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MONTHLY BRIEFING

For the Month Ended: JULY 2024

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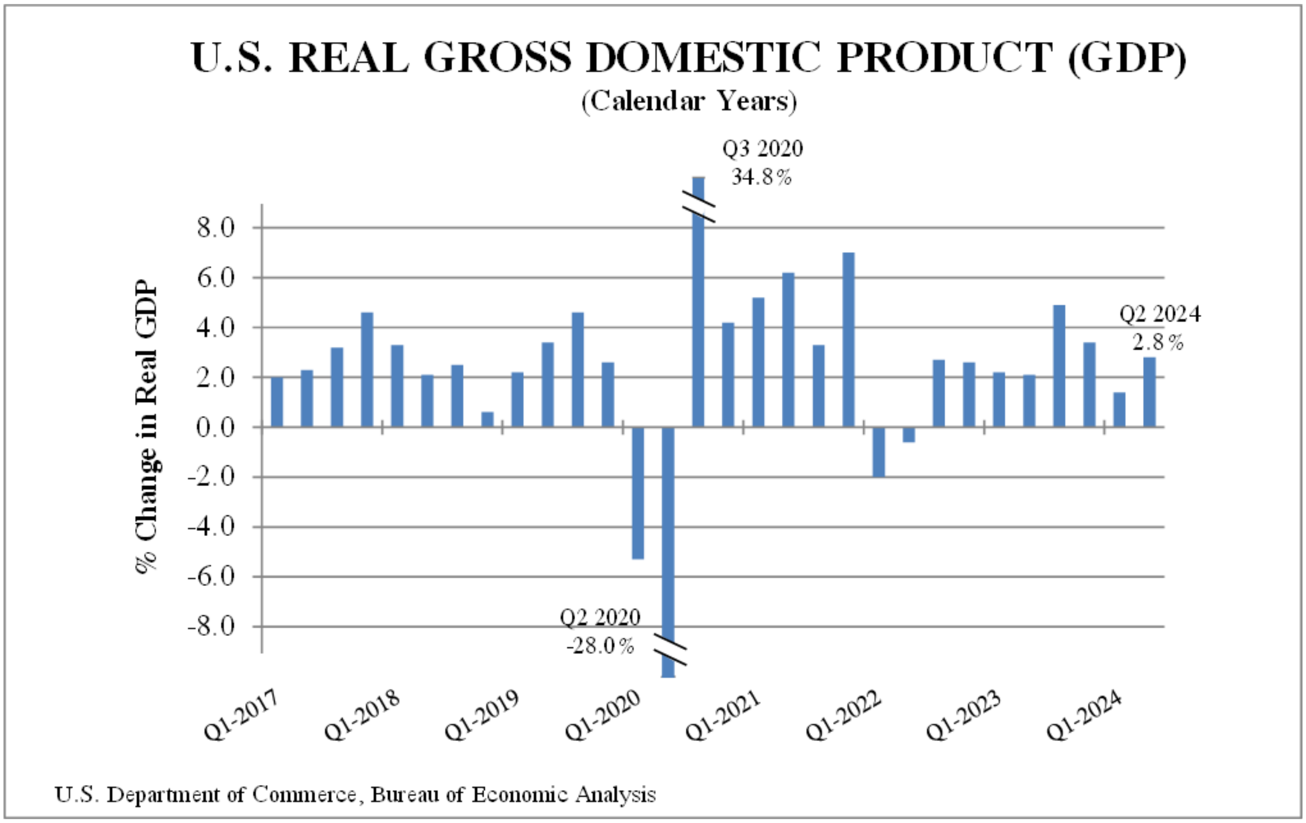
U.S. Economy Beats Expectations in the 2nd Quarter

Benjamin L. Varner, Chief Economist

Estimates from the Bureau of Economic Analysis showed the U.S. economy accelerating during the second quarter of 2024. Real Gross Domestic Product (GDP) grew at an annualized rate of 2.8%, up from 1.4% in the first quarter and surpassing expert forecasts of around 2.0%. This growth was primarily driven by consumer spending, which rebounded after a relatively slow start to the year. Business spending also continued to grow, although housing declined after a strong first quarter. While inventory growth rallied, it was essentially offset by a widening trade gap. Government spending remained robust, further supporting economic growth.

