REVENUE ESTIMATES

Despite a significant overperformance in cash receipts through spring compared to the Governor's Budget, the General Fund revenue forecast is substantially downgraded at the May Revision due to a more pessimistic economic outlook moving forward.

General Fund cash receipts through March 2025 exceeded the Governor's Budget forecast by $4.4 billion. Additionally, April results for the Big Three Revenues—personal income tax, corporate income tax, and sales tax—were $443 million above forecast. After adjusting for $3 billion in personal and corporation income tax payments estimated to be delayed from January through April to October due to the tax deadline extensions for Los Angeles County as a result of January fires, cash receipts are estimated to have exceeded the Governor's Budget forecast by $7.9 billion through April 2025. Driving the cumulative cash receipts above forecast was the personal income tax, contributing $6.3 billion due to strong personal income tax withholding receipts and personal income tax receipts related to tax year 2024, reflecting both solid economic growth and a strong stock market in 2024. Additionally, $1.6 billion of the overage is attributed to higher federal cost recovery collections, which are categorized as "not otherwise classified" revenues. The California economy generally tracked the Governor's Budget forecast of steady and stable growth, advancing to become the fourth largest economy in the world in 2024.

However, the outlook for both the U.S. and California economies is significantly downgraded due largely to the federal government's sweeping tariff policy, which has resulted in declines in the stock market, declining consumer and business confidence, and elevated inflation expectations. Despite the strong cash results to date, incorporation of the disruptive impacts of recent federal policies result in a projected "growth recession" and a General Fund revenue forecast (excluding transfers and loans) that is moderately downgraded in the budget window (-$5.2 billion in fiscal years 2023-24 through 2025-26) and significantly lowered in the outyears (-$20.6 billion in fiscal years 2026-27 through 2028-29).

Risks and uncertainty remain elevated due to the future course of tariffs, immigration policy, and tax policy. The May Revision revenue projections are based on an economic forecast that assumes a "growth recession" due largely to tariffs. If the "growth recession" turns into an actual economic recession, or if federal policies are moderated considerably and turn out to be less disruptive for the economy, then the revenue picture will likely change accordingly.

BUDGET WINDOW

General Fund revenues, excluding transfers and loans, are projected to be approximately $5.2 billion lower than assumed in the Governor's Budget over the budget window. While there are various changes as summarized in the May Revision General Fund Revenue Forecast Reconciliation with the Governor's Budget figure, this downgrade is driven largely by the Big Three as detailed below.

- **Revenues from the Big Three**—The Big Three revenues—Personal Income, Corporation, and Sales Taxes—are projected to be lower by $4.8 billion, due largely to the downgraded economic outlook and the decline in equity markets since the Governor's Budget. The forecast for personal income tax is revised down by $1.3 billion, corporation tax revenues are lower by $2.8 billion, and the sales tax forecast is downgraded by $666 million.
- **Minor Revenues**—Insurance taxes, alcoholic beverage taxes, cigarette taxes, and interest earned on pooled money, are higher by $377 million, largely due to a $361 million upgrade in the pooled money interest forecast.
- **Other Minor Not Otherwise Classified Revenues**—Unclassified revenues are $703 million lower in the budget window due primarily to a large portion of federal cost recovery collections in 2025-26 shifting to 2026-27, partially offset by higher federal cost recovery collections in 2024-25.
- **Transfers and Loans**—Excluding transfers to the Budget Stabilization Account (BSA), transfers and loans are projected to increase General Fund revenues by

$11.6 billion, an upgrade of $684 million relative to what was assumed in the Governor's Budget.

