REVENUE ESTIMATES

Since the 2021 Budget Act, California's economy has continued its recovery from the COVID-19 Recession. In addition to the growth in the real economy, inflation has significantly accelerated. Meanwhile, higher-wealth segments of the economy continue to do well. These factors have contributed to a significant upgrade to the revenue forecast. Before accounting for transfers such as to the Budget Stabilization Account, General Fund revenue is higher than the 2021 Budget Act projections by almost $28.7 billion from 2020-21 through 2022-23.

To illustrate the magnitude of this increase: 18 months ago, at the depth of the COVID-19 Pandemic, revenues for the 2022-23 fiscal year were forecast at less than $130 billion. The Budget now projects this revenue at nearly $200 billion—an increase of more than 50 percent.

The 2022-23 Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2021 Budget Act and the Governor's Budget. The Governor's Budget reflects actual and anticipated reimbursements from the federal government for fiscal years 2020-21 through 2022-23 totaling approximately $10.3 billion for reimbursement of costs associated with the state's response to recent (2018, 2020, and 2021) wildfires and the COVID-19 Pandemic.

General Fund revenue, including transfers, is expected to be $196.7 billion in 2021-22 and $195.7 billion in 2022-23. The projected increase since the 2021 Budget Act can be attributed to four main factors: (1) a more robust economic recovery, (2) a greater share of wage gains going to high-wage sectors, (3) a stronger-than-forecast stock market, and (4) higher inflation. The personal income tax forecast has been upgraded significantly, reflecting all four of these factors. The sales tax forecast has improved considerably due to the stronger economic recovery and higher inflation (price increases have led to more sales tax revenue). The corporation tax forecast has improved significantly due to very strong growth in corporate profits.

The recently adopted elective pass-through entity tax allows California business owners to mitigate the impact of the $10,000 limit on state and local tax deductions that was imposed by the 2017 federal Tax Cut and Jobs Act. For simplicity's sake, the 2021 Budget Act reflected the net effect of this change—a reduction in personal income tax revenues and an increase in corporation tax revenues—as affecting corporation tax revenues only. The Budget forecast more accurately reflects the impact to both the personal income tax and corporation tax revenues. This revised scoring decreases personal income tax revenues by $14.1 billion in 2021-22 and $9.7 billion in 2022-23 while increasing corporate tax revenues by $12.4 billion in 2021-22 and $9.4 billion in 2022-23. Because at least some of the personal income tax credits generated by the payment of this tax will not be fully usable to business owners, this provision will generate cumulative net revenue gains over the years it is expected to be operative. The corporation tax in the 2022-23 Governor's Budget General Fund Revenue Forecast figure is up by almost 82 percent in 2021-22 and by almost 37 percent in 2022-23, while personal income tax revenues are actually down about 2 percent in 2021-22 and up only 1.4 percent in 2022-23, despite the significant improvement in the underlying personal income tax forecast.

Over the budget window, personal income tax is up $2.5 billion, sales tax is up $6.1 billion, and corporation tax is up $23.2 billion. Accruals of revenues to previous years for corporation tax and personal income tax increase the 2020-21 beginning balance by $642 million.

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 over time and from year to year. For instance, capital gains contributed only $2.3 billion to the General Fund in 2009. By 2012, this revenue had increased to $10.4 billion, and for 2021, it is expected to reach $25 billion—its highest amount ever.

The Capital Gains Realizations figure shows capital gains reported on California tax returns from 1970 through projections for 2022. While 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, and history shows that high levels of capital gains eventually drop off.

2022-23 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2021 Budget Act
(Dollars in Millions)

Source	2021 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2020-21: Preliminary				
Personal Income Tax	$125,151	$128,226	$3,076	2.5%
Sales & Use Tax	27,936	29,066	1,130	4.0%
Corporation Tax	20,720	22,793	2,071	10.0%
Insurance Tax	3,348	3,139	-209	-6.2%
Alcoholic Beverage	385	415	29	7.6%
Cigarette	60	60	0	-0.3%
Pooled Money Interest	126	192	66	52.4%
Other Revenues	3,215	2,201	-1,014	-31.5%
Subtotal	$180,942	$186,092	$5,150	2.8%
Transfers 1/	7,833	8,040	207	2.6%
Total	**$188,775**	**$194,132**	**$5,358**	2.8%
Fiscal 2021-22				
Personal Income Tax	$123,298	$120,873	-$2,424	-2.0%
Sales & Use Tax	28,986	30,866	1,879	6.5%
Corporation Tax	18,106	32,863	14,757	81.5%
Insurance Tax	3,428	3,448	20	0.6%
Alcoholic Beverage	390	423	34	8.6%
Cigarette	58	58	0	-0.2%
Pooled Money Interest	83	182	99	118.6%
Other Revenues	7,267	5,116	-2,151	-29.6%
Subtotal	$181,616	$193,829	$12,213	6.7%
Transfers 1/	-6,271	2,840	9,111	-145.3%
Total	**$175,345**	**$196,669**	**$21,324**	12.2%
Fiscal 2022-23				
Personal Income Tax	$128,458	$130,269	$1,811	1.4%
Sales & Use Tax	$29,152	32,208	3,056	10.5%
Corporation Tax	17,348	23,732	6,384	36.8%
Insurance Tax	3,552	3,541	-12	-0.3%
Alcoholic Beverage	394	421	26	6.7%
Cigarette	51	51	0	0.2%
Pooled Money Interest	82	164	82	100.1%
Other Revenues	7,264	7,249	-15	-0.2%
Subtotal	$186,302	$197,634	$11,332	6.1%
Transfers 1/	-4,874	-1,915	2,959	-60.7%
Total	**$181,428**	**$195,718**	**$14,291**	7.9%
Three-Year Total			**$40,972**	

Totals may not add because of rounding.

1/ Includes transfers to or from the Budget Stabilization Account for each year.

