REVENUE ESTIMATES

Economic growth has continued to moderate in both the nation and in California as supply chain strains, prolonged price pressures from the COVID-19 Pandemic, and disruptions from Russia's invasion of Ukraine led to persistently elevated inflation. With inflation remaining at historically high rates throughout 2022, the Federal Reserve raised interest rates from a target range of 0 percent to 0.25 percent in March 2022, to a range of 4.25 percent to 4.5 percent as of December 2022. The record pace of interest rate increases has already contributed to ongoing volatility and significant declines in the stock market and is expected to slow the economy over the next few years. These factors have led to a substantially downgraded economic outlook.

Before accounting for transfers to the Budget Stabilization Account (BSA), and absent budget actions designed to address the budget problem, General Fund revenue is projected to be $29.5 billion lower than assumed in the 2022 Budget Act over the budget window—from fiscal year 2021-22 through fiscal year 2023-24. Most of this lower projection is because the personal income tax forecast was substantially revised down due to a less positive economic outlook and ongoing weakness in personal income cash receipts since the 2022 Budget Act.

While this downward revision is substantial, the Governor's Budget revenue forecast does not assume a recession, but rather reflects a moderation of economic growth and a reversal of some of the exceptionally high revenue growth in 2021-22, leading to projected year-over-year declines in revenues in both 2022-23 and 2023-24. A recession, particularly one that would disproportionately impact high-income earners, would lead to further decreases in revenues.

Following remarkably strong growth in 2020 and 2021, stock markets declined substantially in 2022, negatively impacting revenues. As of late November 2022, when the Governor's Budget forecast was finalized, the S&P 500 had declined approximately 17 percent from its peak in early January while the Nasdaq Composite Index had declined around 30 percent. At the end of 2022, markets continued to decline, and the S&P 500 was down around 20 percent from its January peak while the Nasdaq was around 35 percent below its peak. The Budget forecast does not assume further declines from November levels and projects steady but slow growth of the stock market. If financial markets perform significantly worse or better than assumed, the revenue picture will likely change accordingly.

BUDGET WINDOW

The 2023-24 Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2022 Budget Act and the Governor's Budget. Of the three largest tax sources, personal income tax is responsible for most of the overall downgrade relative to the 2022 Budget Act forecast.

- **The personal income tax forecast** is lower by $25.4 billion over the budget window largely due to withholding and capital gains. Personal income tax withholding receipts have contracted by 4.5 percent on average on a year-over-year basis from July to November, and are down a cumulative $4.6 billion since April and through November. The stock market has also underperformed relative to the 2022 Budget Act forecast, with the S&P 500 down around 6 percent in the third quarter of 2022. Weakness in recent data and slower projected growth led to a significant downward revision to withholding and capital gains. Nominal wage growth and business-derived income were also revised down, reflecting lower expectations of economic growth, and further contributing to slower projected revenue growth.
- **The corporation tax forecast** is lower by $3.8 billion over the budget window. However, this is due to updated assumptions around the Pass-Through Entity (PTE) Elective Tax, which resulted in around $5 billion shifting from corporation tax to personal income tax. The PTE Elective Tax, first effective for the 2021 tax year, allows California business owners to mitigate the impact of the $10,000 limit on state and local tax deductions imposed by the 2017 Federal Tax Cut and Jobs Act. The PTE Elective Tax is designed to largely be revenue neutral for the state, as payments made under the corporation tax are offset by credits against the personal income tax. The Governor's Budget forecast reflects updated assumptions on the amount and timing of PTE Elective Tax payments and credit usage which were informed by

preliminary tax data for the tax year 2021. Excluding the impact of the PTE Elective Tax, the corporation tax forecast is slightly higher through 2023-24, consistent with cash receipts through November which were about $200 million higher cumulatively since the 2022 Budget Act.

- **The sales tax forecast** is lower by $2.5 billion over the budget window, mainly because of weaker projected economic growth and lower expected taxable private investment due to tighter monetary policy. Sales tax cash receipts were nearly $600 million higher than the 2022 Budget Act cumulatively from April through November.

