FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

North Carolina General Fund Revenue and Fiscal Outlook

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Overview

- Recap North Carolina's Consensus Revenue Forecast Process
- FY 2025-26 Actual vs. Forecast
- FY 2026-27 Forecast
  - Key Economic Assumptions
  - Major Revenue Sources
  - Sources of Uncertainty
- Legislative Changes

Consensus Revenue Forecast

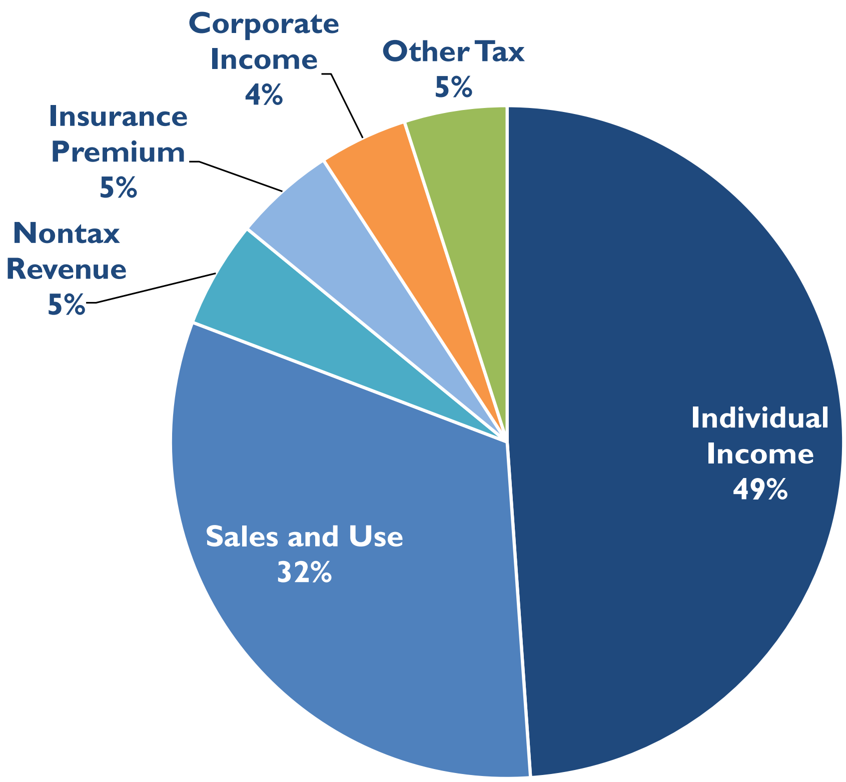
- The Fiscal Research Division (FRD) forecasts revenues for the biennium jointly with the Office of State Budget and Management (OSBM)
- FRD and OSBM generate revenue forecasts separately and meet to agree on final numbers for the consensus forecast
  - FRD uses Moody's Analytics
  - OSBM uses S&P Global
- While not set in statute, in recent years we have reached consensus twice per calendar year

Forecast Timeline

Feb 2025	May 2025	March 2026	May 2026
Initial Consensus Forecast for FY 2025-26 and FY 2026-27	**First revision incorporates April 2025 collections**	**Second revision ahead of FY 2026-27 budget**	**Third revision incorporates April 2026 collections**

The Consensus Forecasting Group (FRD and OSBM) publishes multiple General Fund revenue forecasts and revisions throughout each two-year budget cycle. The four points above track the current biennium, from the initial February 2025 forecast through the May 2026 revision used throughout this presentation.

General Fund Revenue FY 2025-26



Total General Fund Revenue

$35.79 billion

+1.23 billion vs. FY 2024-25 (+3.6%)

Actual vs. May 2026 Forecast:

+$101.9 million (+0.3%)

Forecast vs. Actuals FY 2025-26

Revenue Source	May 2026 Forecast	FY 2025-26 Actual	Variance ($M)	Variance (%)
Individual Income	$17,515.0	$17,496.2	-18.8	-0.1%
Sales and Use	$11,409.7	$11,420.0	+10.3	+0.1%
Corporate Income	$1,490.3	$1,521.8	+31.5	+2.1%
Insurance Premium	$1,713.7	$1,748.8	+35.1	+2.0%
Other Tax	$1,762.4	$1,763.1	+0.7	+0.0%
Nontax Revenue	$1,796.7	$1,839.9	+43.2	+2.3%
Total GF Revenue	**$35,687.8**	**$35,789.7**	**+101.9**	**+0.3%**

Our initial forecast in February 2025 anticipated about $34.9 billion in General Fund revenue, which was roughly 2.5% ($900 million) under actual collections.

