Fiscal Focus

A Publication of the Illinois State Comptroller

DANIEL W. HYNES
COMPTROLLER

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In This Issue:

Growth in State Tax Revenues

In the last few months, millions of Illinoisans have filed their state income tax returns either via the internet or through the submission of a paper return. Aside from this time of year, taxpayers may not consider the total revenues collected by the state or how this tax base has kept up with the growth in the state's economy. However, year-round there is a steady stream of revenues coming into state coffers, providing funding for critical areas of state spending such as education, health care, and public safety.

Major Illinois Revenue Sources
Fiscal Year 2006
$ in millions

	General Funds	% of Total	All Appropriated Funds	% of Total
Individual Income Tax	$ 8,635	31.6%	$ 9,568	18.4%
Sales Taxes	7,092	25.9%	8,425	16.2%
Federal Sources	4,725	17.3%	12,366	23.8%
Corporate Income Tax	1,428	5.2%	1,784	3.4%
Public Utility Taxes	1,074	3.9%	1,595	3.1%
Other Transfers In	746	2.7%	250	0.5%
Riverboat Gaming	689	2.5%	817	1.6%
Lottery Tickets & Licenses	670	2.4%	984	1.9%
Other taxes, fees, etc	432	1.6%	7,155	13.7%
Cigarette Taxes	400	1.5%	640	1.2%
County Intergovernmental Transfers	350	1.3%	421	0.8%
Insurance Tax & Fees	317	1.2%	393	0.8%
Inheritance Tax (gross)	272	1.0%	272	0.5%
Corporate Franchise Taxes & Fees	181	0.7%	189	0.4%
Investment Income	153	0.6%	261	0.5%
Liquor Gallonage Taxes	152	0.6%	152	0.3%
Hotel Tax	38	0.1%	181	0.3%
Motor Vehicle & Operators Licenses	5	0.0%	1,296	2.5%
Motor Fuel Tax	-	0.0%	1,477	2.8%
Corporate Personal Property Replacement Tax	-	0.0%	1,442	2.8%
Healthcare Provider Assessment Fees & Taxes	-	0.0%	890	1.7%
Sale of Bonds	-	0.0%	1,484	2.9%
Total	$ 27,359	100.0%	$ 52,042	100.0%

Source: Comptroller's records.

This spring, the focus on the state's overall revenue picture has been sharpened with the Governor's fiscal year 2008 budget proposal that includes a new tax on businesses' gross receipts (see the article on page 2) and a payroll tax to subsidize the expansion of the state's health care and elementary/secondary educational system. Any meaningful discussion of these proposed taxes cannot be undertaken without an understanding of the state's current tax system and the changes that have been made to state revenues over the last few decades.

Overview of Major Revenue Sources

The State of Illinois imposes taxes and generates revenues from a variety of sources. The major revenue sources for the state's General Funds (the collective name for four funds that support the state's major opera-

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FROM THE COMPTROLLER

Dear Readers:

To state the obvious, tax revenues are the lifeblood of any government. From the corporate and personal income tax to the sales and public utility tax, these revenues fund critical services such as education, healthcare and public safety provided by the state. But with each passing year, as government adds new commitments, Illinois tax revenues are stretched farther and farther. This issue of *Fiscal Focus* analyzes the various revenue streams utilized by the State of Illinois and highlights some of the benefits as well as some of the challenges of the current structures.

As debate intensifies over the Governor's proposal to increase revenues by imposing a gross receipts tax on businesses, an in-depth analysis of state taxes has probably never been more timely and important. Much of the debate, thus far, has focused on the question of fairness, particularly as it pertains to corporate income tax versus personal income tax. Some have argued that corporations aren't paying their fair share, and that the application of a gross receipts tax of up to $7.5 billion will even out the playing field. However, as this issue will reveal, the actual disparity between corporate and personal income tax revenues may not be so easily characterized. In addition to the issue of fairness, policy makers should consider whether a tax structure modeled some four decades ago is appropriate for the economy of today and how any tax structure should be constructed to meet the state population's demand for services.

While there has been much disagreement about the tax fairness issue and its nature, what is certain is that Illinois is facing a difficult set of financial circumstances. As I noted last fall, current revenues will be hard pressed just to keep pace with the state's current structural spending and long-term obligation growth. Our ability to withstand any contraction in the economy is probably minimal. As a result, any expansion of new or current programs will demand a new funding source to ensure that we are budgeting responsibly. It will also require creative ideas and solutions fostered not by political rhetoric, but by positive leadership and cooperation.

The State of Illinois' finances have reached a critical flashpoint. The state ended fiscal year 2006 with a General Fund GAAP deficit of $2.32 billion marking the sixth straight year that this critical indicator has exceeded a $1 billion deficit. Thoughtful analysis of current state revenues will be required to ensure that we are adequately planning for the future without placing an unfair burden on Illinois taxpayers. This issue seeks to assist in that analysis and eventual solution.

Sincerely,

Daniel W. Hynes,
Comptroller

Exploring the Gross Receipts Tax

Some experts criticize Illinois' current tax base, stating that it is not broad enough and that it allows corporations to avoid paying income taxes. For the past two decades, Illinois businesses have paid a 4.8% corporate income tax on their net income to the state (plus an additional amount to local governments to replace earlier personal property taxes). Illinois businesses are taxed on their income less expenses, i.e. profits. However, the Department of Revenue reports that 37 of the 99 Fortune 100 companies that filed Illinois tax returns in 2004 did not pay corporate income taxes, despite average Illinois sales of $1.2 billion. As possible further evidence, the contribution by corporate income tax to the state's overall income tax revenue has decreased, falling from 21% in fiscal year 1980 to 16% in fiscal year 2006. (See the chart on page 9)

Government officials and tax experts have struggled to enact a more equitable tax, one that would effectively broaden the tax base without overburdening the state's businesses. A recent proposal introduced by Governor Rod Blagojevich would replace the 4.8% corporate income tax with a Gross Receipts Tax (GRT) on businesses with more than $2 million in total receipts. Put simply, a gross receipts tax is a tax on the total receipts of a business. It is levied each time a product changes ownership, from resource extraction to the product's eventual customer. The GRT differs from the corporate income tax in that it applies to all busi-

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Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This report is designed to provide fiscal information of general interest.

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tions) include income taxes, sales taxes, public utility taxes, cigarette taxes, riverboat gambling taxes and fees, and proceeds from the state lottery. The state also collects significant amounts of revenue from the federal government, primarily through matching revenues for specific programs or block grants. The General Funds are usually the primary focus of policy makers' debates and will be the basis of this report.

Some major sources of revenues that will be excluded from this article include items such as motor vehicle licenses and fees, the motor fuel tax, and proceeds from bond sales which are deposited into separate funds outside of the General Funds for a specific purpose. Other revenues, such as local governments' share of the sales tax or Corporate Personal Property Replacement Taxes are also collected by the state, but are deposited into separate funds and passed on to the local governments.

The income tax is the largest generator of state-source revenue. First authorized by statute in 1969 and increased in 1989, the State of Illinois currently imposes an income tax of 3.0% on individuals and 4.8% on the taxable income of corporations. Working from the federal Adjusted Gross Income (AGI) level, Illinois allows a few standard exemptions for individuals (such as retirement income and $2,000 for each individual in the household) plus a few tax credits (such as 5% of the property taxes paid on the taxpayer's principal residence) to determine the level of tax owed. Corporations are also allowed various credits against their federal AGI before computing Illinois taxable income; additionally, multi-state corporations are able to pro-rate their total income based on sales within Illinois (see article on page 18). Since 1989, a portion of total income tax collections has been set aside for refunds before the rest is deposited into the General Funds.

The second largest state source of revenue is the sales tax which has also been modified over the years. The base uniform tax rate is 6.25% of the purchase price, with the state keeping 5% and distributing 1.25% of the revenue back to the local governments. Food and drug purchases are only charged a 1% tax which is distributed to local governments. Local governments (such as the Regional Transportation Authority and home-rule units) are allowed to charge additional sales taxes on top of the 6.25% base rate. Most of the revenue from the state's portion is deposited into the General Funds with a small portion set aside for Build Illinois bond debt service. Significant exemptions from the state sales tax base are food and drug purchases, sales to exempt organizations, traded-in property, and farm chemicals. Additionally, most services provided in Illinois' economy are exempt from the sales tax.

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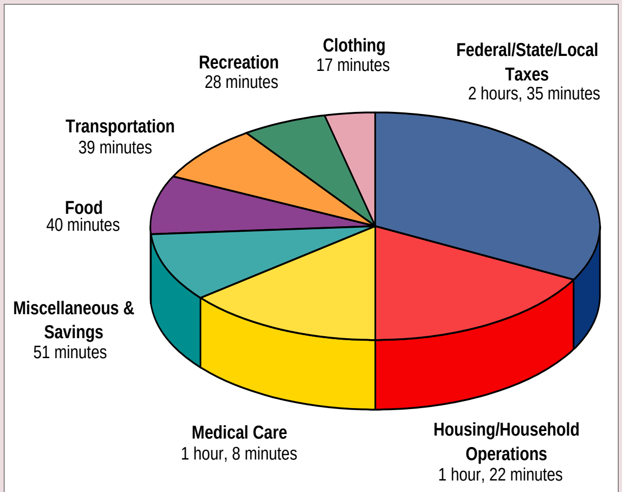
Tax Bite in an Eight-Hour Workday

The average wage earner spends 2 hours and 35 minutes each workday earning the money needed to pay federal, state and local taxes.

Calculations made by the national Tax Foundation in Washington show that Americans work slightly more than 2 1/2 hours a day to pay taxes. For comparison, Americans work 1 hour and 22 minutes to pay for housing and household operations, 1 hour and 8 minutes for medical care, 40 minutes for food and 39 minutes for transportation.

Most of that "tax time" is for the federal government. Americans work 1 hour and 43 minutes for Washington, compared to 52 minutes for state and local taxes. On an annual basis, the average American will work to April 30, 2007, (the so-called Tax Freedom Day) to pay taxes. For comparison, in 1950 a worker could earn the money to pay his or her tax bill by March 31.

Since the level of state and local taxes varies, each state has its own tax freedom day. According to the Tax Foundation, the tax freedom day for Illinois workers is May 2, 2007. ■



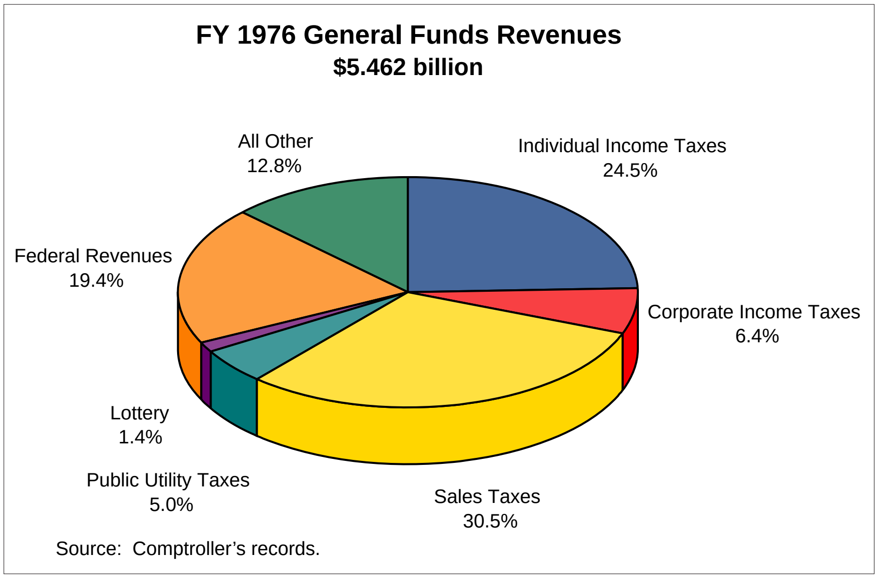
Source: The Tax Foundation.

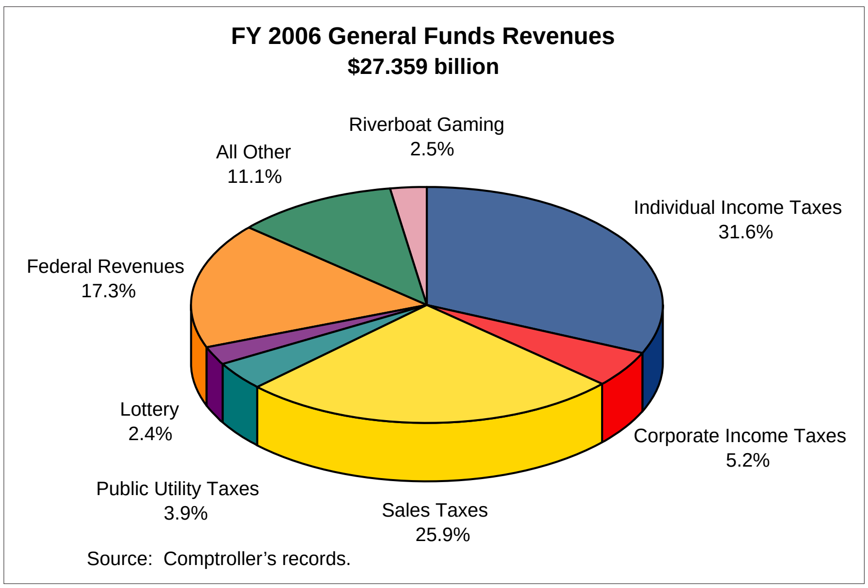
The next largest revenue sources for the General Funds are public utility taxes. These include the telecommunications tax, electricity tax, and natural gas tax. As more fully detailed in the article on page 16, the electricity and gas tax are usage-based taxes; therefore, revenues from these taxes will increase or decrease based on weather and related use of these items. The telecommunications tax is 7% of gross charges, of which 6% of the total 7% is deposited into the General Funds. Revenues from this source have been relatively stagnant in recent years as changes in the telecommunications market, primarily cell phones, have reduced individuals' expenditures.

