REVENUE ESTIMATES

The Governor's Budget revenue forecast is significantly downgraded as delayed cash data in November indicated the revenue decline from 2021-22 to 2022-23 was much larger than projected in the 2023 Budget Act forecast. Due to January 2023 winter storms impacting the state, the Internal Revenue Service (IRS) initially extended various income tax filing and payment deadlines for most individuals and businesses in California to October 16, 2023, before extending them on October 16 for an additional month, to November 16, 2023. The Franchise Tax Board conformed with the extensions for state taxpayers. As a result, the revenue forecast for the 2023 Budget Act was completed without critical cash data related to prior year and current year taxes that is normally available. Given the extension applied to 55 counties comprising over 99 percent of Californians and to payments spanning several months, uncertainty was high, and a large amount of cash was expected to shift to October.

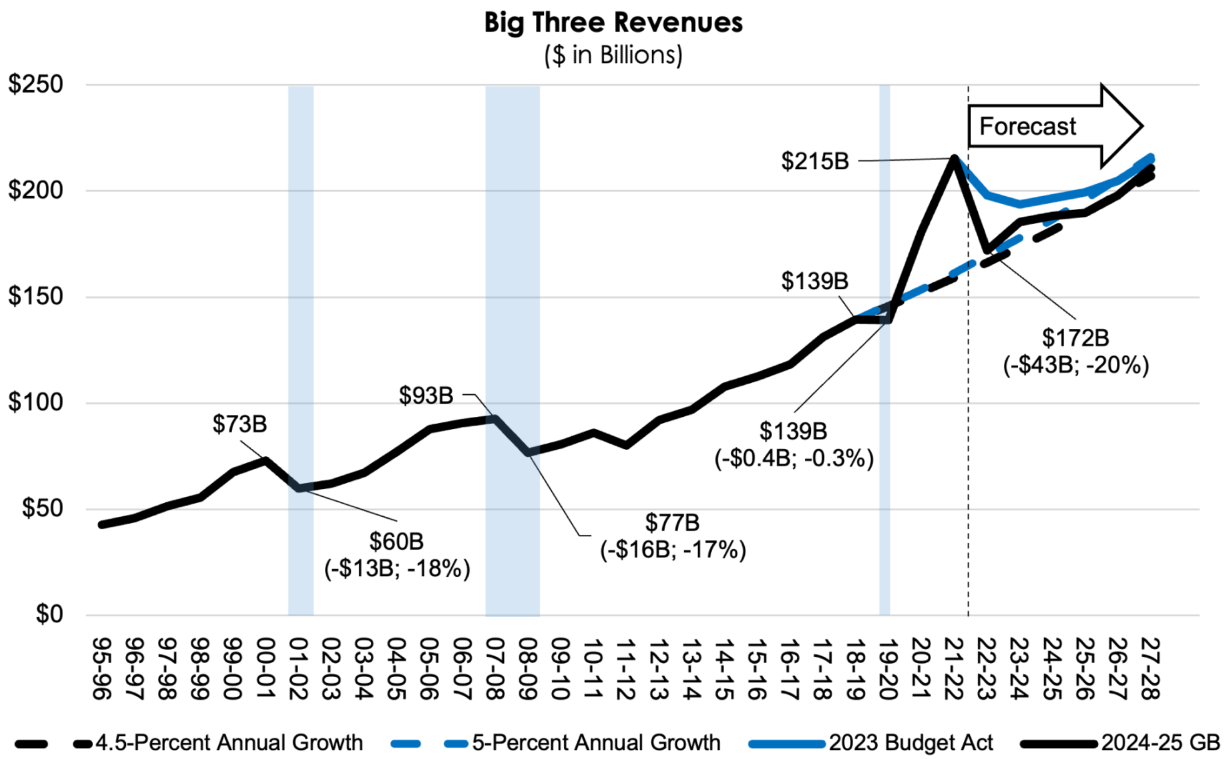
While projections were modeled closely after past events, there was significant uncertainty around the actual percentage of individuals and businesses taking advantage of the extended deadlines. Moreover, cash data was unavailable at a critical time when revenues were expected to decline following unprecedented revenue growth in the two years through 2021-22 and the stock market correction in 2022. Uncertainty was particularly high as projecting revenues following such unprecedented growth is challenging, especially when the economy is not in a recession. Multiple revenue paths and outcomes would be consistent with revenues correcting and cash data would have normally determined the size of the correction. While the 2023 Budget Act captured the downward trend in revenues, it was not until complete cash data was available in November that the magnitude of the decline was clear.

