

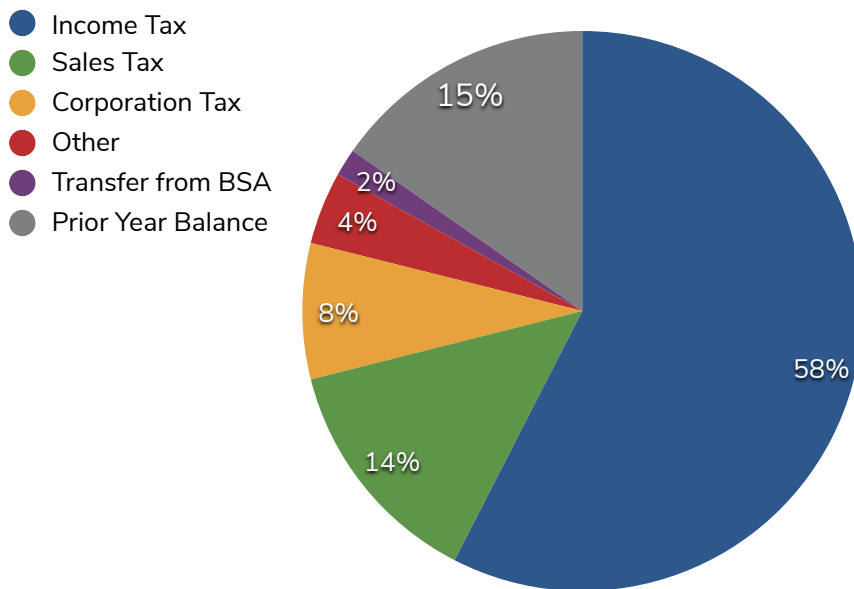


# General Fund Revenue

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. However, this reliance helped during the pandemic as wealthier households were largely spared the economic impacts and the stock market continued to perform relatively well.

2021-22 General Fund Revenue Following May Revision = \$175.35 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 8% in 2021-22—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 4.2% in 2017 ([latest year for which data are available](#)).

## WHAT'S IN THE 2021-22 MAY REVISION & FINAL BUDGET

Multiple rounds of federal stimulus and the mass roll out of vaccines have contributed to a stronger economic recovery in California than expected in January 2021 when the Governor released his first proposed budget for 2021-22. As a result, there have been significant shifts upward in estimated General Fund revenue in 2021-22 from the three largest tax sources following the May Revision:

- ▶ **Personal income tax revenue** is up by almost \$16 billion due to a more optimistic outlook, but particularly wages and capital gains
- ▶ **Sales tax revenue** is up by nearly \$3 billion due to an upgrade forecast for taxable consumer spending and private investment
- ▶ **Corporation tax revenue** is up almost \$1.5 billion based on strong cash receipts and faster than anticipated economic recovery

After accounting for transfers, which includes loan repayments as well as automatic transfers to the Rainy Day Fund, baseline General Fund revenues from all sources following the May Revision are up **\$17.6 billion** in 2021-22 compared to the January budget.

The May Revision proposed \$8.1 billion to provide a second round of **Golden State Stimulus** (which acts as a tax refund) to families with an adjusted gross income up to \$75,000 in the following amounts: \$600 to taxpayers who did not receive a \$600 payment in the first round; an additional \$500 to families who claim a dependent; and a separate \$500 payment to ITIN filers who claim a dependent. An estimated **14.2 million Californians** would receive a payment under this proposal, which was included in the final budget.

The final budget also includes using \$1.5 billion of federal relief funds in 2021-22 to provide three additional rounds of grants to small businesses. Eligible small businesses and nonprofit cultural institutions can receive grants ranging from \$5,000 to \$25,000, depending on their gross revenue.

### 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
  - ▶ Four states tie for 2nd-highest statewide rate at 7%: Indiana, Mississippi, Rhode Island, and Tennessee
  - ▶ 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
  - ▶ California has the 9th-highest average combined state and local tax rates at 8.68% with the following having the highest in order: Tennessee (9.55%), Louisiana (9.52%), and Arkansas (9.51%)
- ➔ **Corporation Tax:** California's flat rate of 8.84% is the 8<sup>th</sup>-highest in the nation
  - ▶ 44 states levy a corporation tax, with rates ranging from 2.5% in North Carolina to 11.5% in New Jersey
  - ▶ 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)
  - ▶ 4 states levy gross receipts taxes instead of corporate taxes—South Dakota and Wyoming are the only states that levy neither

\*Data from the 2021-22 May Revision & final budget, LAO, [CalMatters](#), [Tax Foundation—State and Local Sales Tax](#), and [Tax Foundation—State Corporate Income Tax](#) unless otherwise specified.