



North Carolina Consensus Revenue Forecast

March 2026 Forecast Revision Summary

FORECAST HIGHLIGHTS

- Revenue increases in the first year and decreases in the second year.**

Modest year-over-year growth is anticipated for FY 2025-26 and a decline in FY 2026-27 as the personal income tax rate is forecasted to decrease in 2027.

- 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.

- The second personal income tax trigger** is now expected to be reached, reducing the personal income tax rate to 2.99% in calendar year 2028.

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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 March 24, 2026. This report summarizes the changes to the forecast for each fund from certified revenue and details the outlook for each major revenue source.

General Fund forecast

The March 2026 forecast revision anticipates net General Fund revenue of \$35.08 billion for FY 2025-26, a 1.5% year-over-year increase over FY 2024-25 actual collections of \$34.56 billion. Net revenue is expected to decline to \$34.72 billion in FY 2026-27, a -1.0% year-over-year decrease from FY 2025-26.

Compared to certified revenue, which reflects the May 2025 consensus revenue forecast revision plus all changes to law impacting revenue from the 2025 legislative session, the FY 2025-26 forecast is adjusted upwards by \$369.8 million (1.1%) in overcollections. The FY 2026-27 estimate is a \$951.0 million (2.8%) increase over certified revenue, representing additional availability in the upcoming fiscal year.

March 2026 General Fund Revenue Revision (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$34,709.2	\$35,079.0	\$369.8	1.1%
2026-27	\$33,768.5	\$34,719.5	\$951.0	2.8%

Personal income tax rate 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 March 2026 revision changed our expectations regarding whether and when triggers will be exceeded. The forecast now anticipates exceeding the trigger amount in both FY 2025-26 and FY 2026-27, reducing the personal income tax rate from its current level of 3.99% to 3.49% in 2027 and 2.99% in 2028 and after.

- Forecasted FY 2025-26 General Fund collections are roughly \$2 billion higher than the trigger amount of \$33.042 billion, so this forecast incorporates a 0.5% reduction in 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 \$600 million higher than the applicable trigger amount of \$34.100 billion, so this forecast anticipates an additional 0.5% reduction in the personal income tax rate from 3.49% in 2027 to 2.99% in 2028. The lower tax rate in calendar year 2028 does not impact revenue

- **The Consensus Forecast revision reflects an improved economic outlook** for the biennium, but uncertainty remains high.

- **Year-to-date revenue collections are above target** due to personal income tax collections being stronger than anticipated.

- **The U.S.-Iran conflict and its impact on energy prices** is expected to be temporary. A longer duration could have a significant impact on economic growth.

- **Expected growth in personal income tax and insurance premiums tax** account for almost all of the change in the forecast.

in the current biennium, though it will have a significant impact on collections in FY 2027-28 and beyond. Note that a 1.8% variance in actual collections under this estimate would leave net collections under the trigger amount, leaving the personal income tax rate at 3.49% in 2028.

Forecast Summary

Generally, economic conditions have overperformed expectations relative to the May 2025 consensus revenue forecast. At that time, large increases to tariff rates were expected to drag down both U.S. and North Carolina growth in gross domestic product (GDP), with diminished growth in jobs, income, retail sales, and corporate profits following. The unemployment rate was expected to slowly increase in tandem with these anticipated trends. Accordingly, we expected lower growth in North Carolina's tax base, leading to nearly flat revenue in FY 2025-26 and a decrease in revenue for FY 2026-27 driven primarily by personal and corporate income tax rate reductions.

However, through early 2026, U.S. GDP growth has outpaced prior expectations, particularly in the third quarter of 2025. Actual effective tariff rates were lower than expected, reducing the impact on overall growth. While the government shutdown reduced U.S. GDP growth in the fourth quarter of 2025, this did not significantly slow down economic growth in North Carolina. Year-to-date revenue collections in the first 8 months of the fiscal year were roughly 2% above target, primarily due to strength in personal income tax. Based on these trends, FRD and OSBM have adjusted expectations to include more revenue in the current fiscal year and a larger tax base to grow from in future years.

The overall economic outlook for the rest of FY 2025-26 and FY 2026-27 has improved since May, though there is significant uncertainty surrounding the recent U.S.-Iran conflict and impacts on oil prices due to the closure of the Strait of Hormuz. Economic forecasters predict higher GDP growth, wage and salary growth, retail sales growth, and corporate profits growth when compared to the last revision. In addition, inflation, which was lower than expected through February, is also expected to be slightly higher for FY 2026-27, putting upward pressure on revenue. Economic forecasters assume higher energy prices will hinder growth but anticipate the effect will dissipate within one year.

