Revenue Estimates

California's economy and revenues are expected to continue to grow somewhat faster over the budget window than had been forecast at the 2017 Budget Act. The General Fund revenue forecast has improved, reflecting a large share of wages going to high-income taxpayers and stronger consumption and investment over the medium term. As a result, after accounting for all transfers, except for transfers to the Rainy Day Fund, General Fund revenue is higher than the 2017 Budget Act projections by $4.7 billion from 2016-17 through 2018-19. These estimates do not include any impacts of the federal tax changes passed at the end of 2017. California does not automatically conform to federal tax law, which will limit the impact on revenues. However, changes by individuals and businesses in response to federal tax incentives will affect revenues in potentially unexpected ways. The impact of the federal tax changes will be assessed at the May Revision.

Figure REV-01 compares the revenue forecasts, by source, in the 2017 Budget Act and the Governor's Budget. Revenue, including transfers, is expected to be $127 billion in 2017-18 and $130 billion in 2018-19. The projected increase since the 2017 Budget Act is due to an improved outlook for personal income tax and sales tax. The corporation tax is slightly lower. Over the three fiscal years, personal income tax is up $2.9 billion, sales tax is up $1.5 billion, and corporation tax is down $358 million.

The improved revenue forecast for personal income tax is driven by strong wage withholding and capital gains. Because wage growth is not keeping up with the growth in withholding, it appears that much of the wage growth is accruing to higher-income taxpayers, who have higher-than-average marginal tax rates. Capital gains are expected to be somewhat lower in 2017 than estimated at the Budget Act, but to be significantly higher in 2018 and somewhat

Figure REV-01
2018-19 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2017 Budget Act
(Dollars in Millions)

Source	2017 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2016-17: Preliminary				
Personal Income Tax	$83,161	$82,857	-$304	-0.4%
Sales & Use Tax	24,494	24,872	378	1.5%
Corporation Tax	10,210	10,116	-95	-0.9%
Insurance Tax	2,483	2,422	-61	-2.4%
Alcoholic Beverage	375	368	-6	-1.7%
Cigarette	79	80	1	1.3%
Pooled Money Interest	67	89	22	32.8%
Other Revenues	1,184	1,304	120	10.1%
Subtotal	$122,054	$122,110	$55	0.0%
Transfers[1/]	-3,515	-3,441	74	-2.1%
Total	**$118,539**	**$118,669**	**$130**	0.1%
Fiscal 2017-18				
Personal Income Tax	$88,821	$89,403	$582	0.7%
Sales & Use Tax	24,470	$25,165	695	2.8%
Corporation Tax	10,894	$10,656	-239	-2.2%
Insurance Tax	2,538	$2,438	-100	-3.9%
Alcoholic Beverage	377	$376	-1	-0.2%
Cigarette	65	$65	0	0.1%
Pooled Money Interest	106	$185	79	74.0%
Other Revenues	905	$1,002	97	10.7%
Subtotal	$128,176	$129,289	$1,114	0.9%
Transfers[1/]	-2,295	-2,038	257	-11.2%
Total	**$125,880**	**$127,252**	**$1,371**	1.1%
Fiscal 2018-19				
Personal Income Tax	$91,007	$93,593	$2,587	2.8%
Sales & Use Tax	25,725	26,151	426	1.7%
Corporation Tax	11,249	11,224	-24	-0.2%
Insurance Tax	2,597	2,508	-90	-3.5%
Alcoholic Beverage	379	382	3	0.8%
Cigarette	63	63	0	0.1%
Pooled Money Interest	167	294	127	76.0%
Other Revenues	907	908	1	0.2%
Subtotal	$132,093	$135,123	$3,030	2.3%
Transfers[1/]	-1,936	-5,331	-3,395	175.4%
Total	**$130,157**	**$129,791**	**-$365**	-0.3%
Three-Year Total			**$1,135**	

Totals may not add because of rounding.

[1/] Includes transfers to Budget Stabilization Account for each year.

higher in later years, as well. The sales tax forecast has improved due to strong sales tax receipts as well as a more favorable forecast for consumer spending and capital equipment spending. The reduced corporation tax forecast reflects continued weak performance for corporate tax receipts, even as corporate profits have been strong in 2017.

Figure REV-02 shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this table, the amount of revenue the General Fund derives from capital gains can vary greatly from year to year. For instance, in 2007, capital gains contributed

$10.9 billion to the General Fund. By 2009, the contribution from capital gains had dropped to $2.3 billion. For 2018, capital gains are forecast to contribute $13.4 billion to General Fund revenue—the highest amount ever.

