Revenue Outlook

Recent personal income tax (PIT) returns, associated with the extension filing season, reveal stronger-than-previously-believed wealth gains. Sources of income in this category include dividends, interest earnings, capital gains, and IRA distributions. Capital gains income looks to have grown upwards of 25% in tax year 2025. Similarly, IRA distributions may have matched tax year 2024's 20% growth. With equity and financial market indicators exhibiting continued strength in 2026, these upward revisions feed through to the entirety of the PIT revenue forecast. The effects are magnified by the fact that nearly 85% of wealth income is earned by the top quintile (20%). This means that, relative to the more equitably distributed wage and pension income, a disproportionate share of wealth income is taxed at the top 9% and 9.9% rates. Beyond this driving factor, the growth inflection discussed in previous forecasts is shaping up much as expected. This is reflected in revenue tracking, which has adhered close to the Q3 forecast when aggregated across the major revenue streams. As such, the forecast is minimally changed, except for PIT in future biennia.

Table R.1

2025-27 General Fund Forecast Summary

(Millions)	2025 COS Forecast	September 2026 Forecast	December 2026 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$30,247.1	$30,257.6	$30,347.7	$90.1	$100.6
Corporate Income Tax	$3,430.5	$3,491.8	$3,501.7	$9.9	$71.2
All Other Revenues	$2,082.2	$2,204.2	$2,116.1	-$88.1	$33.9
Gross GF Revenues	$35,759.8	$35,953.7	$35,965.5	$11.9	$205.8
Offsets, Transfers, and Actions[1]	-$206.9	-$206.4	-$207.1	-$0.7	-$0.2
Beginning Balance	$2,243.1	$2,165.8	$2,165.8	$0.0	-$77.2
Net Available Resources	**$37,795.9**	**$37,913.1**	**$37,924.2**	**$11.2**	**$128.3**
Appropriations	$37,323.1	$37,513.1	$37,513.1	$0.0	$190.0
Ending Balance	**$472.8**	**$400.0**	**$411.1**	**$11.2**	**-$61.7**
Confidence Intervals					
67% Confidence	**+/- 1.9%**		**$683.4**	**$35.28B to $36.65B**	
95% Confidence	**+/- 3.8%**		**$1,366.7**	**$34.60B to $37.33B**	

1 Reflects personal and corporate tax transfers, and Rainy Day Fund transfer.

As depicted in table R.1, gross General Fund revenues are little changed at just $12 million above the prior forecast. Personal income taxes are responsible for most of the revision, offset by declines in the non-income tax components. Corporate income tax is nominally increased. The projected ending balance come June 30, 2027, is now $411 million, which is still $62 million less than what legislators left at the end of the 2025 session.

It should be noted that $32.4 billion in projected personal income revenues and non-corporate revenues, which determine the personal income tax kicker surplus (if any), are $524 million below the kicker threshold. While House Resolution 1, albeit offset by Senate Bill 1507, decreased revenues relative to the Close-of-Session forecast, the current forecast would still be below the kicker threshold without these actions. Corporate income taxes are just above the kicker threshold, which would dedicate $71 million to education spending in 2027-29 if the forecast holds. The net impact of HR1 and subsequent and related Oregon legislative tax law changes are estimated to have reduced corporate taxes by $191 million. Thus, without these changes, the corporate income tax surplus would be significantly higher.

Two major changes are impacting non-income tax revenues, which are down $88 million from the prior forecast. First, estate tax receipts have hit a soft patch in the last year relative to historical trends. It is possible that taxpayers are employing enhanced tax strategies, thus causing a divergence from past trajectories. In addition, declining fund balances are reducing interest earnings accruing to the General Fund relative to past projections. Aside from these adjustments, remaining sources of revenue are negligibly changed.