The so called "sin" taxes also make significant contributions to the General Funds tax base. These include cigarette and liquor taxes, gaming taxes and fees, and proceeds from the state's lottery. These items are discussed in the article on page 17, but notably have grown in importance for the state's revenue picture. Over the last 15 years, increases in spending have often utilized increases in these taxes to pay for the added costs and to bolster the tax base.

General Funds Tax Base

The General Funds receive well over half of the state's revenues including the predominant share of income and sales taxes. In fiscal year 2006, total base revenues into the General Funds (excluding short-term borrowing) equaled $27.359 billion. As illustrated in the pie chart, individual income taxes were nearly one-third of all revenues and sales taxes totaled just over one-fourth of total revenues. Federal revenues totaled 17.3% of the sum, while corporate income taxes and public utility taxes were 5.2% and 3.9% of total receipts, respectively. Altogether, income and sales taxes generated approximately 63% of total General Funds revenues. Of revenues generated by the state, income and sales taxes accounted for over 75% of total state revenues in fiscal year 2006.





Over recent fiscal history, the reliance on income and sales taxes has remained consistently high. However, taking a look at the composition of General Funds revenues in fiscal year 1976 illustrates that within the last three decades, the individual income tax, which share increased from 24.5% to 31.6%, has become a more important contributor to state revenues than the corporate income tax or sales tax. In fiscal year 1976, these three major sources made up 61.4% of all revenues, but sales taxes and corporate income taxes contributed more to the base. Since 1976, the state has become more dependent on individual income taxes and lottery and riverboat gaming revenues.

Growth in the Tax Base

General Funds revenues have grown nearly every year in the last 30 years at varying rates affected primarily by changes in the economy, tax policy, and on occasion, the use of large one-time revenues. Looking purely at revenues deposited into the General Funds from state sources, receipts have increased every year between 1976 and 2006 with the exception of one year – fiscal year 2002, when there was a decline in state sources of 3.4%. But has growth in the tax base kept up with growth in the economy?

The accompanying chart shows the growth in Illinois' Gross State Product (GSP) compared to growth in state source revenues deposited into the General Funds (excluding revenues from short-term borrowing and transfers from the Budget Stabilization Fund). The graph uses 1976 as a base year and compares the cumulative growth in the economy (as measured by

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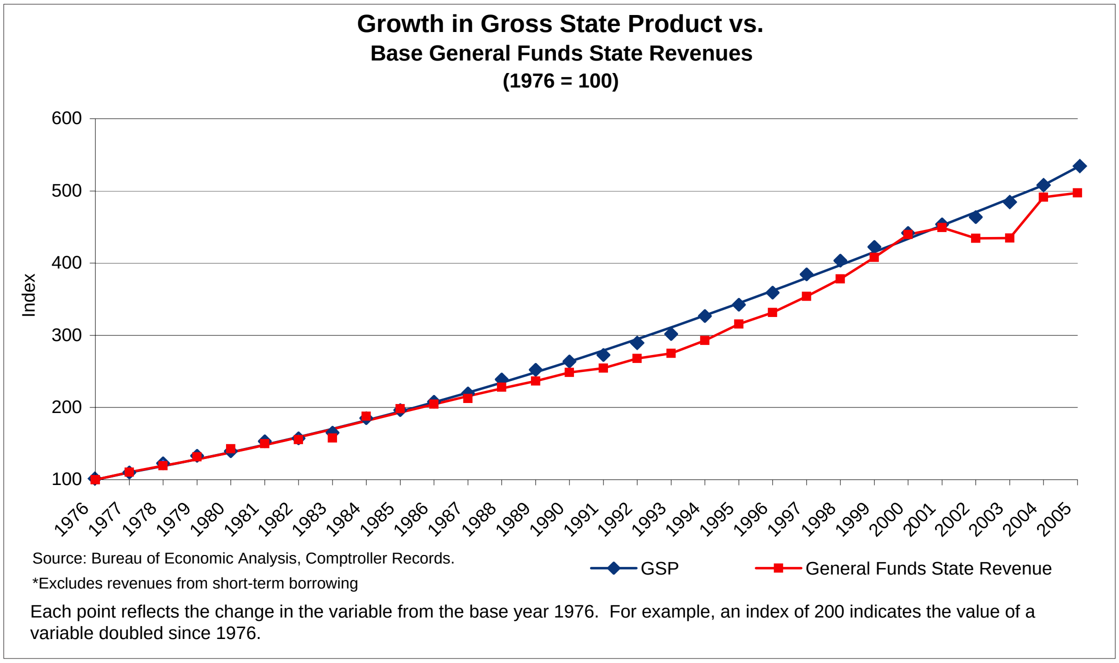
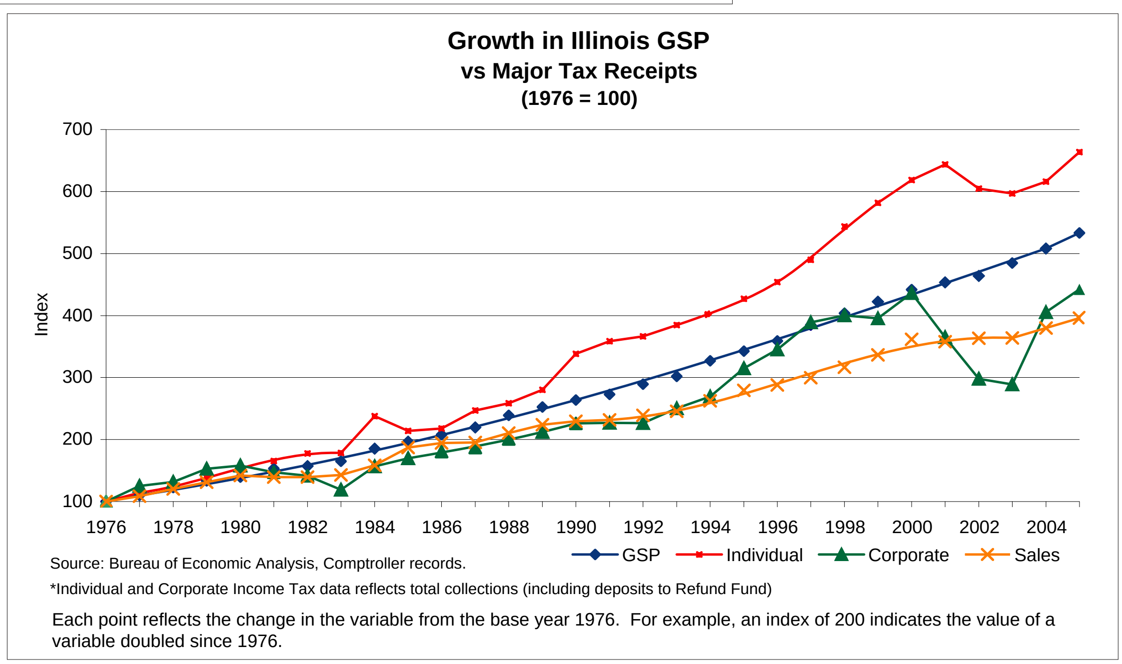
GSP) to the cumulative growth in General Funds state source revenues. From this graph, it appears that changes in the economy, tax policy and other sources were sufficient to keep growth in state revenues close to overall growth in the state's economy during most of this timeframe.



Growth in Gross State Product vs.
Base General Funds State Revenues
(1976 = 100)

Source: Bureau of Economic Analysis, Comptroller Records.
*Excludes revenues from short-term borrowing

Each point reflects the change in the variable from the base year 1976. For example, an index of 200 indicates the value of a variable doubled since 1976.



Growth in Illinois GSP
vs Major Tax Receipts
(1976 = 100)

Source: Bureau of Economic Analysis, Comptroller records.
*Individual and Corporate Income Tax data reflects total collections (including deposits to Refund Fund)

Each point reflects the change in the variable from the base year 1976. For example, an index of 200 indicates the value of a variable doubled since 1976.

Also included is a graph illustrating the growth in Illinois' GSP compared to growth in income and sales taxes, again with 1976 as the base year. Reflected in this chart are total collections from income taxes and General Funds' sales tax receipts. Since 1989, a changing portion of the total income tax collections are set aside for refunds and deposited into the General Funds, but by looking at total collections, base growth over this longer timeframe in income taxes is more carefully illustrated. This graph demonstrates that while growth in individual income tax collections has exceeded the overall growth in the state's economy since 1976, sales tax and corporate income tax collections have not kept up.

The chart on page 6 lists major tax increases during this timeframe, including a temporary income tax increase between 1983 and 1984, an increase in the sales tax rate in 1984, and the temporary income tax increase in 1989 (that later became permanent in 1993). Additionally, significant revenues were deposited into the General Funds from the Cook County Intergovernmental Transfer beginning in fiscal year 1997. The mid-1980s also saw large growth in lottery revenues, and revenues from riverboat gaming began in the early 1990s. Absent these changes, it is probable that growth in the General Funds state revenue tax base would not have kept up with the changes in GSP.

By fiscal year 2000, cumulative growth in General Funds state revenues had almost caught back up to growth in the overall economy as income tax revenues surged unexpectedly higher and revenues generated from late 1990s public utility, cigarette, liquor, and riverboat gaming tax increases were realized by the state. From the graph illustrating growth in individual income tax collections, it is evident that the growth rate in collections exceeds the growth rate in GSP for several years in the late 1990s. During this time, growth in individual income tax collections also appeared to exceed the growth in personal income and coincides with a run-up in the stock market. Growth in corporate income tax collections was also strong (although some of the growth was lost to higher tax refunds).

However, beginning in fiscal year 2002, as state tax collections began to feel the impact of the 2001 recession, General Funds revenues began to fall behind growth in the state's economy. Income tax

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collections from both individuals and corporations fell off more dramatically than the state's gross state product as illustrated in the major revenues graph. Additionally, sales tax revenues stagnated and there were minimal changes in other state taxes to supplement the lackluster performance of the major state revenue sources.

Fiscal year 2004 brought the state source revenue collections back closer to the overall performance of the economy; however, several one-time revenue sources in that fiscal year, including $1.395 billion in revenues from the sale of the state's pension funding bonds, a tax amnesty program and a large amount of fund sweeps and administrative chargebacks from other state funds, somewhat distort the picture. The data points for fiscal year 2005 show some correction from the unusual nature of fiscal year 2004 and overall growth in the three major sources was similar to the growth in the state's economy.

Conclusion

What interpretations can be drawn from these data? First, it is apparent that sales tax collections have lagged overall growth in the economy over the last 30 years and that the structure of the economy itself is changing. The early 1980s saw the reduction in the sales tax on food and drugs and these purchases were completely exempted from state sales tax in 1984; although this exemption was accompanied by an

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Highlights of State Tax and Revenue Changes, 1974 - 2005*

Major Taxes		Other Sources
		1974: State Lottery begins operations
1980: Sales tax on food and drugs reduced 1%	1980	1980: Vehicle use tax enacted at $30/vehicle, with vehicles over 5 years old later exempted
1981: Sales tax on food and drugs reduced 1%		
1983: Individual income increased to 3% and corporate increased to 4.8% temporarily until July 1984		1983: Lottery adds Lotto game
1984: Sales tax increased from 4% to 5% remaining tax on food and drugs removed		
		1985: Cigarette tax increased from 12 cents to 20 cents per pack, vehicle use tax changed to 5% of selling price for vehicles up to 10 years old
1986: Public utility tax changes with electric and gas based on lesser of 5% or usage and telecomm tax expanded to new services		
		1988: Vehicle use tax changed to rate based on age and selling price
1989: Individual income increased to 3% and corporate increased to 4.8% temporarily		1989 : Cigarette tax increased to 30 cents/pack
1990: Sales tax rate increased from 5% to 6.25% with state portion remaining 5% and 1.25% to local governments	1990	1990: Riverboat wagering tax enacted, first boats operational in 1991
1993: Temporary income tax increase made permanent		1993: Cigarette tax increased to 44 cents/pack
		1996: Cook County Intergovernmental Transfer Agreement for General Funds
1998: Telecommunications tax rate increased from 5% to 7% and electric tax replaced with new excise tax		1998: Cigarette tax increased to 58 cents/pack, riverboat wagering tax changed from flat rate to graduated rate structure
		1998: New insurance taxes imposed to replace unconstitutional earlier version
		1999: Liquor tax rates increased, motor vehicle license fees increased
	2000	
		2002: Cigarette tax increased to 98 cents/pack, riverboat tax rates increased
		2003: Riverboat wagering tax expanded for 2 years, commercial distribution fee added for commercial vehicles, decouple from federal estate tax changes
		2005: Expanded riverboat wagering tax ends but revenues held harmless

*Highlights focus on changes that affected the General Funds. Changes to the motor fuel tax are omitted.

