



North Carolina Consensus Revenue Forecast

May 2026 Forecast Revision Summary

FORECAST HIGHLIGHTS

- **Revenue was revised upward for both years of the biennium.** Modest year-over-year growth is anticipated for FY 2025-26, as well as year-over-year decline in FY 2026-27, as the personal income tax rate is forecasted to decrease in 2027.

- **Both personal income tax triggers are still expected to be reached,** reducing the rate to 3.49% in 2027 and 2.99% in 2028.

- **April collections confirmed above-target trends,** with overcollections across all major tax categories.

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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 15, 2026. This report summarizes the changes to the forecast for each fund from the March 2026 forecast and details the outlook for each major revenue source.

General Fund forecast

The May 2026 forecast revision anticipates net General Fund revenue of \$35.69 billion for FY 2025-26, a 3.3% year-over-year increase over FY 2024-25 collections of \$34.56 billion. Net revenue is expected to decline to \$35.43 billion in FY 2026-27, a 0.7% year-over-year decrease from FY 2025-26.

Compared to the March 2026 consensus revenue forecast, the FY 2025-26 forecast is adjusted upwards by \$608.8 million (1.7%) in overcollections. The FY 2026-27 estimate is a \$713.2 million (2.1%) increase over the March 2026 consensus revenue, representing additional availability in the upcoming fiscal year.

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

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$35,079.0	\$35,687.8	\$608.8	1.7%
2026-27	\$34,719.5	\$35,432.7	\$713.2	2.1%

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 May 2026 revision continues to anticipate exceeding the triggers in both FY 2025-26 and FY 2026-27, decreasing the personal income tax rate from 3.99% in 2026 to 3.49% in 2027 and 2.99% in 2028 and after.

Forecast Summary

The [March 2026 forecast revision](#) took a cautious approach to estimating a potential April surprise. At that time, personal income tax collections from estimated and final payments (collectively referred to as nonwithholding) were significantly above consensus revenue targets. However, with the potential for an April surprise in either direction, FRD and OSBM chose to incorporate most year-to-date gains into the upward revision while assuming collections close to target for the rest of the year.

April collections data indicated that previous year-to-date trends were accurate, with overcollections above target for nonwithholding. Additionally, the April data showed increased collections across the major tax categories. Sales tax collections were slightly

- **Energy prices and inflation** have a positive impact on collections in the near term, but introduce risk to economic growth over the biennium.

- **Higher personal income and corporate profits** are the primary drivers of the upward revision in both years.

- **Personal income tax revenue is above target** for the current fiscal year, driven by strong nonwithholding payments.

- **The personal income tax rate reduction** from 3.99% to 3.49% in 2027 is the primary reason for the year-over-year decline in FY 2026-27.

above the March forecast, driven by higher income tax refunds boosting consumer spending and higher inflation increasing the dollar value of taxable transactions. Corporate income tax and insurance premiums tax also exceeded expectations, reflecting stronger-than-anticipated corporate profit growth and continued premium increases in the insurance market.

The broader macroeconomic backdrop, as reflected in the May 2026 Moody's Analytics U.S. Macro Model revision, provides context for these trends. U.S. GDP growth rebounded in the first quarter of 2026 following the government shutdown-related drag at the end of 2025. However, the U.S.-Iran conflict and the resulting closure of the Strait of Hormuz have pushed energy prices and overall inflation higher. Higher energy prices and inflation provide some upside to tax revenue collections in the near term but represent a downside risk to real economic growth and consumer spending over the biennium.

Accordingly, the FY 2025-26 forecast was revised upward to anticipate overcollections for the current fiscal year, with the primary drivers being increased expected personal income tax and business tax collections. Expectations of higher income and corporate profits carry through to FY 2026-27, with higher tax bases from this year and minor changes to expected growth rates year-over-year. FY 2026-27 is still expected to have a year-over-year decline in net General Fund revenue. This is primarily due to the impacts of the personal income tax rate reduction from 3.99% in 2026 to 3.49% in 2027.

Current Fiscal Year Revenue and Outlook for the Upcoming Biennium

Personal income tax (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$17,191.9	\$17,515.0	\$323.1	1.9%
2026-27	\$16,614.6	\$17,077.2	\$462.6	2.8%

Personal income tax collections are significantly above target for FY 2025-26, resulting in an upward revision of the forecast compared to March. This revision accounted for roughly 60% of the General Fund upward revision from March to May 2026. Economic forecasters increased expectations for total personal income for FY 2025-26 and FY 2026-27 when comparing forecasts available in March 2026 to today. A primary contributor to personal income growth is receipts on assets, including interest and dividend income. A resilient equities market, as measured by e.g. the S&P 500, has particularly bolstered *nonwithholding* payments, including both final payments in April on the 2025 tax year and estimated payments for 2026.

While the personal income tax base is expected to be larger than before, the impact of reducing the personal income tax rate from 3.99% in 2026 to 3.49% in 2027 is the main reason for the year-over-year reduction of \$437.8 million (2.5%). This reduction primarily affects withholding payments, which form the bulk of personal income tax payments, with a partial impact on nonwithholding due to estimated payments expected for the 2027 tax year. This expected year-over-year reduction is similar to the March 2026 consensus revenue trend.

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Sales and use tax (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$11,337.2	\$11,409.7	\$72.5	0.6%
2026-27	\$11,784.5	\$11,802.2	\$17.7	0.2%

- **Sales tax collections are slightly above the March forecast**, supported by above-average federal income tax refunds and higher inflation.

