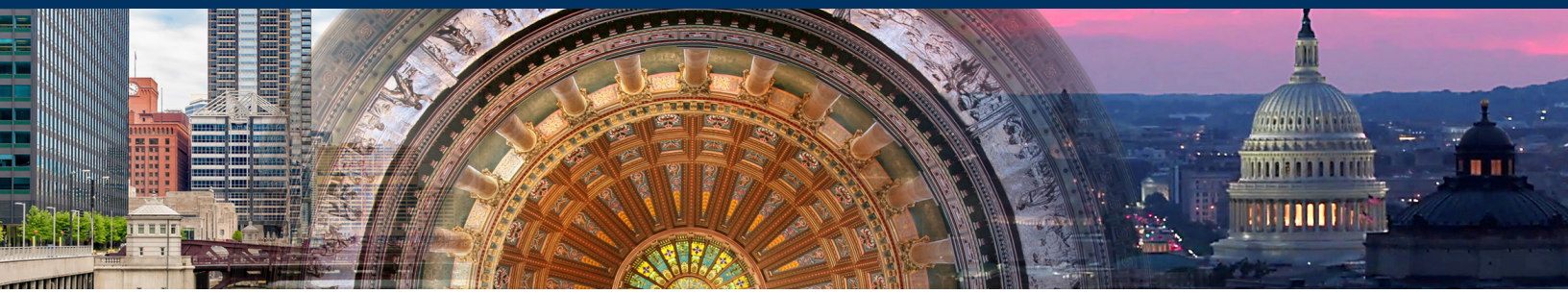

POLICY SPOTLIGHT | JANUARY 6, 2026

Current Condition and Future Concerns for Growth in Illinois' State Revenue

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To deliver high quality government services, Illinois must keep its fiscal condition healthy. The annual budget process provides state elected officials with an opportunity to adjust both expenditures and revenues to promote fiscal balance. Annual adjustments should take account of long-term trends and expected future conditions. Currently, there is a high degree of uncertainty about trends in state tax revenue but increasing certainty about what to expect in some federal policy areas.

This report makes three main points:

1. Re-categorization of individual and corporate income tax revenues in recent years has made some revenue data difficult to interpret.
2. There is some evidence of a long-term decline in state sales tax revenue but sorting out short- and long-term trends is difficult because of the volatility of economic policy and behavior during the height of the COVID pandemic in FY 2021 and FY 2022.[1]
3. Federal policy changes are expected to decrease health-care-related funding and pose a serious longer-term challenge for Illinois.

IGPA's Fiscal Futures project has produced annual reports on Illinois' fiscal condition for many years (see here). These reports, which are based on a broad "all funds" approach, analyze current fiscal conditions and long-term revenue and expenditure trends to help citizens and lawmakers evaluate the need and urgency for policy changes. Our "all funds" approach lessens the focus on the state's general funds, which capture less than half of all state revenues and expenditures.

This year, we are altering our routine by producing two separate reports. This first paper is based on the pre-lapse period data available in early July 2025.

[1] Unless otherwise noted, "FY" refers to fiscal year(s) beginning on July 1 and ending on June 30.

We plan to issue a second report which takes into account FY25 spending that occurred during the lapse period. That report will address FY 2025 expenditures, the fiscal condition of Illinois, any revisions based on new data, and improved understanding of the potential impacts of recent federal legislation.

We believe an early report on revenues alone is important for two key reasons. First, recent data suggest some slowing in selected state revenues, opening up an unexpected budget gap in FY 2026 (Commission on Government Forecasting and Accountability, 2025). This gap, now estimated at $267 million, must be closed, and having up-to-date data and analysis of the state's revenue streams is important (Governor's Office of Management and Budget, 2025). Second, the passage of H.R. 1, also known as the "One Big Beautiful Bill" Act or "OBBBA", in the U.S. Congress in mid-2025, has far-reaching fiscal consequences for Illinois, both on the revenue and expenditure sides of the budget. Because some of the policy changes took effect immediately (July 4, 2025) on the revenue side, we think some early analysis is warranted, even if future data ultimately cause us to reassess the impacts.