Figure REV-02

Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Annual Values	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[e]	2017[e]	2018[e]
Capital Gains Realizations	$117.9	$132.0	$56.3	$28.8	$55.3	$52.1	$99.9	$79.9	$115.5	$120.1	$107.5	$128.6	$133.2
Tax Revenues from Capital Gains	$9.6	$10.9	$4.6	$2.3	$4.7	$4.2	$10.4	$7.6	$11.3	$11.8	$10.7	$12.9	$13.4
Fiscal Year Values	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19
Tax Revenues from Capital Gains	$10.0	$9.0	$3.9	$3.0	$4.5	$6.0	$9.6	$8.7	$11.5	$11.5	$11.4	$13.0	$13.3
Total General Fund Tax Revenues[1]	$95.4	$101.3	$81.7	$86.6	$92.0	$85.3	$97.6	$103.0	$113.8	$118.9	$122.1	$129.3	$135.1
Capital Gains Percentage	10.5%	8.9%	4.7%	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.7%	9.3%	10.1%	9.8%

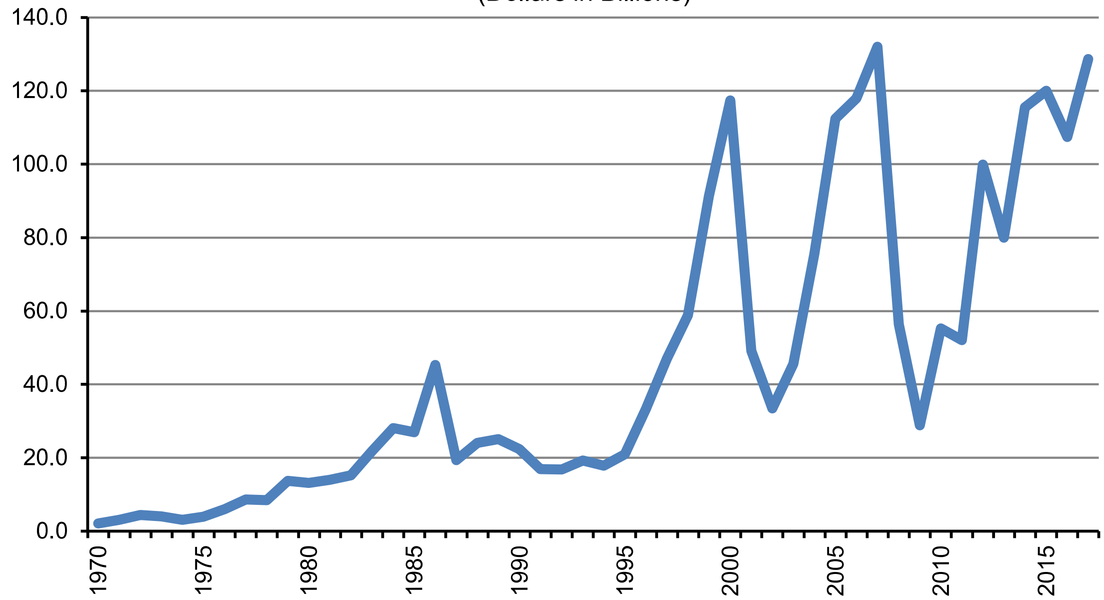
[1]Excluding transfers.
[e]Estimated

Figure REV-03 shows capital gains reported on California tax returns from 1970 through projections for 2018. Although the level of capital gains has grown significantly since 1970 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant. History suggests that above-normal levels of capital gains eventually drop off.

Forecasting capital gains is difficult because capital gains realizations are heavily dependent upon stock market performance. This forecast assumed that the S&P 500 ended 2017 at 2,588 and will grow slowly for the next several years. While the stock market has outperformed the Budget Act forecast, estimated income tax payments thus far in 2017 have only grown modestly and 2016 capital gains appear to be much lower than forecast at the Budget Act. Reflecting this divergent data, the capital gains forecast for 2017 is down somewhat from Budget Act levels, but the capital gains forecast for 2018 and later has been revised upward.

The highest-income Californians pay a large share of the state's personal income tax. For the 2015 tax year, the top 1 percent of income earners paid just under 48 percent of personal income taxes. This percentage has been greater than 40 percent in 11 of the past 12 years. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to 24 percent in 2014. This number has exceeded 20 percent in 11 of the past 12 years. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

Figure REV-03
Capital Gains Realizations
(Dollars in Billions)



These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. The Rainy Day Fund helps address some level of volatility. Under Proposition 2, when capital gains revenue is greater than 8 percent of General Fund tax revenue, that windfall revenue is used to pay off General Fund debts and build up a reserve for future downturns.

Along with California's economy and demographic profile, California's revenue structure has changed significantly since 1975. For the 1975-76 Budget, total General Fund revenues were $9.4 billion. Sales tax made up the largest share of General Fund revenue, at just under 40 percent. Personal income tax revenue made up less than a third of General Fund revenue, and corporation taxes were about 13 percent. An estate tax in 1975 funded over 3 percent of the General Fund. The current Budget includes total General Fund revenue of $132 billion, with personal income taxes making up almost 70 percent of the total. Sales tax makes up 19.4 percent of General Fund revenue and the estate tax has been repealed. Although the statutory sales tax base has changed very little since 1975, a continuing shift in the economy from the consumption of taxable goods to the consumption of nontaxable services has led to a dramatic drop in the share of personal income spent on taxable goods. On the tax policy front, California has adopted many new tax changes in the intervening four decades:

- Corporations can elect to only report on their activities within the United States, as opposed to having to report on their worldwide activities.

- Personal income tax brackets and other parameters are indexed for inflation.
- The personal income tax structure is friendlier to families with children; the dependent exemption credit has been increased and a state earned income tax credit has been adopted.
- In 1975, the top personal income tax rate was 10 percent for joint returns with income over $31,000. In 2018, the top rate is 12.3 percent for incomes over $1.1 million (plus 1 percent for the Mental Health Services Tax for incomes over $1 million).
- Proposition 13 was adopted by voters in 1978. It limits the growth of property tax revenue and, along with court cases, had the effect of shifting school funding from local governments to the state government.
- Corporations now apportion their income to California using the portion of sales in California, as opposed to a three-factor formula which also considered payroll and property in California.
- The definition of nexus for sales and use tax was expanded in 2011 to include some remote retailers who do not have a physical presence in California.
- Enterprise Zones were first established in 1984. They were repealed in 2013 and the use of their tax credits are still being phased out.