Revenue projections for insurance tax, alcoholic beverages tax, and cigarette tax are largely unchanged from the 2022 Budget Act, while the revenue forecast for pooled money interest is $2.2 billion higher than in the 2022 Budget Act over the budget window due to higher interest rates. The forecast for other minor and not otherwise classified revenues is $6.3 billion lower than the 2022 Budget Act forecast over the budget window, driven by federal reimbursements of wildfire and COVID-19 Pandemic costs projected to be $6.9 billion lower. Actual and anticipated reimbursements from the federal government for costs associated with the state's response to recent wildfires and the pandemic are projected to total approximately $6.5 billion in the Budget forecast, compared to $13.4 billion in the 2022 Budget Act.

Transfers to the BSA are projected to be around $2 billion lower than in the 2022 Budget Act over the budget window. Other transfers, which include loan repayments and transfers from the Coronavirus Fiscal Recovery Fund, are projected to be $7.4 billion higher, with the Coronavirus Fiscal Recovery Fund accounting for $5.6 billion of the overage. After accounting for all transfers, baseline General Fund revenues in the Budget are $26.2 billion lower than projected in the 2022 Budget Act over the budget window.

LONG-TERM FORECAST

The Long-Term Revenue Forecast figure displays actual and projected revenues for the three largest General Fund revenues (personal income tax, corporation tax, and sales tax) from 2020-21 through 2026-27. Total General Fund revenue from these sources is projected to grow from $215 billion in 2021-22 to $218.1 billion in 2026-27. The average year-over-year growth rate for this period is 0.4 percent as this includes year-over-year declines in 2022-23 and 2023-24. Revenues are assumed to moderate to lower levels following growth of nearly 30 percent in 2020-21 and over 19 percent in 2021-22.

2023-24 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2022 Budget Act
(Dollars in Millions)

Source	2022 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2021-22 (Preliminary)				
Personal Income Tax	$136,497	$136,762	$265	0.2%
Corporation Tax	46,395	45,298	-1,098	-2.4%
Sales & Use Tax	32,750	32,915	165	0.5%
Insurance Tax	3,468	3,495	27	0.8%
Alcoholic Beverage	430	431	1	0.3%
Pooled Money Interest	237	362	125	53.0%
Cigarette	54	54	0	-0.5%
Other Revenues	3,050	3,851	801	26.2%
Subtotal	$222,882	$223,168	$286	0.1%
Transfer To/From BSA	-5,677	-5,224	453	-8.0%
Other Transfers	9,856	15,947	6,091	61.8%
Total	**$227,061**	**$233,891**	**$6,830**	3.0%
Fiscal 2022-23				
Personal Income Tax	$137,506	$128,905	-$8,601	-6.3%
Corporation Tax	38,464	38,482	18	0.0%
Sales & Use Tax	33,992	32,851	-1,142	-3.4%
Insurance Tax	3,667	3,641	-26	-0.7%
Alcoholic Beverage	435	436	1	0.3%
Pooled Money Interest	478	1,794	1,316	275.3%
Cigarette	49	49	0	-0.2%
Other Revenues	8,460	4,589	-3,871	-45.8%
Subtotal	$223,050	$210,746	-$12,304	-5.5%
Transfer To/From BSA	-2,968	-1,620	1,348	-45.4%
Other Transfers	-375	-243	133	-35.4%
Total	**$219,707**	**$208,883**	**-$10,823**	-4.9%
Fiscal 2023-24				
Personal Income Tax	$143,755	$126,695	-$17,060	-11.9%
Corporation Tax	42,013	39,308	-2,705	-6.4%
Sales & Use Tax	35,145	33,599	-1,546	-4.4%
Insurance Tax	3,865	3,863	-2	-0.1%
Alcoholic Beverage	440	441	1	0.3%
Pooled Money Interest	911	1,686	775	85.1%
Cigarette	43	45	1	2.8%
Other Revenues	7,245	4,040	-3,204	-44.2%
Revenue Solutions	n/a	30	30	n/a
Subtotal	$233,417	$209,707	-$23,710	-10.2%
Transfer To/From BSA	-1,159	-911	248	-21.4%
Other Transfers	166	195	28	17.2%
Transfer Solutions	n/a	1,183	1,183	n/a
Total	**$232,424**	**$210,174**	**-$22,250**	-9.6%
Three-Year Total Excluding BSA and Solutions			**-$29,505**	
Three-Year Total			**-$26,243**	

By 2026-27, the three largest sources combined are assumed to grow at 4.1 percent, in line with projected economic growth. Growth rates for the personal income tax and the corporate income tax are distorted by the PTE Elective tax in the out years as the PTE Elective tax is only in effect through the end of 2025.

