

REVENUE ESTIMATES

California's economy and revenues are expected to continue to grow, although somewhat more slowly than assumed in the 2016 Budget Act. The General Fund revenue forecast has been reduced, reflecting lower growth in wages, proprietorship income, consumption, and investment. As a result, before accounting for transfers such as to the Rainy Day Fund, General Fund revenue is lower than the 2016 Budget Act projections by \$5.8 billion from 2015-16 through 2017-18.

Figure REV-01 compares the revenue forecasts, by source, in the 2016 Budget Act and the Governor's Budget. Revenue, including transfers, is expected to be \$119 billion in 2016-17 and \$124 billion in 2017-18. The projected decrease since the 2016 Budget Act is due to a lower forecast for all three major revenue sources. Over the three fiscal years, personal income tax is down \$2.1 billion, sales tax is down \$1.9 billion, and corporation tax is down \$1.7 billion.

The downgraded revenue forecast for personal income tax is driven by lower wage growth. Because much of the employment growth since May has come from workers newly entering or reentering the labor force, the pressure to increase wages is somewhat lower than had been expected. Additionally, because of the increases in the minimum wage in 2014 and 2016, a greater share of the growth in wages appears to be going to lower income workers. Thus, the Governor's Budget forecast calls both for somewhat lower wage growth and for that growth to be distributed more evenly among taxpayers. The more equal distribution of wages reduces the average tax rate applied to those wages. Although the rate of wage growth has slowed, wages have

Figure REV-01
2017-18 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2016 Budget Act
(Dollars in Millions)

Source	2016 Budget Act	Governor's Budget	Change From Budget Act Forecast	
Fiscal 2015-16: Preliminary				
Personal Income Tax	\$79,962	\$78,947	-\$1,015	-1.3%
Sales & Use Tax	25,028	24,890	-138	-0.6%
Corporation Tax	10,309	9,902	-408	-4.0%
Insurance Tax	2,486	2,562	76	3.1%
Alcoholic Beverage	370	369	-2	-0.4%
Cigarette	87	85	-2	-1.7%
Pooled Money Interest	38	41	2	6.5%
Other Revenues	1,695	1,742	47	2.8%
Subtotal	\$119,976	\$118,538	-\$1,438	-1.2%
Transfers ^{1/}	-2,974	-3,038	-64	2.2%
Total	\$117,001	\$115,500	-\$1,501	-1.3%
Fiscal 2016-17				
Personal Income Tax	\$83,393	\$83,136	-\$257	-0.3%
Sales & Use Tax	25,727	24,994	-733	-2.9%
Corporation Tax	10,992	10,389	-604	-5.5%
Insurance Tax	2,345	2,309	-36	-1.5%
Alcoholic Beverage	377	370	-6	-1.7%
Cigarette	85	79	-5	-6.3%
Pooled Money Interest	63	60	-3	-4.1%
Other Revenues	1,178	1,104	-74	-6.3%
Subtotal	\$124,159	\$122,441	-\$1,718	-1.4%
Transfers ^{1/}	-3,850	-3,676	174	-4.5%
Total	\$120,310	\$118,766	-\$1,544	-1.3%
Fiscal 2017-18				
Personal Income Tax	\$86,726	\$85,866	-\$861	-1.0%
Sales & Use Tax	26,188	25,179	-1,009	-3.9%
Corporation Tax	11,543	10,878	-666	-5.8%
Insurance Tax	2,267	2,368	102	4.5%
Alcoholic Beverage	383	372	-11	-2.9%
Cigarette	82	65	-17	-21.2%
Pooled Money Interest	121	97	-24	-20.1%
Other Revenues	1,157	913	-244	-21.1%
Subtotal	\$128,468	\$125,738	-\$2,730	-2.1%
Transfers ^{1/}	-1,707	-1,711	-4	0.2%
Total	\$126,762	\$124,027	-\$2,734	-2.2%
Three-Year Total			-\$5,779	
Totals may not add because of rounding.				
^{1/} Includes transfers to Budget Stabilization Account for each year.				

been and are expected to continue growing faster than the economy as a whole. This differential puts downward pressure on business income. As such, the Governor's Budget forecast has somewhat reduced the expected growth in sole proprietorship income and partnership income.

The sales tax forecast has been reduced to reflect slower growth in consumer spending and business investment. California's high housing costs are reducing the amount of income available for consumers to spend on taxable goods. The reduced corporation tax forecast reflects continued weak performance for corporate tax receipts as well as lower profits due to growing labor costs.

