

FISCAL RESEARCH DIVISION

A Staff Agency of the North Carolina General Assembly

North Carolina General Fund Revenue and Outlook

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Overview

- North Carolina's consensus forecasting process and tax base overview
- FY 2024-25 revenue comparison
- FY 2025-27 revenue projections
 - Individual income tax
 - Sales tax
 - Corporate income tax



What is the consensus revenue forecast?

Agreement by forecasters in both the legislative and executive branches (Fiscal Research Division (FRD) and Office of State Budget and Management (OSBM))

Used to develop the State's budget by both the Governor and the General Assembly. Spending must be balanced with the availability of State funds. (North Carolina Constitution, Article III, Sec. 5.(3))

Consensus revenue forecast process is not set in statute



Consensus revenue forecast process

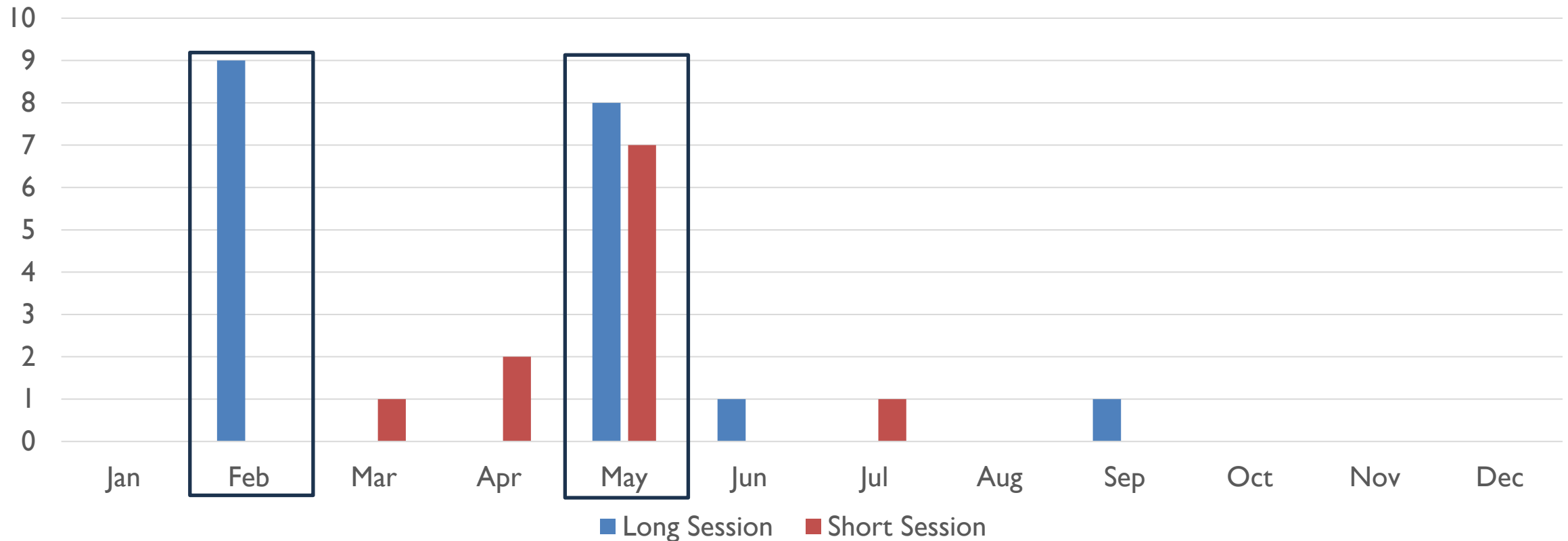
- FRD (legislative) and OSBM (executive) develop independent revenue forecasts
- Compare forecasts and negotiate to reach consensus
- Budgets proposed and enacted by the General Assembly use the most recent Consensus Revenue Forecast, as adjusted by any policy changes in the budget or other new laws
- OSBM certifies revenue as part of the Certified Budget
- FRD and OSBM agree to consensus monthly revenue targets



Consensus forecast timeline

Either the General Assembly or the Governor can request a revised consensus forecast.