2025-27 General Fund Revenues

The fall extension filing season, a potentially consequential time for the revenue forecast, has had little overall impact on the Q4 update. Income tax revenues for the three months since the Q3 forecast tracked reasonably well, with positives offset by negatives across receipts type (e.g., withholding vs. estimated payments) and tax years. As noted above, these impacts result in a modest $12 million upward revisions to the General Fund forecast, putting the total at $37.9 billion. This is $206 million above the Close-of-Session estimate. On a tax law and kicker adjusted basis, revenue growth in the current biennium equals 14.2%, which is mildly higher than the 13.3% historical average. This is primarily driven by the wealth income boom discussed previously.

Personal Income Tax

As noted previously, late season returns filed with an extension are redefining our understanding of income composition and strength for tax year 2025. Even as the associated tax receipts are known much earlier, information regarding income components like capital gains and IRA distributions can alter expectations for future tax years due to the incidence of these components among the highest income earners. For example, capital gains income is almost entirely earned by the top quintile (20%), and as such is tax predominantly at the top 9% and 9.9% rates. When the growth of these "wealth" types of income is stronger than previously believed, it raises both the level of future income and the effective rate dictating the tax that results. This impact can be seen in the entirety of the personal income tax forecast as a level shift up.

As exhibited in table B.8 in the appendix, personal income taxes exceeded the Q3 forecast by $50 million for the three months ending on October 31st. Estimated payments were the dominant factor, although weaker-than-expected refunds also contributed. The impact of this positive tracking can be seen in the $90 million increase in the personal income tax forecast for the current biennium. Relative to the Close-of-Session forecast, the Q4 projection is now $101 million higher. The effects of House Resolution 1, offset somewhat by state legislation (Senate Bill 1507 [2026]), are curtailing revenue growth relative to underlying economic and income factors.

Corporate Income Tax

Revisions to the corporate income tax forecast for the current biennium are minimal, with the 2025-27 biennium seeing an upward adjustment of $9.9 million. This is slightly in contrast to tracking, which shows revenues down $24 million from the Q3 forecast. However, much of this error is from TY 2025 final payments falling short of projections. Estimated payments and refunds have both come in strong and largely balanced out. TY 2025 was revised down in the Q4 forecast with the components mirroring tracking: estimated payments and refunds marked up, while final

payments were marked down. The composition of change is critical in understanding the upward revision to the forecast while tracking shows weakness. Estimated payments are received before final payments, meaning the upward component of the revisions will have a stronger current biennium impact, while the impact of the downward adjustments will take place over time.

Corporate profits for 2025 were revised downward by the Bureau of Economic Analysis, but projections for future years' profits were revised up by OEA's national forecast provider. This supports the downward revision to TY 2025, as well as an improved outlook for future biennia. Estimated payments in Q3 of 2026 saw its first positive year-on-year growth, 52.6%, since before the enactment of federal House Resolution 1 (HR1). While this is a positive signal for corporate income taxes, it should be moderated by the fact that the growth is over the first quarter following HR1 implementation. This means growth is being measured over a quarter that saw an exogenous shock create non-structural weakness. However, the strength seen, combined with the improved future year outlook for corporate profits, was enough to modestly increase the forecast for the 2027-29 biennium by $32.9 million. If similar strength is exhibited in 2026 Q4 estimated payments, further increases to the 2027-29 biennium may be warranted.

All Other Revenue

The forecast for non-income tax revenues is reduced by $88 million compared to the prior forecast. Two components are primarily responsible for this change: (1) estate tax receipts have been flat in year-over-year terms for nearly a year, which pales in comparison to 11% annual growth seen over the past few decades. The question remains whether this is a random soft patch as has occurred in the past, or a sign of a systemic change; (2) interest earnings are declining faster than previously expected, in part due to declining fund balances. New information regarding the determinants of these earnings has resulted in a downward adjustment to the forecast. Close attention will be paid to both revenue streams going forward. Aside from these adjustments, revisions across the remaining sources total less than a million dollars.

Extended General Fund Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2033-35 biennium. The 2025-27 biennium is winding down, with only eight months of execution remaining. The Office of Economic Analysis will release two more forecast updates and a final accounting for the current biennium's revenue picture. With tax year 2026's filing season left in Spring 2027, there remains modest potential for actual revenues to vary from this forecast.