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

	2020-21	2021-22[e/]	2022-23[e/]	2023-24[e/]	2024-25[e/]	2025-26[e/]	2026-27[e/]
Personal Income Tax	$128.9	$136.8	$128.9	$126.7	$127.6	$138.5	$156.2
(Year-over-Year Change)	*29.4%*	*6.1%*	*-5.7%*	*-1.7%*	*0.7%*	*8.6%*	*12.7%*
Corporation Tax	$22.6	$45.3	$38.5	$39.3	$40.9	$35.1	$25.3
(Year-over-Year Change)	*61.9%*	*100.5%*	*-15.0%*	*2.1%*	*4.0%*	*-14.3%*	*-27.8%*
Sales and Use Tax	$29.1	$32.9	$32.9	$33.6	$34.6	$35.8	$36.6
(Year-over-Year Change)	*14.0%*	*13.2%*	*-0.2%*	*2.3%*	*2.9%*	*3.7%*	*2.2%*
Total	**$180.5**	**$215.0**	**$200.2**	**$199.6**	**$203.1**	**$209.5**	**$218.1**
(Year-over-Year Change)	***29.8%***	***19.1%***	***-6.9%***	***-0.3%***	***1.7%***	***3.1%***	***4.1%***

[e/]Estimated

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

TAX PROPOSALS

The Budget includes three tax proposals, as described below:

STUDENT LOAN FORGIVENESS

The Budget proposes to exempt student loan debt forgiven under the 2022 federal student loan debt relief plan from state income taxation, assuming litigation around the plan is resolved. Under the plan, the federal government will forgive up to $10,000 in student loans for individuals making less than $125,000 per year, and up to $20,000 for those who received a Pell Grant—for students with the largest financial need. The American Rescue Plan Act exempts the forgiveness of student loan debt from 2021 to 2025 federal income taxes; the Budget exempts federal student debt relief provided to Californians from state taxes. The U.S. Department of Education estimates California has over 3.5 million eligible borrowers who could receive debt relief, including 2.3 million Pell borrowers.

INCOMPLETE NON-GRANTOR TRUSTS

The Budget proposes to require net income derived from incomplete non-grantor trusts be subject to California income tax if the grantor of the trust is a California resident. This proposal mitigates a tax strategy which allows California residents to transfer assets into out-of-state incomplete non-grantor trusts and potentially avoid state taxation. This change, which would be effective beginning in tax year 2023, is projected to increase tax revenues by $30 million in 2023-24 and by $17 million annually thereafter.

FILM AND TELEVISION TAX CREDIT

The Budget proposes to extend the Film and Television Tax Credit Program at $330 million per year for five years beginning in 2025-26 (Program 4.0) and make it refundable prospectively for the new Program 4.0. The existing Film and Television Tax Credit Program 3.0 provides tax credits for eligible films produced in California through 2024-25. This credit retains and supports the growth of production jobs in the film industry and stimulates economic activity statewide, enhancing California's position as the leading national and global location for all forms of media content creation. Making the credit refundable will benefit a wider range of productions and ensure the competitive program will maximize economic benefits to the state. Credit recipients with insufficient tax liability will be able to claim a tax refund at a discounted value over multiple years to lessen the revenue loss to the state. Credits applied against tax liability will retain their full value.

PERSONAL INCOME TAX

The personal income tax is the state's largest revenue source, accounting for 69 percent of General Fund revenues before transfers in 2020-21 and projected to comprise about 60 percent of all General Fund revenues before transfers in 2023-24.