We also note that we are confident in the quality of the FY 2025 revenue data that we now have in hand. The fiscal year concludes on June 30, and recent precedent is for very little change in revenue data over the "lapse period" during which revenues can be received and payments made for activities conducted during the prior, recently concluded fiscal year. By contrast, expenditure data tend to change substantially over the lapse period. While we are confident that we can analyze the state revenues with the data made available from the Comptroller, it is prudent to delay analysis of expenditures until revised data are released and can be carefully analyzed.

This report has two main sections. In the first section, we provide information about all major revenue categories and provide more extended subsections discussing income and sales taxes. The second topic we discuss is potential impacts of recent changes in federal policies toward medical provider taxes which are used to support Medicaid expenditures. While both the complex mechanics of these taxes and the implications of federal policy changes are obscure and make forecasts difficult, we see the potential for hundreds of millions of dollars of revenue reductions over the next half decade. We urge state officials to study this matter carefully and take appropriate precautions.

REVENUE TRENDS

Table 1 shows FY 2024 and FY 2025 levels as well as compound annual growth rates (CAGRs) for major categories of Illinois' state revenue.[2] Since 1998, total nominal (i.e. not adjusted for inflation) revenue has grown at almost five percent per year. As in past years, the largest categories of Illinois revenues continue to be the individual income tax, federal revenues for Medicaid, and the sales tax.

The table also shows that one-year revenue growth (2.64%) was much slower than the long-term growth (4.95%) (the CAGR) in FY 2025.

[2] The CAGR is the compound annual growth rate necessary to get from the value at the start of our data in 1998 to the value in 2025. This value is informative because it allows us to compare long term trends across different revenue (and expenditure) categories. Revenue categories with lower than average CAGRs will eventually become a less important share of total revenues.

Figure 1 on the following page provides more information about recent and long-term trends in major revenue sources. As shown in the figure, total revenues soared during the COVID pandemic in 2020 and 2021 because of increases in federal aid – especially federal aid for Medicaid. Increased aid to individuals resulted in increased state income tax revenue and also an uptick in sales tax revenue as discussed below.[3] However, as this pandemic-era funding has been phased out, revenue growth has slowed, so it is difficult to determine the long-term trend.

Table 1: Change in Revenue (Largest Revenue Categories)

Revenue Category	FY 2025 ($ billions)	FY 2024 ($ billions)	FY 1998 ($ billions)	1-Year Change	27-Year CAGR
Individual Income Taxes	30.13	27.38	6.85	10.03%	5.64%
Federal Medicaid	20.58	21.38	3.34	-3.72%	6.97%
Sales Taxes	16.70	16.43	7.20	1.67%	3.17%
Federal Other	11.61	10.49	3.75	10.68%	4.28%
Corporate Income Taxes	6.95	8.30	1.86	-16.23%	5.01%
Medical Provider Assessments	4.71	4.34	0.54	8.55%	8.33%
Receipts From Revenue Producing	3.29	3.01	0.73	9.05%	5.74%
Motor Fuel Tax	2.95	2.82	1.30	4.67%	3.08%
Federal Transportation	2.74	2.36	0.84	16.11%	4.50%
All Other Sources*	18.50	18.62	5.63	-0.65%	4.50%
Total	**118.16**	**115.13**	**32.03**	**2.64%**	**4.95%**

* "All Other Sources" includes all other individual revenue sources smaller than the nine largest listed above.

Compound Annual Growth Rate or CAGR = $\left(\frac{\text{Final Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{t_{final}-t_{initial}}\right)}$ -1)(100) where $t_{final} - t_{initial}$ = 2025-1998 = 27 (years).

For all revenue categories, see https://igpa-uillinois.github.io/Fiscal-Futures/.