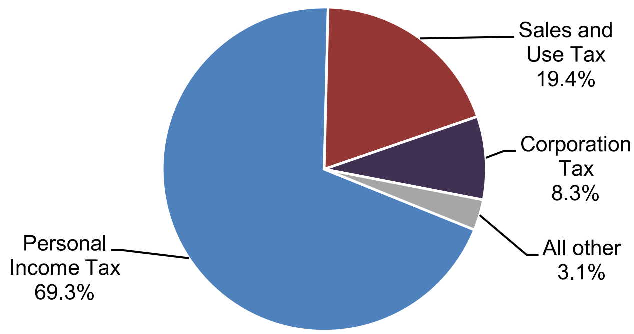
Proposals To Encourage Additional Job Creation

California's economy has added 2.6 million jobs since 2011. In support of this growth, California repealed the ineffective enterprise zone and redevelopment programs and redirected part of the saved revenue towards more effective programs, such as the sales tax exemption for manufacturing equipment and the California Competes tax credit program. This past summer, the exemption for manufacturing equipment was expanded to include equipment used for green electricity production and food production. The Budget proposes the extension of the California Competes program at $180 million for another five years. An additional $20 million is proposed to provide direct assistance to small businesses. In addition, because many Californians continue to struggle to find work, the Budget proposes a reconstituted $50 million per year credit to encourage businesses to hire individuals with employment barriers.

General Fund Revenue

Figure REV-04 shows the breakdown of General Fund revenues, excluding transfers, by taxation type. Personal income tax contributes 69.3 percent of the total.

Figure REV-04
2018-19 General Fund Revenues
$135 Billion



Long-Term Forecast

Figure REV-05 shows the forecast for the three largest General Fund revenues from 2016-17 through 2021-22. Total General Fund revenue from these sources is expected to grow from $117.8 billion in 2015-16 to $142.8 billion in 2021-22. The average year-over-year growth rate for this period is 4.2 percent.

Figure REV-05
Long-Term Revenue Forecast - Three Largest Sources
(General Fund Revenue - Dollars in Billions)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Average Year-Over-Year Growth
Personal Income Tax	$82.9	$89.4	$93.6	$96.3	$98.5	$101.3	4.9%
Sales and Use Tax	24.9	25.2	26.2	27.2	28.0	28.7	2.4%
Corporation Tax	10.1	10.7	11.2	11.7	12.2	12.8	3.4%
Total	**$117.8**	**$125.2**	**$131.0**	**$135.2**	**$138.6**	**$142.8**	4.2%
Growth	5.7%	6.3%	4.6%	3.2%	2.5%	3.0%	

Note: Numbers may not add due to rounding.

The economic forecast reflects continued steady growth through 2022. The projected average growth rate in U.S. real Gross Domestic Product over this period is around 2.2 percent.

Planning for the Next Recession

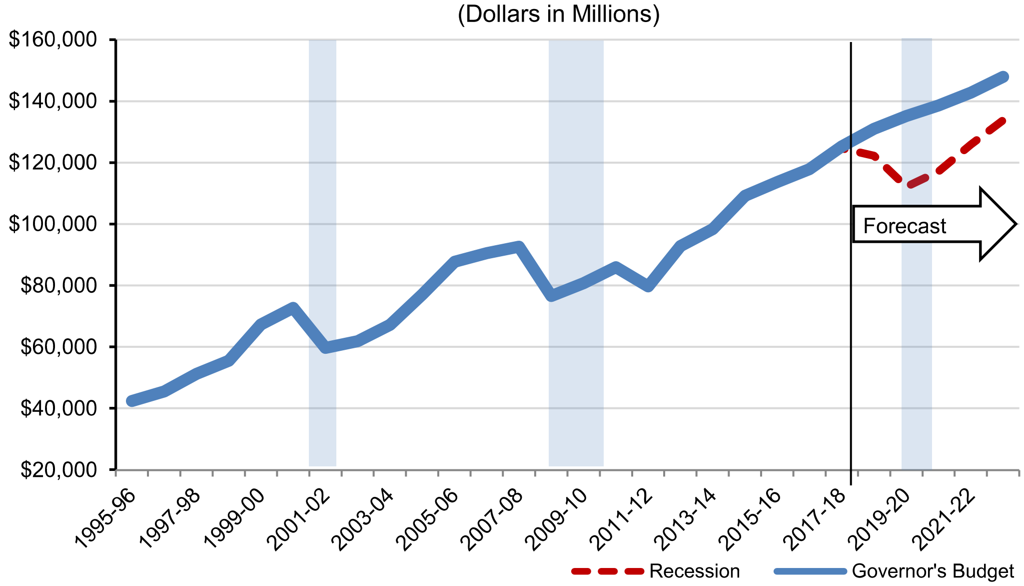
Economic growth is forecast to continue over the next few years. However, a recession during this period is possible, particularly in light of the length of the current expansion. As discussed in the Economic Outlook Chapter, there are several economic risk factors that could either lead to a recession or cause a significant slowdown in revenue growth. Continued shortages of housing will require higher percentages of income to be spent on rent or mortgage costs, limiting the amount of disposable income and reducing sales tax revenue. Even at high wages, businesses may find it difficult to hire more people because of the housing shortage which would limit wage and salary growth. Geopolitical events may also cause disruptions for California corporations, many of which have a significant presence in global markets.

