

REVENUE ESTIMATES

The 2011 Budget Act estimates General Fund revenues to be \$94.8 billion in 2010-11 and \$88.5 billion in 2011-12. Since the May Revision, cash receipts for the big three revenue sources are projected to come in \$1.2 billion above the May Revision forecast through the end of June. It is anticipated that General Fund revenue will be \$4 billion higher than forecast in 2011-12.

GENERAL FUND REVENUE SOLUTIONS

Revenue solutions that were adopted as part of the 2011 Budget Act include the following:

- Financial Institutions Record Match—This provision requires financial institutions to participate in a record match process between financial institution customer records and Franchise Tax Board (FTB) debtor records. FTB will use the match information to collect delinquent state income tax debts using existing laws and collection methods. This proposal is expected to generate additional revenues of \$40 million in 2011-12.
- Tax Shelter Amnesty—This program will allow FTB to provide amnesty for taxpayers who used an abusive tax avoidance transaction (ATATs), which are generally tax schemes that serve no purpose other than reducing tax. The Internal Revenue Service, the FTB, and the courts generally deny claimed tax benefits of an ATAT if the transaction that gives rise to those benefits lacks economic substance independent of income tax considerations, even though such transactions may not

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break any tax law rules. By authorizing the FTB to provide a narrow tax amnesty for taxpayers that utilized an ATAT, this program is expected to generate additional revenues of \$270 million in 2010-11 and a reduction of revenues of \$50 million in 2011-12.

- **Use-Tax Look-Up Table**—This provision requires the FTB to revise the income tax instructions to include a use-tax table that would allow taxpayers to estimate the amount of use tax they owe, based on their adjusted gross income. This provision is expected to generate additional revenue of \$7 million per year starting in 2011-12.
- **Repeal the Refundable Portion of the Child and Dependent Care Credit**—Federal and state laws allowed a credit for expenses that taxpayers incur for qualified child or dependent care expenses necessary so that taxpayers may engage in or pursue gainful employment. For federal purposes, this credit is nonrefundable; for state purposes, it is refundable. This provision will revise the current child and dependent care expenses tax credit to be nonrefundable, and is expected to increase revenue by \$75 million starting in 2011-12.
- **Internet Retailer Use Tax Nexus**—This provision clarifies the obligations under existing law for out-of-state retailers to collect and remit use tax on sales of tangible personal property to California residents. Specifically, this bill expands the statutory definition of “retailer engaged in business in this state” to include any retailer entering into an affiliate agreement with a California resident under which the resident, for a commission or other consideration, directly or indirectly refers potential customers. Out-of-state retailers who sell less than \$10,000 into California through these affiliates or who sell less than \$500,000 into the state, are exempted from this requirement. This provision also requires use tax collection and remittance by a retailer who is a member of a combined reporting group for income tax purposes, when another member of the same group provides services in connection with the sale of tangible personal property in California. Finally, this provision establishes that any retailer with substantial nexus in this state is required to collect the use tax on behalf of the state. This provision is estimated to generate revenue of \$200 million starting in 2011-12.
- **Redirect Revenue from Sales and Use Tax (SUT) to Local Revenue Fund 2011**—This provision redirects revenue attributed to 1.0625 cents of the SUT rate to the Local Revenue Fund 2011 for realignment purposes. This provision is expected to redirect \$5.1 billion in 2011-12.