

REVENUE ESTIMATES

California's economy and revenues are assumed to continue growing throughout the forecast, although risks are rising. The General Fund revenue forecast has improved relative to the 2019 Budget Act, reflecting strong corporate tax receipts, an upgraded wage forecast and a stock market that was stronger than expected. As a result, before accounting for transfers such as to the Rainy Day Fund, General Fund revenue is higher than the 2019 Budget Act projections by \$5.8 billion from 2018-19 through 2020-21. About \$1.8 billion of that increase reflects an update to anticipated reimbursements from the federal government for costs associated with wildfires in 2017 and 2018.

The 2020-21 Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2019 Budget Act and the Governor's Budget. Revenue, including transfers, is expected to be \$146 billion in 2019-20 and \$152 billion in 2020-21. The projected increase since the 2019 Budget Act is due largely to an improved outlook for corporation tax. The personal income tax forecast has been revised down, but that reduction is related to an assumed shift of proprietorship income from the personal income tax to the corporation tax. The sales tax forecast has not changed significantly. Over the next three fiscal years, personal income tax is down \$1.5 billion, sales tax is up \$129 million, and corporation tax is up almost \$5 billion. Accruals of revenues to previous years for corporation tax, personal income tax, and sales tax reduce the 2018-19 beginning balance by \$20 million.

The revenue forecast for personal income tax is reduced, due largely to a reduction in proprietorship income. This decline is offset partially by an upgrade in the wage

**2020-21 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2019 Budget Act**
(Dollars in Millions)

Source	2019 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2018-19: Preliminary				
Personal Income Tax	\$98,304	\$98,599	\$295	0.3%
Sales & Use Tax	26,100	26,128	28	0.1%
Corporation Tax	13,774	14,063	287	2.1%
Insurance Tax	2,643	2,723	80	3.0%
Alcoholic Beverage	381	378	-3	-0.8%
Cigarette	63	62	-1	-2.2%
Pooled Money Interest	602	648	45	7.6%
Other Revenues	1,045	1,223	178	17.0%
Subtotal	\$142,912	\$143,823	\$910	0.6%
Transfers ^{1/}	-4,378	-4,444	-66	1.5%
Total	\$138,534	\$139,379	\$845	0.6%
Fiscal 2019-20				
Personal Income Tax	\$102,413	\$101,682	-\$731	-0.7%
Sales & Use Tax	27,241	\$27,185	-56	-0.2%
Corporation Tax	13,133	\$15,305	2,172	16.5%
Insurance Tax	2,868	\$3,023	155	5.4%
Alcoholic Beverage	386	\$383	-3	-0.8%
Cigarette	62	\$60	-2	-2.6%
Pooled Money Interest	602	\$574	-29	-4.7%
Other Revenues	1,109	\$2,187	1,079	97.3%
Subtotal	\$147,814	\$150,399	\$2,585	1.7%
Transfers ^{1/}	-4,866	-3,913	953	-19.6%
Total	\$142,948	\$146,486	\$3,537	2.5%
Fiscal 2020-21				
Personal Income Tax	\$103,922	\$102,878	-\$1,045	-1.0%
Sales & Use Tax	28,086	28,243	157	0.6%
Corporation Tax	13,599	16,007	2,408	17.7%
Insurance Tax	2,934	3,117	182	6.2%
Alcoholic Beverage	392	389	-3	-0.8%
Cigarette	60	58	-2	-3.0%
Pooled Money Interest	736	514	-221	-30.1%
Other Revenues	1,347	2,198	851	63.2%
Subtotal	\$151,075	\$153,403	\$2,328	1.5%
Transfers ^{1/}	-4,009	-1,768	2,242	-55.9%
Total	\$147,066	\$151,635	\$4,569	3.1%
Three-Year Total			\$8,951	
Totals may not add because of rounding.				
^{1/} Includes transfers to Budget Stabilization Account for each year.				

forecast due to stronger wages in the first half of 2019 and somewhat improved wage forecast for 2020 and 2021, as well as by a strong stock market. Realized capital gains are expected to be higher for 2020 and 2021 than at the 2019 Budget Act due to the stock market strength in October and November of 2019. The sales tax forecast has changed very little, as an upgraded forecast for consumption was offset by a downgraded forecast for investment. The improved corporation tax forecast reflects very strong tax receipts. Based on the limited available data, this strength reflects, in part, a significant shift of proprietorship income from pass-through entities (such as S-corporations and limited liability companies) that are taxed by the personal income

tax to C-corporations taxed by the corporation tax. Changes in federal tax law adopted in 2017 have changed incentives for some businesses, particularly large businesses, so that some businesses may switch to C-corporation status.

The Capital Gains Revenue figure shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this figure, the amount of capital gains revenue in the General Fund 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 2019, capital gains are forecast to contribute \$15.3 billion to General Fund revenue—the highest amount ever.