Consumer spending constituted more than half of the economic growth in the last quarter, accounting for nearly 1.6% of the total 2.8% increase. Overall, personal consumption expenditures grew by 2.3%, up from the sluggish first quarter growth rate of 1.5%. However, this was still below the over 3.0% growth seen in the second half of 2023.

Spending on goods rebounded significantly, rising by 2.5% compared to a decline of -2.3% in the first quarter. Durable goods were up by 4.7%, while nondurable goods grew by 1.4%. Durable goods sales were evenly distributed throughout the economy, whereas nondurable goods sales were driven by gasoline, other energy goods, and food and beverages for off-premises consumption. Clothing and footwear were a drag on the economy.



The bulk of the growth in consumer spending during the second quarter was due to a 2.2% increase in the much larger service sector. However, this was down from the 3.4% and 3.3% growth rates observed in the last quarter of 2023 and the first quarter of 2024, respectively. This quarter's growth was powered by health care, housing, and utilities.

Business spending continued to strengthen. Nonresidential fixed investment, which slowed to 1.4% in the third quarter of 2023, has improved each quarter since. It rose to 3.7% in the fourth quarter of 2023, increased to 4.4% in the first quarter of 2024, and grew to 5.2% in the latest quarter. Business spending in the second quarter was fueled by equipment expenditures, up by 11.6%, especially transportation equipment. This strong performance by transportation equipment may not continue, as durable goods orders fell dramatically by 6.6% in June after four months of gains, primarily due to a massive decline in commercial aircraft orders. Information processing equipment also supported economic growth. However, business spending on structures declined by -3.3%, while intellectual property products grew by 4.5%.

Housing has returned to being an impediment to economic growth. Housing saw large contractions during the two-year period between the 2nd quarter of 2021 and the 2nd quarter of 2023. These declines were especially steep during 2022. This was followed by three quarters of growth, with the first quarter of 2024 growing by a surprising 16.0%. However, in the second quarter, residential fixed investment declined by -1.4%. Housing is likely to continue to struggle until interest rates see a notable decrease.

The more volatile components of GDP mostly offset each other this quarter. Growth in private inventories boosted the economy, while net exports of goods and services slowed it by almost the same magnitude. The change in private inventories lifted economic growth by 0.82%, while net exports subtracted 0.72%. Exports grew modestly by 2.0% (goods by 1.7%, services by 2.6%), but imports rose by 6.9%. Imports were driven by a 7.7% increase in goods imports, the fastest growth since the first quarter of 2022. The import of services climbed by 3.6%.

Government expenditures and investment grew at a rate of 3.1%, up from 1.8% in the first quarter but below the 4.6% average in 2023. Federal government expenditures grew by 3.9%, picking up from the more sedate spending of the previous two quarters. Defense spending grew by 5.2%, while non-defense spending rose by 2.2%. State and local outlays increased significantly in 2023 but have been more modest in 2024, growing by 2.6% in the second quarter, down from 3.0% in the first quarter.

Overall, the economy continues to chug along. The U.S. economy has been at or above long-term growth rates since mid-2022, except for the first quarter of 2024. Sturdy consumer spending has buoyed economic growth, and business spending has gained traction in recent quarters. However, housing is likely to continue to be a hindrance as long as the Federal Reserve views inflation as a pressing threat and keeps interest rates elevated. Government disbursements have also helped the economy grow in recent years, but it remains to be seen how long this can continue.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS*	LATEST MONTH	PRIOR MONTH	A YEAR AGO
Unemployment Rate (Average) (June)	5.0%	4.9%	4.3%
Inflation in Chicago (12-month percent change) (June)	3.0%	3.1%	2.1%