When was consensus reached? 2009-2025

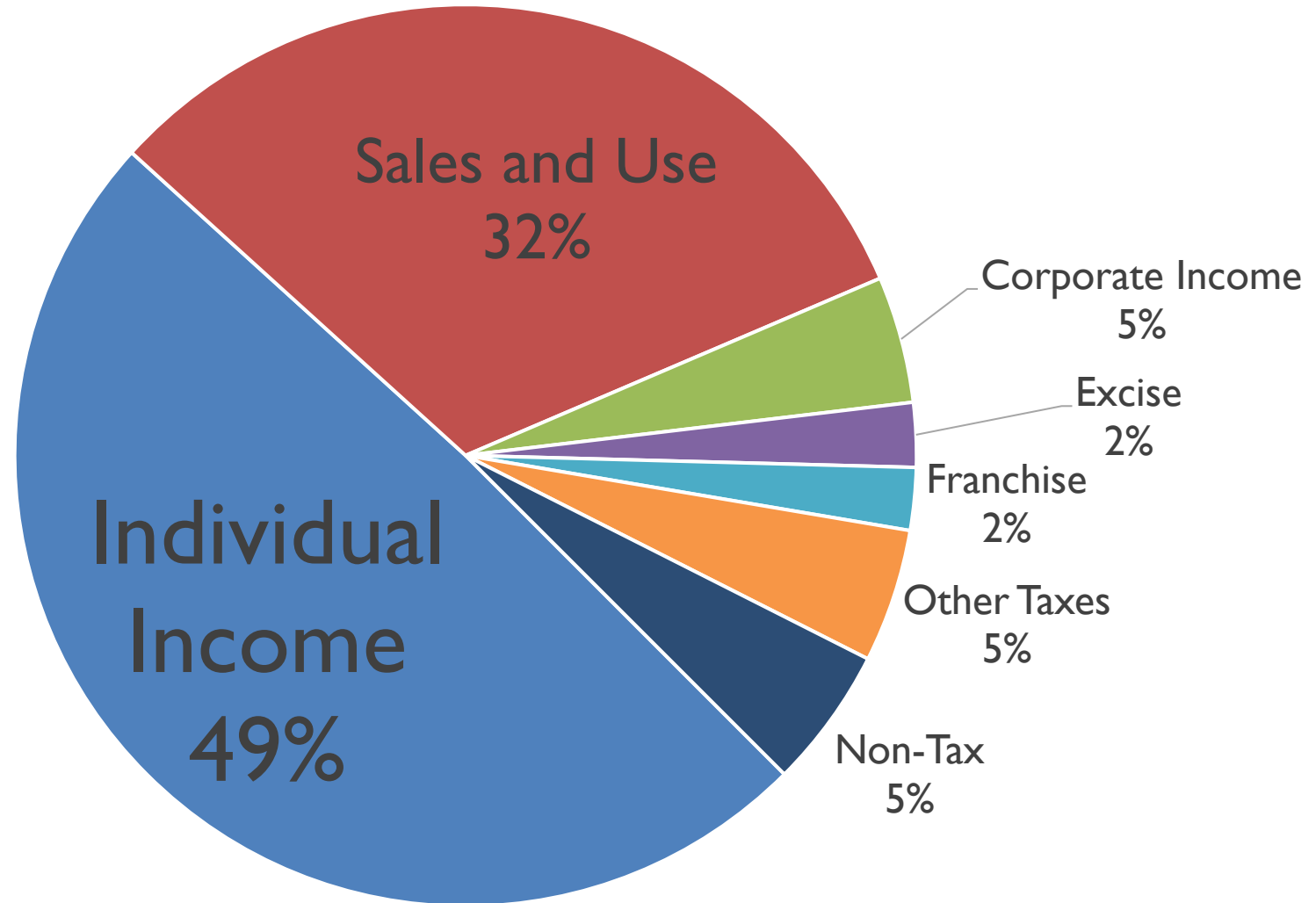


Source: Fiscal Research Division records and analysis



