North Carolina Consensus Revenue Forecast
February 2025 Forecast Summary

Forecast Highlights

- **The Consensus Forecast expects economic momentum to continue.** The forecast assumes that recent economic growth will be sustained throughout the upcoming biennium.

- **Current year revenue is ahead of expectations.** General Fund revenue is expected to exceed earlier projections by $544 million.

- **Revenue increases in the first year and decreases in the second year.** Statutory reductions to tax rates and lower expected investment income lead to slow revenue growth in FY 2025-26 and a decrease in FY 2026-27.

Staff Contact:

Nick Clerkin
Legislative Economist
nick.clerkin@ncleg.gov
(919) 733-4910

Fiscal Research Division
North Carolina General Assembly

The Fiscal Research Division and the Office of State Budget and Management issued a consensus revenue forecast for the General Fund, Highway Fund, and Highway Trust Fund for the 2025-27 biennium on February 14, 2025. This report summarizes the forecast for each fund and details the outlook for each major revenue source.

General Fund Forecast

The February 2025 forecast anticipates total collections of $34.71 billion for FY 2024-25, resulting in $544 million in General Fund overcollections compared to the May 2024 forecast. Over the biennium, revenue is expected to grow to $34.89 billion in FY 2025-26 and then decline to $34.07 billion in FY 2026-27.

February 2025 General Fund Consensus Revenue Forecast ($ in millions)

Fiscal Year	General Fund Revenue	Change ($)	Change (%)
2023-24	$33,693.8	-	-
2024-25 (est.)	$34,708.2	$1,014.4	3.0%
2025-26 (est.)	$34,889.7	$181.5	0.5%
2026-27 (est.)	$34,067.1	($822.6)	-2.4%

Forecast Summary

The May 2024 consensus revenue forecast revision anticipated an economic "soft landing" with inflation moderating and no recession. This was projected to result in net General Fund revenue growth of roughly 1.4% ($34.16 billion) in FY 2024-25 compared to actual revenue of $33.69 billion in FY 2023-24.

Between the release of the May 2024 and February 2025 forecasts, economic growth has been stronger than expected. Wage and labor force growth outpaced projections, increasing expected collections for the personal income tax. Retail sales growth has been roughly on target, leading to a small upward revision in the sales tax for FY 2024-25. Corporate profits have been higher than previously anticipated, increasing expected collections from corporate income and franchise taxes. Lastly, short-term yields on U.S. Treasury bonds have been higher than previously forecasted, increasing the State's investment income. This overall economic growth led FRD and OSBM to upwardly revise the forecast for FY 2024-25 to $34.71 billion, a $544 million increase. This represents year-over-year growth in net General Fund revenue of 3.0%, the fastest annual growth in the General Fund since FY 2021-22.

In the upcoming biennium, FRD and OSBM anticipate continued economic momentum. We forecast that population growth, low unemployment, and continued increases in wages and business income will increase the size of the personal income tax base. Additionally, we expect that inflation, which is projected to rise from recent levels, will lead to faster growth in the sales tax base, particularly in FY 2025-26. We project that statutory rate reductions in the personal and corporate income tax rates will lead to reduced revenue for these schedules over the biennium, with the impact of a personal income tax reduction triggered in tax year 2027 incorporated into the 2nd year forecast. On net, these changes portend a 0.5% year-over-year increase in General Fund revenue for FY 2025-26 and a -2.4% year-over-year decrease in General Fund revenue in FY 2026-27.

- **Uncertainty** around some delayed tax payments, inflation, and federal trade policy present risks to the forecast.

While continued growth is expected, there are sources of uncertainty in this forecast. Following the federal major disaster declaration issued in response to Hurricane Helene, combined with S.L. 2024-51 (Disaster Recovery Act), certain taxpayers were allowed to delay quarterly and final income tax payments until May 1 without penalties or interest. These actions continue to provide relief for taxpayers in the federally declared disaster area, which accounts for roughly 45% of State economic activity. FRD and OSBM believe many taxpayers in the disaster area have delayed tax payments, shifting collections to later in the year and adding uncertainty to the forecast. This delay means the full revenue picture for FY 2024-25 actual collections will not be clear until late May 2025. Additionally, increased inflation expectations among markets and economic forecasters for 2025 could lead to the Federal Reserve further postponing interest rate reductions, slowing down overall economic growth. Lastly, uncertainty surrounding future trade policy between the U.S. and its trading partners could impact inflation, wages, and corporate profits.

- **The first personal income tax trigger** is expected to be reached, reducing the personal income tax rate to 3.49% in calendar year 2027.

Personal income tax triggers

S.L. 2023-134 authorized up to 3 personal income tax rate reductions between 2027 and 2034, provided that General Fund net revenue in the preceding fiscal year reaches certain thresholds. Whenever General Fund revenue in a given fiscal year exceeds the threshold ("trigger") amount specified in statute for that fiscal year, the personal income tax rate drops by 0.5% beginning January 1st of the following tax year.

