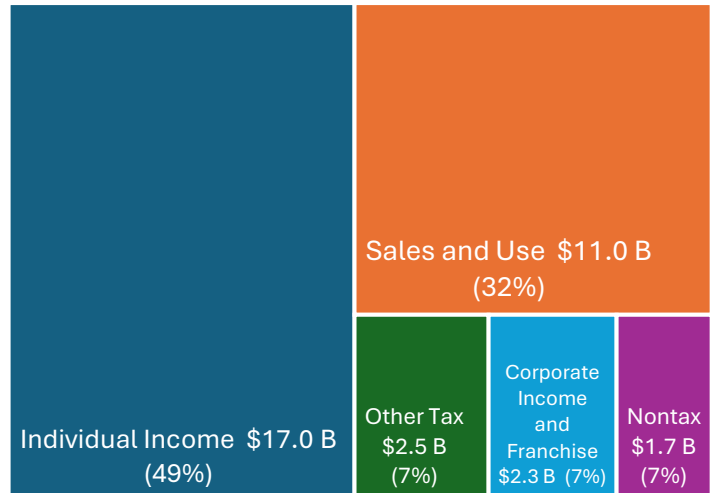


General Fund Revenue Outlook

More than 80% of General Fund revenues are derived from the individual income tax and the sales and use tax. Other important sources of revenue include corporate income and franchise taxes, taxes on insurance premiums, excise taxes on alcohol and tobacco products, and revenue from nontax sources, such as judicial fees and earnings from investing state funds.

OSBM and the General Assembly's Fiscal Research Division issued a [revised consensus revenue forecast](#) for the 2025-27 biennium on March 24, 2026.

General Fund Revenues – FY 2024-25



Current Year Revenue (FY 2025-26)

Total General Fund revenue is projected to equal \$35.1 billion in FY 2025-26, an upward revision of \$370 million (1.1%) from certified revenues and a 1.5% increase over FY 2024-25 revenues.

Higher-than-expected revenue from individual income tax, insurance premium tax, and investment income primarily contributed to anticipated overcollections for the current fiscal year. Strong business profits, significant capital gains from rising equity values, and stable wage growth supported an increase of \$299 million in the individual income tax forecast despite some weakness in job growth. Forecasters revised insurance premium taxes upward by \$211 million above the original consensus forecast due to rising prepaid health plan tax revenues tied to Medicaid managed care and growth in property and casualty insurance premiums. Persistently high interest rates continued to drive investment income growth, leading to an upward revision of \$73 million. Sales tax revenue was revised downward by \$156 million due to higher-than-expected refunds and lower-than-expected tariffs on imported goods. Other revenue sources, including corporate income, had minimal impact on the forecast revisions.

Outlook for Fiscal Year 2026-27

For the 2026-27 fiscal year, the consensus forecast anticipates net General Fund revenue of \$34.7 billion. This corresponds to a year-over-year decrease of \$360 million (1%) in FY 2026-27. Adjusted for the Governor's recommended revenue changes, anticipated revenue is \$35.2 billion in FY 2026-27, or a year-over-year increase of \$158 million (0.5%).

The economic forecast underlying the revenue forecast assumes economic growth will remain modestly above the long-run average through the remainder of 2026. The primary factors driving growth this year include:

- lower short- and long-run interest rates,
- fiscal stimulus from recent federal tax cuts for households and businesses,
- more stability in trade policy, and
- recent improvements in productivity.

The combined result is a boost to consumer spending and business investment through late 2026 despite continued sluggish job growth. Beginning in 2027, the economic outlook anticipates slowing growth in consumer spending and wages. Please refer to the [Economic Outlook](#) for further discussion of economic expectations and risks.

Recommended Revenue Changes

Increase the Standard Deduction

Raises the [standard deduction](#) starting in 2027 by \$1,000 (from \$25,500) for married couples filing jointly, \$750 for heads of households, and \$500 for single filers and married couples filing separately. The recommended increase in the standard deduction will reduce taxable income for almost 4 million taxpayers and raise after-tax incomes by \$53 million in FY 2026-27.

