



# North Carolina Consensus Forecast

## May 2024 Revision Summary

### FORECAST HIGHLIGHTS

- **The Consensus Forecast has been revised downward by \$430 million since April 2024**

The revised forecast accounts for lower than expected personal income tax collections in April 2024.

- **Revenue remains above 2023 budgeted revenue**

General Fund revenue is expected to exceed budgeted revenue by a total of \$987 million.

- **Year over year growth**

General Fund revenue is still expected to grow annually by 1.1% this fiscal year and 0.7% next fiscal year.

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The Fiscal Research Division and the Office of State Budget and Management issued a revised consensus revenue forecast for the General Fund for the 2023-25 biennium on May 10, 2024. This report summarizes the forecast update, detailing the adjustment made to personal income tax revenue and total General Fund Revenue in comparison to the April 2024 consensus forecast revision.

This May 2024 forecast update expects revenue to decrease by \$430 million (-0.6%) over the FY 2023-25 biennium relative to the April 2024 consensus forecast revision. General Fund revenue collections are now expected to total \$33.91 billion in FY 2023-24 and \$34.16 billion in FY 2024-25.

#### May 2024 Revised General Fund Consensus Revenue Forecast (\$ in millions)

	FY 2023-24	FY 2024-25
May 2024 Revised General Fund Forecast	\$33,913.8	\$34,164.3
April 2024 Revised General Fund Forecast	\$34,138.8	\$34,369.3
Change	-\$225.0	-\$205.0

While revenue has been revised downwards, it is still positive compared to the Certified Budget. Collections for FY 2023-24 are estimated to be \$188 million (0.6%) over budgeted revenue, and collections for FY 2024-25 are estimated to be \$799 million (2.4%) over budgeted revenue. This totals \$987 million in additional General Fund revenue over what was budgeted in S.L. 2023-134 (2023 Appropriations Act.)

Additionally, General Fund revenue is still projected to annually increase. Collections for FY 2023-24 are estimated to be \$378 million (1.1%) over FY 2022-23. Collections for FY 2024-25 are estimated to be \$231 million (0.7%) over FY 2023-24.

#### Forecast Summary

*Personal income taxes:* The May 2024 revised forecast projects net personal income tax collections of \$16.80 billion in FY 2023-24, a downward revision of \$225 million (-1.3%) from the April 2024 consensus forecast revision and a 0.2% increase year over year. The May 2024 revised forecast projects net personal income tax collections of \$16.78 billion in FY 2024-25, a downward revision of \$205 million (-1.2%) from the April 2024 consensus forecast revision and a -0.1% decrease year over year. Personal income tax collections from final payments due in mid-April are difficult to predict, as revenue from dividends, capital gains, and businesses can result in sizable positive or negative swings in collections. April collections data indicated a reduction in this revenue source compared to previous projections.

The negative shift in revenue was caused by lower-than-expected final payments from pass through entities (PTEs). The PTE tax provision, implemented in 2022, has led to a transition period as businesses, individuals, and government agencies navigate a new method for paying the State personal income tax that provides federal tax benefits for many North Carolina taxpayers.

- **April personal income tax collections were weaker than expected,** leading to decreased overall tax collections.

PTEs, such as partnerships and S Corporations, and their individual partners and shareholders are likely to have been duplicating some tax payments by making unnecessary estimated payments at both the individual and entity level. Additionally, data collection for S corporations is hampered by longstanding IT system constraints that require manual processing of transfers at the Department of Revenue. As these payments have increased as a share of overall personal income tax collections, forecasting uncertainty has also increased.

Elevated refunds during FY 2023-24 show that overpayments have been refunded to taxpayers. A reduction in final payments shows improved coordination between PTEs and their partners and shareholders as they work together to optimize their federal tax benefits. Additionally, trends in data for S Corporations indicate that final payments will not be as high as previously anticipated.

- **Lower-than-projected final payments from pass through entities,** such as partnerships and S Corporations, were the cause of reduced collections.

Overall, the net effect is a shift downward in non-withholding final payments in each year of the biennium. The estimated impact of this shift is a decrease of \$225 million in FY 2023-24 and \$205 million in FY 2024-25 compared to the April 2024 consensus forecast revision. Due to lower final payments this year, refunds are expected to be lowered for next year as taxpayers are less likely to have made unnecessary estimated payments, leading to the shift's reduced impact in FY 2024-25.

*Other revenues:* All other revenue estimates are identical to their April 2024 revision amounts.

- **Other revenue sources,** such as sales tax, other tax revenue, and nontax revenue, were not revised from April 2024.

- Sales and use tax remains projected to increase to \$10.93 billion in FY 2023-24 (1.2% year over year) and \$11.04 billion in FY 2024-25 (1.0% year over year).
- All other taxes remain projected to decrease to \$4.55 billion in FY 2023-24 (-1.4% year over year) and then increase to \$4.76 billion in FY 2024-25 (4.0% year over year).
- Nontax revenue remains projected to increase to \$1.63 billion in FY 2023-24 (21.0% year over year) and then decrease to \$1.59 billion in FY 2024-25 (-2.8% year over year.)
- The combined revenue of the Highway Fund and Highway Trust Fund remain projected to increase to \$5.27 billion in FY 2023-24 (9.1% year over year) and then increase to \$5.74 billion (8.9% year over year) in FY 2024-25.

For a more detailed discussion of these revenue sources, please read the [April 2024 Revision Summary](#).

The downward revision in personal income tax revenue does not point to a broader change in the economic status of the State. The chance of a recession has diminished over the past year, and overall economic growth remains expected to return to a level slightly below the pre-pandemic trend.

- **The revision is not related to a change in economic conditions.** The economic outlook is the same when compared with the April 2024 consensus forecast revision.