The budget development process for next biennium is in full swing. The Governor's Recommended Budget, to be released in December, will be based on this revenue forecast. On a tax law and kicker adjusted basis, revenues are projected to grow 13.4%. This is nearly identical to historical averages.

Note that the large percentage changes between biennia are due to kicker credits affecting personal income tax collections. Beyond 2027-29, when these considerations are no longer in effect, growth reflects underlying economic assumptions characterized elsewhere in this document. Forecast error increases the further out one gets into the future.

Table R.2

General Fund Revenue Forecast Summary December 2026

Millions of Dollars, Current Law

Revenue Source	2025-27 Biennium	% *Chg*	2027-29 Biennium	% *Chg*	2029-31 Biennium	% *Chg*	2031-33 Biennium	% *Chg*	2033-35 Biennium	% *Chg*
Personal Income Taxes	30,347.7	*36.9%*	36,751.9	*21.1%*	41,426.1	*12.7%*	46,375.1	*11.9%*	51,975.8	*12.1%*
Corporate Income Taxes	3,501.7	*11.1%*	3,934.0	*12.3%*	4,235.4	*7.7%*	4,607.7	*8.8%*	5,052.8	*9.7%*
All Others	2,116.1	*-8.1%*	2,207.1	*4.3%*	2,426.6	*9.9%*	2,766.8	*14.0%*	3,174.5	*14.7%*
Gross General Fund	35,965.5	*30.2%*	42,893.0	*19.3%*	48,088.1	*12.1%*	53,749.6	*11.8%*	60,203.1	*12.0%*
Offsets and Transfers	*(207.1)*		*(300.2)*		*(297.2)*		*(293.6)*		*(316.7)*	
Net Revenue	35,758.4	*30.6%*	42,592.8	*19.1%*	47,790.9	*12.2%*	53,456.0	*11.9%*	59,886.4	*12.0%*

Corporate Activity Tax

Oregon's corporate activity tax (CAT) went into effect January 2020. Revenues from this tax on business receipts are dedicated to education through the Fund for Student Success. The tax was designed to generate approximately $1 billion per year in new state resources, or $2 billion per biennium at the outset. These figures include both CAT revenues and the impact of the reduction in personal income tax rates, which reduce state revenues, leaving a net revenue change of approximately $1 billion per year.

For the three months ending October 31, 2026, CAT tax receipts exceeded Q3 projections by $16.8 million. All the headline error was observed in lower-than-expected refunds. Given the tendency of taxpayers to apply refunds forward as estimated payments for subsequent tax years, some of this departure is offset by lower estimated payments. Given increased strength of tax years in progress, particularly tax year 2025, the forecast exhibits a modest upward revision throughout the forecast horizon.

For 2025-27, the tax receipts forecast is increased $14.7 million. With changes to the State School Fund backfill calculation, which is dependent on expected CAT and personal income tax liabilities, the ending balance in the Fund for Student Success increases $9.0 million to $89.6 million. The current biennial projection is still $73.8 million below the Close-of-Session forecast with eight months remaining in the biennium.

The forecast for 2027-29 is increased $9.3 million to $3.41 billion. This represents a 14.8% increase over the 2025-27 estimate, which is somewhat higher than the historical average. The admittedly brief history is weighed down by the slowing Oregon economy over the past five years, while the ensuing biennium benefits from anticipated acceleration in production and heightened and sustained inflation.

Detailed forecast data are presented in Tables B.12 and B.13 in the Appendix. The personal income tax reductions are built into the General Fund forecasts shown in Tables B.1 and B.2.

Lottery Earnings Forecast

The latest forecast for lottery earnings for the current biennium is increased $11.8 million from the previous release. Nearly all the revision occurred in the sixth quarterly transfer of the biennium (quarter ending 12/31/2026), where an ongoing run in the Powerball jackpot, stronger than expected video lottery sales, and an administrative savings transfer contributed to a significantly higher transfer than predicted in the Q3 forecast. Due to the one-time nature of these phenomena, the remainder of the biennium resembles prior expectations.