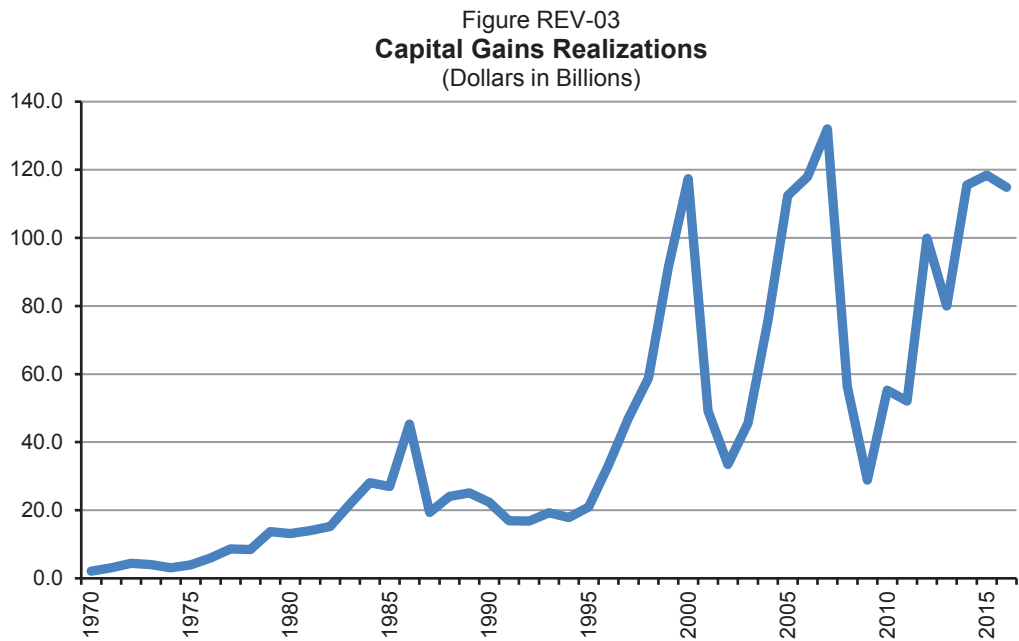
The forecast for capital gains is relatively unchanged from the 2016 Budget Act. Figure REV-02 shows revenue from capital gains as a percentage of total General Fund tax revenue. As seen from this table, the amount of revenue the General Fund derived from capital gains can vary greatly from year to year. For instance, in 2007, capital gains contributed \$10.9 billion to the General Fund. By 2009, the contribution from capital gains had dropped to \$2.3 billion. For 2015, capital gains are assumed to have contributed \$11.8 billion to General Fund revenue—the highest amount ever.

Figure REV-02
Capital Gains Revenue
As a Percent of General Fund Tax Revenues
(Dollars in Billions)

Annual Values	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 ^{e/}	2016 ^{e/}	2017 ^{e/}
Capital Gains Realizations	\$112.4	\$117.9	\$132.0	\$56.3	\$28.8	\$55.3	\$52.1	\$99.9	\$79.9	\$115.5	\$118.4	\$114.8	\$110.2
Tax Revenues from Capital Gains	\$9.2	\$9.6	\$10.9	\$4.6	\$2.3	\$4.7	\$4.2	\$10.4	\$7.6	\$11.3	\$11.8	\$11.4	\$11.0
Fiscal Year Values	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Tax Revenues from Capital Gains	\$9.3	\$10.0	\$9.0	\$3.9	\$3.0	\$4.5	\$6.0	\$9.6	\$8.7	\$11.4	\$11.7	\$11.3	\$10.9
Total General Fund Tax Revenues	\$91.0	\$93.8	\$95.8	\$79.5	\$84.6	\$90.1	\$83.3	\$96.3	\$101.5	\$112.0	\$115.5	\$118.8	\$124.0
Capital Gains Percentage	10.3%	10.7%	9.4%	4.9%	3.5%	5.0%	7.2%	9.9%	8.6%	10.2%	10.1%	9.5%	8.8%

^{e/}Estimated

Figure REV-03 shows capital gains reported on California tax returns from 1970 through projections for 2016. Although the level of capital gains has grown significantly since 1970 (along with the economy and total personal income tax revenue), capital gains volatility has been a constant. History suggests that above-normal levels of capital gains eventually drop off.



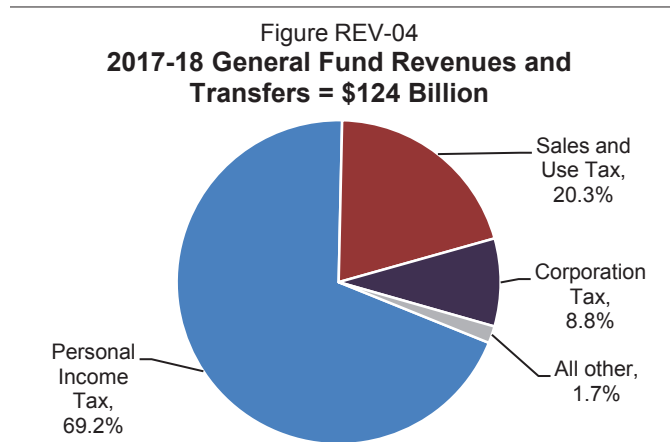
Forecasting capital gains is difficult because capital gains realizations are heavily dependent upon stock market performance. This forecast assumed that the S&P 500 ended 2016 at 2,180 and will grow at approximately 2 percent per year for the next several years. While the stock market forecast has been upgraded since the Budget Act, which assumed a 2016 year-end level of 2,118, estimated income tax payments thus far in 2016 have been weak, declining nearly 4 percent from the prior year. Reflecting these two opposing data points, the capital gains forecast is very close to Budget Act levels.