Sales and use tax revenue collections are slightly above target for FY 2025-26, resulting in a modest upward revision of the forecast compared to March. Above-average federal income tax refunds earlier in the year boosted consumer spending, contributing to stronger-than-expected collections. Additionally, the continuation of the U.S.-Iran conflict has contributed to higher energy prices and overall inflation, increasing the revenue generated from taxable transactions. To date, there are no indications that North Carolina consumers have materially reduced spending in response to higher energy costs, consistent with the state's continued population and income growth.

- **Slower year-over-year growth is expected in FY 2026-27** due to the non-recurring boost in consumer spending in FY 2025-26.

For FY 2026-27, collections are expected to be slightly higher than the March 2026 forecast, though year-over-year growth is expected to be slower than previously anticipated. The above-average federal income tax refunds that boosted consumer spending this year are not expected to repeat in FY 2026-27, which results in slower year-over-year growth. Higher inflation and continued economic and population growth are expected to outweigh potential negative effects on consumer spending from elevated energy prices. A resolution of the U.S.-Iran conflict would provide additional upside risk by easing energy price pressures, but the inflationary impacts of the conflict are expected to continue into the second year of the biennium. FRD and OSBM will continue to monitor collections as the macroeconomic environment evolves.

Business taxes (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$3,728.7	\$3,951.3	\$222.6	6.0%
2026-27	\$3,718.5	\$3,956.9	\$238.4	6.4%

- **Business taxes were all above target through April**, contributing to a 6% upward revision for FY 2025-26.

Business taxes, including corporate income tax, insurance premiums tax, and franchise tax, were all above consensus revenue targets through April. Accordingly, they were collectively revised upward by roughly 6% in each fiscal year, constituting roughly one third of the General Fund upward revision. Contributions to growth include national business investment, which grew faster than expected in early 2026 due largely to a surge in AI-related spending on software and IT equipment. Stronger corporate earnings among large publicly traded firms are reflected in rising equity prices. These trends are reflected in upward revisions to the economic forecasts that inform the May revision.

- **Insurance premiums tax was revised upward** due to higher-than-expected reconciliation payments in March and installment payments in April.

- The *insurance premiums tax* base has grown more rapidly than previously anticipated. In March, insurance premiums collections were revised upwards by over 17% over the biennium compared to certified revenue. Higher-than-expected March reconciliation payments and a corresponding increase to April installment payments confirmed even that substantial revision was not large enough. Moody's Analytics projects a 9.4% increase in personal consumption expenditures on financial services and insurance nationwide for FY 2025-26, reflecting an acceleration in spending on insurance products relative to other consumption categories. As insurance premiums rise, gross written premiums subject to NC's tax expand proportionally, increasing revenue expectations. FRD and OSBM expect slower but continued growth in this tax base for FY 2026-27.

- **Corporate income tax was revised upward** due to stronger-than-expected corporate profits, consistent with national economic performance.

- **The franchise tax base has grown**, and with fewer anticipated refunds in FY 2026-27, strong year-over-year growth is anticipated.

- **Other taxes were not adjusted** from the March 2026 revision and were on trend.

- **Lower-than-expected Master Settlement Agreement revenue** led to a slight downward revision in nontax revenue.

- **Transportation revenues were largely unchanged**, with the sales tax transfer adjusted slightly to reflect higher sales and use tax collections.

- *Corporate income tax* was revised upwards due to higher-than-expected corporate profits in 2025, affecting April final payments, and strong year-to-date growth affecting 2026 estimated payments and expectations for a higher FY 2026-27 tax base. This is consistent with stronger-than-expected national economic performance. Corporate income tax is still expected to be on a downward trend year-over-year due to rate reductions; the tax was reduced statutorily from 2.5% in 2024 to 2.25% in 2025 and 2.0% in 2026 and 2027.
- The *franchise tax* base grew in tandem with stronger-than-expected business and economic performance at a national level. One-time refunds are still expected to be large in FY 2025-26. With a larger base and fewer anticipated refunds, FY 2026-27 is expected to see significant year-over-year growth, though gross collections are projected to grow at a slower rate compared to the increase from FY 2024-25 to FY 2025-26.

Other taxes (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$1,015.1	—	—	—
2026-27	\$1,040.3	—	—	—

Other taxes were not adjusted from the March 2026 Consensus Revenue Forecast Revision. On net, these taxes were on trend relative to the March revision. Other taxes include alcoholic beverage, sports wagering, privilege license, tobacco products, real estate conveyance, white goods, scrap tire, and solid waste disposal.

Nontax revenue (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)	Change (%)
2025-26	\$1,806.1	\$1,796.7	-\$9.4	-0.5%
2026-27	\$1,561.6	\$1,556.1	-\$5.5	-0.4%

Nontax revenue had one adjustment. Revenue from the Master Settlement Agreement was aligned to the actual payment, which was lower than expected. Accordingly, the FY 2026-27 estimate for the payment was decreased as well. Other sources of nontax revenue include investment income, judicial fees, insurance, disproportionate share, and SFRF interest. These sources are on trend relative to the March revision.

Transportation revenues (\$ in millions)

Fiscal Year	March Forecast	May Revision	Change (\$)
2025-26	\$5,853.5	\$5,857.4	\$3.9
2026-27	\$5,970.8	\$5,971.2	\$0.4

The primary sources of Highway Fund and Highway Trust Fund revenues were not adjusted. These include the motor fuels tax, the highway use tax, and Division of Motor Vehicles fees.

The estimate for the sales tax transfer to the Highway Fund and Highway Trust Fund was increased in order to conform to the upward revision to sales and use tax in the General Fund forecast.