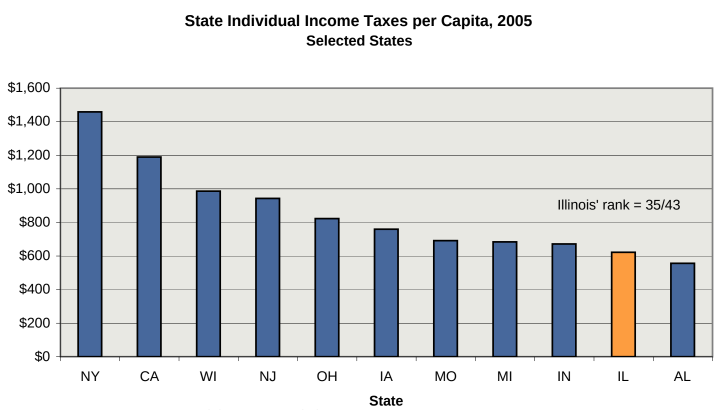
increase in the state rate, the base narrowing likely had an impact on the growth in this source. Recessions in the early 1990s and 2000s appear to have slowed the purchases of goods more than the growth in GSP, but at the same time, shifts have occurred in Illinois' economy; a larger share of economic activity is tied now to exchanges of services rather than the exchange of goods. Additionally, the growth in internet sales in the last decade, a large share of which is done through vendors that do not collect sales taxes, has had a major impact on tax collections. In fact, a 2004 study[1] estimated that by 2008, Illinois will likely be losing at least $600 million in state sales tax revenue due to electronic commerce.

Second, individual income tax collections have performed well when compared to overall growth in the economy. Part of this is attributable to the tax rate increase that bumped up the growth rate in fiscal year 1990 and to growth in income earned from investments. An additional factor may be underlying shifts towards a more service-oriented economy. Some businesses (such as law firms) do not pay corporate income taxes; rather, partners report their income on individual returns. If growth in the provision of these types of services has composed a large part of the state's GSP growth, then one would expect there to be stronger growth in individual income tax collections than seen in the overall economy and a relatively smaller growth in corporate income tax collections.

Overall, it appears that the policy makers in Illinois have been relatively successful in ensuring that growth in the state's tax base keeps pace with overall economic growth. However, to accomplish this, there have been ongoing changes in tax policy to address perceived incongruities between the tax structure and economic activity. The Governor and General Assembly should give careful consideration to the overall economic structure in Illinois in determining both tax rates and tax activity. ■

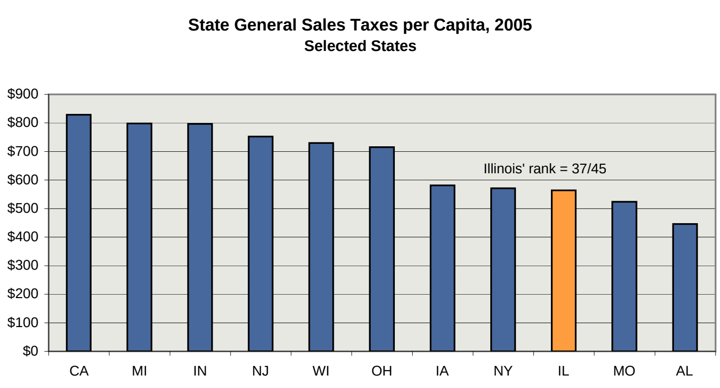
[1]Bruce, Donald and William F. Fox, "State and Local Sales Tax Revenue Losses from E-Commerce: Estimates as of July 2004," Center for Business and Economic Research, University of Tennessee, July 2004.
http://cber.bus.utk.edu/ecomm/Ecom0704.pdf

Comparative Tax Statistics

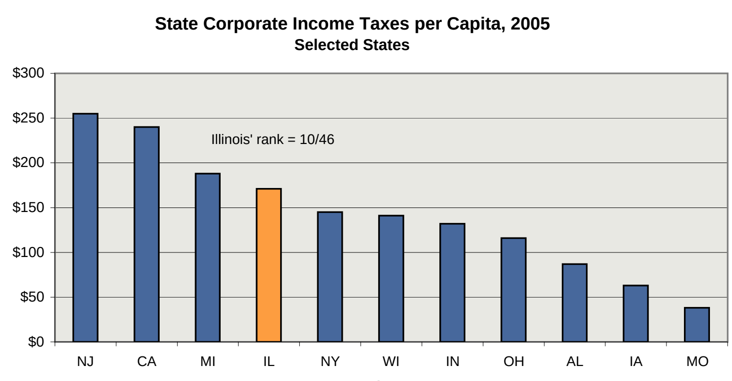


Source: U.S. Census Bureau and the Tax Foundation.

One way to compare state taxes is to divide the revenue collected by a state by the state population to derive a dollar amount per person (per capita). This calculation provides a more meaningful measure for comparing large and small states than just using the revenue amounts directly. The charts here compare Illinois to other selected states for individual, corporate and sales taxes. Illinois' rank is also included, and it is not always based on 50 because some states do not have certain taxes.



Source: U.S. Census Bureau and the Tax Foundation.



Tax Burdens in Other States

All of the other states in the United States have similarly complex taxation systems, with most states imposing various rates of individual income, corporate income and sales taxes. As the rates vary, the level of tax burden seen in other states varies greatly across the country.

Two of the most common measures of tax burden include tax revenues per capita and tax revenue as a percent of personal income. According to the U.S. Census Bureau's 2005 Survey of State Government Finances, Illinois collected $26.4 billion in tax revenue in 2005, where state tax revenues included sales and gross receipts, personal income, corporate income, license income, and other taxes. This total placed Illinois 6th overall in total tax revenues, which is not surprising given that Illinois is 5th in overall population and is a relatively wealthy state. Adjusting for population, Illinois' total of $2,069 of tax revenue per capita ranked 29th in the U.S. Adjusting for wealth, Illinois' total tax revenues reflect 5.7% of state personal income, ranking the state 40th. Vermont ranked the highest among the fifty states in both measures with state tax collections amounting to 11.0% of state personal income and per capita tax revenue of $3,604. The accompanying table compares Illinois to some other large wealthy states and to some of our neighboring states in these measures of state tax burden.

However, this comparison omits the significant burden that local government taxation can add to a state's citizens. According to 2004 data from the U.S. Census Bureau on state and local taxes together, Illinois governments collect $45.2 billion in taxes (the largest addition charged by local governments is through property taxes). Adjusting for population, Illinois' total of $3,522 per capita placed it 16th among the states. Taking into account relative wealth, Illinois' total tax revenues totaled 10.2% of state personal income which placed it 25th among the states. New York ranked the highest in both of these measures with total taxes reflecting 13.7% of state personal income and a burden of $5,254 per capita. ■

Measures of Tax Burden
State Tax Revenues
Selected States, 2005

	As a % Personal Income	State Rank	Tax Revenue Per Capita	State Rank
California	7.4%	14	$ 2,723	9
Connecticut	7.0%	19	$ 3,309	4
Florida	5.6%	42	$ 1,908	37
Illinois	**5.7%**	**40**	**$ 2,069**	**29**
Indiana	6.6%	25	$ 2,051	31
Iowa	6.1%	35	$ 1,939	34
Massachusetts	6.4%	31	$ 2,800	8
Michigan	7.1%	17	$ 2,329	20
Minnesota	8.3%	7	$ 3,098	5
Missouri	5.3%	46	$ 1,646	46
New Jersey	6.0%	37	$ 2,635	10
New York	6.5%	29	$ 2,598	11
Ohio	6.6%	27	$ 2,093	28
Pennsylvania	6.3%	32	$ 2,198	23
Wisconsin	7.1%	16	$ 2,379	14

Source: U.S. Census Bureau

Measures of Tax Burden
State and Local Tax Revenues
Selected States, 2004

	As a % Personal Income	State Rank	Tax Revenue Per Capita	State Rank
California	10.6%	17	$ 3,673	12
Connecticut	10.9%	11	$ 4,913	2
Florida	9.5%	39	$ 2,973	30
Illinois	**10.2%**	**25**	**$ 3,522**	**16**
Indiana	10.0%	31	$ 2,958	31
Iowa	9.9%	34	$ 3,024	28
Massachusetts	10.1%	28	$ 4,197	5
Michigan	10.5%	19	$ 3,316	22
Minnesota	10.5%	18	$ 3,759	9
Missouri	9.4%	43	$ 2,782	35
New Jersey	10.9%	10	$ 4,534	3
New York	13.7%	1	$ 5,254	1
Ohio	11.1%	9	$ 3,411	19
Pennsylvania	10.3%	21	$ 3,434	18
Wisconsin	11.6%	6	$ 3,679	11

Source: U.S. Census Bureau

Growth in Corporate Income Tax Receipts

Some Illinois businesses pay a 4.8% corporate income tax on their net income or profits. Others, like Partnerships and S Corporations (small businesses), distribute their profits to individuals or shareholders who then pay individual income taxes at a 3% rate. However, as part of the discussion of the fairness of the state's tax base, critics have argued that the corporate income tax system has not adjusted to shifts in the state's economy and allows corporations to avoid paying income taxes through various loopholes. Additionally, the argument has been made that the state's tax burden has fallen disproportionately on individuals since the enactment of the state income tax in 1970. Examining the growth rates of both individual and corporate income taxes appears to justify some of the comments as individual income tax growth rates have outpaced in general the growth in corporate income taxes over the last few decades.

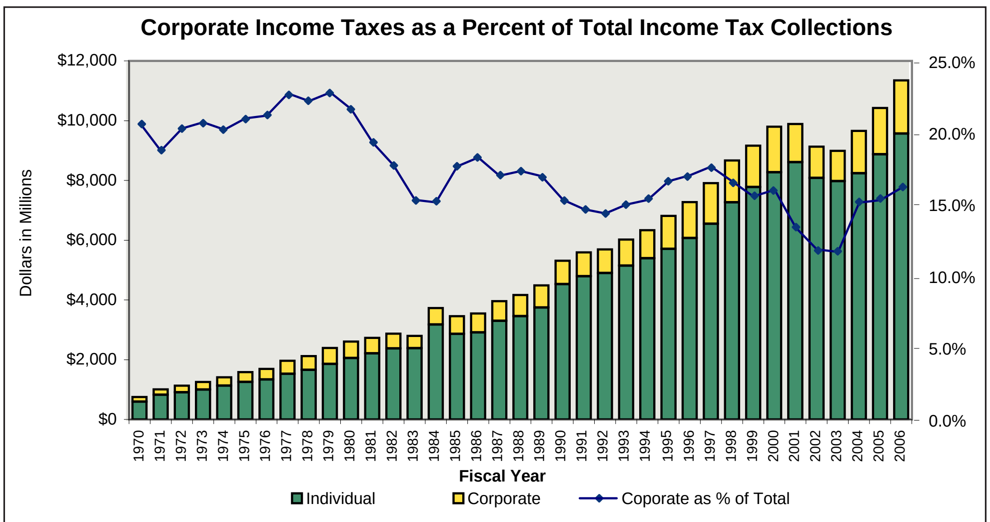
From fiscal year 1980 to fiscal year 2006, total individual income tax revenues grew 365.3% compared to corporate income tax growth of 222.5%. (It should be noted that this is a comparison of gross revenues received by the state, because prior to 1989, income tax refunds were paid from the General Funds. Now the money for refunds is set aside for deposit in the Refund Fund.) If corporate income tax receipts had grown at the same rate as individual income taxes, then in fiscal year 2006, Illinois would have collected a gross $2.574 billion, or $790 million more than was actually received that year. Setting aside 20% for deposit into the Income Tax Refund Fund ($158 million) would have left $632 million for the General Funds.

Going back to fiscal year 1973 provides an even longer-term picture. Fiscal year 1973 was completed before the beginning of the 1970s era recessions and is a period when the manufacturing sector was still the dominant factor in Illinois' economy. Using the same methodology of applying the individual income tax growth rate to corporate income taxes results in $651 million in gross corporate income tax receipts and a net increase of $521 million for the General Funds in fiscal year 2006. The growth rate in individual income taxes since 1973 does not exceed corporate growth by as much as seen in the narrower period of time between fiscal year 1980 and 2006. The reason for the difference in additional revenue growth between fiscal years 1973 and 1980 is that during this time frame corporate income taxes grew faster (117.9%) than individual income taxes (106.2%).

While individual income tax revenues have grown more than corporate income tax revenues, there are factors that have had an impact primarily on corporate income taxes. Early on there were many tax exemptions enacted by the legislature for businesses which reduced tax collections. Furthermore, other changes in tax law can have an effect such as the switch to a sales-based-only corporate tax apportionment in the late 1990s. As mentioned in articles in this issue and in other publications of the Office of the Comptroller, tax expenditures related to the corporate income tax and the enactment of the single sales factor formula have likely reduced corporate income tax collections by several hundred million dollars. (See articles on pages 12 and 18).

S Corporation Filers Increase

Since Illinois defines the tax base using federal taxable income, any changes to federal income tax law impact the taxes collected in Illinois. Over the years, several tax law changes have resulted in tax returns going from the corporate income tax to the individual income tax. According to the IRS, in tax year 2003, there were 3.3 million S Corporation filers nationwide compared to 2.5 million in tax year 1997. For the ten-year period up to tax year 1997, S Corporations grew at an annual average rate of 10.7% while taxable corporations experienced average annual declines of 1.2%. Also, more small businesses have been created over the years and large manufacturing businesses have declined. Most job growth is now in small business which often pays income taxes at the lower (3.0%) individual rate. These factors should help explain part of the growth differential between individual income tax collections and corporate income tax collections. ■



Source: Comptroller's records. Split between Individual and Corporate prior to 1980 is based on collections data from Dept. of Revenue.