Almost all of the net growth in the forecast compared to certified revenue can be accounted for by upward revisions to two sources, personal income tax and insurance premiums tax, with other changes netting out. So far, personal income tax has seen growth well above target, primarily due to nonwithholding payments. While this indicator could point toward a large increase in collections in April when many final payments are due, FRD and OSBM are cautiously assuming remaining FY 2025-26 payments will be similar to what our revenue targets expect, ending the year above target but lower than the current trajectory. In FY 2026-27, we expect higher wage growth than previously anticipated, pushing up withholding collections from our previous baseline as well. Insurance premiums tax collections have significantly outpaced targets due to increases in Medicaid gross capitation payments as well as growth in fire and casualty premiums following repricing in the wake of Hurricane Helene. We expect these insurance premiums tax trends to continue and to close each year well above our certified revenue estimates.

Risks to the forecast include the aforementioned U.S.-Iran conflict. A longer-than-expected duration could negatively impact energy prices well into 2027, slowing down investment and overall economic growth. Additionally, there is always potential for an "April surprise" in either direction. If income tax payments come in significantly below

trend, current year collections could revert towards certified revenue and lead to a reassessment of the expected tax base for FY 2026-27.

Current Fiscal Year Revenue and Outlook for the Upcoming Biennium

Personal income tax (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$16,892.7	\$17,191.9	\$299.2	1.8%
2026-27	\$16,081.4	\$16,614.6	\$533.2	3.3%

Personal income tax accounts for just under half of 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.

Through February 2026, net revenue was above consensus revenue targets, increasing expectations for revenue for FY 2025-26 and FY 2026-27 relative to certified revenue. Additionally, wage growth has been above expectations, and forecasts for next year have been revised accordingly, leading to higher expected growth in the personal income tax base for FY 2026-27.

However, even with increases to the base, year-over-year revenue growth is tepid in FY 2025-26 and negative in FY 2026-27, with year-over-year rates of 1.8% and -3.4%, respectively. Statutory tax rates explain this divergence. The individual income tax rate was reduced from 4.25% in 2025 to 3.99% in 2026. Due to the impact of the personal income tax triggers established in S.L. 2023-134, the forecast continues to anticipate an additional reduction to 3.49% in 2027.

Withholding growth has continued to outpace wage and salary growth. Through the first 8 months of the fiscal year, withholding was roughly on target with consensus expectations and is expected to finish there in FY 2025-26. Expectations for FY 2026-27 are higher due to increases in forecasted wage growth. An additional factor bolstering withholding in FY 2026-27 is that the fiscal year contains 53 Wednesdays, the day of the week when most withholding payments are made. This “extra Wednesday” increases withholding revenue relative to a typical year.

Nonwithholding, including both estimated and final personal income tax payments, has been nearly 10% above consensus revenue targets through February. However, the last 4 months of the fiscal year contain about 57% of the expected nonwithholding revenue for the fiscal year, meaning that there is significant potential for variance in either direction. This forecast assumes that gains year-to-date will hold, but that nonwithholding totals for the remaining 4 months will be roughly on target. Growth in 2025-26 feeds into increased expectations for the size of the FY 2026-27 nonwithholding tax base. For context, in FY 2024-25, nonwithholding representing just over a quarter of gross personal income tax revenue.

Sales and use tax (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$11,492.8	\$11,337.2	-\$155.6	-1.4%
2026-27	\$11,821.3	\$11,784.5	-\$36.8	-0.3%

Sales and use tax revenue accounts for roughly one third of net General Fund revenue. Through January 2026, sales tax net revenue was slightly below target, which has lowered expectations about revenue for FY 2025-26. Compared to certified revenue, sales and use tax revenue is expected to decline by 1.4 percent. Year-over-year growth in sales tax collections is lower than expected but remains positive at 3.0 percent.

■ **Personal income tax revenue** is above target for the current fiscal year.

■ **Lower tax rates in 2026 and 2027** contribute to declining personal income tax revenue.

■ **An extra Wednesday in FY 2026-27** increases expected withholding.

■ **Sales tax revenue** is lower than the certified revenue target for the current fiscal year.