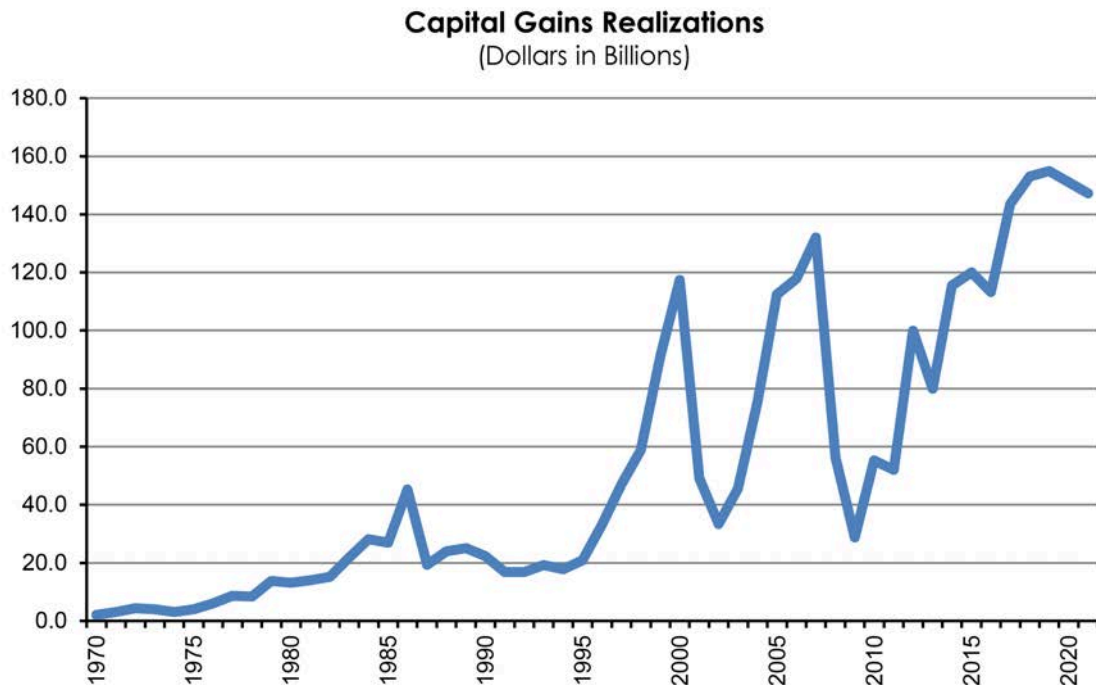
Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Annual Values	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^{e/}	2019 ^{e/}	2020 ^{e/}
Capital Gains Realizations	\$132.0	\$56.3	\$28.8	\$55.3	\$52.1	\$99.9	\$79.9	\$115.5	\$120.1	\$113.2	\$143.6	\$153.1	\$154.9	\$151.0
Tax Revenues from Capital Gains	\$10.9	\$4.6	\$2.3	\$4.7	\$4.2	\$10.4	\$7.6	\$11.3	\$11.8	\$11.5	\$14.1	\$15.2	\$15.3	\$14.8
Fiscal Year Values	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Tax Revenues from Capital Gains	\$9.0	\$3.9	\$3.0	\$4.5	\$6.0	\$9.6	\$8.7	\$11.5	\$11.7	\$12.3	\$14.4	\$15.2	\$15.1	\$14.7
Total General Fund Tax Revenues ^{1/}	\$101.3	\$81.7	\$86.6	\$92.0	\$85.3	\$97.6	\$103.0	\$113.8	\$118.9	\$122.1	\$135.1	\$142.9	\$148.5	\$151.7
Capital Gains Percentage	8.9%	4.7%	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.7%	10.2%	9.7%

^{1/}Excluding transfers.
^{e/}Estimated

The Capital Gains Realizations figure shows capital gains reported on California tax returns from 1970 through projections for 2021. 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 shows that high 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 projects the Standard & Poor's 500 (S&P 500) will be at 3,120 in the first quarter of 2020 and will grow slowly for the next several years. The stock market has outperformed the 2019 Budget Act forecast in the last part of 2019. Nonetheless, a market correction remains a significant downside risk to the forecast. The forecast includes a significant increase in realized capital gains for 2020 and especially 2021, but only limited improvement in 2022 and later years.



