

REVENUE ESTIMATES

Overall, the May Revision forecast for 2015-16 through 2017-18 revenues has increased by \$2.5 billion. There are three factors that largely contribute to this increase:

- Personal income tax receipts are up \$2.9 billion due to the recent strong stock market performance, which is forecast to increase capital gains significantly in 2017. To a lesser extent, a renewed concentration of wage income among higher-income taxpayers and stronger growth in business income positively impacted the personal income tax forecast.
- Sales tax revenues were revised down by \$1.2 billion, reflecting weak cash receipts.
- An increase of \$400 million in corporation tax revenues due largely to lower refunds and higher payments related to prior years.

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 \$225 million in 2016-17 and higher by \$1.9 billion in 2017-18.

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 \$118.5 billion in 2016-17 and \$125.9 billion in 2017-18.

Figure REV-01
2017-18 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 15-16				
Personal Income Tax	\$78,947	\$78,735	-\$212	-0.3%
Sales & Use Tax	24,890	24,871	-19	-0.1%
Corporation Tax	9,902	10,460	557	5.6%
Insurance Tax	2,562	2,562	0	0.0%
Alcoholic Beverage	369	369	0	0.0%
Cigarette	85	85	0	0.0%
Pooled Money Interest	41	41	0	0.0%
Other Revenues	1,742	1,742	0	0.0%
Subtotal	\$118,538	\$118,864	\$326	
Transfers ^{1/}	-3,038	-3,205	-166	5.5%
Total	\$115,500	\$115,660	\$160	0.1%
Fiscal 16-17				
Personal Income Tax	\$83,136	\$83,161	\$25	0.0%
Sales & Use Tax	24,994	24,494	-500	-2.0%
Corporation Tax	10,389	10,210	-178	-1.7%
Insurance Tax	2,309	2,483	174	7.6%
Alcoholic Beverage	370	375	4	1.1%
Cigarette	79	79	0	0.0%
Pooled Money Interest	60	67	7	11.9%
Other Revenues	1,104	1,184	80	7.3%
Subtotal	\$122,441	\$122,054	-\$387	
Transfers ^{1/}	-3,676	-3,514	162	-4.4%
Total	\$118,765	\$118,540	-\$225	-0.2%
Fiscal 17-18				
Personal Income Tax	\$85,866	\$88,961	\$3,095	3.6%
Sales & Use Tax	25,179	24,470	-710	-2.8%
Corporation Tax	10,878	10,894	17	0.2%
Insurance Tax	2,368	2,538	169	7.1%
Alcoholic Beverage	372	377	5	1.2%
Cigarette	65	65	0	0.1%
Pooled Money Interest	97	106	9	9.5%
Other Revenues	913	904	-9	-1.0%
Subtotal	\$125,738	\$128,316	\$2,577	
Transfers ^{1/}	-1,711	-2,404	-693	40.5%
Total	\$124,027	\$125,912	\$1,884	1.5%
Three-Year Total			\$1,819	

Note: Numbers may not add due to rounding.
^{1/} Includes transfers to the Budget Stabilization Account (BSA) 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 2.2 percent. While the forecast does not project a recession, the current expansion has already exceeded the average post-World War II expansion by almost three years.

Figure REV-02 shows the forecast for the largest three General Fund revenues from 2015-16 through 2020-21. Total General Fund revenue from these sources is expected to grow from \$114.1 billion in 2015-16 to \$136.8 billion in 2020-21. The average year-over-year growth rate over this period is 3.7 percent.

Figure REV-02
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	\$78.7	\$83.2	\$89.0	\$91.2	\$93.8	\$96.9	4.2%
Sales and Use Tax	\$24.9	\$24.5	\$24.5	\$25.7	\$26.6	\$27.6	2.1%
Corporation Tax	\$10.5	\$10.2	\$10.9	\$11.2	\$11.8	\$12.3	3.2%
Total	\$114.1	\$117.9	\$124.3	\$128.1	\$132.2	\$136.8	3.7%
Growth	4.4%	3.3%	5.5%	3.1%	3.2%	3.5%	

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. Over 300,000 households have claimed the EITC so far this year. Credit usage is estimated at \$200 million in tax year 2016 and also in tax years 2017 and 2018 as the job market remains strong.

