

# REVENUE ESTIMATES

General Fund revenues are expected to be \$103.027 billion in 2007-08 and \$101.991 billion in 2008-09. This represents an increase of \$1.837 billion in 2007-08 and a decrease of \$996 million in 2008-09, compared to the May Revision. In addition to the tax provisions discussed below, 2007-08 includes \$120 million due to higher-than-projected year-end collections.

Figure REV-01 displays the forecast changes between May Revision and Budget Act.

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## TAX LAW CHANGES

This section lists tax law changes enacted with the Budget:

**Improve Compliance with Taxes by Establishing a Penalty for Understatement of Tax:** Corporate taxpayers who understate their tax liability by \$1 million or more will be subject to a new penalty. This penalty, equal to 20 percent of tax understatement, would apply to tax years beginning on and after 2003 and will be assessed in addition to the current 10 percent annual interest applied to these late payments. Taxpayers could file amended returns and report and pay tax understatements by May 31, 2009 to avoid paying the penalty. This tax law change is expected to increase 2007-08 revenues by \$1.435 billion, 2008-09 revenues by \$75 million and 2009-10 revenues by \$45 million.

**Vehicle and Aircraft Use Tax:** Under prior law, vehicles, vessels, and aircraft shipped or brought into California within 90 days of the date of purchase were generally

Figure REV-01  
**General Fund Revenue Forecast**  
**Reconciliation with the 2008-09 May Revision**  
(Dollars in Millions)

Source	May Revision	Budget Act	Change Between Forecasts	
<b><u>Fiscal 06-07</u></b>				
Personal Income Tax	\$51,941	\$51,971	\$30	0.1%
Sales & Use Tax	27,445	27,445	\$0	0.0%
Corporation Tax	11,158	11,158	\$0	0.0%
Insurance Tax	2,178	2,178	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	115	115	\$0	0.0%
Other Revenues	2,261	2,286	\$25	1.1%
Transfers	<u>-19</u>	<u>-18</u>	<u>\$1</u>	<u>-5.3%</u>
<b>Total</b>	<b>\$95,413</b>	<b>\$95,469</b>	<b>\$56</b>	<b>0.1%</b>
<b><u>Fiscal 07-08</u></b>				
Personal Income Tax	\$54,088	\$54,380	\$292	0.5%
Sales & Use Tax	27,100	26,813	-\$287	-1.1%
Corporation Tax	10,135	11,926	\$1,791	17.7%
Insurance Tax	2,171	2,171	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	114	114	\$0	0.0%
Other Revenues	6,036	6,077	\$41	0.7%
Transfers	<u>1,212</u>	<u>1,212</u>	<u>\$0</u>	<u>0.0%</u>
<b>Total</b>	<b>\$101,190</b>	<b>\$103,027</b>	<b>\$1,837</b>	<b>1.8%</b>
Change from Fiscal 06-07	\$5,777	\$7,558		
% Change from Fiscal 06-07	6.1%	7.9%		
<b><u>Fiscal 08-09</u></b>				
Personal Income Tax	\$53,733	\$55,720	\$1,987	3.7%
Sales & Use Tax	27,361	27,111	-\$250	-0.9%
Corporation Tax	11,039	13,073	\$2,034	18.4%
Insurance Tax	2,029	2,029	\$0	0.0%
Alcoholic Beverage	341	341	\$0	0.0%
Cigarette	114	114	\$0	0.0%
Other Revenues	2,534	2,787	\$253	10.0%
Transfers	<u>5,836</u>	<u>816</u>	<u>-\$5,020</u>	<u>-86.0%</u>
<b>Total</b>	<b>\$102,987</b>	<b>\$101,991</b>	<b>-\$996</b>	<b>-1.0%</b>
Change from Fiscal 07-08	\$1,797	-\$1,036		
% Change from Fiscal 07-08	1.8%	-1.0%		
<b>Three-Year Total</b>			<b>\$897</b>	

subject to the use tax. This period has been extended from 90 days to 12 months, and made permanent. This tax law change is expected to increase revenues by \$16 million in 2008-09 and \$21 million in 2009-10.

**Modified Group Income Tax Returns:** This provision will permit certain non-resident partners and directors to fulfill their California income tax obligation through group tax returns filed by their partnerships or corporations. The partner's or director's income would be taxed at the highest income tax rate for that income. This tax law change is expected to increase 2008-09 revenues by \$2 million and \$2 million in 2009-10.