Table R.3

Lottery Earnings Forecast: 2026 Q4

	2025-27		2027-29		2029-31		2031-33		2033-35	
(millions)	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change	Biennial Transfer	Forecast Change
Traditional Games	$204.1	$4.1	$163.2	-$1.4	$168.0	-$0.9	$173.7	-$0.4	$181.0	-$0.1
Video Lottery	1,561.2	0.2	1,677.1	1.1	1,790.3	1.2	1,917.3	1.3	2,069.0	1.4
Sports Betting	88.8	2.4	88.9	0.4	90.7	-2.0	92.4	-3.0	94.2	-3.4
Administrative Actions	7.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Earnings	1,861.0	11.8	1,929.2	0.1	2,049.0	-1.6	2,183.4	-2.2	2,344.2	-2.1
Bien/Bien %change	0.5%		3.7%		6.2%		6.6%		7.4%	

Prior modeling of video lottery sales was based on national consumption expenditures. Recent analysis revealed that a subcomponent of this series, offsite food and beverage expenditures, provided a better fit for historical game sales. Given past relationships between consumer spending on food and beverages in locations where video lottery is available and video sales, expectations are for the latter sales to average 3.4% year-over-year throughout the forecast horizon. Recent performance has exceeded this level modestly, resulting in moderate upward revisions in previous quarterly forecasts. As noted in the table above, this strength feeds through to slight upticks in the forecast for future biennia.

The Governor's Recommended Budget is due to be published soon. Allocations from the Economic Development Fund, through which lottery resources are funneled, are constrained in part by this Q4 forecast for earnings. The table above signifies that earnings for 2027-29 are little changed from the prior forecast. A modest decrease in traditional game earnings, caused primarily by lower scratch ticket sales, is offset by the video adjustment highlighted above and a slight change in sports betting earnings.

The full extended outlook for lottery earnings can be found in Table B.9 in Appendix B.

Marijuana Tax Forecast

The previous forecast marked a significant departure from previous, growth-oriented projections. The forecast hinged on an outlook for prices and consumption and resulted in an outlook more consistent with recent trends. Over the intervening quarter, tax revenues deviated from projections by 0.9%, an indication that the course correction was appropriate.

Chart R.1:

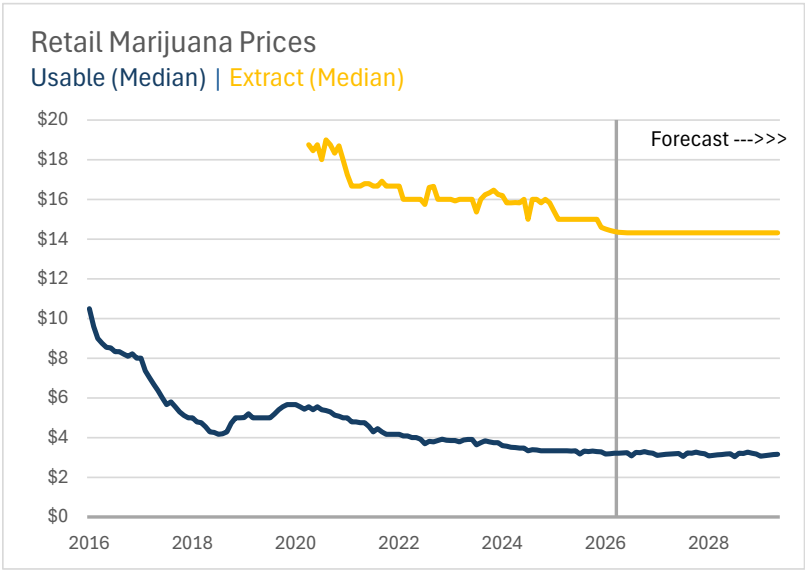


Chart R.2 presents various iterations of the marijuana tax forecast, including the prior (September 2026) and the current forecast. As noted, the latest forecast is little changed. For the current biennium, total tax revenues are decreased by $1.1 million, or less than half a percent. For the 2027-29 biennium, the forecast change is -$3.5 million, including a slight decrease to the medical marijuana component.