Personal income tax is projected to generate $136.8 billion in 2021-22, $128.9 billion in 2022-23, and $126.7 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect an upward revision of $265 million in 2021-22, and downward revisions of $8.6 billion in 2022-23 and $17 billion in 2023-24. Downgrades in the personal income tax forecast are largely driven by decreased withholding and capital gains due to weak cash receipts and stock market performance since the 2022 Budget Act, as well as the downgraded economic forecast. Despite weak cash receipts related to tax year 2022 in the second half of 2022, the personal income tax projection for 2021-22 was slightly upgraded due to a one-time gain from assumed elevated refunds related to the PTE Elective Tax not materializing in October 2022. The personal income tax projections also reflect lower credit usage related to the PTE Elective Tax, which is assumed to increase personal income tax revenues by $2.4 billion in 2021-22, $1.1 billion in 2022-23, and $1.4 billion in 2023-24.

Modeled closely after 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 range 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—from tax years 2012 to 2018. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

The Budget forecast assumes no significant change in domestic migration patterns between California and other states, with net outflows appearing to have continued in 2022. International immigration typically brings hundreds of thousands of people to the state, outweighing the losses in domestic migration. However, while immigration delays and pandemic-related restrictions are mostly resolved, immigration is still below 2019 levels. As a result of the large increase in teleworking brought about by the COVID-19 Pandemic, it is possible there could be further increases in out-migration from California. If the increase in out-migration continues, is significant enough, and affects high-income households, actual personal income tax revenues may fall below projections.

A portion of personal income tax revenues 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. The forecast projects annual revenues of $5.6 billion for 2021-22 and $3.6 billion for 2022-23 and 2023-24 for this fund. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2021-22 through 2023-24 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue
(Dollars in Millions)

	2021-22 Preliminary	2022-23 Forecast	2023-24 Forecast
General Fund	$136,762	$128,905	$126,725
Mental Health Services Fund	$5,567	$3,631	$3,564
Total	**$142,329**	**$132,536**	**$130,289**

Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

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 2020, taxes attributable to wages and salaries accounted for 58.4 percent of personal income tax revenues.

With withholding receipts contracting by 2.4 percent on average from June to November, withholding receipts are expected to contract by 1.3 percent for the entire year of 2022, following an annual growth of over 20 percent in 2021. Projected economic wage growth was revised lower from 9.9 percent to 6.5 percent in 2022 and from 7.1 percent to 5.1 percent in 2023 in the Budget forecast. Withholding and total wages are usually highly correlated; however, the withholding series is considerably more volatile because it is much more sensitive to changes in high-income earners' wages due to their higher tax rates. Therefore, the divergence between withholding and wage growth rates in 2022 is likely due to a change in the composition of wages. Declines in asset valuations are likely leading to more wage losses accruing to high-income earners who receive a higher share of stock-based compensation and bonuses. The combination of a lower forecast for economic wages and recent substantial weaknesses in cash receipts is expected to decrease withholding receipts compared to the 2022 Budget Act by nearly $17.7 billion over fiscal years 2022-23 and 2023-24.