	LATEST MONTH	CHANGE OVER PRIOR MONTH	CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,517.0	0.1%	1.4%
Employment (thousands) (June)	6,189.1	-0.1%	0.6%
Nonfarm Payroll Employment (June)	6,158,300	7,300	6,158,300
New Car & Truck Registration (June)	28,198	-27.4%	-20.6%
Single Family Housing Permits (June)	938	-11.6%	11.5%
Total Exports ($ mil) (May)	7,113.3	4.5%	10.9%
Chicago Purchasing Managers Index (July)	45.3	-4.4%	5.8%

* Due to monthly fluctuations, trend best shown by % change from a year ago

A Closer Look: Corporate Franchise Tax

Anthony Bolton, Senior Revenue Analyst and Sarah Barlow, Senior Research Analyst

As part of this and future monthly briefings, the Commission will include a series of articles providing a closer look at some of Illinois' prominent tax revenue sources. Much of the information included in these synopses is detailed in the Commission's annual publication entitled, "Illinois Tax Handbook for Legislators", which can be found on our website using this link: https://www.ilga.gov/commission/lru/TaxHandbook2024.pdf. This series continues with a closer look at Illinois' Corporate Franchise Tax.

The Corporate Franchise Tax refers to an annual franchise tax applied to all corporations, foreign and domestic, doing business in Illinois. This tax is also applied when a corporation initially begins doing business in Illinois. An additional tax is applied when a corporation changes its capital structure or has a merger/consolidation. Unlike most taxes, this particular tax is administered by the Secretary of State's office. The following section provides further information on the components of Illinois' Corporate Franchise Tax.

History and Rates of Corporate Franchise Taxes

Franchise taxes on corporations in Illinois were first imposed in 1934 (805 ILCS 5/15.05 ff.). Depending on the situation of the corporation in question, they are taxed differently. Upon their first entry into business in Illinois, a corporation will be taxed 0.15% of their stated capital and paid-in surplus. If this corporation increases the sum of their capital/surplus, they pay a 0.15% tax on that sum. After the initial tax, they continue to pay an annual tax at a lower rate (0.10%). The following chart details the rates imposed by Illinois over time. As shown, the last tax rate change was in 1991.

Franchise Tax Rates

(Applies to Stated Capital and Paid-in Surplus)

Year	Initial Franchise Tax	Additional Franchise Tax	Annual Franchise Tax
1934	0.05%	0.05%	0.05%
1967	0.10%	0.10%	0.05%
1983	0.10%	0.10%	0.10%
1991	0.15%	0.15%	0.10%

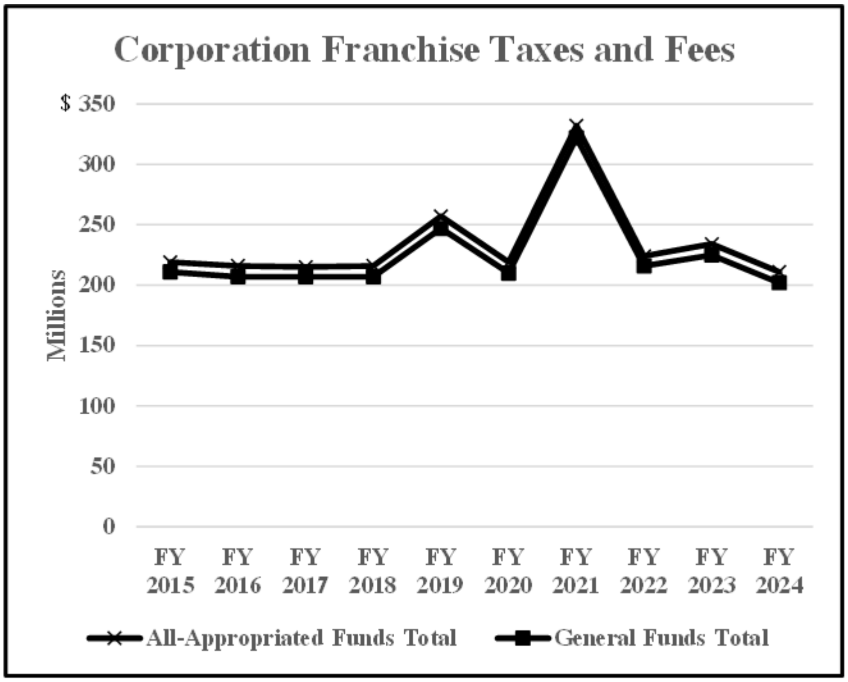
While the tax rate has not changed for 33 years, the State has taken actions over time that have affected total revenues from this source. In 2008, a brief tax amnesty program allowed payment of outstanding tax liabilities without penalties or interest. This program gathered approximately $21.9 million.