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 48 percent of personal income taxes. This percentage has been greater than 40 percent for ten of the past eleven years. The share of total adjusted gross income from the top 1 percent of income earners has increased from 13.8 percent in 1993 to almost 24 percent in 2014. This number has exceeded 20 percent in ten of the past eleven years. Consequently, changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

These two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. The Rainy Day Fund helps address some level of volatility. Under Proposition 2, when capital gains revenue is greater than 8 percent of General Fund tax revenue, that windfall revenue is used to pay off General Fund debts and build up a reserve for future downturns.

GENERAL FUND REVENUE

Figure REV-04 shows the breakdown of General Fund revenues by taxation type. Personal income tax contributes 69.2 percent of the total.



LONG-TERM FORECAST

Figure REV-05 shows the forecast for the three largest General Fund revenues from 2015-16 through 2020-21. Total General Fund revenue from these sources is expected

Figure REV-05
Long-Term Revenue Forecast - Three Largest Sources
(General Fund Revenue - Dollars in Billions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Average Year-Over-Year Growth
Personal Income Tax	\$78.9	\$83.1	\$85.9	\$89.1	\$93.2	\$97.5	4.2%
Sales and Use Tax	24.9	25.0	25.2	26.2	27.2	28.1	2.9%
Corporation Tax	9.9	10.4	10.9	11.3	11.9	12.5	4.8%
Total	\$113.7	\$118.5	\$121.9	\$126.7	\$132.3	\$138.1	4.0%
Growth	4.1%	4.2%	2.9%	3.9%	4.4%	4.4%	

Note: Numbers may not add due to rounding.

to grow from \$113.7 billion in 2015-16 to \$138.1 billion in 2020-21. The average year-over-year growth rate for this period is 4 percent.

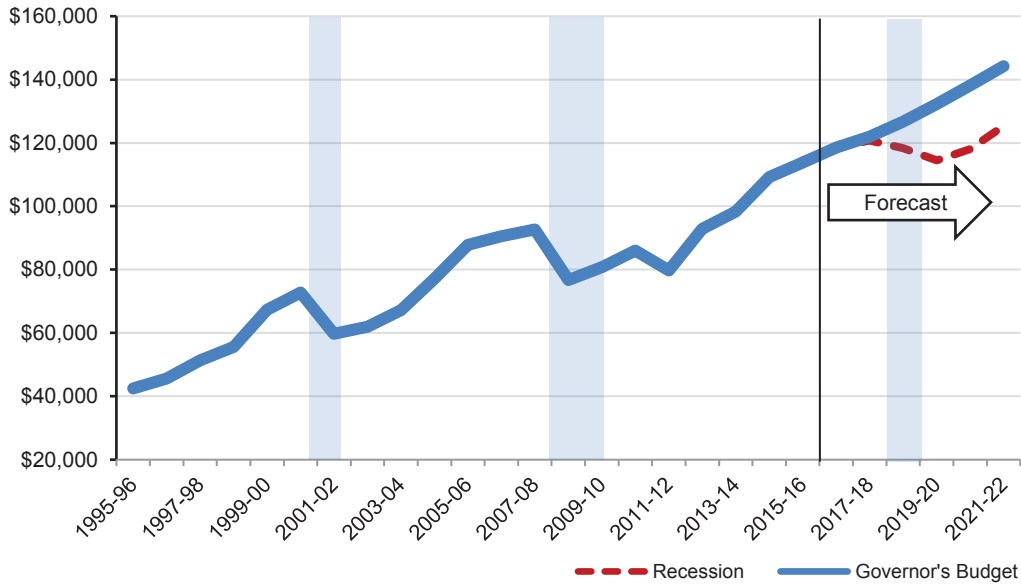
The economic forecast reflects slow but steady growth through 2020. The projected average growth rate in real Gross Domestic Product over this period is around 2.2 percent. The long-term revenue forecast reflects the sunset of the 0.25-cent Proposition 30 sales tax increase halfway through 2016-17. It also reflects the adoption of Proposition 55 by voters in November 2016 which begins to affect revenues in 2018-19. Proposition 55 extends through 2030 the top three personal income tax brackets that were first adopted as part of Proposition 30 and set to expire at the end of 2018.

PLANNING FOR THE NEXT RECESSION

Economic growth is forecast to continue over the next few years. However, a recession during this period is possible, particularly in light of the length of the current expansion. As discussed in the Economic Outlook chapter, there are several economic risk factors that could either lead to a recession or cause a significant slowdown in revenue growth. One of the factors is the shortage of housing. Currently, the shortage of housing is limiting the growth of sales tax revenue as higher housing costs (which are not taxed) reduce the amount of disposable income available for other consumption. However, the shortage of housing could have an even more significant impact on revenue if it starts making it difficult for employers to attract skilled workers to work in high-cost areas such as Silicon Valley. Many of these workers are also foreign-born, and if the federal government attempts to reduce immigration by limiting H1-B visas, this could hurt the ability of California firms, particularly high-tech firms, to hire skilled staff.

