ILLINOIS DEPARTMENT OF REVENUE

Analysis of Local Government Retailers' Occupation & Use Tax Receipts 2020-2023

Office of Fiscal and Economic Research

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Notes on Terminology and Methodology

The following discussion examines receipts reported under the Illinois Comptroller's Revenue Type Sales Taxes. This includes the Retailers' Occupation Tax, the Service Occupation Tax, the Use Tax, and the Service Use Tax. It also includes locally imposed occupation and use taxes administered by the Illinois Department of Revenue. Finally, it includes state and local automobile renting occupation and use taxes, if administered by the Illinois Department of Revenue, and the Rental Purchase Agreement Occupation Tax.

State receipts means everything associated with the state's 80 percent share of the statewide 6.25 percent occupation and use tax rate, plus the state Automobile Renting Occupation & Use Taxes and the Rental Purchase Agreement Occupation Tax.

Local receipts means everything else included in the Comptroller's Revenue Type Sales Taxes, including local governments' 20 percent share of the statewide 6.25 percent occupation and use tax rate, the statewide 1.0 percent on qualifying food, drugs, and medical appliances, non-home rule occupation taxes, home rule occupations taxes, special district occupation taxes, and more.

All totals exclude payments from tax amnesty programs. The Protest Fund is excluded. The Compassionate Use of Medical Cannabis Fund is also excluded because the Comptroller included it in Revenue Type Sales Taxes only temporarily (2016 to 2019).

Local receipts for August 2022 to May 2023 have been adjusted to account for the grocery tax holiday's impact. The uncollected tax is reported by retailers using Schedule GT, and these reported tax amounts were added back to local receipts to make them comparable to prior periods and consistent with local disbursements, which are being compensated for the missing tax by state government.

The discussion involves nominal receipts, i.e., receipts not adjusted for inflation, and real receipts, i.e., receipts that have been adjusted for inflation. Inflation adjustments are based on the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, All Items.

Recent Trends in State and Local Occupation and Use Tax Receipts

The primary drivers of state and local occupation and use tax receipts over the last few years were the Covid-19 pandemic, the Leveling the Playing Field for Illinois Retail Act (LPFA), and inflation.

State receipts declined quickly at the start of the pandemic but rebounded after only a few months. Federal fiscal stimulus, in particular, direct payments to taxpayers and expanded unemployment benefits, increased personal income above pre-pandemic levels and thus helped fuel increased taxable spending (see Graph 1). At the same time, consumers reallocated spending from services to goods because of lifestyle changes during the pandemic (see Graphs 2 and 3). The shift in spending from services to goods helped increase state and local receipts from occupation and use taxes because Illinois does not tax most service consumption.

Although local receipts also benefited from consumers that had more money to spend and were spending more of it on goods than normal, the positive impact came later than it did for state receipts. As Graph 4 shows, the pandemic's negative impact on aggregate local receipts lasted much longer, giving local receipts a much slower recovery. State receipts had year-over-year declines for just three months (April to June 2020), whereas aggregate local receipts had year-over-year declines for 11 months (April 2020 to February 2021).

One possible cause of the difference was the rise of work-from-home and its impact on commuting patterns. Municipalities with commuter-heavy central business districts tend to have higher local tax rates compared to municipalities that are more heavily residential. Taxable consumption that shifts from higher-tax locations to lower-tax locations generates less aggregate local tax revenue, all else equal.

Data on the effective locally imposed occupation tax rate during the pandemic supports this hypothesis. The tax rate dropped significantly in the early months of the pandemic and then stayed below prepandemic levels for over a year (see Graph 5). The six months before the pandemic (September 2019 to February 2020) had an effective tax rate of 2.55%. The tax rate did not reach this level again until July 2021, and the average rate over this period (March 2020 to June 2021) was 2.48%.

Another possible cause was the accelerated shift to online shopping during the pandemic. National data from the U.S. Census Bureau shows that in 2019, online shopping accounted for 10.6 percent of all retail sales. In 2020, the online share had increased to 14.6 percent (see Graph 6). This shift probably exacerbated the pandemic's negative impact on aggregate local receipts because, prior to the enactment of the LPFA, online sales by out-of-state retailers were subject to only the state 6.25 percent use tax. If a sale moved from an in-state retailer to an online out-of-state retailer, the applicable local taxing jurisdictions would have lost the revenue associated with their locally imposed occupation taxes, resulting in revenue weakness at the local level but not at the state level.

The LPFA changed this dynamic: effective January 1, 2021, out-of-state retailers that meet Illinois's nexus thresholds (so-called Remote Retailers) must collect all occupation taxes in effect at the location to which the tangible personal property is shipped or delivered or at which possession is taken by the purchaser. The LPFA's change from origin sourcing to destination sourcing for Remote Retailers increases revenue for local governments by treating many online sales the same as local brick-and-mortar sales for tax purposes. Indeed, it was just following the LPFA's enactment that the recovery in aggregate local tax receipts accelerated. Based on ST-1 tax returns for filing periods January 2021 to March 2023, the aggregate locally imposed occupation tax revenue associated with Remote Retailers under the LPFA was $480 million (see Table 1). The LPFA has no impact on state revenue because the state tax rates for origin sourcing and destination sourcing are the same, namely, 5.0 percent.