In recent years, an effort has been made to phase out this revenue source. In 2019, Governor Pritzker signed into law SB 0689 (P.A. 101-0009), which would have phased out the Corporate Franchise Tax entirely by 2025. However, this phase-out was halted when the concern for revenues arose at the start of the COVID-19 pandemic. Instead, lawmakers have enacted a series of exemption increases in recent years. Accordingly, starting in calendar year 2020, the first $30 of liability was exempted from the Franchise Tax. From calendar years 2021-2023, the first $1,000 was exempt, while in calendar year 2024, the first $5,000 is exempt from taxation. Starting in calendar year 2025 and continuing onward, the first $10,000 will be exempt from taxation. This exemption increase was part of P.A. 103-0592, the recently enacted revenue omnibus package passed at the end of the legislative session in May 2024.

<u>10-Year Component Revenue History</u>

Over the last decade, the revenues from the Corporate Franchise tax fluctuated, especially with the economic upheaval during and in the wake of the COVID-19 pandemic, which impacted the timing of receipts in FY 2020 and FY 2021. Over the last ten years, revenues from this source have ranged from a low of $202 million in General Fund Revenue ($211 million in All Appropriated Fund revenue) in FY 2024 to a high of $322 million in General Fund Revenue ($332 million in All Appropriated Fund revenue) in FY 2021. It is expected that the recently enacted elevated exemption level of $10,000 will reduce potential revenues by roughly $10 million/year. A historic breakdown of Corporate Franchise tax revenue is detailed below in the following chart and graph.

Corporate Franchise Tax Revenue History				
Fiscal Year	**General Funds Total (in Millions)**	**Change**	**All Appropriated Funds Total (in Millions)**	**Change**
2015	$211	3.9%	$219	3.8%
2016	$207	-1.9%	$216	-1.4%
2017	$207	0.0%	$215	-0.5%
2018	$207	0.0%	$216	0.5%
2019	$247	19.3%	$257	19.0%
2020	$210	-15.0%	$219	-14.8%
2021	$322	53.3%	$332	51.6%
2022	$216	-32.9%	$224	-32.5%
2023	$225	4.2%	$234	4.5%
2024	$202	-10.2%	$211	-9.8%



Distribution of Corporate Franchise Tax Revenues

This tax is split with the majority of revenues going to the General Revenue Fund (98% of revenue) and the remainder to the Corporate Franchise Tax Refund Fund (2%). Despite the state legislature steadily raising the amount of tax revenues exempted in recent years, this distribution of tax revenue has remained consistent.

Taxes Imposed by Cities, Counties, Other States, and the Federal Government

There is no federal-level corporate franchise tax. Additionally, there are no known city-level corporate franchise taxes in Illinois, as the direct local taxation of large corporations would be extremely difficult, if not impossible to attempt. It is necessary to note that all states impose a variety of initial/annual corporate taxes, though the tax rates and schedules of payments (including Corporate Franchise Taxes) vary widely among states.

Enacted Changes Impacting Sales Tax "Net" Receipts in FY 2025

Eric Noggle, Revenue Manager

There were several changes made at the end of the 2024 Spring Session that will help boost Sales Tax net receipt totals deposited into the State's General Funds in FY 2025. These changes are detailed below.