**Net Operating Loss (NOL) Suspension and Carryback:** Except for taxpayers with income that is less than or equal to \$500,000, NOL deductions are suspended for tax years 2008 and 2009. Also, beginning in 2008, the time limit on carrying forward NOLs is increased from 10 to 20 years. Beginning in 2011, taxpayers will be permitted to carryback losses for two years, bringing California into conformity with federal law. Carrybacks will be limited to 50 percent of losses for tax year 2011, and 75 percent for tax year 2012. The full NOL could be carried back starting in 2013. This tax law change is expected to increase revenues by \$1.265 billion in 2008-09 and \$695 million in 2009-10. In part because of carrybacks, this tax law change is expected to reduce revenues in subsequent years. The revenue loss is projected to be \$265 million in 2010-11 and \$485 million in 2011-12.

**Tax Credit Limitation and Usage Modification:** Under prior law, business incentive credits could reduce corporate tax liability to the \$800 minimum tax, and eliminate entirely personal income tax (PIT) liability. This provision will limit tax reductions from tax credits to 50 percent of tax liability. This limitation is effective for tax years 2008 and 2009 for corporate and individual taxpayers. For tax years 2010 and later, the 50-percent limitation would no longer apply. In addition, corporations will now be allowed to share credits within a unitary group, but only if the receiving member of the group was in the group when the credit was earned. If a corporation is sold or transferred to another unitary group, credit sharing would generally not be allowed. These changes are expected to increase revenues by \$615 million in 2008-09 and \$260 million in 2009-10, and reduce revenues by \$385 million in 2010-11 and \$480 million in 2011-12.

**Limited Liability Companies (LLC) Payment Date Change:** Under prior law, LLC's were not required to pay the LLC fee until after the end of the year. This law change will require an estimated payment of the fee amount on the 15<sup>th</sup> day of the sixth month of the LLC year, generally June 15. This law change is expected to accelerate \$360 million in 2008-09 and \$36 million in 2009-10.

**Accelerate Estimated Payments:** Generally estimated payments for PIT and corporations are required to be paid in equal amounts evenly divided among the four estimated payments. Going forward, taxpayers will be required to pay 30 percent each with the first two estimated payments, and 20 percent each for the last two estimated payments. This law change is expected to accelerate \$1.270 billion in 2008-09 and \$240 million in 2009-10. Taxpayers with large unexpected mid-year changes in income will still be able to use the annualization method to avoid penalties.

**Remove Estimated Payment Option for High Income Taxpayers:** Currently PIT taxpayers with large increases in income and taxes from the prior tax year can avoid penalties if their prepayment amounts are equal to or greater than their prior year tax liability. This law change will instead require that taxpayers make prepayments based on their current income eliminating the “safe harbor” for PIT taxpayers with adjusted gross income (AGI) equal to or greater than \$1 million (\$500,000 if filing single). This change is expected to accelerate \$1.035 billion to 2008-09. Revenues will also increase by \$135 million in 2009-10. Taxpayers with large unexpected mid-year changes in income will still be able to use the annualization method to avoid penalties.

**Accrual Change:** To more properly measure tax receipts from income earned in the prior year and to implement appropriate accounting principles, the Budget includes an accrual accounting adjustment. This change is expected to increase revenues by \$416 million in 2007-08, \$1.440 billion in 2008-09, and \$133 million in 2009-10.

Figure REV-02 displays the estimated revenue effects of tax law changes.

Figure REV-02  
**Revenue Provisions**

	Fiscal Years (Dollars in Millions)		
	2007-08	2008-09	2009-10
Establish a 20% penalty for corporations that understate their taxes by \$1,000,000 or more; effective for tax years 2003 and later; penalty is effective starting June 1, 2009.	1,435	75	45
One-year test for vehicle & aircraft use tax	-	16	21
Modified group income tax returns	-	2	2
Suspend NOL's for tax years 2008 through 2009, exempting taxpayers with income under \$500,000. Beginning in 2011, allow two year carryback of NOL's. Limit carrybacks to 50% for 2011 and 75% for 2012; 100% carrybacks after 2012. NOL's may not be carried back to tax years prior to 2009.	-	1,265	695
Limit business incentive credits to 50% of tax before credits for tax years 2008 through 2009, exempting taxpayers with income under \$500,000. Starting in 2010, allow sharing of business incentive credits within unitary groups.	-	615	260
LLC payment date change; effective 2009	-	360	36
Accelerate estimated payment percentages; effective 2009	-	1,270	240
Remove estimated payment option for taxpayers with income over \$1 m (joint/ \$500 k single), effective 2009	-	1,035	135
Accrual change	416	1,440	133
<b>Total</b>	<b>1,851</b>	<b>6,078</b>	<b>1,567</b>

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