Chart R.2:

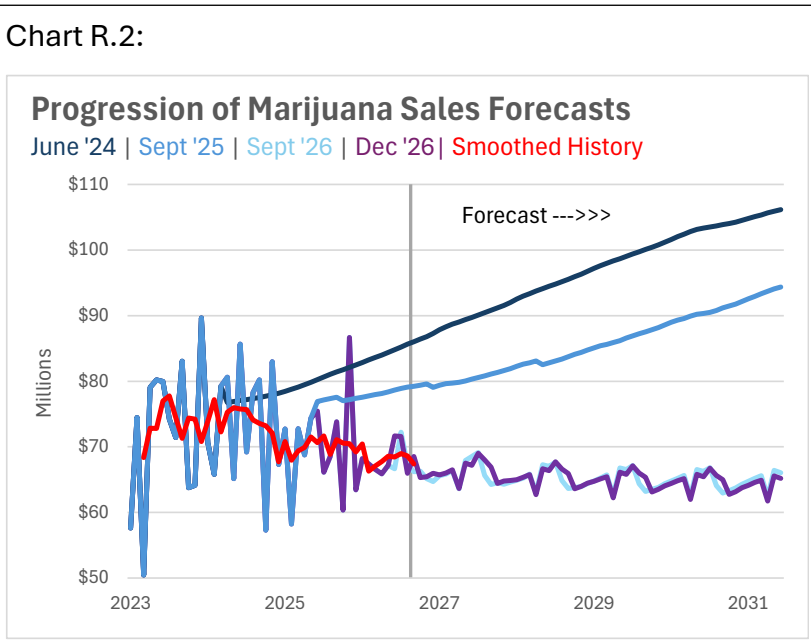
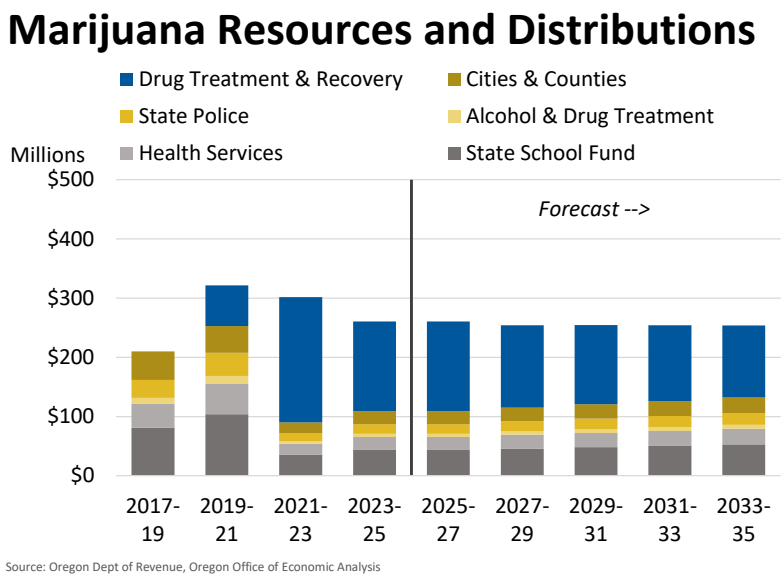


Chart R.3 presents distributions from marijuana tax revenues. For 2025-27, all allocations except for the Drug Treatment Fund were fixed by the 2025 legislature and amended by the 2026 legislature. As such, changes in the revenue forecast accrue to the Drug Treatment Fund.

Marijuana remains classified as a Schedule I drug, preventing business owners from accessing traditional banking services and disallowing common business tax deductions. In December 2025, a presidential executive order directed the Attorney General to expedite the process or rescheduling marijuana to Schedule III. If finalized, the shift to Schedule III would relax restrictions and could improve access to banking and tax deductions for the industry — though the rulemaking process is ongoing.

Chart R.3:



Oregon does not currently tax medical marijuana; however, this exemption is set to expire at the end of 2027. Although this exemption could be extended by the Legislature, the current forecast assumes medical marijuana will be taxed per current law.