2025-26 May Revision
General Fund Revenue Forecast
Reconciliation with the 2025-26 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget	
Fiscal 2023-24				
Personal Income Tax	$113,380	$115,166	$1,786	1.6%
Corporation Tax	34,318	35,456	1,138	3.3%
Sales & Use Tax	33,342	33,339	-2	0.0%
Insurance Tax	3,966	3,966	0	0.0%
Alcoholic Beverage	418	418	0	0.0%
Pooled Money Interest	2,892	2,892	0	0.0%
Cigarette	40	40	0	0.0%
Not Otherwise Classified Revenues	3,959	3,983	24	0.6%
Subtotal	**$192,315**	**$195,261**	**$2,946**	1.5%
Transfer To/From BSA	-1,194	-1,486	-292	24.5%
Other Transfers and Loans	2,148	2,104	-44	-2.1%
Total	**$193,269**	**$195,879**	**$2,610**	1.4%
Fiscal 2024-25				
Personal Income Tax	$121,106	$125,706	$4,600	3.8%
Corporation Tax	43,199	41,296	-1,903	-4.4%
Sales & Use Tax	34,110	33,706	-405	-1.2%
Insurance Tax	4,064	4,077	13	0.3%
Alcoholic Beverage	423	417	-7	-1.6%
Pooled Money Interest	3,156	3,066	-89	-2.8%
Cigarette	37	36	0	-1.3%
Not Otherwise Classified Revenues	2,893	3,663	770	26.6%
Subtotal	**$208,989**	**$211,967**	**$2,978**	1.4%
Transfer To/From BSA	4,857	4,902	45	0.9%
Other Transfers and Loans	8,627	8,804	177	2.1%
Total	**$222,473**	**$225,673**	**$3,200**	1.4%
Fiscal 2025-26				
Personal Income Tax[1/]	$133,815	$126,107	-$7,709	-5.8%
Corporation Tax[1/]	37,377	35,293	-2,084	-5.6%
Sales & Use Tax[1/]	35,125	34,866	-259	-0.7%
Insurance Tax	4,341	4,359	18	0.4%
Alcoholic Beverage	428	421	-7	-1.6%
Pooled Money Interest	1,930	2,380	450	23.3%
Cigarette	35	35	-0	-1.3%
Not Otherwise Classified Revenues	4,587	3,090	-1,497	-32.6%
Tax Policy Proposals	186	186	0	0.0%
Subtotal	**217,824**	**206,736**	**-11,088**	-5.1%
Transfer To/From BSA	7,100	7,100	0	0.0%
Other Transfers and Loans	171	722	552	323.5%
Total	**$225,095**	**$214,558**	**-$10,536**	-4.7%
Three-Year Total Excluding Transfers			**-$5,164**	
Three-Year Total Including Transfers			**-$4,726**	

[1/] Excludes the impact of tax policy proposals.

- **BSA Transfers**—BSA transfers are projected to increase General Fund revenues by $10.5 billion in total, a downgrade of $247 million relative to the Governor's Budget.

The May Revision assumes a $7.1 billion withdrawal from the BSA in 2025-26, equal to the amount assumed at Governor's Budget.

- **Tax Policy Proposals**—Tax policy proposals, which remain unchanged since the Governor's Budget, are projected to increase General Fund revenues by $186 million.

PERSONAL INCOME TAX

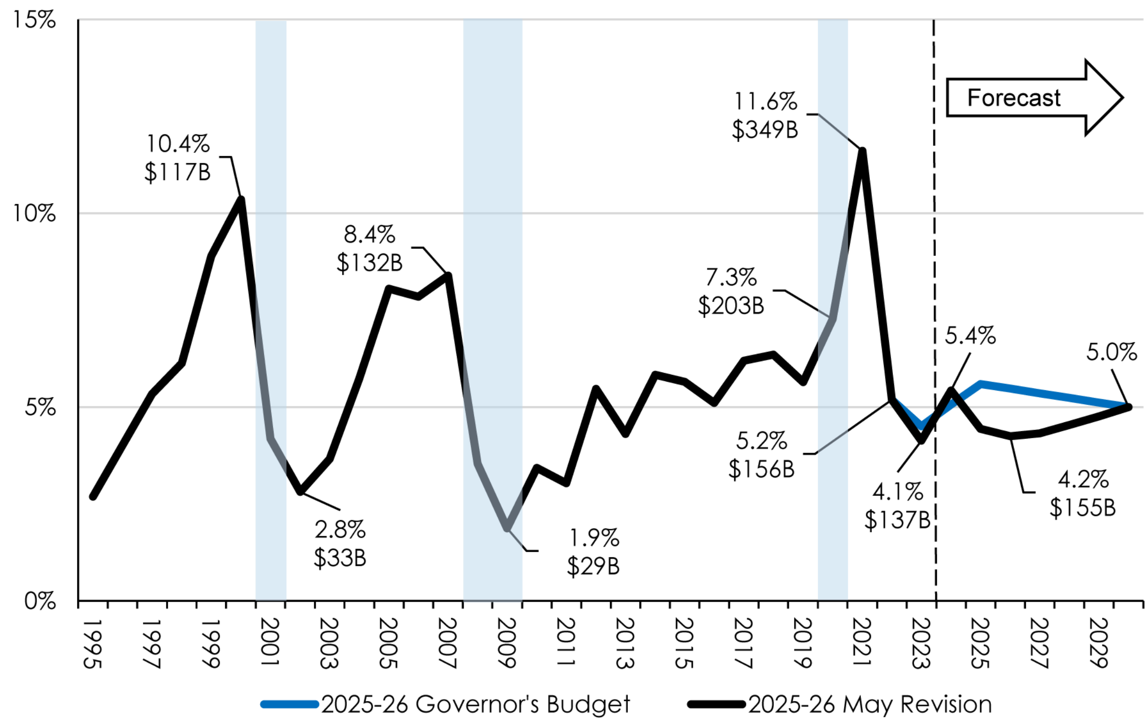
The personal income tax forecast is higher by $1.8 billion in 2023-24 and $4.6 billion in 2024-25, reflecting solid economic growth and gains in equity markets in 2024 as reflected in strong cash results through April 2025. However, due to downgrades to the economic forecast and to projected stock prices, personal income tax revenues are downgraded by $7.7 billion in 2025-26 compared to the Governor's Budget forecast.