A total of $42 billion was projected to shift from January through September to October 2023—$28.4 billion in personal income tax and $13.3 billion in corporation tax revenues which include $8.3 billion related to the Pass-Through Entity Elective Tax (PTET). From April through November, however, cash receipts from personal income tax and corporation income tax combined were $25.7 billion lower than projected in the 2023 Budget Act. Personal income tax receipts were down $19.1 billion due to non-withholding payments falling short by $17.6 billion and refunds exceeding the forecast by $3.3 billion. On the other hand, personal income withholding receipts were up $1.3 billion cumulatively through November and increased 5 percent from May through November compared to the same period in 2022. Corporation tax cash receipts were down $6.6 billion, including a $2-billion shortfall in PTET payments.

Before accounting for budget solutions, General Fund revenue is projected to be approximately $44 billion lower than assumed in the 2023 Budget Act over the budget window—from fiscal year 2022-23 through fiscal year 2024-25. Most of this lower projection is due to an atypical sizeable downgrade of $24.7 billion in prior year revenues, which negatively impacts revenues in the rest of the multi-year through a base effect. This is partially offset by a slightly upgraded economic outlook and stock market forecast.

While this downward revision is substantial, the Budget revenue forecast does not assume a recession, but rather reflects a correction of revenue growth and a reversion to trend following record growth in 2020-21 and 2021-22. Despite this correction, 2022-23 revenues were still 23 percent higher than in pre-pandemic 2018-19. The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are estimated to have declined by 20 percent or $43 billion from 2021-22 to 2022-23, a percentage decline that is comparable to the decreases during the 2001 Recession and the Great Recession. However, this current decline follows a record two-year growth of 55 percent or $76 billion from 2019-20 to 2021-22. The next highest two-year growth in recent history was a 31-percent two-year growth through 2000-01.

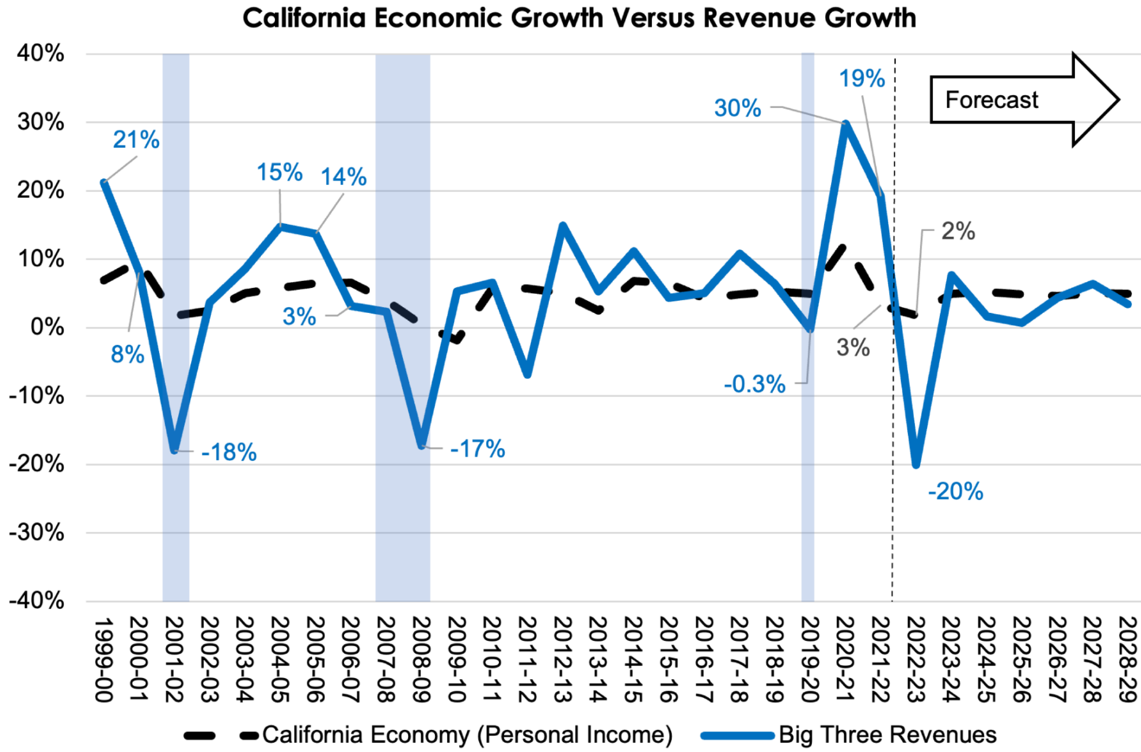
Furthermore, given the assumptions of continued economic growth, the "Big Three" revenues are projected to rebound and grow at normal rates through the end of the forecast. As shown in the Big Three Revenues figure, following the revenue correction in 2022-23, Big Three revenues revert to levels consistent with normal revenue growth trajectory absent the COVID-19 surge and subsequent correction.