FY 2026-27 Forecast

Revenue Source	March 2026 Forecast	May 2026 Revision	Change ($M)	Change (%)
Individual Income	$16,614.6	$17,077.2	+462.6	+2.8%
Sales and Use	$11,784.5	$11,802.2	+17.7	+0.2%
Corporate Income	$1,320.5	$1,409.0	+88.5	+6.7%
Insurance Premium	$1,605.7	$1,696.7	+91.0	+5.7%
Other Tax	$1,832.6	$1,891.5	+58.9	+3.2%
Nontax Revenue	$1,561.6	$1,556.1	-5.5	-0.4%
Total GF Revenue	**$34,719.5**	**$35,432.7**	**+713.2**	**+2.1%**

Despite the upward revision, FY 2026-27 revenue was still expected to decrease by 0.7% compared to FY 2025-26, primarily because the individual income tax rate is scheduled to drop from 3.99% to 3.49% on January 1, 2027

Key Assumptions (May 2026)

- **Stronger collections in FY 2025-26 raised our expectations for FY 2026-27**
  - **GDP growth rebounded** in Q1 2026 after the Q4 2025 government-shutdown-related drag, supporting a stronger national growth outlook carried into the FY 2026-27 forecast
  - **A resilient equities market** continues to support strong nonwithholding personal income tax payments and stronger reported corporate earnings nationally
  - **A surge in AI-related spending** has driven faster-than-expected national business investment, lifting business tax expectations for FY 2026-27
  - **Elevated energy prices** and inflation tied to the U.S.-Iran conflict and Strait of Hormuz closures give a near-term boost to sales tax collections, but pose a downside risk to real economic growth and consumer spending
- **Continued state population and income growth** are assumed to outweigh any drag on consumer spending from higher energy costs through FY 2026-27

Individual Income

Fiscal Year	March 2026 Forecast	May 2026 Revision	Change ($M)	Change (%)
FY 2026-27	$16,614.6	$17,077.2	**+462.6**	**+2.8%**

Key assumptions:

- **FY 2025-26 collections were stronger than anticipated, largely due to interest and dividend income, leading to a larger base for FY 2026-27**
- **Economic forecasters believe the equities market will continue to boost individual income in FY 2026-27**
- **FY 2026-27 revenue was still expected to fall $437.8 million (-2.5%) versus FY 2025-26, because the individual income tax rate is scheduled to drop from 3.99% to 3.49% on January 1, 2027**

Sales and Use Tax

Fiscal Year	March 2026 Forecast	May 2026 Revision	Change ($M)	Change (%)
FY 2026-27	$11,784.5	$11,802.2	+17.7	+0.2%

Key assumptions:

- **Above-average federal income tax refunds boosted consumer spending in FY 2025-26, but we do not anticipate this in FY 2026-27**
- **Continued state population and income growth were assumed to outweigh any drag on consumer spending from elevated energy prices**
- **Inflationary effects from higher energy prices were expected to persist into FY 2026-27**

Insurance Premiums Tax

Fiscal Year	March 2026 Forecast	May 2026 Revision	Change ($M)	Change (%)
FY 2026-27	$1,605.7	$1,696.7	+91.0	+5.7%

Key assumptions:

- **FY 2025-26 collections were stronger than anticipated, led by premium increases and Medicaid managed care growth, leading to a larger base for FY 2026-27**
- **Forecasters project continued (though slower) growth in nationwide spending on financial services and insurance**

Corporate Income

Fiscal Year	March 2026 Forecast	May 2026 Revision	Change ($M)	Change (%)
FY 2026-27	$1,320.5	$1,409.0	**+88.5**	**+6.7%**

Key assumptions:

- **A national surge in AI-related investment has contributed to stronger corporate profits**
- **Corporate income tax remains on a downward trend due to statutory rate cuts:**

  2.5% (2024) → 2.25% (2025) → 2.0% (2026 and 2027) → 1.0% (2028 and 2029) → 0.0% (2030 and after)

Sources of Uncertainty (May 2026)

1. **Energy prices and inflation**
   - **Higher energy prices lead to inflation, slower spending and investment**
2. **Financial market**
   - **More reliance on gains means more risk in the event of persistent losses**
3. **Rising interest rates**
   - **Higher borrowing costs would mean slower spending and investment**

Legislative Changes (S.L. 2026-41)

- **Changed long-run trajectory of individual income tax rate reductions**
  - **New schedule of rate reductions** as follows: 2027, 2028, and 2029: 3.49%; 2030, 2031, and 2032: 3.24%; 2033 and after: 2.99%
  - **New conditional tax rate reductions** starting in FY 2033-34 that potentially reduce the rate to 2.74% and 2.49%
- **Allowed gambling loss deduction**
- **Sales tax base expansion**
  - Repealed the sales tax exemption for electricity purchased by data centers
  - Changed refunds for nonprofit hospital systems and their affiliates
- **Sports Wagering Tax rate increase (18% to 23%)**
- **Insurance tax and nontax changes**
- **Redirected various investment income sources to the General Fund**

Net impact: ~$300 million in FY 2026-27 and ~$9 billion over the next 5 years

FY 2026-27 Certified Revenue

Revenue Source	May 2026 Forecast	Certified FY 2026-27	Difference ($M)	Difference (%)
Individual Income	$17,077.2	$17,029.4	-47.8	-0.3%
Sales and Use	$11,802.2	$11,844.3	+42.1	+0.4%
Corporate Income	$1,409.0	$1,409.0	0.0	0.0%
Insurance Premium	$1,696.7	$1,751.7	+55.0	+3.2%
Other Tax	$1,891.5	$1,943.2	+51.7	+2.7%
Nontax Revenue	$1,556.1	$1,764.6	+208.5	+13.4%
Total GF Revenue	**$35,432.7**	**$35,742.2**	**+309.5**	**+0.9%**

Legislative changes raised FY 2026-27 Certified Revenue above the May forecast, narrowing the expected year-over-year decline in revenue to 0.1%

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Thank you

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