Working Families Tax Credit

Establishes a refundable Working Families Tax Credit equal to 10% of the federal earned income tax credit starting in 2026. Families must have earned income to be eligible for this credit, which varies by income, family size, and marital status. The Working Families Tax Credit will provide up to \$823 to families to offset income, sales, and other taxes, raising after-tax incomes by \$240 million across 700,000 eligible families in FY 2026-27.

Child and Dependent Care Tax Credit

Establishes a refundable child and dependent care tax credit starting in 2026 equal to 30% of the recently expanded federal credit. This credit reimburses parents and other caregivers for a percentage of eligible child and dependent care expenses based on income and will offset \$55 million in child and dependent care expenses for 200,000 eligible families in FY 2026-27. The credit phases out between income levels of \$150,000 and \$200,000.

Sales Tax Back-to-School Holiday

Establishes a state sales tax holiday for school supplies and equipment to support teachers and families with school-aged children. The sales tax exemption would apply to school supplies, clothing, computers, and computer supplies below per-item limits over three days during the first weekend in August. The back-to-school sales tax holiday holds local governments harmless and will reduce costs for back-to-school shoppers by \$30 million in FY 2026-27.

Maintain Individual Income Tax Rate at 3.99%

Maintains the individual income tax rate at 3.99% and repeals the rate-reduction triggers. This policy raises General Fund revenues by an estimated \$896 million in FY 2026-27 compared to current law, which would otherwise reduce the rate to 3.49% in 2027 and 2.99% in 2028 based on the current consensus forecast. North Carolina will still have the lowest individual income tax rate among East Coast states with an income tax.

Maintain Corporate Income Tax Rate at 2%

Maintains the corporate income tax rate at 2%. This policy does not affect FY 2026-27 revenues but will increase revenues starting in FY 2027-28 relative to current law. North Carolina already has the lowest corporate income tax rate among the 44 states that have a corporate income tax and the lowest business tax burden among all states. Additional corporate income tax reductions primarily benefit large multinational companies.

Five-Year Revenue Impacts of Recommended Revenue Changes

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Maintain Individual Income Tax Rate at 3.99%	\$896.0	\$3,152.3	\$4,661.3	\$4,908.9	\$5,142.4
Maintain Corporate Income Tax Rate at 2%	\$0.0	\$294.3	\$636.2	\$1,038.2	\$1,465.1
Increase Standard Deduction	-\$53.0	-\$118.9	-\$120.4	-\$122.0	-\$123.6
Child and Dependent Care Tax Credit	-\$55.0	-\$56.0	-\$57.0	-\$59.0	-\$61.0
Working Families Tax Credit	-\$240.0	-\$245.7	-\$253.9	-\$262.3	-\$271.0
Back-to-School Sales Tax Holiday	-\$29.9	-\$31.0	-\$32.0	-\$33.1	-\$34.2
Total	\$518.1	\$2,995.1	\$4,834.1	\$5,470.6	\$6,117.6
<i>Individual Income Tax</i>	<i>\$548.0</i>	<i>\$2,731.7</i>	<i>\$4,229.9</i>	<i>\$4,465.5</i>	<i>\$4,686.8</i>
<i>Corporate Income Tax</i>	<i>\$0.0</i>	<i>\$294.3</i>	<i>\$636.2</i>	<i>\$1,038.2</i>	<i>\$1,465.1</i>
<i>Other Tax</i>	<i>-\$29.9</i>	<i>-\$31.0</i>	<i>-\$32.0</i>	<i>-\$33.1</i>	<i>-\$34.2</i>

General Fund Revenue by Fiscal Year: Recent History and Forecast with Governor's Recommended Changes (in Millions)