- **Distribution Changes.** Under the recently enacted BIMP bill for FY 2025 (P.A. 103-0588), the first $75 million of State sales tax revenues that would have otherwise been deposited into the Downstate Public Transportation Fund [DPTF] shall instead be transferred from the Road Fund to the DPTF. Also, $75 million that would have otherwise been transferred from the General Revenue Fund [GRF] and deposited into the Public Transportation Fund [PTF] shall instead by transferred from the Road Fund to the PTF. (This is in addition to the first $150 million that comes from the Road Fund under current law). Furthermore, the next $50 million that would otherwise have been transferred from the GRF and deposited into the PTF shall instead be transferred from the Underground Storage Tank Fund and deposited into the PTF. In total, these distribution changes (which are for FY 2025 only) will effectively result in the General Funds retaining a total of $200 million that would otherwise be sent to these non-General Funds transportation funds.

- **Retailer's Discount Limit.** Under the recently enacted "Revenue Omnibus" bill (P.A. 103-0592), a $1,000 per month limit is established for the vendor's retailer discount. This limit is to go into effect on January 1, 2025. This change is expected to increase sales and use tax revenues by approximately $101 million on an annual basis. The revenue impact will be approximately half that amount in FY 2025 due to the January 1st start date.

- **Sales Tax on Leased Tangible Personal Property.** P.A. 103-0592 adds leased tangible personal property to the list of things taxable under the sales and use taxes. Under the Retailer's Occupation Tax, "sale at retail" will now mean any transfer of the ownership of, the title to, the possession or control of, the right to possess or control, or a license to use tangible personal property to a purchaser, "Lease" will mean a transfer of the possession or control of, the right to possess or control, or a license to use, but not title to, tangible personal property for a fixed or indeterminate term for consideration, regardless of the name by which the transaction is called. "Lease" will not include a lease entered into merely as a security agreement that does not involve a transfer of possession or control from the lessor to the lessee. It appears that most leases and rentals (besides property that needs to be registered with the State such as vehicles and watercraft) will now be taxable under the sales and use taxes. The Governor's Office has projected that this enacted change will generate approximately $20 million in FY 2025.

FY 2025 General Funds Revenues Off to Nice Start on Strength of Individual Income Tax Receipts in July

Eric Noggle, Revenue Manager

Revenues deposited in the State's General Funds started FY 2025 off nicely as July receipts were $387 million higher than July of FY 2024. This growth was mostly due to a significant increase in Personal Income Tax receipts, which grew $360 million on a gross basis, or $306 million on a net basis when accounting for distributions to the Income Tax Refund Fund and the Local Government Distributive Fund. The growth in July was aided by two extra receipting days, as compared to the same month of last year.

Despite these two extra receipting days, the other two members of the "big three" revenue sources did not fare as well in July. The Corporate Income Tax saw its gross total come in $81 million behind last July's level, or -$65 million on a net basis. Sales Tax gross receipts into the State's General Funds were $45 million lower than last July. On a net basis, the Sales Tax year-over-year figure is slightly better with a decline of -$28 million. This is despite a higher portion of motor fuel related sales tax revenues being distributed into the Road Fund in FY 2025. The reason for this slightly better net result is due to recently enacted changes related to the FY 2025 distribution of tax revenues to certain transportation funds. This is explained in the first dot-point on the prior page.

In terms of All Other State Sources, revenue sources that provided healthy gains in FY 2024 are starting FY 2025 in the same fashion. Interest on State Funds & Investments grew $37 million in July. Part of this growth may be due to timing as last month's receipts were $23 million lower than June of 2023. The Estate Tax continued its recent upward trend increasing $12 million in July. Insurance Taxes had the biggest gain in this category, growing $61 million. However, this source's recent monthly revenue totals have been largely inconsistent with prior year receipting patterns, so the growth here may too be related to a timing component. Other Sources also had a strong month growing $40 million thanks to a statutory annual loan repayment of $45 million to the Budget Stabilization Fund (via the Unemployment Insurance Trust Fund). Additional State sources in this category with increases in July include Public Utility Taxes [+$6 million]; and the Cigarette Tax [+$4 million]. A few sources saw declines, albeit slight, including the State's Corporate Franchise Tax [-$2 million] and the Liquor Tax [-$1 million]. In whole, All Other State Sources combined to grow $157 million in July.