Even in a moderate recession, revenue declines could be significant. Figure REV-06 shows a history of California's three largest revenue sources—personal income tax, sales tax, and corporation tax—along with revenue projections for the budget forecast and a moderate one-year recession in 2018-19. Under this scenario, revenue losses result from a decline in wages of over \$100 billion compared to forecast (about 10 percent) and by a drop in capital gains realizations due to a 25-percent stock market correction. The shaded areas in this figure show the timing of the 2001 recession, the 2007 recession, and the recession scenario. While the actual revenue declines in the past two recessions were significant (as shown in this figure), tax law changes temporarily increased revenues to lessen the declines. Revenue losses in this recession forecast would approach \$20 billion per year for several years and lead to a permanently lower revenue base compared to the current forecast.

Figure REV-06
Annual Revenue Could Drop by \$20 Billion in a Recession
 (Dollars in Millions)



PERSONAL INCOME TAX

The personal income tax is the state’s largest single revenue source and is expected to generate \$79 billion in 2015-16, \$83.1 billion in 2016-17, and \$85.9 billion in 2017-18. These figures reflect reductions of \$200 million in 2015-16, \$240 million in 2016-17, and \$264 million in 2017-18 for the state’s new earned income tax credit.

Modeled closely on 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 over the income spectrum. For the 2012 tax year, the marginal rates ranged from 1 percent to 12.3 percent. Proposition 30 created three additional income tax brackets for families 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 \$1,000,000. Proposition 30 held these tax brackets in effect for seven years—tax years 2012 to 2018. Voters approved Proposition 55 in November of 2016, extending the three additional tax brackets through tax year 2030.

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The largest income source for the personal income tax is wages and salaries. Although the year-over-year growth rate for wages tends to be less volatile than other income sources, wages and salaries include some unpredictable types of compensation such as stock grants, restricted stock units, stock options, and bonus payments. In 2014, taxes attributable to wages and salaries accounted for over 57 percent of personal income tax revenues. Based on the economic forecast, wages and salaries are expected to increase 5.4 percent in 2016, 5.2 percent in 2017, and 4.4 percent in 2018. These growth rates have been downgraded since the Budget Act forecast, reflecting the forecast for slower economic growth.

Recent data suggests that the distribution of income gains among various income levels since the beginning of 2015 has been more evenly distributed compared to prior years. The growth rate in wage withholding receipts has largely been in line with wage growth in 2015 and 2016. Further, estimated tax payments, which are disproportionately paid by high-income earners, have been relatively weak in 2016, suggesting that income gains have moderated among high-income earners.

A portion of personal income tax revenue is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over \$1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. Revenues of \$1.8 billion are estimated for 2015-16. Annual revenues of \$1.9 billion for 2016-17 and 2017-18 are projected. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2015-16 through 2017-18 are shown in Figure REV-07.

Figure REV-07
Personal Income Tax Revenue
 (Dollars in Thousands)

	2015-16 Preliminary	2016-17 Forecast	2017-18 Forecast
General Fund	\$78,947,387	\$83,135,898	\$85,876,730
Mental Health Services Fund	1,805,958	1,863,048	1,887,584
Total	\$80,753,345	\$84,998,946	\$87,764,314

CAPITAL GAINS

The Budget assumes that 2015 capital gains were almost \$120 billion, well above the long-term normal level for capital gains, about \$90 billion. Although the stock market is expected to yield slow growth in the coming years, the strong performance of the stock market for most of the first half of this decade is expected to lead to continued above-normal capital gains through 2017. The Budget forecasts 2017 capital gains to be \$110 billion and 2018 capital gains to be \$107 billion. The 2018 level of capital gains equates to 4.5 percent of personal income in 2018, which is considered a normal level for capital gains relative to the economy.

SALES AND USE TAX

The sales and use tax (sales tax) is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to consumption of goods and business investment. The sales tax is expected to generate General Fund revenue of \$25 billion in 2016-17 and \$25.2 billion in 2017-18. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 20.3 percent of all General Fund revenues and transfers in 2017-18. The temporary 0.25-cent Proposition 30 increase expired at the end of 2016, halfway through the fiscal year. Taxable consumption and business investment has been weak. Additionally, housing and medical costs, which are not taxable, have both experienced high inflation and continue to displace taxable consumption.

Figure REV-08 displays total sales tax revenues for the General Fund and various special funds for 2015-16 through 2017-18.

Figure REV-08
State Sales Tax Revenue
 (Dollars in Thousands)

	2015-16 Preliminary	2016-17 Forecast	2017-18 Forecast
General Fund	\$24,890,193	\$24,994,096	\$25,179,134
Sales and Use Tax-1991 Realignment	3,232,789	3,315,674	3,460,023
Sales and Use Tax-2011 Realignment	6,403,539	6,621,849	6,901,470
Economic Recovery Fund ^{1/}	964,645	-	-
Public Transportation Account	464,607	417,141	466,495
Total	\$35,955,773	\$35,348,759	\$36,007,122

^{1/}Economic Recovery Bonds were repaid in July 2015.

Figure REV-09 displays the individual elements of the state and local sales tax rates.

Figure REV-09
2017-18 State and Local Sales and Use Tax Rates (as of January 1, 2017)

State Rates		
General Fund	3.94%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund operating reserves exceed specified levels.
Local Revenue Fund 2011	1.06%	Revenues attributable to a rate of 1.0625 percent are dedicated to the Local Revenue Fund 2011 for realignment.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Local Uniform Rates^{1/}		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use. ^{2/}
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes by Proposition 172.
Local Add-on Rates^{3/}		
Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments ^{4/} up to a combined maximum of 2.00% in any county. ^{5/} Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.