PERSONAL INCOME TAX

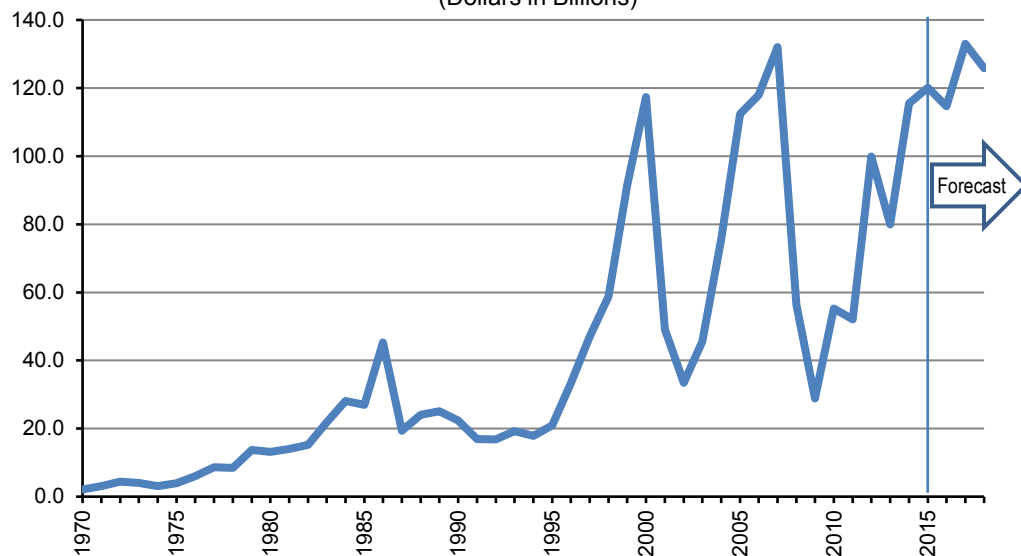
Compared to the Governor's Budget forecast, the personal income tax forecast is lower by \$212 million in 2015-16, and higher by \$25 million in 2016-17 and \$3.1 billion

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in 2017-18. Over the three-year period, the personal income tax forecast reflects a total increase of \$2.9 billion.

Stock market values have increased to record highs since the Governor’s Budget, resulting in a significant increase to the capital gains forecast from \$110 billion to \$133 billion in 2017 and \$107 billion to \$126 billion in 2018 (see Figure REV-03). Capital gains for 2016 is nearly unchanged while 2015 was revised higher from \$118 billion to \$120 billion, based on new FTB taxpayer data for 2015. Capital gains are forecast to return to a normal level of 4.5 percent of personal income by 2020, two years later than assumed at the Governor’s Budget.

Figure REV-03
Volatile Capital Gains on the Rise
 (Dollars in Billions)



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 will end 2017 at 2,401 and then grow around 1 percent per year for the next several years. The longer-term growth rate assumption has been lowered compared to the Governor’s Budget to reflect the market’s higher valuation. While the growth assumption is lower, projected S&P 500 levels are significantly higher in the near term due to recent market gains.

In addition to the upward revision to capital gains beginning in 2017, stronger business income and a renewed concentration of wage growth among higher-income taxpayers increased the personal income tax forecast. Withholding growth has been strong through April and has been outpacing economic wage growth, suggesting that a higher proportion of taxable wages has been going to higher-income earners who pay higher tax rates.

The personal income tax forecast includes Proposition 30 revenues, which are estimated at \$7 billion in 2016-17 and \$7.3 billion in 2017-18. These are higher than the Governor's Budget by \$233 million and \$411 million, respectively. Proposition 30 revenues are higher due to the factors discussed above.

The highest-income Californians pay a large share of the state's personal income tax. For the 2015 tax year, the top 1 percent of income earners paid nearly 48 percent of personal income taxes. This percentage has been greater than 40 percent for 11 of the last 12 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 decreases of \$500 million in 2016-17, and \$710 million in 2017-18. The forecast includes Proposition 30 revenues totaling \$1.5 billion in 2015-16 and \$800 million in 2016-17. The sales tax portion of Proposition 30 ended at the end of 2016, halfway through 2016-17.

The level of wages has been revised downward, and cash receipts have been significantly below forecast. Weak business spending, lower housing permits, and inflation in housing and medical costs are likely contributing to lower sales tax revenues. Taxable sales are forecast to grow at 1.5 percent in 2016-17 and 3.7 percent in 2017-18, which are below-average growth rates.

CORPORATION TAX

The corporation tax forecast reflects an increase of \$557 million in 2015-16, a decrease of \$178 million in 2016-17, and an increase of \$17 million in 2017-18. Cash receipts in 2016-17 are above forecast due primarily to lower refunds and higher payments related to prior year returns. These refunds and payments accrue to 2015-16 and increase revenues in that fiscal year. The negative revenue impact of the changes to the financing structure

for managed care organizations is forecast to be \$90 million in 2016-17 and \$90 million in 2017-18, unchanged from the Governor's Budget.

INSURANCE TAX

The insurance tax forecast reflects an increase of \$174 million in 2016-17 and \$169 million in 2017-18. The bulk of this increase assumes a change in the estimate of the revenue reduction tied to the financing structure for managed care organizations.

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 TAX

The May Revision estimates statewide property tax revenues will increase 4.9 percent in 2016-17 and 5.4 percent in 2017-18. The 2016-17 estimate is down from the 5.9 percent estimated in the Governor's Budget, while the 2017-18 estimate is essentially unchanged. The 2016-17 estimate is based on actual property tax receipts reported by K-12 schools, county offices of education, and the California Community Colleges. Roughly 42 percent (\$27.2 billion) of total property tax revenues will go to K-14 schools and county offices of education in 2017-18.