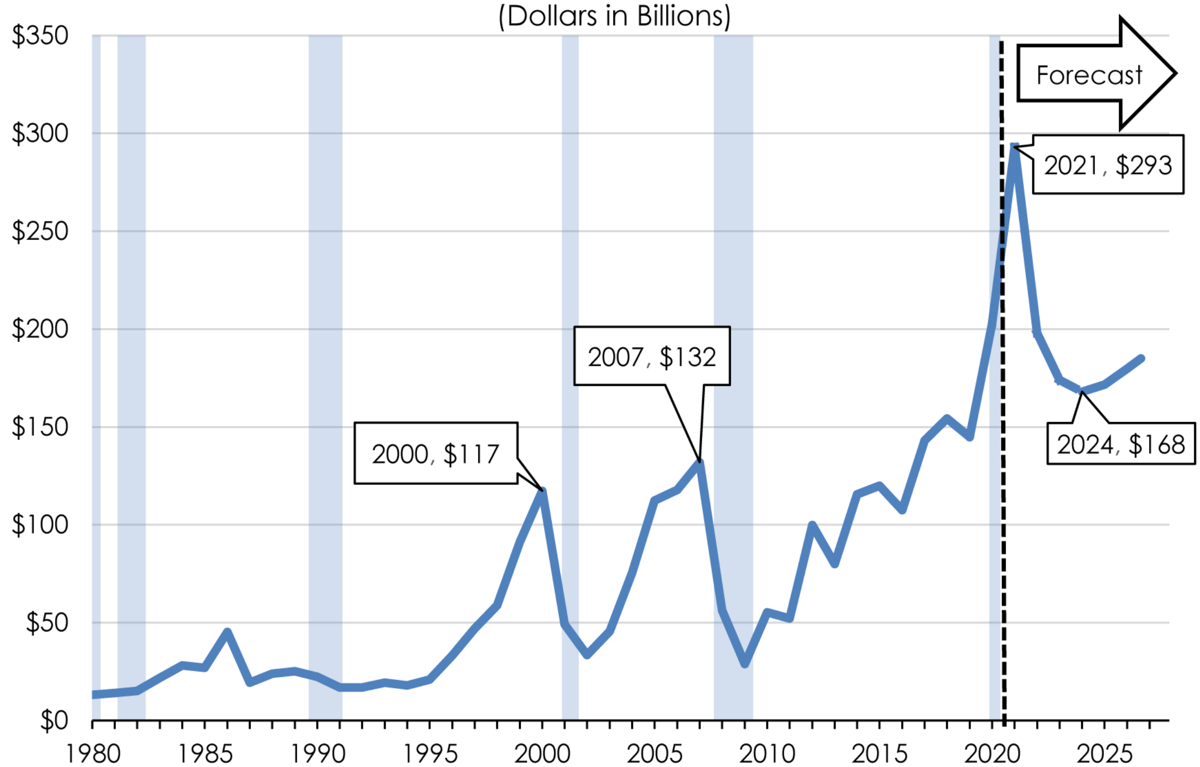
CAPITAL GAINS

The Capital Gains Realizations figure shows capital gains reported on California tax returns from 1980 through projections for 2021 through 2027. While the level of capital gains has grown significantly since 1980 (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, sometimes rapidly, following declines in financial markets and asset prices.

The highest-income Californians pay the largest share of the state's personal income tax. For the 2020 tax year, the top 1 percent of income earners paid 49 percent of all personal income taxes. This percentage has been greater than 40 percent in every year since 2004, except for 2009 during the Great Recession. The share of total adjusted gross income from the top 1 percent of income earners has increased from

13.8 percent in 1993 to 26.6 percent in 2020. This number has also exceeded 20 percent in every year since 2004, except in 2009. Consequently, positive or negative changes in the income of this relatively small group of high-income taxpayers can have a significant impact on state revenues.

Capital Gains Realizations
(Dollars in Billions)



Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

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.

The Capital Gains Revenue figure shows revenue from capital gains as a percentage of total General Fund tax revenue. 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. For 2021, it is projected to reach $30.4 billion—its highest amount ever—before decreasing to $20.2 billion in 2022 and $17.6 billion in 2023.

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

Calendar Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**[e/]	**2022**[e/]	**2023**[e/]
Capital Gains Realizations	$52	$100	$80	$116	$120	$113	$144	$154	$145	$203	$293	$198	$174
Tax Revenues from Capital Gains	$4.2	$10.4	$7.6	$11.3	$11.8	$11.5	$14.1	$15.4	$14.4	$20.6	$30.4	$20.2	$17.6
Fiscal Year	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**[e/]	**22-23**[e/]	**23-24**[e/]
Tax Revenues from Capital Gains	$6.0	$9.6	$8.7	$11.5	$11.7	$12.3	$14.4	$15.1	$16.3	$23.6	$27.4	$19.4	$17.4
Total General Fund Tax Revenues[1/]	$85	$98	$103	$114	$119	$122	$135	$144	$145	$187	$223	$211	$210
Capital Gains Percentage	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.2%	12.6%	12.3%	9.2%	8.3%