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

Due to the state's increasing reliance on high-income taxpayers, who earn a significant proportion of their income from stock-based compensation, revenues have been increasingly volatile and unpredictable as they are more sensitive to financial market shocks and less correlated with the broader economy. This decoupling of revenue and economic growth became particularly stark in the past few years. While California experienced a record-high unemployment rate of 16.1 percent in April 2020, the Big Three revenues stayed roughly flat in 2019-20. In 2020-21, while California's unemployment rate averaged 9.3 percent, the Big Three revenues enjoyed a record-high growth of 30 percent. Finally, while California personal income—a proxy for the California economy—increased by 1.8 percent in 2022-23 and nonfarm employment increased by 3.3 percent, the Big Three revenues are estimated to have decreased by 20 percent. This decoupling of economic growth and revenue growth is illustrated in the California Economic Growth Versus Revenue Growth figure.

Going forward, the Budget forecast assumes continued but moderating economic growth along with a stock market that is not significantly different from its levels in mid-November. If financial markets perform significantly worse or better than assumed, the revenue picture will likely change accordingly. Several risks remain, including stock market volatility, an economic recession, or any shocks that would disproportionately impact high-income earners.



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

BUDGET WINDOW

The Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2023 Budget Act and the Governor's Budget. The downgrades relative to the 2023 Budget Act forecast are driven by sizeable shortfalls in personal income tax and corporation tax in 2022-23, which narrow but persist throughout the end of the forecast.

- **Revenues from the Big Three**—before accounting for budget solutions—are projected to be lower by $42.9 billion over the budget window due to a $29.6-billion downgrade to the personal income tax forecast and a $15.4-billion downward revision to the corporation tax forecast that are partially offset by a $2.1-billion upward revision to the sales tax forecast.

2024-25 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2023 Budget Act
(Dollars in Millions)

Source	2023 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2022-23 (Preliminary)				
Personal Income Tax	$122,769	$101,749	-$21,020	-17.1%
Corporation Tax	42,091	37,140	-4,951	-11.8%
Sales & Use Tax	33,072	33,186	114	0.3%
Insurance Tax	3,673	3,690	18	0.5%
Alcoholic Beverage	433	421	-12	-2.8%
Pooled Money Interest	2,133	2,391	258	12.1%
Cigarette	47	47	0	1.0%
Other Revenues	2,081	2,520	438	21.1%
Subtotal	$206,299	$181,144	-$25,155	-12.2%
Transfer To/From BSA	-544	0	544	-100.0%
Other Transfers and Loans	-621	-728	-107	17.2%
Total	**$205,134**	**$180,416**	**-$24,718**	-12.0%
Fiscal 2023-24				
Personal Income Tax	$118,161	$113,768	-$4,393	-3.7%
Corporation Tax	42,081	36,913	-5,167	-12.3%
Sales & Use Tax	33,366	34,643	1,277	3.8%
Insurance Tax	3,881	3,894	13	0.3%
Alcoholic Beverage	438	427	-11	-2.6%
Pooled Money Interest	2,928	3,044	116	4.0%
Cigarette	43	43	0	0.4%
Other Revenues	5,379	3,206	-2,173	-40.4%
Subtotal	$206,277	$195,938	-$10,339	-5.0%
Transfer To/From BSA	0	-1,424	-1,424	n/a
Other Transfers and Loans	2,411	2,345	-66	-2.7%
Total	**$208,688**	**$196,859**	**-$11,828**	-5.7%
Fiscal 2024-25				
Personal Income Tax	$118,903	$114,730	-$4,174	-3.5%
Corporation Tax	43,369	38,055	-5,313	-12.3%
Sales & Use Tax	34,383	35,123	740	2.2%
Insurance Tax	3,998	4,021	23	0.6%
Alcoholic Beverage	446	433	-13	-2.9%
Pooled Money Interest	1,648	1,791	144	8.7%
Cigarette	42	42	0	0.2%
Other Revenues	5,580	6,810	1,230	22.0%
Revenue Solutions	n/a	402	402	n/a
Subtotal	$208,368	$201,407	-$6,961	-3.3%
Transfer To/From BSA (Solution)	-180	12,026	12,206	-6781.1%
Non-BSA Transfers and Loans Solutions	n/a	2,504	2,504	n/a
Other Transfers and Loans	-1,089	-1,238	-150	13.8%
Total	**$207,100**	**$214,699**	**$7,599**	3.7%
Three-Year Total Excluding Solutions			**-$44,059**	
Three-Year Total			**-$28,947**	