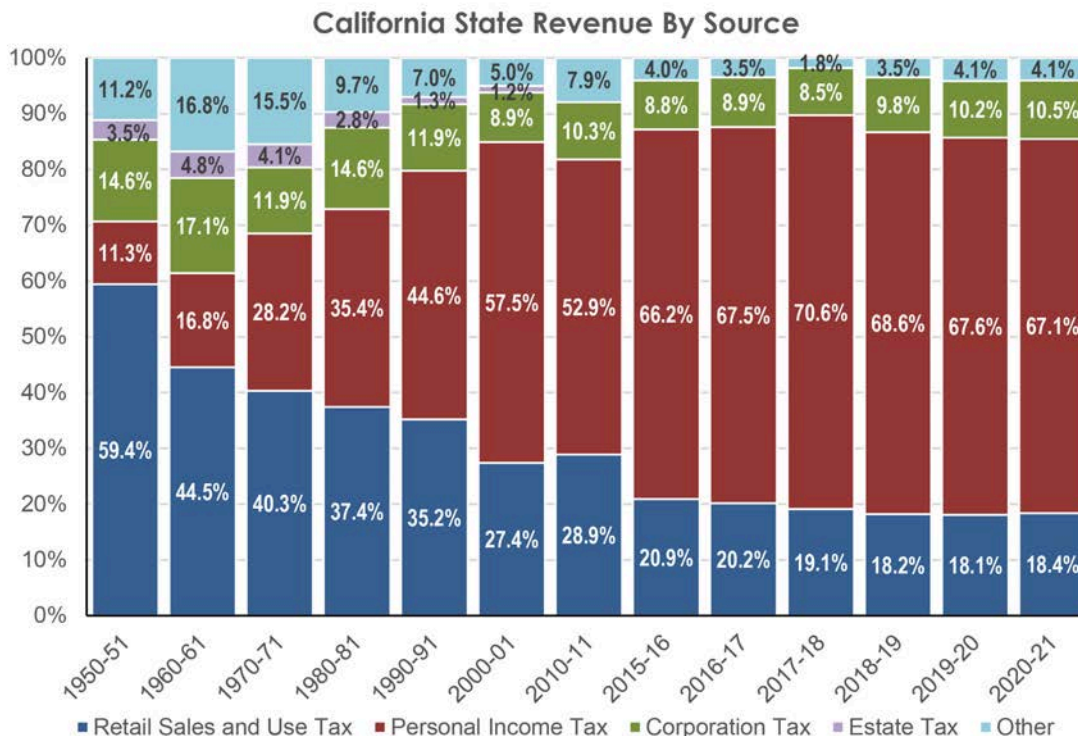
The highest-income Californians pay a large share of the state's personal income tax. For the 2017 tax year, the top 1 percent of income earners paid over 47 percent of personal income taxes. This percentage has been greater than 40 percent in every year since 2004, except for 2009. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to 24 percent in 2017. This number has exceeded 20 percent also in every year since 2004, except for 2009. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

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. Proposition 2 helps address some of the state's revenue volatility by requiring the transfer of capital gains revenue that is greater than 8 percent of General Fund tax revenue to the Rainy Day Fund and to pay down state debts. The Rainy Day Fund can be drawn down only if the Governor declares a budget emergency and, even then, no more than 50 percent of the Fund can be drawn down in the first year.

GENERAL FUND REVENUE

The California State Revenue by Source figure shows how the breakdown of General Fund revenues by tax source has changed over time. In 1950-51, sales tax revenue made up over 50 percent of General Fund revenues while personal income tax

revenue made up just more than 11 percent. That relationship has changed dramatically over time, and, for 2020-21, personal income tax makes up 67.1 percent of all General Fund revenues.



LONG-TERM FORECAST

The Long-Term Revenue Forecast figure shows the forecast for the three largest General Fund revenues from 2018-19 through 2023-24. Total General Fund revenue from these sources is expected to grow from \$138.8 billion in 2018-19 to \$158.2 billion in 2023-24. The average year-over-year growth rate for this period is 2.6 percent.

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average Year-Over-Year Growth
Personal Income Tax	\$98.6	\$101.7	\$102.9	\$106.1	\$108.1	\$110.0	2.2%
Sales and Use Tax	26.1	27.2	28.2	29.0	29.7	30.4	3.1%
Corporation Tax	14.1	15.3	16.0	16.5	17.0	17.6	4.6%
Total	\$138.8	\$144.2	\$147.1	\$151.5	\$154.7	\$158.0	2.6%

Note: Numbers may not add due to rounding.

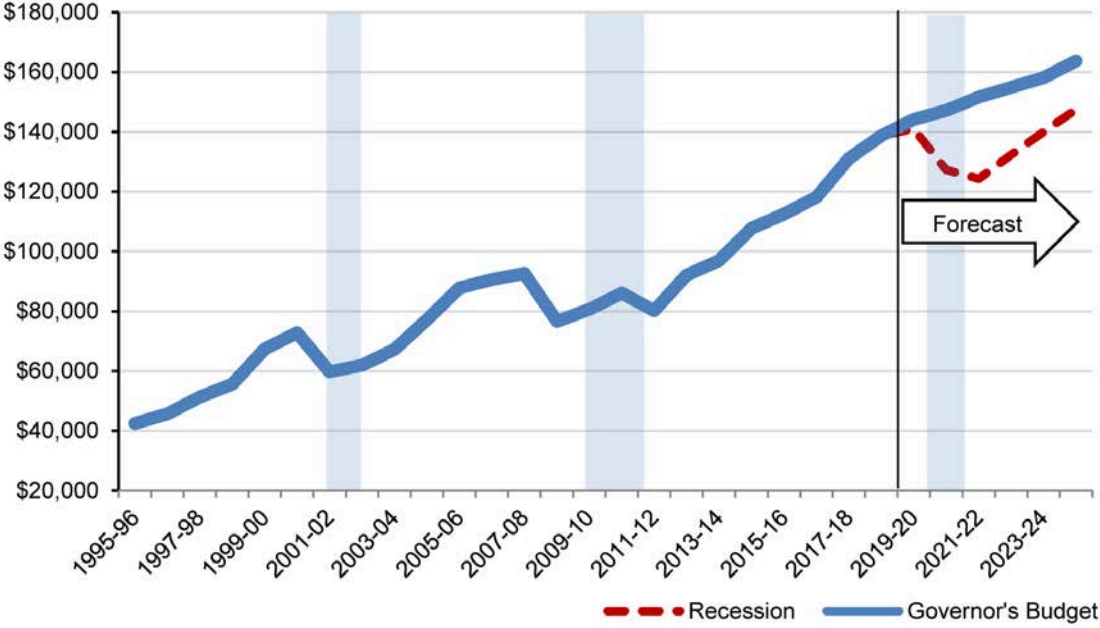
The economic forecast reflects continued steady but slowing growth, with real GDP growth falling to 1.5 percent by 2023.