Even in a moderate recession, revenue declines could be significant. Figure REV-06 shows a history of California's three largest revenue sources—personal income tax, sales tax, and corporation tax—along with revenue projections for the budget forecast and a moderate one-year recession in 2019. Under this scenario, revenue losses result from a decline in wages of about $90 billion compared to forecast (about 7 percent) and by a drop in capital gains realizations due to a 30-percent stock market correction. The shaded areas in this figure show the timing of the 2001 recession, the 2007 recession, and the recession scenario. While the actual revenue declines in the past two recessions were significant (as shown in this figure), tax law changes temporarily increased revenues to lessen the declines. Revenue losses in this recession forecast would exceed $20 billion per year for two years, continue with several more years of revenue declines in the range of $15 billion, and lead to a permanently lower revenue base compared to the current forecast.

Figure REV-06

Annual Revenue Could Drop by over $20 Billion in a Recession

(Dollars in Millions)



Personal Income Tax

The personal income tax is expected to generate $82.9 billion in 2016-17, $89.4 billion in 2017-18, and $93.6 billion in 2018-19. These figures reflect a reduction of $304 million in 2016-17, and increases of $582 million in 2017-18 and $2.6 billion in 2018-19. The personal income tax is the state's largest revenue source and is expected to comprise 69.3 percent of all General Fund revenues in 2018-19.

Modeled closely on federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. For the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent. Proposition 30 created three additional income tax brackets for families with rates of 10.3 percent for taxable income above $500,000, 11.3 percent for taxable income above $600,000, and 12.3 percent for taxable income above $1,000,000. Proposition 30 held these tax brackets in effect for seven years—tax years 2012 to 2018. Voters approved Proposition 55 in November of 2016, extending the three additional tax brackets through tax year 2030.

The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2015, taxes attributable to wages and salaries accounted for nearly 58 percent of personal income tax revenues. Based on the economic forecast, wages and salaries are expected to increase 5.4 percent in 2017, 5.9 percent in 2018, and 3.7 percent in 2019. The economic forecast increased the growth rates for 2017 and 2018 since the Budget Act, reflecting stronger near-term economic growth, while the long-term forecast for wages has been downgraded anticipating slower economic growth. The economic forecast shows personal income growing more slowly due to an increasing number of retirements slowing wage growth as higher-income earners leave the work force and are replaced by lower-wage earners. Taxable personal income, however, includes pension income, which is excluded from the economic series for personal income. Recent data suggests that the distribution of income gains among various income levels since the beginning of 2016 has also been disproportionately distributed to high-income earners compared to prior years. The growth rate in wage withholding receipts has been outpacing economic wage growth in 2016 and 2017, which has led to a higher forecast for wage withholding receipts since the Budget Act.

Capital Gains

This forecast assumes that the S&P 500 ended 2017 at 2,588, and will grow annually at approximately 0.4 percent. Though stock market levels are forecast to be higher than the Budget Act, which assumed a 2017 year-end level of 2,398, long-term returns are forecast to be lower due to its higher valuation. Although the stock market is expected to yield slow growth going forward, the strong performance of the stock market in recent years is expected to lead to continued above-normal capital gains through 2020.

This forecast estimates, based on cash receipts and partial-year tax data, capital gains in 2016 at $107 billion, a downgrade from the Budget Act forecast of $115 billion, but still above normal levels. Despite estimated tax payments in 2017 reflecting modest growth over the prior year, the Budget forecasts capital gains to grow substantially year-over-year to $129 billion in 2017, although this is still below the 2017 Budget Act level of $133 billion. Reflecting the strong stock market performance and unrealized gains, 2018 capital gains are forecast at $133 billion, up significantly from $126 billion at Budget Act. Capital gains are forecast to decline modestly beginning in 2019 until reaching a normal level at 4.5 percent of personal income in 2021. The return to a normal level of capital gains is one year later than what was assumed in the Budget Act.

A portion of personal income tax revenue is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over $1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. Revenues of $1.8 billion are estimated for 2016-17, and projected to be $2.1 billion for 2017-18 and $2.2 billion for 2018-19 are projected. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2016-17 through 2018-19 are shown in Figure REV-07.

Figure REV-07
Personal Income Tax Revenue
(Dollars in Thousands)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
General Fund	$82,857,006	$89,403,019	$93,593,240
Mental Health Services Fund	1,795,735	2,088,826	2,229,393
Total	**$84,652,741**	**$91,491,845**	**$95,822,633**

Sales and Use Tax

The sales tax is expected to generate General Fund revenue of $24.9 billion in 2016-17, $25.2 billion in 2017-18, and $26.2 billion in 2018-19. These figures reflect increases of $378 million in 2016-17, $695 million in 2017-18, and $426 million in 2018-19. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 19.4 percent of all General Fund revenues in 2018-19.

The sales and use tax (sales tax) is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to consumption of goods and business investment. Higher projections of growth in taxable consumption and business investment have increased the forecast relative to the Budget Act. However, the improved outlook for sales tax does not reverse the long-term trend of deterioration of the sales tax base. This deterioration is evidenced by taxable sales as a percentage of personal income declining from over 50 percent in the late 1970s to 30 percent today.