^{1/}These locally imposed taxes are collected by the state for each county and city and are not included in the state's revenue totals.
^{2/}The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.
^{3/}These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the state for each jurisdiction and are not included in the state's revenue totals.
^{4/}Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.
^{5/}Alameda, Contra Costa, and Los Angeles counties may impose up to 2.5 percent transactions and use tax.

Figure REV-10 shows combined state and local tax rates for each county, including special rates for certain cities within those counties.

Over the last few years, wholesale trade has been the largest contributor to the sales tax base, comprising nearly 12 percent of taxable sales in calendar year 2014. Motor vehicle and parts dealer taxable sales were the second-largest contributor to the sales tax base, also at close to 12 percent, due to strong growth in automobile sales. Another significant contributor to the sales tax base is sales from food service, which comprised 11 percent of the sales tax base and includes full-service restaurants, bars, and food contractors and caterers.

Figure REV-10
Combined State and Local Sales and Use Tax Rates by County
(city rate provided if different from the county rate)
Rates in Effect on January 1, 2017

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	9.25%	Mariposa	7.75%	San Mateo	8.75%
Albany, Hayward,		Mendocino	7.375%	San Mateo	9.00%
San Leandro, Union City	9.75%	Point Arena, Ukiah, Willits	7.875%	South San Francisco	9.25%
Alpine	7.25%	Fort Bragg	8.375%	Santa Barbara	7.75%
Amador	7.75%	Merced	7.25%	Guadalupe, Santa Maria	8.00%
Butte	7.25%	Atwater, Gustine	7.75%	Santa Clara	8.50%
Paradise	7.75%	Los Banos, Merced	7.75%	Campbell, San Jose	8.75%
Calaveras	7.25%	Modoc	7.25%	Santa Cruz	8.00%
Colusa	7.25%	Mono	7.25%	Capitola, Santa Cruz,	
Williams	7.75%	Mammoth Lakes	7.75%	Scotts Valley	8.50%
Contra Costa	8.25%	Monterey	7.375%	Watsonville	8.75%
Antioch, Concord, Hercules,		Gonzales, King City	7.875%	Shasta	7.25%
Orinda,	8.75%	Carmel-by-the-Sea, Marina,		Anderson	7.75%
Pittsburg		Monterey, Pacific Grove,	8.375%	Sierra	7.25%
San Pablo	9.00%	Sand City, Seaside, Soledad		Siskiyou	7.25%
Moraga, Pinole, Richmond	9.25%	Del Rey Oaks, Salinas	8.875%	Mount Shasta, Weed	7.50%
El Cerrito	9.75%	Greenfield	9.125%	Dunsmuir	7.75%
Del Norte	7.50%	Napa	7.75%	Solano	7.375%
El Dorado	7.25%	Nevada	7.375%	Vacaville	7.625%
Placerville,	7.75%	Grass Valley	7.875%	Rio Vista	8.125%
South Lake Tahoe		Truckee	8.125%	Benecia, Fairfield, Vallejo	8.375%
Fresno	7.975%	Nevada City	8.25%	Sonoma	8.00%
Reedley, Selma	8.475%	Orange	7.75%	Healdsburg, Rohnert Park,	
Sanger	8.725%	La Habra	8.25%	Santa Rosa, Sonoma	8.50%
Huron	8.975%	Stanton	8.75%	Sebastopol	8.75%
Glenn	7.25%	Placer	7.25%	Cotati	9.00%
Humboldt	7.75%	Plumas	7.25%	Stanislaus	7.375%
Arcata, Eureka, Trinidad	8.50%	Riverside	7.75%	Ceres, Oakdale	7.875%
Rio Dell	8.75%	Cathedral City, Coachella, Palm		Sutter	7.25%
Imperial	7.75%	Springs	8.75%	Tehama	7.25%
Calexico	8.25%	Sacramento	7.75%	Red Bluff	7.50%
Inyo	7.75%	Galt, Isleton,		Corning	7.75%
Kern	7.25%	Rancho Cordova,	8.25%	Trinity	7.25%
Ridgecrest	8.00%	Sacramento		Tulare	7.75%
Arvin, Delano	8.25%	San Benito	7.25%	Visalia	8.00%
Kings	7.25%	San Juan Bautista	8.00%	Farmersville, Porterville,	
Lake	7.25%	Hollister	8.25%	Tulare	8.25%
Clearlake, Lakeport	7.75%	San Bernardino	7.75%	Dinuba	8.50%
Lassen	7.25%	Montclair, San Bernardino	8.00%	Tuolumne	7.25%
Los Angeles	8.75%	San Diego	7.75%	Sonora	7.75%
Avalon, Commerce,		El Cajon, Vista	8.25%	Ventura	7.25%
Culver City, El Monte,		La Mesa	8.50%	Oxnard, Port Hueneme	7.75%
Inglewood,		National City	8.75%	Yolo	7.25%
San Fernando,	9.25%	San Francisco	8.50%	West Sacramento	7.75%
Santa Monica,		San Joaquin	7.75%	Woodland	8.00%
South El Monte		Manteca	8.25%	Davis	8.25%
Compton, La Mirada,		Lathrop, Stockton	8.75%	Yuba	7.25%
Long Beach, Pico Rivera,	9.75%	San Luis Obispo	7.25%	Wheatland	7.75%
South Gate		Arroyo Grande, Atascadero,		Marysville	8.25%
Madera	7.75%	Grover Beach, Morro Bay, Paso			
Marin	8.25%	Robles, Pismo Beach, San Luis	7.75%		
Novato	8.50%	Obispo			
Corte Madera, Fairfax,					
Larkspur, San Anselmo,	8.75%				
Sausalito					
San Rafael	9.00%				

