



Sales Tax: How to Increase Distributions and Improve Forecasts and Cash Flow Estimates

BY DR. NATALIE DAVILA

One of the most important things local government can do to increase collections from their existing tax base is to make sure their list of taxpayers is accurate and up-to-date. The Illinois Department of Revenue requests that units of local government do this on an annual basis. This Taxpayer Location Address List review and update is important for a variety of reasons: it ensures all businesses located within the local government's taxing jurisdiction are registered to report sales tax to your local government; allows for adjustments for misallocation of disbursements; and verifies that business districts that are created in your municipality are accurately represented. The Annual Taxpayer Location Address List is mailed to county and municipal clerks once a year based on their zone. For more information, contact Local Tax Allocation Division (3-500), Illinois Department of Revenue, 101 W. Jefferson, Springfield, Illinois 62702, Phone: (217) 785-6518; Fax: (217) 524-0526; e-mail: rev.localtax@illinois.gov.

Use the list of local taxpayers in addition to information that can be requested by the local governments under 35 ILCS 120/11 to analyze trends in taxes paid by local businesses. Under this legislation, units of local government are able to request from IDOR a tri-annual report containing four months of tax data that will contain the following information:

- a. The business name
- b. The business address
- c. Net revenue distributed to the requesting municipality that is directly related to the requesting municipality's local share of the proceeds under the Use Tax Act, the Service Use Tax Act, the Service Occupation Tax Act, and the Retailers' Occupation Tax Act, and if applicable, any locally imposed retailers' occupation tax or service occupation tax
- d. A listing of all businesses within the requesting municipality by account identification number and address

One thing local governments can do to improve sales tax forecasting and cash flow management is to review data and

forecasts available at the state level to determine how closely their sales tax bases mirror the tax base for the state as a whole.

- a. Compare monthly disbursements with the corresponding collection number available from the Comptroller's website as well as the Commission on Government Forecasting and Accountability (<http://cgfa.ilga.gov/Resource.aspx?id=2>) and the Illinois Department of Revenue (<http://www.revenue.state.il.us/AboutIdor/TaxResearch/MonthlyRevenueReports.htm>). If there is a strong correlation between your unit of local government and state receipts, it is likely that forecasts for growth in state sales tax can be used as one method of forecasting future local sales taxes. If there is correlation in monthly totals, then state data could be used to help improve cash flow analysis.
- b. Compare quarterly sales tax receipts by industrial classification at the local and state level. Once again if there is a close relationship between statewide and local receipts, statewide analysis and forecasts may be used to help develop supplemental analysis to improve your local sales tax forecasts.

EXAMPLE - BETHALTO

Joe Schoppet, Village Treasurer for Bethalto, contacted me after a short article on forecasting I had written for the *IML Review* was published. Joe graciously said I could use Bethalto as a case study for this and other upcoming articles.

The first thing we did was to compile and verify monthly sales tax disbursements made to Bethalto and make sure they corresponded to information obtained on the IDOR website. We found that the data from both sources was identical.

The next step was to compare monthly distribution data for Bethalto, tie it to IDOR data collection month data, and run statistical analysis to determine whether state-level analysis could be extrapolated from and used to help the treasurer better forecast sales tax distributions and monitor cash flow. We

looked at these numbers in aggregate and also at the Standard Industrial Code level. Unfortunately, in the case of Bethalto, there was minimal correlation between state and local receipts. The correlation coefficient between state and local sales tax was only 0.13 suggesting that there is basically no relationship among the two datasets. When we look at how sales tax is distributed among major sectors in Bethalto compared with the statewide average, we do find a strong relationship (correlation coefficient= 0.74.)

Prior to talking with Joe, what stood out to me from the above data was that automotive and filling stations appeared to make up almost the same percentage of Bethalto sales tax receipts and statewide sales tax. This initially led me to believe that we had a significant finding because almost 25 percent of statewide receipts are made up of auto and gasoline sales – and these two sectors are very volatile. I had thought that Bethalto could gain insight from monitoring analysis and forecasts produced at the statewide level by the Illinois Department of Revenue.

The next step in the process was a road trip to Bethalto to review findings with Joe and get more insight on the Bethalto economy. After talking with Joe and taking a tour of Bethalto, it became evident that my initial interpretation of the automotive and filling station data was flawed. Joe was able to share with me what type of Bethalto businesses he thought were in the automotive and filling station classification. Bethalto has several vehicle repair stores, including one that draws in customers from throughout the region – Bethalto does not have an auto dealership. So, unfortunately, Bethalto will not be able to rely on statewide forecasts for autos and gasoline to help improve their forecasts to any significant degree.

Why do I tell you this story? Because it illustrates the importance of working together – consultants/economists/statisticians can conduct all kinds of basic and/or sophisticated analysis, but without working closely with local officials who are intimately familiar with their economy, the conclusions may be very flawed.

SO, WHERE DOES THIS LEAVE US?

Well, for those of you who conduct analysis and determine your monthly distributions are highly correlated with state receipts – you are in luck. You have tools that you can use to help with your forecasts and cash flow analyses. For those of you who can find a distribution of sales tax by industry that closely mirrors

the statewide distribution, you may be in luck. But before you can use statewide numbers to help you in improving your analysis and forecasting, you should verify that the type of businesses in each category is similar to the type of businesses in the statewide figures.

For those of you who conduct such analyses and find, like Joe and I did in the case of Bethalto, there is not much you can learn from statewide sales tax that can help you improve your forecasting, you will need to go to a micro level approach. What will this involve? I suggest the following:

Go back to point 2 at the beginning of this article. Apply to receive reports from the Illinois Department of Revenue that will allow you to see disbursements by taxpayer. Develop a database that will allow you to monitor these disbursements over time and use this information, when you meet with your community’s business owners, ask them how business is doing and what their own projections are in terms of upcoming sales. These conversations can also be used to find out what issues local business owners are having and if there is anything local government officials can do to help them, and in turn the sales tax base, grow. Such information can tie into your community’s economic development efforts.

For smaller communities, in terms of forecasting sales tax revenue and cash flow, a bottom up rather than a top down approach to revenue forecasting may be your best option.

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SALES TAX BY STANDARD INDUSTRIAL CLASSIFICATION: SECOND QUARTER 2015				
Standard Industrial Classification	State MT	State-Distribution	Bethalto - MT	Bethalto-Distribution
General Merchandise	\$53,431,017	12.0%		0.0%
Food	\$55,604,916	12.5%	\$52,538	21.7%
Drinking and Eating Places	\$58,419,607	13.1%	\$48,409	20.0%
Apparel	\$15,544,918	3.5%		0.0%
Furniture & H.H. & Radio	\$18,304,462	4.1%	\$5,235	2.2%
Lumber, Bldg, Hardware	\$26,175,936	5.9%	\$25,770	10.6%
Automotive & Filling Stations	\$99,465,671	22.4%	\$45,579	18.8%
Drugs & Misc. Retail	\$69,902,327	15.7%	\$44,694	18.4%
Agriculture & All Others	\$39,464,595	8.9%	\$19,638	8.1%
Manufacturers	\$8,103,297	1.8%		0.0%
	\$444,416,746	100.0%	\$242,272	100.0%

Source: Illinois Department of Revenue, <https://www.revenue.state.il.us/app/kob/index.jsp>, accessed October 20, 2015