

REVENUE ESTIMATES

Continued moderate growth in California's economy is expected to produce an improvement in General Fund revenue through the period covered by the Budget. In addition to improving economic conditions, the passage of Proposition 30, The Schools and Local Public Safety Protection Act of 2012, and Proposition 39, The California Clean Energy Jobs Act, increased revenue since the 2012 Budget Act. Together, Propositions 30 and 39 are expected to generate \$5.8 billion of General Fund revenue in 2012-13, or 6.1 percent of total General Fund revenue, and a total of \$7.2 billion of General Fund revenue in 2013-14, or 7.3 percent of total General Fund revenue.

- Proposition 30 is estimated to increase Personal Income Tax revenues by \$3.2 billion in 2011-12, \$4.8 billion in 2012-13, and \$4.9 billion in 2013-14. It is estimated to increase Sales and Use Tax revenues by \$611 million in 2012-13 and \$1.3 billion in 2013-14.
- Proposition 39 is estimated to increase Corporation Tax revenue by \$440 million in 2012-13 and \$900 million in 2013-14.

Figure REV-01 displays the forecast changes between the 2012 Budget Act and the 2013 budget forecast. Revenue is expected to be \$95.4 billion in 2012-13 and \$98.5 billion in 2013-14. Over the budget window, this is an increase of \$2.1 billion, due primarily to a higher forecast for Personal Income Tax. Sales Tax revenue is projected to increase slightly relative to the 2012 Budget Act, while expected Corporate Tax revenues have dropped, even with the additional revenue from Proposition 39. Revenue for 2012-13

Figure REV-01
2013-14 Governor's Budget
General Fund Revenue Forecast
Summary Table
Reconciliation with the 2012-13 Budget Act
(Dollars in Millions)

Source	Budget Act	Governor's Budget (a)	Change From Budget Act Forecast	
Fiscal 11-12: Preliminary				
Personal Income Tax	\$52,958	\$53,836	\$878	1.7%
Sales & Use Tax	18,921	18,652	-\$269	-1.4%
Corporation Tax (b)	8,208	7,949	-\$259	-3.2%
Insurance Tax	2,148	2,165	\$17	0.8%
Vehicle License Fees	70	70	\$0	0.0%
Alcoholic Beverage	331	346	\$15	4.5%
Cigarette	93	95	\$2	2.2%
Other Revenues	2,316	2,448	\$132	5.7%
Transfers	1,784	1,509	-\$275	-15.4%
Total	\$86,830	\$87,071	241	0.3%
Fiscal 12-13				
Personal Income Tax	\$60,268	\$60,647	\$379	0.6%
Sales & Use Tax	20,605	20,714	\$109	0.5%
Corporation Tax (b)	8,488	7,580	-\$908	-10.7%
Insurance Tax	2,089	2,022	-\$67	-3.2%
Vehicle License Fees	3	4	\$1	33.3%
Alcoholic Beverage	337	320	-\$17	-5.0%
Cigarette	90	91	\$1	1.1%
Other Revenues (c)	2,419	2,216	-\$202	-8.4%
Transfers	1,588	1,800	\$212	13.3%
Total	\$95,887	\$95,394	-493	-0.5%
Change from Fiscal 11-12	\$9,057	\$8,323		
% Change from Fiscal 11-12	10.4%	9.6%		
Fiscal 13-14				
Personal Income Tax	\$60,234	\$61,747	\$1,513	2.5%
Sales & Use Tax	23,006	23,264	\$258	1.1%
Corporation Tax (b)	8,931	9,130	\$199	2.2%
Insurance Tax	2,110	2,198	\$88	4.2%
Vehicle License Fees	0	0	\$0	---
Alcoholic Beverage	343	326	-\$17	-5.0%
Cigarette	87	89	\$2	2.3%
Other Revenues (c)	2,709	1,770	-\$939	-34.7%
Transfers	-1,303	-23	\$1,280	-98.2%
Total	\$96,117	\$98,501	2,384	2.5%
Change from Fiscal 12-13	\$230	\$3,106		
% Change from Fiscal 12-13	0.2%	3.3%		
Three-Year Total			\$2,132	

(a) For purposes of this table, and throughout this chapter, revenue raised through Proposition 30 and transferred into the Education Protection Account are counted as part of General Fund revenue.

(b) The Corporation Tax forecast for the Governor's Budget includes the impact of Proposition 39, which requires multi-state corporations to use the single sales factor method of apportionment. The proposition is expected to generate additional revenue of \$440 million in 2012-13 and \$900 million in 2013-14. This revenue was not included in the Budget Act forecast.

(c) Other Revenues includes revenue from the state's pick-up estate tax. The Federal Estate Tax, to which the state's tax is linked, was presumed to be reinstated on January 1, 2013. As such the estate tax was estimated to generate \$45 million of General Fund revenue in 2012-13 and \$290 million of General Fund revenue in 2013-14. However, given federal uncertainty, the Budget did not assume any net revenue from the estate tax.

is forecast to be lower than was previously forecast by \$493 million. If the additional revenue from Proposition 39 is backed out, the 2012-13 General Fund revenue forecast is \$933 million below the previous forecast. Revenue for 2013-14 is forecast to be about \$2.4 billion greater than the amount forecast at the time of the 2012 Budget Act. When the revenue from Proposition 39 is backed out, the 2013-14 General Fund revenue forecast is \$1.5 billion above the amount forecast for the 2012 Budget Act. The \$98.5 billion in General Fund revenue forecast for 2013-14 is still \$4 billion less than the General Fund revenue of \$102.6 billion received in 2007-08, the state's peak revenue year.