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Since July 1, 2010, the General Fund portion of the sales tax no longer applies to gasoline. Taxable sales, excluding gasoline, increased by 5.7 percent in 2014-15. Based on preliminary data, it is estimated that taxable sales increased by 4.5 percent in 2015-16. Growth is expected to slow to 3.4 percent in 2016-17, followed by 4.2 percent in 2017-18.

A General Fund sales tax exemption for manufacturing equipment commenced July 1, 2014. The sales tax exemption applies to purchases of manufacturing or biotechnology research and development equipment, valued at up to \$200 million in qualifying purchases per business, per year. Utilization of this exemption was about \$170 million in 2015-16, and is forecast to be \$173 million in 2016-17 and \$185 million in 2017-18.

CORPORATION TAX

Corporation tax revenues are expected to contribute 8.8 percent of all General Fund revenues and transfers in 2017-18. Corporation tax revenues were \$9.9 billion in 2015-16 and are expected to increase by 4.9 percent to \$10.4 billion in 2016-17. In 2017-18, they are expected to increase by 4.7 percent to \$10.9 billion. These figures reflect a \$90 million reduction in both 2016-17 and 2017-18 due to the new managed care organizations tax.

Corporation tax revenues are expected to be lower than the Budget Act forecast by \$408 million in 2015-16, \$604 million in 2016-17, and \$666 million in 2017-18 due primarily to slower U.S. economic growth and wages pressuring corporate profits. Corporation tax receipts have been well below the Budget Act forecast and indicate that the growth in corporate profits is lower than the prior forecast.

INSURANCE TAX

Most insurance policies written in California are subject to a 2.35-percent gross premiums tax. This tax takes the place of all other state and local taxes on insurance companies except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less returned premiums. The insurance tax is expected to generate General Fund revenues of \$2.3 billion in 2016-17 and \$2.4 billion in 2017-18, respectively. These figures reflect a \$280 million reduction in both 2016-17 and 2017-18 due to the new managed care organization tax.

ALCOHOLIC BEVERAGE TAXES

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits. The tax rates per gallon are applied as follows: (1) \$0.20 for beer, dry wine, and sweet wine; (2) \$0.30 for sparkling wine; and (3) \$3.30 for distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total per capita consumption and population growth for each type of beverage. Overall, consumption of alcoholic beverages is expected to grow by about 0.5 percent in 2016-17 and 2017-18. Revenues from this tax were \$369 million in 2015-16 and are forecasted to be \$370 million in 2016-17 and \$372 million in 2017-18.

CIGARETTE TAX

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increases the excise tax rate on cigarettes and tobacco products, effective April 1, 2017. The excise tax increases by \$2 from 87 cents to \$2.87 per pack of 20 cigarettes on distributors selling cigarettes in California. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increases by \$2 from a \$1.37-equivalent to a \$3.37-equivalent tax. Lastly, Proposition 56 newly imposes the \$3.37-equivalent tobacco products tax on electronic cigarettes. The ad valorem excise tax rate on other tobacco products is calculated annually by the Board of Equalization based on the wholesale price of cigarettes and the excise tax on cigarettes.

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax and a rate equivalent to 87 cents levied on non-cigarette tobacco products is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.

REVENUE ESTIMATES

- As of April 1, 2017, two dollars of the per-pack tax and an equivalent rate levied on non-cigarette tobacco products goes to the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund for distribution according to the provisions of Proposition 56 of 2016 (see Health and Human Services Chapter for the allocation).

As of June 9, 2016, California raised the minimum age to legally purchase cigarettes and other tobacco products from 18 to 21 years, with an exemption for active-duty military personnel. Although raising the legal smoking age is expected to slow initiation rates among young smokers, the negative revenue impact is forecast to be small through 2017-18.

Projections of cigarette tax revenues are based on projected per capita consumption of cigarettes, population growth, and the impact from the higher smoking age as well as the increased prices due to Proposition 56. Revenue estimates for other tobacco products also reflect recent law changes. The revenue estimate for electronic cigarettes was based upon the experience in Minnesota, which has a similar tax structure on electronic cigarettes. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, anti-smoking campaigns (including state campaigns funded by Proposition 99 Tobacco Tax and Health Protection Act revenues and revenues from the Master Tobacco Settlement), and the 2009 federal cigarette tax rate increase have reduced cigarette consumption considerably. This decline is expected to accelerate with the passage of Proposition 56.