General Fund Revenue – All Sources – FY 2024-25

Total Revenue:
\$34.6 Billion

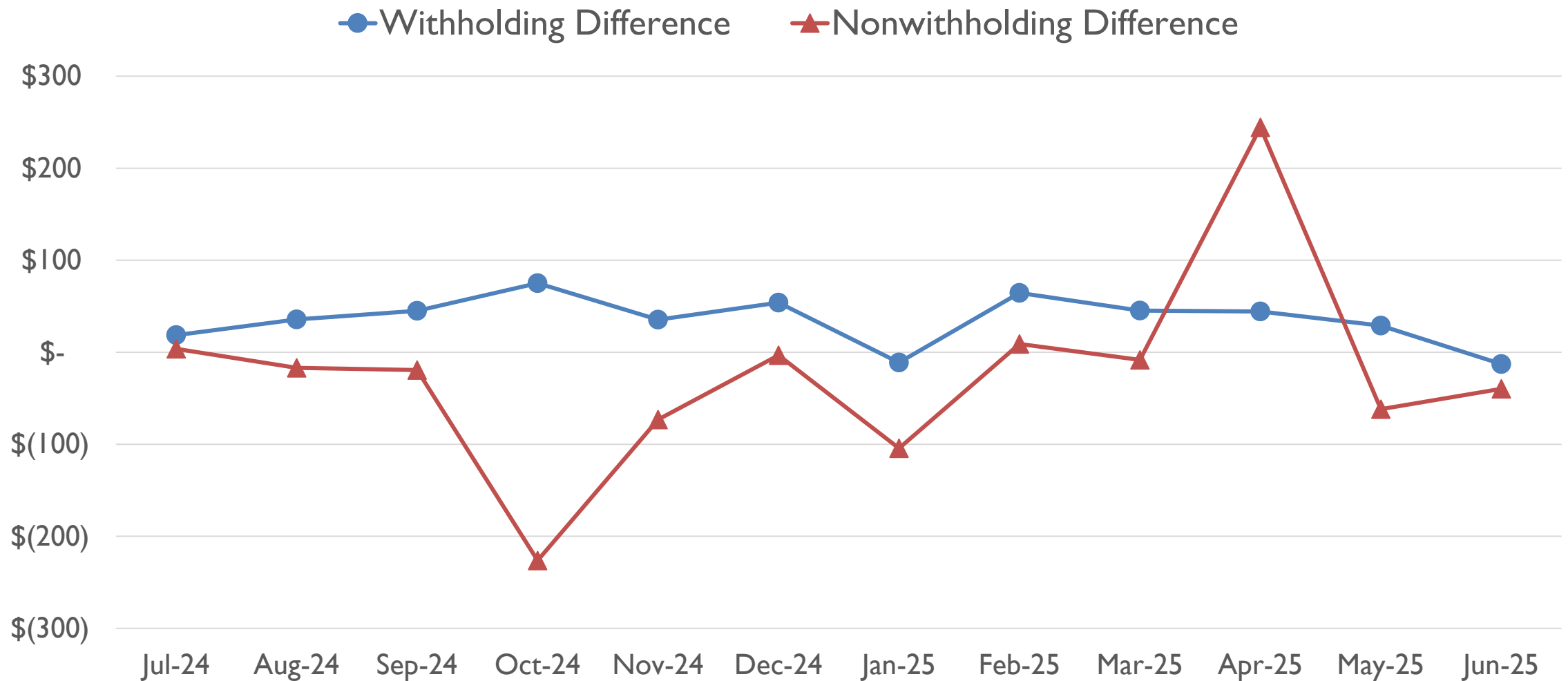


FY 2024-25 Revenue Projections to Actuals (\$M)