- **Minor Revenues**—insurance, alcoholic beverage, cigarette taxes and pooled money interest—are higher by $536 million over the budget window due largely to a $517-million upgrade in the pooled money interest forecast.
- **Other Minor not Otherwise Classified Revenues**—are $505 million lower over the budget window, due largely to a lowered estimate for federal reimbursements of wildfire and COVID-19 Pandemic costs and a partial shift of those reimbursements to future years.
- **Revenue Solutions**—are projected to increase General Fund revenues by $402 million in 2024-25.
- **Transfers and Loans Solutions**—excluding transfers to the Budget Stabilization Account (BSA)—are projected to increase General Fund revenues by $2.5 billion in 2024-25.
- **BSA Transfers**—are projected to increase General Fund revenues by $11.3 billion over the budget window, as the $12-billion withdrawal in 2024-25 more than fully offsets the workload changes in 2022-23 and 2023-24 that decrease revenues by a total of $880 million.

After accounting for all transfers, baseline General Fund revenues in the Budget are $28.9 billion lower than projected in the 2023 Budget Act over the budget window.

PERSONAL INCOME TAX

The personal income tax is the state's largest revenue source. Excluding PTET credits, the personal income tax is estimated to account for over 65 percent of General Fund revenues before transfers in 2022-23 and is projected to comprise nearly 74 percent of all General Fund revenues before transfers in 2024-25.

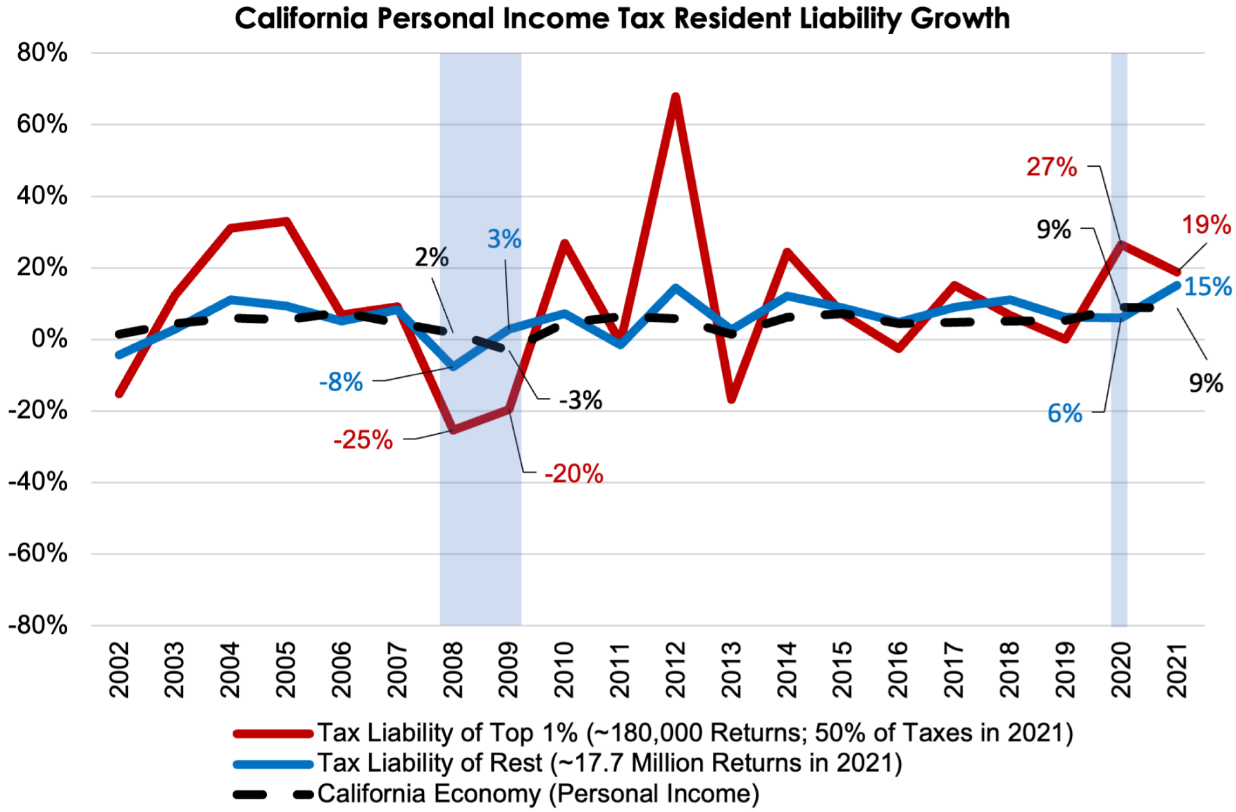
Modeled closely after federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. Since the 2012 tax year, the marginal rates range from 1 percent to 12.3 percent, not including a 1-percent surcharge on taxable income above $1 million for the Mental Health Services Act tax. (See the Mental Health Services Fund section for more information.) 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.

