Revenue Estimates

Overall, the May Revision forecast for 2016-17 through 2018-19 revenues has increased by $8 billion before accounting for transfers. There are three factors that largely contribute to this increase over the forecast window:

- Personal income tax revenues are revised upwards almost $4.4 billion due to the strong stock market at the end of 2017, higher wages, and stronger concentration of wage income among higher-income taxpayers. Although the stock market is forecast to be flat over the foreseeable future, the end-of-2017 stock market rally increases capital gains throughout the forecast.
- Sales tax receipts are up by $744 million due to an acceleration in investment by businesses as well as an increase in consumption. The increase in investment is tied to the recently adopted federal tax law.
- Corporation tax revenues are up over $2.5 billion based on corporate tax receipts received through April, including higher-than-expected audit-related payments, revenues from repatriation of foreign earnings associated with the federal tax changes, and an improved outlook for corporate profits.

After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, General Fund revenues at the May Revision forecast are higher than the Governor's Budget by almost $2.6 billion in 2017-18 and over $3.7 billion in 2018-19.

Figure REV-01 compares the revenue forecasts by source in the Governor's Budget to the May Revision. Total May Revision revenues, including transfers, is projected to be $129.8 billion in 2017-18 and $133.5 billion in 2018-19.

Figure REV-01
2018-19 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 16-17				
Personal Income Tax	$82,857	$83,264	$407	0.5%
Sales & Use Tax	24,872	24,874	1	0.0%
Corporation Tax	10,116	11,020	903	8.9%
Insurance Tax	2,422	2,422	0	0.0%
Alcoholic Beverage Tax	368	368	0	0.0%
Cigarette Tax	80	80	0	0.0%
Pooled Money Interest	89	89	0	0.0%
Other Revenues	1,304	1,304	0	0.0%
Subtotal	$122,110	$123,422	$1,312	
Transfers [1/]	-3,441	-3,441	0	0.0%
Total	**$118,669**	**$119,982**	**$1,313**	1.1%
Fiscal 17-18				
Personal Income Tax	$89,403	$91,971	$2,568	2.9%
Sales & Use Tax	25,165	25,384	219	0.9%
Corporation Tax	10,656	11,246	590	5.5%
Insurance Tax	2,438	2,514	76	3.1%
Alcoholic Beverage Tax	376	371	-5	-1.4%
Cigarette Tax	65	67	2	2.5%
Pooled Money Interest	185	203	19	10.2%
Other Revenues	1,002	1,071	69	6.9%
Subtotal	$129,289	$132,827	$3,537	
Transfers [1/]	-2,038	-3,002	-964	47.3%
Total	**$127,252**	**$129,825**	**$2,573**	2.0%
Fiscal 18-19				
Personal Income Tax	$93,593	$95,009	$1,416	1.5%
Sales & Use Tax	26,151	26,674	523	2.0%
Corporation Tax	11,224	12,248	1,024	9.1%
Insurance Tax	2,508	2,576	68	2.7%
Alcoholic Beverage Tax	382	377	-5	-1.2%
Cigarette Tax	63	65	2	2.5%
Pooled Money Interest	294	374	80	27.2%
Other Revenues	908	994	86	9.4%
Subtotal	$135,123	$138,317	$3,194	
Transfers [1/]	-5,331	-4,804	527	-9.9%
Total	**$129,791**	**$133,513**	**$3,722**	2.9%
Three-Year Total			**$7,608**	

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 improved U.S. real gross domestic product growth of close to 3 percent in 2018 and 2019. The projected average growth rate starting in 2020 then falls to 1.9 percent. While the forecast does not project a recession, the risks to the outlook are now higher, as discussed in the Economic Outlook Chapter.

Figure REV-02 shows the forecast for the largest three sources of General Fund revenues from 2016-17 through 2021-22. Total General Fund revenues from these sources is expected to grow from $119.2 billion in 2016-17 to $145.9 billion in 2021-22. The average year-over-year growth rate over this period is 4.1 percent.

Figure REV-02

Long-Term Revenue Forecast — Three Largest Sources

(General Fund Revenue — Dollars in Billions)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Average Year-Over-Year Growth
Personal Income Tax	$83.3	$92.0	$95.0	$98.1	$100.1	$102.5	4.2%
Sales and Use Tax	$24.9	$25.4	$26.7	$28.0	$28.8	$29.6	3.5%
Corporation Tax	$11.0	$11.2	$12.2	$12.8	$13.3	$13.8	4.6%
Total	**$119.2**	**$128.6**	**$133.9**	**$138.9**	**$142.3**	**$145.9**	4.1%
Growth	4.5%	7.9%	4.1%	3.7%	2.4%	2.6%	

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. The 2017 Budget expanded the credit to include self-employed workers and expanded the income range so more individuals working up to full-time at the newly increased minimum wage will still qualify. About $350 million in Earned Income Tax Credit is expected to be granted to 1.5 million households this year. The May Revision includes a proposal to expand the credit to working individuals who are aged 18 to 24 or over age 65. In addition, the income range is proposed to be expanded so that more employees working up to full-time at the 2019 minimum wage of $12 per hour would qualify for the credit. This expansion of the credit is expected to cost about $60 million in 2018-19 and to benefit over 700,000 households.