Table B.11 in Appendix B presents detailed revenue and allocation information for current and future biennia.

Psilocybin Forecast

Ballot Measure 109 (2020) legalized psilocybin, including a 15% retail sales tax on the psilocybin products used. This sales tax does not apply to the overall cost of a session, which can be hundreds or thousands of dollars. Most of the overall cost goes to cover operational expenses for the service center and the facilitator's time and expertise. The current forecast remains a work in progress; however, it is now based on the first three years of tax data, as opposed to pure assumptions.

The average product price reported is approximately $42. However, there is a wide range of values around that average. The average price is in line with previous conversations OEA has had with multiple service centers in Oregon in recent years. And while not a low price, the cost of the product is relatively small compared to the overall cost of a session. The number of sessions forecasted is estimated for illustrative purposes and is dependent on the taxes collected through the program and the presumed average product price.

The Oregon Health Authority (OHA) reports quarterly data on regulated psilocybin in the state. The Q2 2026 report shows quarter-over-quarter increases of 28.2% in clients served and 16.9% in total administration sessions. However, looking from a year-over-year basis, there is a 30.6% and 35.4% decline, respectively. Given the significant quarterly variability and a limited observation period (2025 to present), it is too early to discern a meaningful underlying trend.

Oregon Psilocybin Retail Sales Tax Revenue

Dec-26

	Biennium 2023-25	2025-27	2027-29	2029-31	2031-33	2033-35
No. of Session	28,000	34,500	38,000	38,000	38,000	38,000
Avg Product Price	$40	$42	$44	$45	$47	$49
Total Sales	$1,130,000	$1,451,000	$1,662,000	$1,729,000	$1,799,000	$1,871,000
Taxes	$169,000	$218,000	$249,000	$259,000	$270,000	$281,000

Note: Detailed entries may not add to totals due to rounding.

For now, the revenue forecast is tied to a multiyear ramp up period of stronger growth based on the patterns seen in Oregon for recreational marijuana, sports betting and historical tax data. After the ramp up, growth is expected to slow down to something closer to growth in the population, which is a proxy for the user base until better information is available.

Lastly, it is important to note that the sales tax applies only to the purchase price of the psilocybin product itself. As such, service centers may charge customers the traditional retail price that includes a markup over wholesale costs largely relating to production, testing, and distribution costs. Service centers may choose to sell the products at cost. And while they are not supposed

to do this, they may charge customers a minimal product cost that is below their own cost. The potential benefit of doing so would be to increase revenues and profits for service centers and facilitators as less of the overall session price would be sent to pay taxes. To date, these data indicate this last possibility is not happening, or at least not enough to notice in industrywide information.

However, as with all other sales taxes, revenue is driven by both the number of transactions and the price per transaction. If the number of sessions continues to decline over time while revenues grow, this suggests that the average product price may be higher than initially anticipated. As more data becomes available or as trends are revealed, this office will adjust its outlook accordingly.

Revenue Alternative Scenarios

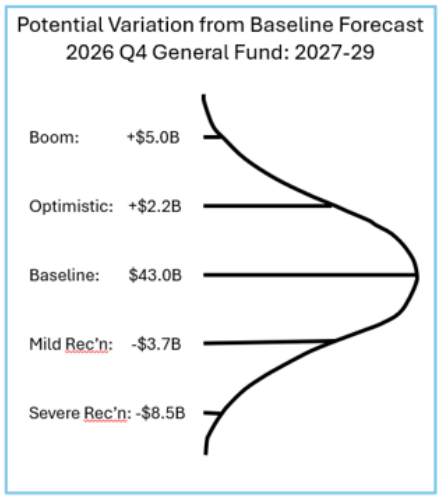
As the biennium nears a close, the potential for revenues to deviate from the baseline case narrows. Nonetheless, Spring tax season awaits and can have significant consequences. The alternative scenarios presented in table R.4 assume that each situation (e.g., an economic and revenue "boom") transpires within the next year. As such, most of the deviation would be experienced during the 2027-29 biennium. Biennial growth variations have been analyzed for the past 50 years, and four distinct alternatives are presented along with the baseline forecast.

