

REVENUE ESTIMATES

The stock market and the economy have performed better than projected at the 2025 Budget Act, leading to stronger-than-projected cash receipts in 2025 and an upgraded revenue forecast in the Budget. Through November, General Fund agency cash receipts exceeded the 2025 Budget Act forecast by \$9.1 billion, driven primarily by overages in receipts from the personal income tax (\$7.3 billion) and to a lesser extent by “other revenue” (\$1.9 billion), which include General Fund revenue sources such as disaster cost recovery and unclaimed property revenue. The stock market as measured by the S&P 500 has risen substantially compared to the projections in the 2025 Budget Act forecast, averaging approximately 19 percent higher than projected in the third quarter of 2025 (6,430 versus 5,400) and contributing to higher cash receipts. Additionally, economic data generally came in stronger than projected in the 2025 Budget Act, leading to an upgrade in the economic outlook and contributing to higher projected personal income growth.

General Fund revenue excluding transfers is projected to be \$42.3 billion, or 6.7 percent, higher than assumed in the 2025 Budget Act over the budget window—from fiscal year 2024-25 through fiscal year 2026-27. The main drivers of the upgrade are personal income tax (\$16.4 billion), corporation tax (\$24.6 billion), and pooled money interest (\$1.2 billion).

Reflecting the federal H.R.1 enacted in July 2025, which permanently extended the federal cap on the state and local tax (SALT) deduction, the Budget revenue forecast newly reflects that the state’s pass-through entity elective tax (PTET) is extended. The 2025 Budget Act included a trigger to extend the PTET if federal law extended the SALT

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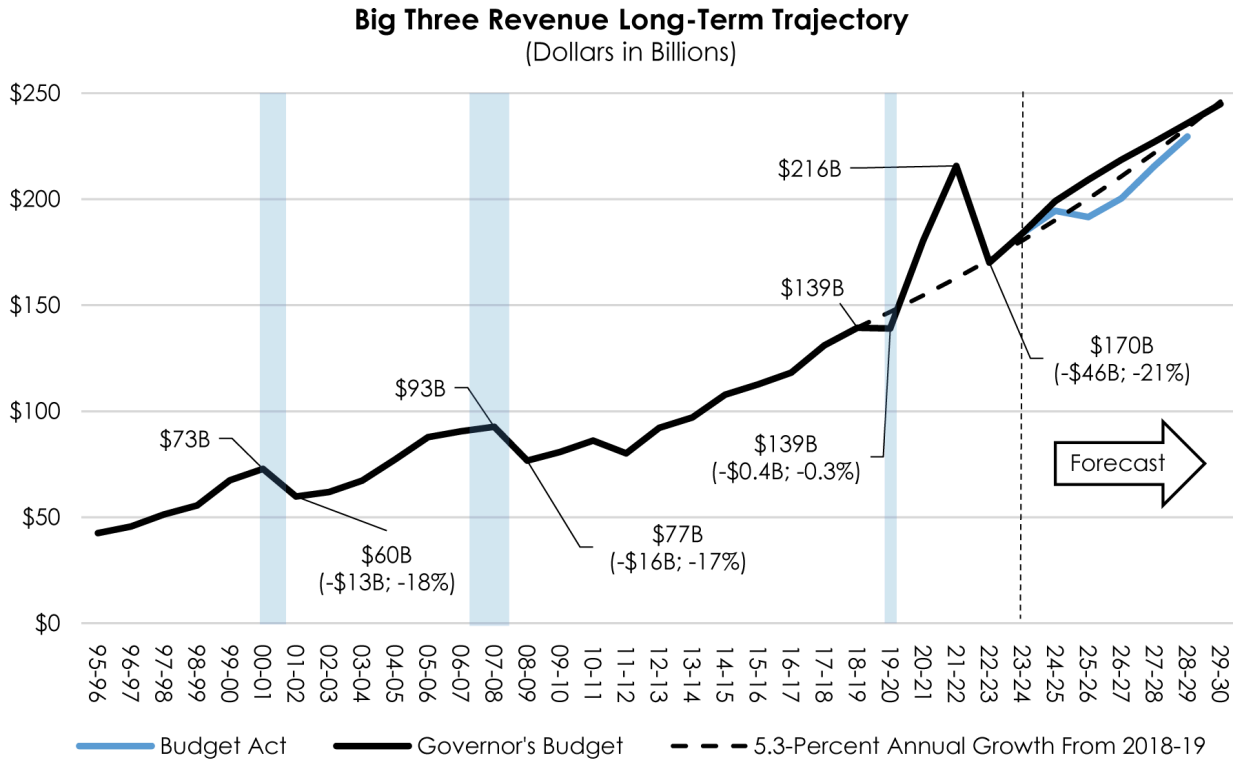
cap. The 2025 Budget Act revenue forecast—consistent with current federal law at the time—assumed that the SALT cap would expire and the state's PTET program would therefore end after 2025. Under the PTET, payments are made by pass-through businesses under the corporation tax, increasing corporation tax revenue, while corresponding PTET credits are used by individuals under the personal income tax, reducing personal income tax revenue. The state's extension of the PTET for 2026 through 2030 is projected to increase corporation tax revenue by \$22.9 billion while also decreasing personal income taxes by \$20.2 billion over the budget window relative to the 2025 Budget Act forecast.

