Revenue Estimates

Overall, the May Revision revenue forecast for 2014-15 through 2016-17 has decreased by $1.9 billion. There are three factors that largely explain this reduction:

- A combined reduction of $2.3 billion in 2015-16 and 2016-17 due to poor personal income tax receipts and weaker sales tax revenues through the end of April.
- A combined revenue reduction of $300 million for the insurance tax and corporation tax related to changes in the financing structure for managed care organizations.
- An offsetting increase of $400 million in cash receipts from corporations that accrued to 2014-15.

After accounting for transfers, which includes transfers to the Rainy Day Fund and loan repayments, General Fund revenues under the May Revision forecast are lower than the Governor's Budget by $537 million in 2015-16 and $553 million in 2016-17.

Figure REV-01 compares the revenue forecasts by source in the Governor's Budget and the May Revision. Total May Revision revenue, including transfers, is projected to be $117 billion in 2015-16 and $120.1 billion in 2016-17.

Figure REV-01
2016-17 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change	
Fiscal 14-15: Final				
Personal Income Tax	$76,079	$76,169	$90	0.1%
Sales & Use Tax	23,709	23,682	-27	-0.1%
Corporation Tax	9,007	9,417	410	4.6%
Insurance Tax	2,445	2,445	0	0.0%
Alcoholic Beverage	357	357	0	0.0%
Cigarette	86	86	0	0.0%
Pooled Money Interest	21	21	0	0.0%
Other Revenues	1,594	1,592	-2	-0.1%
Subtotal	$113,298	$113,769	$471	
Transfers [1]	-1,980	-1,980	0	0.0%
Total	**$111,318**	**$111,789**	**$471**	0.4%
Fiscal 15-16				
Personal Income Tax	$81,354	$79,962	-$1,392	-1.7%
Sales & Use Tax	25,246	25,028	-218	-0.9%
Corporation Tax	10,304	10,309	5	0.0%
Insurance Tax	2,493	2,486	-7	-0.3%
Alcoholic Beverage	366	370	4	1.2%
Cigarette	84	87	3	3.6%
Pooled Money Interest	36	38	3	7.7%
Other Revenues	1,584	1,695	111	7.0%
Subtotal	$121,466	$119,975	-$1,491	
Transfers [1]	-3,929	-2,975	954	-24.3%
Total	**$117,537**	**$117,000**	**-$537**	-0.5%
Fiscal 16-17				
Personal Income Tax	$83,841	$83,393	-$448	-0.5%
Sales & Use Tax	25,942	25,727	-215	-0.8%
Corporation Tax	10,956	10,993	37	0.3%
Insurance Tax	2,549	2,345	-204	-8.0%
Alcoholic Beverage	373	376	3	0.9%
Cigarette	81	85	4	4.9%
Pooled Money Interest	89	63	-26	-29.3%
Other Revenues	1,247	1,176	-71	-5.7%
Subtotal	$125,078	$124,160	-$918	
Transfers [1]	-4,445	-4,080	365	-8.2%
Total	**$120,633**	**$120,080**	**-$553**	-0.5%
Three-Year Total			**-$619**	

Note: Numbers may not add due to rounding.
[1] Includes transfers to the Budget Stabilization Account for each year.

Long-Term Forecast

The May Revision economic forecast reflects continued growth over the next four years. The projected average growth rate in U.S. real gross domestic product over the next four years is 2.5 percent. While the forecast does not project a recession, the current expansion has already exceeded the average post-World War II expansion by over two years.

Figure REV-02 shows the forecast for the largest three General Fund revenues from 2014-15 through 2019-20. Total General Fund revenue from these sources is expected to grow from $109.3 billion in 2014-15 to $129.5 billion in 2019-20. The average year-over-year growth rate during this period is 4.8 percent.

Figure REV-02

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**Average Year-Over-Year Growth**
Personal Income Tax	$76.2	$80.0	$83.4	$86.7	$85.9	$88.1	4.7%
Sales and Use Tax	$23.7	$25.0	$25.7	$26.2	$27.4	$28.7	4.0%
Corporation Tax	$9.4	$10.3	$11.0	$11.5	$12.1	$12.8	6.1%
Total	**$109.3**	**$115.3**	**$120.1**	**$124.5**	**$125.4**	**$129.5**	4.8%
Growth	11.3%	5.5%	4.2%	3.6%	0.7%	3.3%	

Note: Numbers may not add due to rounding.

Earned Income Tax Credit

The 2015 Budget enacted the state's first-ever Earned Income Tax Credit to help the poorest working families in California. Based on tax returns filed through April, over 350,000 households have claimed the credit, including 57,000 new claimants who had not previously filed a California tax return. Many of these first-time filers are expected to have claimed the federal credit for the first time as well. While over 15 percent of the claimants are first-time filers, preliminary data suggest that more than 68,000 eligible households did not claim the California credit. To reach more Californians eligible for both the state and federal Earned Income Tax Credit, the May Revision includes $2 million for the Franchise Tax Board (FTB) to support additional outreach and marketing. Eligible claimants for the 2015 credit remain eligible to claim the credit through October 2016.