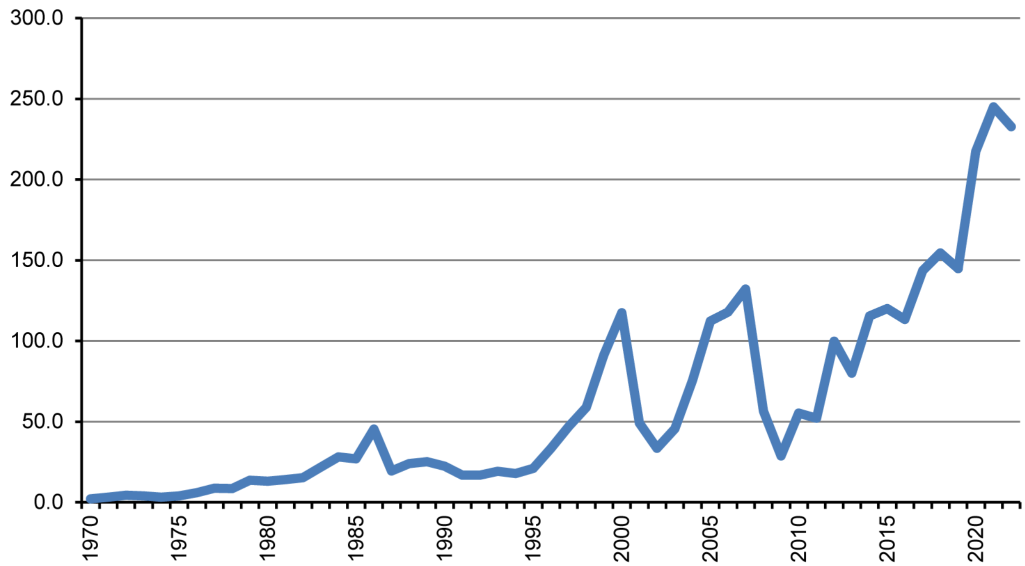
The highest-income Californians pay the largest share of the state's personal income tax. For the 2019 tax year, the top 1 percent of income earners paid almost 45 percent of all personal income taxes. This percentage has been greater than 40 percent in every year since 2004, except for 2009. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to 23 percent in 2019. This number has also exceeded 20 percent in every year since 2004, except in 2009. Consequently, positive or negative changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

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

Annual Values	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020[e/]	2021[e/]	2022[e/]
Capital Gains Realizations	$56.3	$28.8	$55.3	$52.1	$99.9	$79.9	$115.5	$120.1	$113.2	$143.6	$154.4	$144.8	$217.5	$245.0	$232.7
Tax Revenues from Capital Gains	$4.6	$2.3	$4.7	$4.2	$10.4	$7.6	$11.3	$11.8	$11.5	$14.1	$15.4	$14.4	$22.0	$24.9	$23.7
Fiscal Year Values	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	21-22	22-23
Tax Revenues from Capital Gains	$3.9	$3.0	$4.5	$6.0	$9.6	$8.7	$11.5	$11.7	$12.3	$14.4	$15.1	$16.7	$22.8	$24.5	$23.3
Total General Fund Tax Revenues[1/]	$81.7	$86.6	$92.0	$85.3	$97.6	$103.0	$113.8	$118.9	$122.1	$135.1	$144.5	$145.1	$186.1	$193.8	$197.6
Capital Gains Percentage	4.7%	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.5%	12.3%	12.7%	11.8%

[1/]Excluding transfers.
[e/]Estimated

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. Proposition 2 helps address some of the state's revenue volatility by requiring the transfer of a portion of capital gains revenue 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. See the Introduction Chapter for a more detailed discussion of the Rainy Day Fund.

SYSTEM OF TAXATION

The state's tax system is detailed 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 2022-23 is displayed in Schedule 3 in the Appendix.

Although there are a variety of taxes in California’s tax system, the system is heavily dependent on the personal income tax, and particularly on personal income taxes paid by high-income individuals. While this dependence leads to a greater level of volatility, it has actually been a buffer for revenues in the recent recession and recovery. The COVID-19 Recession has had a significant negative impact on lower-wage households, but the taxpayers who California depends on for much of its tax revenue have generally not been impacted as severely, and have, in many cases, benefited from overall economic conditions.

The past two recessions in 2001 and 2008 led to significant revenue declines because the economic distress was spread more evenly over the population and because the stock market suffered significant and long-term declines. In 2001, income earned by the top 1 percent fell from 27 percent of the total in the prior year to just under 20 percent and net capital gains realizations fell from $117 billion to $49 billion. In 2008, the share earned by the top 1 percent fell from 25 percent to 21 percent and capital gains realizations fell from $132 billion to $56 billion. In those two years, personal income tax revenues dropped by 26 percent and 20 percent, respectively. For 2021, the share of income is likely to increase for the top 1 percent of tax returns while capital gains realizations are forecast to increase from $145 billion in 2019 to $245 billion in 2021.

GENERAL FUND REVENUE

The California State Revenue by Source figure shows how the composition 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

Outline of State Tax System as of January 1, 2022

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	63.49%	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	$10.08	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Trim	Ounce	$3.00	Tax & Fee Admin	Cannabis Tax Fund
Cultivation-Fresh Plant	Ounce	$1.41	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	$28-$196	DMV	Transportation
Road Improvement Fee	Zero Emission Vehicle	$102	DMV	Transportation
Fuel—Gasoline [6/]	Gallon	$0.511	Tax & Fee Admin	Motor Vehicle Fuel
Fuel—Diesel [7/]	Gallon	$0.389	Tax & Fee Admin	Motor Vehicle Fuel
Registration Fees [8/]	Vehicle	$94.00	DMV	Motor Vehicle
Weight Fees	Gross vehicle wt.	Various	DMV	State Highway
Personal Income [9/]	Taxable income	1.0-12.3%	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 [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, California Children and Families First Trust Fund, and the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. Effective July 1, 2021, through June 30, 2022, the rate is 63.49 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.

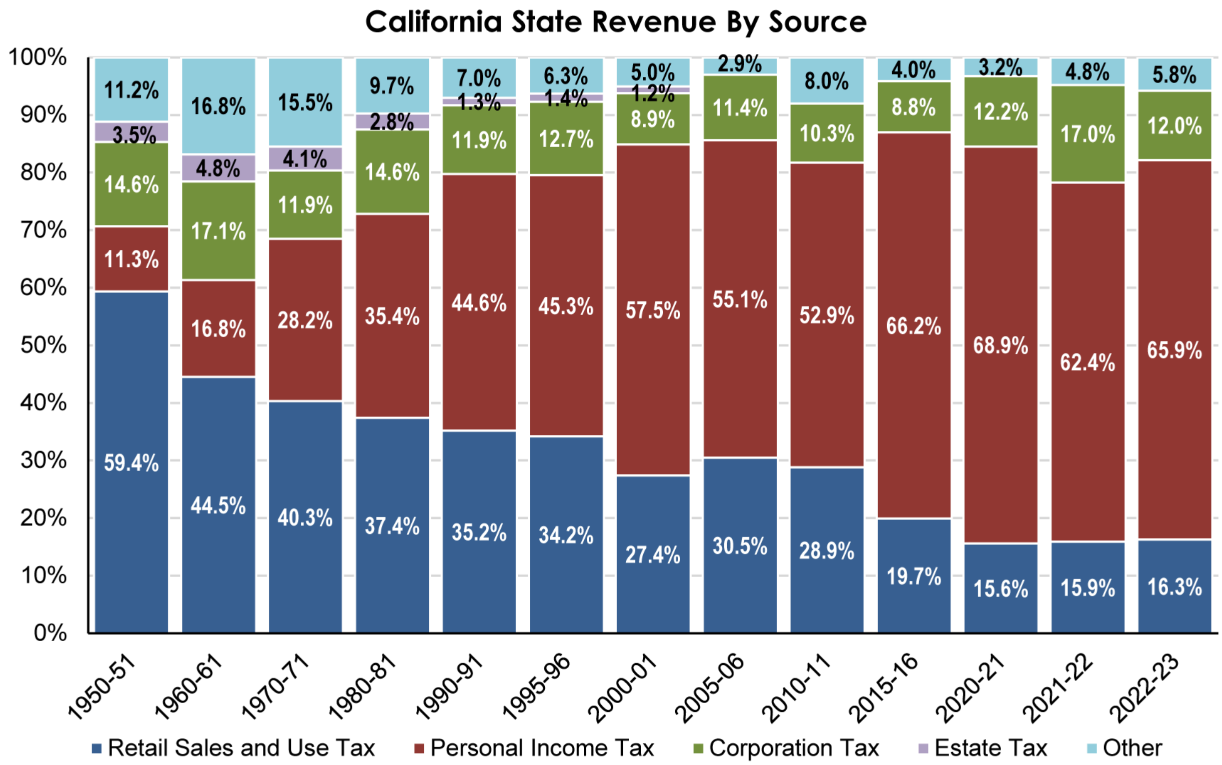
[7/] As part of SB 1, the rate was increased from 16 cents to 36 cents and indexed with inflation beginning in 2020-21.