Personal income cash receipts are up approximately $4.1 billion from the Governor's Budget through April, due primarily to a $3.3 billion overage in personal income tax withholding receipts. The $4.1 billion variance does not account for the shifting of payments related to delayed tax deadlines for taxpayers in Los Angeles County, which was not incorporated in the Governor's Budget forecast. The May Revision projects $2.2 billion of shifting of personal income tax payments between January and April to October, which means cash results are estimated to be $6.3 billion above forecast through April after adjusting for the shift.

Informed by cash results through late April, capital gains realizations are projected to increase from $131 billion in 2023 to $183 billion in 2024—a $12 billion upgrade compared to the Governor's Budget's projection of $171 billion for 2024. This is a projected 40-percent year-over-year increase in 2024 and follows a 55-percent year-over-year decline in 2022 and a 16-percent year-over-year decline in 2023. In 2024, capital gains realizations' share of personal income is estimated to increase to 5.4 percent, as illustrated in the Capital Gains Realizations Levels and Share of Personal Income figure.

Reflecting declines in equity markets since the Governor's Budget, the S&P 500 forecast was downgraded from 5,871 to 5,388, or 8.2 percent, in the second quarter of 2025. Additionally, the NASDAQ dropped 13.5 percent from its close at the end of 2024 to mid- to late-April when the May Revision forecast was finalized. As a result, capital gains realizations are projected to decrease year-over-year by approximately 15 percent in 2025 and remain flat in 2026, when capital gains realizations' share of personal income is projected to decline to 4.2 percent, roughly equivalent to its share in 2023. Capital gains realizations are downgraded from $197 billion to $156 billion in 2025 and from $202 billion to $155 billion in 2026. Including the positive impact from the upgrade to capital gains realizations in 2024, capital gains are estimated to contribute $2.8 billion to the downgrade to the personal income tax forecast in the budget window. Capital gains realizations are assumed to grow faster than the economy from 2027 on and reach 5 percent of personal income by 2030; however, capital gains levels are projected to remain lower than the Governor's Budget projections throughout the multi-year forecast.

Capital Gains Realizations Levels and as a Share of Personal Income



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2025-26 May Revision Forecast.

From November through April, personal income tax withholding grew 9.1 percent year-over-year, significantly faster than the growth of 2.7 percent assumed in the Governor's Budget. The strength in withholding is largely attributable to growth in equity markets in 2024 and through early 2025 that resulted in higher levels of stock-based compensation for employees at large technology companies. However, partly as a result of stock market declines as of mid-April 2025, the May Revision projects withholding growth to slow substantially for the remainder of 2024-25 and 2025-26. As a result, while withholding is upgraded by $3.1 billion in 2024-25, it is downgraded by $383 million in 2025-26.

Outside of withholding and capital gains, which largely offset each other in the budget window, the downgrade in the budget window for the personal income tax is due to a downgraded economic forecast, mainly through lower economic proprietorship income which led to downgrades in taxable business and partnership income in 2025 and 2026.

CORPORATION TAX

The corporation tax forecast is higher by $1.1 billion in 2023-24 due to lower refunds and higher payments in 2024-25 that were accrued to 2023-24, but lower by $1.9 billion in 2024-25 and $2.1 billion in 2025-26 as a result of the downgrade to corporate profits.

Corporation tax cash receipts are down approximately $350 million through April but are estimated to be around $450 million above the Governor's Budget forecast after adjusting for $800 million in assumed shifting related to the Los Angeles County tax deadline delays.