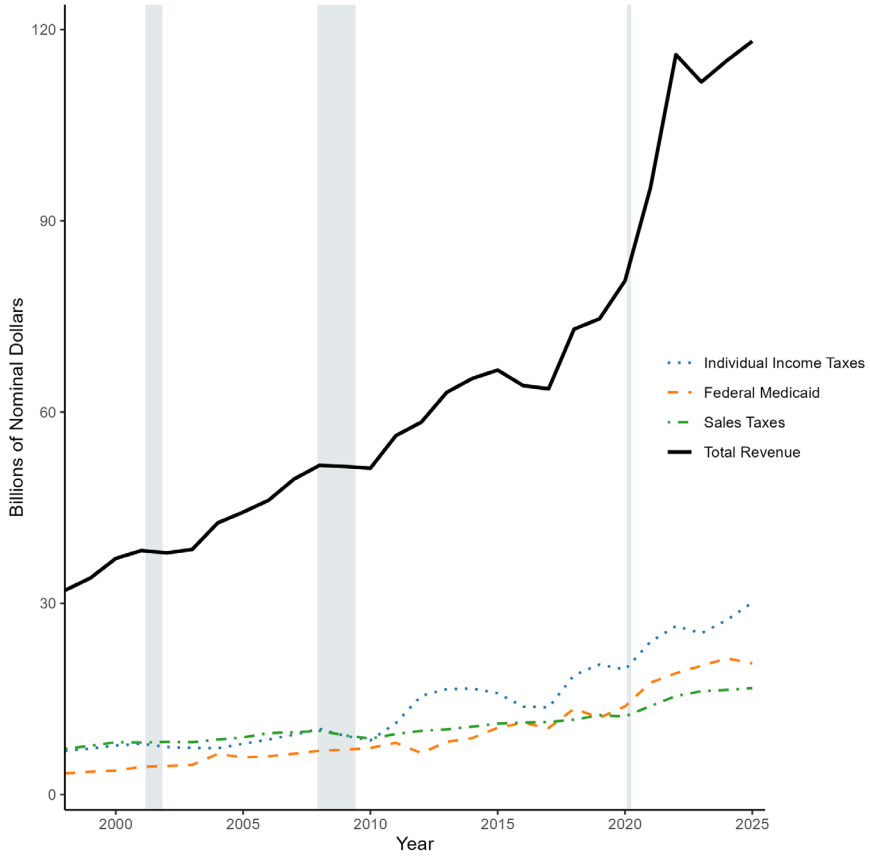
IGPA and Fiscal Futures offer a new resource for those interested in better understanding Fiscal Futures data. Our datahub allows user to visualize and download detailed historical data about consistent categories of state of Illinois revenue and spending. For more technically inclined data users, we also offer a GitHub that fully documents all current and historical Fiscal Futures methods and calculations.

[3] The decline in revenue in 2016 and 2017 is the result of the expiration of an increase in the income tax rate, from 3% to 5%, enacted in 2011. In the absence of extension, the rate fell to 3.75%. Under the 2011 statute, it would have fallen further to 3.25%, in 2025. However, in July 2017, the General Assembly overrode a gubernatorial veto to raise the rate (permanently) to 4.95%, where it remains.

CORPORATE AND INDIVIDUAL INCOME TAXES

While all of the figures in **Table 1** are based on official and authoritative data from the Illinois Comptroller, we note that the observed negative growth rate in corporate income tax revenue and the very rapid growth in individual income tax revenue require careful interpretation because state tax administrators recognized that some revenue that had been labeled as corporate income tax revenue was actually revenue from the individual income tax revenue in FY 2025 (Commission on Government Forecasting and Accountability, 2024). Without this "true-up" adjustment, corporate income tax revenues would have essentially been flat in FY 2025 and individual income tax revenues would have grown 5.3% – very close to the long-run CAGR. The true-up resulted from Illinois' use of a pass-through entity tax that allowed some business owners to claim a federal deduction for certain state income tax payments by having a business entity make the state income tax payment.

Figure 1: Trend Growth of Illinois' Major Revenue Sources



Shaded areas denote recessions as dated by the National Bureau of Economic Research.
Source: Fiscal Futures All Funds Data

Complicating matters further, local governments have long relied on personal property tax replacement (PPRT) revenues, which are essentially business income taxes. "Over-disbursements" of PPRT revenues in tax years 2023 and 2024 were corrected in 2025 when state tax administrators recognized that some revenue that had been labeled as corporate income tax revenue was actually revenue from the individual income tax revenue.