Within the personal income, in the ten years through 2021, wages comprised nearly 70 percent of adjusted gross income for all tax returns and capital gains were around 10 percent. In tax year 2021, wages represented 62 percent of adjusted gross income, a historic-low share, while capital gains comprised a record-high 17 percent of adjusted gross income. Since wages also include stock-based compensation, a significant share of personal income tax depends on financial markets and individuals' decisions on when to buy and sell stocks.

The highest-income Californians pay the largest share of the state's personal income tax. For the 2021 tax year, the top one percent of income earners, or about 180,000 tax returns, paid nearly 50 percent of personal income taxes, up 0.8 percentage point from 2020. Moreover, these high-income taxpayers' tax liability tends to be volatile as they earn a larger share of their total income from capital gains and stock-based compensation. As illustrated in the California Personal Income Tax Resident Liability Growth figure, the top one percent's tax liability, which has been greater than 40 percent of all personal income taxes for 17 of the last 18 years, is highly volatile and untethered from the growth of the broader economy.

These two related phenomena—significant reliance of the General Fund on capital gains and stock-based compensation, 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.

Before accounting for budget solutions, the personal income tax forecast is lower by $29.6 billion over the budget window compared to the 2023 Budget Act forecast, with a shortfall of around $21 billion in 2022-23, which decreases to $4.4 billion in 2023-24 and to $4.2 billion in 2024-25. The $17.6-billion shortfall in non-withholding payments—estimated payments, final payments, and other payments—through November reflects weakness in payments related to tax years 2022 and 2023. The 2023 Budget Act forecast assumed the delayed IRS deadline would shift $28.4 billion in personal income tax payments to October. The substantial shortfall in cash receipts indicates that tax year 2022 liability, particularly capital gains realizations, was far lower than projected in the 2023 Budget Act.