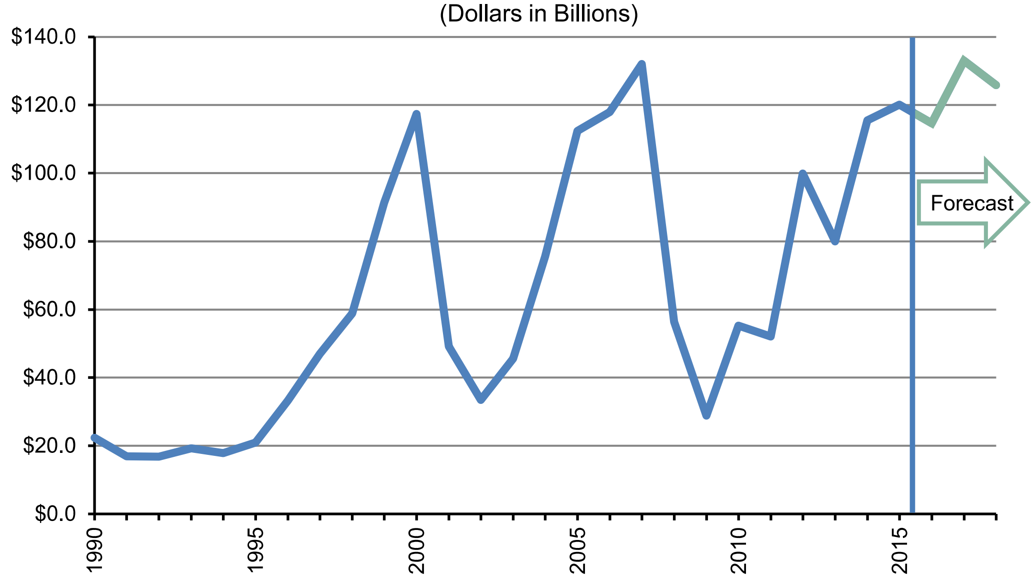
Personal Income Tax

Compared to the Governor's Budget forecast, the personal income tax forecast is higher by $407 million in 2016-17, $2.6 billion in 2017-18, and $1.4 billion in 2018-19. Over the three-year period, the personal income tax forecast reflects a total increase of $4.4 billion.

Despite stock market volatility early in 2018, stock market values are still above the Governor's Budget assumptions, leading to a further increase in the capital gains forecast from $129 billion to $135 billion in 2017 and $133 billion to $140 billion in 2018 (see Figure REV-03). Capital gains for 2016 were revised higher from $107 billion to $113 billion, based on new Franchise Tax Board taxpayer data for 2016. Capital gains are forecast to return to a normal level of 4.5 percent of personal income by 2021, unchanged from the Governor's Budget.

Forecasting revenues associated with capital gains is subject to significant uncertainty because 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 2018 at 2,670 and then be flat for the following years.

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



Higher wage income, business income, and a concentration of wage growth among higher-income taxpayers also 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 strong growth in 2018 withholding is expected to moderate for the remainder of calendar year 2018, as a portion of the growth seen so far is likely due to one-time bonus payments as a result of the federal tax law changes.

The personal income tax forecast includes Propositions 30 and 55 revenues, which are estimated at $7.9 billion in 2017-18 and $8.1 billion in 2018-19. These estimates are higher than the Governor's Budget by $105 million and $199 million, respectively. These 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 2016 tax year, the top one percent of income earners paid nearly 46 percent of personal income taxes. This percentage has been greater than 40 percent for 12 of the last 13 years. The top 0.1 percent of income earners—approximately 15,000 taxpayers—paid around a quarter of personal income taxes—$18 billion.

Sales and Use Tax

The sales tax forecast is higher by $219 million in 2017-18, and $523 million in 2018-19, primarily due to stronger growth in capital investment as a result of the federal tax law changes. Taxable sales are forecast to grow at 5.8 percent in 2017-18 and 5.6 percent in 2018-19, which are over a percentage point above the Governor's Budget. Along with higher business investment in 2018 and 2019, the sales tax forecast for cannabis has also been revised higher, although there is considerable uncertainty associated with this industry.

Corporation Tax

The corporation tax forecast is higher by $903 million in 2016-17, $590 million in 2017-18, and $1 billion in 2018-19. Payments related to the 2017 tax year were higher than forecast at the Governor's Budget, leading to an upward revision in the forecast for corporate profits. In addition, unusually large audit-related payments and lower refunds accrue to the prior year and increase 2016-17 revenues. The corporation tax forecast was increased by $50 million in 2017-18 and $150 million in 2018-19 due to the expected repatriation of overseas profits as a result of the federal tax law changes. The revenue impact of the financing structure for managed care organizations is unchanged from the Governor's Budget.

Insurance Tax

The insurance tax forecast is higher by $76 million in 2017-18 and $68 million in 2018-19 due to moderately higher cash receipts. The revenue impact of the financing structure for managed care organizations is unchanged from the Governor's Budget.

Loan Repayments to Special Funds

The May Revision 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 $128 million and $186 million in 2017-18 and 2018-19, respectively.

Property Tax

The property tax is a local revenue source; however, 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.

Preliminary data shows statewide property tax revenues increased 5.7 percent in 2017-18, which is slightly lower than the 5.9-percent growth rate anticipated at the Governor's Budget. Property tax revenues are expected to grow 5.6 percent in 2018-19. Approximately 42 percent ($29.3 billion) of 2018-19 property tax revenues will go to K-14 schools. While this amount includes $1.6 billion that schools are expected to receive in 2018-19 due to the dissolution of redevelopment agencies, it excludes the $8.5 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.