Transfers In for the month of July were collectively up $17 million. Growth from Other Transfers elevated this month's totals by $20 million. The gain here is primarily due to a one-time transfer of $25 million from the Violent Crime Witness Protection Program Fund to the General Revenue Fund that was established under the FY 2025 Budget Implementation Act (P.A. 103-0588). There were only slight revenue changes in the primary transfer sources. Cannabis Transfers were up $1 million. Lottery Transfers were effectively flat for the month. Casino-related Gaming Transfers were $4 million less than July of last year.

Federal Sources matched last July's receipt total of $314 million resulting in no year-over-year change from this revenue source.

Summary of Receipts ***JULY*** *FY 2024 vs. FY 2025* *($ millions)*				
Revenue Sources	**July FY 2024**	**July FY 2025**	**$ CHANGE**	**% CHANGE**
Net Personal Income Tax	$1,554	$1,860	$306	19.7%
Net Corporate Income Tax	$259	$194	($65)	-25.1%
Net Sales Tax	$919	$891	($28)	-3.0%
All Other State Sources	$208	$365	$157	75.5%
Transfers In	$152	$169	$17	11.2%
Federal Sources [base]	$314	$314	$0	0.0%
Base General Funds	$3,406	$3,793	$387	11.4%
Non-Base Gen Funds Revenues	$0	$0	$0	N/A
Total General Funds	$3,406	$3,793	$387	11.4%
CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding				1-Aug-24

The Commission is making some slight changes to its General Funds Revenue tables that are included in each Monthly Briefing. These changes include:

- Relabeling the "Inheritance Tax" revenue line as the "Estate Tax" to more accurately reflect the entity being taxed under the Estate and Generation-Skipping Transfer Tax.

- Including a "Transfers In" line for "Sports Wagering" due to the newly enacted changes under P.A. 103-0592 which provides a transfer of 58% of sports wagering tax revenues to the General Revenue Fund under the newly imposed graduated tax structure. This monthly transfer will begin on September 25, 2024 and will occur on the 25th of each month.

The portions of income tax revenues that are distributed to the Income Tax Refund Fund (ITRF) and the Local Government Distributive Fund (LGDF) were set under the FY 2025 Budget Implementation Act (P.A. 103-0588) to be the same as FY 2024, as detailed below.

- 9.15% of Personal Income Tax receipts to ITRF; 6.47% of Net of Refunds to LGDF.
- 14.0% of Corporate Income Tax receipts to ITRF; 6.85% of Net of Refunds to LGDF.

The following tables account for the above items. The first table shows a summary of July revenue activity. The second table provides a summary of the final budget assumptions for General Funds revenues for FY 2025 as compared to the FY 2024 final revenue totals. This table includes the impact of all of the enacted revenue changes under P.A. 103-0592, which the Governor's Office values as near $1.1 billion. A listing of these changes, as well as an extensive overview of the FY 2025 budget, can be viewed in the Commission's recently released *FY 2025 Budget Summary*, which can be found at the Commission's website or using the following link:

