Modeling Illinois Corporate Income Tax

Presented by Natalie Davila, Research Director, Illinois Department of Revenue
FTA Revenue Estimating Conference
October 23, 2012
Corporate Income Tax Modeling

• Public Act 96-1496. SB 2505 made several changes to the Illinois Corporate Income Tax
• Temporary tax rate increase from 4.8 percent to 7.0 percent
• Temporary suspension of NOLs
• In addition, federal 100 percent expensing. Illinois was not decoupled
Modeling Approach

• Used econometric model to forecast base line revenue (explanatory variable – lagged domestic corporate profits)
• Extrapolated increase revenue from model results
• Made adjustments to model to account for policy changes other than tax rate increase
• Made further adjustments to account for cash flow issues
Results

• FY 2011 forecast = $2,285.0 million
• FY 2011 actual = $2,285.7 million

• FY 2012 forecast = $2,852.7 million
• FY 2012 actual = $2,983.0 million

• FY 2013 Q1 forecast= $540.0 million
• FY 2013 Q1 actual = $652.7 million
Current Issues

• How can we determine the source of our current underestimation?
• From an econometric standpoint, how do we better address the temporary tax increase and associated policy changes?
• Given nature of very lagged data, should we move forward with developing a simulation model?
Contact Information

• Please forward any comments, feedback, ideas to
  • Natalie Davila
  • Research Director
  • Illinois Department of Revenue
  • 312 814 1777
  • Natalie.davila@illinois.gov

Thank you