	2024-25	2025-26			2026-27		
	Actual	Budget	Revised	Change	Budget	Revised	Change
Tax Revenue							
Individual Income	17,012.2	16,892.7	17,191.9	1.1%	16,081.4	17,162.6	-0.2%
Sales and Use	11,006.2	11,492.8	11,337.2	3.0%	11,821.3	11,754.6	3.7%
Corporate Income	1,569.7	1,379.4	1,379.4	-12.1%	1,242.9	1,320.5	-4.3%
Franchise	775.0	787.8	721.3	-6.9%	805.8	792.3	9.8%
Insurance Premium	1,426.4	1,417.4	1,628.0	14.1%	1,336.5	1,605.7	-1.4%
Alcoholic Beverage	549.5	560.6	546.9	-0.5%	572.4	554.3	1.4%
Sports Wagering	55.7	58.3	67.2	20.6%	63.8	75.4	12.2%
Privilege License	39.2	43.2	24.5	-37.5%	44.6	33.8	38.0%
Tobacco Products	248.6	240.8	242.3	-2.5%	235.8	237.5	-2.0%
Real Estate Conveyance	117.0	116.7	124.1	6.1%	125.6	131.4	5.9%
White Goods Disposal	3.5	4.4	3.9	11.5%	4.6	4.1	5.1%
Scrap Tire Disposal	8.6	2.4	2.6	-69.8%	0.0	0.0	-100.0%
Solid Waste Disposal	3.2	3.4	3.3	3.9%	3.6	3.5	6.1%
Other Tax	0.4	0.3	0.3	-26.7%	0.3	0.3	0.0%
Total Tax Revenue	32,815.3	33,000.2	33,272.9	1.4%	32,338.6	33,676.0	1.2%
Nontax Revenue							
Investment Income	850.6	702.9	776.3	-8.7%	605.5	637.2	-17.9%
Judicial Fees	208.1	202.4	214.4	3.0%	199.8	218.0	1.7%
Insurance	119.6	123.4	124.1	3.8%	126.6	127.1	2.4%
Disproportionate Share	169.8	171.4	170.9	0.6%	109.0	174.6	2.2%
Master Settlement Agreement	107.5	97.6	109.5	1.9%	91.8	98.0	-10.5%
Other Nontax	288.1	411.3	410.9	42.6%	297.2	306.7	-25.4%
Total Nontax Revenue	1,743.7	1,709.0	1,806.1	3.6%	1,429.9	1,561.6	-13.5%
Total General Fund Revenue	34,559.0	34,709.2	35,079.0	1.5%	33,768.5	35,237.6	0.5%

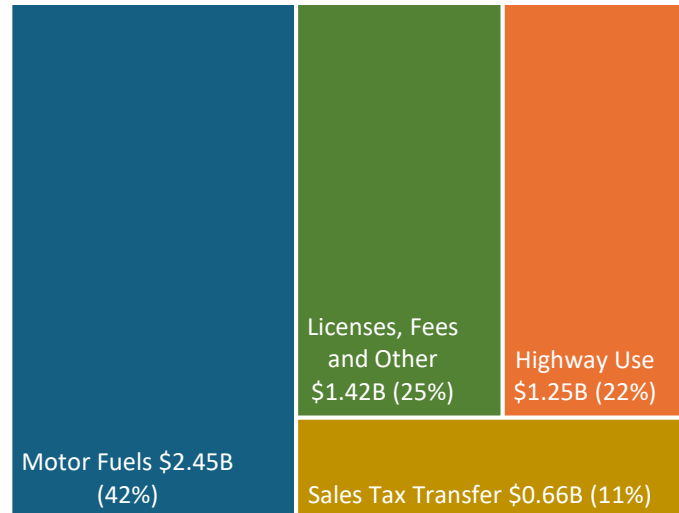
Totals may differ from the sum of their parts due to rounding.

Highway Fund and Highway Trust Fund Revenue Outlook

In FY 2024-25, the Highway Fund (HF) and Highway Trust Fund (HTF) had revenues of \$3.32B and \$2.45B, respectively, for a total of \$5.77B in revenue collection.

The largest overall revenue source for the Highway Fund and Highway Trust Fund, comprising approximately 42% of the total revenue, is the state excise tax on motor fuels. The transfer of 6% of sales tax collections from the General Fund accounts for more than a tenth of revenues. Finally, the funds receive revenue from Division of Motor Vehicle (DMV) licenses and fees and interest earned on investments of the funds' cash balances. The Highway Trust Fund receives all highway use tax (i.e., sales tax on new and used vehicles sold or transferred) revenue.

Highway and Highway Trust Fund Revenue Source



Current Year Revenue (FY 2025-26)

The revised consensus forecast for FY 2025-26 anticipates total Highway Fund and Highway Trust Fund revenue at \$5.85 billion, an upward revision of \$59 million (+1.4%) from certified revenue of \$5.79 billion. Highway Fund revenues are projected at \$3.35 billion, up 0.9% from the prior year, driven by elevated collections from licenses and fees and the highway short-term lease tax. Highway Trust Fund revenues are projected at \$2.5 billion, up 2% from prior year, led by stronger-than-expected highway use tax collections.