Figure REV-08 displays total sales tax revenues for the General Fund and various special funds for 2016-17 through 2018-19.

Figure REV-08
State Sales Tax Revenue
(Dollars in Thousands)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
General Fund	$24,872,229	$25,164,877	$26,151,044
Sales and Use Tax-1991 Realignment	3,360,004	3,526,936	3,662,284
Sales and Use Tax-2011 Realignment	6,699,500	7,010,624	7,310,856
Public Transportation Account	427,333	688,471	768,133
Total	**$35,359,066**	**$36,390,908**	**$37,892,317**

Figure REV-09 displays the individual elements of the state and local sales tax rates.

Figure REV-09
State and Local Sales and Use Tax Rates (as of January 1, 2018)

State Rates		
General Fund	3.94%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund operating reserves exceed specified levels.
Local Revenue Fund 2011	1.06%	Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011 for realignment.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Local Uniform Rates[1/]		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use.[2/]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates[3/]		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments up to a combined maximum of 2.00% in any county.[4/] Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

[1/] These locally imposed taxes are collected by the state for each county and city and are not included in the state's revenue totals.

[2/] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

[3/] These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the state for each jurisdiction and are not included in the state's revenue totals.

[4/] Various jurisdictions are authorized in statute to have a higher cap than 2.00%.

Figure REV-10 shows combined state and local tax rates for each county, including special rates for certain cities within those counties.

Motor vehicle and parts dealers were the largest contributor to the sales tax base in the calendar year 2016, comprising nearly 13.3 percent of taxable sales. Food service sales saw strong growth of 6.7 percent from 2015 to 2016 and was the second-largest contributor to the sales tax base, with close to 12 percent. The third most significant contributor to the sales tax base is wholesale trade, which comprised 11.6 percent of the sales tax base.

Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 3.5 percent in 2015-16. Based on preliminary data, it is estimated that taxable sales increased by 3.8 percent in 2016-17. Growth is expected to increase to 4.6 percent in 2017-18, followed by 4.3 percent in 2018-19.

Figure REV-10

Combined State and Local Sales and Use Tax Rates by County

(*city rate provided if different from the county rate*)

Rates in Effect on October 1, 2017

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	9.25%	**Mariposa**	7.75%	**San Luis Obispo**	7.25%
Albany, Hayward, Newark,	9.75%	**Mendocino**	7.375%	Arroyo Grande, Atascadero,	7.75%
San Leandro,		Point Arena, Willits	7.875%	Grover Beach, Morro Bay,	
Union City		Ukiah, Fort Bragg	8.375%	Paso Robles, Pismo Beach,	
Alpine	7.25%	**Merced**	7.75%	San Luis Obispo	
Amador	7.75%	Atwater, Gustine	8.25%	**San Mateo**	8.75%
Butte	7.25%	Los Banos, Merced		San Mateo	9.00%
Paradise	7.75%	**Modoc**	7.25%	South San Francisco,	9.25%
Calaveras	7.25%	**Mono**	7.25%	East Palo Alto, Belmont	
Colusa	7.25%	Mammoth Lakes	7.75%	**Santa Barbara**	7.75%
Williams	7.75%	**Monterey**	7.750%	Guadalupe, Santa Maria	8.00%
Contra Costa	8.25%	Gonzales, King City	8.250%	**Santa Clara**	9.00%
Antioch, Concord, Hercules,	8.75%	Carmel-by-the-Sea, Marina,	8.750%	Campbell, San Jose	9.25%
Orinda,		Monterey, Pacific Grove,		**Santa Cruz**	8.50%
Pittsburg, Martinez,		Sand City, Soledad		Capitola, Santa Cruz,	9.00%
San Pablo, Pleasant Hill		Del Rey Oaks, Salinas,	9.250%	Scotts Valley	
Moraga, Pinole, Richmond	9.25%	Seaside		Watsonville	9.25%
El Cerrito	9.75%	Greenfield	9.50%	**Shasta**	7.25%
Del Norte	7.50%	**Napa**	7.75%	Anderson	7.75%
El Dorado	7.25%	St. Helena	8.25%	**Sierra**	7.25%
South Lake Tahoe	7.75%	**Nevada**	7.50%	**Siskiyou**	7.25%
Placerville	8.25%	Grass Valley	8.00%	Mount Shasta, Weed	7.50%
Fresno	7.975%	Truckee	8.25%	Dunsmuir, Yreka	7.75%
Reedley, Selma	8.475%	Nevada City	8.75%	**Solano**	7.375%
Sanger	8.725%	**Orange**	7.75%	Vacaville	7.625%
Huron	8.975%	La Habra	8.25%	Rio Vista	8.125%
Glenn	7.25%	Stanton, La Palma,	8.75%	Benecia, Fairfield,	8.375%
Orland	7.75%	Fountain Valley, Westminster		Vallejo, Suisun City	
Humboldt	7.75%	**Placer**	7.25%	**Sonoma**	8.125%
Arcata, Eureka, Fortuna	8.50%	Loomis	7.50%	Healdsburg, Rohnert Park,	8.625%
Trinidad		**Plumas**	7.25%	Santa Rosa, Sonoma	
Rio Dell	8.75%	**Riverside**	7.75%	Sebastopol	8.875%
Imperial	7.75%	Hemet, Indio, La Quinta,	8.75%	Cotati	9.125%
Calexico, El Centro	8.25%	Cathedral City, Coachella,		**Stanislaus**	7.375%
Inyo	7.75%	Palm Springs, Temecula,		Ceres, Oakdale	7.875%
Kern	7.25%	Menifee, Riverside		**Sutter**	7.25%
Ridgecrest, Wasco,	8.25%	**Sacramento**	7.75%	**Tehama**	7.25%
Arvin, Delano		Galt, Sacramento,	8.25%	Red Bluff	7.50%
Kings	7.25%	Rancho Cordova		Corning	7.75%
Corcoran	8.25%	Isleton	8.75%	**Trinity**	7.25%
Lake	7.25%	**San Benito**	7.25%	**Tulare**	7.75%
Clearlake, Lakeport	8.75%	San Juan Bautista	8.00%	Tulare	8.25%
Lassen	7.25%	Hollister	8.25%	Farmersville, Porterville,	
Los Angeles	9.50%	**San Bernardino**	7.75%	Visalia, Dinuba	8.50%
Avalon, Commerce	10.00%	Montclair, San Bernardino	8.00%	Lindsay	8.75%
Compton, La Mirada,	10.25%	Town of Yucca Valley	8.75%	**Tuolumne**	7.25%
Long Beach, Pico Rivera,		**San Diego**	7.75%	Sonora	7.75%
South Gate, Lynwood,		El Cajon, Vista, Chula Vista	8.25%	**Ventura**	7.25%
Santa Monica		La Mesa	8.50%	Oxnard, Port Hueneme	7.75%
Madera	7.75%	National City, Del Mar	8.75%	Ventura	
City of Madera	8.25%	**San Francisco**	8.50%	Santa Paula	8.25%
Marin	8.25%	**San Joaquin**	7.75%	**Yolo**	7.25%
Novato	8.50%	Manteca, Tracy	8.25%	West Sacramento	8.00%
Corte Madera,	8.75%	Lathrop	8.75%	Woodland	
Larkspur, San Anselmo,		Stockton	9.00%	Davis	8.25%
Sausalito				**Yuba**	7.25%
Fairfax, San Rafael	9.00%			Wheatland	7.75%
				Marysville	8.25%