Annual per capita consumption (based on population ages 18-64) was 123 packs in 1989-90, 84 packs in 1997-98, and 35 packs in 2015-16. Due primarily to higher prices from Proposition 56, per capita consumption is forecast to decline to 26 packs in 2017-18, the first full fiscal year that Proposition 56 is in effect. Tax-paid packs of cigarettes were 860 million in 2015-16. In 2017-18, tax-paid packs of cigarettes are forecast to decline to 648 million.

Figure REV-11 shows the distribution of tobacco tax revenues for the General Fund and various special funds for 2015-16 through 2017-18.

Figure REV-11
Tobacco Tax Revenue
(Dollars in Millions)

	2015-16 Preliminary	2016-17 Forecast	2017-18 Forecast
General Fund	\$85.3	\$79.3	\$64.8
Cigarette and Tobacco Products Surtax Fund	276.3	261.0	221.7
Breast Cancer Fund	17.0	15.9	13.0
California Children and Families First Trust Fund	461.4	432.6	358.3
California Healthcare, Research and Prevention Tobacco Tax Act of 2016	0.0	367.9	1,433.2
Total	\$840.0	\$1,156.7	\$2,091.0

OTHER REVENUES

UNCLAIMED PROPERTY

The Budget reflects receipts of \$371 million in 2016-17 and \$378 million in 2017-18. These numbers reflect continuation of program outreach efforts to increase property holder awareness and compliance with Unclaimed Property Law.

INDIAN GAMING

The Budget reflects General Fund revenues from tribal gaming of \$345 million in 2015-16, \$203 million in 2016-17, and \$11 million in 2017-18. This decline reflects the approval of recent compacts which redirect payments away from the General Fund to dedicated funds.

LOAN REPAYMENTS TO SPECIAL FUNDS

The Budget reflects the repayment of loans to special funds based on the operational needs of the programs requiring these repayments. Total repayments are projected to be \$413 million and \$244 million in 2016-17 and 2017-18, respectively.

PROPERTY TAXES

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools generally offset General Fund expenditures.

REVENUE ESTIMATES

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of existing single-family homes rose by 6 percent in 2015, with activity in the 2015 calendar year driving fiscal year 2016-17 assessed valuations for property tax purposes. This is lower than the 10-percent increase in median sales prices that occurred in 2014. While both median prices and sales volumes declined slightly from 2014 to 2015, property tax revenues will continue to show positive growth. California real estate continues to be an attractive investment for rental property investors as well as long-term buyers. As long as this trend continues, it will have a positive impact on property valuations and, therefore, on property tax revenues.

Statewide property tax revenues are estimated to increase 5.9 percent in 2016-17 and 5.3 percent in 2017-18. Approximately 42 percent (\$27 billion) of 2017-18 property tax revenues will go to K-14 schools. While this amount includes \$1.4 billion that schools are expected to receive in 2017-18 due to the dissolution of the redevelopment agencies, it excludes the \$8.1 billion shifted from schools to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.

SPECIAL FUND REVENUE

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent.

Total special fund revenues are estimated to be \$51.7 billion in 2017-18. Taxes and fees related to motor vehicles are expected to comprise 27.4 percent of all special fund revenue in 2017-18. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2017-18, it is expected that about \$13.7 billion in revenues will be derived from the ownership or operation of motor vehicles.

MOTOR VEHICLE FEES

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver license, and other charges related to vehicle operation, including a proposed new road improvement charge

Figure REV-12
Motor Vehicle Fees Special Fund Revenue
 (Dollars in Thousands)

	2015-16 Preliminary	2016-17 Forecast	2017-18 Forecast
Vehicle License Fees	\$2,482,412	\$2,591,851	\$2,659,083
Registration, Weight, and Other Fees	4,327,069	4,431,823	4,814,235
Road Improvement Charge	0	0	1,066,000
Total	\$6,809,481	\$7,023,674	\$8,539,318

of \$65 per vehicle beginning July 1, 2017. Figure REV-12 displays revenue from these sources from 2015-16 through 2017-18.

The Vehicle License Fee (VLF) is imposed on vehicles that travel on public highways in California. The current VLF tax rate is 0.65 percent. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF collected. The total number of vehicles in California—autos, trucks, trailers, and motorcycles, including vehicles registered in multiple states—is estimated to be 32.8 million in 2016-17 and 32.7 million in 2017-18. The forecast projects that there will be 2.5 million new vehicles registered in both 2016-17 and 2017-18.

Beginning April 1, 2017, the base vehicle registration fee of \$43 is increasing by \$10 and is indexed to inflation. Including other fees in current law, the total vehicle registration fee will initially be \$80.

In addition to the VLF, truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales, weight fee revenues are expected to be \$1.07 billion in 2016-17 and increase 1.6 percent to \$1.08 billion in 2017-18.

MOTOR VEHICLE FUEL TAXES

The motor vehicle fuel tax, diesel fuel tax, and use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Over one-third of these revenues are apportioned to local jurisdictions for a broad range of local road projects, including both maintenance of existing roads and construction of new roads. In addition, some jurisdictions choose to spend a portion of their allocation on improvements to the state highway system in their region to decrease traffic congestion. Motor vehicle fuel tax collections are shown in Figure REV-13.

