

February 2023 Consensus General Fund Revenue Forecast

The Consensus Forecasting Group, comprised of economists at OSBM and the General Assembly's Fiscal Research Division, has agreed upon a revised consensus General Fund revenue forecast for FY 2022-23 and the first consensus forecast for the 2023-2025 biennium.

February 2023 Consensus General Fund Revenue Forecast (Amounts in Millions)									
Revenue Source	FY 2021-22	FY 2022-23				FY 2023-24		FY 2024-25	
	Actual	Certified	YoY Chg	Consensus	YoY Chg	Consensus	YoY Chg	Consensus	YoY Chg
Individual Income	\$17,567.6	\$15,470.9	-11.9%	\$16,747.9	-4.7%	\$16,610.1	-0.8%	\$16,818.0	1.3%
Sales and Use	\$10,200.7	\$10,183.4	-0.2%	\$10,787.3	5.8%	\$10,664.6	-1.1%	\$10,690.7	0.2%
Corporate Income & Franchise	\$2,514.1	\$1,846.4	-26.6%	\$2,534.7	0.8%	\$2,407.2	-5.0%	\$2,372.1	-1.5%
All Other Tax	\$1,952.6	\$2,059.1	5.5%	\$2,123.2	8.7%	\$2,265.0	6.7%	\$2,292.0	1.2%
Total Tax Revenue	\$32,235.0	\$29,559.8	-8.3%	\$32,193.1	-0.1%	\$31,946.9	-0.8%	\$32,172.8	0.7%
Total Nontax Revenue	\$973.7	\$950.1	-2.4%	\$1,567.1	60.9%	\$1,759.5	12.3%	\$1,475.5	-16.1%
Total General Fund Revenue	\$33,208.7	\$30,509.9	-8.1%	\$33,760.2	1.7%	\$33,706.4	-0.2%	\$33,648.3	-0.2%
Change vs Certified (FY 2022-23 only)				\$3,250.3	10.7%				

Source: Consensus Forecasting Group (OSBM and FRD)

The revised consensus forecast for FY 2022-23 anticipates **overcollections of \$3.25B** (10.7%) relative to certified revenues of \$30.51B, putting total state General Fund revenue collections at \$33.76B. The primary drivers of anticipated overcollections are:

- A smaller-than-expected decline in individual income tax collections, especially due to larger-than-expected tax payments from pass-through businesses electing to be taxed at the entity level,
- Persistently high corporate profits, particularly among large multi-national corporations,
- Resilient consumer spending despite longer-lasting inflation in goods and services subject to sales tax, and
- Higher-than-expected investment returns on the General Fund balance.

Looking ahead to the 2023-25 biennium, the consensus forecast anticipates slight year-over-year declines of 0.2% in General Fund revenues each year, resulting in net collections of **\$33.71B in FY 2023-24** and **\$33.65B in FY 2024-25**.

The economic forecast underlying the revenue forecast reflects a "slow-cession" characterized by stagnant real growth in the economy over an extended period in 2023, followed by a period of slow growth through the rest of the biennium. We anticipate inflation continuing to slow from recent peaks toward the Federal Reserve's 2% target but remaining above that target well into 2024.

The forecast assumes that the combination of slowing inflation, little-to-no growth in the national economy, below-peak asset values, and the phase-in of previously enacted tax reductions and transfers to the Highway and Highway Trust Fund will push General Fund revenues slightly below FY 2022-23 revenues in each year of the upcoming biennium.

Major tax cuts and revenue transfers that occur in this biennium's forecast include:

- Reducing the individual income tax rate to 4.75% in 2023, 4.6% in 2024, and 4.5% in 2025,
- Dropping the corporate income tax rate to 2.25% in 2025,
- Eliminating the two property bases from the franchise tax base in 2023, keeping only the net worth base, and
- Increasing the sales tax transfer to the Highway Fund and Highway Trust Fund from 2% in FY 2022-23 to 4% in FY 2023-24 and 6% in FY 2024-25.