PLANNING FOR THE NEXT RECESSION

Economic growth is forecast to continue over the next few years, although the current expansion is the longest on record, having matched the length of the expansion during the 1990s by July 2019. As discussed in the Economic Outlook chapter, there are several risk factors that could either lead to a recession or cause a significant slowdown in revenue growth. A global economic slowdown or other external shocks, such as fallout from Brexit, or growing imbalances in certain economic sectors are all factors that threaten the continuation of economic growth. In addition, with high federal deficits and the federal funds interest rate below 2 percent, fiscal expansion and interest rate cuts may offer less leverage during a downturn. The homeownership rate fell from 60 percent before the last recession to 55 percent in 2018, leaving fewer Californians with home equity to cushion a recession. As more workers approach retirement age, layoffs may affect their ability to work and rebuild retirement savings. Since more Californians will have fewer reserves to deal with a downturn, it is likely that consumption, and thus sales tax revenue, would be more sensitive to a downturn than it was in the previous recession.

Even in a moderate recession, revenue declines could be significant. The Recession Scenario Revenue figure 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 for a scenario that assumes a one-year recession in 2020-21. Under this scenario, revenue losses result from a decline in wages of about \$115 billion compared to the forecast (about 8 percent) and by a drop in capital gains realizations due to a 45-percent stock market correction. The shaded areas in this figure show the timing of the 2001 recession, the 2008-09 recession, and the 2020-21 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 total close to \$50 billion (an average of \$25 billion per year) for two years, continue with more years of revenue declines in the range of \$15 to \$20 billion, and lead to a permanently lower revenue base compared to the current forecast.

Annual Revenue Could Drop by Tens of Billions of Dollars in a Recession
(Dollars in Millions)



PERSONAL INCOME TAX

The personal income tax is expected to generate \$98.6 billion in 2018-19, \$101.7 billion in 2019-20, and \$102.9 billion in 2020-21. These figures reflect an increase of \$295 million in 2018-19, and declines of \$731 million in 2019-20 and \$1 billion in 2020-21, relative to the 2019 Budget Act. The personal income tax is the state’s largest revenue source and is expected to comprise 67.1 percent of all General Fund revenues in 2020-21.

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. Since the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent, not including a 1-percent surcharge on taxable income above \$1 million for the Mental Health Services tax. Proposition 30 created three additional income tax brackets beginning in 2012 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 million, with the income thresholds indexed for inflation. Proposition 30 held these tax brackets in effect for seven years—tax years 2012 to 2018. Voters approved Proposition 55 in November 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

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sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2017, taxes attributable to wages and salaries accounted for nearly 58 percent of personal income tax revenues.

A higher forecast for economic wage growth is expected to increase withholding receipts by about \$1.3 billion through fiscal year 2020-21. Economic wage growth in 2019 was revised higher in 2019 from 4.8 to 5.2 percent. Due in large part to the expected reclassification of some employees from independent contractors to wage employees beginning in 2020, the forecasted growth for economic wages is increased from 4.5 percent to 5.9 percent in 2020. This increase is primarily a shift from proprietorship to wage income and therefore does not have a significant impact on the forecast. However, underlying wage growth prior to the shift is about 0.4 percentage point higher. Economic wage growth in 2021 was revised slightly higher from 3.7 percent to 3.9 percent.

This forecast assumes that some pass-through entities have and will convert to C-corporations or new entities will be more likely to choose the C-corporation structure due to the federal tax law changes of 2017. While this change significantly decreases personal income tax receipts, it is largely offset by higher corporate tax receipts. As a result of this shift, the forecast significantly downgrades partnership income growth from positive 4.4 percent to negative 4.1 percent in 2019 and from positive 4.4 percent to negative 3.3 percent in 2020.

CAPITAL GAINS

Taxes attributable to capital gains made up 16.6 percent of personal income tax revenue in 2017, which is only 4.8 percentage points below the last cyclical peak in 2007 of 21.4 percent. Capital gains realizations in 2020 and 2021 were revised higher since the Budget Act forecast from \$147 billion to \$151 billion, and from \$139 billion to \$147 billion, respectively, based on stronger-than-expected stock market performance. This forecast projects that the S&P 500 will be at 3,120 in the first quarter of 2020, and will grow annually at approximately 0.36 percent. The 2019 Budget Act had forecast the S&P 500 to be at 2,916 in the first quarter of 2020, and to grow at 0.5 percent per year. Capital gains decline from their peak levels in 2020 to reach 4.5 percent of personal income by 2023, one year later than assumed in the Budget Act. Due to the very slow growth expected from the stock market due to its current high valuation, year-over-year declines in capital gains realizations are expected for 2021, 2022, and 2023.