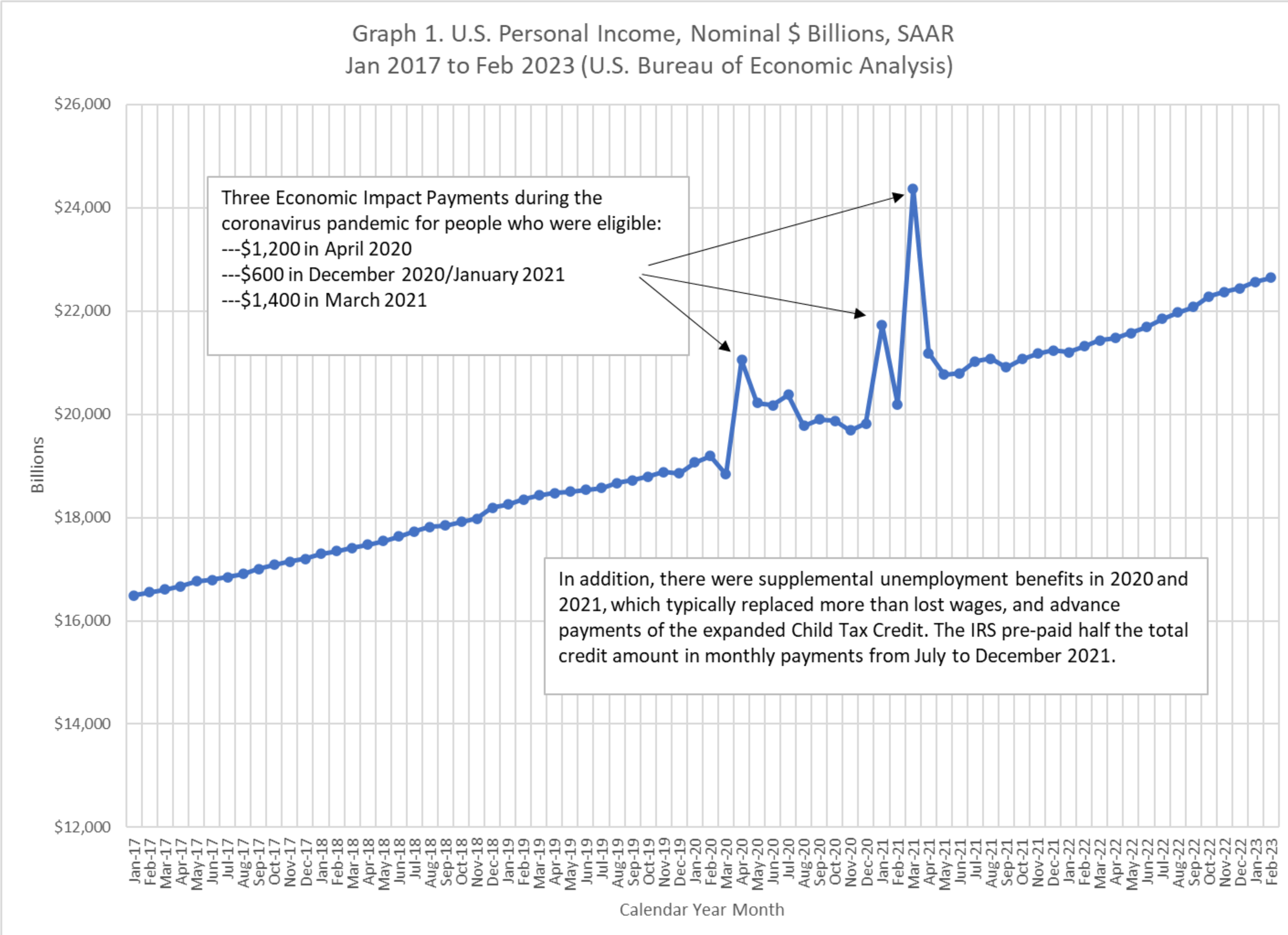
We can clearly see the change in this dynamic by looking at occupation tax sales and use tax sales as a percentage of Illinois's total taxable sales, as reported on the ST-1 (see Graph 7). The occupation tax share had been declining, and the use tax share increasing, for years prior to the pandemic because of the steady increase in online shopping. The start of the pandemic accelerated the decline in the occupation tax share, but the LPFA reversed it. This is significant to local governments because a larger occupation tax share translates into more aggregate local tax revenue, all else equal.