The forecast includes a shift of capital gains, dividends, and wages from 2013 into 2012 as a result of the expected increase in federal tax rates. The Budget forecast was prepared in early December, before individuals and corporations made final withholding and estimated payments for the 2012 tax year, and before consumers completed their December purchases. The timing of these receipts, coupled with newly enacted changes to the tax system, including Propositions 30 and 39, can have a large impact on state revenues. Additionally, this forecast was finalized before any steps were taken at the federal level to address the pending automatic federal tax increases and automatic spending reductions. The manner in which that situation is resolved could have a significant impact on the nation's and the state's economic recovery, and on expected revenue. The May Revision forecast will reflect more current information, including April tax receipts.

LONG-TERM FORECAST

Figure REV-02 shows the forecast for the three largest General Fund revenues from 2011-12 through 2016-17. Total General Fund revenue from these sources is expected to grow from \$80.4 billion in 2011-12 to \$113.2 billion in 2016-17. The average year-over-year growth rate for this period is 4.8 percent.

The economic forecast reflects modest but steady growth over the next five years. The projected average growth rate in Gross Domestic Product over the next five years is 2.7 percent, a slightly slower rate than normal for an economic expansion. With the exception of a decrease in the forecast of proprietors' income and national corporate profits, most key drivers of the revenue forecast, such as total personal income, unemployment rate, wages, and the S&P 500, are projected to be slightly improved in both the short- and long-term compared to projected levels or growth rates for the Budget Act forecast.

Figure REV-02
Long-Term Revenue Forecast - Three Largest Sources
 (General Fund Revenue - Dollars in Billions)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	average year over year growth
Personal Income Tax	\$53.8	\$60.6	\$61.7	\$67.6	\$72.0	\$75.3	7.3%
Sales and Use Tax (a)	\$18.7	\$20.7	\$23.3	\$24.9	\$26.7	\$27.3	1.5%
Corporation Tax	\$7.9	\$7.6	\$9.1	\$9.7	\$10.2	\$10.6	2.3%
Total	\$80.4	\$88.9	\$94.1	\$102.1	\$108.9	\$113.2	4.8%
Growth	-6.5%	10.6%	5.8%	8.5%	6.6%	4.0%	

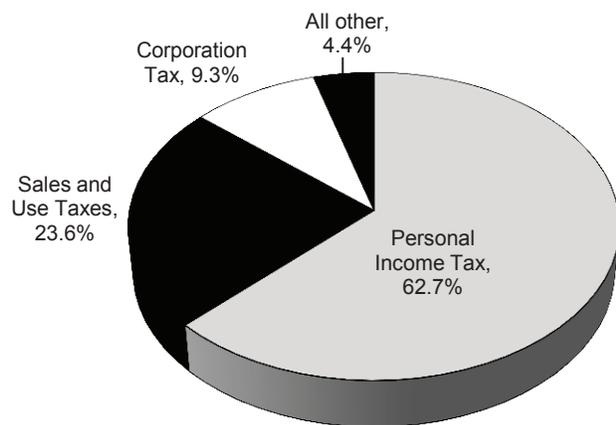
(a) Includes 2011 Realignment of General Fund revenues to locals.

The total revenue generated by these three sources has grown at an average annual rate of 4.5 percent since 1987. This forecast estimates an increase in General Fund revenue of 10.6 percent in 2012-13, 5.8 percent in 2013-14, 8.5 percent in 2014-15, and 6.6 percent in 2015-16. This year-to-year growth pattern reflects, in part, the expiration of temporary taxes and the potential behavioral impact of federal tax law changes, as well as the phase-in of recent tax law changes.

GENERAL FUND REVENUE

In 2013-14, General Fund revenues and transfers represent 71 percent of total revenues reported in the Budget. Figure REV-03 shows the breakdown of General Fund revenues by taxation type. The remaining 29 percent consists of special fund revenues dedicated to specific programs.

Figure REV-03
2013-14 General Fund Revenues and Transfers = \$98.5 Billion



PERSONAL INCOME TAX

The Personal Income Tax (PIT) is the state's largest single revenue source, accounting for 62.7 percent of all General Fund revenues and transfers in 2013-14.

Proposition 30 created three new 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. These new tax brackets are scheduled to be in effect for seven years—tax years 2012 to 2018. Modeled closely on the federal income tax law, California's PIT is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over much of the income spectrum. For the 2011 tax year, the marginal rates ranged from 1 percent to 9.3 percent. From 2012 to 2018, the highest marginal rate will be 12.3 percent.