Excluding the distortionary impacts of the PTET extension, the personal income tax is upgraded by \$36.7 billion while the corporation tax is upgraded by only \$1.7 billion, highlighting the key takeaway that the upgrade to the overall revenue forecast is driven mainly by the personal income tax forecast. The upgraded outlook for both the stock market and the economy, which included higher economic wage growth tied to certain technology-heavy sectors with high average wages, disproportionately benefits high-income earners. This leads to significant upgrades to the personal income tax forecast, mainly through higher capital gains realizations (contributing \$21.2 billion) and withholding receipts (contributing \$13.3 billion).

Excluding the PTET extension, the corporation tax is revised modestly higher, due mainly to higher projected corporate profits growth in 2025 and 2026. Projected interest revenue earned on assets in the Pooled Money Investment Account is revised higher due to higher cash balances in the state's pooled money account, with quarterly balances projected to be on average \$20 billion higher in 2025-26 and \$16 billion higher in 2026-27.

Overall, while revenue is significantly upgraded in the near term, the broader long-term picture of state revenue is very modestly upgraded from the 2025 Budget Act. As shown in the Big Three Revenue Long-Term Trajectory figure, projected revenue gradually approaches from higher levels a 5.3-percent average annual growth trajectory by the end of the multi-year in 2029-30, while the 2025 Budget Act approached this long-run growth trajectory from lower levels. The Budget projects higher growth in both 2024-25 and 2025-26, followed by lower assumed growth in subsequent years. These higher growth rates projected in the near term result in revenue being modestly above the 5.3-percent-growth trend and reflect a combination of modest economic growth and strong stock market performance. Projected growth is lower beginning in 2026-27, driven by lower growth in capital gains realizations beginning in 2026 from the higher levels projected for 2024 and 2025, which results in revenues gradually returning to the 5.3-percent trendline by 2029-30. The 2025 Budget Act, on the other hand, assumed

lower growth in 2024-25 and 2025-26 due to below-trend economic growth in 2025 and significantly lower stock market levels, but then assumed higher growth beginning in 2026-27 due mainly to higher growth in capital gains realizations from lower levels projected in 2025. Despite lower growth beginning in 2026-27, revenue remains above the 2025 Budget Act levels throughout the multi-year. These revenue figures exclude the impact of the temporary credit limitation and net operating loss suspension adopted in the 2024 Budget Act.



Projected revenue figures exclude the estimated impact of the temporary credit limitation and net operating loss suspension adopted in the 2024 Budget Act. Shaded bars indicate previous U.S. recessions. Source: California Department of Finance, 2026-27 Governor's Budget Forecast.

BUDGET WINDOW

The Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2025 Budget Act and the Budget. General Fund revenue excluding transfers in the Budget is projected to be \$42.3 billion higher over the budget window. The upgrade relative to the 2025 Budget Act forecast is driven primarily by the personal income tax and corporation tax, with the upgrade in the corporation tax due primarily to the extension of the PTET.