Exploring the Gross Receipts Tax continued from page 2

ness receipts rather than being restricted to a business' profits. It also reaches beyond corporations, taxing partnerships and sole proprietorships (which usually pay income taxes at the individual instead of corporate rate). Essentially, a business pays the GRT each time it receives money.

Structure

Consider the following example. It illustrates the ways in which a 1.95% gross receipts tax, which is part of the Governor's proposal, would affect an Illinois architect.

- *Architect A charges Client B $500,000 in fees. When he receives this payment, Architect A is charged a $9,750 (1.95%) gross receipts tax.*
- *$250,000 of the original $500,000 is paid by Architect A to various engineers and consultants for their services. These payments, also known as pass-through fees, are taxed an additional $4,875 gross receipts tax at the consultant level.*
- *Architect A and his consultants pay approximately $5,000 to attorneys, accountants, and other service providers. These fees are derived from the original $500,000 in fees. Thus, these businesses are taxed a $97.50 gross receipts tax at their level.*
- *The overall result is $14,722.50 in taxes from the original $500,000, or 2.9% of gross receipts.*

State	GRT Tax Rate	Exemptions	Other Taxes	Portion of Total Tax Revenue
Arizona	5%	Prime contractors are only taxed on 65% of their gross receipts. Certain food purchases are also exempt.	There is no property tax, no estate or inheritance tax.	$4.7 billion
Delaware	.096% - 1.92%	Exemption from taxation of the subsidiaries of holding companies. Exemptions are in place for businesses with a $1million in revenue for manufacturers and $50,000 for most services.	Delaware has no sales tax or state property tax.	$176.5 million or nearly 6% of total tax revenue.
Hawaii	.05%- 4%	Insurance companies, movie productions, certain petroleum refiners, certain computer services, alcohol fuels, and tangible personal property shipped out of state.	Hawaii has no sales tax.	$2.136 billion or 48% of total state tax revenue.
Illinois (Proposed)	.85%-1.95%	*Some of the proposed exemptions include, businesses with less than $2 million in gross receipts, goods that are exported, many foods and drugs, insurance premiums, life insurance policies, litigation damages and tax refunds.*	*Illinois will phase out the corporate income tax.*	*Expected to generate $7 billion of new tax revenue.*
Kentucky	$.095 per $100 of gross receipts (.00095%)	Businesses with less than $3 million in gross receipts are exempt. Corporations must pay the greater of either the graduated corporate income tax rate, the gross receipts tax or the alternative minimum tax of $175.	Kentucky reduced the corporate income tax from 8 1/4% to 6%, repealed the corporate license tax, reduced the personal income tax rate and raised the individual exemption to exclude thousands of low-income taxpayers from liability.	The combination of sales and gross receipts totaled $4.4 billion in fiscal year 2006, which represents roughly 47% of total revenues.
New Mexico	5.12% - 7.87%	Certain foods and services are exempt, along with agribusiness, aerospace research, film, manufacturing, renewable energy production, research and development.	New Mexico has no sales tax and virtually no state property tax.	$1.85 billion
Ohio	.06%, but will increase to 0.26% over 5 years	Financial institutions, dealers in intangibles, insurance companies, public utilities, and nonprofits. Businesses w/gross receipts under $1 million must only pay a minimum tax of $150.	GRT is being phased in as the tangible personal property tax and the corporate franchise tax are being phased out.	When fully phased in, the GRT is expected to generate $1.55 billion or roughly 8% of total budget
Texas	1% for most businesses--.5% on slim margin employers such as retailers, wholesalers and restaurants	Businesses with $300,000 or less in total revenue will be exempt, as well as entities with a tax due of less than $1,000. Sole proprietorships, general partnerships owned solely by natural persons and escrows; passive investment partnerships; certain family limited partnerships; real estate mortgage investment conduits and certain real estate investment trusts; and certain non-business passive entity trusts are all exempt.	Texas does not collect a state income tax & the new GRT will provide $6 billion in property tax relief and will eliminate the corporate franchise tax.	Figures estimate that Texas will raise more than $4 billion with the GRT and cigarette tax hike.
Washington	.138% to 1.63%	Farming, nonprofit, social service organizations, government, state and federally chartered credit unions, sale or rental of real estate other than lodging and small timber harvesters whose gross income is less than $100,000 per year.	Washington does not collect personal income or corporate income tax	$2.2 billion or 16.4% of total state tax revenues.

As the example above illustrates, additional taxes are incurred through the use of a GRT. These are often known as "pyramid taxes." The Governor's Office estimates that a 1.95% GRT on services such as that levied on Architect A, along with a GRT on manufacturers and sellers at 0.85%, would generate approximately $7.6 billion in revenue for Illinois.

Merits and Disadvantages of the GRT

Proponents of the GRT insist that such a tax would significantly broaden the tax base to ensure that all businesses are contributing a fair percentage of their earnings to the state. It has also been argued that a GRT would be less regressive than a hike in sales or individual income tax. In addition, since receipts rather than profits are taxed, the GRT would also lessen volatility during economic downturns. Its most compelling advantage, how-

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Exploring the Gross Receipts Tax concluded from page 10

ever, is the ability of the GRT to produce a large amount of revenue at a relatively low rate spread over a broad base. As to criticism regarding the taxation of businesses regardless of their profitability, those pushing the GRT argue that the universal service and tax structure benefits enjoyed by all Illinois businesses make any presumed unfairness a moot point. In other words, businesses reap many rewards based on the tax structure and the services provided by the State of Illinois.

Tax experts and government officials who oppose the GRT contend that its implementation could be devastating to Illinois' business community, and therefore to the state's overall economy. As seen in the architect example, goods and services with several elements of production would likely see an effective GRT of more than 1.95%. Small businesses, particularly new and start-up companies operating with slim profit margins, could face serious disadvantages. Though the GRT favors integrated companies (those businesses which have integrated many of their functions), its implementation could bring a halt to corporate expansion in Illinois. Unless coupled with a use tax on foreign products, Illinois businesses could begin using out-of-state suppliers or could choose to downsize or relocate to more tax-friendly states. (However, even if businesses relocate to other states, their services provided in Illinois would still be subjected to the GRT.) In addition to driving businesses away, opponents say, the increased costs would eventually trickle down to consumers as part of a product's final sales price. Therefore, the GRT is considered by experts to be a "hidden" or "stealth" tax, because it is difficult to see and in precise conflict with the type of transparent tax that is recommended for government use.

GRT in Other States

Illinois is not the first to consider implementing a gross receipts tax. Several states throughout the nation have adopted this tax structure with varying degrees of success. The Governor's administration has used the achievements of these GRT states as an example of how the GRT does not necessarily translate into being harmful to the economy. Unfortunately, drawing conclusions from the fact these states have a GRT may not show the whole picture. All of the states that have implemented the GRT have done so in lieu of taxing some other revenue source (such as an income tax, property tax, sales tax) or they have imposed the GRT at a much lower rate.

For instance, the state of Washington is often highlighted as a GRT success story, as it is the home to companies such as Starbucks and Microsoft. While Washington is home to these corporations, the U.S. Small Business Administration also reports that the state ranks 3rd in the country for the number of business failures. Critics have argued that the number of business failures is a direct result of Washington's gross receipts tax which unfairly burdens small businesses and start-up companies that operate on slim to zero profit margins.

Washington's tax structure can also be distinguished from Illinois because it does not impose other taxes that would remain in effect in Illinois. For instance, the state of Washington does not impose corporate or personal income taxes. While the Governor's proposal does offer a planned phase out of the corporate income tax and some property tax relief, it does not compare to Washington's lack of an income tax.

Washington can also be distinguished in the gross receipts tax rates that it imposes. A majority of its taxable sectors fall at or below a taxable rate of 0.48%. This is significantly less than the Governor's proposed rates of 0.85% and 1.95%.

The administration also points to states like Delaware and Ohio as other examples of GRT states that can be compared to Illinois. Delaware, however, has no sales tax and imposes rates of 0.096%-1.92%. The Illinois proposal has no mention of any reduction of the state's 6.25% sales tax and the proposed GRT rates are higher than Delaware. Ohio's gross receipts tax is a very low and broad-based tax, designed to top out at 0.26% when fully implemented. Ohio's corporate income tax, which is being phased out, only generated about 4.8% of the state's revenue. In other words, Ohio's tax does not aim to become a major source of revenue. Illinois' proposed rate of 0.85%-1.95% far exceeds Ohio's maximum rate of 0.26%.

There have been other states that enacted GRTs, but have repealed them in recent years. For instance, the state of Indiana repealed its GRT in 2002 because of concerns over job loss and a sluggish economy, and it jumped from 48th in real Gross State Product growth to 7th after the repeal. Before West Virginia's GRT was repealed in 1987, the state consistently ranked near the bottom in economic growth categories. New Jersey recently repealed its GRT because it was constantly being ranked as one of the worst states for taxes on business. These GRT states are often omitted from any discussion surrounding the implementation of the GRT in Illinois.

While it is wise to compare policies from state to state before enacting any major change, especially to the tax system, it is equally important to ensure that the comparisons are telling the full story. When analyzing the Governor's proposal it is clear that it is not comparable to other states because of the existing tax structure in Illinois. No other state has as high of a GRT rate without another tax revenue concession.

The chart on page 10 describes in further detail the other states with a gross receipts tax, the rates they impose and some of the exemptions they offer. ■

Tax Breaks Reduce Tax Liabilities

When people hear the word "tax," the connotation likely is not to be positive. The payment of income, property, and sales taxes, in fact, tends to produce a natural amount of grumbling, particularly given various criticisms of Illinois' current tax structure and a more recent barrage of tax reform proposals. While it is important to weigh the pros and cons of various taxes, Illinois taxpayers should be aware that some benefits exist within the state's current tax system. According to the Illinois Office of the Comptroller's fiscal year 2005 *Tax Expenditure Report,* state agencies reported an estimated $6.6 billion reduction in state revenues through different tax and fee breaks.

Individual Income Taxes

Overall, according to data from the U.S. Census Bureau, Illinois individual income tax collections per capita are in the lowest quartile of among states that impose an individual income tax. Although most states collect an individual income tax, the rate varies significantly among the states. Among the six states that impose a flat tax rate for individual income, Illinois is the lowest at 3%, while Massachusetts is the highest at 5.3%. Most states have a progressive income tax rate with a range from a low of 0.36% in Iowa's lowest bracket to a high of 10.3% in California's top bracket. Illinois also exempts social security benefits, as well as private and public pension income from taxation. As seen in the accompanying table, only two other states also exempt all three sources of income. In Illinois, the exemption of retirement and social security income is estimated to have reduced state revenues by $828 million in fiscal year 2005. (NOTE: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming do not collect an individual income tax.)

Illinois taxpayers should also be aware of the Earned Income Tax Credit (EITC), a program which can help low-income families reduce their taxes or receive a larger refund. In addition to the federal EITC, which can save eligible taxpayers (particularly those raising children) thousands of dollars a year, Illinois offers a state EITC equal to 5% of the federal EITC. In fiscal year 2005, this credit reduced Illinois' revenues by approximately $71 million. To find out if you are eligible or to apply for this program, visit the Department of Human Service web-site at: http://www.dhs.state.il.us/projectsInitiatives/EITC/.

Retirement Income Exemptions From Individual Income Taxes

State	Full Exemption for Public Pensions	Full Exemption for Private Pensions	Full Exemptions for Social Security Benefits
Alabama	X		X
Arizona			X
Arkansas			X
Delaware			X
Georgia			X
Hawaii	X		X
Idaho			X
Illinois	*X*	*X*	*X*
Indiana			X
Kansas	X		
Kentucky			X
Louisiana	X		X
Maine			X
Maryland			X
Massachusetts	X		X
Michigan	X		X
Mississippi	X	X	X
New Jersey			X
New York	X		X
North Carolina			X
Ohio			X
Oklahoma			X
Pennsylvania	X	X	X
South Carolina			X
Virginia			X

Source: *State Handbook of Economic, Demographic & Fiscal Indicators (AARP 2006).*

Sales Taxes

Illinois taxes goods at the rate of 6.25%. The state keeps 5% of revenue collected through this tax and 1.25% is paid to local governments. The 6.25% rate does not apply to all goods, however. Food and both prescription and non-prescription drugs are taxed at 1% with the 1% revenue collected on food and drugs paid to local governments. The exemption of food and drugs from the state sales tax base is estimated to have reduced Illinois' revenues by $1.3 billion in fiscal year 2005.

Like Illinois, other states have lowered the rate at which food and drugs are taxed or have exempted them from taxation completely. The following states lower the sales tax rate on food: Missouri (by 3%), South Carolina (by 2%), Tennessee (by 1%), Utah (by 2%), Virginia (by 2.5%), and West Virginia (by 1%); currently, there are 27 states that completely exempt food from sales tax. For prescription and non-prescription drugs, Illi-

Tax Breaks Reduce Tax Liabilities-continued, page 13

Tax Breaks Reduce Tax Liabilities concluded from page 12

nois appears to be the only state that applies a lower sales tax rate. In fact, according to Federation of Tax Administrators, all states that impose a sales tax except Illinois exempt prescription drugs, while only 11 states exempt non-prescription drugs from sales tax.