[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.

dramatically over time: for 2022-23, personal income tax makes up 65.9 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 (personal income tax, sales tax, and corporation tax) from 2020-21 through 2025-26. Total General Fund revenue from these sources is projected to grow from $180.1 billion in 2020-21 to $215.6 billion in 2025-26. The average year-over-year growth rate for this period is 3.7 percent, which follows growth of nearly 30 percent from 2019-20 to 2020-21.

The economic forecast assumes economic growth continues after 2021 with real GDP growth averaging 2.8 percent through 2024.

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

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Average Year-Over-Year Growth
Personal Income Tax	$128.2	$120.9	$130.3	$135.1	$139.4	$152.0	3.6%
Sales and Use Tax	29.1	30.9	32.2	33.0	34.1	35.4	4.0%
Corporation Tax	22.8	32.9	23.7	29.6	32.1	28.1	7.4%
Total	**$180.1**	**$184.6**	**$186.2**	**$197.7**	**$205.6**	**$215.6**	3.7%

Note: Numbers may not add due to rounding.

REVENUE IN A RECESSION

The Budget revenue forecast is based on a scenario that assumes continued economic growth. However, as discussed in the Economic Outlook Chapter, several risk factors could either cause a significant slowdown in revenue growth or lead to a recession. The impact of the Omicron variant or other potential future COVID-19 variants, persistent supply chain issues, inflation, stock market volatility, and the lack of affordable housing are all issues that pose a risk to ongoing economic and revenue growth.

Even in a moderate recession, revenue declines could be significant. However, the state has taken several actions to better prepare for such an eventuality, including building reserves, eliminating budgetary debt, reducing long-term retirement liabilities, and focusing on one-time spending over ongoing investments to maintain structurally balanced budgets over the long term. Schools, courts and other entities have also built reserves for potential future downturns.

Additional deposits into the state's reserves would further prepare the state for future economic slowdowns. Unfortunately, increased deposits into the reserves are not exempt from the State Appropriations Limit, which the state is currently projected to exceed. Thus, additional deposits without commensurate reductions in spending or other changes would not increase reserves to weather a recession.

The magnitude of the revenue loss would depend upon the actual scenario triggering a recession, an annual General Fund revenue loss in the range of $30 billion to $40 billion for several years compared to the Budget forecast would not be unreasonable. Revenue losses would be driven largely by declines in wages and in capital gains. These significant revenue losses assume the recession falls relatively heavily on higher-income individuals, as it did in the 2001 and 2008-09 recessions. On the other hand, if a recession were to fall largely on lower-income households, the impact on revenues would likely be much smaller.

Certain spending requirements driven by revenues decrease in the case of a recession. For example, required reserve deposits decline and the state's minimum funding obligation to schools generally declines by approximately 40 percent of revenue loss.

TAX PROPOSALS

The Budget includes eleven proposals to provide assistance to low-income households, restaurants and venue owners, and small businesses, to encourage investment in technologies that combat climate change, and to reverse a policy adopted as part of the 2020 Budget that is no longer needed. The Economic Growth, Job Creation, and Expanded Opportunity chapter includes discussions of the following proposals: (1) conform to federal tax treatment of grants from the federal Shuttered Venue Operator Grant program and the federal tax treatment of grants from the federal Restaurant Revitalization Fund; (2) expand the elective pass-through entity tax to allow the credit to reduce tax below tentative minimum tax and by allowing disregarded entities to participate in the program; (3) new tax credits to encourage research and development related to activities and technologies that mitigate climate change and to fund pre-development costs for novel climate technologies. The proposals that will be discussed in this chapter are the following:

- Eliminate the cap on the use of tax credits and net operating losses for the 2022 tax year.
- Index the $1,000 Young Child Tax Credit (YCTC) amount to inflation.
- Allow the YCTC to be claimed by households with zero income.
- Create a $1,000 credit for young adults who have come through the foster care system.
- Tax payment flexibility for low- and moderate-income households.

The revenue impact of all the tax proposals, including those proposals discussed in other chapters, is shown in the Revenue Impact of Proposals Included in Budget table.

Revenue Impact of Proposals Included in Budget
(Dollars in Millions)

	2021-22	2022-23
Eliminate Limits on NOLs and Credits for 2022	$0.0	-$5,500.0
Create an add-on EITC credit for Foster Young Adults	0.0	-19.0
Extend Young Child Tax Credit to Households with zero income	0.0	-55.0
Index Young Child Tax Credit	0.0	-19.0
Conformity to Federal Tax Treatment of Restaurant Revitalization Fund Grants	-85.0	-95.0
Conformity to Federal Tax Treatment of Shuttered Venue Operators Grants	-45.0	-49.0
Expand the Elective Pass-through Entity Tax to Additional Taxpayers		
Credit Reduces Tax below TMT	0.0	0.0
Allow Disregarded Entities	0.0	0.0
Tax Payment Flexibility for Low- and Middle-Income Households	--	--
New Tax Credits for Climate Resiliency Technology		
Innovation Headquarters Credit	0.0	-250.0
Allocated Clean Energy Credit	0.0	-50.0
General Fund Revenue Changes	-$130.0	-$6,037.0

ELIMINATE LIMITS ON USAGE OF NET OPERATING LOSSES (NOLS) AND TAX CREDITS FOR THE 2022 TAX YEAR

The 2020 Budget included several revenue solutions in anticipation of a large structural deficit. Among these were limits on the ability of large businesses to use NOLs and tax credits for tax years 2020, 2021, and 2022. These limits were intended to be temporary and to allow taxpayers to maintain the value of the credits and NOLs for later use. Since the enactment of the 2020 Budget Act, the revenue picture has improved dramatically. The Budget proposes to allow affected taxpayers to start fully using these tax benefits one year earlier. The repeal of the limits is estimated to reduce General Fund revenues by $5.5 billion in the budget year, with corporate tax revenues decreasing by $5.2 billion and personal income tax revenues decreasing by $300 million.

