North Carolina Consensus Revenue Forecast
May 2025 Forecast Revision Summary

FORECAST HIGHLIGHTS

- **The Consensus Forecast revision expects slower economic growth.** The forecast is marked by higher uncertainty compared to February.

- **Current year revenue is on track for a modest overcollection.** General Fund overcollections are expected to total $364 million in FY 2024-25, a $180 million decline compared to the February estimate.

- **Revenue increases in the first year and decreases in the second year.** The shape of the forecast is the same as February, with minor year-over-year growth anticipated for FY 2025-26 and a decline in FY 2026-27 as the personal income tax rate is forecasted to decline in 2027.

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The Fiscal Research Division (FRD) and the Office of State Budget and Management (OSBM) issued a consensus revenue forecast revision for the General Fund, Highway Fund, and Highway Trust Fund for the 2025-27 biennium on May 28, 2025. This report summarizes the changes to the forecast for each fund since February and details the outlook for each major revenue source. For a summary of the February 2025 consensus revenue forecast, which is referenced frequently in this report, see FRD's overview here.

General Fund Forecast

The May 2025 forecast anticipates total collections of $34.53 billion for FY 2024-25, resulting in $364 million in General Fund overcollections compared to certified revenue. Over the biennium, revenue is expected to grow to $34.67 billion in FY 2025-26 and then decline to $33.84 billion in FY 2026-27.

Forecast Summary

In the upcoming biennium, FRD and OSBM anticipate continued economic growth, but at a slower rate than the February forecast anticipated. The primary causes of the forecast revision are changes in outlook from major economic forecasts and revenue collections in April and May.

May 2025 General Fund Revenue Revision ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$34,708.2	$34,528.1	-$180.1	-0.5%
2025-26	$34,889.7	$34,672.1	-$217.6	-0.6%
2026-27	$34,067.1	$33,844.7	-$222.4	-0.7%

Since the February forecast was released, the United States has entered a period of increased volatility in markets and consumer confidence. Changes to federal trade policy and responses by trading partners were the primary reason for this increased volatility. Tariffs on steel and aluminum, announcements of reciprocal tariffs that were higher than expected, and the announcement of universal tariffs caused a market rout in April, with the S&P 500 falling nearly 20% from February 14th to April 8th. While many tariffs have been delayed, causing markets and consumer confidence to substantially recover, there remains significant policy and economic uncertainty. Accordingly, many economic forecasts have been revised downwards due to the belief that increased tariff rates will drag on the US and global economy.

With regards to revenue collections, major revenue sources are anticipated to be roughly on target for the current year, with the exception of the corporate income tax. In February, FRD and OSBM anticipated the potential for a revenue surprise in either April or May due to Hurricane Helene-related penalty waivers for federal and State tax and the waiver of interest the General Assembly provided in the Disaster Recovery Act. However, few taxpayers took advantage of these provisions. The filing season spike in revenue and refunds took place at its usual time in April, leaving personal income tax

- **Hurricane Helene-related tax timing adjustments** did not materially impact General Fund revenue.
- **Corporate income tax revenue** was lower than expected, accounting for over half of the downward revision in revenue.
- **The first personal income tax trigger** is still expected to be reached, reducing the personal income tax rate to 3.49% in calendar year 2027.
- **Second year revenue is still close to hitting the second personal income tax trigger affecting 2028.** A 0.8% increase in actuals above the forecast would reduce the personal income tax rate to 2.99% in calendar year 2028.

revenue in line with February 2025 forecast expectations. Other revenue sources, such as sales tax, franchise and insurance premiums taxes, excise taxes, and nontax revenue were roughly in line with February expectations as well.

The largest deviation from expectations was in corporate income tax, which the May forecast revises downward by roughly 7% in total over the forecasted period. Estimated payments, reflecting corporations' expectations of 2025 profits, were lower than expected. With weak corporate profit growth expected in 2025 and 2026 by economic forecasters, the overall estimate was reduced by over $325 million in the current year and upcoming biennium, accounting for over half of the roughly $620 million decrease in expected revenue, including overcollections and the upcoming biennium, compared to February.

Changes in the forecast net out to a level shift downwards by roughly 0.6% per year in expected revenue. The overall shape of the forecast remains similar to February, with year-over-year change of 2.5% from FY 2023-24 to FY 2024-25, 0.4% from FY 2024-25 to FY 2025-26, and –2.4% from FY 2025-26 to FY 2026-27. The primary reason for this trajectory is not expected overall declines in the tax base, which is anticipated to continue to grow, but rather scheduled and anticipated rate reductions to the personal income tax, scheduled rate reductions to the corporate income tax, and anticipated year-over-year declines for the State's investment income.

