

May Revised Consensus General Fund Revenue Forecast

The Consensus Forecasting Group (CFG), comprised of economists at OSBM and the General Assembly’s Fiscal Research Division, has agreed upon a revision to the General Fund revenue forecast for the 2023-25 biennium to provide policymakers with up-to-date information on revenue collections and better inform short-session budget adjustments.

May 2024 General Fund Consensus Forecast Revision		
Amounts (millions)	FY 2023-24	FY 2024-25
April 2024 Consensus Forecast	\$34,139	\$34,369
May 2024 Revised Consensus Forecast	\$33,914	\$34,164
<i>April vs. May</i>	-\$225	-\$205
<i>% Change from April Consensus</i>	-0.7%	-0.6%

April Tax Collections Below Expectations, Leading to a Revised Consensus Forecast

April, when income tax returns and payments for the prior tax year are due, is the most uncertain month for revenue collections. The CFG issued the April 2024 consensus forecast before the Department of Revenue began processing the bulk of those payments, which required the CFG to project the amounts for those payments in the forecast.

Actual April personal income tax (PIT) collections fell short of expectations set by the April consensus forecast, leading the CFG to make a modest downward revision to the General Fund Forecast of \$225 million (0.7%) in the current fiscal year and \$205 million (0.6%) in the next fiscal year. Despite this revision, the revised consensus forecast still anticipates an increase of \$188M (0.6%) and \$799M (2.4%) compared to budgeted revenues.

The difference between anticipated and actual PIT collections stems from lower final payments and elevated refunds. This was driven by uncertainty in the wake of a provision implemented in 2022 that allows S Corporations and eligible partnerships to elect to pay NC income tax at the entity level, thereby enabling shareholders to fully deduct those state tax payments on their federal taxes.

The implementation of the new law has led to an adjustment period for taxpayers as there is a need for greater coordination of tax payments between businesses and their shareholders. The magnitude of this adjustment period has been a source of heightened uncertainty for individual income tax collections. Additionally, the business tax change has proven challenging to implement and track in real time with existing accounting systems, requiring manual transfers and disrupting the consistency of collections data.

These factors contributed to net income tax collections falling short of expectations and led to a downward revision in the PIT forecast. Fortunately, this adjustment is a one-time event, and compared to the April consensus, it is not expected to alter the projected growth of PIT revenue in the coming years.

Despite this downward revision, the economic outlook for North Carolina remains unchanged, with no effect on the state’s long-term growth. Furthermore, no other revenue estimates, including those for the Highway Fund and Highway Trust Fund, have been altered in the revised General Fund Forecast. Although the revision represents less than a 1% decrease to the General Fund revenue forecast, it will provide policymakers with more accurate information, enabling them to make informed budget decisions.