SALES TAX

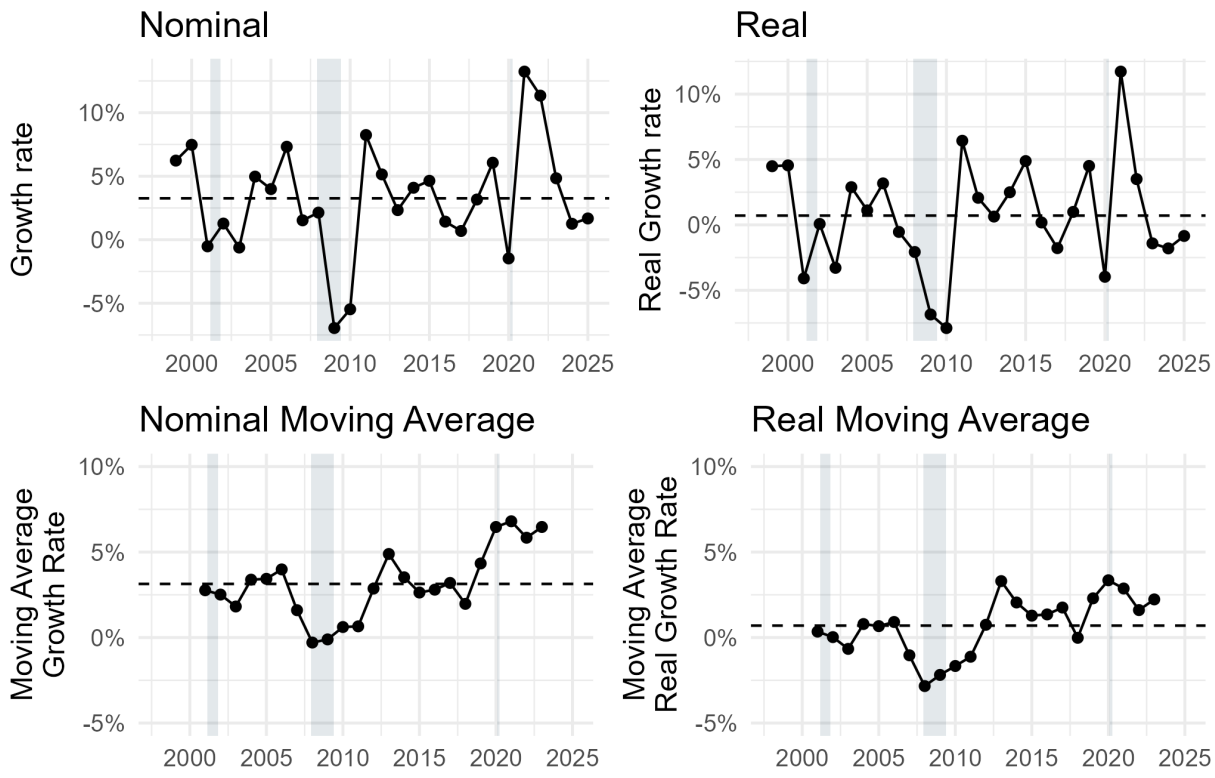
Overall sales tax revenue in FY 2025 grew more slowly than its long-run growth rate. Gross sales tax revenue — which includes the portion distributed to local governments — totaled about $16.7 billion, a 1.67% increase from FY24. The sales tax is the second most important "own-source" (i.e., state-controlled) revenue behind the personal income tax. However, over the long term, sales tax

has grown considerably more slowly than overall revenue. In recent years, the growth in sales tax revenue has been even slower than its long-term average.[4]

Figure 2 provides more detail about the growth rate of state sales tax revenue. The graph in the northwest corner of the figure simply shows the annual nominal growth in sales tax revenue. Since 1998, there have been three main periods in which the sales tax revenue has grown slower than average. These three periods closely correspond with the national economic recessions of 2001, 2007–08 and 2020. The graph also shows extremely rapid growth in sales tax revenue following the 2007–08, and 2020 recessions.

There were several reasons for the jump in sales tax revenue in the immediate aftermath of the COVID pandemic/2020 recession. Base 2020 sales tax revenue was low because of depressed economic conditions resulting from the Covid shut down. However, within a short period the federal government provided very significant aid that allowed households to continue consumption despite economic disruption from COVID. Also, because face-to-face interactions were limited, consumer spending on tangible goods, especially durables, was emphasized relative to service consumption (Tauber & Van Zandweghe, 2021). Since the Illinois sales tax is not charged on many purchases of services, the shift in emphasis resulted in higher sales tax revenue. Inflation also played a role; price increases in 2022, and more modestly in 2023, exceeded 12 percent in total and contributed to higher sales tax revenue.