Personal Income Tax

The personal income tax forecast is higher by $90 million in 2014-15 and lower by $1.4 billion in 2015-16 and $448 million in 2016-17. Over the three-year period, the personal income tax forecast reflects a total decrease of $1.7 billion.

The forecast reflects lower cash receipts of $1.1 billion through the end of April. In addition, based on more complete data provided by FTB, capital gains realizations reported on 2014 tax returns were $115 billion—$15 billion below forecast. Projected capital gains realizations for 2015 and 2016 were also reduced by $15 billion and $10 billion, respectively. These changes to capital gains reduce tax revenues from this income source. Consistent with the Governor's Budget assumptions, capital gains are forecast to return to a normal level of 4.5 percent of personal income by 2018, which equates to $107 billion in capital gains realizations.

Forecasting revenue associated with capital gains is difficult since realizations are heavily dependent upon stock market performance and when taxpayers choose to buy or sell stock. This forecast assumes the S&P 500 at 2,070 for the second quarter of 2016 and growth of around 2 percent per year for the next several years. Projected S&P 500 levels are lower by about 1 percent compared to the Governor's Budget.

While revenue from high-income taxpayers continues to grow, FTB data on tax returns showed that the 2014 increase in income concentration was modestly below forecast. This change in income concentration reduces effective tax rates and dampens personal income tax growth compared to the prior forecast. The decreases in capital gains and changes in income concentration were offset by higher levels of business income and a stronger wage growth forecast, which leads to personal income tax revenue gains beginning in 2017-18, when capital gains are similar to the Governor's Budget levels.

The personal income tax forecast includes Proposition 30 revenues, which are estimated at $6.8 billion in 2015-16 and $6.9 billion in 2016-17, which is lower than the Governor's Budget by $830 million and $789 million, respectively. Proposition 30 revenues are lower due to the factors discussed above.

The highest-income Californians pay a large share of the state's personal income tax. For the 2014 tax year, the top 1 percent of income earners paid over 48 percent of personal income taxes. This percentage has been greater than 40 percent for ten of the last twelve years. Consequently, changes in the income of a relatively small group of taxpayers have a significant impact on state revenues.

Sales and Use Tax

The sales tax forecast reflects a decrease of $27 million in 2014-15, $218 million in 2015-16, and $215 million in 2016-17. This includes Proposition 30 revenues totaling

$1.5 billion in 2015-16 and $800 million in 2016-17. The sales tax portion of Proposition 30 sunsets at the end of 2016, halfway through 2016-17.

While wages have been revised higher, cash receipts have been below forecast. Weak business spending, lower housing permits, and inflation in housing and medical costs are likely contributing to lower sales tax revenues. Although growth rates have been modestly revised downward, the forecast assumes that taxable sales will grow at 5 percent in 2015-16 and 5.8 percent in 2016-17, which are above-average growth rates.

Corporation Tax

The corporation tax forecast reflects an increase of $410 million in 2014-15, $5 million in 2015-16, and $37 million in 2016-17. Cash receipts this year are above forecast primarily due to unusually large payments related to prior year returns. These payments accrue to 2014-15 and increase revenues in that fiscal year. Changes to the financing structure for managed care organizations reduce revenue by $90 million in 2016-17.

Insurance Tax

The insurance tax forecast reflects a decrease of $7 million in 2015-16 and $204 million in 2016-17. Changes to the financing structure for managed care organizations reduce insurance revenue by $210 million in 2016-17.

Loan Repayments to Special Funds

The Governor's Budget reflected repayment of loans based on the operational needs of various special fund programs and Proposition 2's dedicated funding stream for reducing debts and liabilities. The May Revision reflects a total of $647 million in loan repayments to special funds in 2016-17, which is a decrease of $244 million compared to the Governor's Budget. An updated evaluation has been made to ensure programs' operational needs will be met at this reduced level. Total funding available for Proposition 2 debt payments decreased due to lower forecasted revenues and capital gains since the Governor's Budget.

Property Tax

The May Revision estimates statewide property tax revenues will increase 5.9 percent in 2015-16 and 6.2 percent in 2016-17, which is slightly higher than the respective 5.6-percent growth rates estimated in the Governor's Budget. Roughly 42 percent ($29.2 billion) will go to K-14 schools in 2016-17. While this amount includes $1.2 billion that schools are expected to receive pursuant to the dissolution of the redevelopment agencies, it excludes the $7.3 billion shifted to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.