Category	May 2024 Certified Revenue (Budget)	May 2025 Forecast Revision	Actuals	% Difference from forecast revision
General Fund Total	\$34,164	\$34,528	\$34,560	0.1%
Overcollections	-	\$364	\$395	1.2% (vs. budget)
Individual Income	\$16,779	\$17,120	\$17,012	-0.6%
Sales and Use	\$11,036	\$11,019	\$11,006	-0.1%
Corporate Income	\$1,578	\$1,517	\$1,570	3.5%
Other Tax	\$3,180	\$3,136	\$3,227	2.9%
Non-Tax	\$1,590	\$1,737	\$1,744	0.4%



FY 2024-25 Actuals to Target – Individual Income (\$M)



May 2025 Consensus Revenue Forecast

\$ in millions

Category	FY 2025-26	YoY Change	FY 2026-27	YoY Change
General Fund Total	\$34,672	0.3%	\$33,845	-2.4%
Individual Income	\$16,893	-0.7%	\$16,081	-4.8%
Sales and Use	\$11,493	4.4%	\$11,821	2.9%
Corporate Income	\$1,379	-12.1%	\$1,243	-9.9%
Other Tax	\$3,321	2.9%	\$3,279	-1.3%
Nontax	\$1,587	-9.0%	\$1,420	-10.5%