Revenue Outlook (FY 2026-27)

For FY 2026-27, the consensus forecast projects combined revenue of \$5.97 billion, a 2% increase over FY 2025-26. The Highway Fund forecast of \$3.4 billion reflects modest growth in motor fuels tax collections, supported by the statutory rate adjustment, and continued growth in licenses and fees. Highway Fund investment income is projected to decline sharply because Helene recovery costs are paid from the Highway Fund before federal reimbursements are received, reducing the fund's cash balance and the interest it earns.

The Highway Trust Fund forecast is revised modestly upward from the previous consensus to \$2.57 billion (+0.8%), with highway use tax collections and the General Fund sales tax transfer essentially unchanged from the previous consensus. Highway use tax collections are projected at \$1.18 billion, reflecting 2.6% year-over-year growth, and the Highway Trust Fund's sales tax transfer rises to

\$529 million, up 4% year over year. The upward revision from the previous consensus is driven primarily by higher investment income and title fee collections.

In the near term, the trajectory of vehicle prices and sales volumes faces uncertainty from federal trade policy. Tariffs on imported vehicles and parts will likely put upward pressure on new vehicle prices, causing consumers to postpone purchases or shift toward used vehicles. OSBM expects new light vehicle sales to decline from 16.2 million units in 2025 to 15.8 million in 2026 and rebound to 16 million in 2027. High prices and elevated borrowing costs pose downside risks to highway use tax collections.

The conflict in the Middle East has elevated energy prices. A prolonged conflict is likely to reduce gallons consumed as drivers respond to higher gas prices. Higher energy prices could also dampen vehicle sales by raising the total cost of ownership, compounding tariff-related pressure on highway use tax collections. The longer the conflict persists, the greater the impact on both fuel consumption and vehicle sales. Over the longer term, continued improvement in average fuel economy and growing adoption of electric and hybrid vehicles will reduce motor fuel tax revenue but increase revenue from fees on electric and plug-in hybrid vehicles. The pace of that shift remains uncertain given recent changes in federal emissions standards and clean vehicle tax credits.

Highway Fund and Highway Trust Fund Revenue by Fiscal Year

	2024-25	2025-26			2026-27		
	Actual	Budget	Revised	Change	Budget	Revised	Change
Highway Fund							
Motor Fuels Taxes	1,835.1	1,853.0	1,854.3	0%	1,878.1	1,904.2	1%
Highway Short Term Lease	116.9	113.1	120.7	7%	114.9	124.5	8%
Licenses and Fees	1,114.4	1,097.5	1,131.0	3%	1,116.0	1,141.8	2%
Investment Income	79.6	50.2	48.1	-4%	37.6	24.4	-35%
Aviation Fuel Tax	13.1	13.1	12.3	-6%	13.4	12.6	-6%
Transportation Commerce Tax	0.0	7.0	12.3	76%	7.3	13.8	89%
NC Railroad Dividend	0.0	0.0	4.8	-	0.0	4.8	-
Transfers from General Fund	164.6	171.5	169.4	-1%	176.9	176.2	0%
Total Highway Fund	3,323.7	3,305.4	3,352.9	1.4%	3,344.2	3,402.3	1.7%
Highway Trust Fund							
Highway Use Tax	1,133.5	1,150.5	1,151.6	0%	1,179.8	1,181.5	0%
Motor Fuels Tax	612.9	619.5	619.7	0%	627.9	636.4	1%
Title Fees & Lien	174.9	172.1	178.3	4%	172.5	177.7	3%
Transfers from General Fund	494.0	514.4	508.2	-1%	530.6	528.6	0%
Investment Income	35.6	33.0	42.8	30%	37.2	44.3	19%
Total Trust Fund	2,450.9	2,489.5	2,500.6	0.4%	2,548.0	2,568.5	0.8%
Total HF & HTF Availability	5,774.6	5,794.9	5,853.5	1.0%	5,892.2	5,970.8	1.3%