CALIFORNIA EARNED INCOME TAX CREDIT (CALEITC)

The Budget includes a new refundable credit for young adults who have been in the foster care program. Adults raised in the foster care system generally suffer disproportionate levels of economic hardship. This proposal provides an additional $1,000 credit for individuals who have been in the foster care system at some point at age 13 or older and who are now at least 18 but 25 or younger, and who otherwise qualify for the CalEITC. This proposal is expected to cost roughly $20 million ongoing General Fund.

The Budget expands the current YCTC to include households with no earned income. The 2019 Budget created the YCTC to help lift young children out of poverty. In most cases, this credit provides $1,000 to every household that otherwise qualifies for the CalEITC and that has a child age 5 or younger. For the 2020 tax year, 420,000 taxpayers claimed this credit and received credits totaling $390 million. Young children living in households with no earned income are just as deserving of being protected from poverty as are children living in households with low income.

Therefore, the Budget extends the YCTC to those households who have no or negative earned income, but who otherwise meet the criteria for qualifying for a CalEITC. This expansion of the YCTC is expected to cost about $55 million ongoing General Fund.

In addition, the Budget indexes the $1,000 YCTC for inflation starting in the 2022 tax year. The other parameters of the CalEITC are indexed every year to prevent inflation from eroding its value. The YCTC should also be indexed for inflation to prevent inflation from diminishing the value of the YCTC for families with young children. The cost of indexing will depend on the level of inflation and will compound over time. For the 2022 tax year, the cost of indexing is estimated at $19 million.

TAX PAYMENT FLEXIBILITY FOR LOW- AND MODERATE-INCOME HOUSEHOLDS

The Budget proposes to provide those hit hardest by the pandemic with additional flexibility in meeting their tax obligations. Specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program.

PERSONAL INCOME TAX

The personal income tax is the state's largest revenue source and is expected to comprise 65.9 percent of all General Fund revenues in 2022-23.

The personal income tax is estimated to generate $128.2 billion in 2020-21, $120.9 billion in 2021-22, and $130.3 billion in 2022-23. These figures reflect an increase of $3.1 billion in 2020-21, a decrease of $2.4 billion in 2021-22, and an increase of $1.8 billion in 2022-23, relative to the 2021 Budget Act. These figures reflect a revised scoring of the elective pass-through entity tax enacted in the 2021 Budget Act that decreased personal income tax revenues by $14.1 billion in 2021-22 and $9.7 billion in 2022-23. Absent this revised scoring, personal income tax revenues would have increased by $3.1 billion in 2020-21, $11.7 billion in 2021-22, and $11.4 billion in 2022-23.

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 Act 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.

This forecast assumes that there will not be a significant change in domestic migration patterns between California and other states, with net outflows appearing to have continued in 2021. International immigration typically brings hundreds of thousands of people to the state, outweighing the losses in domestic migration. However, immigrant visa processing remains at lower-than-usual levels due to pandemic-related issues. As a result of the large increase in teleworking brought about by the COVID-19 Pandemic, it is possible that there could be an increase in out-migration from California. If the increase occurs, is large enough, and tends to affect mainly high-income households, actual personal income tax revenues may fall significantly below projections.

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 $3.0 billion are estimated for 2020-21. The forecast also projects annual revenues of $3.7 billion for 2021-22 and $3.8 billion for 2022-23. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2020-21 through 2022-23 are shown in the Personal Income Tax Revenue figure.

The policy proposals in the Budget decrease personal income tax revenues by $65 million in 2021-22 and $439 million in 2022-23. These include the proposals linked to the CalEITC, the elimination of the limits on the usage of NOLs and business incentive tax credits in 2022, conformity to federal tax treatment of certain federal grants to

California businesses, and new tax credits to encourage research, development, and implementation of climate solution technologies.

Personal Income Tax Revenue
(Dollars in Thousands)

	2020-21 Preliminary	2021-22 Forecast	2022-23 Forecast
General Fund	$128,226,101	$120,873,151	$130,268,794
Mental Health Services Fund	2,951,480	3,664,798	3,790,054
Total	**$131,177,581**	**$124,537,949**	**$134,058,848**

WAGES AND SALARIES

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 2019, taxes attributable to wages and salaries accounted for 60 percent of personal income tax revenues.

A higher forecast for economic wages, which is in part due to higher inflation, combined with wage growth projected to accrue disproportionately to higher-income earners that are taxed at higher rates, is expected to increase withholding receipts compared to the 2021 Budget Act by nearly $20 billion over fiscal years 2021-22 and 2022-23. Based on actual data through November 2021, withholding receipts are expected to grow year-over-year by over 16 percent in 2021, following growth of over 7 percent in 2020. Cumulative growth of over 23 percent over two years has not been seen since 2000. Economic wage growth was revised higher in 2021 from 3.8 percent as of the 2021 Budget Act to 9.3 percent as of the Budget forecast. Based on strong tax withholding in 2021, the wage strength is likely going to higher-income earners. The expected growth for economic wages increased from 6.3 percent to 7.6 percent in 2022.

CAPITAL GAINS

The stock market has grown much more in 2021 than assumed as of the 2021 Budget Act, and benefits mainly higher-income households. Based on the most recently available tax data, taxes attributable to capital gains made up 14.8 percent of personal income tax revenue in 2019, and that percentage is expected to be higher in 2020, 2021, and 2022. Capital gains realizations have been revised significantly higher in the Budget forecast, from $185 billion to $218 billion in 2020, $210 billion to $245 billion in 2021, and from $199 billion to $233 billion in 2022, based on strong cash receipts and a stock market forecast that has been revised upward. The Federal Reserve's expansionary monetary policy has continued to contribute to the strength in the stock market. However, the Federal Reserve began to reduce its asset purchases last fall and has signaled increasing interest rates sooner than assumed in the Budget economic forecast due to timing. Rising interest rates are expected to be a headwind for the stock market going forward.