Figure REV-13

Motor Vehicle Fuel Tax Revenue

(Dollars in Thousands)

	2015-16 Preliminary	2016-17 Forecast	2017-18 Forecast
Gasoline ^{1/}	\$4,559,537	\$4,280,403	\$4,576,132
Diesel	441,002	523,500	534,368
Total	\$5,000,539	\$4,803,903	\$5,110,500

^{1/}Does not include jet fuel.

Gasoline consumption increased 2.7 percent in 2015-16 when compared to the prior fiscal year. While continued gains in the average fuel economy of cars and trucks on the road as well as the state's policies to reduce greenhouse gas emissions are expected to support long-term declines in gasoline consumption, lower gasoline prices are likely to lead to modest increases in gasoline consumption through 2016-17. Gasoline consumption is expected to increase 0.7 percent in 2016-17 and then decline 0.1 percent in 2017-18.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Robust industrial activity contributed to an increase of 3.7 percent in diesel consumption in 2015-16. Diesel consumption is expected to increase by 1.6 percent in 2016-17 and 0.5 percent in 2017-18.

The motor vehicle fuel tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 27.8 cents per gallon in 2016-17. The excise rate is adjusted annually so that the total amount of tax revenue generated is equal to what it would have been when gasoline was subject to the state sales tax rate. The Budget forecasts that the excise tax on gasoline will be 29.7 cents per gallon in 2017-18. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 16 cents per gallon in 2016-17. The excise rate is adjusted annually so that the total amount of tax revenue generated is neutral given the changes to the sales tax add-on for diesel fuel. Under current law, the sales tax rate add-on will remain 1.75 percent in 2017-18, and the Budget forecasts that the excise tax on diesel fuel will be adjusted to 16.3 cents per gallon in 2017-18. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

SUMMARY OF STATE TAX SYSTEM

The state's tax system is outlined at the end of this section in Figure REV-14. Tax collections per capita and per \$100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2017-18 is displayed in Schedule 3 in the Appendix.

Figure REV-14
**Outline of State Tax System
as of January 1, 2017**

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes				
Beer	Gallon	\$0.20	Equalization	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
Corporation				
General Corporation	Net income	8.84% ^{1/}	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65%	Franchise	General
Tobacco				
Cigarette	Package	\$2.87 ^{2/}	Equalization	See below ^{2/}
Other Tobacco Products	Wholesale cost	27.3% ^{3/}	Equalization	See below ^{3/}
Insurance				
Insurers	Gross Premiums	2.35% ^{4/}	Insurance Dept.	General
Managed Care Organization Tax	Number of enrollees	Various ^{5/}	Health Care Services	Health and Human Services Special Fund
Motor Vehicle				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	VLF, Local Revenue ^{6/}
Fuel—Gasoline	Gallon	\$0.278 ^{7/}	Equalization	Motor Vehicle Fuel ^{7/}
Fuel—Diesel	Gallon	\$0.16 ^{9/}	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$80.00	DMV	Motor Vehicle ^{10/}
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income				
	Taxable income	12.3% ^{11/}	Franchise	General
Proposition 63 Surcharge	Taxable income > \$1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
Retail Sales and Use	Sales or lease of taxable items	7.25% ^{12/}	Equalization	See below ^{12/}

^{1/}Minimum Tax is \$800 per year for existing corporations. New corporations are exempt for their first taxable year.

^{2/}This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, 50 cents/pack for the California Children and Families First Trust Fund, and \$2 for the California Healthcare, Research and Prevention Tobacco Tax Act of 2016. The additional \$2 excise tax will be effective as of April 1, 2017.

^{3/}The surtax rate is determined annually by the BOE and is equivalent to the combined rate of tax applied to cigarettes, with funding for the Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund. Effective July 1, 2016, through June 30, 2017, the rate is 27.3 percent of the wholesale cost.

^{4/}Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, certain health insurance, and nonadmitted insurance.

^{5/}From July 1, 2016 to June 30, 2019, a tax is levied on health care plans at various rates based on enrollment in each applicable health plan using October 2014 to September 2015 data.

^{6/}For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

^{7/}As part of the fuel tax swap implemented beginning July 1, 2010, this rate was increased from 18 cents and will be adjusted each year to maintain revenue neutrality with the elimination of the General Fund portion of the sales tax on gasoline.

^{8/}For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

^{9/}As part of the fuel tax swap, this rate will be adjusted each year to maintain revenue neutrality with the 1.75% increase in sales tax on diesel fuel beginning July 1, 2014.

^{10/}For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs. A \$10 increase included above is effective April 1, 2017.

^{11/}Proposition 30 was passed by the California voters in November 2012. Proposition 30, for tax years 2012 through 2018, created three new income tax brackets with rates of 10.3 percent for taxable income over \$250,000, 11.3 percent for taxable income over \$300,000, and 12.3 percent for taxable income over \$500,000.

^{12/}The 7.25-percent rate includes the rates for General Fund, Special Funds, and uniform local rates. Additionally, cities and counties may generally assess up to an additional 2.00 percent to the statewide rate.