
FY 2008 Proposed Revenue Enhancements

Overview of Proposed Revenue Enhancements	
Gross Receipts Tax	\$2,626 million
Increased Medicaid Reimbursement	\$63 million
Riverboat Wagering Tax Increase	\$55 million
Riverboat Franchise Fee	\$60 million
Increased Tax Compliance	\$32 million
Total Proposed Revenue Enhancements	\$2,836 million

GROSS RECEIPTS TAX

The FY 08 budget proposes a Gross Receipts Tax (GRT), which will become effective January 1, 2008. The proposed tax would apply to sales in Illinois by all companies with Illinois gross revenues of greater than \$1 million and would be levied at two rates:

- 0.5% for all companies with annual Illinois receipts of more than \$1 million engaged in agriculture, mining, manufacturing, construction, wholesale and retail activities; and
- 1.8% for all service industries with annual Illinois receipts of more than \$1 million.

The revenue estimate for the proposed GRT was developed by using the actual collection experience of the state of Ohio modeled against the economy of Illinois. Using Ohio data provides several advantages, most importantly the advantage of actual collections experience.

There are several exclusions from the tax:

- EXPORTS: The exemption of exports has been taken into consideration in calculating the taxable base.
- TAX-EXEMPT, CHARITABLE AND NOT-FOR-PROFIT ORGANIZATIONS: Gross receipts from these organizations are not included in the taxable base.
- INSURANCE AND GAMING INDUSTRIES: Insurance products are subject to retaliatory taxation, and gaming activities are subject to an alternative tax scheme. Accordingly these industries are excluded from the taxable base.
- SMALL BUSINESSES: Illinois will exempt businesses with gross revenues less than \$1 million from the taxable base.
- ESSENTIAL PRODUCTS: Illinois will exempt retail sales of food and medical products from the tax base, as well as Medicaid payments to medical practitioners and hospitals.

The analysis done by the Governor's office produces an Illinois GRT taxable base of approximately \$775 billion. Applying the 0.5% and 1.80% tax rates to the appropriate sectors, the GRT yields \$7.8 billion for a full fiscal year. Under the Governor's proposed budget, the GRT will become effective January 1, 2008. In addition, the GRT will allow a 100% credit to businesses for actual corporate income taxes paid. In FY 08, net corporate income tax receipts are expected to equal \$1.733 billion, of which a portion will be offset for the income tax receipts of industries and taxpayers not subject to the gross receipts tax. Including this, and reducing for one-half year of exemptions the net GRT produces \$2.63 billion. This estimate should increase to approximately \$6 billion (net) in FY 09.

INCREASED FEDERAL MEDICAID REIMBURSEMENT

As a component of the proposed Gross Receipts Tax (GRT), Medicaid payments to medical practitioners and hospitals will be exempt. This will be an incentive for the practitioners and hospitals to enroll Medicaid-eligible patients. This increase in Medicaid spending, in conjunction with the proposed rate increases for providers, is expected to generate \$63 million in new reimbursements for FY 08.

RIVERBOAT WAGERING TAX AND FRANCHISE FEE

In FY 08, the budget proposes two modifications to the existing gaming tax structure. First, wagering tax rates will be modified such that, (i) for adjusted gross receipts (AGR) \$25 million to \$50 million, rates will be increased from 22.5 percent to 27.5 percent, and (ii) the 50% rate will be assessed on all AGR over \$150 million. This will increase state receipts by \$55 million. Second, the state will assess a franchise fee on each license, payable upon license renewal. This fee will be assessed in an amount equal to 10% of each casino's AGR in the calendar year prior to renewal. This fee is expected to generate \$60 million in FY 08.

INCREASED TAX COMPLIANCE

In FY 08, the Department of Revenue will continue the implementation of its Integrated Tax Processing Solution. In 2006, the department began replacing its core tax systems, an investment that will return greater revenues to state and local governments over the next five years. In FY 08, the increased revenue as a result of this new system is estimated to be \$32 million.

These revenue gains are possible because the current 30-year old systems are unable to track the data needed to ensure taxpayer compliance, especially among corporate taxpayers. Replacing the current myriad system of over 200 mainframe and PC applications with a modern integrated application will reduce maintenance costs, increase operating efficiency, enhance customer service and provide increased revenues through enhanced compliance tools.

from the state's proposed gross receipts tax. Collectively, and at full implementation these rate increases will cost approximately \$437 million per year.

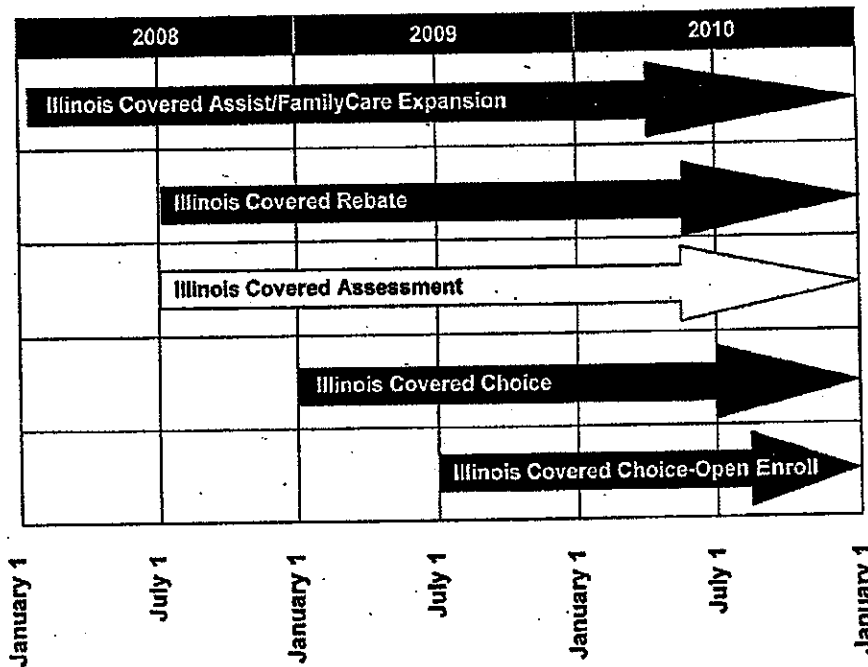
\$358,000,000

GRF. Illinois Covered. The Governor's Budget will include a new universal health care plan. This funding is not included in the HFS budget, but will ultimately be appropriated to the agency in a separate budget bill. For the purposes of this analysis, this amount has been added to the FY 08 HFS base.