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 \$2.4 billion are estimated for 2018-19. Annual revenues of \$2.4 billion are projected for 2019-20 and 2020-21 as well. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2018-19 through 2020-21 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue

(Dollars in Thousands)

	2018-19 Preliminary	2019-20 Forecast	2020-21 Forecast
General Fund	\$98,599,337	\$101,681,968	\$102,877,717
Mental Health Services Fund	2,358,678	2,400,364	2,376,132
Total	\$100,958,015	\$104,082,332	\$105,253,849

SALES AND USE TAX

The sales and use tax (sales tax) generated General Fund revenue of \$26.1 billion in 2018-19 and is expected to generate \$27.2 billion in 2019-20 and \$28.2 billion in 2020-21. Relative to the Budget Act, these figures reflect an increase of \$28 million in 2018-19, a reduction of \$56 million in 2019-20, and an increase of \$157 million in 2020-21. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 18.4 percent of all General Fund revenues in 2020-21.

The 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. Forecasted levels of sales tax revenue are relatively similar to those of the Budget Act, with an upgraded forecast for consumer spending roughly offsetting a downgraded forecast for private investment. The modest increase in the forecast is due to higher cannabis sales and a slower-than-expected uptake of CalSavers Retirement Savings Program. Finally, the forecast continues to reflect 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 28 percent today as shown in the Taxable Sales as a Percentage of Personal Income figure.

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The State Sales Tax Revenue figure displays total sales tax revenues for the General Fund and various special funds for 2018-19 through 2020-21.

State Sales Tax Revenue
(Dollars in Thousands)

	2018-19 Actual	2019-20 Forecast	2020-21 Forecast
General Fund	\$26,127,759	\$27,185,012	\$28,242,790
Sales and Use Tax-1991 Realignment	3,671,203	3,855,237	3,987,242
Sales and Use Tax-2011 Realignment	7,156,787	7,498,144	7,800,647
Public Transportation Account	925,818	916,246	964,441
Total	\$37,881,567	\$39,454,639	\$40,995,120

The State and Local Sales Tax Rates figure displays the individual elements of the state and local sales tax rates.

The Combined State and Local Sales and Use Tax Rates by County figure shows combined state and local tax rates for each county, including special rates for certain cities within those counties.

State and Local Sales and Use Tax Rates (as of January 1, 2020)

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%.

Combined State and Local Sales and Use Tax Rates by County

(city rate provided if different from the county rate)