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- **Revenues from the Big Three**—The Big Three revenue sources are projected to be higher by \$40 billion over the budget window due to a \$16.4 billion upward revision to the personal income tax forecast, a \$24.6 billion upward revision to the corporation tax forecast, and a \$1.1 billion downward revision to the sales tax forecast.
- **PTET Extension**—The extension of the PTET results in an additional \$22.9 billion in corporation tax revenue, mostly offset by \$20.2 billion in lower personal income tax revenue in the budget window, compared to the 2025 Budget Act's revenue forecast. The \$2.7-billion net revenue gain between the two taxes is due to credit use against the personal income tax lagging PTET payments made under the corporation tax.
- **Minor Revenues**—Insurance, alcoholic beverage, cigarette taxes, and interest revenue from the Pooled Money Investment Account is higher by \$1.4 billion over the budget window, due primarily to a \$1.2 billion upgrade in the pooled money interest forecast as higher projected balances in the account are projected to generate higher interest for longer periods. Quarterly balances are projected to be on average \$20 billion higher in 2025-26 and \$16 billion higher in 2026-27, as stronger-than-projected General Fund tax revenue since the 2025 Budget Act has helped sustain higher cash balances. Projected revenue from the insurance tax is higher by \$201 million due to stronger growth in insurance premiums in calendar year 2024.
- **Other Revenue**—Revenue from all other sources is \$923 million higher over the budget window due primarily to higher unclaimed property revenue.
- **Tax Policy Proposal**—As described in more detail later in this chapter, the Budget includes a tax policy proposal that is estimated to increase General Fund sales tax revenue by \$10 million in 2026-27.

**2026-27 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2025 Budget Act**

(Dollars in Millions)

Source	Budget Act	Governor's Budget	Change From Budget Act Forecast	
<u>Fiscal 2024-25 (Preliminary)</u>				
Personal Income Tax	\$126,277	\$130,178	\$3,900	3.1%
Corporation Tax	41,696	41,338	-358	-0.9%
Sales & Use Tax	33,706	33,602	-104	-0.3%
Insurance Tax	4,177	4,298	122	2.9%
Alcoholic Beverage	417	414	-2	-0.6%
Pooled Money Interest	3,066	3,081	14	0.5%
Cigarette	36	37	1	1.8%
Other Revenue	3,663	5,557	1,895	51.7%
Subtotal	\$213,038	\$218,506	\$5,468	2.6%
Transfer To/From BSA	4,903	4,767	-136	-2.8%
Other Transfers	8,804	9,036	232	2.6%
Total	\$226,745	\$232,309	\$5,564	2.5%
<u>Fiscal 2025-26</u>				
Personal Income Tax	\$125,962	\$137,840	\$11,879	9.4%
Corporation Tax	35,613	41,702	6,089	17.1%
Sales & Use Tax	34,862	34,401	-462	-1.3%
Insurance Tax	4,359	4,370	11	0.3%
Alcoholic Beverage	421	417	-4	-1.0%
Pooled Money Interest	2,380	3,018	638	26.8%
Cigarette	35	35	0	0.5%
Other Revenue	2,790	3,924	1,133	40.6%
Subtotal	\$206,421	\$225,706	\$19,285	9.3%
Transfer To/From BSA	7,100	7,100	0	0.0%
Other Transfers	2,212	2,356	144	6.5%
Total	\$215,733	\$235,162	\$19,429	9.0%
<u>Fiscal 2026-27</u>				
Personal Income Tax	\$141,535	\$142,202	\$667	0.5%
Corporation Tax	24,672	43,528	18,855	76.4%
Sales & Use Tax	35,590	35,085	-504	-1.4%
Insurance Tax	4,544	4,612	69	1.5%
Alcoholic Beverage	426	419	-7	-1.6%
Pooled Money Interest	1,646	2,165	518	31.5%
Cigarette	34	34	0	0.3%
Other Revenue	5,097	2,992	-2,105	-41.3%
Tax Policy Proposal	0	10	10	n/a
Subtotal	\$213,543	\$231,047	\$17,504	8.2%
Transfer To/From BSA	0	-3,023	-3,023	n/a
Other Transfers	-579	-638	-59	10.2%
Total	\$212,964	\$227,385	\$14,421	6.8%
Three-Year Total Excluding Transfers			\$42,256	
Three-Year Total			\$39,414	