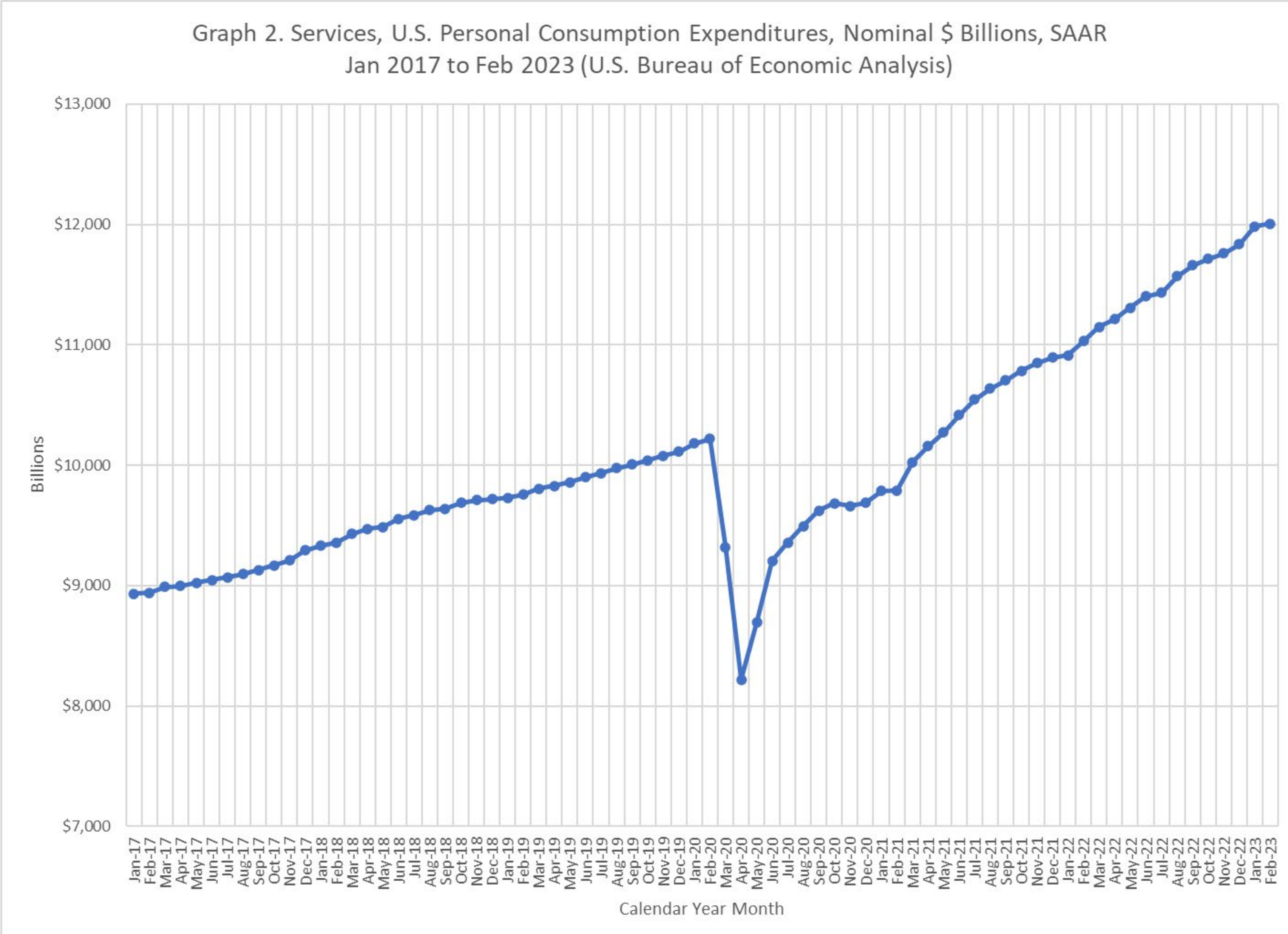
With the LPFA in place and a partial, phased return to prepandemic commuting patterns underway in calendar year 2021, local receipts were better able to benefit from the pandemic-related surge in taxable spending. In nominal terms, state receipts in fiscal year 2022 increased 11.6 percent compared to fiscal year 2021, whereas aggregate local receipts increased 21.7 percent. In real terms the difference is even more dramatic. In fiscal year 2022, real state receipts increased 6.6 percent, whereas real aggregate local receipts increased 16.4 percent.

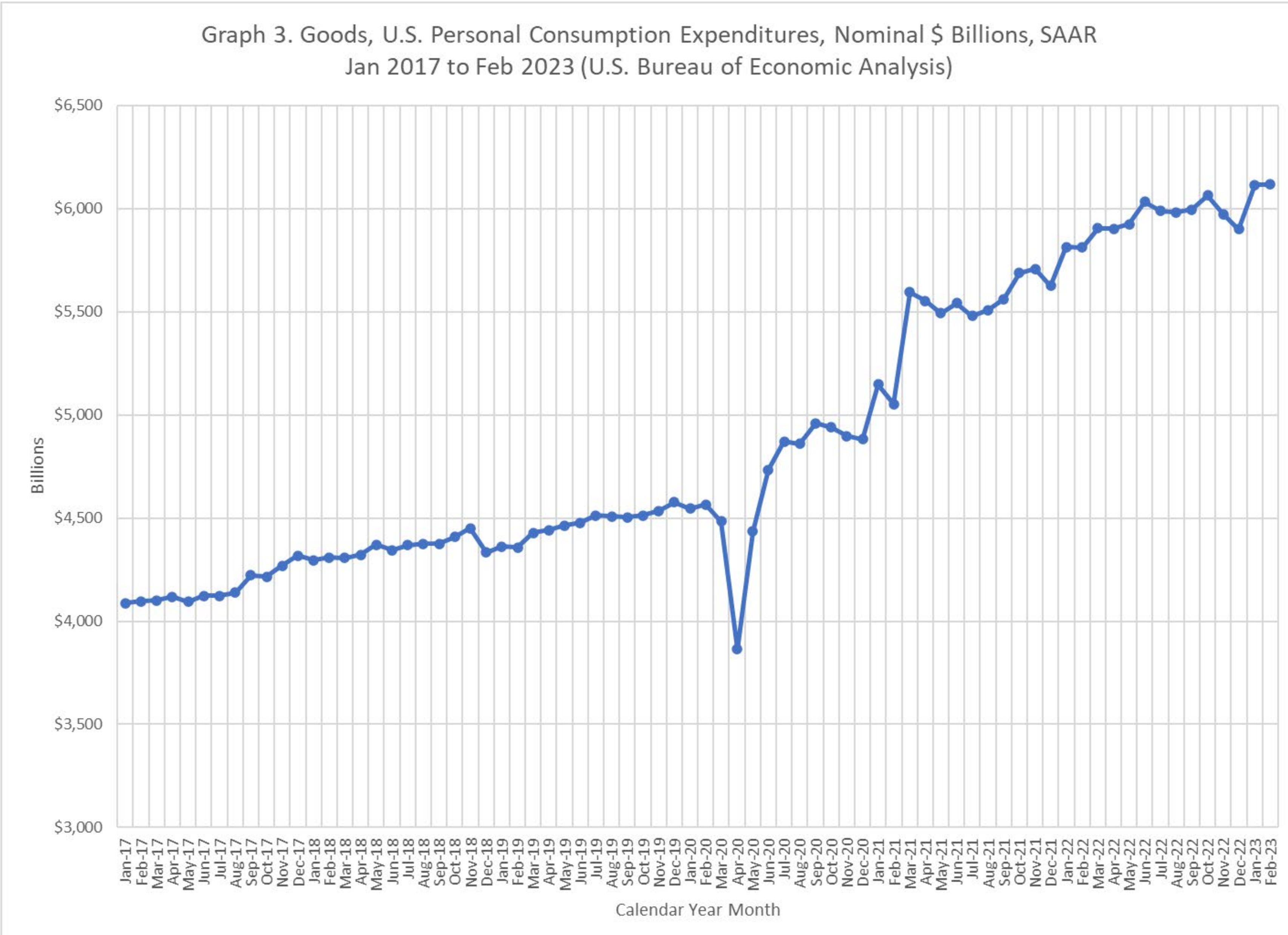
As the previous paragraph indicates, inflation had a significant impact on receipts in fiscal year 2022, accounting for a large portion of observed growth. The impact of inflation has been even larger in fiscal year 2023. In fact, all of the observed growth in fiscal year 2023 receipts is due to inflation. Nominal state receipts in fiscal year 2023 so far (July 2022 to May 2023) increased 6.0 percent year-over-year. In real terms, however, there was actually a 1.9 percent decline. The story is similar for aggregate local receipts, which increased 7.7 percent in nominal terms but declined 0.3 percent in real terms. We can see this difference in Graph 4. The nominal series have a pronounced upward trend starting around July 2021, but this trend goes flat in both real series, indicating that the upward trend was due to inflation.