Business Taxes

Several provisions in the state tax code have been included over the years to try to assist corporations in order to make business expansion in Illinois more attractive. In January 2007, the Commission on Government Forecasting and Accountability published a report called State Tax Incentives for Illinois Businesses. The report, which was based on a study published by the Tax Foundation, ranked Illinois' tax climate 25th in the nation and spotlighted the various tax incentives available to the state's businesses.

Among those various tax incentives for state businesses, the largest include the Farm Chemical Exemption, the Manufacturing Machinery Exemption, the Illinois Net Operating Loss (NOL) Deduction, Retailers' Discount and the Non Motor Vehicle Use. The table to the right provides the amount of dollars at which these expenditures impacted state revenues in fiscal year 2005.

Additionally, businesses benefit from other incentives such as the $2 million cap on the franchise tax for corporations, Enterprise Zone Investment Credits, and the Illinois' EDGE (Economic Development for a Growing Economy) Program.

Property Taxes

Although not a state tax, property taxes make up a large part of the average Illinoisans' tax burden. There are numerous breaks for individual Illinoisans, particularly those who own their own homes. The Illinois Department of Revenue oversees most of the state's property tax relief programs, including homestead exemptions and those tax programs designed specifically for senior citizens and the disabled.

If you are an Illinois homeowner, you may be entitled to a variety of exemptions, including the General Homestead Exemption. In order to qualify for this incentive, the home must be owned and occupied on January 1 of the tax year and must be your principal residence. Lessees may qualify for these exemptions as well, provided they have an "equitable interest" in the leased home and are responsible for the home's property taxes. This exemption can be as much as $5,000 per year. The Department of Revenue also offers a Homestead Improvement Exemption for enhancements to a property and a Non-Homestead Exemption for property that is owned by local governments or used for charitable purposes.

Seniors in Illinois may qualify for up to four additional property tax exemptions. The Senior Citizens Homestead Exemption and the Senior Citizens Assessment Freeze are dependent on age, ownership, and household income. The Senior Citizens Tax Deferral Program, which may defer all real estate taxes and assessments, is also an option, as is the Circuit Breaker Program, which provides a grant to low-income seniors to assist with the cost of property taxes, rent, and similar housing expenses. The Circuit Breaker program is open to disabled persons as well, including those under 65, provided they are unable to work. Also available to disabled taxpayers is the Illinois Disabled Veterans Exemption, which may be up to $58,000 of the assessed value of certain types of housing, provided the home is occupied by a disabled veteran or his/her surviving unmarried spouse.

Illinois offers numerous additional property tax incentives, including tax breaks for historically designated property, fraternal organizations, and property which takes advantage of alternative energy sources. For more information on these and all of Illinois' property tax incentives, visit: www.revenue.state.il.us.

Significant Business Tax Expenditures, FY 2005

Amount (Millions)	Expenditure	Applied Against
$212	Farm Chemical Exemption	Sales Tax
$165	Manufacturing Machinery Exemption	Sales Tax
$163	Illinois Net Operating Loss Deduction	Corporate Income Tax
$119	Retailers' Discount	Sales Tax
$117	Non Motor Vehicle Use	Motor Fuel Tax

Source: *Tax Expenditure Report Fiscal Year 2005*, Office of the Comptroller

While a great deal of emphasis has recently been focused on increasing state tax revenues, it is easy to forget what benefits already exist within the current system for businesses and individuals. Taking the time to research and apply these incentives may save Illinois taxpayers a significant amount of money, and allow them to better consider which tax subsidies are working and which could be modified or improved. ■

The Streamlined Sales Tax Initiative in Illinois

Retailers, particularly those with sales tax liabilities in multiple jurisdictions, have long complained about the unnecessary cost and complexity of having to meet the varying requirements of those jurisdictions. In response, the Streamlined Sales Tax Project (SSTP) was organized in March 2000 by the National Conference of State Legislatures, the National Governors Association, the Federation of Tax Administrators, and the Multistate Tax Commission to bring consistency and uniformity to sales tax regulations and administration across the country.

The goal of the project is to develop a standardized sales tax system which will reduce the administrative costs of collecting the tax while still allowing sufficient flexibility so that states can customize the tax to meet their revenue and policy needs. The states may also have an ulterior motive for sales tax reform. States currently cannot compel collection of sales taxes from sellers who do not have nexus (physical presence) in the state, although purchasers can be legally responsible for paying the tax. Simplified state sales taxes may counter the argument that having to meet state and local sales tax reporting requirements would put an unreasonable burden on interstate mail order and internet sellers. This may make it easier to get the necessary Congressional authority to require collection of the sales tax from these types of retailers.

One goal of the SSTP is uniform product definitions within tax laws. States can choose what products are taxable or exempt in the state, but once these choices have been made, states agree to use common definitions for key items of the tax base. Rates are also to be simplified. States are allowed a general state rate and a supplemental rate for special circumstances such as the lower food and drug rate charge in Illinois. Local governments can charge an additional tax but it must be at a uniform rate for the locality.

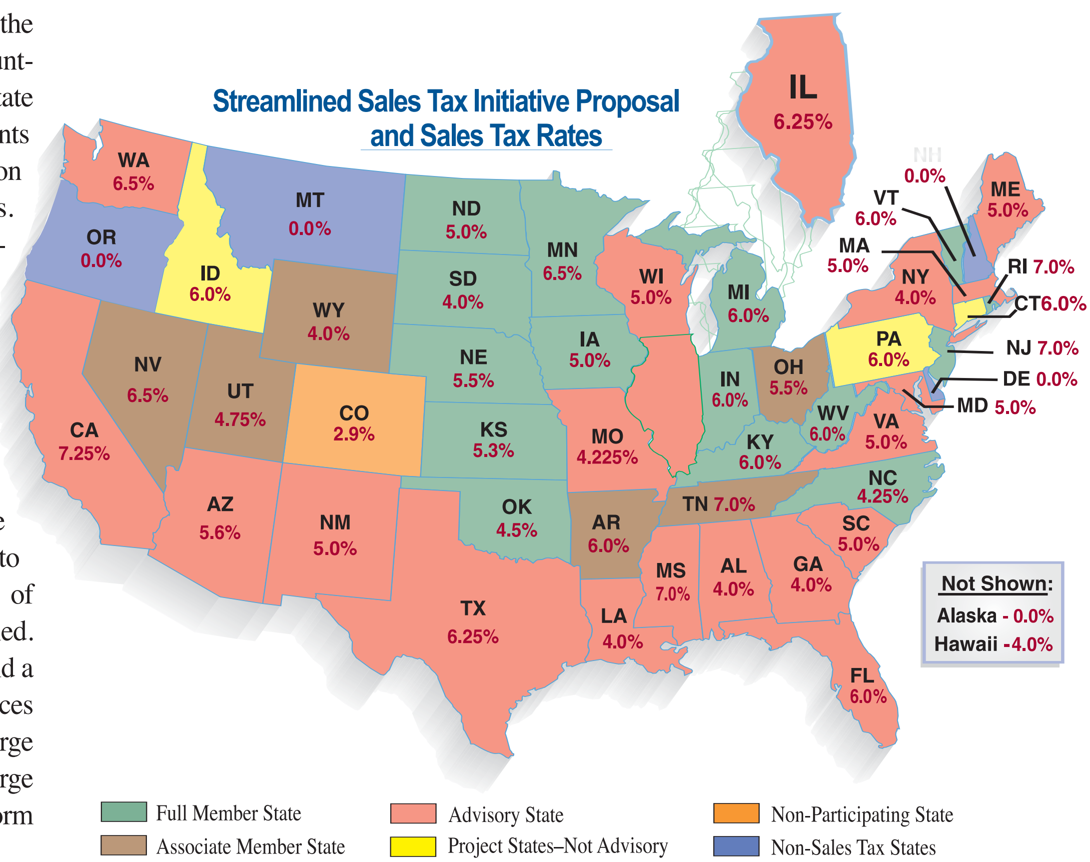
Another objective is that there will be a single statewide sales tax administrator. Payers will no longer have the additional cost of having to file tax returns with multiple entities within the state. Through a unified online registration system, each seller registering under the agreement is registered in each of the member states. Simplified uniform sales tax exemption forms have been developed to reduce the cost of properly processing exempt sales.

Special software supposedly will ease the administrative burden of collecting the sales tax and a certification process will protect sellers from retroactive findings of noncompliance. Certified Service Providers are being established who will serve as agent to the retailers to perform all of the seller's sales tax responsibilities. Certified Automated Systems are also being established to allow a seller to directly conform with the terms of the agreement. Finally, a retailer that has developed its own proprietary sales tax software may have the software certified by the states collectively. Users of certified software will be subject to a reduced audit compared to retailers using software that has not been certified.

The SSTP became effective on October 1, 2005. States are classified as full member and associate member states. A full member state is in full compliance with the Streamlined Sales and Use Tax Agreement. An associate member state is not currently in full compliance with the agreement, but is expected to be in full compliance by January 1, 2008.

As of January 1, 2007, 15 states were full members including Indiana, Iowa, and Kentucky among neighboring states and Kansas, Michigan, Minnesota, Nebraska, and the Dakotas among other Midwest states. There were six associate member states including Ohio. Several of the largest

The Streamlined Sales Tax Initiative in Illinois continued on page 15



A Comparison of State Income, Sales and Gasoline Taxes

Comparing individual income tax rates between states is difficult, as tax rates are made up of many components. Tax bases, deductions and exemptions differ, among other factors. Though Illinois gets its largest share of tax revenue from individual income taxes, seven states – Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming – do not collect individual income tax. New Hampshire and Tennessee impose their flat-rate state income taxes only on dividends and interest income. Most states (35) have progressive individual income tax, where the tax rate rises as income increases. These states range from a low of .36% in Iowa to a high of 10.3% in California. Six states have a flat rate for individual income tax, with Illinois being the lowest at 3% and Massachusetts being the highest at 5.3%. Pennsylvania taxes at 3.07%, Indiana at 3.4%, Michigan at 3.9% and Colorado at 4.63%.

Corporations, associations, joint-stock companies and cooperatives also have taxes imposed on their income. Only Nevada, South Dakota, Washington and Wyoming do not collect state corporate income taxes. Unlike with individual income taxes, most states (32) impose corporate income taxes at a flat rate. Of these flat-rate states, Pennsylvania is the highest at 9.99% and Michigan is the lowest at 1.9%. Illinois' corporate income tax rate is assessed at a rate of 4.8%. Comparatively, in the Midwest, Missouri taxes at 6.25%, Wisconsin at 7.9%, Indiana at 8.5% and Minnesota at 9.8%. Iowa is the only Midwestern state taxing progressively with a rate ranging from 6% to 12%. All remaining 14 states impose taxes progressively

The sales tax in Illinois is made up of two matching pairs of taxes, the retailers' occupation tax and the use tax, and the service occupation tax and the service use tax. Tied with Texas, Illinois taxes sales at 6.25%, the 9th highest sales tax among states. (See map on page 14.) Alaska, Delaware, Montana, New Hampshire, and Oregon collect no sales tax. Colorado has the lowest sales tax at 2.9% and California has the highest tax at 7.25%. In the Midwest, Missouri is the lowest with 4.225%, followed by Iowa and Wisconsin at 5%, Indiana at 6% and Minnesota at 6.5%. Among other larger, major, urban states, New York taxes at 4%, Ohio at 5.5% and Michigan and Pennsylvania tax at 6%.

In addition to the above named taxes, which bring in the largest percentage of revenues collected from taxes, Illinois imposes other taxes. One is the motor fuel excise tax on gasoline. All fifty states impose this excise tax, with some states imposing additional taxes on gasoline. This article reflects only the excise tax portion for each state. At just 4 cents per gallon, Florida is the state with the lowest gasoline tax, while Washington has the highest tax at 34 cents per gallon. The most common gasoline tax is 18 cents. It is shared by Arizona, California, Indiana, Mississippi and New Hampshire. Illinois ranks in the lower half of states and taxes gasoline at 19 cents a gallon. Michigan and Vermont also tax gasoline at 19 cents. Of Midwestern states, Wisconsin has the highest gasoline tax at 29.9 cents per gallon, while Iowa collects 21 cents, Minnesota 20 cents and Missouri 17 cents. Other rates among states comparable to Illinois are New York at 8 cents, Pennsylvania 12 cents, and Ohio at 28 cents per gallon. ■

The Streamlined Sales Tax Initiative in Illinois continued from page 14

states including California and New York are not yet members.

Illinois began the process of participation in the SSTP with the passage of Public Act 92-0221, the Simplified Sales and Use Tax Administration Act, effective August 2, 2001. This Act authorized the Department of Revenue to work with other states to establish the standards necessary for a streamlined sales tax system and to enter into a multistate streamlined sales tax agreement.

The Illinois Department of Revenue continues to monitor the progress of the SSTP. Passage of the legislation necessary to bring Illinois into conformance with the SSTP requirements has been held up in past years by concern over some of the required modifications to the Illinois sales tax code. One change that is controversial is the SSTP requirement that the sales tax on shipped items be credited to the delivery point. Under existing law, the sales tax on shipped items is credited to the location where the sales take place. Adoption of the SSTP requirement will have an impact on both Illinois retailers and local taxing districts. Retailers who make deliveries will no longer charge a single tax rate at each sales site; instead they will have to vary the tax rate depending upon the delivery point of the item sold. Each local taxing district may experience a change in local sales tax revenues whose magnitude will depend upon the extent to which additional sales tax revenues from deliveries to locations within the district offset the loss in revenues from sales made in the taxing district for outside delivery.

