
Revenue Estimates

General Fund revenues are expected to be above the Governor's January budget by \$4.8 billion in 2005-06 and by \$2.7 billion in 2006-07 for a two-year increase of \$7.5 billion. This increase is prior to transfers to the Budget Stabilization Account (\$472 million), accelerated loan repayments (\$177 million), and a transfer of \$200 million in sales tax revenues to repay transportation debt. Substantially stronger personal income tax and corporation tax revenues make up most of the changes, as can be seen in Figure REV-01.

Personal Income Tax

The personal income tax forecast has been increased by \$3.9 billion in 2005-06 and by \$2.2 billion in 2006-07. Through April, General Fund personal income tax receipts were \$3.7 billion, or 9.7 percent, above the Governor's Budget forecast, indicating that taxable income was stronger than expected for the year. 2004 tax data, the most recent information available, show higher income and liability growth for taxpayers with adjusted gross income over \$100,000 than for those with income under \$100,000. The forecast assumes that this growth difference continued in 2005. We believe capital gains and income from stock options are primarily responsible for the substantial increase in 2005 tax receipts.

This forecast estimates that capital gains income growth in 2005 was 32 percent; this is in addition to the 60-percent growth that occurred in 2004. Capital gains income in 2006 is expected to stabilize.

Revenue Estimates

Figure REV-01

**General Fund Revenue Forecast
Reconciliation with the 2006-07 Governor's Budget**
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
<u>Fiscal 04-05</u>				
Personal Income Tax	\$42,738	\$42,738	\$0	0.0%
Sales & Use Tax	25,759	25,759	\$0	0.0%
Corporation Tax	8,670	8,670	\$0	0.0%
Insurance Tax	2,233	2,233	\$0	0.0%
Other Revenues	2,581	2,581	\$0	0.0%
Transfers	<u>228</u>	<u>228</u>	<u>\$0</u>	0.0%
Total	\$82,209	\$82,209	\$0	0.0%
<u>Fiscal 05-06</u>				
Personal Income Tax	\$45,493	\$49,384	\$3,891	8.6%
Sales & Use Tax	27,184	27,211	\$27	0.1%
Corporation Tax	9,621	10,356	\$735	7.6%
Insurance Tax	2,246	2,247	\$1	0.0%
Other Revenues	3,161	3,277	\$116	3.7%
Transfers	<u>-14</u>	<u>-25</u>	<u>-\$11</u>	78.6%
Total	\$87,691	\$92,450	\$4,759	5.4%
Change from Fiscal 04-05	\$5,482	\$10,241		
% Change from Fiscal 04-05	6.7%	12.5%		
<u>Fiscal 06-07</u>				
Personal Income Tax	\$48,716	\$50,877	\$2,161	4.4%
Sales & Use Tax	28,295	28,103	-\$192	-0.7%
Corporation Tax	10,024	10,507	\$483	4.8%
Insurance Tax	2,340	2,340	\$0	0.0%
Other Revenues	2,603	2,665	\$62	2.4%
Transfers	<u>27</u>	<u>-626</u>	<u>-\$653</u>	-2418.5%
Total	\$92,005	\$93,866	\$1,861	2.0%
Change from Fiscal 05-06	\$4,314	\$1,416		
% Change from Fiscal 05-06	4.9%	1.5%		
Three-Year Total			\$6,620	

These figures reflect reductions to revenues for transfers to the Budget Stabilization Account (\$472 million), early loan repayments (\$177 million), and shift of "spillover" from the General Fund to the Transportation Debt Service Fund (\$200 million)

Sales and Use Tax

The sales and use tax forecast has been increased by \$27 million in the current year and decreased by \$192 million in the budget year. Through March, sales tax receipts have tracked closely to estimates.

Current law specifies that certain state revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account (PTA). The 2005-06 Budget maintained the base level of transfers to the PTA, but specified that any excess sales tax revenues on gasoline, which would otherwise be designated as PTA “spillover,” be credited to the General Fund for 2005-06. In the Governor’s Budget, this amount was estimated to be \$398 million; it has been revised to \$381 million.

The 2005-06 Budget also provided that in 2006-07, the first \$200 million in spillover revenues would be transferred to the General Fund, the next \$125 million to the Bay Area Toll Account, and any remaining revenues to the PTA. The Governor’s Budget estimated that there would be sufficient spillover revenues to fully fund the transfer to the General Fund and \$118 million of the \$125 million transfer to BATA. Because of rising gasoline prices in 2006, it is now anticipated that the transfer to BATA will be fully funded.

The May Revision reflects a decision to transfer \$200 million that would otherwise have been deposited in the General Fund and \$344 million in spillover revenue that would otherwise been transferred to the PTA to a special fund to repay transportation debt.

Corporation Tax

The corporation tax forecast has been increased by \$735 million for 2005-06 and \$483 million for 2006-07 due to stronger corporate profits and enhanced compliance experienced in 2005 and projected for the forecast period.

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