The Budget projects the S&P 500 will be at 4,700 in the first quarter of 2022, and will expand annually at only 0.7 percent due to high valuations. The 2021 Budget Act forecast the S&P 500 to be at 4,085 in the first quarter of 2022. Capital gains realizations are assumed to decline from their peak levels in 2021 to reach 5 percent of personal income by 2026, while the 2021 Budget Act assumed capital gains realizations would revert to 4.5 percent of personal income in 2026. The higher target at the Budget is due to a re-evaluation of historical data, which indicated a higher average level of capital gains relative to the economy. Due to the slow growth expected from the stock market due to its current high valuation, year-over-year declines in capital gains realizations are expected for 2022 through 2026.

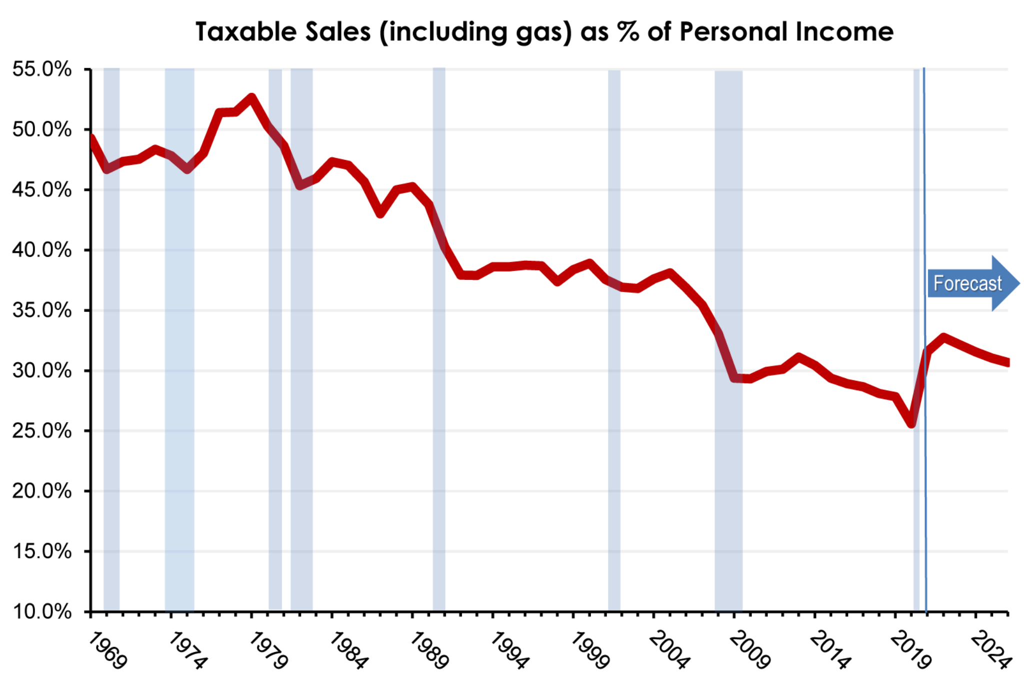
The higher levels and valuations in the stock market and the higher levels of capital gains increase the risk of a large stock market decline leading to much lower capital gains revenues. Estimated capital gains realization in 2020 and 2021 represent 7.9 percent and 8.3 percent of California personal income, respectively. These levels are nearly at the pre-Great Recession peak of 8.4 percent in 2007 and are approaching the all-time peak of 10.4 percent in 2000. Following those peaks, capital gains as a percent of personal income declined to 1.9 percent in 2009 and 2.8 percent in 2002, which represented peak-to-trough declines in capital gains realizations of 78 percent and 72 percent, respectively.

SALES AND USE TAX

Strong consumer goods spending and an increased inflation forecast drive the sales tax forecast upgrade from the 2021 Budget Act. Inflation has been particularly strong for durable goods, the category of consumer spending most likely to be taxed. The sales tax generated General Fund revenue of $29.1 billion in 2020-21 and is estimated to generate $30.1 billion in 2021-22 and $32.2 billion in 2022-23. Compared to the 2021 Budget Act, these figures reflect an increase of $1.1 billion in 2020-21, $1.9 billion in 2021-22, and $3.1 billion in 2022-23. Receipts from the sales tax, the state's second-largest revenue source, are expected to contribute 16.3 percent of all General Fund revenues in 2022-23.

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 taxable goods and business investment. Projected levels of sales tax revenue are much higher than those at the 2021 Budget Act, with a significantly upgraded forecast for both consumer spending and private investment. The state has benefited from legislation passed in the wake of the U.S. Supreme Court's *South Dakota vs. Wayfair, Inc.*, decision which has allowed California to collect taxes on sales that have shifted online.

This forecast reflects a temporary break from the long-term trend of the sales tax declining as a share of personal income illustrated below. Taxable sales as a percentage of personal income have declined from over 50 percent in the late 1970s to 28 percent in 2019 as shown in the Taxable Sales as a Percentage of Personal Income figure. The break from this trend is mainly the result of a spending shift from services to taxable goods due to pandemic restrictions. However, the downward trend is expected to continue in the long-term assuming spending patterns normalize and shift back from goods to services.



The State Sales Tax Revenue figure displays total sales tax revenues for the General Fund and various special funds for 2020-21 through 2022-23.

State Sales Tax Revenue
(Dollars in Thousands)

	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
General Fund	$29,066,081	$30,865,984	$32,207,987
Sales and Use Tax-1991 Realignment	4,035,595	4,402,698	4,567,447
Sales and Use Tax-2011 Realignment	8,002,741	8,612,506	8,985,127
Public Transportation Account	755,544	999,750	1,017,252
Total	**$41,859,961**	**$44,880,937**	**$46,777,813**

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

State and Local Sales and Use Tax Rates (as of January 1, 2022)

State Rates		
General Fund	3.9375%	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	1.0625%	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%.

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. The average statewide sales tax rate was 8.55 percent at the beginning of 2021-22.