PERSONAL INCOME TAX

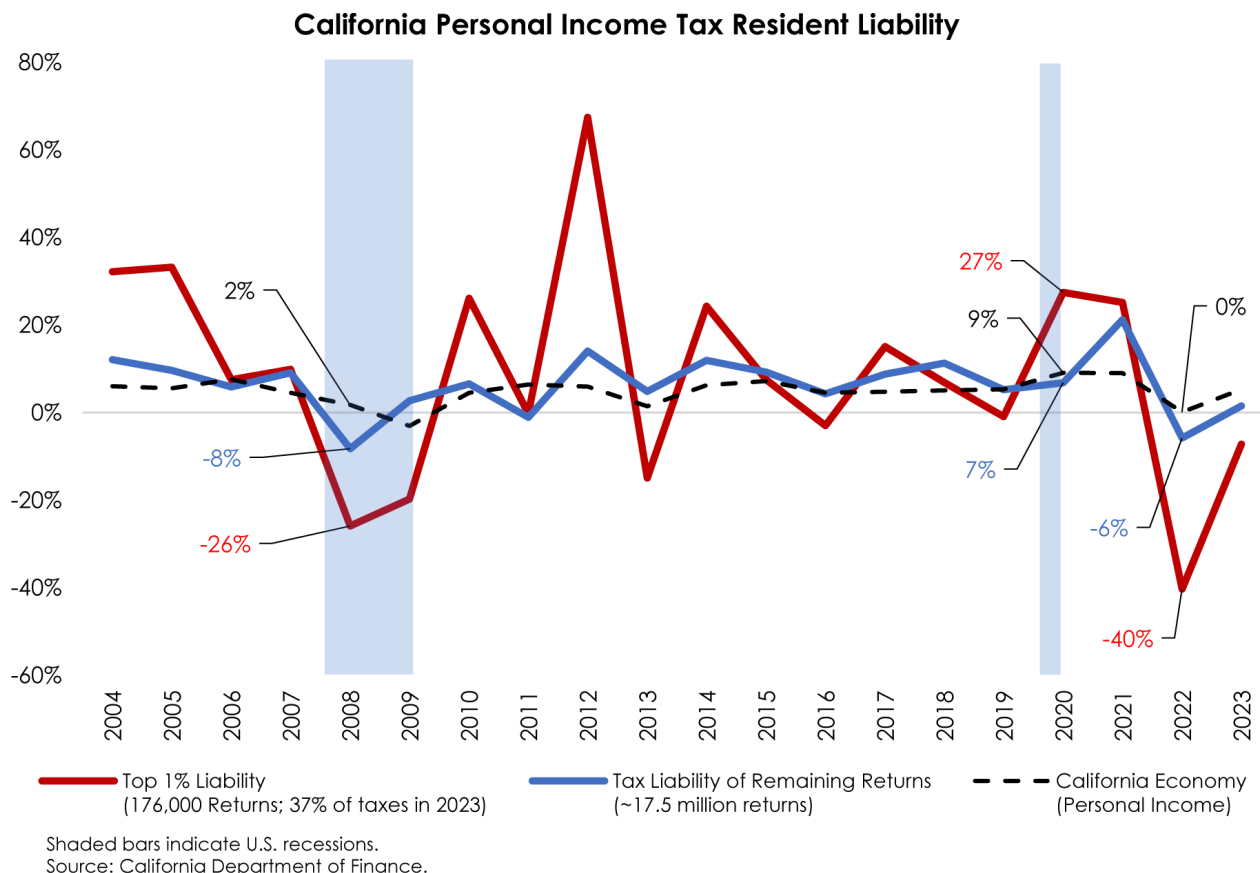
The personal income tax is the state's largest revenue source and is estimated to account for nearly 60 percent of General Fund revenue before transfers in 2024-25.