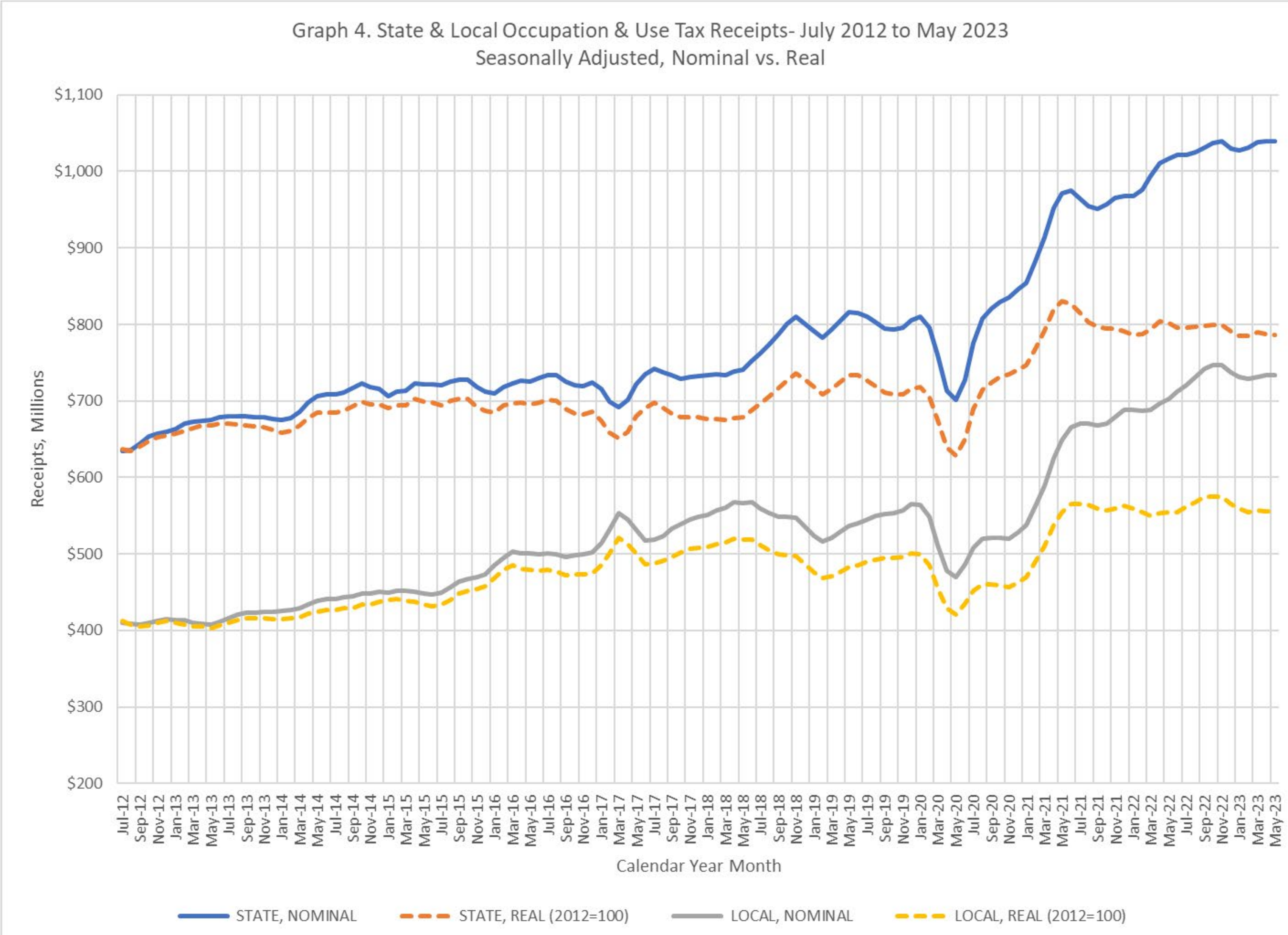
Summary

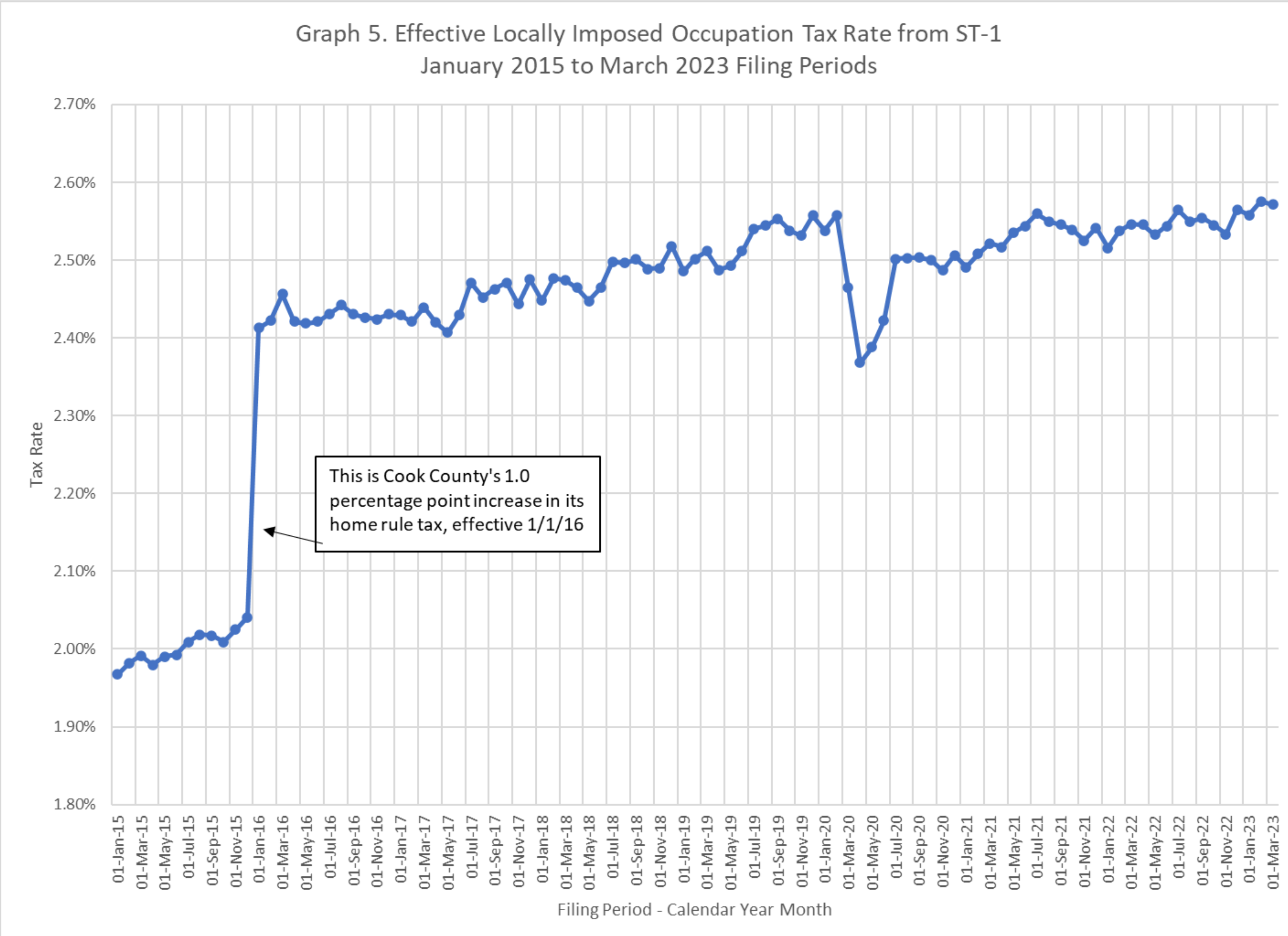
The Covid-19 pandemic distorted the economy in ways that boosted taxable spending and thus tax receipts, but local receipts took longer to benefit from this surge, most likely because of changing commuting patterns and an accelerated shift to online shopping. With the LPFA in place and a partial, phased return to prepandemic commuting patterns underway in calendar year 2021, local receipts were better able to benefit from the pandemic-related surge in taxable spending, leading to strong revenue growth during fiscal year 2022. Although strong growth has continued in fiscal year 2023, all of this growth is due to inflation rather than to underlying real growth in taxable consumption.