Forecasted FY 2025-26 General Fund collections are roughly $1.8 billion higher than the trigger amount of $33.042 billion, so this forecast incorporates an additional 0.5% rate reduction in the personal income tax rate in 2027. This forecasted rate reduction will reduce the personal income tax rate to 3.49% beginning in calendar year 2027. The lower tax rate in calendar year 2027 is the primary reason for anticipated year-over-year revenue declines in FY 2026-27.

- **Second year revenue is close to hitting the second personal income tax trigger affecting 2028.** A 0.1% increase in actuals above the forecast would reduce the personal income tax rate to 2.99% in calendar year 2028.

Forecasted FY 2026-27 General Fund collections are roughly $33 million lower than the applicable trigger amount of $34.100 billion. A 0.1% increase in actual collections over this estimate would trigger an additional 0.5% rate reduction to the personal income tax rate in calendar year 2028.

Current Fiscal Year Revenue and Outlook for the Upcoming Biennium

Personal Income Tax ($ in millions)

Fiscal Year	Personal Income Tax	Change ($)	Change (%)
2023-24	$16,562.9	-	-
2024-25 (est.)	$17,119.0	$556.1	3.4%
2025-26 (est.)	$16,980.0	($139.0)	-0.8%
2026-27 (est.)	$16,114.0	($866.0)	-5.1%

- **Personal income tax revenue** is expected to grow in the current year but decrease in each year of the upcoming biennium.

Personal income tax accounts for just under half of net General Fund revenue. The forecast for personal income tax considers both impacts to the personal income tax base, the total amount of taxable income in the state, as well as the rate applied to that base.

Calendar Year 2024 saw rapid growth in withholding payments, which are the largest component of the personal income tax base. After adjusting for the change in the tax rate, the withholding base grew 11% compared to Calendar Year 2023. Per the federal Bureau of Economic Analysis, North Carolina led the nation in year-over-year personal income growth at 6.7% through the third quarter of 2024. This growth was significant but does not account for the entire increase. The forecast assumes that much of that additional growth was due to additional taxable retirement account distributions such as 401(k) distributions. Stock market growth in CY 2024 was significant, with the S&P 500 growing over 23% compared to CY 2023, allowing retirees to realize more income than was previously expected.

- **Wage and stock market growth** increased personal income tax revenue in 2024. North Carolina led the nation in personal income growth.

In the 2025-27 biennium, the forecast assumes that growth in this base will continue, but at a slower rate due to lower forecasted wage and salary increases and lower forecasted stock market growth.

Nonwithholding payments, such as those made by taxpayers making quarterly estimated payments, remain uncertain. Payments were down slightly compared to consensus revenue targets in September 2024. In October, provisions of the Disaster Recovery Act took effect, allowing taxpayers in the federally declared disaster area to delay payments until May 1 with no penalties or interest. This led to a significant decrease in the number of tax filings received by DOR beginning in October. Taxpayers still owe this liability, and FRD and OSBM believe this revenue will be realized in May. However, with limited payment data, it is difficult to establish a baseline trend and results in significant forecast uncertainty. An “April-or-May surprise” from this source could shift the forecast in either direction.

- **Some income tax payments are delayed due to Hurricane Helene.** These payments, delayed until May 1, add uncertainty to the forecast and could result in an “April-or-May surprise.”

Statutory changes in tax rates provide much of the explanation for expectations of reduced revenue in FY 2025-26 and FY 2026-27. The individual income tax rate was reduced from 4.5% in 2024 to 4.25% in 2025 and will be reduced to 3.99% in 2026. Due to the impact of the personal income tax triggers established in S.L. 2023-134, the forecast anticipates an additional reduction to 3.49% in 2027.

- **Lower tax rates in 2026 and 2027** contribute to lower forecasted personal income tax revenue.

Sales and Use Tax ($ in millions)

Fiscal Year	Sales and Use Tax	Change ($)	Change (%)
2023-24	$10,905.8	-	-
2024-25 (est.)	$11,052.0	$146.2	1.3%
2025-26 (est.)	$11,582.5	$530.5	4.8%
2026-27 (est.)	$11,895.2	$312.7	2.7%

Sales and use tax accounts for just under one third of net General Fund revenue. Through January 2025, sales and use tax net revenue was roughly on target, with this forecast anticipating an overall increase of 0.1% compared to the May 2024 forecast.

Since FY 2022-23, a portion of sales tax collections have been transferred to the Highway Fund and Highway Trust Fund, increasing from 2% in FY 2022-23 to 4% in FY 2023-24 and 6% in FY 2024-25. This has resulted in recent year-over-year increases in sales and use tax revenue for the General Fund being lower than historical averages. However, there are no further statutory increases of this transfer, so in the 2025-27 biennium, collections are expected to grow at a faster rate.