Figure 2: Various Measures of Illinois Sales Tax Growth Rate



Source: Fiscal Futures All Funds Data. Moving averages are calculated with two leads (future years) and two lags (past years). Real values correct for inflation using the US consumer price index. Dashed line represents average: Nominal = 3.3%; Real =0.7%; Nominal 5-Year Moving Average = 3.1%; Real 5-Year Moving Average = 0.7%.

[4] We note two recent administrative changes in sales tax policy. First, in recent years some sales tax revenues from sales of motor fuel that previously accrued to the general fund have been redirected to a transportation fund. This change is not relevant to our calculations or discussion since we base our findings on "all funds accounting" so that sales tax revenue totals are unaffected by the movement into the transportation fund. Second, in recent years, sales taxes have been charged on an increasing share of remote sales, and some of those increased revenues have been directed to local governments. Again, this trend is not relevant to our discussion here since our accounting procedures consider only state sales tax revenues.

While **Table 1** and **Figure 1** focused on relative growth rates of different revenue sources, Figure 2 provides information about how the sales tax revenue growth rate has changed over time. In order to make sense of the over-time variation in sales tax revenue growth rates we need to consider changes in prices and annual versus longer-term (or smoothed) growth rates.

The graph in the northeast corner of **Figure 2** helps to disentangle some of these forces by expressing sales tax revenue in inflation-corrected dollars – that is, they represent the amount of consumer goods the revenue could purchase. Even with this correction, there is a very large increase in sales tax revenues in 2021 and a significant fall in the growth rate of revenues in the following years.

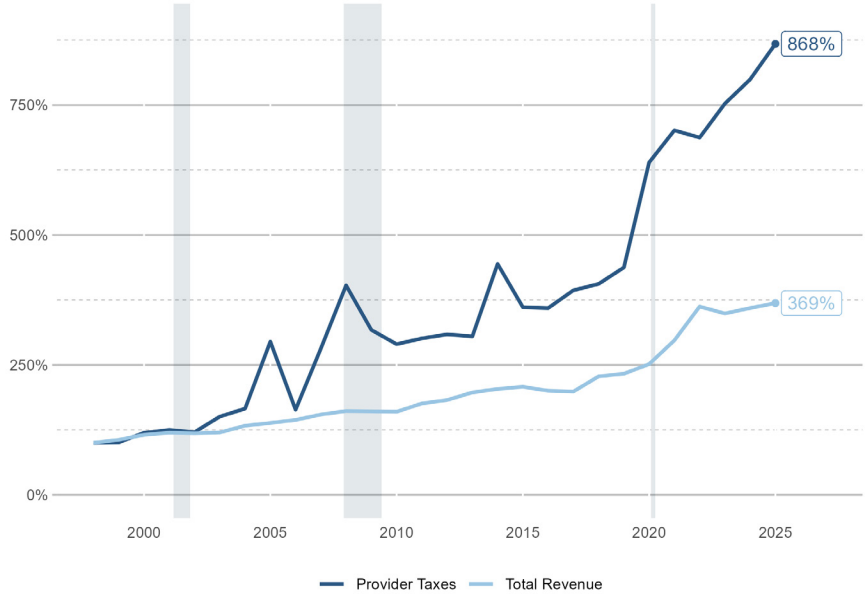
Perhaps this is to be expected. If consumers spend a lot in one year, they are likely to deplete their savings and may not be able to increase future expenditures quite as fast. This is especially true when, as happened in 2021, a large portion of the expenditures are for durable goods such as cars and household appliances that will last several years. Because these durables were purchased in that period, they are less likely to be purchased in the next few years. It is also likely that once the most immediate threats from COVID subsided, consumers "made up" for some of the service consumption they missed (like vacation spending). Since most services are not subject to the sales tax, this depressed sales tax revenue.
In order to try and get at this issue, the graphs in the bottom (southern half) of **Figure 2** depict moving averages that smooth sales tax revenues over five-year periods. These figures truncate extreme highs and lows of growth rates but still show a recent trend toward declining and below normal sales tax revenues.

Sales tax revenue requires close monitoring. Recent slow growth may reflect a temporary correction after 2021's rapid increase. But it might instead signal a longer-term decline in this revenue source. Continued slow growth could threaten Illinois' fiscal health.