A General Fund sales tax exemption for manufacturing equipment commenced July 1, 2014. The sales tax exemption applies to purchases of manufacturing or biotechnology research and development equipment, valued at up to $200 million in qualifying purchases per business, per year. Utilization of this exemption was about $182 million in 2016-17, and is forecast to be $235 million in 2017-18 and $291 million in 2018-19. The exemption was expanded beginning in 2018 to include manufacturing equipment used in electric power generation and agricultural processing, accounting for additional utilization of $43 million in 2017-18 and $88 million in 2018-19.

Corporation Tax

The corporation tax is expected to generate $10.1 billion in 2016-17, $10.7 billion in 2017-18, and $11.2 billion in 2018-19. These figures reflect reductions of $95 million in 2016-17, $239 million in 2017-18, and $24 million in 2018-19. Corporation tax revenues are expected to contribute 8.3 percent of all General Fund revenues in 2018-19. These figures also reflect a reduction of $248 million in 2017-18 and $259 million in 2018-19 due to the managed care organization tax.

Insurance Tax

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of gross premiums received, less returned premiums. The insurance tax is expected to generate General Fund revenues of $2.4 billion in 2016-17, $2.4 billion in 2017-18, and $2.5 billion in 2018-19. These figures reflect a reduction of $61 million in 2016-17, $100 million in 2017-18, and $90 million in 2018-19. These figures also include a $151 million reduction in 2017-18 and a $158 million reduction 2018-19 due to the managed care organization tax.

Alcoholic Beverage Taxes

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits. The tax rates per gallon are applied as follows: (1) $0.20 for beer, dry wine, and sweet wine; (2) $0.30 for sparkling wine; and (3) $3.30 for distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total per capita consumption and population growth for each type of beverage. Overall, consumption of alcoholic beverages is expected to grow by about 2 percent in 2017-18 and 1.5 percent in 2018-19. Revenues from this tax were $368 million in 2016-17 and are estimated to be $376 million in 2017-18 and

$382 million in 2018-19.

Cannabis Excise Taxes

Proposition 64, the Adult Use of Marijuana Act, levies new excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is $9.25 per ounce of flower, $2.75 per ounce of leaves, and $1.29 per ounce of fresh cannabis plant to be paid on all recreational and medicinal cultivation of cannabis. In addition, there will be a 15-percent tax on the retail price of cannabis. Cannabis excise taxes are expected to generate $175 million in 2017-18 and $643 million in 2018-19. (See the Statewide Issues and Various Departments Chapter for additional discussion.)