Table R.4

General Fund Revenue* Scenarios

(millions)		2025-27	2027-29	2029-31	2031-33	2033-35
Boom (3%)	Revenues	$39,094.8	$47,891.2	$52,201.4	$58,778.7	$65,949.7
	Growth	*17.7%*	*22.5%*	*9.0%*	*12.6%*	*12.2%*
Optimistic (15%)	Revenues	$38,235.2	$45,117.5	$49,629.3	$55,733.7	$62,477.4
	Growth	*15.1%*	*18.0%*	*10.0%*	*12.3%*	*12.1%*
Baseline (64%)	Revenues	$37,375.5	$42,893.0	$48,088.1	$53,749.6	$60,203.1
	Growth	*12.5%*	*14.8%*	*12.1%*	*11.8%*	*12.0%*
Mild Rec'n (16%)	Revenues	$36,254.3	$39,154.6	$44,636.3	$49,814.1	$55,692.1
	Growth	*9.1%*	*8.0%*	*14.0%*	*11.6%*	*11.8%*
Severe Rec'n (2%)	Revenues	$35,133.0	$34,430.3	$39,870.3	$44,535.2	$49,790.3
	Growth	*5.7%*	*-2.0%*	*15.8%*	*11.7%*	*11.8%*

* Adjusted for kicker credits. Source: Office of Economic Analysis.



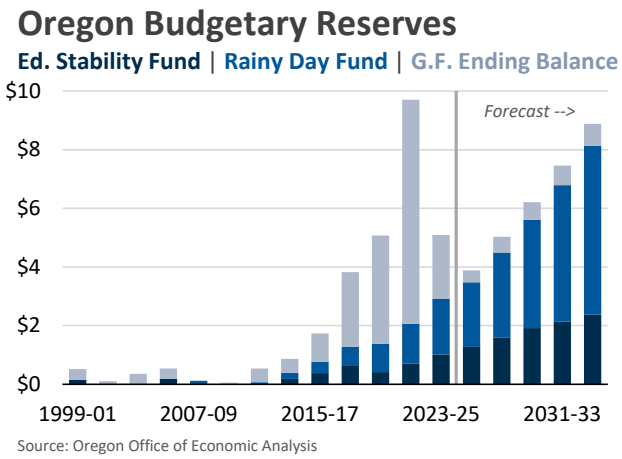
The "optimistic" and "mild recession" scenarios are associated with approximately one standard deviation from the central scenario. The mild recession would resolve well before the end of 2027-29. This keeps the impact from being more pronouncedly negative. A similar "straddle" effect mutes the impact of an optimistic growth surge on the next biennium, as well. As exhibited in the graphic to the right, the revenue consequence is +$2.2/-3.7 billion, respectively.

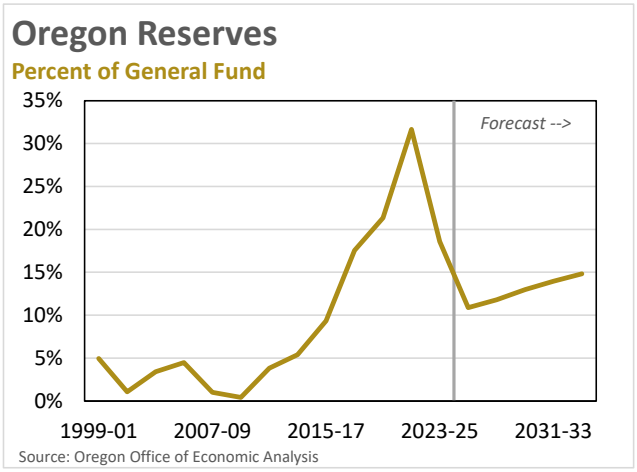
The extreme scenarios have had few historical precedents over the past 50 years. The severe recession is modeled on the 2008 Financial Crisis and is assumed to persist for the entirety of the 2027-29 biennium. There have been four 21.5% plus growth "spurts" over the same timeframe. They are uniformly followed by soft patches. The asymmetric effect of these scenarios should be noted: the upside path results in $5 billion in additional revenue while the severe recession cuts receipts by $8.5 billion.