MEDICAL PROVIDER TAXES

In this section, we explore medical provider taxes (also called medical provider assessments), a revenue source distinct from income and sales taxes, which generated $4.7 billion in FY 2025, up from $4.3 billion in FY 2024. These revenues have grown 8.3% annually since 1998, far exceeding overall revenue growth (Table 1). This section examines how these taxes operate in Illinois and the potential impact of the H.R. 1 (OBBB) on future collections (U.S. Congress, 2025).[5]

Figure 3: Medical Provider Assessments, as % of 1998 Levels



[5] We note that OBBB also made other substantial changes that are likely to eventually have important impacts on Medicaid revenues (and expenditures). This section is restricted to analysis of the impact of OBBB on Medicaid provider taxes.

HOW MEDICAL PROVIDER TAXES WORK

Most states impose special assessment fees and taxes on healthcare providers (e.g., hospitals and nursing homes) (Mitchell, 2024). The revenues raised and received by the states are then used to support state Medicaid expenditures, thus raising the non-federal funds against which matching federal funds are generated. The federal match is determined by state-specific Federal Medicaid Assistance Percentages (FMAPs). The additional federal funds received decrease pressure on other state resources and may support increased overall spending on Medicaid.

In general, states use provider tax revenues to fund base Medicaid reimbursements and supplemental payments (i.e. payments that are not directly tied to the provision of service for particular patients). Data limitations make it difficult to get exact breakdowns of the use of provider tax payments (Mitchell, 2024). In 2018, provider taxes and similar "creative financing" schemes are estimated to have added about five percentage points to the federal share of Medicaid spending overall (Committee for a Responsible Federal Budget, 2023b).

While transparent and comprehensive data on provider taxes and assessments are not readily available (Committee for a Responsible Federal Budget, 2023a, p. 6), annual survey data from the National Association of Budget Officers (NASBO) provides estimates of the shares of state funding coming from general funds and from "other state funds", which include provider taxes, local government funds, and a residual category.[6] In the U.S. as a whole, reliance on non-general funds has increased over time, reaching 32.3% of non-federal funding in state FY 2024.

In Illinois, assessments on healthcare providers (hospitals) and managed care organizations (MCOs) generate the two largest revenues, comprising over 75% of all provider tax revenues. The state's specific assessment fees and taxes vary by provider type (hospitals, MCOs, long-term care facilities, etc.) and are not easily translated to simple tax rates applied to a patient revenue base. That said, tax rates appear to be high in Illinois, leaving the state vulnerable to policies that require reductions in these rates. NASBO's FY 2024 data show that Illinois was one of the states that made most use of such provider assessments.

POTENTIAL IMPACT OF H.R. 1

Pre-H.R. 1, federal law required state-levied provider taxes to be broad-based with uniform tax rates, meaning states were prohibited from "holding providers harmless" – i.e., prohibited from automatically offsetting the provider taxes paid with additional reimbursements. However, the "hold harmless" prohibition had a safe harbor in which taxes set below 6 percent of net patient revenue[7] were not subject to the provision, creating incentives for "states to collude with classes of providers" (Committee for a Responsible Federal Budget 2023a, p. 4). In other words, states could impose taxes with rates under 6 percent and essentially compensate most providers for provider taxes paid.