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, 2021

County	Tax Rate
Alameda	10.25%
Emeryville	10.50%
Alameda, Albany, Hayward, Newark, San Leandro, Union City	10.75%
Alpine	7.25%
Amador	7.75%
Butte	7.25%
Paradise	7.75%
Oroville	8.25%
Calaveras	7.25%
Angel's Camp	7.75%
Colusa	7.25%
Williams	7.75%
Contra Costa	8.75%
Hercules, Pittsburg, Pleasant Hill, San Pablo	9.25%
Antioch, Concord, Martinez, Moraga, Orinda, Pinole, Richmond,	9.75%
El Cerrito	10.25%
Del Norte	7.50%
Crescent City, (Unincorporated County)	8.50%
El Dorado	7.25%
Placerville	8.25%
South Lake Tahoe	8.75%
Fresno	7.975%
Selma	8.475%
Sanger	8.725%
Coalinga, Fowler, Huron, Parlier, Kerman, Kingsburg	8.975%
Reedley	9.225%
Glenn	7.25%
Orland	7.75%
Humboldt	7.75%
Arcata, Fortuna, Trinidad	8.50%
Rio Dell	8.75%
Eureka	9.25%
Imperial	7.75%
Calexico, El Centro	8.25%
Inyo	7.75%
Bishop	8.75%
Kern	7.25%
Arvin, Bakersfield, Delano, Ridgecrest, Wasco	8.25%
Kings	7.25%
Corcoran	8.25%
Lake	7.25%
Clearlake, Lakeport	8.75%
Lassen	7.25%
Los Angeles	9.50%
Avalon, Downey, El Monte, Inglewood, La Puenta	10.00%
Alhambra, Arcadia, Azusa, Bell Gardens, Bellflower, Burbank, Burbank, Carson, Commerce, Compton, Covina, Cudahy, Culver City, Duarte, Gardena, Glendale, Glendora, Hawaiian Gardens, Hawthorne, Huntington Park, Irwindale, La Verne, Lakewood, Lancaster, Lawndale, Lomita, Long Beach, Lynwood, Monrovia, Montebello, Norwalk, Palmdale, Paramount, Pasadena, Pico Rivera, Pomona, San Fernando, San Gabriel, Santa Monica, Sierra Madre, South El Monte	10.25%

County	Tax Rate
Madera	7.75%
Madera	8.25%
Chowchilla	8.75%
Marin	8.25%
Novato	8.50%
San Anselmo, Sausalito	8.75%
Corte Madera, Fairfax, Larkspur	9.00%
San Rafael	9.25%
Mariposa	7.75%
Mendocino	7.875%
Point Arena	8.375%
Fort Bragg, Ukiah	8.875%
Willits	9.125%
Merced	7.75%
Atwater, Gustine, Merced	8.25%
Los Banos	8.75%
Modoc	7.25%
Mono	7.25%
Mammoth Lakes	7.75%
Monterey	7.75%
Gonzales, King City, Pacific Grove, Sand City	8.75%
Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Salinas, Seaside, Soledad	9.25%
Greenfield	9.50%
Napa	7.75%
St. Helena	8.25%
Nevada	7.50%
Truckee	8.25%
Nevada City	8.375%
Grass Valley	8.50%
Orange	7.75%
La Habra	8.25%
Fountain Valley, Garden Grove, La Palma, Placentia, Seal Beach, Stanton, Westminster	8.75%
Los Alamitos, Santa Ana	9.25%
Placer	7.25%
Loomis	7.50%
Roseville	7.75%
Plumas	7.25%
Riverside	7.75%
Blythe, Cathedral City, Coachella, Corona, Hemet, Indio, La Quinta, Lake Elsinore, Menifee, Murrieta, Norco, Riverside, San Jacinto, Temecula. Wildomar	8.75%
Palm Springs	9.25%
Sacramento	7.75%
Galt, Isleton	8.25%
Rancho Cordova, Sacramento	8.75%
San Benito	8.25%
San Juan Bautista	9.00%
Hollister	9.25%
San Bernardino	7.75%
Barstow, Redlands,	8.75%
San Bernardino, Victorville,	8.75%
Yucca Valley	8.75%
Montclair	9.00%
San Diego	7.75%
El Cajon, Oceanside, Vista	8.25%
La Mesa	8.50%
Chula Vista, Del Mar, Imperial Beach, National City	8.75%
San Francisco	8.625%

County	Tax Rate
San Joaquin	7.75%
Lodi. Manteca. Tracv	8.25%
Lathrop	8.75%
Stockton	9.00%
San Luis Obispo	7.25%
Arroyo Grande, Pismo Beach	7.75%
Atascadero, Grover Beach, Morro Bay, Paso Robles, San Luis Obispo	8.75%
San Mateo	9.375%
Burlingame, San Mateo	9.625%
Belmont, Daly City, East Palo Alto, Redwood City, San Bruno, South San Francisco	9.875%
Santa Barbara	7.75%
Guadalupe, Lompoc, Santa Barbara, Santa Maria	8.75%
Carpinteria	9.00%
Santa Clara	9.125%
Los Gatos	9.250%
Campbell, Milpitas, San Jose	9.375%
Santa Cruz	8.50%
Capitola, (Unincorporated County)	9.00%
Watsonville, Santa Cruz	9.25%
Scotts Valley	9.75%
Shasta	7.25%
Anderson	7.75%
Sierra	7.25%
Siskiyou	7.25%
Mount Shasta, Weed	7.50%
Dunsmuir, Yreka	7.75%
Solano	7.375%
Rio Vista, Vacaville	8.125%
Benicia, Fairfield, Suisun City, Vallejo	8.375%
Sonoma	8.50%
Healdsburg, Rohnert Park, Sonoma	9.00%
Santa Rosa, Sebastopol	9.25%
Cotati, Petaluma	9.50%
Stanislaus	7.875%
Ceres, Oakdale	8.375%
Turlock	8.625%
Sutter	7.25%
Tehama	7.25%
Red Bluff	7.50%
Corning	7.75%
Trinity	7.25%
Tulare	7.75%
Tulare	8.25%
Dinuba, Visalia	8.50%
Exeter, Farmersville, Lindsay, Woodlake	8.75%
Porterville	9.25%
Tuolumne	7.25%
Sonora	7.75%
Ventura	7.25%
Ventura	7.75%
Santa Paula	8.25%
Port Hueneme	8.75%
Oxnard	9.25%
Yolo	7.25%
Woodland	8.00%
Davis, West Sacramento	8.25%
Yuba	7.25%
Wheatland	7.75%
Marysville, (Unincorporated County)	8.25%

Motor vehicle and parts dealers were the largest contributors to the sales tax base in 2020, accounting for 12.4 percent of taxable sales. Food service and drinking places were the second largest contributor to the sales tax base with 9 percent of the total, although this was down from 12.2 percent in 2019 due to the pandemic.

Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, decreased by 1.3 percent in 2019-20. Based on preliminary data, taxable sales increased by 13.3 percent in 2020-21 as the economy, aided by government stimulus, rebounded strongly from the initial effects of the pandemic. Taxable sales are estimated to increase by 7.6 percent in 2021-22 and by 4.3 percent in 2022-23. Lower growth in 2021-22 and 2022-23 when compared to 2020-21 reflects spending shifting back from goods to services and the unwinding of temporary federal stimulus. Federal stimulus measures have contributed to historically high levels of household cash savings, which in turn have financed elevated levels of spending. Spending growth is expected to slow as household cash savings are depleted and return to pre-pandemic levels.