Income ranges for all tax rates are adjusted annually by the change in the California Consumer Price Index. This prevents taxpayers from moving into higher tax brackets because of inflation without an increase in real income. For the 2012 tax year, this adjustment was a 1.9 percent increase. For the 2013 tax year, the adjustment is projected to be an increase of 2.1 percent. The largest income source for the PIT is wages and salaries. In 2010, taxes attributable to wages and salaries accounted for over 63 percent of PIT revenues. Based on the economic forecast, wages and salaries are expected to rise by an average of 6.2 percent in 2012, followed by 4.6 percent growth in 2013, and 5.7 percent in 2014.

The highest income Californians pay a large share of the state's PIT taxes. For the 2010 tax year, the top 1 percent of income earners paid 40.9 percent of PIT taxes, down from the recent high of 48.1 percent in 2007. The share of total adjusted gross income for this top 1 percent group has increased from 13.8 percent in 1993, to 21.3 percent in 2010. Changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues. In particular, capital gains income is concentrated among the high income earners and can fluctuate significantly from year to year. In the period from 2003 to 2007, capital gains realizations almost tripled from \$45.6 billion to \$132 billion. Over the next two years they fell to \$28.8 billion. Gains from that low point increased 92 percent in 2010 and are estimated to have increased another 23 percent to \$68 billion in 2011, just over half of what they were at the peak. Capital gains are expected to see continued growth in the coming years, rising to \$83 billion by 2014. Figure REV-04 shows the portion of General Fund revenues from capital gains.

Figure REV-04
Capital Gains
As a Percent of General Fund Revenues
(Dollars in Billions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^P	2012 ^e	2013 ^e
	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Capital Gains Realizations	\$45.6	\$75.5	\$112.4	\$117.9	\$132.0	\$56.3	\$28.8	\$55.3	\$68.0	\$87.1	\$62.7
Capital Gains Tax	\$4.1	\$6.8	\$10.1	\$10.6	\$11.9	\$5.1	\$2.6	\$5.0	\$6.1	\$8.7	\$6.3
Total General Fund Revenues and Transfers	\$74.9	\$82.2	\$93.5	\$95.5	\$99.2	\$82.8	\$87.0	\$93.4	\$87.1	\$95.4	\$98.5
Capital Gains Tax as Percent of General Fund Revenues & Transfers	5.5%	8.3%	10.8%	11.1%	12.0%	6.1%	3.0%	5.3%	7.0%	9.1%	6.4%

^P Preliminary

^e Estimated

Note: Totals may not add due to rounding and exclude revenues from economic recovery bonds.

Consistent with current law, the Budget reflects the potential behavioral impacts of federal tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 reduced taxes for dividend income, capital gains, and other income. These tax reductions were set to expire after 2010. However, late in 2010, they were extended through 2012. In addition, a 3.8 percent surtax on specified unearned income will go into effect on January 1, 2013. The Budget assumes that in 2012 some taxpayers will respond to the potential rate changes by accelerating 20 percent of 2013 capital gains into 2012. It is also assumed that 10 percent of 2013 dividends and 1.1 percent of wages will be accelerated to 2012. These changes are projected to increase 2012-13 revenues by \$1.8 billion and to reduce 2013-14 revenues by a similar amount.

On May 18, 2012, Facebook, a California corporation, had an initial public offering (IPO) and began trading on the public market. As a result of the Facebook IPO, the Department of Finance prepared estimates for the California PIT revenues related to the sales of stock at the IPO by early investors, the exercise of options at the IPO, the vesting of restricted stock units beginning about six months following the IPO, and the potential exercise of certain stock options following the IPO. Revenues from these sources is estimated to be around \$1.3 billion over the three fiscal years from 2011-12 to 2013-14, with the majority in 2012-13 and already received. Sales of stock by early investors, insiders, and employees occurring after the expiration of lock-up periods following the IPO are not included in this \$1.3 billion estimate. Based on lower than expected share prices, this estimate is down from the \$1.9 billion estimated at the time of the Budget Act.

A portion of PIT revenue is for dedicated purposes and 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 service programs. Revenues of \$1.2 billion are estimated for the 2011-12 fiscal year. Annual revenues of \$1.3 billion for 2012-13, and \$1.2 billion for 2013-14 are projected. The General Fund and the Mental Health Services Fund shares of PIT revenues for 2011-12 through 2013-14 are shown in Figure REV-05.

Figure REV-05
Personal Income Tax Revenue
(Dollars in Thousands)

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
General Fund	\$53,836,409	\$60,647,000	\$61,746,816
Mental Health Services Fund	1,188,026	1,349,000	1,194,000
Total	\$55,024,435	\$61,996,000	\$62,940,816

SALES AND USE TAX

The Sales and Use Tax (sales tax) is expected to generate General Fund revenues of \$20.7 billion in 2012-13 and \$23.3 billion in 2013-14. Receipts from the sales tax, the state's second largest revenue source, are expected to contribute 23.6 percent of all General Fund revenues and transfers in 2013-14.

- Beginning in fiscal year 2012-13, the figures include forecasted revenue related to the recent passage of Proposition 30, which increased the sales tax rate by 0.25 percentage point from January 1, 2013, to December 31, 2016.
- Effective September 15, 2012, the state modified the application of the use tax by expanding the definition of a "retailer engaged in business in this state". Specifically, this law imposes a use tax collection responsibility for certain out-of-state retailers, particularly internet retailers, who meet specified criteria. The Budget assumes \$107 million in General Fund revenue for 2012-13, and \$150 million for 2013-14 due to this law change.