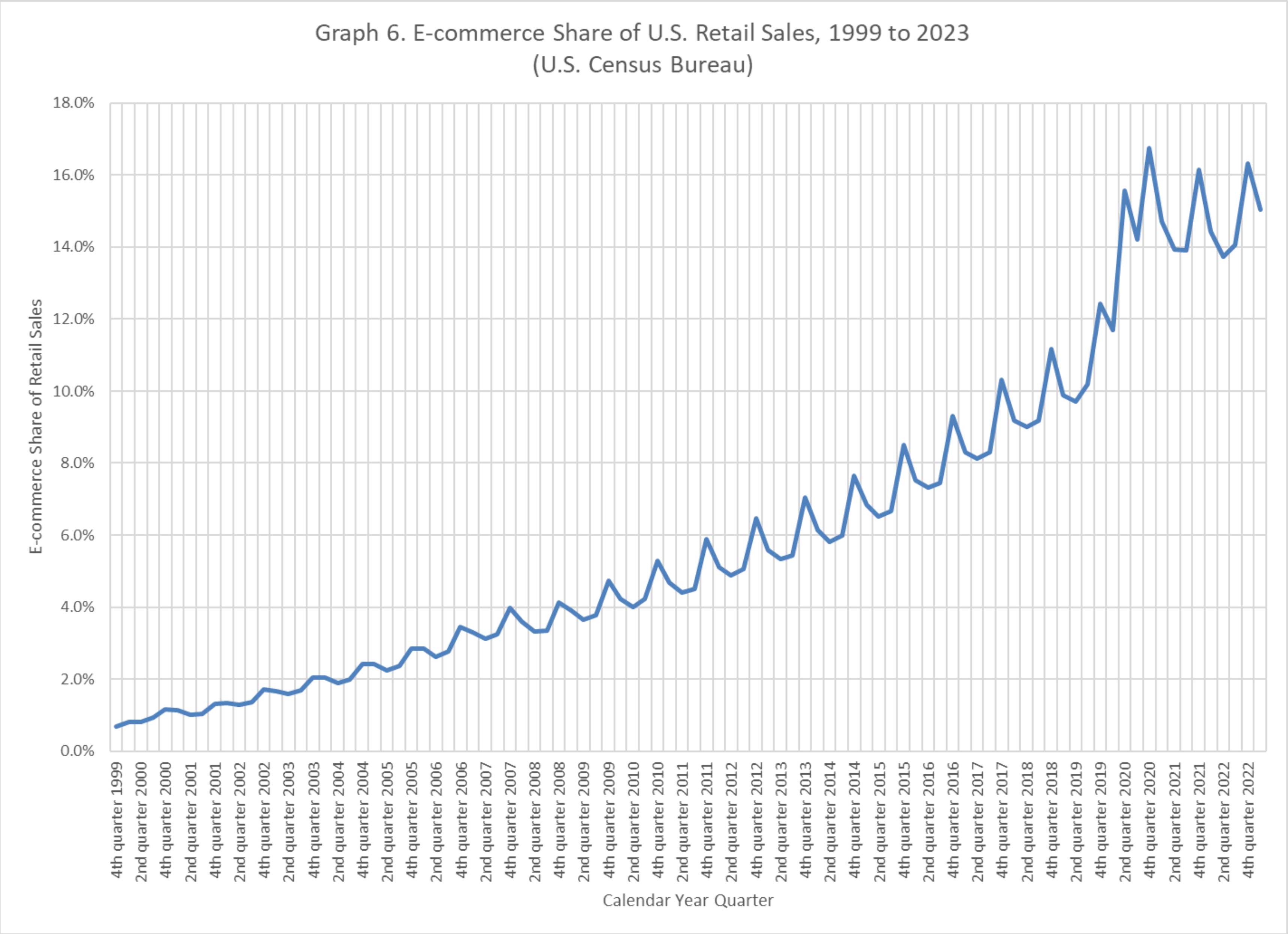

Graph 1. U.S. Personal Income, Nominal $ Billions, SAAR
Jan 2017 to Feb 2023 (U.S. Bureau of Economic Analysis)
Three Economic Impact Payments during the coronavirus pandemic for people who were eligible:
---$1,200 in April 2020
---$600 in December 2020/January 2021
---$1,400 in March 2021
In addition, there were supplemental unemployment benefits in 2020 and 2021, which typically replaced more than lost wages, and advance payments of the expanded Child Tax Credit. The IRS pre-paid half the total credit amount in monthly payments from July to December 2021.
Billions
$26,000
$24,000
$22,000
$20,000
$18,000
$16,000
$14,000
$12,000
Calendar Year Month
Jan-17
Feb-23


Graph 2. Services, U.S. Personal Consumption Expenditures, Nominal $ Billions, SAAR
Jan 2017 to Feb 2023 (U.S. Bureau of Economic Analysis)
Billions
$13,000
$12,000
$11,000
$10,000
$9,000
$8,000
$7,000
Calendar Year Month


Graph 3. Goods, U.S. Personal Consumption Expenditures, Nominal $ Billions, SAAR
Jan 2017 to Feb 2023 (U.S. Bureau of Economic Analysis)
Billions
$6,500
$6,000
$5,500
$5,000
$4,500
$4,000
$3,500
$3,000
Calendar Year Month
Jan-17 … Feb-23


Graph 4. State & Local Occupation & Use Tax Receipts- July 2012 to May 2023
Seasonally Adjusted, Nominal vs. Real
Receipts, Millions
$1,100
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
Calendar Year Month
STATE, NOMINAL
STATE, REAL (2012=100)
LOCAL, NOMINAL
LOCAL, REAL (2012=100)


Graph 5. Effective Locally Imposed Occupation Tax Rate from ST-1
January 2015 to March 2023 Filing Periods
Tax Rate
2.70%
2.60%
2.50%
2.40%
2.30%
2.20%
2.10%
2.00%
1.90%
1.80%
This is Cook County's 1.0 percentage point increase in its home rule tax, effective 1/1/16
Filing Period - Calendar Year Month


Graph 6. E-commerce Share of U.S. Retail Sales, 1999 to 2023
(U.S. Census Bureau)
E-commerce Share of Retail Sales
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
4th quarter 1999
2nd quarter 2000
4th quarter 2000
2nd quarter 2001
4th quarter 2001
2nd quarter 2002
4th quarter 2002
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2nd quarter 2018
4th quarter 2018
2nd quarter 2019
4th quarter 2019
2nd quarter 2020
4th quarter 2020
2nd quarter 2021
4th quarter 2021
2nd quarter 2022
4th quarter 2022
Calendar Year Quarter