Senate Bill 1429 was introduced in the 95th General Assembly as an attempt to modify the sales tax code to put Illinois in conformance with the SSTP. As of April 1, 2007, this legislation had passed the Senate Revenue Committee and been sent to the full Senate. ■

A Snapshot of Public Utility Taxes

Public utility taxes in the State of Illinois are made up of several different components, primarily the electricity excise tax, the telecommunications excise tax, the natural gas revenue tax, and the intrastate gross revenue tax. Other charges assessed to public utility users help with the cost of renewable energy and efficiency programs and energy assistance. The Public Utility Tax Act of 1937 began the taxation of utilities that distribute, supply, and furnish electricity and natural gas. The tax was originally set at 3% of gross revenues; however, utility taxes have been modified over the years, with taxes on electricity undergoing some of the most recent changes.

Electricity

In 1997, the Illinois General Assembly passed electric deregulation legislation which converted the electric supply market from a monopoly to a competitive industry. This left the previous system of taxation, one put in place by the Public Utilities Revenue Act, impractical and in need of change. Thus, in 1998, the Electricity Excise Tax Law went into effect, although the changes were designed to be substantially revenue neutral.

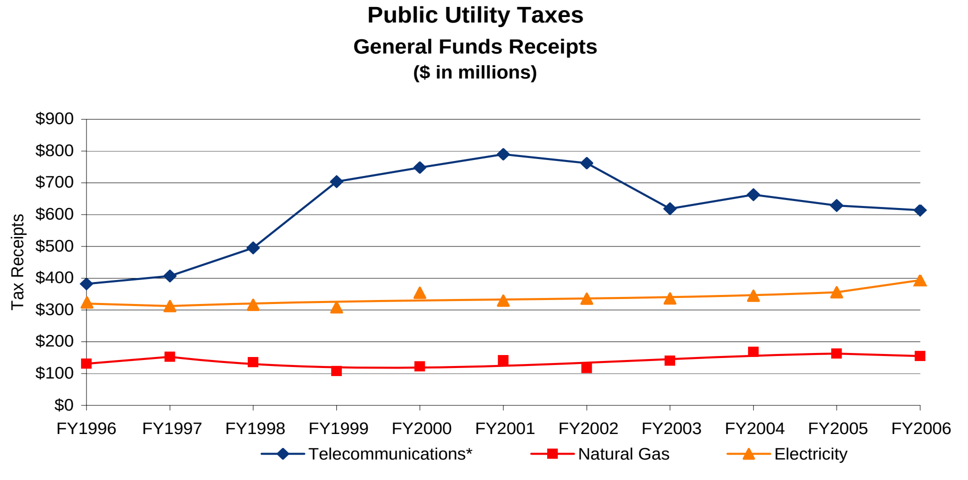
Illinois' electricity tax formula is consumption-based, with rates charged to residential customers ranging from .33 cents to .202 cents per kilowatt-hour depending on usage. "Self-assessing" non-residential customers are taxed at 5.1% of the purchase price of electricity, while municipal electric systems and rural electric cooperatives pay .32 cents per kWh or 5% of the purchase price, whichever is less. Taxes collected on electricity are very dependent on the weather and tend to decrease as utility prices go up. Of the electricity tax revenue generated in Illinois, 3% is deposited into the Public Utility Fund to cover part of the Illinois Commerce Commission's (ICC) operating costs and the remainder is deposited into the General Revenue Fund (GRF). In fiscal year 2006, the GRF received $394 million from this tax.

Natural Gas

Established in 1945, the Natural Gas Revenue Tax was designed to separate natural gas from the original public utility tax of 1937. It is imposed on companies that distribute or supply natural gas to Illinois customers. Like the electricity tax, this tax was originally set at 3% of gross revenues; however, gas companies were allowed to pass the tax on to their customers. Enacted in 1986, the current tax structure ensures that consumers are charged 5% of gross revenue or 2.4 cents per therm of gas, whichever is less. A parallel use tax is imposed on gas bought out of state but used in Illinois. All receipts from the gas revenue tax, which totaled $155 million in fiscal year 2006, are deposited into the GRF.

Telecommunications

Along with the Natural Gas Revenue Tax, the Telecommunications (Messages) Excise Tax was first enacted in 1945 and was also based on 3% of gross revenues. Several changes have occurred throughout the years, the latest of which boosted the rate to 7.0% in 1998. Another modification to the tax came in 2000, when Public Act 91-870 eliminated prepaid telephone calling arrangements from the telecommunications tax base, requiring that those purchases instead be charged with a sales tax. Of the annual receipts from the telecommunications tax, $12 million per year plus 1% of the total 7 percentage points goes to the Common School Fund, 1% is deposited into the School Infrastructure Fund and the rest is deposited in the GRF. The total 7.0% tax generated $614 million in fiscal year 2006 of which $525 million was deposited into the General Funds.



*Telecommunications receipts include General Funds and School Infrastructure Fund deposits
Source: Comptroller's records.

Gross Revenue

Finally, the Intrastate Gross Revenue Tax is imposed on all utilities, with the exception of electric utilities, in order to pay for the expenses incurred by the Illinois Commerce Commission. When enacted in 1963, the Intrastate Revenue Tax was imposed at a rate of .08% on public utilities. It has since been modified to allow a rate of up to .10% of companies' gross revenue from intrastate business. The tax is regulated by the ICC and its proceeds are deposited into the Public Utility Fund. The ICC is then able to draw up to $5.5 million for its expenses every two years. ■

Revenues from "Sin" Taxes Increase

So called "sin" taxes have been a popular target for rate increases in Illinois over the last decade in an effort to raise additional revenues to meet increasing spending demands with many of the rate increases tied to education or healthcare expenditures. Riverboat gambling, cigarette and liquor taxes have all experienced significant rate increases.

In fiscal year 2006, tax revenues from these sources totaled $2.609 billion, $916 million or 54.1% more than the $1.693 billion receipted in fiscal year 1997.

The largest source of these tax revenues is the lottery which deposited $984 million in state coffers for fiscal year 2006. Lottery revenues to the state depend on the level of sales. Fiscal year 2006 marks the highest level of sales since the lottery was established at $1.989 billion. The surge in sales over the last ten years is due to instant lottery tickets with sales rising 57.2% from $636 million in 1997 to just under one billion in 2006. Established in 1974, gross receipts from the lottery are from ticket sales for games, agent fees, and interest. After paying for prizes, agent commissions, and administrative expenses the remainder of lottery proceeds go to the Common School Fund to help support elementary and secondary education. In fiscal year 2006, $670 million was transferred for this purpose.

Riverboat gambling revenues have been the fastest growing source of this category of revenue over the last ten years and also constitute the second largest source. Revenues of $817 million in fiscal year 2006 exceed fiscal year 1997 revenues of $261 million by $556 million. The state gets three different revenue sources from licensed riverboat gambling including wagering taxes, license fees, and an admission tax. Changes to the wagering tax have been a large reason for the increase in revenue. The wagering tax was enacted in 1990 at a flat rate of 20% of adjusted gross receipts. In 1997 that was changed to a graduated system with five different rates depending on the level of gross receipts. In fiscal year 2003 the number of rates was expanded to seven with adjusted gross receipts at or under $25 million applying a tax rate of 15% and rates gradually ratcheting up to a rate of 50% for gross receipts over $200 million. In fiscal years 2004 and 2005 a wagering tax rates on the top boats was implemented at 70% however that was repealed and a hold harmless clause was instituted for the next two fiscal years.

The majority of riverboat gambling revenues are directed to the Education Assistance Fund which received $689 million in fiscal year 2006. Other destinations for riverboat dollars in fiscal year 2006 include local governments where the riverboats are docked, the Common School Fund, Horse Racing Equity Fund, and the State Gaming Fund which appropriates money for administering and enforcing the Riverboat Gambling Act, as well as money for treating problem gambling.

Receipts from cigarette and other tobacco taxes of $640 million in fiscal year 2006 represent the third largest source of these types of revenues. The cigarette tax was enacted in 1941 at a rate of 0.1 cents per cigarette or 2 cents per package of 20. Numerous rate increases have occurred since then with the most recent increases occurring in 1997 (from 44 cents to 58 cents per pack) and in 2002 (from 58 cents to 98 cents per pack). The increase

Receipts From Sin Taxes
(Dollars in Millions)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Lottery	$ 889	$ 835	$ 847	$ 815	$ 765	$ 827	$ 819	$ 881	$ 907	$ 984
Riverboat Gambling	261	261	362	475	529	580	670	775	816	817
Cigarette	428	464	499	467	473	469	700	760	656	640
Liquor	62	62	62	133	129	122	123	127	147	152
Horse Racing	45	43	42	23	13	13	13	12	12	11
Other	8	7	7	7	7	6	6	6	6	5
	$ 1,693	$ 1,672	$ 1,819	$ 1,920	$ 1,916	$ 2,017	$ 2,331	$ 2,561	$ 2,544	$ 2,609

Source: Comptroller's records.

1997 – Riverboat wagering tax goes to five graduated rates.
1997 – Cigarette tax increases from 44 to 58 cents per pack.
2000 – Liquor taxes increased.
2002 – Cigarette tax increases from 58 to 98 cents per pack.
2003 – Riverboat wagering tax graduated rates increased from five to seven.
2004 – Riverboat wagering tax top graduated rate increased to 70%.
2006 – Riverboat wagering tax top graduated rate of 70% repealed and hold harmless clause instituted.

Revenues from "Sin" Taxes Increase continued on page 21

What Share of Corporate Income Is Taxable in Illinois?

State decision makers must determine the share of multistate corporation income that should be attributed to the state for the purposes of computing corporate income tax liability. Various formulas are used by states to apportion total income based on the share of the company's payroll, sales, and property in the state. In recent years Illinois has shifted its apportionment formula from a formula which uses each of the three factors to a formula solely based on the share of sales in Illinois.

Initially the apportionment formula for the Illinois corporate income tax was equally weighted between the shares of sales, payroll, and property in Illinois. In 1987, sales were given a double weighting changing the formula to 50% times the share of sales in Illinois and 25% times the share of both property and payroll in Illinois. However, as part of a tax relief package in the late 1990's, the sales share in the formula was increased to 66 2/3% for tax years ending in 1999 and to 83 1/3% for tax years ending in 2000. Beginning with tax years ending in 2001, income is apportioned exclusively by the share of sales in Illinois.

For the 2007 tax year, six states (Iowa, Louisiana, Nebraska, Oregon, and Texas) including Illinois apportion income solely based on the share of sales in the state. The trend is for sales to be given an increased share in determining apportionment with 28 other states giving extra weight to sales in their formulas.

The motivation for shifting to a sales-based income tax apportionment formula is to shift the tax burden from companies whose operations are based in the taxing state to companies who sell, but do not have major operations in the state. Advocates for this change claim it is an economic development incentive since this shift in the tax allocation formula will reduce the tax burden on companies based in the state. However, this change may make the corporate income tax less fair as property and payroll may be better measures of the extent to which a company uses state services than sales.

For example, consider a company with 50% of its payroll and assets in the state, but only 10% of its sales in the state. With equal weights to all three factors, 37% of the company's income would be attributed to the company's home state [1/3 (10%) + 1/3 (50%) + 1/3 (50%) = 37%]. A shift to a single-sales apportionment factor would reduce the share of the company's income attributed to the home state to 10%. On the other hand, a company with 10% of assets and payroll and 50% of sales in the state would have 23% of its profits attributed to the state under the three-factor formula with equal weights [1/3 (50%) + 1/3 (10%) + 1/3 (10%) = 23%], but 50% of its profits under the single-factor sales formula.

Since the shares of assets, payrolls, and sales will vary widely among states for a particular company, that company would experience reduced taxes from a shift to single factor apportionment in some states and increased taxes from a shift in other states. The result is that some companies who have strongly backed a shift to single factor apportionment in their base state, have opposed the tax change in states where less of their economic activity is sited. For example, an article published by the Center on Budget and Policy Priorities noted that Ford Motor Company spearheaded the campaign for a single sales factor in Michigan, but opposed the same proposal in Illinois.

The net fiscal impact of switching from a three-factor apportionment formula to a formula solely based on the share of sales in the state in part depends on the economic structure of the state. A state which is a net exporter of business products will suffer a revenue loss because (on average) its share of a corporate taxpayer's assets and payroll will be greater than its share of sales. Cost estimates prepared for Illinois as it made the transition to a sales only formula estimated that the loss to the General Funds was $63 million per year. Later estimates of the cost of switching to a sales-only apportionment formula cannot be made as corporate taxpayers no longer report the share of their payroll and assets located in Illinois. ■

States With Single Sales Factor Formulas

Illinois
Iowa
Louisiana
Nebraska
Oregon
Texas

www.ioc.state.il.us

Property Tax Burdens Vary Considerably

To understand differences in property tax rates, it is important to remember that property taxes are levied on a local level by general purpose governments such as counties, municipalities, and townships, and by special purpose governments such as school districts, community colleges, park districts and sanitary districts. Local government territories also can overlap. For example, in a simple case the boundaries of a township lie within the boundaries of a county. Some cities also can be located in multiple townships or counties. For instance, Harvey, Illinois, is located in Cook County and situated across the Townships of Bremen and Thornton, and Bolingbrook is situated in both Will and DuPage counties.