Figure REV-06 displays total Sales and Use Tax revenues for the General Fund, and various special funds, for 2011-12 through 2013-14.

Figure REV-06
Sales Tax Revenue
 (Dollars in Thousands)

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
General Fund	\$18,652,000	\$20,714,000	\$23,264,000
Sales and Use Tax-1991 Realignment	2,696,778	2,858,693	3,057,816
Sales and Use Tax-2011 Realignment	5,286,295	5,508,134	5,924,240
Public Transportation Account	588,803	635,759	610,777
Economic Recovery Fund	1,312,362	1,399,700	1,496,100
Total	\$28,536,238	\$31,116,286	\$34,352,933

Figure REV-07 displays the individual elements of the state and local sales tax rates.

Figure REV-08 shows combined state and local tax rates for each county including special rates for certain cities within those counties.

General Fund revenues beginning in 2010-11 do not include any sales taxes collected from the sale of gasoline because of the fuel tax swap implemented on July 1, 2010, which exempted fuel sales from the General Fund portion of the sales tax (see the Motor Vehicles Fuel Tax section).

Taxable sales, including sales of gasoline, increased by 7.7 percent in 2010-11. Based on preliminary data, it is estimated that taxable sales have increased by 8.3 percent in 2011-12. Growth is expected to continue at 6 percent in 2012-13, followed by 7 percent in 2013-14.

Through the first two quarters of calendar year 2011, the largest contributors to the sales tax base were wholesale trade at 11.5 percent, gasoline stations at 11 percent, and food services and establishments serving alcoholic beverages at 10.8 percent. Other significant contributors to the sales tax base include sales by motor vehicle and parts dealers at 10.5 percent and general merchandise stores at 8.8 percent.

Approximately two-thirds of the sales tax is related to consumer spending and paid by households. Such purchases are influenced by employment trends and interest rates. Given that much of the sales tax base is comprised of nonessential purchases that can be postponed or cancelled, consumer confidence can have a significant impact on sales tax revenues. The remaining approximately one-third of the sales tax is paid on purchases by businesses. This component, too, is governed by businesses' perceptions of economic

Figure REV-07

2012-13 State and Local Sales and Use Tax Rates (as of January 1, 2013)**State Rates**

General Fund	4.19%	The permanent rate of 3.94% may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. As of January 1, 2013, Proposition 30 temporarily adds 0.25 percent to the General Fund rate.
Local Revenue Fund 2011	1.06%	Revenues attributable to a rate of 1.0625 percent is dedicated to the Local Revenue Fund 2011.
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.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.

Local Uniform Rates¹

Bradley-Burns	0.75% ²	Imposed by city and county ordinance for general purpose use. ³
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.

Local Add-on Rates⁴

Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments ⁵ up to a combined maximum of 2.00% in any county. ⁶ 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 1 percent rate was temporarily decreased by 0.25 percent on July 1, 2004, and a new temporary 0.25 percent tax imposed to repay Economic Recovery Bonds. Cities and counties will receive additional property tax revenues equal to the 0.25 percent local sales tax reduction.

³ The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area (or 0.75 percent during the period when Economic Recovery Bonds are being repaid).

⁴ 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.

⁵ Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

⁶ An exception to the 2 percent maximum is Los Angeles County, which may impose up to 2.5 percent.

conditions and the need for additional equipment acquisitions and other capital purchases. Sales and Use Tax revenues are forecast by relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation.

Figure REV-08
Combined State and Local Sales and Use Tax Rates by County
 (Rates in Effect on January 1, 2013)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda ^{1/}	9.00%	Madera	8.00%	San Joaquin ^{23/}	8.00%
Alpine	7.50%	Marin ^{11/}	8.25%	San Luis Obispo ^{24/}	7.50%
Amador	8.00%	Mariposa	8.00%	San Mateo ^{25/}	8.50%
Butte	7.50%	Mendocino ^{12/}	7.625%	Santa Barbara ^{26/}	8.00%
Calaveras	7.50%	Merced ^{13/}	7.50%	Santa Clara ^{27/}	8.625%
Colusa ^{2/}	7.50%	Modoc	7.50%	Santa Cruz ^{28/}	8.25%
Contra Costa ^{3/}	8.50%	Mono ^{14/}	7.50%	Shasta	7.50%
Del Norte	7.50%	Monterey ^{15/}	7.50%	Sierra	7.50%
El Dorado ^{4/}	7.50%	Napa	8.00%	Siskiyou ^{29/}	7.50%
Fresno ^{5/}	8.225%	Nevada ^{16/}	7.625%	Solano ^{30/}	7.625%
Glenn	7.50%	Orange ^{17/}	8.00%	Sonoma ^{31/}	8.25%
Humboldt ^{6/}	7.50%	Placer	7.50%	Stanislaus ^{32/}	7.625%
Imperial ^{7/}	8.00%	Plumas	7.50%	Sutter	7.50%
Inyo	8.00%	Riverside ^{18/}	8.00%	Tehama	7.50%
Kern ^{8/}	7.50%	Sacramento ^{19/}	8.00%	Trinity	7.50%
Kings	7.50%	San Benito ^{20/}	7.50%	Tulare ^{33/}	8.00%
Lake ^{9/}	7.50%	San Bernardino ^{21/}	8.00%	Tuolumne ^{34/}	7.50%
Lassen	7.50%	San Diego ^{22/}	8.00%	Ventura ^{35/}	7.50%
Los Angeles ^{10/}	9.00%	San Francisco	8.75%	Yolo ^{36/}	7.50%
				Yuba ^{37/}	7.50%