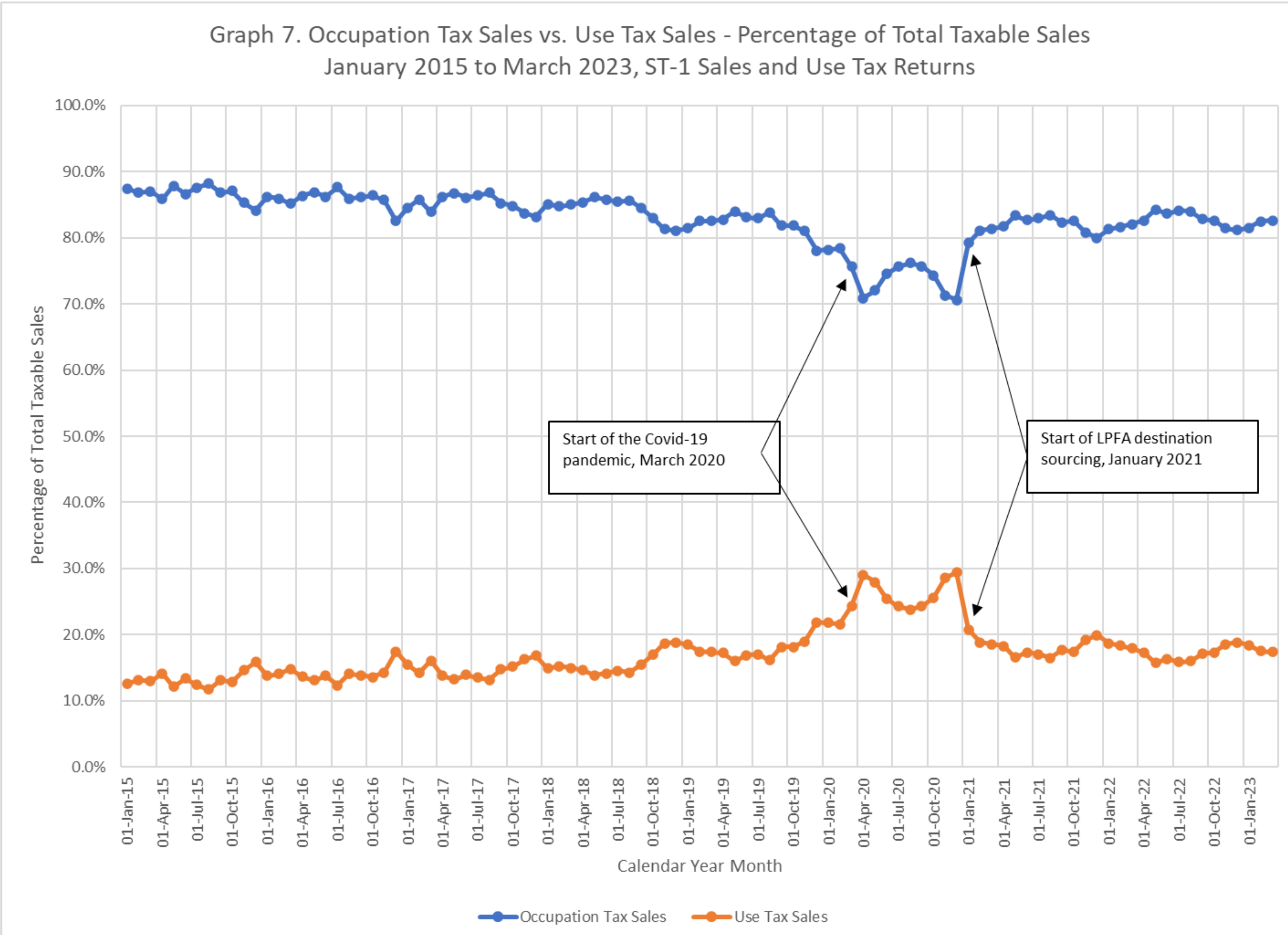
TABLE 1. ST-1 Return Data for Remote Retailers Under the Leveling the Playing Field for Illinois Retail Act - January 2021 to March 2023 Filing Periods

High-Rate General Merchandise

Filing Period	Occupation Tax Sales	Occupation Tax	Effective Total Tax Rate	Effective Locally Imposed Rate	Locally Imposed Occupation Tax
31-Jan-2021	$ 507,066,023	$ 43,901,495	8.66%	2.41%	$ 12,209,869
28-Feb-2021	$ 486,058,163	$ 42,139,230	8.67%	2.42%	$ 11,760,595
31-Mar-2021	$ 657,013,677	$ 56,808,173	8.65%	2.40%	$ 15,744,818
30-Apr-2021	$ 601,242,662	$ 52,032,168	8.65%	2.40%	$ 14,454,501
31-May-2021	$ 618,693,868	$ 53,575,223	8.66%	2.41%	$ 14,906,856
30-Jun-2021	$ 684,266,957	$ 59,148,926	8.64%	2.39%	$ 16,382,241
31-Jul-2021	$ 581,783,617	$ 50,448,297	8.67%	2.42%	$ 14,086,821
31-Aug-2021	$ 619,558,736	$ 53,606,049	8.65%	2.40%	$ 14,883,628
30-Sep-2021	$ 648,418,961	$ 56,095,330	8.65%	2.40%	$ 15,569,145
31-Oct-2021	$ 679,618,111	$ 58,669,797	8.63%	2.38%	$ 16,193,665
30-Nov-2021	$ 865,919,887	$ 74,427,645	8.60%	2.35%	$ 20,307,652
31-Dec-2021	$ 1,024,094,660	$ 87,990,332	8.59%	2.34%	$ 23,984,415
31-Jan-2022	$ 651,641,844	$ 56,827,365	8.72%	2.47%	$ 16,099,749
28-Feb-2022	$ 588,556,177	$ 51,277,305	8.71%	2.46%	$ 14,492,543
31-Mar-2022	$ 740,582,396	$ 64,279,630	8.68%	2.43%	$ 17,993,231
30-Apr-2022	$ 677,400,643	$ 58,862,917	8.69%	2.44%	$ 16,525,377
31-May-2022	$ 754,434,883	$ 65,500,355	8.68%	2.43%	$ 18,348,175
30-Jun-2022	$ 755,454,721	$ 65,612,253	8.69%	2.44%	$ 18,396,333
31-Jul-2022	$ 765,819,564	$ 66,488,573	8.68%	2.43%	$ 18,624,850
31-Aug-2022	$ 709,780,346	$ 61,526,465	8.67%	2.42%	$ 17,165,193
30-Sep-2022	$ 758,695,589	$ 65,947,419	8.69%	2.44%	$ 18,528,945
31-Oct-2022	$ 771,412,553	$ 67,096,378	8.70%	2.45%	$ 18,883,094
30-Nov-2022	$ 934,136,199	$ 80,772,129	8.65%	2.40%	$ 22,388,616
31-Dec-2022	$ 1,098,233,138	$ 95,046,527	8.65%	2.40%	$ 26,406,956
31-Jan-2023	$ 705,861,016	$ 61,774,638	8.75%	2.50%	$ 17,658,324
28-Feb-2023	$ 650,026,870	$ 56,969,877	8.76%	2.51%	$ 16,343,198
31-Mar-2023	$ 820,132,352	$ 71,254,419	8.69%	2.44%	$ 19,996,147
TOTAL	$ 19,355,903,613	$ 1,678,078,913	8.67%	2.42%	$ 468,334,938