- **Sales tax revenue** is projected to grow throughout the biennium.

At the time of this forecast, both markets and economists indicated increased expectations of inflation for 2025, with a wide range of opinions on the size of the increase. Inflation reflects the prices consumers pay for various goods and services, and increases generally increase the amount of sales tax collections. The forecast anticipates that there will be inflation leading to increased growth in sales and use tax collections in 2025, leading to 4.8% growth in FY 2025-26, with a moderation of inflation in 2026 and 2027 leading to 2.7% growth in FY 2026-27.

- **Inflation is expected to rise in 2025,** leading to growth in sales tax revenue in the first year of the biennium.

An additional factor leading to increased collections in the upcoming fiscal year is the recovery from Hurricane Helene. States that have experienced major disasters report that a brief revenue dip in sales tax from diminished economic activity is typically followed by a spike as citizens and contractors rebuild properties and infrastructure. In the most recent data, the original 25 declared disaster counties showed evidence of entering the spike period, with November and December sales and use tax collections outpacing the State average. This effect partially contributes to the higher rate of sales tax growth the forecast projects in FY 2025-26.

- **The rebuilding effort from Hurricane Helene** is expected to increase sales tax collections.

Business Taxes ($ in millions)

Fiscal Year	Business Taxes	Change ($)	Change (%)
2023-24	$3,493.8	-	-
2024-25 (est.)	$3,770.6	$276.8	7.9%
2025-26 (est.)	$3,772.7	$2.1	0.1%
2026-27 (est.)	$3,565.4	($207.3)	-5.5%

Business taxes include the corporate income tax, franchise tax, and insurance premiums tax. These taxes make up roughly one tenth of net General Fund revenues. Corporate profits have been higher than previously anticipated, leading to growth in expectations for the corporate income and franchise taxes in the current fiscal year. The insurance premiums tax has been roughly in line with consensus revenue targets. The forecast anticipates slower growth in corporate profits over the biennium and increased insurance premiums tax due to Medicaid expansion.

- **Business taxes** include corporate income tax, franchise tax, and insurance premiums tax.

- Over the biennium, corporate income tax collections are expected to decline as rate reductions take effect. The corporate income tax rate was lowered from 2.5% in 2024 to 2.25% in 2025. An additional rate decrease to 2.0% will be in effect beginning in 2026.
- Franchise tax collections have been above target in FY 2024-25. The forecast assumes these taxes will continue to grow roughly in line with long-run historical averages.
- Insurance premiums tax collections are projected to temporarily increase on a one-time basis in FY 2025-26, as insurers make "catch-up" payments related to the start of a new Medicaid managed care plan in July 2024. The forecast shows a decline to a lower base in FY 2026-27 as the impact of these catch-up payments fade, but with overall growth compared to the current year.

- **Corporate income tax rate reductions** are forecasted to lower revenue in each year of the biennium.

Other Taxes ($ in millions)

Fiscal Year	Other Taxes	Change ($)	Change (%)
2023-24	$996.5	-	-
2024-25 (est.)	$1,029.3	$32.8	3.3%
2025-26 (est.)	$1,053.6	$24.3	2.4%
2026-27 (est.)	$1,082.5	$28.9	2.7%

- **Insurance premiums tax collection is expected to spike** in the first year due to the start of a new Medicaid managed care plan.

Other taxes include excise taxes on alcohol and tobacco, real estate transactions tax, sports wagering tax, privilege license tax, and disposal taxes. Together, these taxes account for roughly 3% of net General Fund revenue.

- The excise tax on alcohol is projected to grow slowly over the biennium, as a pandemic-era increase in home beverage consumption continues to taper out and

- **Alcohol taxes** are projected to grow very slowly throughout the biennium.
- **Tobacco taxes** are expected to decline throughout the biennium.
- **The sports wagering tax** is projected to increase in each year of the upcoming biennium.
- **Investment income is forecasted to decline.** Bond yields and cash balances are expected to decrease over the biennium.

larger trends suggest lower alcohol consumption among younger adults. These trends are offset on net by population and price growth.

- The excise tax on tobacco is projected to decline over the biennium due to a long-term trend in decline of smoking traditional tobacco products such as cigarettes.
- The real estate transactions tax is projected to increase over the biennium due to expected increases in home sales as interest rates are expected to decline.
- The sports wagering tax is projected to increase over the biennium. While minimal historical data exists for North Carolina, the experience of other states suggests that sports wagering reaches a saturation point after an initial period of rapid growth. FRD and OSBM believe North Carolina has reached this point and anticipate growth of roughly 18% in FY 2025-26 and 12% in FY 2026-27, in line with other states that have reached saturation.