^{1/}9.25% for sales in the City of San Leandro and 9.50% for sales in the City of Union City.
^{2/}8.00% for sales in the City of Williams.
^{3/}9.00% for sales in the Cities of Concord, Hercules, Pinole, Pittsburg, Richmond and San Pablo and 9.50% in the City of El Cerrito.
^{4/}8.00% for sales in the Cities of Placerville and South Lake Tahoe.
^{5/}8.725% for sales in the Cities of Reedley and Selma and 8.975% for sales in the City of Sanger.
^{6/}8.25% for sales in the Cities of Arcata, Eureka and Trinidad.
^{7/}8.50% for sales in the City of Calexico.
^{8/}8.25% for sales in Ridgecrest and 8.50% for sales in the Cities of Arvin and Delano
^{9/}8.00% for sales in the City of Clearlake and the City of Lakeport.
^{10/}9.50% for sales in the Cities of Avalon, El Monte, Inglewood, Santa Monica, and South El Monte and 10.00% for sales in Pico Rivera and South Gate.
^{11/}8.75% for sales in the Cities of Fairfax, Novato, and San Rafael.
^{12/}8.125% for sales in the Cities of Point Arena, Ukiah, and Willits and 8.625% for sales in the City of Fort Bragg.
^{13/}8.00% for sales in the Cities of Gustine, Los Banos, and Merced.
^{14/}8.00% for sales in the City of Mammoth Lakes.
^{15/}8.00% for sales in the Cities of Salinas and Sand City and 8.50% in the Cities of Del Rey Oaks, Greenfield, Marina, Pacific Grove, Seaside, and Soledad.
^{16/}8.125% for sales in the Cities of Nevada City and Truckee.
^{17/}8.50% for sales in the City of La Habra.
^{18/}9.00% for sales in the Cities of Cathedral City and Palm Springs.
^{19/}8.50% for sales in the City of Galt.
^{20/}8.25% for sales in the City of San Juan Bautista and 8.50% for sales in the City of Hollister.
^{21/}8.25% for sales in the City of Montclair and the City of San Bernardino.
^{22/}8.50% for sales in the City of Vista, 8.75% for the City of La Mesa, and 9.00% for sales in the Cities of El Cajon and National City.
^{23/}8.25% for sales in the City of Stockton and 8.50% for sales in the Cities of Manteca and Tracy.
^{24/}8.00% for sales in the Cities of Arroyo Grande, Grover Beach, Morro Bay, Pismo Beach, and San Luis Obispo.
^{25/}8.75% for sales in the City San Mateo.
^{26/}8.25% for sales in the City of Santa Maria.
^{27/}8.875% for sales in the City of Campbell.
^{28/}8.50% for sales in the Cities of Capitola and Watsonville and 8.75% for sales in the City of Santa Cruz.
^{29/}8.625% for sales in the City of Vallejo.
^{30/}8.50% for sales in the City of Sebastopol and 8.75% for Cotati, Rohnert Park, Santa Rosa, and Sonoma.
^{31/}8.125% for sales in the City of Ceres and Oakdale.
^{32/}8.25% for sales in the City of Visalia, 8.50% for sales in the Cities of Farmersville, Porterville, and Tulare as well as 8.750% for sales in the city of Dinuba.
^{33/}8.00% for sales in the City of Sonora.
^{34/}8.00% for sales in the Cities of Oxnard and Port Huememe.
^{35/}8.00% for sales in the Cities of West Sacramento and Davis and 8.25% for sales in the City of Woodland.
^{36/}8.00% for sales in the City of Wheatland.

CORPORATION TAX

Corporation Tax revenues are expected to contribute 9.3 percent of all General Fund revenues and transfers in 2013-14. Corporation Tax revenues were \$7.9 billion in 2011-12 and are expected to decline by 4.6 percent to \$7.6 billion in 2012-13. In 2013-14, they are expected to increase by 20.5 percent to \$9.1 billion. The 2013-14 revenues show more growth, in part, because of the passage of Proposition 39 (discussed below). Corporation Tax revenue is significantly affected by various tax law changes – primarily tax credits and income apportionment rules – that have been adopted in the last 25 years.

Most recently, the ability of taxpayers to elect single sales factor apportionment became operative for tax years beginning on or after January 1, 2011. Multi-state businesses could determine California taxable income based on one of two methods that they deem most advantageous to them: (1) an apportioning formula which factors in their sales, property, and employees in this state, or (2) one based only on sales in California—frequently referred to as the single sales factor formula. The ability of corporations to use this election has had a significant negative impact on Corporation Tax revenue. Under Proposition 39, beginning in January 2013, most multi-state businesses are required to determine taxable income attributable to California using the single sales factor formula. Proposition 39 also removes a loophole that allowed some corporations to source their sales of services and intangibles to the state in which the majority of the work to produce that service or intangible was performed. Under Proposition 39, almost all taxpayers are required to source their sales of services and intangibles to the state into which the service or intangible is sold.