Within the personal income tax, in the 10 years through 2023, wages comprised approximately 60 percent of tax liability on average for all tax returns, and the share of capital gains was approximately 16 percent. In tax year 2023, the most recent year for which complete tax return data is available, wages represented 69 percent of tax liability while capital gains comprised 10 percent. This was a significant decrease from capital gains' share of 25 percent in 2021, when capital gains realizations hit an all-time high as a share of the economy due to federal stimulus and a surging stock market. Given that wages also include stock-based compensation, a significant share of the 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. In the 20 years through 2023, the top one percent of income earners' share of total resident personal income tax liability averaged approximately 45 percent. For the 2023 tax year, the top one percent of income earners, or over 176,000 tax returns, paid nearly 37 percent of personal income taxes, down from 50 percent in 2021 and 39 percent in 2022. This was due mainly to capital gains realizations in 2023 that were 63 percent below the record-high levels of capital gains realizations in 2021 and 16 percent below 2022 levels. 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. To illustrate, capital gains realizations increased by \$146 billion, or 72.1 percent, from 2020 to 2021 before decreasing by 55 percent from \$349 billion in 2021 to \$156 billion in 2022 and by an additional 16 percent to \$131 billion in 2023. Similarly, withholding increased 20.2 percent in 2021, declined 1.2 percent in 2022, and increased just 1.8 percent in 2023 due in part to volatility in stock-based compensation. As illustrated in the California Personal Income Tax Resident Liability Growth figure, the top one percent's tax liability is highly volatile and often unconnected to the growth of the broader economy. For example, the tax liability of the top one percent decreased by 40 percent in 2022 while the California economy experienced flat growth.

The significant share of personal income taxes—by far the state's largest General Fund revenue source—paid by a small percentage of taxpayers increases the difficulty of forecasting personal income tax revenue. A disproportionate share of high-income taxpayers' income is derived from capital gains and stock-based compensation, two

sources that can be extremely volatile from year to year. 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.



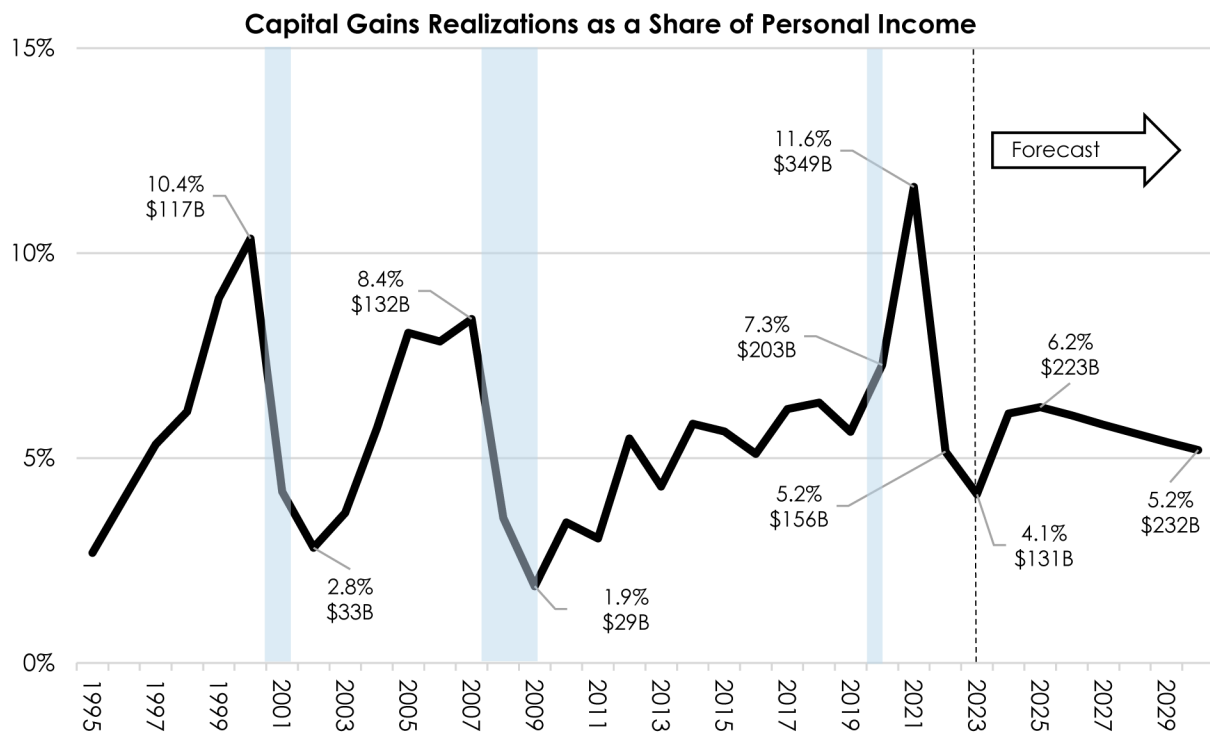
The personal income tax forecast is \$16.4 billion higher through the budget window compared to the 2025 Budget Act forecast, even as the extension of the PTET results in \$20.2 billion in additional PTET credits being utilized against the personal income tax. Excluding the impact of the PTET, the personal income tax is upgraded by \$36.7 billion. Higher actual cash receipts, capital gains, withholding, and a stronger economic forecast all positively contribute to the significant upgrade.