Personal income tax triggers

Background: 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.

Update: The May 2025 revision did not change February's expectations regarding whether triggers will be exceeded. The forecast continues to anticipate exceeding the trigger amount in FY 2025-26 and not exceeding the amount in FY 2026-27.

- Forecasted FY 2025-26 General Fund collections are roughly $1.6 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 from 3.99% in calendar year 2026 to 3.49% 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.
- Forecasted FY 2026-27 General Fund collections are roughly $255 million lower than the applicable trigger amount of $34.100 billion. A 0.8% increase ($256 million) in actual collections over this estimate would trigger an additional 0.5% rate reduction to the personal income tax rate in calendar year 2028.

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- **Personal income tax revenue** is on target for the current fiscal year.
- **Slower wage growth** is expected to reduce personal income tax collections compared to the February forecast.
- **Lower tax rates in 2026 and 2027** contribute to declining personal income tax revenue.
- **Sales tax revenue** is projected to grow, though at a slower rate than anticipated in February.
- **Tariffs** may lead to consumers purchasing fewer goods subject to sales tax.

Current Fiscal Year Revenue and Outlook for the Upcoming Biennium

Personal Income Tax ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$17,119.0	$17,119.5	$0.5	-
2025-26	$16,980.0	$16,892.7	-$87.3	-0.5%
2026-27	$16,114.0	$16,081.4	-$32.6	-0.2%

Personal income tax collections were on target through April and May. Very few taxpayers took advantage of the waivers until May 1 to delay payment of State income taxes without penalties or interest. While the Department of Revenue, following timing adjustments made by the IRS, extended State tax relief regarding penalties again to September 25th, 2025, FRD and OSBM agree that this will have minimal revenue impact as filings have been consistent with taxpayers filing in the current fiscal year.

Withholding payments have remained strong and on pace with the February consensus revenue forecast's upward revision. FRD and OSBM believe that continued low unemployment as well as strength in non-wage income sources, such as investment and pension income such as 401(k) plans, contribute to this. Nonwithholding payments and refunds remain consistent with February expectations.

Over the biennium, estimates have been slightly revised downward primarily due to expectations of slower wage growth. FRD and OSBM's projections imply continued growth in the tax base of roughly 5% in each fiscal year. However, this is offset by declines of roughly 6% and 9% in the fiscal year average tax rate, with the net result being projected revenue declines year-over-year for personal income tax.

Sales and Use Tax ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$11,052.0	$11,019.0	-$33.0	-0.3%
2025-26	$11,582.5	$11,492.8	-$89.7	-0.8%
2026-27	$11,895.2	$11,821.3	-$73.9	-0.6%

Prior to April, sales tax collections had been slightly below expectations. However, as consumers and businesses stockpiled goods in March in preparation for tariffs, revenue surged above trend to bring collections close to target. FRD and OSBM expect this surge to be short-lived with collections on the year close to February expectations.

Sales tax collections are expected to increase in each year of the biennium. Economic forecasters diverge in their expectations related to the impact of tariffs on impacted goods. Some forecasters suggest consumers will respond to higher prices on tariff-impacted goods by switching their spending into other goods and services, which would result in slower growth in sales tax collections. Others expect consumers to continue to consume tariff-impacted goods at higher prices, which would result in faster sales tax revenue growth.

The May 2025 Consensus Revenue Forecast reflects a balanced approach as it did in February, with a modest anticipated shift in spending away from tariff impacted goods while overall collections increase. The level shift downward in collections over the biennium primarily reflects slower wage growth and less disposable income for consumers. Both the overall tariff rate and the impact on consumers remain uncertain, with the potential for high variance in sales tax revenue depending on the direction and net impact of federal policy and the response of other countries.

- **Business taxes** include corporate income tax, franchise tax, and insurance premiums tax.
- **Corporate income tax** was reduced due to lower collections and expected corporate profits.
- **Insurance premiums tax collection is still expected to spike** in the first year due to the start of a new Medicaid managed care plan.
- **Sports wagering tax** is expected to grow more slowly than previously anticipated
- **Tobacco taxes** are expected to decline at a faster rate than was previously anticipated.

Business Taxes ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$3,770.6	$3,628.9	-$141.7	-3.8%
2025-26	$3,772.7	$3,662.6	-$110.1	-2.9%
2026-27	$3,565.4	$3,460.8	-$104.6	-2.9%

Corporate income tax was reduced from February due to lower-than-expected estimated payments for tax year 2025 and expectations of slow growth in corporate profits over the biennium. 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.

Insurance premiums tax had minimal adjustments from February. 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.

Franchise tax had minimal adjustments from February, with slow year-over-year growth forecasted.