From 1943 through 1985, Corporation Tax liability as a percentage of profits closely tracked the corporation tax rate. Since 1986, increasing S-corporation activity and use of credits have been contributing to a divergence between profits and tax liability growth. Businesses that elect to form as S-corporations pay a reduced corporate rate, with the income and tax liability on that income passed through to owners and thus shifted to the personal income tax.

ENTERPRISE ZONE REGULATORY REFORM

The Budget includes savings relating to new regulations for the Enterprise Zone program. The proposed regulations will accomplish the following reforms:

- Limit retrovouchering by requiring all voucher applications to be made within one year of the date of hire.

REVENUE ESTIMATES

- Require third party verification of employee residence within a Targeted Employment Area.
- Streamline the vouchering process for hiring veterans and recipients of public assistance.
- Create stricter zone audit procedures and audit failure procedures.

These regulatory reforms will primarily affect Corporation Tax revenue, but will also have an impact on Personal Income Tax revenue. The regulations, in total, are expected to increase General Fund revenue by \$10 million in 2012-13 and \$50 million in 2013-14. The Administration will be pursuing further Enterprise Zone reform through legislation.

INSURANCE TAX

Most insurance policies written in California are subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less return premiums.

To provide funding for the Healthy Families and Medi-Cal programs, Chapter 11, Statutes of 2011 (AB 21) expanded the 2.35 percent gross premiums tax to the Medi-Cal managed care plans through June 30, 2012. The Budget proposes to reauthorize this tax on Medi-Cal managed care plans permanently, retroactive to July 1, 2012. Additionally, the Budget proposes to extend the Hospital Quality Assurance Fee until December 31, 2016. The fee, which is set to expire on December 31, 2013, provides funds for supplemental payments to hospitals and also provides some funding to offset the costs of health care coverage for children in the Medi-Cal program.

Figure REV-09 displays the distribution of total Insurance Tax revenues from 2011-12 through 2013-14.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing about 46 percent of the dollar value of premiums written in California.

In 2011, \$120.2 billion in taxable premiums were reported, representing an increase of 5 percent from 2010. The most recent survey indicates that total premiums will increase by 2 percent and 2.8 percent in 2012 and 2013, respectively. Survey respondents also reported 10.6 percent and 6.4 percent growth for taxable premiums from workers'

compensation insurance in 2012 and 2013 respectively. The primary reason for the decline in the Insurance Tax revenue estimate from 2011-12 to 2012-13 is refunds that are expected to be paid pursuant to a Board of Equalization decision in the *California Automobile Insurance Company* case. These refunds are also expected to dampen 2013-14 revenue. The California Department of Insurance estimates that the refunds resulting from this decision will equal \$233 million in 2012-13 and \$149 million in 2013-14.

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
General Fund	\$2,165.0	\$2,022.0	\$2,198.0
Children's Health and Human Services Special Fund	251.1	364.3	484.7
Total	\$2,416.1	\$2,386.3	\$2,682.7

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 and per capita consumption for each type of beverage. Consumption of alcoholic beverages is expected to decline by about 7 percent in 2012-13 before returning to an almost 2 percent increase in 2013-14. Revenues from this tax were \$346 million in 2011-12 and are forecasted to be \$320 million in 2012-13 and \$326 million in 2013-14.

CIGARETTE TAX

The state imposes an excise tax of 87 cents per pack of 20 cigarettes on distributors selling cigarettes in California. An excise tax is also imposed on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff. The 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.

REVENUE ESTIMATES

- 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 an equivalent rate 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.

Projections of Cigarette Tax revenues are based on projected per capita consumption of cigarettes and population growth, while revenue estimates for other tobacco products also rely on wholesale price data. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, state anti-smoking 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 declining trend is expected to continue. Annual per

capita consumption (based on population ages 18-64) declined from 123 packs in 1989-90 to 84 packs in 1997-98 and 41 packs in 2011-12. This forecast assumes an annual decline in total consumption of approximately 3.6 percent.

Figure REV-10 shows the distribution of tax revenues for the General Fund and various special funds for 2011-12 through 2013-14.

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
General Fund	\$95.0	\$91.0	\$89.0
Cigarette and Tobacco Products Surtax Fund	283.4	272.0	264.0
Breast Cancer Fund	18.8	18.0	18.0
California Children and Families First Trust Fund	498.5	481.0	466.0
Total	\$895.7	\$862.0	\$837.0

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.

Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluations of real estate trends. Sales volumes and prices of new and existing homes and condominiums rose moderately from 2011 to 2012 (with activity in the 2012 calendar year driving fiscal year 2013-14 property tax revenues). This is the first time since 2005 that both sales volumes and prices have moved in a positive direction. This turnaround, coupled with a decline in the number of homes in foreclosure, indicates that the state's overall real estate market has stabilized, although there are still areas where sales volumes and property values continue to be flat or decline.