Personal income tax receipts collected through November were nearly \$7.3 billion above the 2025 Budget Act forecast, due primarily to higher withholding and estimated payments, which were each \$3.2 billion above forecast. In addition, other payments were \$896 million higher, and refunds were \$109 million lower.

CAPITAL GAINS

Capital gains realizations are revised higher relative to the 2025 Budget Act forecast and contribute \$21.2 billion to the overall personal income tax forecast upgrade. This upward revision is supported by stronger-than-projected growth in the stock market and stronger-than-projected cash results related to tax years 2024 and 2025.

The 2025 Budget Act forecast projected \$183 billion in capital gains realizations in 2024—a 40-percent year-over-year increase from 2023 following the year-over-year declines of 55 percent in 2022 and 16 percent in 2023. Strong cash data related to tax year 2024 indicates the increase in capital gains realizations in tax year 2024 was larger than previously projected, currently estimated at 58 percent. Additionally, the stock market has risen meaningfully since April and the S&P 500 is projected to average 6,609 in the first quarter of 2026, compared to 5,400 projected for that quarter in the Budget Act, or a 22-percent upgrade. Due to the stock market forecast upgrade and supported by higher estimated payments of \$3.2 billion through November, the Budget projects capital gains realizations to increase 8 percent in 2025 and 1 percent in 2026, compared to a 15-percent decline in 2025 and flat growth in 2026 assumed in the 2025 Budget Act.



Shaded bars indicate previous U.S. recessions.
 Source: California Department of Finance, 2026-27 Governor's Budget Forecast.

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, respectively. As shown in the Capital Gains as a Percentage of Personal Income figure, following its record share in 2021, capital gains realizations reverted to 5.2 percent of personal income in 2022 and 4.1 percent of personal income in 2023. This represents a peak-to-trough decline in capital gains realizations of 63 percent from 2021 to 2023. The Budget projects capital gains realizations to reach 6.2 percent of personal income in 2025 before moderating to 5 percent of personal income by 2031.

The Capital Gains Proposition 2 Revenue figure shows Proposition 2 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 \$14.4 billion to the General Fund in 2019, increased significantly to \$36 billion in 2021—its highest amount ever—and decreased back to \$12.7 billion in 2023. Capital gains revenue is estimated to increase to \$20.5 billion in 2024 and to remain between \$22 billion and \$23 billion in 2025 through 2027.

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

Calendar Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 ^{e/}	2025 ^{e/}	2026 ^{e/}	2027 ^{e/}
Capital Gains Realizations	\$52	\$100	\$80	\$115	\$120	\$113	\$144	\$154	\$145	\$203	\$349	\$156	\$131	\$207	\$223	\$225	\$227
Prop 2 Revenue from Capital Gains	\$4.2	\$10.4	\$7.6	\$11.3	\$11.8	\$11.5	\$14.1	\$15.4	\$14.4	\$20.6	\$36.0	\$15.4	\$12.7	\$20.5	\$22.3	\$22.5	\$22.8
Fiscal Year	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	23-24 ^{e/}	24-25 ^{e/}	25-26 ^{e/}	26-27 ^{e/}
Prop 2 Revenue from Capital Gains	\$4.5	\$6.0	\$9.6	\$8.7	\$11.4	\$11.7	\$12.3	\$14.5	\$15.1	\$16.3	\$25.2	\$29.8	\$14.6	\$15.1	\$21.1	\$22.4	\$22.6
Total General Fund Revenue ^{1/}	\$92	\$85	\$98	\$103	\$114	\$119	\$122	\$135	\$144	\$145	\$187	\$224	\$179	\$195	\$219	\$226	\$231
Capital Gains Percentage	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.2%	13.5%	13.3%	8.2%	7.7%	9.6%	9.9%	9.8%

^{e/}Estimated
^{1/}Excluding transfers
Source: California Department of Finance, 2026-27 Governor's Budget Forecast.