Other Taxes ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$1,029.3	$1,023.9	-$5.4	-0.5%
2025-26	$1,053.6	$1,037.4	-$16.2	-1.5%
2026-27	$1,082.5	$1,060.8	-$21.7	-2.0%

The net decline in other taxes can be primarily attributed to lower estimates of the sports wagering tax and tobacco taxes compared to February.

Sports wagering tax was reduced from February by roughly $5 million in FY 2024-25, $10 million in FY 2025-26, and $15 million in FY 2026-27 due to lower year-to-date expected collections and low year-over-year growth in the earliest data. The February forecast was primarily based on the experience of other states, which in some cases saw rapid growth in years following initial sports wagering introduction.

FRD and OSBM still expect the sports wagering tax to grow, but at lower year-over-year rates of roughly 12% in FY 2025-26 and 9% in FY 2026-27 compared to 18% and 15%, respectively, in the February forecast. These growth rates incorporate the experience of states that have launched more recently, which have seen higher first-year collections followed by slower year-over-year growth.

Tobacco taxes are expected to decline more quickly than previously expected as younger generations consume fewer traditional tobacco products. This adjustment accounts for roughly $5 million in reduced revenue each fiscal year.

The following taxes had minimal adjustments since February:

- Alcoholic beverages taxes
- Real estate transactions tax
- Privilege license tax
- Disposal taxes (white goods, scrap tire, and solid waste)

- **Investment income estimates were increased.** Bond yields are expected to remain higher than previously anticipated.
- **Investment income is still expected to decline over the biennium**, though at a slower rate than previously anticipated.
- **The Disproportionate Share (DSH) program was extended by Congress**, leading to higher nontax revenue in FY 2025-26.
- **Highway use tax** was reduced due to federal trade policy's impact on vehicle purchases.
- **Motor fuels tax and DMV fees were not adjusted.**

Nontax Revenue ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$1,737.3	$1,736.8	-$0.5	-
2025-26	$1,500.9	$1,586.6	$85.7	5.7%
2026-27	$1,410.0	$1,420.4	$10.4	0.7%

Nontax revenue collections are roughly on target for FY 2024-25. Primary components of growth are investment income and Disproportionate Share (DSH).

Investment income was revised upwards from February, as the rate of return on US Treasuries is expected to remain higher for longer than previously forecasted. This increases expected General Fund revenue by $21 million in FY 2025-26 and roughly $11 million in FY 2026-27 compared to February. The annual trend is similar to the February forecast, with year-over-year decreases expected due to year-over-year declines in short-term interest rates and falling cash balances.

Disproportionate Share (DSH) was extended by Congress. This program provides enhanced payments to State psychiatric hospitals, enabling the hospitals to transfer non -DSH appropriations and revenues back to the State for deposit as nontax General Fund revenue. The extension generates roughly $64 million in increased revenue in FY 2025-26 compared to the February forecast, which anticipated expiration. Portions expire via federal statute in FY 2026-27, so the second year outlook is unchanged.

Master Settlement Agreement (MSA) revenue was revised downward due to a lower-than-expected FY 2024-25 State payment and long-term declines in tobacco revenues.

Other nontax revenue sources, such as insurance fees, judicial fees, Secretary of State fees, and ABC permit fees, were minimally adjusted.

Highway Fund and Highway Trust Fund Forecasts

The May 2025 forecast anticipates combined Highway Fund and Highway Trust Fund collections of $5.71 billion for FY 2024-25, resulting in $35 million in undercollections compared to certified revenue. Over the biennium, revenue is expected to grow to $5.76 billion in FY 2025-26 and $5.85 billion in FY 2026-27.

February 2025 Transportation Consensus Revenue Forecast ($ in millions)

Fiscal Year	February Forecast	May Revision	Change ($)	Change (%)
2024-25	$5,709.6	$5,707.2	-$2.4	-
2025-26	$5,794.9	$5,764.5	-$30.4	-0.5%
2026-27	$5,892.2	$5,847.1	-$45.1	-0.8%

The only updates to Transportation revenues regarded decreased estimates for the Highway Use Tax and minor conforming changes to the sales tax transfer. These changes primarily impact the Highway Trust Fund. All other sources, such as motor fuels tax and Division of Motor Vehicle Fees, were unchanged from February.

Highway use tax revenue, which is deposited in the Highway Trust Fund, was reduced due to anticipated reductions in sales volume resulting from federal trade policy impacts on vehicle prices. Revenue is still expected to grow each year, but at a slower rate than previously anticipated.

The *sales tax transfer* was reduced due to lower estimates of General Fund sales tax growth compared to February. 75% of the transfer is deposited in the Highway Trust Fund, with the remainder in the Highway Fund.