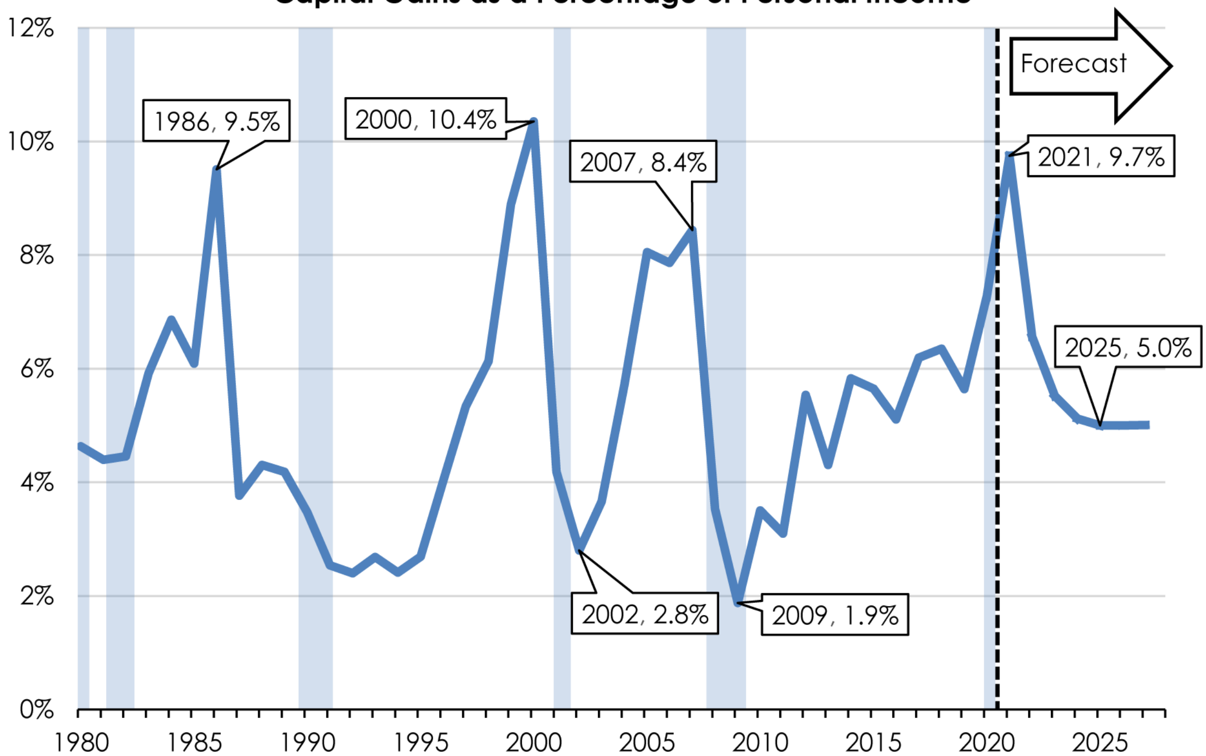
[e/]Estimated
[1/]Excluding transfers
Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

The stock market has declined significantly from the levels assumed as of the 2022 Budget Act. This is expected to mainly impact higher-income households who earn the majority of capital gains income. Taxes attributable to capital gains made up 18.9 percent of personal income tax revenue in 2020 and that percentage is expected to be even higher in 2021 before declining in 2022 and 2023. Since the 2022 Budget Act forecast, capital gains realizations have been revised slightly higher in 2021 from $291 billion to $293 billion. However, capital gains realizations have been revised significantly lower from $227 billion to $198 billion in 2022 and from $217 billion to $174 billion in 2023. This reflects a stock market forecast that has been revised downward and 2022 estimated payments that were significantly below projections in June and September 2022.

Estimated capital gains realizations as a share of personal income in 2021 exceeded the 2007 pre-Great Recession peak of 8.4 percent and approached the all-time peak of 10.4 percent in 2000. Following these peaks in 2007 and in 2000, capital gains as a percent of personal income declined to 1.9 percent in 2009 and to 2.8 percent in 2002, which represented peak-to-trough declines in capital gains realizations of 78 percent and 72 percent, respectively. The Budget projects capital gains realizations to decline by 43 percent from their peak in 2021 to their trough in 2024, which is about slightly more than half of the decreases during the Great Recession or the 2001 Recession, when stock market declines were more severe. As shown in the Capital Gains as a

Percentage of Personal Income figure, capital gains realizations are assumed to decline from their peak levels of 9.7 percent of personal income in 2021 to reach 5 percent of personal income by 2025. The 2022 Budget Act assumed capital gains realizations would decline more slowly from record high 2021 levels to 5 percent of personal income in 2026.