Low-Rate Food, Drugs, & Medical Appliances

Filing Period	Occupation Tax Sales	Occupation Tax	Effective Total Tax Rate	Effective Locally Imposed Rate	Locally Imposed Occupation Tax
31-Jan-2021	$ 53,624,897	$ 940,287	1.75%	0.75%	$ 404,038
28-Feb-2021	$ 50,990,303	$ 892,081	1.75%	0.75%	$ 382,178
31-Mar-2021	$ 59,692,828	$ 1,038,099	1.74%	0.74%	$ 441,171
30-Apr-2021	$ 55,259,820	$ 961,172	1.74%	0.74%	$ 408,574
31-May-2021	$ 58,196,906	$ 1,018,584	1.75%	0.75%	$ 436,615
30-Jun-2021	$ 70,066,854	$ 1,205,301	1.72%	0.72%	$ 504,632
31-Jul-2021	$ 66,185,888	$ 1,158,620	1.75%	0.75%	$ 496,761
31-Aug-2021	$ 70,789,486	$ 1,230,256	1.74%	0.74%	$ 522,361
30-Sep-2021	$ 73,477,568	$ 1,264,660	1.72%	0.72%	$ 529,884
31-Oct-2021	$ 74,211,477	$ 1,273,969	1.72%	0.72%	$ 531,854
30-Nov-2021	$ 76,162,821	$ 1,326,954	1.74%	0.74%	$ 565,326
31-Dec-2021	$ 92,635,286	$ 1,604,187	1.73%	0.73%	$ 677,835
31-Jan-2022	$ 85,015,689	$ 1,506,764	1.77%	0.77%	$ 656,607
28-Feb-2022	$ 58,538,558	$ 1,029,597	1.76%	0.76%	$ 444,211
31-Mar-2022	$ 69,153,115	$ 1,217,369	1.76%	0.76%	$ 525,838
30-Apr-2022	$ 63,969,737	$ 1,135,204	1.77%	0.77%	$ 495,507
31-May-2022	$ 65,351,326	$ 1,157,984	1.77%	0.77%	$ 504,471
30-Jun-2022	$ 67,344,028	$ 1,189,883	1.77%	0.77%	$ 516,442
31-Jul-2022	$ 28,581,133	$ 529,005	1.85%	0.85%	$ 243,194
31-Aug-2022	$ 29,281,380	$ 544,687	1.86%	0.86%	$ 251,873
30-Sep-2022	$ 30,431,225	$ 568,405	1.87%	0.87%	$ 264,093
31-Oct-2022	$ 28,625,665	$ 534,335	1.87%	0.87%	$ 248,078
30-Nov-2022	$ 30,766,817	$ 567,629	1.84%	0.84%	$ 259,961
31-Dec-2022	$ 36,088,408	$ 670,211	1.86%	0.86%	$ 309,327
31-Jan-2023	$ 50,635,702	$ 984,467	1.94%	0.94%	$ 478,110
28-Feb-2023	$ 31,322,362	$ 556,743	1.78%	0.78%	$ 243,519
31-Mar-2023	$ 40,341,651	$ 712,665	1.77%	0.77%	$ 309,248
TOTAL	$ 1,516,740,929	$ 26,819,117	1.77%	0.77%	$ 11,651,708


Graph 7. Occupation Tax Sales vs. Use Tax Sales - Percentage of Total Taxable Sales
January 2015 to March 2023, ST-1 Sales and Use Tax Returns
Percentage of Total Taxable Sales
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Start of the Covid-19 pandemic, March 2020
Start of LPFA destination sourcing, January 2021
01-Jan-15
01-Apr-15
01-Jul-15
01-Oct-15
01-Jan-16
01-Apr-16
01-Jul-16
01-Oct-16
01-Jan-17
01-Apr-17
01-Jul-17
01-Oct-17
01-Jan-18
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01-Oct-20
01-Jan-21
01-Apr-21
01-Jul-21
01-Oct-21
01-Jan-22
01-Apr-22
01-Jul-22
01-Oct-22
01-Jan-23
Calendar Year Month
Occupation Tax Sales
Use Tax Sales