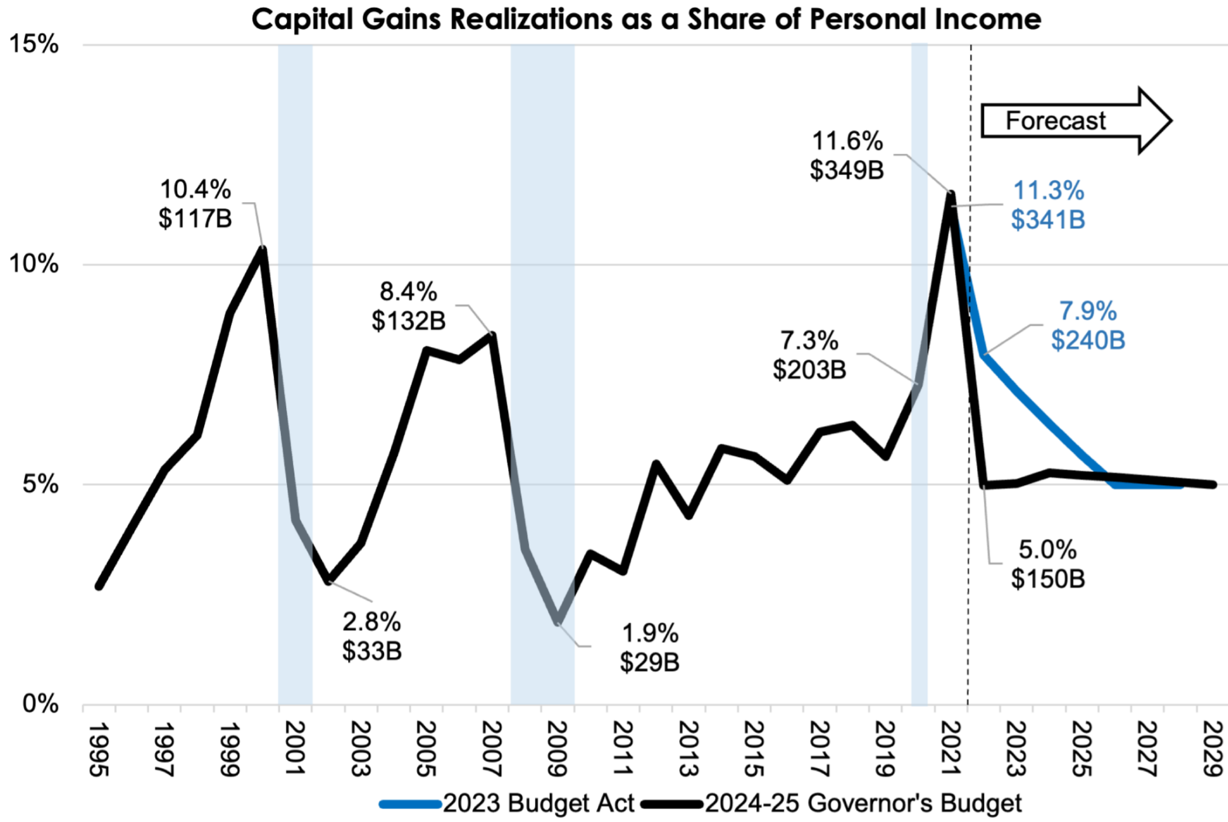


Shaded bars indicate U.S. recessions.
Source: California Department of Finance.

CAPITAL GAINS

The 2023 Budget Act forecast projected $240 billion in capital gains realizations in 2022—a 30-percent year-over-year decline from record-high realizations reported in 2021. Cash data indicates the 2022 drop in capital gains realizations was much larger, estimated at around 57 percent and reflecting a more immediate correction to levels representing around 5 percent of personal income. In contrast, the 2023 Budget Act forecast assumed a more gradual reversion of capital gains realization occurring over several years through smaller consecutive yearly declines. With the steeper decline in 2022, capital gains realizations are projected to be around $200 billion lower cumulatively through 2025, compared to the 2023 Budget Act forecast, and contributing nearly $25 billion to the overall PIT shortfall in the budget window.

Capital gains realizations as a share of personal income reached a record-high of 11.6 percent in 2021, exceeding the 2007 pre-Great Recession peak of 8.4 percent and more than a full percentage point higher than the previous record 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,



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

respectively. As shown in the Capital Gains as a Percentage of Personal Income figure, following its record share in 2021, capital gains realizations are assumed to revert to 5 percent of personal income in 2022, roughly in line with its historical average. Throughout the rest of the forecast, capital gains are assumed to stay around 5 percent of personal income.

The Capital Gains Proposition 2 Revenue figure shows Proposition 2 revenues 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. Proposition 2 revenues increased to $36 billion in 2021—its highest amount ever—and are estimated to have decreased to $15 billion in 2022.

Capital Gains Proposition 2 Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Calendar Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022[e/]	2023[e/]	2024[e/]
Capital Gains Realizations	$29	$55	$52	$100	$80	$116	$120	$113	$144	$154	$145	$203	$349	$150	$158	$175
Prop 2 Revenue from Capital Gains	$2.3	$4.7	$4.2	$10.4	$7.6	$11.3	$11.8	$11.5	$14.1	$15.4	$14.4	$20.6	$36.0	$15.0	$15.7	$17.4
Fiscal Year	**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[e/]**	**23-24[e/]**	**24-25[e/]**
Prop 2 Revenues from Capital Gains	$3.0	$4.5	$6.0	$9.6	$8.7	$11.4	$11.7	$12.3	$14.5	$15.1	$16.3	$25.2	$29.7	$15.2	$16.2	$17.6
Total General Fund Revenues[1/]	$87	$92	$85	$98	$103	$114	$119	$122	$135	$144	$145	$187	$224	$181	$196	$201
Capital Gains Percentage	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.2%	13.5%	13.3%	8.4%	8.3%	8.7%

[e/] Estimated
[1/] Excluding transfers
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

OTHER PERSONAL INCOME COMPONENTS

Business, partnership, and nonresident incomes also contributed to the overall personal income tax downgrade whereas offsetting factors included higher projected withholding, a lower projected usage of PTET credits, and upgrades to several personal income components. Withholding receipts have been revised higher by nearly $2.5 billion through 2024-25 due to stronger-than-expected cash results since May and an improved economic wage forecast in the near-term. Over the budget window, projected PTET credit usage is lower by $3.1 billion, a result of lower payments on the business entity side, which is a positive for personal income tax revenues.