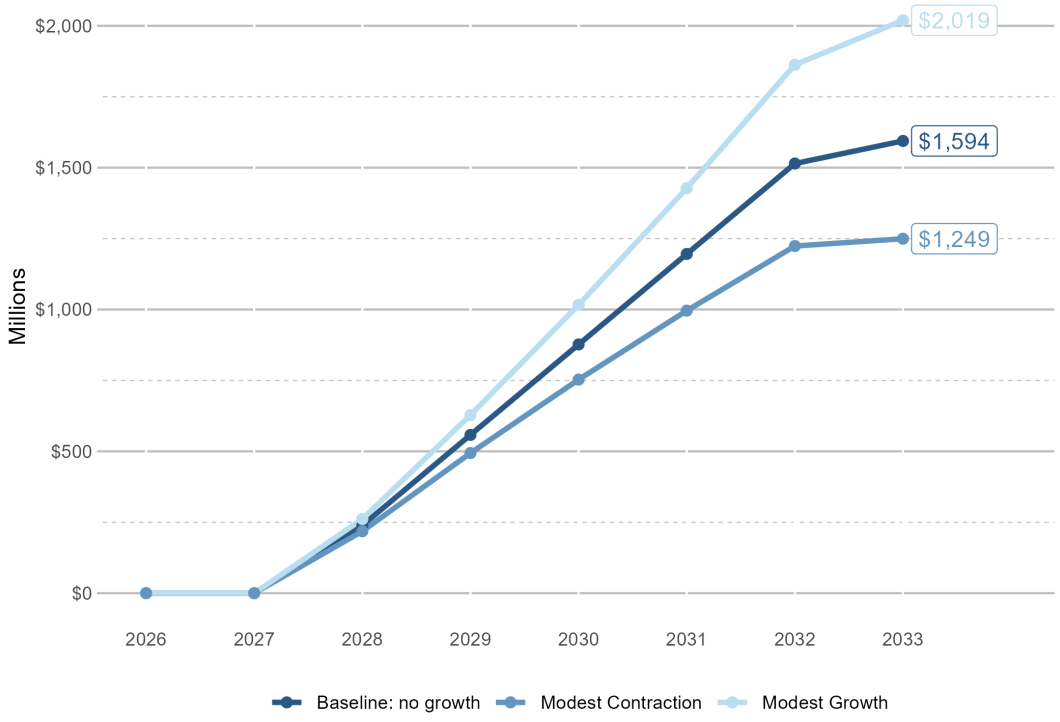
Under H.R. 1, the "safe harbor" tax rate cap is steadily reduced in Affordable Care Act (ACA) expansion states from 6% to 3.5% over five federal fiscal years beginning with federal FY 2028[8] (October 1, 2027) (U.S. Congress, 2025, sec. 71115). Available measures indicate that Illinois faces significant revenue risk under H.R. 1: one recent study suggests that Illinois is the only state

[6] A GAO study indicated that, nationwide, provider taxes comprised 51% of "other state funds" in FY2018 (Mitchell 2024, p. 7–9).
[7] Net patient revenue (NPR) is the total revenue generated by a healthcare facility from patient services after subtracting any allowances, discounts, and contractual adjustments. It represents the amount of money collected from payors, including private insurance, self-payments, Medicare, and Medicaid. Discounts to payors (insurance companies) are thus excluded from gross revenue (Definitive Healthcare, n.d.).
[8] Nursing homes and intermediate care facilities are exempt from these reductions.

with both hospital and MCO tax rates above the new 3.5% safe harbor limits (Burns & Rudowitz, 2025), and survey evidence indicates that Illinois imposes tax rates above 5.5% for nursing facilities and intermediate care facilities and tax rates between 3.5% and 5.5% for hospitals (Burns et al., 2025).

In Illinois, the practical impact on its ability to collect these taxes is delayed but potentially significant, with quantitative impacts dependent on assumed growth in patient revenues of taxed providers (in other words, assumed growth in the tax base). Under a baseline assumption of no future growth in patient revenues, we estimate that hospital provider and MCO provider assessment revenues would be $239 million lower in state FY 2028 than under the pre-H.R. 1 status quo, with increasingly large impacts as the safe harbor cap declines in 0.5 percentage point increments until reaching 3.5% during state fiscal year 2032. Figure 4 below depicts the projected future provider tax revenues under this baseline patient revenue growth assumption as well as modest growth and modest contraction alternatives.[9]

Figure 4: Projected State Revenue Losses from OBBB's Caps on Provider Tax Rates



Estimates are based on MCO and Hospital Assessments only and represent alternative future paths of the tax base. Values represent a decrease in state revenue for a tax base that contracts modestly, experiences no growth, and if it has modest growth.

[9] Our projections are based on an assumed initial provider tax rate of 6.0% for both the MCO assessments and hospital provider taxes. This timing is consistent with the state's recent projections of H.R. 1 impacts on provider taxes starting in state FY 2028, though our projections are somewhat lower than the state's (Governor's Office of Management and Budget, 2025). Differences between the state's projections and our own may reflect differences in methodology, assumed future growth of the tax base, or both. The state's projections may also reflect pre-H.R. 1 increases in tax revenues arising from P.A. 104-0007, which increased per-patient assessments, contingent on federal approval of increased directed payments to hospitals. Details of our calculations are presented in the Appendix.