Local property taxes are aggregates, or totals, of the taxes for all the units of local government within which a piece of taxable property lies. A tax bill is the sum amount of monies required by each taxing district to operate. For example, the city of Harvey's tax bill is levied by 12 different tax districts. Thus, the number of taxing districts affects the total tax bill. Once determined by local officials, the tax rate is applied to each property's Equalized Assessed Value (EAV). With the exception of Cook County, a property's equalized assessed value is equalized at 33 1/3% of the property's market value. For example, assuming a single-family home located in the City of Plainfield (which is located in Will County) has a market value of $150,000, the EAV for this particular property would be (150,000 x 33 1/3%) = $50,000.

While other counties equalize the assessment or the market value of property at 33 1/3%, Cook County's tax bills vary from the others, because of differences in assessment levels. Cook County uses a multi-tiered system that classifies property and equalizes each tier according to local ordinances:

- 16% for residential single family homes and apartment building of no more than six units,
- 33% for apartment building of seven or more units and stores with apartments above,
- 22% for vacant land,
- 36% for industrial property, and
- 38% for commercial property.

To calculate a property's tax liability, the EAV, less any homestead exemptions, is multiplied by the aggregate tax rate. The general homestead exemption is an annual exemption available for residential property that is occupied as the principal dwelling place by the owner or a lessee with an equitable interest in the property and an obligation to pay the property taxes on the leased property. For example, taking the EAV and the 2003 aggregate tax rate of a home in Plainfield and applying a $5,000 general homestead exemption would result in a tax

Property Tax Burdens Vary-continued, page 21

Principal Aggregate Tax Rates 2003
Selected Cities

City	County	Township/ Road Dist.	Aggregate Tax Rate	School District Number	Estimated Tax Liability *
South Suburbs					
Alsip	Cook	Worth	7.198	126	$3,239.10
Chicago Heights	Cook	Bloom	12.646	167	$5,690.70
Chicago Heights	Cook	Bloom	12.993	161	$5,846.85
Harvey	Cook	Bremen	13.803	228	$6,211.35
Harvey	Cook	Thornton	16.026	205	$7,211.70
Harvey	Cook	Thornton	14.938	152	$6,722.10
Homewood	Cook	Bremen	12.806	153	$5,762.70
Tinley Park	Cook	Rich	13.595	159	$6,117.75
Tinley Park	Will	Frankfort	7.507	161	$3,378.15
West Suburbs					
Berwyn	Cook	Berwyn	10.291	100	$4,630.95
Berwyn	Cook	Berwyn	11.389	98	$5,125.05
Bolingbrook	Will	DuPage	7.412	365	$3,335.40
Bolingbrook	DuPage	Lisle	6.613	68	$2,975.85
Maywood	Cook	Proviso	12.881	88	$5,796.45
Oak Park	Cook	Oak Park	10.112	97	$4,550.40
Plainfield	Will	Plainfield	7.172	202	$3,227.40
North Suburbs					
Crystal Lake	McHenry	Algonquin	7.587	47	$3,414.15
Evanston	Cook	Evanston	9.026	65	$4,061.70
Morton Grove	Cook	Niles	8.104	70	$3,646.80
Morton Grove	Cook	Maine	7.832	63	$3,524.40
Northbrook	Cook	Northfield	6.647	28	$2,991.15
Northbrook	Cook	Wheeling	8.172	21	$3,677.40
Waukegan	Lake	Waukegan	9.305	60	$4,187.25
Waukegan	Lake	Warren	8.671	56	$3,901.95
Waukegan	Lake	Libertyville	7.457	68	$3,355.65
Waukegan	Lake	Shields	8.173	187	$3,677.85
Down State					
Edwardsville	Madison	Edwardsville	7.018	7	$3,158.10
Lawrenceville	Lawrenceville	Lawrenceville	9.017	20	$4,057.65
Mount Vernon	Jefferson	Dodds	7.459	82	$3,356.55
Mount Vernon	Jefferson	Mt. Vernon	7.637	80	$3,436.65
Rock Island	Rock Island	Rock Island	9.249	41	$4,162.05
Sullivan	Moultrie	Sullivan	8.573	300	$3,857.85

Source: 2003 Illinois Property Tax Statistics, Illinois Department of Revenue.

* Based on a single-family home with a hypothetical market value of $150,000.

Personal Property Replacement Tax

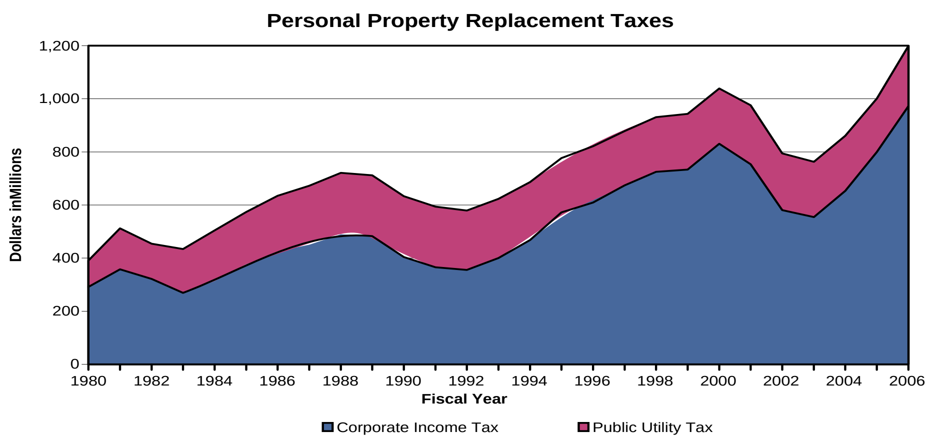
The Constitution of the State of Illinois (Article IX Section 5.) states that "On or before January 1, 1979, the General Assembly by law shall abolish all ad valorem personal property taxes." It also declared that all revenue lost by local government and school districts shall be replaced by a statewide tax imposed on those relieved of paying the personal property tax. If the replacement tax was imposed on or measured by income, the Constitution stipulated that the tax shall not be considered for purposes established in Article IX Section 3 (a) on the limitations (the 8 to 5 ratio) on income taxation.

There was much debate over this provision in the Constitution and calls by various groups for an extension in the implementation. In a court case, the Supreme Court held that the provision was not self-executing but required legislation. Without legislation the personal property tax would remain in effect. The Supreme Court also held that the General Assembly could not abolish the personal property tax without enacting replacement taxes. In the end, the personal property tax on businesses was replaced by the General Assembly in 1979 with an extra income tax on corporations and an invested capital tax on public utilities.

Initially, the corporate income tax was established at 2.85% of federal taxable income but it was reduced to 2.5% on January 1, 1981. Partnerships, trusts, and "S" corporations are taxed at 1.5% of federal taxable income. Effective January 1, 1998 the invested capital tax was replaced, except for electric cooperatives, with electricity distributors paying a tax based on the amount of electricity delivered and telecommunication distributors paying an infrastructure maintenance fee.

Revenues generated from these taxes are deposited into the Personal Property Tax Replacement Fund. Based on their share of personal property tax collections in 1976 for Cook County and 1977 for the other counties, these monies are distributed with 51.65% going to local governments in Cook County and 48.35% to local governments in the other 101 counties. Only those local governments that had a personal property tax in 1976 and 1977 receive a share of these revenues. Also, their share does not change over time irregardless of any changes in the size of the local government.

Fiscal year 1981 was the first full year of deposits into the Personal Property Tax Replacement Fund. Revenues into the fund increased from $512 million in fiscal year 1981 to $1.199 billion in fiscal year 2006. Over this period, public utility taxes increased from $154 million to $226 million (up 46.8%) while corporate income taxes grew from $358 million to $973 million (up 171.8%). As evident in the chart, revenues from both sources have fluctuated over the years. Also beginning in fiscal year 1989, a portion of the replacement corporate income tax was deposited into the Income Tax Refund Fund. ■



Source: Comptroller's records.

Fiscal Year 2006 Fee Imposition Report Issued

In fiscal year 2006, the State of Illinois collected $5.6 billion from 1,349 fees administered by 80 state agencies. Fee revenues were down $600 million or 9.7% from their prior year level. This decrease can be attributed to the absence of Hospital Provider Fee revenues which had totaled $637 million in fiscal year 2005.

Fees generated 8.0% of revenues deposited into Illinois' main operating fund groups. If fee revenues were tracked as a single revenue source, they would have been the fourth largest state revenue source, surpassed only by federal aid ($12.4 billion), state income taxes ($11.4 billion), and state sales taxes ($8.4 billion). Most of the collections are deposited into restricted funds. Only $473 million was deposited into the General Funds. In contrast, 29% of fee revenue was deposited into Special State Funds and 24% was deposited into Highway Funds.

A special report details the impact of the many health care related fees included in this report. The fiscal year 2006 report is available from the Comptroller's Office or can be accessed from the Comptroller's website at http://www.ioc.state.il.us/. ■

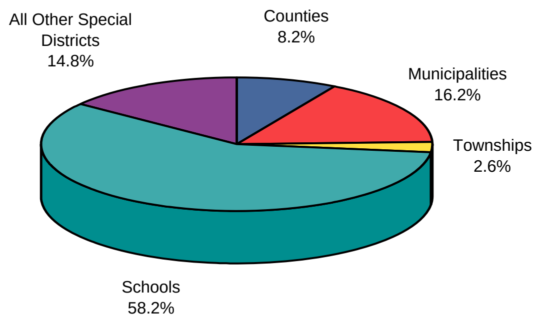
Property Tax Burdens Vary concluded from page 19

liability of ($50,000 - $5,000) x 7.172% = $3,227.40.

To illustrate the variation in property tax rates and liabilities, a sample of 20 cities was selected from various locations in Illinois. The estimated tax liabilities shown in the table are based on a hypothetical situation assuming that a single-family home has a market value of $150,000 and that a general homestead exemption of $5,000 was applied. From the table the highest tax rate among these cities belongs to Harvey, Illinois. The residents that live within Thornton Township and school district number 205 pay an aggregate tax rate of 16.026%. On the flipside, residents of Bolingbrook in Lisle Township of DuPage County pay an aggregate tax rate of 6.613%. As shown in the table, the tax liability for a home in Harvey within the boundaries of school district 205 would be $7,211.70 while the liability for a home in Harvey within school district 152 would be $6,722.10. On the other hand, a resident in the city of Bolingbrook in Lisle Township would have a tax liability of $2,975.85 for property at the same market value.

However, since property values vary greatly across the state, another view of the variability of property tax rates in Illinois would be the difference in the value of property supported by a fixed amount of property taxes. For example, assume that a home owner in Harvey/Thornton Township and a home owner in Bolingbrook/Lisle Township have an equal tax liability of $4,500. Because of the differences in tax rates, the Harvey home owner would have property valued at $99,237 while the home owner in Bolingbrook would have property valued at $219,144. Although the home owners have the same property tax liability, they have very different property values.

Percentage Distribution of Property Tax Extensions Statewide 2003



Source: Illinois Department of Revenue.

As another example, assume a home owner in Homewood and a home owner in downstate Mt. Vernon have an equal tax liability of $4,500. Because of the differences in tax rates, the Mt. Vernon home owner would have property valued at $191,772, while the home owner in Homewood would have property valued at $120,420. Again, the home owners have the same tax burden but have different property values to show for it.

In general, school districts are responsible for the largest share of local property taxes. In Plainfield, approximately 68% of property taxes go toward the school district (4.897/7.172). Thus, of the $3,227.40 tax liability paid by a Plainfield resident, $2,194.63 ($3,227.40 x .68) goes toward education. The pattern of school districts accounting for a majority of local property taxes exists throughout the state. As shown in the pie chart, schools accounted for 58.2% of the 2003 property tax extensions statewide. Municipalities accounted for 16.2%, counties accounted for 8.2%, townships accounted for 2.6% and all other special districts accounted for 14.8%. ■

Revenues from "Sin" Taxes Increase continued from page 17

in 2002 is reflected in the state receipts increasing from $469 million in fiscal year 2002 to $700 million in fiscal year 2003.

After increasing to $760 million in fiscal year 2004, cigarette tax revenues declined over the next two years. This decline was a result of significant tax increases in both Cook County and the City of Chicago. On April 1, 2004, Cook County increased its cigarette tax rate from 18 cents to $1.00 per pack and then to $2.00 per pack on March 1, 2006. On January 1, 2005, the City of Chicago increased its cigarette tax from 16 cents to 48 cents and then to 68 cents per pack on January 10, 2006. The increases are believed to have pushed smokers to quit, go out of state for their purchases, or use alternative methods of purchasing such as the internet. Of the $640 million in receipts in fiscal year 2006, $245 million went to the General Revenue Fund, $181 million went to the Long Term Care Provider Fund, $154 million went to the Common School Fund, and $60 million went to the School Infrastructure Fund.

Liquor taxes and fees have increased by $90 million or 145.2% over the last ten years from $62 million in fiscal year 1997 to $152 million in fiscal year 2006. Rate increases implemented in fiscal year 2000 account for the increase. Prior to fiscal year 2000, beer and cider were taxed at 7 cents per gallon with wine at 23 cents and distilled liquor at $2.00. After the tax increase beer was taxed at 18.5 cents, wine at 73 cents, and distilled liquor at $4.50. Annual Liquor Control Commission fees include $500 for retail sellers and $25 to $3,600 on some manufacturers. All liquor taxes and 50% of the $500 fee on retail sellers are deposited into the General Revenue Fund. The remaining fees are deposited into the Dram Shop Fund.