Cigarette Tax

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increased the excise tax rate on cigarettes, tobacco products, and electronic cigarettes. The excise tax increased by $2 from 87 cents to $2.87 per pack of 20 cigarettes on distributors selling cigarettes in California, effective April 1, 2017. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increased by $2 from a $1.37-equivalent to a $3.37-equivalent tax, effective July 1, 2017. Lastly, Proposition 56 newly imposes the $3.37-equivalent tobacco products tax to electronic cigarettes. The $1.37-equivalent portion of that tax was imposed beginning April 1, 2017 while the additional $2-equivalent tax was imposed beginning July 1, 2017. The ad valorem excise tax rate on other tobacco products is calculated annually by the California Department of Tax and Fee Administration based on the wholesale price of cigarettes and the excise tax on cigarettes.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and a rate equivalent to 87 cents levied on non-cigarette tobacco products and electronic cigarettes, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.
- As of April 1, 2017, two dollars of the per-pack tax, and an equivalent rate levied on

non-cigarette tobacco products and electronic cigarettes, goes to the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund for distribution according to the provisions of Proposition 56 of 2016.

As of June 9, 2016, California raised the minimum age to legally purchase cigarettes and other tobacco products from 18 to 21 years, with an exemption for active-duty military personnel. Although raising the legal smoking age is expected to slow initiation rates among young smokers, the negative revenue impact is forecast to be small through 2018-19.

Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes, population growth, and the impact from the higher smoking age as well as the increased prices due to Proposition 56. Revenue estimates for other tobacco products, which now include electronic cigarettes, also reflect recent law changes. The cumulative effect of product price and tax increases, the increasingly restrictive environments for smokers, and anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement) have reduced cigarette consumption considerably.

Annual per capita consumption (based on population ages 18-64) was 184 packs in 1980-81, 123 packs in 1989-90, 84 packs in 1997-98, and 34 packs in 2016-17. Due primarily to higher prices from Proposition 56, per capita consumption is forecast to decline to 26 packs in 2017-18, the first full fiscal year that Proposition 56 is in effect. Tax-paid packs of cigarettes were 804 million in 2016-17. In 2017-18, tax-paid packs of cigarettes are forecast to decline to 649 million.

Figure REV-11 shows the distribution of tobacco tax revenues for the General Fund and various special funds for 2015-16 through 2017-18.

Other Revenues

Unclaimed Property

The Budget reflects receipts of $400 million in 2017-18 and $393 million in 2018-19. These numbers reflect ongoing efforts to maintain holder compliance with Unclaimed Property Law.

Indian Gaming

The Budget reflects General Fund revenues from tribal gaming of $234.5 million in 2016-17, $31.6 million in 2017-18, and $1.8 million in 2018-19. This decline reflects the approval of recent compacts which redirect payments away from the General Fund to dedicated funds.

Figure REV-11
Tobacco Tax Revenue
(Dollars in Millions)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
General Fund	$80.3	$64.9	$63.0
Cigarette and Tobacco Products Surtax Fund	$246.0	$215.8	$211.7
Breast Cancer Fund	$16.0	$13.0	$12.6
California Children and Families First Trust Fund	$426.7	$355.4	$346.4
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	$466.6	$1,421.8	$1,385.2
Total	**$1,235.6**	**$2,070.9**	**$2,018.9**

Loan Repayments to Special Funds

The Budget reflects the repayment of loans to special funds based on the operational needs of the programs requiring these repayments. Total repayments are projected to be $128 million and $186 million in 2017-18 and 2018-19, respectively.

Property Taxes

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes rose by 5.5 percent in 2016, with activity in the 2016 calendar year driving fiscal year 2017-18 assessed valuations for property tax purposes. This is lower than the 6-percent increase in median sales prices that occurred in 2015. While both median prices and sales volumes declined slightly from 2015 to 2016, the Budget anticipates property tax revenues will continue to show positive growth. Demand for homes continues to outpace supply in many major population centers, and California real estate continues to be an attractive investment for rental property investors as well as long-term buyers.

Statewide property tax revenues are estimated to increase almost 6 percent in 2017-18 and 5.6 percent in 2018-19. Approximately 42 percent ($29 billion) of 2018-19 property tax revenues will go to K-14 schools. While this amount includes $1.6 billion that schools are expected to receive in 2018-19 pursuant to the dissolution of the redevelopment agencies, it excludes the $8.5 billion shifted from schools to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.

Special Fund Revenue

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent.

Total special fund revenues, excluding transfers, are estimated to be $56.2 billion in 2018-19. Taxes and fees related to motor vehicles are expected to comprise 31.4 percent of all special fund revenue in 2018-19. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2018-19, it is expected that about $17.9 billion in revenues will be derived from the ownership or operation of motor vehicles.

Motor Vehicle Fees

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver license, and other charges related to vehicle operation. Figure REV-12 displays revenue from these sources from 2016-17 through 2018-19.

Figure REV-12
Motor Vehicle Fees Special Fund Revenue
(Dollars in Thousands)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
Vehicle License Fees	$2,649,030	$2,775,708	$2,892,285
Registration, Weight, and Other Fees	4,517,248	4,858,268	4,987,505
Transportation Improvement Fee	0	727,000	1,510,000
Total	$7,166,278	$7,633,976	$9,389,790

The Vehicle License Fee (VLF) is imposed on vehicles registered in California that travel on public highways. The current VLF tax rate is 0.65 percent. In addition, the Road Repair and Accountability Act of 2017 (SB 1) added a new graduated fee at $25 to $175 per vehicle beginning November 1, 2017. These taxes are imposed in lieu of a local personal property tax on automobiles and are administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 32.9 million in 2017-18 and will be 32.9 million in 2018-19. The forecast projects 2.5 million new vehicles registered in both 2017-18 and 2018-19.