■ **The recent spike in oil prices** is expected to increase inflation in the beginning of FY 2026-27.

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

■ **Insurance premiums tax revenue is growing** due to increased gross capitation payments to primary health providers and premium increases following Hurricane Helene.

■ **Corporate income tax revenue** was not revised for the current fiscal year, but is expected to increase compared to certified revenue in FY 2026-27.

Inflation has slowed since the May 2025 forecast, likely contributing to lower revenue collections than anticipated. However, economic forecasters anticipate recent changes to oil prices to increase inflation towards the end of 2026. Higher prices along with continued economic and population growth is expected to increase sales and use tax revenue by 3.9 percent in the second year of the biennium. The small downward revision from certified revenue reflects lower collections in FY 2025-26, which reduces the base from which future growth is calculated.

Federal policy decisions and the extent to which they impact consumer spending remains uncertain, particularly in regard to tariffs. Some consumers respond to higher prices by reducing overall spending or purchasing lower-priced goods and services. Others continue consuming tariff-impacted goods at higher prices. The combined effects of consumer responses to tariffs and higher oil prices are expected to increase volatility in sales tax revenue.

Business taxes (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$3,584.6	\$3,728.7	\$144.1	4.0%
2026-27	\$3,385.2	\$3,718.5	\$333.3	9.8%

Business taxes include corporate income tax, insurance premiums tax, and franchise tax, and collectively account for roughly one-tenth of General Fund net revenue. The March 2026 consensus forecast revises business taxes upward relative to certified levels in both years, driven primarily by insurance premiums tax collections.

- *Insurance premiums tax* was revised upward by over 15% in FY 2025-26 and over 20% in FY 2026-27 compared to the certified budget. There are two primary factors informing this revision. Increases to gross capitation payments to prepaid health plans from the Medicaid and Healthcare Access and Stabilization (HASP) programs have been above previous forecast expectations, leading to significant additional tax payments. Additionally, fire and casualty insurance payments, such as homeowner’s insurance, have seen significant premium increases in the wake of Hurricane Helene, generating higher growth in the traditional insurance premiums tax base.
- *Corporate income tax* was unchanged from certified revenue for FY 2025-26. Indicators pointed in different directions; FY 2024-25 payments and 2025 corporate profits were higher than expected, but revenue through February is under consensus revenue targets. With over 60% of net revenue still believed to be outstanding, FRD and OSBM left the previous forecast unchanged. Economic forecasters believe that corporate profits will grow in 2026, largely driven by improvements in productivity. Accordingly, corporate income tax revenue is expected to increase by 6.2% compared to certified revenue in FY 2026-27. The corporate income tax rate was lowered from 2.5% in 2024 to 2.25% in 2025 and 2.0% in 2026, which is the reason for year-over-year declines in revenue over the biennium. The rate is set to decrease to 1.0% in 2028 and 0% in 2030.
- *Franchise tax* was revised downward from certified revenue in each year of the biennium due to large one-time refunds issued to taxpayers. The largest refunds are anticipated in FY 2025-26 with some outstanding refunds being carried into FY 2026-27. Growth in gross franchise tax revenue year-over-year relative to previous expectations offsets some of this impact.

■ **Large one-time privilege license tax refunds** have lowered expectations for other taxes in the current fiscal year.

■ **Sports wagering tax revenue** is growing more rapidly than anticipated but is similar to other states.

■ **Scrap tire tax is no longer credited to the General Fund** as of October 1, 2025.

■ **Investment income** is above target for the current fiscal year but is still expected to decline in FY 2026-27

Other Taxes (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$1,030.1	\$1,015.1	-\$15.0	-1.5%
2026-27	\$1,050.7	\$1,040.3	-\$10.4	-1.0%

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 net decline in other taxes can be primarily attributed to the lower estimate of privilege license tax revenue.

- *Privilege license tax* collections were revised below certified revenue following roughly \$11.2 million in significant one-time refunds in September 2025. Collections are expected to rebound in FY 2026-27 by roughly 38% year-over-year, but are still lower than certified revenue. This reflects recent changes to the tax base and trends in gross collections.
- *Sports wagering tax* net General Fund revenue was revised upwards by roughly 15% in FY 2025-26 and 18% in FY 2026-27. Previously, OSBM and FRD had believed that North Carolina’s rapid adoption of sports wagering would lead to slower growth compared to the experience of other states that legalized sports wagering. However, year-to-date growth in paid wagering revenue, the total amount wagered, indicates a similar pattern to other states with more rapid early growth. We have accordingly increased our estimates for current year growth as well as year-over-year growth in FY 2026-27.
- Per S.L. 2025-66, no portion of *scrap tire tax* is credited to the General Fund as of October 1, 2025. While this change was reflected in certified revenue, we wanted to note it here for informational purposes.