WITHHOLDING

Higher projected withholding contributes \$13.3 billion to the overall personal income tax upgrade. Withholding is revised higher in 2025 because of higher wage growth, particularly in technology-related sectors, and strong cash results since April.

Withholding is projected to increase by 8 percent in 2025, higher than the 3.3-percent growth projected in the 2025 Budget Act. Withholding growth in the first 11 months of 2025 from technology-related sectors—information, manufacturing, and professional and technical services—was more than double that of other sectors. It is estimated that a significant portion of this strength from technology-related sectors is due to increased stock prices for California-based technology companies, leading to higher amounts of withholding from stock-based compensation for employees. The disproportionate strength in the technology sector is not assumed to continue, and withholding growth is projected to moderate to 4 percent in 2026 and 4.3 percent in 2027.

OTHER PERSONAL INCOME COMPONENTS

Other personal income components comprise the remainder (approximately \$2.2 billion) of the upgrade to the personal income tax forecast. Most notably, the higher economic forecast for California personal income leads to higher taxable partnership, business, and pension income. In addition, fiduciary income is revised higher, due primarily to higher capital gains realizations.

BEHAVIORAL HEALTH SERVICES FUND

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 with higher income levels subject to higher tax rates. Since the 2012 tax year, the marginal tax 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 imposed by Proposition 63 beginning in 2004 and updated by Proposition 1, the Behavioral Health Services Act, in 2024. 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 enacted these tax brackets 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.

Revenue from the 1-percent surcharge is transferred to the Behavioral Health Services Fund, formerly the Mental Health Services Fund, and used to fund state and local behavioral health care prevention, workforce, and treatment programs, including treatment of substance use disorders, housing, and treatment for people experiencing or at risk of homelessness. The Budget projects annual revenue of \$3.9 billion in 2024-25, \$4.6 billion in 2025-26, and \$4.7 billion in 2026-27 for this fund. Over the budget window, these transfers to the Behavioral Health Services Fund are higher by nearly \$2.2 billion compared to the 2025 Budget Act. The upward revision generally reflects the higher forecast for capital gains realizations in the Budget, which are disproportionately earned by higher-income taxpayers. The General Fund and the Behavioral Health Services Fund shares of personal income tax revenue for 2024-25 through 2026-27 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue
(Dollars in Millions)

	2024-25 Preliminary	2025-26 Forecast	2026-27 Forecast
General Fund	\$130,178	\$137,840	\$142,202
Behavioral Health Services Fund	\$3,470	\$4,456	\$4,621
Total	\$133,648	\$142,296	\$146,823

Source: California Department of Finance, 2026-27 Governor’s Budget Forecast.

CORPORATION TAX

The corporation tax is estimated to account for nearly 19 percent of General Fund revenue before transfers in 2024-25.

The corporation tax forecast is higher by \$24.6 billion in the budget window, with the extension of the PTET accounting for \$22.9 billion of the upgrade. Therefore, excluding the impact of the PTET, the corporation tax is upgraded by just \$1.7 billion. Corporation tax cash receipts exceeded the 2025 Budget Act forecast by \$116 million through November due to a combination of slightly higher PTET and miscellaneous payments, as well as lower refunds.

The primary driver of higher corporation tax revenue, contributing about \$1.2 billion, is higher projected growth in corporate taxable profits from 2025 to 2027 because of an improved economic forecast. Year-over-year growth in taxable profits is upgraded

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from -2 percent to 2.4 percent in 2025, 2.1 percent to 4 percent in 2026, and from 3.5 percent to 4.2 percent in 2027.

Additionally, limited liability company (LLC) fee collections are upgraded by approximately \$500 million in the budget window due to stronger cash receipts to date and the improved economic forecast. Growth in LLC fees is upgraded to 6 percent in 2025-26 and 4 percent in 2026-27, whereas the 2025 Budget Act assumed these fees would remain flat in both years.

SALES AND USE TAX

The sales tax is estimated to account for about 15 percent of General Fund revenue before transfers in 2024-25.