Corporation tax revenues are downgraded primarily due to a downgraded forecast for corporate profit growth beginning in 2025. Corporate profits are projected to be negatively impacted by the tariffs as production costs increase and corporate profit margins decline as not all costs are assumed to be passed through to the consumer. Based on strong cash results since the Governor's Budget, corporate profit growth was upgraded from 5 percent to 10 percent in 2024. However, corporate profits are projected to decline 2 percent year-over-year in 2025 and grow 2 percent in 2026, compared to a projected growth of 4 percent in 2025 and 2026 in the Governor's Budget.

SALES AND USE TAX

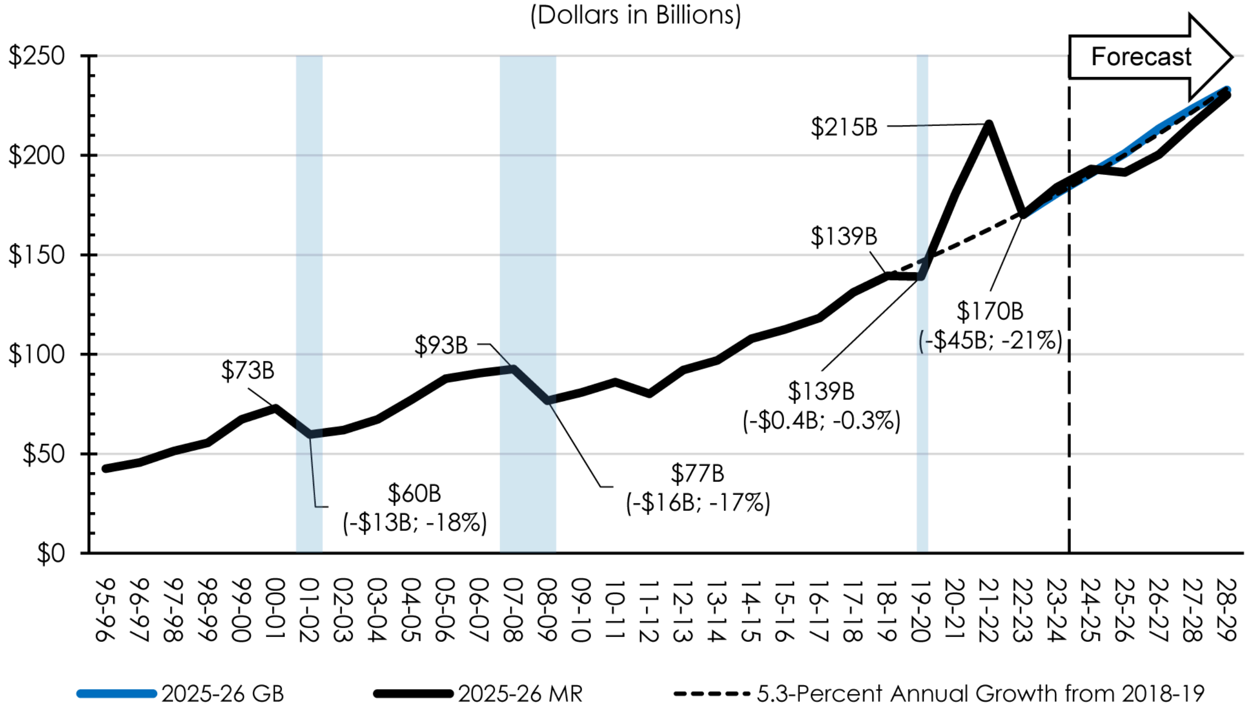
The sales tax forecast is $2 million lower in 2023-24, $405 million lower in 2024-25, and $259 million lower in 2025-26.

Sales tax revenues are downgraded due to lower-than-anticipated taxable sales in the second half of 2024, which resulted in sales tax cash receipts falling short of projections by $326 million cumulatively through March 2025. In addition, taxable sales are projected to grow slower due to a weaker economic outlook and lower business investment more than offsetting some near-term positive impacts on nominal consumer spending due to inflation. Inflation resulting from tariffs has a positive impact on sales tax revenues from higher growth in nominal consumer spending through the first quarter of 2026, however growth is thereafter downgraded relative to the Governor's Budget forecast as the negative impact of inflation on demand outweighs the near-term inflationary boost on prices. Business investment is projected to decline significantly throughout the budget window and multi-year.

LONG-TERM FORECAST

General Fund revenues related to the Big Three revenue sources are cumulatively lower by $22.7 billion in 2026-27 through 2028-29. Yearly revenue downgrades peak at $13.7 billion in 2026-27, with personal income tax revised down by $11.1 billion, as the full impact of the lowered economic and stock market forecasts is realized. As shown in the Big Three Revenues Long-Term Trajectory figure, downgrades narrow starting in 2027-28 and, by 2028-29, revenues are assumed to approach the 5.3-percent annual growth trajectory from pre-pandemic levels projected in the Governor's Budget. The plotted figures exclude the impact of 2024 Budget Act and May Revision policies, including the credit limitation and net operating loss suspension enacted in the 2024 Budget Act.