* Governor Rod R. Blagojevich announced his "Illinois Covered" program on March 4, 2007. The Governor's plan will provide affordable coverage to the uninsured. The plan will reform the existing healthcare system to improve quality and require more accountability.

To date, specifics of the plan are still vague; however through newspaper articles, a new website, and the budget book the following information has been collected.

The Illinois Covered program will be implemented over a period of 3 years starting January 1, 2008. A chart showing the implementation plan of the program by fiscal year is provided below.



ILLINOIS COVERED "ASSIST" – CHILDLESS ADULTS

Illinois Covered Assist is a Medicaid expansion. The Governor will expand Medicaid coverage to childless adults who do not have access to employer-sponsored insurance. This expansion is anticipated to allow 250,000 people access to healthcare and will cost approximately \$247 million in FY 08.

Childless adults under 100% FPL who have access to employer-sponsored insurance will be able to participate in either the Illinois Covered Choice program or the Illinois Covered Rebate program and have their premiums paid for by the state.

ILLINOIS COVERED "CHOICE" – SMALL EMPLOYERS, THEIR EMPLOYEES, AND INDIVIDUALS

The state will enter into public-private partnerships with insurance carriers to provide a lower cost, guaranteed issue insurance policy to individuals who do not have employment, who work for small businesses (25 or fewer employees) or who work for employers that do not provide health insurance coverage.

Illinois Covered Choice is structured differently for those who are employees of small businesses that offer health insurance and those who are employees of small businesses that do not offer health insurance.

The following chart details the coverage options for each type of employee or individual:

ILLINOIS COVERED CHOICE - COVERAGE FOR SMALL BUSINESS & INDIVIDUALS		
COVERAGE OPTIONS DEPEND UPON EMPLOYER PARTICIPATION		
	ACCESS TO HC THRU SMALL EMPLOYER	NO ACCESS THRU EMPLOYER, OR INDIVIDUAL
EMPLOYEE/ INDIVIDUAL	Employee would be capped at spending 3.5% of income on premiums (the subsidy is graduated from 3% to 3.5% for families and 1.5% to 2.5% for individuals based on income).*	Employee or individual would be capped at spending 7% of income on premiums (the subsidy is graduated from 5% to 7% for families and 2.5% to 3.5% for individuals based on income).*
EMPLOYER	Employer would be required to pay 70% of premium costs.	Employer would be taxed 3% of payroll for not providing access to HC.
STATE	Remaining costs paid by state.	Remaining costs paid by state.

* Employees or individuals earning less than 100% FPL would pay no premiums regardless of family status or employer offering access to healthcare coverage. Premium assistance is only available to employees earning less than 400% FPL.

Insurance companies will be required to offer a new, comprehensive healthcare policy that will be determined by the state to meet the needs of the Illinois Covered Choice population. The policy will offer benefits like doctor and prescription coverage.

In covering the Illinois Covered Choice population, insurance companies will be required to maintain a certain amount of spending on medical costs (known as medical loss ratio) and be required to submit to rate review for the small group and individual markets. Exactly what the medical loss ratio will be has yet to be disclosed.

Total costs for this program are expected to be approximately \$1.2 billion when fully implemented. The program will be designed in FY 08, but will not be implemented until FY 09.

ILLINOIS COVERED "REBATE" – EMPLOYEES OF LARGE EMPLOYERS

Illinois Covered Rebate will provide premium assistance to people who have access to health insurance through an employer, but are below 400% FPL. A family of four making \$80,000 will be eligible for subsidized health insurance through their employer. The premium assistance offered under this program will depend on family status and income. The following are the rate of subsidy received by each group:

- Individuals earning between 100% & 250% FPL will have premium spending capped at 1.5% of annual income.
- Individuals earning between 250% & 400% FPL will have premium spending capped at 2.5% of annual income.
- Families earning between 100% & 250% FPL will have premium spending capped at 3% of annual income.
- Families earning between 250% & 400% FPL will have premium spending capped at 5% of annual income.

FAMILYCARE EXPANSION

The Governor intends to expand FamilyCare coverage to 400% FPL. This program will be open to individuals that do not have health insurance offered through their employers.

MISCELLANEOUS

- The Governor intends to require insurance policies to cover dependents up to age 29. The current standard is up to age 23.
- There are very vague references to improving the healthcare of the state as a whole and thereby lowering the overall cost of healthcare. There is even an appropriation for this. This could be similar to what Pennsylvania is proposing and could include such initiatives as a statewide smoking ban, more vigorous disease management programs and decreasing hospital errors.

FUNDING SOURCE

The FY 08 budget book states the program will be paid for through gross receipts tax and off-set with the business assessment.

Employer Mandate — To reduce the state's cost of providing affordable health insurance coverage to its Medicaid population, the state will initiate a payroll tax in the amount of 3% against all business (who employ 10 or more employees) that pay less than 4% of their payroll for health care costs. This is anticipated to generate \$1.1 billion.