The sales tax forecast is \$1.1 billion, or 1 percent, lower in the budget window relative to the 2025 Budget Act forecast, driven by cash receipts that were \$355 million, or 1.5 percent, lower than projected through November. Taxable sales were below forecast in the second quarter of 2025 primarily because inflation from tariffs was lower than projected in the 2025 Budget Act, which assumed a higher effective tariff rate and an immediate pass-through of tariff costs to consumers. However, inflation was significantly lower than projected in the second quarter of 2025 as businesses either absorbed tariff costs or found other ways to avoid significant price increases. As a result, the California inflation forecast was downgraded, resulting in lower price levels for most taxable goods relative to the 2025 Budget Act throughout the budget window and negatively impacting sales tax revenue.

RISKS AND UNCERTAINTY

The Budget revenue forecast assumes ongoing moderate economic growth. Since April 2025, the recovery in the stock market, strong tax receipts, and more positive economic data than previously projected support the assumptions of ongoing revenue growth. However, several risk factors could negatively impact the economy and state revenue going forward. The dominant risks are stock market and asset price declines, shocks that disproportionately impact high-income earners, and unpredictable federal policy, including continued uncertainty regarding tariffs and immigration, as well as their impact on inflation, the labor market, investment, and overall demand.

California's revenue is significantly impacted by the stock market due to the state's progressive personal income tax structure and reliance on high-income earners. Lower stock market levels directly affect the personal income tax through reduced capital gains income, nonresident income, fiduciary income, and stock-based compensation in withholding. Additionally, lower stock market levels indirectly affect other personal income tax sources and corporate profits. As of the end of November when the revenue forecast was finalized, the valuation of U.S. stocks was near or above historical highs by various measures, such as the total value of U.S. stock compared to the country's economic output and market prices compared to average earnings over the last decade. Further, stock market gains have been disproportionately driven by large technology companies benefiting from the artificial intelligence boom. Given the stock market's gains are largely concentrated in a few companies whose stock prices have benefitted from the expected value of the same new technology, the stock market could be vulnerable to a significant downturn if returns on investment in artificial intelligence fall short of lofty expectations. If a significant market downturn were sustained, it would negatively impact state revenue through multiple channels. If a market downturn of more than 20 percent—comparable to the decline in 2022—were to occur in 2026 and be sustained through the end of the year, revenue could be \$25 billion to \$30 billion below forecast within the budget window, even if there were no economic recession. If coupled with an economic recession, revenue would be even lower.

TAX PROPOSALS

The Budget includes the following tax proposals as described below.

REQUIRE DELIVERY NETWORK COMPANIES TO REGISTER AS MARKETPLACE FACILITATORS

Under current law, businesses operating large online marketplaces are designated as marketplace facilitators and are required to collect and remit sales tax on behalf of third-party sellers that use their platform to sell goods and services. However, Delivery Network Companies (DNCs)—businesses that specifically facilitate the delivery of local goods such as prepared food—are exempted from this requirement and may elect whether to be treated as a marketplace facilitator for tax purposes. The Budget proposes that California align with most other states by removing the election and instead requiring DNCs with at least \$500,000 in annual sales within California through their platform to register as marketplace facilitators beginning January 1, 2027. As a

result, the responsibility for sales tax collection will shift from tens of thousands of smaller businesses using the DNC platforms to a much smaller number of large DNCs, which reduces tax compliance burdens for smaller businesses using the platforms and increases overall tax compliance. This proposal is estimated to increase General Fund sales tax revenue by \$10 million in 2026-27 and by \$20.1 million per year beginning in 2027-28 due to improved taxpayer compliance.

SUSTAINABLE AVIATION FUEL

The Budget includes a tax credit against diesel excise tax liability to incentivize the in-state production of sustainable aviation fuel, a lower-carbon alternative to petroleum-based jet fuel. This investment advances California's climate and air quality goals by reducing emissions from the aviation sector, one of the most difficult sources to decarbonize, while supporting innovation and private investment in clean transportation fuels.

EXTENSION OF CALIFORNIA COMPETES TAX CREDIT

The California Competes (CalCompetes) Tax Credit, in effect since 2014, incentivizes businesses to locate or stay in California, and thus to invest, grow, and create quality full-time jobs in the state. Under current law, the CalCompetes Tax Credit program is scheduled to sunset after 2027-28. The Budget proposes to extend the CalCompetes Tax Credit program at its current level of \$180 million in annual allocations for five years through 2032-33.