MENTAL HEALTH SERVICES FUND

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 $2.6 billion for 2022-23, $2.4 billion for 2023-24, and $2.6 billion for 2024-25 for this fund. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2022-23 through 2024-25 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue
(Dollars in Millions)

	2022-23 Preliminary	2023-24 Forecast	2024-25 Forecast
General Fund	$101,749	$113,768	$114,826
Mental Health Services Fund	$2,567	$2,392	$2,596
Total	**$104,316**	**$116,160**	**$117,421**

Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

CORPORATION TAX

Before accounting for budget solutions, the corporation tax forecast is lower by $15.4 billion over the budget window or around $5 billion per year from 2022-23 to 2024-25. Corporation tax cash receipts were down $6.6 billion through November, including a $2-billion shortfall in PTET payments. The 2023 Budget Act forecast assumed the delayed IRS deadline would shift around $5 billion in non-PTET payments and $8.3 billion in PTET payments to October. Instead, non-PTET payments were down $3.4 billion through November, suggesting that 2022 corporate liability was much lower than assumed in the 2023 Budget Act.

Corporate tax revenues through the end of the forecast were also subsequently lowered due to the base effect of lower liability in 2022. Expectations regarding future taxable profits growth are largely unchanged. Finally, credit and Net Operating Loss (NOL) usage assumptions were unchanged from the 2023 Budget Act as available 2022 tax data is less complete than normal and offered no conclusive new information on credit and NOL usage. Due to lower PTET payments related to tax year 2022, the forecast for PTET revenue contributes $2.6 billion to the $15.4-billion overall corporate tax shortfall over the budget window.

SALES AND USE TAX

Before accounting for budget solutions, the sales tax forecast is higher by $2.1 billion in the budget window as cash receipts through November are tracking close to the forecast and taxable consumer spending and private investment growth are revised higher in the budget window.

Consumer spending growth has been revised up from an average of 1 percent to 2.3 percent in the budget window. Consumer spending growth has been stronger than expected through the third quarter of 2023 due to a tight labor market and rising wages. Consumer spending growth is then expected to slow through 2024 in response to a drop in transfer receipts and the resumption of interest accrual on student loans, leading to decelerating consumer spending growth in 2024-25.

Private investment growth has been revised up from an average of 2.4 percent to 3.2 percent in the budget window. In particular, the upward revisions are in 2022-23 and 2023-24, due largely to strong actuals in 2023 from the unexpected resilience of businesses despite high borrowing costs. However, borrowing costs are expected to stay higher for longer and ultimately begin to affect businesses later, leading to deceleration of private investment growth in 2024-25.

Despite a slightly slower projected growth in consumer spending and private investment in 2024-25, the higher base in 2022-23 and faster growth in 2023-24 lead to an overall more positive sales tax forecast in the budget window.

FORECASTING RISKS AND UNCERTAINTY

Revenue forecasting is always subject to significant uncertainty, even if the underlying economy and the stock market are performing in line with expectations, particularly in the personal income and corporate income tax forecasts, as liability for those taxes also depend on taxpayer behavior and timing of when assets are sold, and when credits and NOLs are used. While the magnitude of potential revenue swings has likely declined as revenues have already come down from unsustainably high levels through 2021-22, revenues could still end up $15 billion higher or lower per year in 2023-24 and 2024-25—even if the economy and asset markets perform largely in line with expectations.

The principal drivers that could lead to higher or lower revenues include higher or lower personal income tax withholding receipts, capital gains realizations, corporate taxable profits, and use of corporate net operating losses and business incentive tax credits. The timing of capital gains realizations is uncertain: if, for example, capital gains realizations average roughly 4 percent of personal income—their normal share in the early to mid-1990s—instead of 5 percent as projected, the personal income tax forecast would be lower by around $12 billion in the budget window. Similarly, due to the backlog from the 2020 and 2021 suspension, it is plausible that usage of NOLs and business incentive tax credits by corporations could be higher or lower by about $2 billion per year, which would generally increase or reduce corporation tax by about the same amount.