Statewide property tax revenues are estimated to increase 1 percent in 2012-13 and 2.5 percent in 2013-14. The base 1 percent rate is expected to generate roughly \$48.2 billion in revenue in 2013-14, of which roughly half (\$24.7 billion) will go to K-14 schools. Of this amount, approximately \$1.5 billion is shifted from schools to cities and counties to replace sales and use tax revenues redirected from those entities to repay the Economic Recovery Bonds, and approximately \$6.1 billion is 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. The \$24.7 billion figure does not include additional property tax revenue that schools are expected to receive in 2013-14 from the former redevelopment agencies pursuant to Chapter 5, Statutes of 2011 (ABx1 26).

ESTATE/INHERITANCE/GIFT TAXES

Proposition 6, adopted in June 1982, repealed the inheritance and gift taxes and imposed a tax known as "the pick-up tax," because it was designed to pick up the maximum state credit allowed against the federal estate tax without increasing total taxes paid by the estate.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001 phased out the federal estate tax by 2010. This Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005. The state "pick-up tax" was scheduled to resume in 2011. At the time the budget revenue forecast was developed, this issue was still being debated by Congress. There was substantial uncertainty as to whether the federal estate tax law would remain or be modified to eliminate or substantially reduce the state pick-up tax. The Budget does not reflect net revenues from the state pick-up tax.

OTHER REVENUES

INDIAN GAMING

The Budget reflects General Fund revenues from tribal gaming of \$369 million in 2011-12 and \$337 million in 2012-13 and 2013-14. This revenue includes approximately \$101 million that is transferred annually from a special deposit fund to the General Fund for certain transportation programs that would otherwise be funded with revenues from a bond sale yet to occur. Absent a bond sale, the Administration proposes to continue this funding arrangement through 2015-16.

LOANS AND TRANSFERS FROM SPECIAL FUNDS

The Budget reflects the repayment of loans, based on the operational needs of the programs requiring these repayments. In 2012-13, repayments are expected to be \$184.3 million, and repayments in 2013-14 are expected to be \$561.4 million.

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 \$38.1 billion in 2013-14. Taxes and fees related to motor vehicles are expected to comprise about 31 percent of all special fund revenue in 2013-14. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2013-14, it is expected that about \$12 billion in revenues will be derived from the ownership or operation of motor vehicles. About 33 percent of all motor vehicle taxes and fees will be allocated to local governments, and the remaining portion will be used for state transportation programs.

MOTOR VEHICLE FEES

Motor vehicle fees and taxes consist of vehicle license, registration, weight, driver's license, and other charges related to vehicle operation. Figure REV-11 displays revenue from these sources from 2011-12 through 2013-14.

The Vehicle License Fee (VLF) is imposed on vehicles that travel on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. Chapter 87, Statutes of 1991

(AB 758) required the Department of Motor Vehicles to reclassify used vehicles based on their actual purchase price each time ownership is transferred. Also under this chapter, VLF revenues, other than administrative costs and fees on trailer coaches and mobile homes, are transferred to the Local Revenue Fund for state-local program realignment. Between 1948 and 1998, the VLF was set at 2 percent of the assessed value of a vehicle. Beginning in 1999, vehicle owners received discounts on the amount of VLF. To maintain revenue for local governments, the General Fund made deposits to offset the revenue lost from the discount.

Chapter 211, Statutes of 2004 (SB 1096) eliminated the VLF offset and established the VLF tax rate at 0.65 percent. Local governments now receive property tax revenue to compensate them for the loss of VLF revenue. In 2013-14 the estimated value of the VLF backfill to cities and counties is \$6 billion. The value of the reduction from 2 percent to 0.65 percent is \$4.1 billion.

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 29,043,559 in 2012-13 and is expected to decline to 28,895,995 in 2013-14. The year-to-year decline is due primarily to the cyclical nature of trailer registrations which renew every five years. Consistent with expected increases in national new vehicle sales due to the availability of consumer credit, an improving employment picture, and projected increases to after-tax income, the forecast projects that there will be 1,744,766 new vehicles registered in 2012-13, increasing to 1,856,112 in 2013-14.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF. All trailer coach license fees are deposited in the General Fund.

Figure REV-11
Motor Vehicle Fees Special Fund Revenue
(Dollars in Thousands)

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
Vehicle License Fees	\$1,978,751	\$1,934,821	\$1,964,397
Registration, Weight, and Other Fees	<u>3,836,019</u>	<u>3,829,317</u>	<u>3,920,648</u>
Total	\$5,814,770	\$5,764,138	\$5,885,045

REVENUE ESTIMATES

In addition to the VLF, commercial truck owners pay a fee based on vehicle weight. Due partly to the expected increase in truck sales reflecting an improving business climate, weight fee revenues are expected to be \$932 million in 2012-13 and to increase by 1.5 percent to \$946 million in 2013-14.

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. Just 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.

The gallons of gasoline consumed were down 1.1 percent in 2011-12 when compared to the prior fiscal year. However, gasoline consumption is expected to increase 1 percent in 2012-13 and then increase 1.3 percent in 2013-14. Because most diesel fuel is consumed by the commercial trucking industry, the gallons consumed are affected most significantly by general economic conditions. A recovering economy is expected to contribute to growth of 2.6 percent in diesel consumption in 2012-13 followed by 2.1 percent growth in 2013-14.

Motor Vehicle Fuel Tax collections are shown in Figure REV-12.

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 36 cents per gallon under current law. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Figure REV-12
Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2011-12 Preliminary	2012-13 Forecast	2013-14 Forecast
Gasoline ¹	\$5,179,071	\$5,320,062	\$5,736,243
Diesel	362,994	296,207	287,645
Total	\$5,542,065	\$5,616,269	\$6,023,888

¹ Does not include jet fuel.

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 10 cents per gallon

in 2012-13. Dyed diesel fuel, which is used for off-highway purposes such as farm equipment, is not taxed.

Beginning in 2010-11, the fuel tax swap eliminated the General Fund portion of the sales tax on gasoline and replaced it with an excise tax of 17.3 cents per gallon. The Board of Equalization is required to adjust the excise tax rates for both motor vehicle fuel and diesel fuel annually so that the total amount of tax revenue generated is equal to what would have been generated had the sales and use tax and excise tax rates remained unchanged. To maintain revenue neutrality for gasoline, the excise tax rate for 2012-13 is set at 36 cents per gallon. The Budget forecasts that the excise tax on gasoline will be 38 cents per gallon in 2013-14.

Beginning in 2011-12, the fuel tax swap increased the sales tax add-on for diesel fuel to the statutorily mandated 1.87 percent, while it decreased the excise tax to 13 cents to maintain revenue neutrality. For 2012-13, to achieve neutrality, the excise tax rate was reduced by 3 cents and to 10 cents per gallon. However, under current law the sales tax rate add-on will increase to 1.94 percent in 2013-14, and the Budget forecasts that the excise tax on diesel fuel will be adjusted to 10.5 cents per gallon.

The Use Fuel Tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels are taxed only when they are dispensed into motor vehicles used on the highways. Current Use Fuel Tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight instead of the per-gallon tax.

An excise tax of 2 cents per gallon is levied on aircraft jet fuel sold at the retail level. This tax does not apply to commercial air carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Local transit systems, school and community college districts, and certain common carriers pay 1 cent per gallon on the fuel they use instead of the tax rates described above.

SUMMARY OF STATE TAX SYSTEM

The state's tax system is outlined at the end of this section in Figure REV-13. Tax collections per capita and per \$100 of personal income are displayed in Schedule 2 in

REVENUE ESTIMATES

the Appendix. The revenue generated from each state tax from 1970-71 through 2013-14 is displayed in Schedule 3 in the Appendix.

Figure REV-13
**Outline of State Tax System
as of January 1, 2013**

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	\$0.87 [2]	Equalization	See below [2]
Other Tobacco Products	Wholesale cost	30.68% [3]	Equalization	See below [3]
Estate	Taxable Fed. Estate	0% [4]	Controller	General
Insurance				
Insurers	Gross Premiums	2.35% [5]	Insurance Dept.	General
Medi-Cal managed care plans	Gross Premiums	2.35%	Health Care Services	See below [6]
Liquor License Fees	Type of license	Various	Alc. Bev. Control	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	0.65%	DMV	Motor VLF, Local Revenue [7]
Fuel—Gasoline	Gallon	\$0.360 [8]	Equalization	Motor Vehicle Fuel [9]
Fuel—Diesel	Gallon	\$0.10 [10]	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$69.00	DMV	Motor Vehicle [11]
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway
Personal Income	Taxable income	1.0-12.3% [12]	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	7.50% [13]	Equalization	See below [13]

[1] Minimum Tax is \$800 per year for existing corporations. New corporations are exempt for the first two years.

[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, and 50 cents/pack for the California Children and Families First Trust Fund.

[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, 2012, through June 30, 2013, the rate is 30.68 percent of the wholesale cost.

[4] Since 2005 and through the end of 2012, federal estate tax law is structured such that California will receive none of the "state pick-up" estate tax for those years. However, under current law, starting in January 1, 2013, the federal estate tax will return to its pre-2011 structure and California will, again, begin to receive estate tax payments for estates for which the death occurred on or after January 1, 2013.

[5] 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, and nonadmitted insurance.

[6] Insurance tax on Medi-Cal managed care plans through June 30, 2012, pursuant to Chapter 11, Statutes of 2011 (X1 AB 21), to provide interim funding for the Healthy Families and Medi-Cal programs. The Governor's Budget proposes to reauthorize this tax permanently, retroactive to July 1, 2012.

[7] For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

[8] 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.

[9] For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

[10] As part of the fuel tax swap, this rate will be decreased by an estimated 3 cents on July 1, 2012, and will be adjusted each year thereafter to maintain revenue neutrality with the 2.17% increase in sales tax on diesel beginning July 1, 2012.

[11] For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs.

[12] Proposition 30 (The Schools and Local Public Safety Protection Act of 2012) 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.

[13] The 7.50 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. This rate includes the passage of Proposition 30 (The Schools and Local Public Safety Protection Act of 2012), effective beginning January 1, 2013.

This page intentionally blank to facilitate double-sided printing.