Big Three Revenues
(Dollars in Billions)



Projected revenue figures exclude the impact of 2024 Budget Act tax policies and proposed May Revision tax policies.
Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2025-26 May Revision Forecast.

The Long-Term Revenue Forecast table below shows the forecast for each of the Big Three from 2022-23 through 2028-29. Following the significant revenue decline of 21.1 percent in 2022-23, which was on the heels of two years of record cumulative growth of 55 percent in 2020-21 and 2021-22, revenue growth for the Big Three rebounded to 8.1 percent in 2023-24. Revenues are then projected to increase by 9.1 percent in 2024-25, boosted by the 2024 Budget Act policy to suspend the use of net operating losses and limit credit use for tax years 2024, 2025, and 2026. Absent that policy, which is estimated to contribute $7.1 billion to 2024-25 revenues, Big Three revenue growth for 2024-25 would be at 5.2 percent.

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

	2022-23	2023-24	2024-25[e/]	2025-26[e/]	2026-27[e/]	2027-28[e/]	2028-29[e/]
Personal Income Tax	$100.5	$115.2	$125.7	$126.0	$141.5	$155.5	$168.3
(Year-over-Year Change)	*-27.0%*	*14.6%*	*9.2%*	*0.2%*	*12.4%*	*9.9%*	*8.2%*
Corporation Tax	$36.3	$35.5	$41.3	$35.6	$24.7	$22.1	$21.6
(Year-over-Year Change)	*-19.5%*	*-2.4%*	*16.5%*	*-13.8%*	*-30.7%*	*-10.3%*	*-2.4%*
Sales and Use Tax	$33.3	$33.3	$33.7	$34.9	$35.6	$36.3	$37.3
(Year-over-Year Change)	*0.9%*	*0.0%*	*1.1%*	*3.4%*	*2.1%*	*1.9%*	*2.7%*
Total	**$170.1**	**$184.0**	**$200.7**	**$196.5**	**$201.8**	**$213.9**	**$227.1**
(Year-over-Year Change)	***-21.1%***	***8.1%***	***9.1%***	***-2.1%***	***2.7%***	***6.0%***	***6.2%***

[e/]Estimated
Source: California Department of Finance, 2025-26 May Revision Forecast.

Revenues from the Big Three are projected to contract by 2.1 percent in 2025-26 and to increase by only 2.7 percent in 2026-27 as the impacts of tariffs are expected to be at their highest in the near-term. Revenue growth is projected to accelerate starting in 2027-28 such that the Big Three revenue sources grow by an average of 5 percent in the multi-year, in line with historical averages.

Due to the projected expiration of the Pass-Through Entity Elective Tax (PTET) at the beginning of 2026, the growth rates for the personal income tax and corporation tax are distorted in 2025-26 and 2026-27 as lower PTET payments after the end of the program negatively impact the corporation tax while the personal income tax is boosted by a similar amount due to lower PTET credit use. Therefore, growth rates for personal income tax and corporation tax in 2025-26 and 2026-27 should be viewed together rather than individually.

RECESSION SCENARIO

The May Revision revenue forecast is based on a scenario that assumes a “growth recession”, a period of below-trend growth and rising unemployment, but it does not reflect a traditional economic recession, which is defined as a significant decline in economic activity that is spread across the economy and lasts more than a few months. As a result, projected growth is slow, with real GDP growing 1.3 percent in 2025 and 1.5 percent in 2026. Given the inconsistent federal tariff policy, stock market volatility, heightened uncertainty among both businesses and consumers, and higher inflation expectations, the relative probability of a recession is higher than in a typical period of normal growth and stability.

In a mild recession scenario as outlined in the Economic Outlook Chapter, with real GDP contracting by an average of 1.5 percent year-over-year in the third and fourth quarters of 2025, revenues from the Big Three are projected to be around $14 billion lower in the budget window than in the May Revision forecast, with additional downgrades in the multi-year that average around $18 billion per year. The main driver of the downgrade in this scenario is the personal income tax, projected to be lower by $11 billion in 2025-26 due primarily to lower wages and capital gains realizations. The corporation tax is lower by $2 billion, while the sales tax is lower by $1 billion in 2025-26. The personal income tax comprises the majority of the downgrade during the multi-year, with a downgrade averaging around $15 billion per year.