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. For instance, a significant financial shock from tightening financial conditions, stock market and asset price volatility and declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

Even in a mild 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 in the second half of 2024 could lead to General Fund revenue losses between $20 billion to $30 billion relative to the Budget forecast over the budget window.

TAX PROPOSALS

The Budget includes several tax proposals, as described below. These revenue solutions combined are estimated to increase General Fund revenues by a total of $402 million in 2024-25 and lead to ongoing revenue gains outside of the budget window.

NET OPERATING LOSS CONFORMITY

Under current federal law, as part of the Tax Cuts and Jobs Act, the use of NOLs carried forward from prior years is limited to 80 percent of subsequent year's net income and carrybacks are disallowed. Carrybacks allow businesses to apply losses to preceding years to receive a refund. California conformed in 2019 to also disallow carrybacks; however, the state did not conform to the 80-percent limitation.

The Budget proposes to conform state law to federal law by limiting NOLs that are carried forward from prior years to 80 percent of any subsequent year's net income, joining the majority of states in restricting NOL usage to 80 percent or less of taxable income. The change is proposed for tax years beginning on or after 2024 and is projected to lead to revenue gains of $300 million in 2024-25, followed by ongoing annual gains of $200 million thereafter.

CHARITABLE CONSERVATION EASEMENTS CONFORMITY

Under current federal law, property owners who elect to give up rights to develop certain land are allowed a deduction equal to the property development's value. However, this deduction has proven easy to abuse as the IRS has found that property investors often inflate the value of their property in order to get a larger deduction. As a result, the federal Consolidated Appropriations Act (CAA) of 2023:

- Limited the deduction for owners of pass-through entities to two and a half times the value of taxpayers' investment; and
- Disallowed the deductions for participants who had previously engaged in fraud.

For example, a partial owner who invested $100 dollars is now limited to claiming a deduction of up to $250. California law conforms with federal law in allowing deductions for charitable conservation easements; however, the state has not conformed to the 2023 changes listed above.

The Budget proposes to conform with federal law with respect to California's treatment of the charitable conservation easements deduction by adopting the changes made in the CAA beginning in tax year 2024. This proposal is projected to increase General Fund revenues by $55 million in 2024-25 and 2025-26 and by $25 million per year thereafter.

ELIMINATION OF BAD DEBT DEDUCTION

Since 2000, current California law allows retailers, lenders, and retailers' affiliates to deduct or claim a refund for sales and use tax paid on accounts used to purchase taxable goods on credit that are found worthless or charged off (subsequently referred to as "bad debt"). Typically, loans to purchase goods are offered by retailer-affiliate lenders such as banks, credit unions, and other financial companies who price in default risks through interest rates and late payment fees. Lenders can claim the deduction or refund even if a profit was made on the bad debt through interest and penalties paid.

The Budget proposes to eliminate the bad debt deduction and refund, effective in January 2025, joining the majority of states in disallowing deductions for non-retailer lenders for sales tax paid on bad debts. This proposal is projected to increase General Fund revenues by $23.5 million in 2024-25 and about $50.6 million per year thereafter.

ELIMINATION OF OIL AND GAS SUBSIDIES

The Budget proposes to eliminate the following oil and gas subsidies beginning in tax year 2024:

- **Immediate Deduction for Intangible Drilling Costs**—Under current California law and in conformity with federal law since 1987, 70 percent of intangible oil and gas drilling costs, such as survey work, ground clearing, drainage, and repairs, can immediately be deducted by corporations as a business expense, with the remainder spread over five years. For independent oil producers, 100 percent of intangible drilling costs can be deducted immediately. Normal tax law generally requires that expenses can be deducted only once their benefit is realized.

- **Percentage Depletion Rules for Fossil Fuels**—Under current California law and in conformity with federal law since 1993, businesses may deduct a fixed percentage of gross income that is higher than the normal cost-depletion method when it comes to resource depletion of mineral and other natural resources.

- **Enhanced Oil Recovery Costs Credit**—Under current California law, certain independent oil producers are allowed a nonrefundable credit equal to 5 percent of the qualified enhanced oil recovery costs for projects located in the state if the reference price of domestic crude oil falls above a specified threshold for the preceding year. Taxpayers who are retailers of oil or natural gas and those who are refiners of crude oil whose daily output exceeds 50,000 barrels are not eligible for the credit.

Eliminating these tax expenditures is projected to increase General Fund revenues by $22 million in 2024-25 and by $17 million per year thereafter.