	719	731	700	723
Riverboat Gaming Taxes	272	269	261	258
Interfund Borrowing/Fund Reallocations	802	250	150	0
Adult-Use Cannabis	0	0	15	46
Section 7.5 Bond Proceeds	2,500	0	0	0
Treasurer's Investment Borrowing	0	750	400	0
Other Transfers	917	1,035	1,675	1,000
<b>Total State Sources</b>	<b>36,213</b>	<b>36,595</b>	<b>37,436</b>	<b>37,045</b>
Net Income Tax Receipts from PA 101-0008*	0	0	0	1,435
<b>Additional Receipts from PA 101-0008*</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,435</b>
Federal Sources	5,238	3,600	3,154	3,691
<b>TOTAL GENERAL FUNDS REVENUES</b>	<b>41,451</b>	<b>40,195</b>	<b>40,590</b>	<b>42,131</b>

Note: Totals may not add due to rounding.  
 \*PA 101-0008 takes effect January 1, 2021, adjusting individual and corporate income tax rates and generating an estimated \$1.435 billion in FY 2021 revenue for the general funds, if SJPCA 0001 is adopted by the people of Illinois. If PA 101-0008 does not take effect, and no other additional revenues are realized, then estimated revenues for FY 2021 will decline by \$1.435 billion, certain appropriations will not take effect, and other transfers and borrowings will be used to maintain a balanced state budget.



# Questions?

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