

REVENUE ESTIMATES

General Fund revenues under the May Revision forecast will be higher than at the Governor's Budget by \$2 billion in 2013-14 and \$856 million in 2014-15. These gains are partially offset by a \$513 million downward adjustment to 2012-13 revenues. Figure REV-01 compares the revenue forecasts, by source, in the Governor's Budget and the May Revision. Total May Revision revenue is projected to be \$102.2 billion in 2013-14 and \$107 billion in 2014-15.

The economic forecast has not changed significantly since the Governor's Budget. As such, the majority of the changes to the forecast reflect current data on cash receipts as well as new tax return data. Cash trends since January have been generally positive. On net, cash tax receipts are up about \$1.9 billion over forecast through the end of April. Although still preliminary, cash data through April suggest that personal income tax (PIT) receipts are up about \$1.4 billion, corporation tax receipts are up almost \$600 million, and sales and use tax (sales tax) receipts are down \$190 million.

A cash surplus or shortfall can have different effects on the revenue forecast for all three open revenue years, depending on the source of the cash and other factors such as accruals.

- Personal Income Tax—The cash surplus in PIT is mostly due to withholding in early 2014, and has been realized in months that are usually associated with high levels of withholding for annual bonus payments. Given the timing of the increased withholding and minimal changes forecast for wage growth—up 0.1 percent for

Figure REV-01
2014-15 May Revision
General Fund Revenue Forecast
Baseline
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change	
Fiscal 12-13				
Personal Income Tax	\$65,332	\$64,484	-\$849	-1.3%
Sales & Use Tax	20,482	20,482	\$0	0.0%
Corporation Tax	7,462	7,783	\$321	4.3%
Insurance Tax	2,221	2,221	\$0	0.0%
Vehicle License Fees	7	7	\$0	0.0%
Alcoholic Beverage	357	357	\$0	0.0%
Cigarette	90	90	\$0	0.0%
Other Revenues	2,150	2,165	\$14	0.7%
Transfers	<u>1,813</u>	<u>1,813</u>	<u>\$0</u>	0.0%
Total	\$99,915	\$99,402	-\$513	-0.5%
Fiscal 13-14				
Personal Income Tax	\$64,287	\$66,522	\$2,235	3.5%
Sales & Use Tax	22,920	22,759	-\$161	-0.7%
Corporation Tax	7,971	8,107	\$136	1.7%
Insurance Tax	2,143	2,287	\$144	6.7%
Alcoholic Beverage	350	351	\$1	0.3%
Cigarette	89	86	-\$3	-3.4%
Other Revenues	2,041	1,726	-\$315	-15.4%
Transfers	<u>346</u>	<u>347</u>	<u>\$0</u>	0.1%
Total	\$100,147	\$102,185	\$2,038	2.0%
Change from Fiscal 12-13	\$233	\$2,784		
% Change from Fiscal 12-13	0.2%	2.8%		
Fiscal 14-15				
Personal Income Tax	\$69,764	\$70,238	\$474	0.7%
Sales & Use Tax	24,071	23,823	-\$248	-1.0%
Corporation Tax	8,682	8,910	\$228	2.6%
Insurance Tax	2,297	2,382	\$85	3.7%
Alcoholic Beverage	357	359	\$2	0.6%
Cigarette	86	84	-\$2	-2.9%
Other Revenues	1,602	1,957	\$355	22.2%
Transfers	<u>-765</u>	<u>-803</u>	<u>-\$38</u>	5.0%
Subtotal	\$106,095	\$106,951	\$856	0.8%
Change from Fiscal 13-14	\$5,947	\$4,765		
% Change from Fiscal 13-14	5.9%	4.7%		
BSA Transfer	-\$1,591	-\$1,604		
Total	\$104,504	\$105,346	\$843	
Three-Year Total (including BSA transfer)			\$2,368	

Note: Numbers may not add due to rounding.

2014 and down 0.7 percent for 2015—the higher PIT receipts so far this year are not expected to translate into significant increases in PIT revenue for the remainder of 2013-14 or 2014-15.

- Corporation Tax—Although corporation tax cash is up almost \$600 million through April, the 2013-14 revenue forecast increases only \$136 million. Much of the strength in corporation tax cash is related to the timing of refunds. Refunds are down by almost \$400 million through April and the Franchise Tax Board expects a large amount of refunds to be paid out through the end of June.
- Sales Tax—Cash from the sales tax is lower than the January projection and this reduces revenues through 2014-15.