Rates in Effect on January 1, 2020

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	9.25%	Marin	8.25%	San Joaquin	7.75%
Alameda, Albany, Hayward,	9.75%	Novato	8.50%	Lodi, Manteca, Tracy	8.25%
Newark, San Leandro,		San Anselmo, Sausalito	8.75%	Lathrop	8.75%
Union City		Corte Madera, Fairfax,	9.00%	Stockton	9.00%
Alpine	7.25%	Larkspur, San Rafael		San Luis Obispo	7.25%
Amador	7.75%	Mariposa	7.75%	Arroyo Grande, Atascadero,	7.75%
Butte	7.25%	Mendocino	7.375%	Grover Beach, Morro Bay,	
Paradise	7.75%	Point Arena, Willits	7.875%	Paso Robles, Pismo Beach,	
Oroville	8.25%	Fort Bragg	8.375%	San Luis Obispo	
Calaveras	7.25%	Ukiah	8.875%	San Mateo	9.25%
Angel's Camp	7.75%	Merced	7.75%	Burlingame, San Mateo	9.50%
Colusa	7.25%	Atwater, Gustine, Merced	8.25%	Belmont, East Palo Alto	9.75%
Williams	7.75%	Los Banos	8.75%	Redwood City,	
Contra Costa	8.25%	Modoc	7.25%	South San Francisco	
Concord, Hercules, Orinda,	8.75%	Mono	7.25%	Santa Barbara	7.75%
Pittsburg, Pleasant Hill,		Mammoth Lakes	7.75%	Guadalupe	8.00%
San Pablo		Monterey	7.750%	Santa Barbara, Santa Maria	8.75%
Antioch, Martinez, Moraga,	9.25%	Gonzales	8.250%	Carpinteria	9.00%
Pinole, Richmond,		Carmel-by-the-Sea, King City	8.750%	Santa Clara	9.00%
El Cerrito	9.75%	Monterey, Pacific Grove,		Los Gatos	9.125%
Del Norte	7.50%	King City, Sand City, Soledad		Campbell, San Jose	9.250%
El Dorado	7.25%	Del Rey Oaks, Marina	9.250%	Santa Cruz	8.50%
South Lake Tahoe	7.75%	Salinas, Seaside		Capitola, Scotts Valley	9.00%
Placerville	8.25%	Greenfield	9.50%	Watsonville, Santa Cruz	9.25%
Fresno	7.975%	Napa	7.75%	Shasta	7.25%
Reedley, Selma	8.475%	St. Helena	8.25%	Anderson	7.75%
Sanger	8.725%	Nevada	7.50%	Sierra	7.25%
Coalinga, Fowler, Huron,	8.975%	Truckee	8.25%	Siskiyou	7.25%
Kerman, Kingsburg		Nevada City	8.375%	Mount Shasta, Weed	7.50%
Glenn	7.25%	Grass Valley	8.50%	Dunsmuir, Yreka	7.75%
Orland	7.75%	Orange	7.75%	Solano	7.375%
Humboldt	7.75%	La Habra	8.25%	Rio Vista, Vacaville	8.125%
Arcata, Eureka, Fortuna,	8.50%	Fountain Valley, Garden Grove,	8.75%	Benicia, Fairfield,	8.375%
Trinidad		La Palma, Placentia, Seal Beach,		Suisun City, Vallejo	
Rio Dell	8.75%	Stanton, Westminster		Sonoma	8.25%
Imperial	7.75%	Santa Ana	9.25%	Healdsburg, Rohnert Park,	8.75%
Calexico, El Centro	8.25%	Placer	7.25%	Sonoma	
Inyo	7.75%	Loomis	7.50%	Santa Rosa, Sebastopol	9.00%
Kern	7.25%	Roseville	7.75%	Cotati	9.25%
Arvin, Bakersfield, Delano,	8.25%	Plumas	7.25%	Stanislaus	7.875%
Ridgecrest, Wasco		Riverside	7.75%	Ceres, Oakdale	8.375%
Kings	7.25%	Cathedral City, Coachella,	8.75%	Sutter	7.25%
Corcoran	8.25%	Hemet, Indio, La Quinta,		Tehama	7.25%
Lake	7.25%	Menifee, Murrieta, Norco,		Red Bluff	7.50%
Clearlake, Lakeport	8.75%	Riverside, Temecula, Wildomar		Corning	7.75%
Lassen	7.25%	Palm Springs	9.25%	Trinity	7.25%
Los Angeles	9.50%	Sacramento	7.75%	Tulare	7.75%
Avalon, Commerce, Downey,	10.00%	Galt, Rancho Cordova	8.25%	Tulare	8.25%
El Monte, Inglewood,		Isleton, Sacramento	8.75%	Visalia, Dinuba	8.50%
La Puente, San Fernando,		San Benito	8.25%	Farmersville, Lindsay,	8.75%
South El Monte		San Juan Bautista	9.00%	Woodlake	
Burbank, Compton, Covina,	10.25%	Hollister	9.25%	Porterville	9.25%
Cudahy, Culver City, Glendale,		San Bernardino	7.75%	Tuolumne	7.25%
Glendora, Hawthorne,		Montclair, San Bernardino	8.00%	Sonora	7.75%
Huntington Park, Lawndale,		Barstow, Yucca Valley	8.75%	Ventura	7.25%
Long Beach, Lynwood,		San Diego	7.75%	Oxnard, Ventura	7.75%
Pico Rivera, Pasadena,		El Cajon, Oceanside, Vista	8.25%	Santa Paula	8.25%
Pomona, Santa Monica,		La Mesa	8.50%	Port Hueneme	8.75%
South Gate		Chula Vista, Del Mar,	8.75%	Yolo	7.25%
Santa Fe Springs	10.50%	National City		Woodland	8.00%
Madera	7.75%	San Francisco	8.50%	Davis, West Sacramento	8.25%
Madera	8.25%			Yuba	7.25%
Chowchilla	8.75%			Wheatland	7.75%
				Marysville	8.25%

Motor vehicle and parts dealers were the largest contributors to the sales tax base in calendar year 2018, comprising around 12.7 percent of taxable sales. Food service sales were the second-largest contributor to the sales tax base in 2018, 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 4.8 percent in 2017-18. Based on preliminary data, estimates of taxable sales increased by 3.2 percent in 2018-19. Taxable sales are expected to increase by 4.8 percent in 2019-20 and 4.0 percent in 2020-21.

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. The exemption was expanded beginning in 2018 to include manufacturing equipment used in electric power generation and agricultural processing. The revenue loss from the utilization of this exemption was \$264 million in 2018-19, and is forecast to be \$265 million in 2019-20 and \$277 million in 2020-21.

The U.S. Supreme Court's ruling in *Wayfair v. South Dakota* in June 2018 clarified states' authority to require out-of-state sellers to collect use tax. Previously, California individuals were responsible for reporting and paying use tax on out-of-state purchases. The California Department of Tax and Fee Administration required out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if in the preceding or current calendar year their sales into California exceed \$100,000 or 200 or more separate on-line transactions. Additionally, California passed the Marketplace Facilitator Act, Chapter 5, Statutes of 2019, which raises the sales threshold to \$500,000, eliminates the 200 transaction test, and mandates that online marketplace operators such as Amazon and eBay collect and remit sales tax for all sales made on their platforms beginning October 1, 2019. The *Wayfair* decision and Marketplace Facilitator Act are expected to lead to increased use tax compliance, resulting in an additional \$554 million in tax revenue in 2019-20 and \$664 million in 2020-21, which is unchanged from the 2019 Budget Act forecast.

CORPORATION TAX

The corporation tax is expected to generate \$14.1 billion in 2018-19, \$15.3 billion in 2019-20, and \$16.1 billion in 2020-21. These figures reflect increases of \$288 million in 2018-19, \$2.2 billion in 2019-20, and \$2.5 billion in 2020-21. Corporation tax revenues are expected to contribute 10.4 percent of all General Fund revenues in 2020-21, down more than 4 percentage points from the 14.6 percent contributed in 1980-81.