Budgetary Reserves

The state currently administers two general reserve accounts, the Oregon Rainy Day Fund[1] (ORDF) and the Education Stability Fund[2] (ESF). With budgetary focus shifting to 2027-29, the latest projection for the balances in these funds are $2.9 billion and $1.6 billion, respectively. The total balance of $4.5 billion would be 10.6% of the current General Fund revenue projection. It should be noted that Senate Bill 960 canceled the transfer of the lesser of 1% of the prior biennium's appropriation level or ending balance, which would have occurred early in 2026. The graphics below assume the resumption of this transfer for 2027-29. In addition, House Bill 3920 diverted 20% of the interest earnings due to the Rainy Day Fund to other accounts. These legislative actions are reflected in these charts.

Charts R.4 and R.5





The current projection for the balance of the Education Stability Fund at the end of 2025-27 is $1,271 million, while the balance in the Rainy Day Fund is expected to equal $2,192 million. The total balance of $3,463 million would be 9.7% of the current General Fund forecast. It should be noted that Senate Bill 960 canceled the transfer of the lesser of 1% of the prior biennium's

[1] The ORDF is funded from ending balances each biennium, up to 1% of appropriations. The Legislature can deposit additional funds, as it did in first populating the ORDF with surplus corporate income tax revenues from the 2005-07 biennium. Withdrawals from the ORDF require one of three triggers, including a decline in employment, a projected budgetary shortfall, or declaration of a state of emergency, plus a simple majority vote of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question. Fund balances are capped at 12.5% of General Fund revenues in the prior biennium.

[2] The ESF gained its current reserve structure and mechanics via constitutional amendment in 2002. The ESF receives 18% of lottery earnings, deposited on a quarterly basis – 10% of which are deposited in the Oregon Growth sub-account. The ESF has similar triggers as the ORDF but does not have the two-thirds cap on withdrawals. The ESF balance is capped at 5% of General Fund revenues collected in the prior biennium.

appropriation level or ending balance, which would have occurred early in 2026. House Bill 3920 diverted 20% of the interest earnings due to the Rainy Day Fund to other accounts.

As noted above, the current probability of an economic downturn is estimated at 18%. In the last 50 years, the worst decline in General Fund revenues relative to the Close-of-Session forecast was 15.6% during the 2001-03 biennium, which was associated with the tech industry boom-bust. The severity of this deviation was due mostly to the timing of the downturn starting at the beginning of the biennium. The graphics above present the projected balances in the Oregon Rainy Day Fund and the Education Stability Fund under the baseline economic scenario. It is quite likely that Oregon's reserves are adequate to weather a mild to medium downturn.

B.10 in Appendix B provides more details for Oregon's budgetary reserves.

Tax Law Assumptions

The revenue forecast is tied to current state law. After each legislative session, OEA incorporates adjustments to the revenue forecast produced by the Legislative Revenue Office. As each year passes and the effects of law become evident in the data, adjustments are phased out. However, many tax laws have sunsets, or end dates, built into them. These demarcations must be maintained such that the impact of extending the laws can be newly incorporated in turn.

Complication arises when considering the effects of federal law on Oregon revenues. Due to the assumptions built into these national forecasts and how national data enter the revenue models; it would be logistically difficult to maintain a current federal law revenue forecast. In addition, federal laws often have imminent sunsets and are frequently extended. Adhering to a current federal law forecast would result in large and unnecessary annual revisions. For this reason, the revenue forecast assumes the most reasonable outcome for federal law.

For a detailed treatment of the components of the 2025 Legislatively Enacted Budget, see:

Legislative Fiscal Office's 2025-27 Budget Summary[3]

[3] https://www.oregonlegislature.gov/lfo/Documents/2025-2%20LAB%20Summary%202025-27.pdf