POLICY IMPLICATIONS FOR ILLINOIS

At present, the H.R. 1's provider tax provisions will decrease the revenues Illinois can collect from medical providers. Several implications follow:

- The states' federal matching dollars will decrease as H.R. 1's impacts are felt because provider tax revenues are used generate matching federal funds for Medicaid. Assuming an FMAP of 62% (Governor's Office of Management and Budget, 2025, p. 8–9), this implies that the total baseline revenue impact in FY 2028 would be ($239 million)/(1 - 0.62) = $629 million, representing the sum of lost state revenues and federal funds. Thus, the revenue impact is substantial if somewhat delayed.

- Because Illinois often uses hospital provider taxes to finance directed payments to providers, there will be pressure to limit those payments and/or find alternative revenues to support them in the future.

More generally, H.R. 1 includes many Medicaid and health policy changes affecting multiple stakeholders. Accordingly, state policymakers must stay informed about these impacts and craft appropriate policy responses.

CONCLUSION

This report provides some early information about the performance of state of Illinois revenues during the 2025 fiscal year. Total state revenues grew at only about half the rate of their long-term average. If this trend were to continue, it could threaten the fiscal condition of the state. However, we believe it is too early to be certain that this dip is an established trend that portends further decline. The slow growth in federal revenues and sales tax revenue is to be expected after the rapid run-up in these revenues during COVID. Further, changes in federal tax policy and the behavior of filers have made it difficult to discern underlying trends in corporate and individual income tax revenues. We believe that aggregate income tax revenue sources are performing as expected.

A primary area of longer-term concern is how changes in federal policy with regard to Medicaid financing will affect provider tax revenues. Based on our current analysis, we expect that the federal legislative changes will result in hundreds of millions of dollars in revenue losses over the next five years. However, our analysis is hindered by lack of detailed data, and by some uncertainty about how the new legislation will be implemented. Notwithstanding this qualification, we believe that state government should undertake (and consume) detailed research about this question and provide transparent studies about possible implications.

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APPENDIX

METHODOLOGY

- We begin with FY2025 provider tax revenues of $3,826.1 million, which is the sum of healthcare provider and MCO assessments.

- We assume an average tax rate of 6.0%, which implies a "tax base" (net patient revenues) of $3,826.1/0.06 = $63.8 billion.

- To project future assessment revenue impacts as the safe harbor threshold decreases, we must make an assumption about the future path of net patient revenues, which is the relevant tax base. The OBBB has many provisions that will likely affect these revenues in unpredictable ways via changes in Medicaid enrollment, changes in the uninsured population, changes in hospital and other provider capacity, and other channels. Given the uncertainty associated with the future path of net patient revenues, we consider three possible paths: a baseline in which the tax base does not change over time; a modest growth path in which net patient revenues grow 3% annually; and a modest contraction path in which net patient revenues fall 3% annually.

- We then recognize that, given our assumed 6% tax rate parameter, the OBBB's planned decreases in safe harbor caps will take effect in Illinois on October 1, 2027, implying that 75% of FY2028 revenues would be affected by the change.[10] For subsequent years, the decreased caps would affect the entire year's revenues.

- Finally, we calculate the projected provider tax revenues and compare them, year by year, to the "status quo" in which the tax rate remains at 6.0%.

SENSITIVITY ANALYSIS

Three key assumptions underpin our projections: the assumed future growth rate in net patient revenues; the current tax rate in place; and the set of assessments we analyze.

- We have explicitly explored the impact of alternative assumed growth paths in net patient revenues: faster future growth raises the "foregone revenues" Illinois experiences as the OBBB reductions in the safe harbor tax rate cap unfold, while slower future growth (even contractions) lower the potential revenue losses. As we understand more about OBBB's potential impacts on future net patient revenues, we can revisit our assumptions and revise our projections. We note as well that the state's estimated revenue impacts seem likely to be based on a higher assumed growth rate of the tax base (see earlier discussion).

- We assumed a provider tax rate of 6.0% for both the healthcare provider and MCO assessments. If future work indicates otherwise, we may be able to revise our projections accordingly.

- Finally, we included only the healthcare provider and MCO assessments in these projections. If other assessments are also affected by the OBBB reduction in safe harbor caps – for example, the healthcare provider supplemental fee, which generated $886.5 million in FY2025 – then the foregone revenues projected will likely be higher than the ones we report here.

[10] July 1 through September 30 revenues would reflect the 5% rate, and October 1 through June 30 revenues would reflect the 4.5% rate.

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