The strong upgrade to the corporation tax forecast is due in large part to the assumption that the federal tax changes of 2017 will result in the shifting of a portion of pass-through income, which is taxed under the personal income tax, to corporate income. This assumption reflects strong cash trends in the corporate tax above what could reasonably be expected from profit growth, the 2017 cut in the federal corporate tax rate from 35 percent to 21 percent, and the announcements of conversions to C-corporations of several large public companies in the private equity and energy space. This shift is expected to occur primarily in 2018, 2019, and 2020, but is expected to be permanent.

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 \$3.0 billion in 2019-20 and \$3.1 billion in 2020-21. These figures reflect an increase of \$155 million in 2019-20 and \$182 million in 2020-21.

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 for each type of beverage are based on projections of total per capita consumption and population growth. Overall, consumption of alcoholic beverages is expected to grow by 1.4 percent in 2019-20 and

1.4 percent in 2020-21. Revenues from this tax were \$378 million in 2018-19 and are forecast to be \$383 million in 2019-20 and \$389 million in 2020-21.

CANNABIS EXCISE TAXES

Proposition 64, commonly referred to as the Adult Use of Marijuana Act, levies excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. The cultivation tax is paid on all recreational and medicinal cultivation of cannabis, and will increase, to adjust for inflation, to \$9.65 per ounce of flower, \$2.89 per ounce of trim, and \$1.35 per ounce of fresh cannabis plant on January 1, 2020. In addition, there is a 15-percent tax on the retail price of cannabis. The Budget includes a proposal to simplify the tax structure by moving the collection of the retail excise tax from the distributor to the retailer and moving the collection of the cultivation tax from the last distributor to the first. Cannabis excise taxes generated \$299 million in 2018-19 and are expected to generate \$479 million in 2019-20 and \$550 million in 2020-21. (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 on 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.

REVENUE ESTIMATES

- 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.

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 31 packs in 2018-19. Total tax-paid packs of cigarettes sold in 2018-19 were 624 million. In 2020-21, tax-paid packs of cigarettes sold are forecast to decline to 585 million.

The Tobacco Tax Revenue figure shows the distribution of tobacco tax revenues to the General Fund and various special funds for 2018-19 through 2020-21.

In order to address the rapidly increasing youth use of potent nicotine-based vaping products, the Budget proposes a new vaping tax based on nicotine content. The new tax will begin on January 1, 2021, and will be \$2 for each 40 milligrams of nicotine in the product, equivalent to the tax on a pack of cigarettes. The new tax will be in addition to all existing taxes on E-Cigarettes, which are presently taxed as tobacco products under state law. Revenues from the new tax are expected to be \$32 million in 2020-21, will be deposited into a new special fund, and will be used for administration,

Tobacco Tax Revenue

(Dollars in Millions)

	2018-19 Actual	2019-20 Forecast	2020-21 Forecast
General Fund	\$61.9	\$59.9	\$58.0
Cigarette and Tobacco Products Surtax Fund	\$225.4	\$222.4	\$220.6
Breast Cancer Fund	\$12.4	\$12.0	\$11.6
California Children and Families First Trust Fund	\$349.8	\$341.0	\$333.3
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	\$1,402.8	\$1,369.6	\$1,338.3
Total	\$2,052.2	\$2,004.9	\$1,961.8

enforcement, youth prevention, and health care workforce programs. The Budget includes \$9.9 million and 10.5 positions for the Department of Tax and Fee Administration to administer the proposed tax and \$7 million for the California Highway Patrol to establish a task force in collaboration with the Department of Justice dedicated to combatting the underground market for vaping products. Similar to the implementation of Proposition 56, the Administration anticipates proposing a spending plan for the remainder of the revenues in the January 2021 Governor's Budget. In addition to the tax, the Administration will support a statewide ban of all flavored nicotine products as of January 1, 2021. For more information see the Health and Human Services chapter.

OTHER REVENUES**UNCLAIMED PROPERTY**

The Budget reflects receipts in unclaimed property of \$443 million in 2019-20 and \$432 million in 2020-21. These numbers reflect ongoing efforts to maintain holder compliance with Unclaimed Property Law.

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.

REVENUE ESTIMATES

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes is expected to rise by 3.7 percent in 2019, with activity in the 2019 calendar year driving fiscal year 2020-21 assessed valuations for property tax purposes. This represents a moderation in growth from 2015 to 2018 when median prices increased at an average rate of 6.2 percent. The demand for homes continues to outpace supply in many areas of the state, however, moderating growth in the economy as well as moderating growth in home prices due to affordability issues are expected to lead to a moderation in growth of property taxes in the future.

Statewide property tax revenues are estimated to increase 6.4 percent in 2019-20 and 5.7 percent in 2020-21. Approximately 42 percent (\$33 billion) of 2020-21 property tax revenues will go to K-14 schools. This includes \$2.4 billion that schools are expected to receive in 2020-21 pursuant to the dissolution of redevelopment agencies.