LONG-TERM FORECAST

The May Revision economic forecast reflects slow growth over the next five years. The projected average growth rate in U.S. real gross domestic product over the next five years is 2.9 percent.

Figure REV-02 shows the forecast for the largest three General Fund revenues from 2012-13 through 2017-18. Total General Fund revenue from these sources is expected to grow from \$92.7 billion in 2012-13 to \$119.1 billion in 2017-18. The average year-over-year growth rate over this period is 5.1 percent.

Figure REV-02

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

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Average Year-Over-Year Growth
Personal Income Tax	\$64.5	\$66.5	\$70.2	\$74.4	\$78.1	\$82.0	4.9%
Sales and Use Tax	\$20.5	\$22.8	\$23.8	\$25.7	\$26.3	\$26.8	5.6%
Corporation Tax	\$7.8	\$8.1	\$8.9	\$9.6	\$10.0	\$10.3	5.8%
Total	\$92.7	\$97.4	\$103.0	\$109.8	\$114.4	\$119.1	5.1%
Growth	15.7%	5.0%	5.7%	6.6%	4.2%	4.1%	

Note: Numbers may not add due to rounding.

PERSONAL INCOME TAX

Compared to the Governor's Budget, the PIT forecast is lower by \$849 million in 2012-13 and higher by \$2.2 billion in 2013-14 and \$474 million in 2014-15. Over the three-year period, the PIT forecast reflects a total increase of \$1.9 billion.

The PIT forecast reflects an increase in withholding receipts, which has largely been realized in higher monthly cash through April. Tax agency data from Franchise Tax Board shows that 2012 wage income was about 1 percent above the Governor's Budget, which increases the forecast for withholding in subsequent years. However, the higher withholding seen early this year tied to bonuses is not expected to continue at the same rate for the remainder of the year.

Based on 2012 tax return data, net partnership income was up by 28 percent and dividend income was up by 39 percent. The forecast assumes that these unusually high growth rates were in part due to shifting income from 2013 to 2012 due to federal tax law changes. As a result, only a portion of the increase in partnership and dividend income is carried forward to subsequent years.

Capital gains realizations were reduced slightly in 2013 and 2014 primarily due to new data showing lower capital gains realizations in 2012. Specifically, capital gains income was revised down from \$87 billion to \$80 billion in 2013 and from \$108 billion to \$105 billion in 2014. Actual capital gains income in 2012 was \$100 billion compared to the \$104 billion forecast in January.

The PIT forecast includes Proposition 30 revenues, which are estimated at \$5.4 billion in 2012-13, \$5.7 billion in 2013-14, and \$6 billion in 2014-15.

SALES AND USE TAX

The sales tax forecast reflects a decrease of \$161 million in 2013-14 and \$248 million in 2014-15. This includes Proposition 30 revenues totaling \$1.4 billion in 2013-14 and \$1.4 billion in 2014-15.

The decline in the sales tax forecast is attributed to lower-than-estimated cash receipts through March.

CORPORATION TAX

The corporation tax forecast reflects an increase of \$321 million in 2012-13, \$136 million in 2013-14, and \$228 million in 2014-15. This includes Proposition 39 revenues totaling \$293 million in 2012-13, \$613 million in 2013-14, and \$705 million in 2014-15.

Compared to the Governor's Budget, the revenue increase in 2012-13 and 2013-14 can mainly be attributed to lower refunds and higher cash receipts through April 2014.

INSURANCE TAX

The insurance tax forecast reflects an increase of \$144 million in 2013-14 and \$85 million in 2014-15. The revenue changes are primarily due to the updated refunds estimate pursuant to a Board of Equalization decision in the *California Automobile Insurance Company* case.

PROPERTY TAX

The property tax forecast is essentially flat compared to the Governor's Budget. The May Revision estimates that the revenue growth is projected to decrease slightly in 2013-14 to 4.05 percent from 4.2 percent and to increase to 7.02 percent from 6.32 percent in 2014-15. The base 1-percent rate is expected to generate approximately \$55.5 billion in 2014-15, of which roughly half (\$30 billion) will go to K-14 schools. The \$30 billion figure does not include additional property tax revenue that schools are expected to receive in 2014-15 from the dissolution of redevelopment agencies.

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