Horse racing, bingo, and pull tabs and jar games are other forms of these taxes applied in Illinois. In fiscal year 2006, $16 million was deposited into the State Treasury from these sources compared to $53 million in fiscal year 1997. The large decrease is due primarily to the changes implemented in horse racing taxes to help the struggling industry offset the impact of riverboat gambling. ■

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	March 2007	FY 2007	Nine Months Change From Prior Year $	%
Total General Funds				
Available Balance	$ 299	$ 590	$ 93	18.7 %
Revenues	2,824	21,658	822	3.9
Expenditures	2,820	21,945	1,098	5.3
Ending Balance	$ 303	$ 303	$ (183)	(37.7) %
General Revenue Fund				
Available Balance	$ 2	$ 66	$ (132)	(66.7) %
Revenues	2,492	18,655	765	4.3
Expenditures	2,470	18,697	879	4.9
Ending Balance	$ 24	$ 24	$ (246)	(91.1) %
Common School Special Account Fund				
Available Balance	$ 70	$ 41	$ 25	156.3 %
Revenues	128	1,346	26	2.0
Expenditures	138	1,327	63	5.0
Ending Balance	$ 60	$ 60	$ (12)	(16.7) %
Education Assistance Fund				
Available Balance	$ 188	$ 463	$ 208	81.6 %
Revenues	114	993	64	6.9
Expenditures	117	1,271	201	18.8
Ending Balance	$ 185	$ 185	$ 71	62.3 %
Common School Fund				
Available Balance	$ 38	$ 20	$ (8)	(28.6) %
Revenues	314	2,628	247	10.4
Expenditures	318	2,614	234	9.8
Ending Balance	$ 34	$ 34	$ 5	17.2 %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

Revenues:	March 2007	FY 2007	Nine Months Change From Prior Year $	%
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 769	$ 6,307	$ 490	8.4 %
Corporate	309	1,047	174	19.9
Total, Income Taxes	$ 1,078	$ 7,354	$ 664	9.9 %
Sales Taxes	515	5,377	109	2.1
Other Sources:				
Public Utility Taxes	102	847	10	1.2
Cigarette Taxes	29	263	(37)	(12.3)
Inheritance Tax (gross)	16	198	(5)	(2.5)
Liquor Gallonage Taxes	10	117	2	1.7
Insurance Taxes and Fees	40	202	(1)	(0.5)
Corporation Franchise Tax and Fees	21	147	11	8.1
Investment Income	17	154	50	48.1
Cook County IGT	0	178	(38)	(17.6)
Riverboat Gambling Taxes	0	0	(4)	(100.0)
Other	32	329	8	2.5
Total, Other Sources	$ 267	$ 2,435	$ (4)	(0.2) %
Total, Cash Receipts	$ 1,860	$ 15,166	$ 769	5.3 %
Transfers In:				
Lottery Fund	$ 67	$ 447	$ (57)	(11.3) %
State Gaming Fund	35	455	15	3.4
Other Funds	48	504	104	26.0
Total, Transfers In	$ 150	$ 1,406	$ 62	4.6 %
Total, State Sources	$ 2,010	$ 16,572	$ 831	5.3 %
Federal Sources	$ 525	$ 3,621	$ (198)	(5.2) %
Total, Base Revenues	**$ 2,535**	**$ 20,193**	**$ 633**	**3.2 %**
Short-Term Borrowing	0	900	(100)	(10.0)
Transfer from Budget Stabilization Fund	0	276	0	0.0
Cash Flow Transfer - Hospital Provider Fund	289	289	289	N/A
Total, Revenues	$ 2,824	$ 21,658	$ 822	3.9 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

Expenditures:	March 2007	FY 2007	Nine Months Change From Prior Year $	%
Awards and Grants:				
Healthcare & Family Services	$ 632	$ 5,304	$ 94	1.8 %
Elem. & Sec. Education:				
State Board of Education	678	4,482	263	6.2
Teachers Retirement	68	610	154	33.8
Total, Elem. & Sec. Education	$ 746	$ 5,092	$ 417	8.9 %
Human Services	214	2,289	(11)	(0.5)
Higher Education	70	725	73	11.2
All Other Grants	146	1,014	79	8.4
Total, Awards and Grants	$ 1,808	$ 14,424	$ 652	4.7 %
Operations:				
Other Agencies	$ 474	$ 3,928	$ 190	5.1 %
Higher Education	110	1,180	(146)	(11.0)
Total, Operations	$ 584	$ 5,108	$ 44	0.9 %
Regular Transfers Out	$ 262	$ 2,086	$ 86	4.3 %
All Other	$ 1	$ 11	$ 0	0.0 %
Vouchers Payable Adjustment	$ 165	$ (584)	$ (309)	N/A
Total, Base Expenditures	**$ 2,820**	**$ 21,045**	**$ 473**	**2.3 %**
Transfers to Repay GRF Short-Term Borrowing	0	0	(275)	(100.0)
Cash Flow Transfer - Hospital Provider Fund	0	900	900	N/A
Total, Expenditures	$ 2,820	$ 21,945	$ 1,098	5.3 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	March 2007	FY 2007	Nine Months Change From Prior Year $	%
Personal Services:				
Regular Positions	$ 292	$ 2,685	$ (36)	(1.3) %
Other Personal Services	15	134	(17)	(11.3)
Total, Personal Services	$ 307	$ 2,819	$ (53)	(1.8) %
Contribution Retirement	25	283	59	26.3
Contribution Social Security	14	133	3	2.3
Contribution Group Insurance	103	825	35	4.4
Contractual Services	61	464	(35)	(7.0)
Travel	2	15	2	15.4
Commodities	11	85	(3)	(3.4)
Printing	1	6	0	0.0
Equipment	2	17	(4)	(19.0)
Electronic Data Processing	2	29	2	7.4
Telecommunications	4	36	(6)	(14.3)
Automotive Equipment	2	18	(1)	(5.3)
Other Operations	50	378	45	13.5
Total, Operations	$ 584	$ 5,108	$ 44	0.9 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	March 2007	FY 2007	Nine Months Change From Prior Year $	%
State Board of Education:				
General State Aid	$ 342	$ 2,760	$ 154	5.9 %
All Other	336	1,722	109	6.8
Healthcare & Family Services	632	5,304	94	1.8
Human Services	214	2,289	(11)	(0.5)
Higher Education:				
Student Assistance Commission	47	387	33	9.3
Community College Board	1	265	0	0.0
Other	22	73	40	121.2
Teacher's Retirement	68	610	154	33.8
Children and Family Services	61	447	6	1.4
Aging	36	266	45	20.4
Revenue	2	15	2	15.4
All Other	47	286	26	10.0
Total, Awards and Grants	$ 1,808	$ 14,424	$ 652	4.7 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES
(Dollars in Millions)

	April 2007	Ten Months FY 2007	Change From Prior Year $	Change From Prior Year %
Total General Funds				
Available Balance	$ 303	$ 590	$ 93	18.7 %
Revenues	3,338	24,996	1,449	6.2
Expenditures	3,400	25,345	1,838	7.8
Ending Balance	$ 241	$ 241	$ (296)	(55.1) %
General Revenue Fund				
Available Balance	$ 24	$ 66	$ (132)	(66.7) %
Revenues	2,967	21,622	1,382	6.8
Expenditures	2,982	21,679	1,534	7.6
Ending Balance	$ 9	$ 9	$ (284)	(96.9) %
Common School Special Account Fund				
Available Balance	$ 60	$ 41	$ 25	156.3 %
Revenues	137	1,483	20	1.4
Expenditures	129	1,456	47	3.3
Ending Balance	$ 68	$ 68	$ (2)	(2.9) %
Education Assistance Fund				
Available Balance	$ 185	$ 463	$ 208	81.6 %
Revenues	163	1,156	88	8.2
Expenditures	194	1,465	292	24.9
Ending Balance	$ 154	$ 154	$ 4	2.7 %
Common School Fund				
Available Balance	$ 34	$ 20	$ (8)	(28.6) %
Revenues	295	2,923	179	6.5
Expenditures	319	2,933	185	6.7
Ending Balance	$ 10	$ 10	$ (14)	(58.3) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES
(Dollars in Millions)

	April 2007	Ten Months FY 2007	Change From Prior Year $	Change From Prior Year %
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	$ 1,276	$ 7,584	$ 632	9.1 %
Corporate	399	1,445	293	25.4
Total, Income Taxes	$ 1,675	$ 9,029	$ 925	11.4 %
Sales Taxes	553	5,929	88	1.5
Other Sources:				
Public Utility Taxes	77	924	19	2.1
Cigarette Taxes	29	292	(41)	(12.3)
Inheritance Tax (gross)	22	220	(3)	(1.3)
Liquor Gallonage Taxes	13	130	6	4.8
Insurance Taxes and Fees	42	245	(3)	(1.2)
Corporation Franchise Tax and Fees	15	162	14	9.5
Investment Income	17	171	54	46.2
Cook County IGT	26	204	(52)	(20.3)
Riverboat Gambling Taxes	0	0	(4)	(100.0)
Other	41	370	17	4.8
Total, Other Sources	$ 282	$ 2,718	$ 7	0.3 %
Total, Cash Receipts	$ 2,510	$ 17,676	$ 1,020	6.1 %
Transfers In:				
Lottery Fund	$ 50	$ 497	$ (64)	(11.4) %
State Gaming Fund	40	495	20	4.2
Other Funds	182	686	197	40.3
Total, Transfers In	$ 272	$ 1,678	$ 153	10.0 %
Total, State Sources	$ 2,782	$ 19,354	$ 1,173	6.5 %
Federal Sources	$ 389	$ 4,010	$ (80)	(2.0) %
Total, Base Revenues	**$ 3,171**	**$ 23,364**	**$ 1,093**	**4.9 %**
Short-Term Borrowing	0	900	(100)	(10.0)
Transfer from Budget Stabilization Fund	0	276	0	0.0
Cash Flow Transfer - Hospital Provider Fund	167	456	456	N/A
Total, Revenues	$ 3,338	$ 24,996	$ 1,449	6.2 %

GENERAL FUNDS ANALYSIS OF EXPENDITURES
(Dollars in Millions)

	April 2007	Ten Months FY 2007	Change From Prior Year $	Change From Prior Year %
Expenditures:				
Awards and Grants:				
Healthcare & Family Services	$ 536	$ 5,840	$ 304	5.5 %
Elem. & Sec. Education:				
State Board of Education	490	4,972	301	6.4
Teachers Retirement	68	677	170	33.5
Total, Elem. & Sec. Education	$ 558	$ 5,649	$ 471	9.1 %
Human Services	221	2,510	(20)	(0.8)
Higher Education	22	748	42	5.9
All Other Grants	78	1,093	89	8.9
Total, Awards and Grants	$ 1,415	$ 15,840	$ 886	5.9 %
Operations:				
Other Agencies	$ 458	$ 4,386	$ 243	5.9 %
Higher Education	114	1,294	(71)	(5.2)
Total, Operations	$ 572	$ 5,680	$ 172	3.1 %
Regular Transfers Out	$ 389	$ 2,475	$ 263	11.9 %
All Other	$ 4	$ 15	$ 1	7.1 %
Vouchers Payable Adjustment	$ 760	$ 175	$ 88	101.1
Total, Base Expenditures	**$ 3,140**	**$ 24,185**	**$ 1,410**	**6.2 %**
Transfers to Repay GRF Short-Term Borrowing	0	0	(732)	(100.0)
Cash Flow Transfer - Hospital Provider Fund	260	1,160	1,160	N/A
Total, Expenditures	$ 3,400	$ 25,345	$ 1,838	7.8 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT
(Dollars in Millions)

	April 2007	Ten Months FY 2007	Change From Prior Year $	Change From Prior Year %
Personal Services:				
Regular Positions	$ 292	$ 2,977	$ 64	2.2 %
Other Personal Services	15	149	(16)	(9.7)
Total, Personal Services	$ 307	$ 3,126	$ 48	1.6 %
Contribution Retirement	25	308	53	20.8
Contribution Social Security	14	147	4	2.8
Contribution Group Insurance	110	934	36	4.0
Contractual Services	54	519	(12)	(2.3)
Travel	2	16	1	6.7
Commodities	8	94	(1)	(1.1)
Printing	0	6	0	0.0
Equipment	1	18	(3)	(14.3)
Electronic Data Processing	4	33	4	13.8
Telecommunications	3	40	(6)	(13.0)
Automotive Equipment	2	19	(1)	(5.0)
Other Operations	42	420	49	13.2
Total, Operations	$ 572	$ 5,680	$ 172	3.1 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS
(Dollars in Millions)

	April 2007	Ten Months FY 2007	Change From Prior Year $	Change From Prior Year %
State Board of Education:				
General State Aid	$ 342	$ 3,102	$ 173	5.9 %
All Other	148	1,870	128	7.3
Healthcare & Family Services	536	5,840	304	5.5
Human Services	221	2,510	(20)	(0.8)
Higher Education:				
Student Assistance Commission	11	398	16	4.2
Community College Board	9	274	0	0.0
Other	2	76	26	52.0
Teacher's Retirement	68	677	170	33.5
Children and Family Services	31	478	21	4.6
Aging	30	295	48	19.4
Revenue	2	18	4	28.6
All Other	15	302	16	5.6
Total, Awards and Grants	$ 1,415	$ 15,840	$ 886	5.9 %

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