https://cgfa.ilga.gov/Upload/FY%202025%20Budget%20Summary.pdf

JULY ***FY 2024 vs. FY 2025*** ***($ millions)***				
Revenue Sources	**July FY 2024**	**July FY 2025**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$1,829	$2,189	$360	19.7%
Corporate Income Tax (regular)	323	242	(81)	-25.1%
Sales Taxes	987	942	(45)	-4.6%
Public Utility Taxes (regular)	53	59	6	11.3%
Cigarette Tax	15	19	4	26.7%
Liquor Gallonage Taxes	18	17	(1)	-5.6%
Estate Tax	35	47	12	34.3%
Insurance Taxes and Fees	3	64	61	2,033.3%
Corporate Franchise Tax & Fees	19	17	(2)	-10.5%
Interest on State Funds & Investments	41	78	37	90.2%
Cook County IGT	0	0	0	N/A
Other Sources	24	64	40	166.7%
Total State Taxes	$3,347	$3,738	$391	11.7%
Transfers In				
Lottery	$70	$70	$0	0.0%
Gaming	15	11	(4)	-26.7%
Sports Wagering	0	0	0	N/A
Cannabis	9	10	1	11.1%
Refund Fund	0	0	0	N/A
Other	58	78	20	34.5%
Total Transfers In	$152	$169	$17	11.2%
Total State Sources	$3,499	$3,907	$408	11.7%
Federal Sources [base]	$314	$314	$0	0.0%
Total Federal & State Sources	$3,813	$4,221	$408	10.7%
Nongeneral Funds Distributions/Direct Receipts:				
Refund Fund				
Personal Income Tax	($167)	($200)	($33)	19.8%
Corporate Income Tax	(45)	($34)	11	-24.4%
Local Government Distributive Fund				
Personal Income Tax	(108)	(129)	(21)	19.4%
Corporate Income Tax	(19)	(14)	5	-26.3%
Sales Tax Distributions				
Deposits into Road Fund	(44)	(51)	(7)	15.9%
Distribution to the PTF and DPTF	(24)	0	24	-100.0%
General Funds Subtotal [Base]	**$3,406**	**$3,793**	**$387**	**11.4%**
Non-Base Gen Funds Revenues	$0	$0	0	N/A
Total General Funds	**$3,406**	**$3,793**	**$387**	**11.4%**

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Aug-24

General Funds Revenues
*FY 2024 Actuals vs. FY 2025 Enacted Budget Revenue Assumptions**
($ millions)

Revenue Sources	FY 2024 Actuals	FY 2025 Revenue Assumptions*	$ Change	% Change
State Taxes				
Personal Income Tax	$30,134	$31,195	$1,061	3.5%
Corporate Income Tax (regular)	$6,525	$6,713	$188	2.9%
Sales Taxes	$11,710	$12,164	$454	3.9%
Public Utility (regular)	$695	$701	$6	0.9%
Cigarette Tax	$204	$195	($9)	-4.4%
Liquor Gallonage Taxes	$179	$182	$3	1.7%
Estate Tax	$627	$635	$8	1.3%
Insurance Taxes & Fees	$486	$522	$36	7.4%
Corporate Franchise Tax & Fees	$202	$208	$6	3.0%
Interest on State Funds & Investments	$654	$500	($154)	-23.5%
Cook County Intergovernmental Transfer	$244	$244	$0	0.0%
Other Sources	$677	$717	$40	5.9%
Total State Taxes	**$52,337**	**$53,976**	**$1,639**	**2.4%**
Transfers In				
Lottery	$877	$902	$25	2.9%
Gaming	$158	$177	$19	12.0%
Sports Wagering	$0	$200	$200	N/A
Cannabis	$114	$123	$9	7.9%
Refund Fund	$555	$300	($255)	-45.9%
Other	$846	$859	$13	1.5%
Total Transfers In	**$2,550**	**$2,561**	**$11**	**0.4%**
Total State Sources	**$54,887**	**$56,537**	**$1,650**	**3.0%**
Federal Sources [Base]	**$3,893**	**$4,024**	**$131**	**3.4%**
Total Federal & State Sources	**$58,780**	**$60,561**	**$1,781**	**3.0%**
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax [9.15% '24 & '25]	($2,758)	($2,854)	($96)	3.5%
Corporate Income Tax [14.0% '24 $ '25]	($914)	($940)	($26)	2.8%
Local Government Distributive Fund				
Personal Income Tax	($1,771)	($1,834)	($63)	3.6%
Corporate Income Tax	($384)	($395)	($11)	2.9%
Sales Tax Distributions				
Sales Tax Deposits into Road Fund	($570)	($773)	($203)	35.6%
Sales Tax Distribution to the PTF and DPTF	($675)	($484)	$191	-28.3%
General Funds Subtotal [Base]	**$51,708**	**$53,281**	**$1,573**	**3.0%**
Non-Base Gen Funds Revenues	$881	$0	($881)	-100.0%
Total General Funds	**$52,589**	**$53,281**	**$692**	**1.3%**

*Source: GOMB: https://budget.illinois.gov/ Note: Some totals may not equal, due to rounding.