Beginning April 1, 2017, the base vehicle registration fee increased by $10 and is indexed to inflation. Including other fees in current law and inflation indexing, the total vehicle registration fee is expected to be $82 in 2018.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales, weight fee revenues are expected to be $1.12 billion in 2017-18 and increase 2.3 percent to $1.14 billion in 2018-19.

Motor Vehicle Fuel Taxes

The motor vehicle fuel tax, diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects, including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in Figure REV-13.

Figure REV-13

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
Gasoline[1/]	$4,301,314	$5,851,420	$7,058,259
Diesel	541,435	978,063	1,195,159
Total	**$4,842,749**	**$6,829,483**	**$8,253,418**

[1/]Does not include jet fuel.

Gasoline consumption increased 1.5 percent in 2016-17 compared to the prior fiscal year. While continued gains in the average fuel economy of cars and trucks on the road as well as the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption, lower gasoline prices have supported continued gains in consumption through 2016-17. Gasoline consumption is expected to decline 0.1 percent in 2017-18 and 0.6 percent in 2018-19 due to a combination of higher gas prices and a more fuel-efficient fleet.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Robust industrial activity contributed to an increase of 6.1 percent in diesel consumption in 2016-17. Diesel consumption is expected to increase by 1 percent in 2017-18 and 0.5 percent in 2018-19.

The motor vehicle fuel tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel was taxed at a rate of 29 cents per gallon in 2017-18 until November 1. With the passage of the Road Repair and Accountability Act of 2017 (SB 1), a new 12-cent excise tax was added to gasoline sales beginning November 1, 2017, bringing the rate to 41.5 cents for the last eight months of 2017-18. The tax rate is calculated at 45.7 cents per gallon in 2018-19. A portion of the excise rate is adjusted annually to maintain revenue neutrality under a fuel tax swap implemented in 2010-11 that exempted gasoline from the General Fund sales tax and increased the excise tax rate. Fiscal year 2018-19 is the last year that this adjustment will be made.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 16 cents per gallon in 2016-17. SB 1 increased the excise tax rate by 20 cents on November 1, 2017. As such, the excise tax on diesel was 16 cents for the first four months of 2017-18 before increasing to 36 cents for the remainder of 2017-18 and 2018-19. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

Beginning in 2020-21, the excise rates which apply to both gasoline and diesel will begin to increase automatically to keep in line with inflation.

Summary of State Tax System

The state's tax system is outlined at the end of this section in Figure REV-14. Tax collections per capita and per $100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2018-19 is displayed in Schedule 3 in the Appendix.

Figure REV-14
Outline of State Tax System
as of January 1, 2018

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes				
Beer	Gallon	$0.20	Equalization	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation				
General Corporation	Net income	8.84%1/	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco				
Cigarette	Package	$2.872/	Tax & Fee Admin	See below2/
Other Tobacco Products	Wholesale cost	65.08%3/	Tax & Fee Admin	See below3/
Insurance				
Insurers	Gross Premiums	2.35%4/	Insurance Dept.	General
Managed Care Organization Tax	Number of enrollees	Various5/	Health Care Services	Health and Human Services Special Fund
Cannabis				
Cannabis Excise	Retail Cost	15.00%	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Flower	Ounce	$9.25	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Trim	Ounce	$2.75	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Fresh Plant	Ounce	$1.29	Tax & Fee Admin	Cannabis Tax Fund
Motor Vehicle				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	VLF, Local Revenue6/
Transportation Improvement Fee	Market value	$25-$175	DMV	Transportation
Fuel—Gasoline	Gallon	$0.4157/	Tax & Fee Admin	Motor Vehicle Fuel7/
Fuel—Diesel	Gallon	$0.369/	Tax & Fee Admin	Motor Vehicle Fuel
Registration Fees	Vehicle	$82.00	DMV	Motor Vehicle10/
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-12.3%11/	Franchise	General
Proposition 63 Surcharge	Taxable income > $1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable items	7.25%12/	Tax & Fee Admin	See below12/

1/ Minimum Tax is $800 per year for existing corporations. New corporations are exempt for their first taxable year.

2/This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, 50 cents/pack for the California Children and Families First Trust Fund, and $2 for the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. The additional $2 excise tax was effective as of April 1, 2017.

3/The surtax rate is determined annually by the California Department of Tax and Fee Administration and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2017, through June 30, 2018, the rate is 65.08 percent of the wholesale cost.

4/Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, certain health insurance, and nonadmitted insurance.

5/From July 1, 2016 to June 30, 2019, a tax is levied on health care plans at various rates based on enrollment in each applicable health plan using October 2014 to September 2015 data.

6/For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

7/As part of SB 1 implemented beginning November 1, 2017, an add-on rate of 12 cents went into effect on top of the existing rate of 29.7 cents. Beginning in 2020 the rates will grow to keep in line with inflation.

8/For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

9/As part of SB 1, two 10-cent add-on rates went into effect on top of the existing 16-cent rate. Beginning in 2020 these rates will grow to keep in line with inflation.

10/For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs. A $10 increase was effective April 1, 2017.

11/Proposition 30 was passed by the California voters in November 2012. Proposition 30, for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over $250,000, 11.3 percent for taxable income over $300,000, and 12.3 percent for taxable income over $500,000. Proposition 55 was passed by the California voters in November 2016 and extended these new income tax brackets until 2030.

12/The 7.25-percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate.