

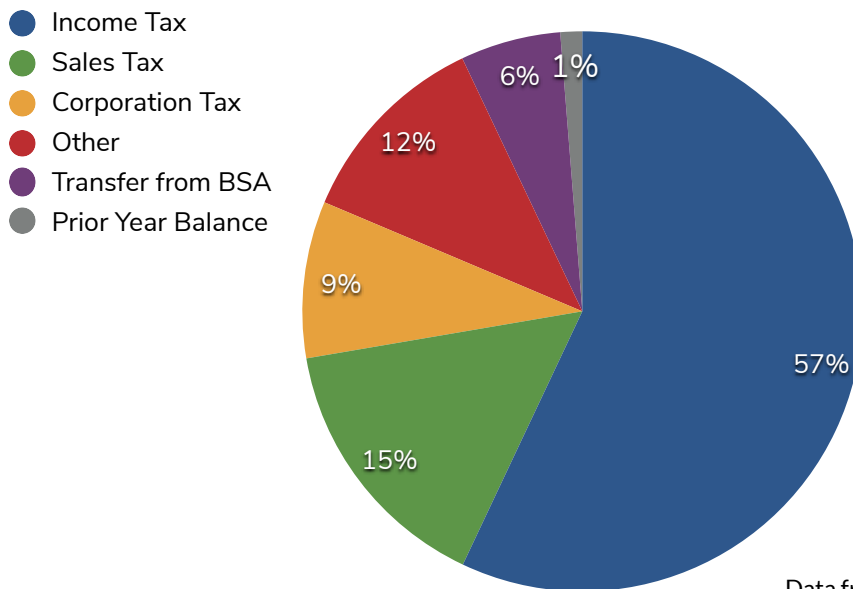


General Fund Revenue

The California State General Fund has three primary sources of revenue: 1) **personal income taxes (PIT)**; 2) **sales and use taxes (SUT)**; and 3) **corporation taxes**. The largest source by far is personal income tax (which include capital gains revenue in addition to wages), followed by sales taxes and corporation taxes.

The relative share of each source has changed dramatically since 1950-51. Back then, PIT revenue accounted for only 11.3% of General Fund revenue compared to 59% from SUT revenue. Today, the relative shares of those have essentially flipped. Two primary reasons for this shift are: 1) the state's economy has become much more service-based and the sales tax in California only applies to goods, and not services; and 2) the passage of Proposition 30 in 2012, which increased income taxes and created new tax brackets for high-earners, leading to larger tax receipts from the wealthiest individuals. For the 2017 tax year, the top 1% of California earners paid over 47% of the PIT revenue, while households earning \$50,000 or less made up nearly 60% of tax filings but paid only 2% of PIT revenue. The state's reliance on PIT revenue in general—and wealthy individuals in particular—makes California's General Fund revenue more volatile than other states.

2020-21 General Fund Revenue = \$131.3 billion



Data from the California Department of Finance

The share of General Fund revenue coming from the corporation tax has declined some—from 14.6% in 1980-81 to 9% in 2020-21—but the gap between actual corporation tax rate and the effective tax rate paid by corporations has widened significantly. The corporation tax rate was 9.6% in 1980 and was lowered to 9.3% in 1987, before finally being lowered to the current flat rate of 8.84% in 1997—where it has remained. However, the amount that corporations are effectively taxed after credits and other deductions has varied over time. In the early 1980s, corporations paid more than 9.5% of their California-earned income in state corporation taxes compared to just 4.4% in 2016 (latest year for which data are available).

MAY REVISION & FINAL UPDATE

As a result of the pandemic, estimated total revenue (absent policy changes) in 2020-21 has decreased by over \$32 billion compared to the January forecast: PIT revenue is down over \$26 billion due to a decline in all income sources; sales tax receipts are down nearly \$7.7 billion as a result of lower consumption; and corporation tax revenues are down over \$3.6 billion based on a significant drop in corporate profits. Following policy changes, and transfers from special and reserve funds (such as the Rainy Day Fund), total estimated revenue is \$14.2 billion lower than in January.

To help close the budget deficit, the enacted budget includes a series of measures that, together, are expected to generate **\$4.4 billion in 2020-21**:

Maintained from January:

- ▶ Extend the sales tax exemption on diapers and menstrual products through the end of 2022-23
- ▶ Extend carryover period for film credits
- ▶ Expand the current minimum franchise tax exemption for first-year corporations to all businesses, removing a barrier to small business creation for all types of small businesses

Reducing Sales Tax Gap:

- ▶ Maintain a new tax on e-cigarettes based on nicotine content, with revenue raised deposited in a special fund
- ▶ Streamline and increase compliance of the state's cannabis tax collection

Temporary Tax Changes Until End of 2022:

- ▶ Suspend the Net Operating Loss (NOL) tax deduction for businesses
- ▶ Limit business incentive tax credits to \$5 million of tax liability for a given tax year

GENERAL FUND REVENUE KEY FACTS

- ➔ **Income Tax:** California PIT rates range from 1% on the first \$8,544 of taxable income to 12.3% on taxable income of \$572,981 and above
 - ▶ Those with incomes greater than \$1 million per year pay an additional 1% surcharge, called the Mental Health Services Tax, which funds mental health services for counties—making the top marginal rate actually 13.3%
- ➔ **Sales Tax:** The current statewide sales tax rate of 7.25% is the highest in the nation
 - ▶ Some local jurisdictions also levy their own taxes, which raises it as high as 10.25% and 10.5% in some cities in LA County
 - ▶ Four states tie for 2nd-highest statewide rate at 7%: Indiana, Mississippi, Rhode Island, and Tennessee
 - ▶ Motor vehicles and parts dealers were the largest sales tax contributor in 2018 (12.7% of all taxable sales in the state)
- ➔ **Corporation Tax:** California's flat rate of 8.84% is the 8th-highest in the nation
 - ▶ 44 states levy a corporation tax, with rates ranging from 2.5% in North Carolina to 12% in Iowa on net income greater than \$250,000 (IA has a progressive, rather than flat, corporation tax rate)
 - ▶ Despite the relatively high rate, California has 53 Fortune 500 companies and is one of only three states with more than 50 (joining New York and Texas)

*Data from the 2020-21 enacted budget, LAO, [CalMatters](#), [Tax Foundation—State and Local Sales Tax](#), and [Tax Foundation—State Corporate Income Tax](#) unless otherwise specified.