There were minimal adjustments made to the following revenue categories:

- Alcoholic beverages taxes
- Real estate transactions tax
- Tobacco products taxes
- Disposal taxes (white goods and solid waste)

Nontax Revenue (\$ in millions)

Fiscal Year	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	\$1,709.0	\$1,806.1	\$97.1	5.7%
2026-27	\$1,429.9	\$1,561.6	\$131.7	9.2%

Nontax revenue accounts for roughly 5% of General Fund revenue. Primary components of growth are investment income and Disproportionate Share (DSH).

- *Investment income* on the State’s cash balances makes up about 40% of nontax revenue. This category was revised upwards in each year due to above-target actuals and higher rates of return on assets such as U.S. Treasuries than anticipated. Investment income is still expected to decline year-over-year, from \$850 million in FY 2024-25 to \$776 million in FY 2026-27 and \$637 million in FY 2027-28. These estimates account for most of the negative year-over-year trend in nontax revenue.

- **The Disproportionate Share (DSH) program was extended by Congress**, leading to higher nontax revenue in FY 2026-27.

- **DMV fee collections have increased** due to faster license processing.

- **Motor fuels tax revenue is expected to be flat in FY 2025-26** while higher estimated rates will increase revenue in the second year of the biennium.

- **The transportation commerce tax and the reinstatement of the North Carolina Railroad Dividend** are new sources of revenue for the Highway Fund.

- *Disproportionate Share (DSH)* was extended by the U.S. 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 is expected to increase revenue in FY 2026-27 by roughly \$66 million, about a 60% increase compared to certified revenue. Certified revenue figures anticipated expiration of the program, per federal law at that time.

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

Transportation revenues

March 2026 Transportation Consensus Revenue Forecast (\$ in millions)

Fiscal Year	Fund	Certified Revenue	March Revision	Change (\$)	Change (%)
2025-26	Total	\$5,794.9	\$5,853.5	\$58.6	1.0%
2026-27	Total	\$5,892.2	\$5,970.8	\$78.6	1.3%
<i>Fund Breakout</i>					
2025-26	Highway Fund	\$3,305.4	\$3,352.9	\$47.5	1.4%
2026-27	Highway Fund	\$3,344.2	\$3,402.3	\$58.1	1.7%
2025-26	Highway Trust Fund	\$2,489.5	\$2,500.6	\$11.1	0.4%
2026-27	Highway Trust Fund	\$2,548.0	\$2,568.5	\$20.5	0.8%

The primary sources of revenue for the Highway Fund and the Highway Trust Fund are the motor fuels tax, the Highway Use Tax on sale and long-term lease of vehicles, Division of Motor Vehicles (DMV) fees such as driver license and vehicle registration fees, and the transfer of 6% of general rate sales tax revenues from the General Fund.

The upward adjustment to the FY 2025-26 forecast is primarily due to increased estimates for DMV fees. In particular, driver license fees have grown rapidly as DMV continues to clear the backlog of licenses and is able to increase the number of appointments processed. Other fees were increased based on FY 2024-25 actuals, actuals year-to-date, and longer-run trends.

The continuation of DMV fee trends and higher motor fuels tax estimates both play a role in increasing the FY 2026-27 forecast. Total taxable gallons of motor fuels are expected to be relatively flat for FY 2025-26 as the spike in prices from the U.S.-Iran conflict puts downward pressure on motor fuels consumption. In FY 2026-27, there is expected to be catch-up growth as energy prices decline. Actual and expected increases to the motor fuels tax rate (41.0 cents per gallon in 2026 and an estimated 41.5 cents per gallon in 2027) also contribute to expected increases in motor fuels tax revenue.

Lastly, two new sources of revenue contribute to Highway Fund revenue growth. Collections for the transportation commerce tax, on rideshare platforms and taxis, has exceeded previous expectations, averaging roughly \$1 million in revenue per month since collections began in August 2025. Additionally, the temporary reinstatement of the North Carolina Railroad dividend will generate roughly \$5 million in revenue in each fiscal year.