Capital Gains as a Percentage of Personal Income



Shaded areas indicate previous U.S. recessions.
Source: California Department of Finance, 2023-24 Governor's Budget Forecast.

CORPORATION TAX

The corporation tax is projected to generate $45.3 billion in 2021-22, $38.5 billion in 2022-23, and $39.3 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect a decrease of $1.1 billion in 2021-22, no significant difference in 2022-23, and a decrease of $2.7 billion in 2023-24. However, this cumulative $3.8 billion shortfall through 2023-24 is entirely due to the PTE Elective Tax payments being $5.5 billion lower through 2023-24 compared to what was assumed in the 2022 Budget Act. Excluding the effect of the PTE Elective Tax, the corporate tax revenue forecast would have been $1.7 billion higher through 2023-24, reflecting cash receipts through November 2022 that were above the 2022 Budget Act forecast.

The PTE Elective Tax is projected to increase corporate income tax revenues by $20.4 billion in 2021-22, $14.3 billion in 2022-23, and $15.0 billion in 2023-24.

Receipts from the corporation tax, the state's second-largest revenue source, are expected to contribute about 19 percent of all General Fund revenues before transfers in 2023-24.

Sales and Use Tax

The sales tax generated General Fund revenue of over $32.9 billion in 2021-22 and is projected to generate just under $32.9 billion in 2022-23 and $33.6 billion in 2023-24. Compared to the 2022 Budget Act, these figures reflect an increase of $165 million in 2021-22 and decreases of $1.1 billion in 2022-23 and $1.5 billion in 2023-24. Receipts from the sales tax, the state's third-largest revenue source, are expected to contribute 16 percent of all General Fund revenues excluding transfers in 2023-24.

A weaker economic outlook drives the sales tax forecast reduction from the 2022 Budget Act. Taxable consumer spending increased significantly in 2021 due to consumers shifting their consumption from services to taxable goods as a result of the COVID-19 Pandemic, strong inflation, and income growth. The Budget assumes taxable consumer spending growth will decelerate in response to slowing inflation in certain taxable goods, slowing wage growth, and consumption shifting back from goods to services. Additionally, higher interest rates than assumed at the Budget Act are expected to have a significant negative effect on taxable business investment by further increasing borrowing costs.

The sales tax is generally applied to the sale of merchandise, including vehicles, in the state. General Fund sales tax revenues are projected by relating taxable sales to consumption of taxable goods and business investment. Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 13.6 percent in 2020-21. Based on preliminary data, taxable sales increased by 14.3 percent in 2021-22. The forecast projects taxable sales to increase by 0.4 percent in 2022-23 and by 2 percent in 2023-24.

Highly correlated with taxable sales growth, sales tax revenues are projected to decrease by 0.2 percent in 2022-23 and to grow by 2.3 percent in 2023-24, a significant deceleration from growth of 14.2 percent in 2020-21 and 13 percent in 2021-22 forecasted in the 2022 Budget Act. Projected levels of sales tax revenue are lower than those at the 2022 Budget Act, due to a slightly downgraded forecast for consumer spending and a significantly downgraded forecast for private investment.

Revenue in a Recession

The Budget revenue forecast is based on a scenario that assumes continued but slowing economic growth and does not assume a recession. As discussed in the Economic Outlook Chapter, several risk factors could negatively impact the economy and lead to a recession, which could either be mild or more severe. A significant financial shock from tightening financial conditions, persistent supply chain issues, inflation, further stock market and asset price declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

Even in a moderate recession, revenue declines below the Budget forecast could be significant. The magnitude of the revenue loss would depend upon the depth and duration of a recession, as well as its relative impact on higher-income individuals. A mild recession could lead to General Fund revenue losses between $20 billion to $40 billion relative to the Budget forecast over the budget window. In a moderate to more severe recession scenario, General Fund revenue losses could exceed $60 billion compared to the Budget forecast through 2023-24, based on the revenue declines seen following the 2001 and 2008 recessions.