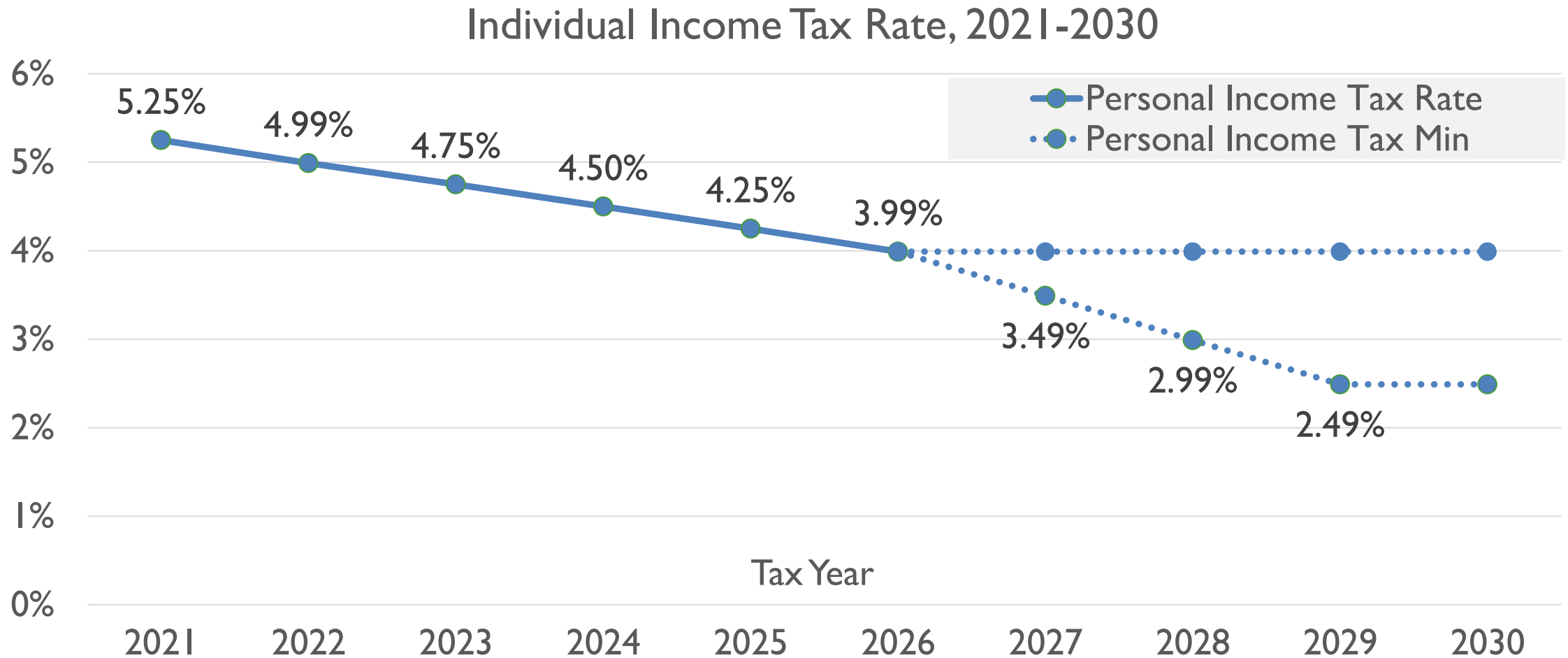
Individual Income Forecast

\$ in millions

Category	FY 2025-26	YoY Change	FY 2026-27	YoY Change
General Fund Total	\$34,672	0.3%	\$33,845	-2.4%
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Individual Income – Policy Outlook



Individual Income - Triggers

Fiscal Year	Trigger Amount (\$M)	General Fund Forecast (\$M)	Tax Year	Personal Income Tax Rate
-	-		2024	4.5%
-	-		2025	4.25%
-	-		2026	3.99%
FY 2025-26	\$33,042	\$34,672	2027	3.49% (Forecast exceeding trigger, 1 st rate reduction)
FY 2026-27	\$34,100	\$33,844	2028	Up to 2 additional rate reductions of 0.5% each, contingent on triggers: 2 nd reduction: 3.49% to 2.99% 3 rd reduction: 2.99% to 2.49% (minimum rate = 2.49%)
FY 2027-28	\$34,760		2029	
FY 2028-29	\$35,750		2030	
FY 2029-30	\$36,510		2031	
FY 2030-31	\$38,000		2032	
FY 2031-32	\$38,500		2033	
FY 2032-33	\$39,000		2034	



Individual Income – Big Question

Can withholding growth hold up?

- NC withholding grew faster than measured wage growth
- Year-over-year growth in collections with rate reduction

Fiscal Year	Withholding (\$M)	Change	Avg Income Tax Rate	% Change	Base Growth
2021-22	\$12,833		5.1%		
2022-23	\$12,939	0.8%	4.9%	-4.9%	5.7%
2023-24	\$13,409	3.6%	4.6%	-5.0%	8.7%
2024-25	\$13,745	2.5%	4.4%	-5.4%	7.9%



Sales Tax Forecast

\$ in millions

Category	FY 2025-26	YoY Change	FY 2026-27	YoY Change
General Fund Total	\$34,672	0.3%	\$33,845	-2.4%
Individual Income	\$16,893	-0.7%	\$16,081	-4.8%
Sales and Use	\$11,493	4.4%	\$11,821	2.9%
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Sales Tax – Big Question

How will tariffs impact sales tax collections?

- Forecasts diverged on the impacts of tariffs on retail sales
 - How much will goods prices rise?
 - Will consumers pay, or switch to services/cut back?
 - Policy uncertainty