Nontax Revenue ($ in millions)

Fiscal Year	Nontax Revenue	Change ($)	Change (%)
2023-24	$1,734.8	-	-
2024-25 (est.)	$1,737.3	$2.5	0.1%
2025-26 (est.)	$1,500.9	($236.4)	-13.6%
2026-27 (est.)	$1,410.0	($90.9)	-6.1%

Nontax revenue makes up roughly 5% of net General Fund revenue. The primary component of nontax revenue is investment income from cash invested in the Short-Term Investment Fund. Investment income revenue has exceeded projections from the May 2024 forecast because returns on U.S. Treasury bonds are higher than previously expected. The forecast assumes that interest rate reductions will cause investment income to decline over the biennium and that declines in cash balances due to Savings Reserve spending for Hurricane Helene will lead to lower returns over the biennium.

Other components of nontax revenue include judicial fees, Secretary of State fees, insurance fees, and payments from the Master Settlement Agreement. On net, these sources of nontax revenue are forecasted to be relatively flat over the biennium.

Highway Fund and Highway Trust Fund Forecasts

The February 2025 forecast anticipates $33 million in combined Highway Fund and Highway Trust Fund undercollections compared to the May 2024 forecast for FY 2024-25 for total collections of $5.71 billion. Over the biennium, revenue is expected to grow to $5.79 billion in FY 2025-26 and $5.89 billion in FY 2026-27.

February 2025 Transportation Consensus Revenue Forecast ($ in millions)

Fiscal Year	Highway Fund	Highway Trust Fund	Transportation Total	Change ($)	Change (%)
2023-24	$3,038.2	$2,192.7	$5,230.9	-	-
2024-25 (est.)	$3,279.8	$2,429.8	$5,709.6	$478.7	9.2%
2025-26 (est.)	$3,305.4	$2,489.5	$5,794.9	$85.3	1.5%
2026-27 (est.)	$3,344.2	$2,548.0	$5,892.2	$97.3	1.7%

In recent years, the Highway Fund and Highway Trust Fund have seen large year-over-year increases in revenue due to two statutory factors.

- The first is the transfer of general rate sales tax revenues that previously accrued to the General Fund. There are no further statutory increases of this transfer, so in the 2025-27 biennium, collections are expected to grow at a slower rate.
- The second is the statutorily-mandated quadrennial fee increase. In July 2024, Division of Motor Vehicles (DMV) fees were increased by 19.1% to reflect growth in the Consumer Price Index. This statutory requirement adjusts most fees upward by the change in inflation over the previous four years. This led to an unusually large increase in revenue in FY 2024-25.

▪ **The Consensus Forecast expects transportation revenue to grow over the biennium.** Growth is slower than in recent years.

Without the two statutory factors, increases over the upcoming biennium are slower than in recent years. The February 2025 consensus revenue forecast projects growth of 1.5% and 1.7% in FY 2025-26 and FY 2026-27, respectively, for the combined funds.

Undercollections for the current year are due to two factors. Lower than expected collections in the Highway Use Tax, on the sale and long-term lease of vehicles, resulted in a downward revision in the Highway Trust Fund. Additionally, OSBM and FRD changed the calculation of the sales tax transfer to properly account for the split between "general rate" collections subject to the transfer and "combined rate" goods not subject to it. This led to a net decrease in collections for each fund, primarily impacting the Highway Trust Fund as 75% of the transfer is deposited in that fund.

Motor fuels taxes, which make up just under half of transportation funding, are expected to rise modestly over the biennium.

▪ **Motor fuels consumption is expected to flatten**. This slows the growth in revenue from the motor fuels tax.

- ♦ Total gallons consumed is forecasted at 6.45 billion in FY 2024-25, rising to 6.48 billion in FY 2025-26 and remaining at 6.48 billion in FY 2026-27. Increased fuel economy has lowered the growth rate of gallons consumed, but population growth helps account for increased total gallons.
- ♦ The motor fuels tax rate, 40.3 cents per gallon in 2025, is projected to rise to 40.8 cents per gallon in 2026 and 41.4 cents per gallon in 2027. The motor fuels tax statute sets the rate based on the change in population and energy prices, which are both expected to increase over the biennium.

Other main sources of revenue include DMV fees, the Highway Use Tax, and the sales tax transfer.

- ♦ DMV fees are expected to grow slowly over the biennium, roughly in line with population projections. Per statute, there is no quadrennial fee increase this biennium. The next increase will take effect in July 2028.
- ♦ The Highway Use Tax is expected to increase over the biennium, with lower interest rates and population growth increasing the number of vehicles purchased and leased.
- ♦ The sales tax transfer is expected to grow in line with the General Fund sales and use tax forecast outlined on page 3 of this document.

▪ **The motor fuels tax rate is projected to increase.** The forecast anticipates a 1.1 cent per gallon increase over the biennium.