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 \$57.9 billion in 2020-21. Taxes and fees related to motor vehicles are expected to comprise 32.8 percent of all special fund revenue in 2020-21. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2020-21, it is expected that about \$18.9 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. The Motor Vehicle Fees Special Fund Revenue figure displays revenue from these sources from 2018-19 through 2020-21.

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 plus a graduated fee at \$25 to \$175 per vehicle. 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,

Motor Vehicle Fees Special Fund Revenue

(Dollars in Thousands)

	2018-19 Actual	2019-20 Forecast	2020-21 Forecast
Vehicle License Fees	\$2,937,373	\$3,017,031	\$3,106,237
Registration, Weight, and Other Fees	5,239,459	5,452,564	5,655,376
Transportation Improvement Fee	1,666,256	1,733,000	1,770,500
Total	\$9,843,088	\$10,202,595	\$10,532,113

trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 32.8 million in 2019-20 and 32.9 million in 2020-21. The forecast projects that there will be 2.3 million new vehicles registered in both 2019-20 and 2020-21.

Beginning April 1, 2017, the base vehicle registration fee of \$43 increased by \$10 and was newly indexed to inflation. The total vehicle registration fee is expected to be \$86 in 2020, which includes \$57 for the base vehicle registration fee, \$26 for a CHP fee that continues to be indexed to inflation, and \$3 for an alternative fuel/technology fee not indexed for inflation.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Weight fee revenues are expected to be \$1.2 billion in 2019-20 and \$1.3 billion in 2020-21.

Beginning on July 1, 2020, an additional \$100 annual registration fee will be imposed on zero-emission vehicles (ZEV) that are model 2020 or newer. The new ZEV revenue is expected to be \$10.9 million in 2020-21 and will be used to fund transportation projects.

MOTOR VEHICLE FUEL TAXES

The motor vehicle fuel tax (gas 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 the Motor Vehicle Fuel Tax Revenue figure.

Gasoline consumption was down 1.5 percent in 2018-19 when compared to the prior fiscal year. Demand for gasoline was likely lessened in the short run by high gas prices

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
Gasoline ^{1/}	\$6,432,835	\$7,169,409	\$7,533,173
Diesel	1,124,876	1,209,286	1,261,187
Total	\$7,557,711	\$8,378,695	\$8,794,360

^{1/}Does not include jet fuel.

throughout the year. In the long run, continued gains in the average fuel economy of cars and trucks as well as the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption. Gasoline consumption is expected to decline 1.2 percent in 2019-20 and 1.2 percent in 2020-21.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. However, despite the strong economy, diesel consumption decreased by 2.4 percent in 2018-19. Diesel consumption is expected to increase by 2.6 percent in 2019-20, followed by a decrease of 1.5 percent in 2020-21. The uneven growth rates are attributable to some large late payments in 2019-20. Long-term growth is expected to be negative 0.4 percent, reflecting a moderating economy and gradually improving fuel economy of the fleet.

The gas tax is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 47.3 cents per gallon in 2019-20 and will be taxed at the rate of 50.3 cents per gallon in 2020-21.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. The excise tax on diesel will be 36 cents per gallon for 2019-20 and will be 38.2 cents per gallon in 2020-21. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

SUMMARY OF STATE TAX SYSTEM

The state's tax system is outlined at the end of this section in the Outline of State Tax System figure. 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 2020-21 is displayed in Schedule 3 in the Appendix.

Outline of State Tax System as of January 1, 2020

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 ^{1/}	Net income	8.84%	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco				
Cigarette ^{2/}	Package	\$2.87	Tax & Fee Admin	See footnote
Other Tobacco Products ^{3/}	Wholesale cost	59.27%	Tax & Fee Admin	See footnote
Insurance				
Insurers ^{4/}	Gross Premiums	2.35%	Insurance Dept.	General
Cannabis				
Cannabis Excise	Retail Cost	15.00%	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Flower	Ounce	\$9.65	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Trim	Ounce	\$2.87	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Fresh Plant	Ounce	\$1.35	Tax & Fee Admin	Cannabis Tax Fund
Motor Vehicle				
Vehicle License Fees (VLF) ^{5/}	Market value	0.65%	DMV	VLF, Local Revenue
Transportation Improvement Fee	Market value	\$25-\$175	DMV	Transportation
Fuel—Gasoline ^{6/}	Gallon	\$0.473	Tax & Fee Admin	Motor Vehicle Fuel
Fuel—Diesel ^{7/}	Gallon	\$0.36	Tax & Fee Admin	Motor Vehicle Fuel
Registration Fees ^{8/}	Vehicle	\$86.00	DMV	Motor Vehicle
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income^{9/}				
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^{10/}	Sales or lease of taxable items	7.25%	Tax & Fee Admin	See footnote

^{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, 2019, through June 30, 2020, the rate is 59.27 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/} For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

^{6/} As part of SB 1 implemented beginning November 1, 2017, the rate was increased from 29.7 cents to 47.3 cents and indexed for inflation beginning in 2020-21. The fund is used for administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

^{7/} As part of SB 1, the rate was increased from 16 cents to 36 cents and indexed with inflation beginning in 2020-21.

^{8/} 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.

^{9/} 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.

^{10/} 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.