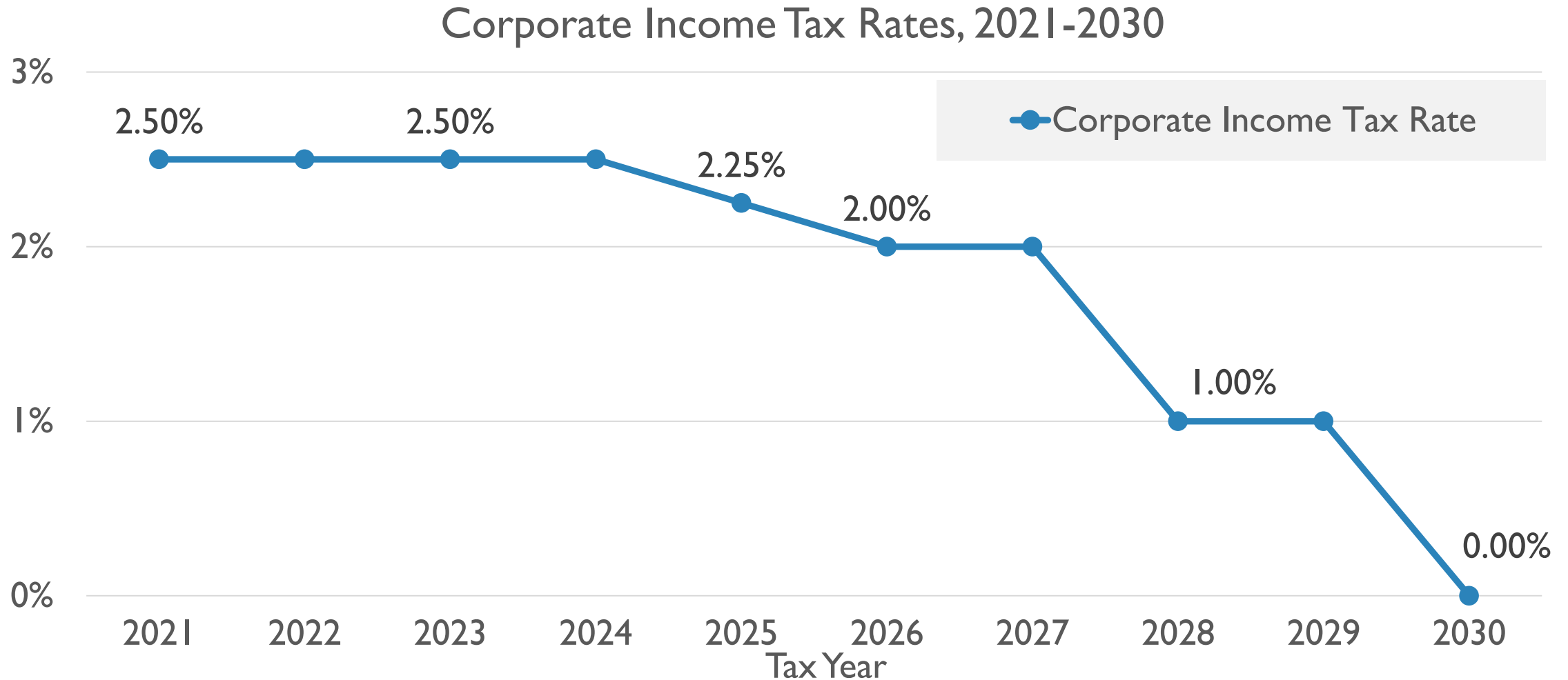
Corporate Income Tax Forecast

\$ in millions

Category	FY 2025-26	YoY Change	FY 2026-27	YoY Change
General Fund Total	\$34,672	0.3%	\$33,845	-2.4%
Individual Income	\$16,893	-0.7%	\$16,081	-4.8%
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Corporate Income Tax – Policy Outlook



Corporate Income Tax – Big Question

Will corporate profits grow in 2026 & 2027?

- Forecasters predicted weak growth as of May release
- However, estimated payments rebounded in FY 2024-25 compared to our expectations



Summary

- NC collections were slightly higher than anticipated in FY 2024-25
- Slow growth in tax revenues projected for FY 2025-26
- Year-over-year decline in revenue projected for FY 2026-27
- Statutory changes are major drivers of future collections
 - Individual income tax rate reductions and triggers
 - Corporate income tax reductions in 2026 and 2027
- Questions around withholding, tariffs, and corporate profits



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