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 $319 million in 2020-21 and is projected to be $354 million in 2021-22 and $393 million in 2022-23.

The *Wayfair* decision 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 online transactions. Additionally, California passed the Marketplace Facilitator Act, Chapter 5, Statutes of 2019, which raised the sales threshold to $500,000, eliminated the 200-transaction test, and mandated that online marketplace operators, as defined, collect and remit sales tax for all sales made on their platforms beginning October 1, 2019. These policies helped capture much of the shift to online transactions in the COVID-19 Pandemic. Taxable sales by non-store retailers jumped from 2.8 percent, or $20 billion, in 2019 to 7.6 percent, or $55 billion, in 2020 due to *Wayfair* and the pandemic's positive effect on the remote economy.

CORPORATION TAX

The upgrade to the corporation tax revenue forecast is due primarily to improved C-corporation profits, as large businesses that pay the significant majority of state corporate taxes have in large part been able to adapt to the COVID-19 Pandemic. C-Corporation taxable profits are projected to grow by 20.3 percent in 2021-22, up from 10 percent in the 2021 Budget Act. Beginning in 2022-23, C-Corporation taxable profits are grown by adjusted nominal GDP, which is projected to be 7.9 percent in 2022 and 4.2 percent in 2023.

The forecast for S-corporation profits, which are taxed at a rate of 1.5 percent, was also upgraded since the 2021 Budget Act. S-Corporation taxable profits are grown at the same rate as California proprietorship income, which is projected to increase 7.4 percent in 2021-22 and 4.2 percent in 2022-23, faster than the 4.8 percent and 4 percent growth rates in 2021-22 and 2022-23, respectively, projected as of the 2021 Budget Act.

The corporation tax is estimated to generate $22.8 billion in 2020-21, $32.9 billion in 2021-22, and $23.7 billion in 2022-23. These figures reflect increases of $2.1 billion in 2020-21, $14.8 billion in 2021-22, and $6.4 billion in 2022-23 above 2021 Budget Act projections. These figures reflect a revised scoring of the elective pass-through entity tax enacted in the 2021 Budget Act that increases corporate income tax revenues by $12.4 billion in 2021-22 and $9.4 billion in 2022-23. Absent this revised scoring, corporate income tax revenues would have increased by $2.1 billion in 2020-21, increased by $2.5 billion in 2021-22, and decreased by $2.6 billion in 2022-23. The decrease in 2022-23 is attributed to the Budget proposal to restore the temporary limitation on the use of NOLs and business tax credits one year early, which decreases corporate tax revenues by $5.2 billion in 2022-23. Corporation tax revenues are expected to contribute 12 percent of all General Fund revenues in 2022-23.

The policy proposals in the Budget, not including the adjustments to the elective pass-through entity tax or restoration of NOLs and business tax credits, decrease corporate income tax revenues by $65 million in 2021-22 and $342 million in 2022-23. These policy proposals include conformity to federal tax treatment of certain federal grants to California businesses and new tax credits to encourage research, development, and implementation of climate solution technologies.

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 generated revenues of $3.1 billion in 2020-21 and is expected to generate revenues of $3.4 billion in 2021-22 and $3.5 billion in 2022-23. These figures reflect a decrease of $209 million in 2020-21, an increase of $20 million in 2021-22, and a decrease of $12 million in 2022-23 from 2021 Budget Act projections.

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.

Revenue estimates for each type of alcoholic beverage are based on projections of total per capita consumption and population growth. Per capita consumption of beer and wine is projected to decline 1.2 percent in 2021-22 and 0.5 percent in 2022-23, while per capita distilled spirits consumption is projected to increase 4 percent in 2021-22, before declining 2 percent in 2022-23. Revenues from this tax were $415 million in 2020-21 and are estimated to be $423 million in 2021-22 and $421 million in 2022-23.

OTHER REVENUES

UNCLAIMED PROPERTY

The Budget reflects receipts in unclaimed property of $492 million in 2021-22 and $506 million in 2022-23. These numbers reflect ongoing efforts to maintain compliance of holders of unclaimed property with Unclaimed Property Law.

PROPERTY TAXES

Although the property tax is a local revenue source, the amount of property tax generated each year has an increased impact on the state budget when Tests 2 or 3 of

Proposition 98 are operative because, in those years, local property tax revenues allocated to K-14 schools offset General Fund expenditures. When Test 1 of Proposition 98 is operative, as it will be for 2022-23, property tax revenues received by K-14 schools count toward the Proposition 98 guarantee, but do not offset General Fund expenditures.

Preliminary data for the secured property tax roll indicates that property tax collections increased 5.3 percent in 2020-21, which is modestly below the average growth of the prior five years of 5.9 percent but still in line with historical norms.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes increased 22 percent from 2019-20 to 2020-21. The sharp rise in home prices partly reflects a larger than usual share of high-end homes sold as many wealthy households purchased a larger home or second vacation home. Given the expectation of higher interest rates as signaled by the Federal Reserve, and as the mix of homes sold reverts back to pre-pandemic levels, housing price growth is expected to moderate to the pre-pandemic rate of around 5 percent per year.

A property's assessed (taxable) value generally increases more slowly than its market value. When a property is sold, its assessed value is adjusted to its market value. As a result, property sales often result in large increases in taxable value. Fewer properties were transferred in 2020-21 than expected at the 2021 Budget Act, leading to fewer taxable value reassessments. The forecast assumes transfers will continue to be slow in 2021-22 as demand softens due to decreasing housing affordability and increasing interest rates. Following a brief rebound in 2022-23, the long-term trend of transfers slowly declining is expected to continue.

Statewide property tax revenue growth rates are largely unchanged from the 2021 Budget Act as the lower transfers were offset by higher prices. Property Tax revenues are estimated to increase 6.2 percent in 2021-22 and 6.1 percent in 2022-23, compared to 6.1 percent for 2021-22 and 6.1 percent for 2022-23 projected as of the 2021 Budget Act. Approximately 42 percent ($37 billion) of 2022-23 property tax revenues will go to K-14 schools. This includes $2.9 billion that schools are expected to receive in 2022-23 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 $63.9 billion in 2022-23. Motor vehicle fees and motor vehicle fuel taxes, which are discussed in the next two sections, are expected to generate a combined $20.9 billion in revenue in 2022-23, comprising 32.7 percent of all special fund revenue.

MOTOR VEHICLE FEES

Motor vehicle fees consist of vehicle license, registration, weight, driver's license, and other charges related to vehicle operation. The Motor Vehicle Fees Special Fund Revenue figure displays revenue from these sources from 2020-21 through 2022-23.

Motor Vehicle Fees Special Fund Revenue
(Dollars in Thousands)

	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
Vehicle License Fees	$3,137,733	$3,122,578	$3,219,184
Transportation Improvement Fee	1,909,883	1,989,882	2,069,078
Road Improvement Fee	5,485	20,106	38,163
Weight Fees	1,264,885	1,291,335	1,323,033
Registration and Other Fees	4,323,034	4,424,071	4,633,795
Total	**$10,641,020**	**$10,847,972**	**$11,283,253**

Motor vehicle fee revenues are affected by a number of factors, including the number and types of vehicles in the state, the ages of those vehicles, and their most recent sales prices. The total number of vehicles in California—automobiles, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 33.4 million in 2021-22 and 33.2 million in 2022-23. New vehicles registered in 2020-21 increased 9.9 percent from the prior year as vehicle sales rebounded from a sharp decline in spring 2020 resulting from the COVID-19 Pandemic. The forecast projects that global supply chain constraints will slow new vehicle sales in 2021-22, before rebounding in 2022-23 as the economic forecast reflects that supply chain constraints are gradually resolved. As a result, new vehicle registrations are estimated to be 2.1 million in 2021-22 and 2.3 million in 2022-23. These levels are still modestly below the 2.3 million to 2.4 million new vehicle registrations seen from 2014-15 to 2018-19.

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. A graduated fee of $28 to $196 per vehicle, known as the Transportation Improvement Fee (TIF), is also applied. These taxes are imposed in lieu of a local personal property tax on automobiles and are administered by the Department of Motor Vehicles. VLF revenues are estimated to be $3.1 billion in 2021-22 and $3.2 billion in 2022-23, while TIF revenues are estimated to be $2 billion in 2021-22 and $2.1 billion in 2022-23.

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 $94 in 2022, which includes $62 for the base vehicle registration fee, $29 for a CHP fee that continues to be indexed to inflation, and $3 for an alternative fuel/technology fee not indexed for inflation.

Commercial and non-commercial truck owners also pay a fee based on vehicle weight. Weight fee revenues are estimated to be $1.3 billion in both 2021-22 and 2022-23.

Beginning July 1, 2020, an additional inflation-adjusted $100 annual registration fee was imposed on zero-emission vehicle renewals that are model 2020 or newer. Known as the Road Improvement Fee, revenue is estimated to be $20 million in 2021-22 and $38 million in 2022-23, 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.

Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Gasoline[1/]	$6,541,302	$7,408,990	$8,079,278
Diesel	1,269,929	1,413,598	1,510,153
Total	**$7,811,231**	**$8,822,588**	**$9,589,431**

[1/]Does not include jet fuel.

Gasoline consumption was down 7.7 percent in 2020-21 compared to the prior fiscal year. Gasoline demand was significantly reduced in the first half of the fiscal year by stay-at-home orders related to the COVID-19 Pandemic. Gasoline consumption has rebounded and is expected to increase by 11.8 percent in 2021-22 and 3 percent in 2022-23. In the long run, continued gains in the average fuel economy of cars and trucks—achieved primarily through electric vehicle adoption—combined with the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption. The forecast assumes gasoline consumption will not return to its 2017-18 peak of 15.6 billion gallons. Diesel consumption increased by 4.6 percent in 2020-21 as the economy rebounded from the COVID-19 Pandemic and demand for the shipping of goods increased. Because most diesel fuel is consumed by the commercial trucking industry, consumption is generally affected most significantly by general economic conditions. Because goods consumption is expected to remain elevated, diesel consumption is expected to grow 3.6 percent in 2021-22 and 1.5 percent in 2022-23. Growth is expected to turn negative in the second half of the decade, reflecting a moderating economy and gradually improving fuel economy.

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 51.1 cents per gallon in 2021-22 and the Budget proposes to pause the inflation adjustment scheduled for July 1, 2022, and therefore the tax rate will continue to be 51.1 cents per gallon in 2022-23.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. The excise tax on diesel is 38.9 cents per gallon for 2021-22 and the Budget proposes to pause the inflation adjustment scheduled for July 1, 2022, and therefore the tax rate will continue to be 38.9 cents per gallon in 2022-23. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

CANNABIS EXCISE TAXES

Proposition 64, also known 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 was increased, to adjust for inflation, to $10.08 per ounce of flower, $3.00 per ounce of trim, and $1.41 per ounce of fresh cannabis plant on January 1, 2022. In addition, there is a 15-percent tax on the retail price of cannabis. Cannabis excise taxes generated $770 million in 2020-21 and are projected to generate $711 million in 2021-22 and $787 million in 2022-23. The year-over-year decline in 2021-22 reflects tax data for the first quarter of 2021-22 indicating that consumption in the quarter fell from the levels seen during all of 2020-21.

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.

Chapter 489, Statutes of 2021 (SB 395), will implement an additional 12.5-percent retail tax on the sale of electronic cigarettes and nicotine liquid, beginning July 1, 2022. Revenues will be distributed to the Health Education Account of the Cigarette and Tobacco Products Surtax Fund, the Proposition 56 Physicians and Dentist Loan Repayment Program, the California Children and Families First Trust Fund, and other health care programs. Total revenues are estimated to be $29 million in 2022-23.

Chapter 34, Statutes of 2020 (SB 793), would have banned all flavored tobacco products, including mentholated cigarettes and flavored e-cigarette liquids, beginning January 1, 2021. However, a referendum was submitted to the California Attorney

General to overturn SB 793 and instead allow voters to decide on the flavor ban during the next statewide election. The referendum was certified by the California Secretary of State for the November 2022 election, until which time the flavor ban is suspended. Current cigarette and tobacco revenue estimates assume that voters uphold the legislation and the flavor ban goes into effect following the election.

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.
- 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 25 packs in 2020-21. Total tax-paid packs of cigarettes sold in 2020-21 were 592 million. In 2021-22, tax-paid packs of cigarettes sold are projected to decline to 573 million, followed by another decline to 505 million of tax-paid packs in 2022-23. The larger decline in 2022-23 is due in large part to the assumed implementation of the statewide ban on menthol cigarettes. The Tobacco Tax Revenue figure shows the distribution of tobacco tax revenues to the General Fund and various special funds for 2020-21 through 2022-23.

Tobacco Tax Revenue
(Dollars in Millions)

	2020-21 Actual	2021-22 Forecast	2022-23 Forecast
General Fund	$59.8	$57.9	$51.0
Cigarette and Tobacco Products Surtax Fund	212.4	222.7	190.1
Breast Cancer Fund	11.9	11.5	10.1
California Children and Families First Trust Fund	333.3	332.7	289.6
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	1,344.3	1,330.6	1,158.4
California Electronic Cigarette Excise Tax Fund			28.8
Total	**$1,961.7**	**$1,955.4**	**$1,728.2**