Revenue Business Cycle Report

Office of the Legislative Fiscal Analyst | 12/9/2025

Executive Summary

As required by UCA 36-12-13 and 63J-1-201, economists compare tax revenue projections with historical trends and provide a written analysis of this comparison. Lawmakers then determine how to allocate the projected revenue depending on whether the revenue can be counted upon in the future or whether it might be transitory. During their analysis, we use two primary statistical models: the Hodrick-Prescott (HP) filter and a linear trend model. The HP filter removes cyclical business components in data to create a smoothed trend curve; however, this smoothing is sensitive to short-term fluctuations in the data. In order to account for this, we also run linear models that are less sensitive to short-term effects. Utilizing both models provides a more comprehensive assessment of the state's economic outlook.

For FY 2026, when using the HP filter, combined General and Income Tax Fund projections are below trend by $602 million, with the FY 2027 projections being below trend by $475.1 million. When using a linear trend model, FY 2026 projections are below trend by $814.3 million, with FY 2027 projections being below trend by $908.3 million. For Federal Funds, the HP Filter FY 2026 projections are below trend by $492 million, and the FY 2027 projections are below trend by $515.4 million. The Linear Model has FY 2026 Federal Funds projects below trend by $322.6 million, while the FY 2027 projections are below trend by $440.4 million.

The FY 2026 and FY 2027 projections appear below trend when assessed using the HP filter, reflecting the influence of recent federal policy changes. The revenue forecasts incorporate estimated impacts associated with the H.R. 1 tax legislation, whereas the trend estimates are derived solely from historical data and do not account for these policy adjustments. The resulting divergence places the forecasted values below both trends; however, this primarily indicates the emergence of a new, longer-term trajectory shaped by the updated federal policy environment.

Analysis

UCA 36-12-13 and 63J-1-201 require an annual review of the 15-year revenue trends associated with major tax types. Specifically, statute requires: a projection of estimated revenues by major tax type; 15-year trends for each major tax type; estimated receipts of federal funds; and 15-year trends for federal funds receipts.

Consistent with prior versions of this report and based on historical revenue figures, economists this year again identified a revenue trend that could have been expected absent any business cycle. They did so using a 15-year time series of collections by tax type and by applying both a Hodrick-Prescott (HP) filter as well as finding each tax type's linear trend. Economists estimated this trend by applying a one-sided Hodrick-Prescott filter to the data, without the two consensus revenue estimate years included, using a lambda value of 100, and then they forecasted the HP filter's trend two years forward. The two forecasted HP years were then compared to their consensus revenue estimates. HP filters smooth variable data over time and may capture cycles better than linear trends, although anomalous years of collections may influence HP results more so than in linear trends. The lambda value determines how flat or wavy an HP trendline might be. Higher lambda values produce flatter lines. After performing both the HP method and

linear trend models, economists then compared the trends to FY 2026 and FY 2027 consensus revenue estimates.

The current economic environment is a particularly interesting time to conduct a trend/cycle analysis. Recent policy actions at both the federal and state levels have introduced shifts in expectations and revenue projections. At the federal level, the enactment of H.R. 1 modified tax policy and associated incentives for households and businesses, causing economic behavioral shifts. At the state level, during the 2025 General Session, H.B. 106 "Income Tax Revisions" reduced the individual income tax rate by 0.05%. In the same session, S.B. 27 "Motor Vehicle Division Amendments" and S.B. 195 "Transportation Amendments" simplified and revised the Transportation Investment Fund (TIF) earmark, allocating a greater share of sales tax revenue to the TIF.

These statutory changes are accounted for and incorporated by economists into the consensus revenue estimates. However, such adjustments are not reflected in the HP or Linear trend series, as those trends are derived solely from historical data without policy modifications. As a result, a divergence emerges between the consensus revenue estimates and the trend projections. This divergence is expected to be most apparent within the sales tax, individual income tax, and corporate income tax series.

Additionally, recent economic uncertainty appears to be influencing consumption patterns among Utahns. With inflation remaining above the Federal Reserve target of 2%, we are seeing consumer spending growth moderating. This combination of elevated prices and subdued growth in spending suggests that households are exercising increased caution with expenditures. When combined with the recent federal tax policy discussed above, these dynamics could help account for why many consensus revenue estimates are currently below their historical trends.

General and Income Tax Fund Revenue

Economists calculate that, using an HP filter, FY 2026 General and Income Tax Fund projections are $602 million below trend, with FY 2027 projections at $475.1 million below trend. Using a linear trend model, FY 2026 collections are projected to be $814.3 million below trend, and FY 2027 collections at $908.3 million below trend. Table 1 on page 3 summarizes HP filter trend and point estimates for each broad revenue source affecting the General and Income Tax Funds. Table 2 on page 4 summarizes the same information but using a linear trend model. In both tables, the columns labeled *Trend* present the values generated by the HP filter or the linear trend model. The columns labeled *Cycle* report the difference between the revenue consensus estimates and the corresponding trend values. Figures 1 through 7 provide a time-series view of select revenue types. In the line graphs, the yellow lines depict the HP trend, the green lines depict the actuals and estimated revenue collections, and the purple lines depict the linear trends.

Table 1: Cycle/Trend Summary Using HP Filter (millions $)

General Fund	**FY 2026 Trend**	**FY 2026 Cycle**	**FY 2027 Trend**	**FY 2027 Cycle**
Sales tax (GF only)	$3,317.8	($111.9)	$3,459.7	($64.9)
Cable tax	$22.5	($4.2)	$21.4	$2.9
Liquor profits	$102.3	($5.0)	$99.5	$39.2
Insurance premiums	$207.4	$42.5	$215.6	$4.1
Beer, cigarette, and tobacco	$87.0	($15.1)	$80.6	$13.5
Oil and gas severance	$30.1	($0.8)	$30.1	$1.7
Metal severance	$5.5	$5.0	$5.3	$5.2
Investment income	$166.1	($29.4)	$165.7	($75.5)
Other	$90.1	$45.7	$90.8	$49.4
Property/energy credit	($7.7)	($0.8)	($7.9)	($0.9)
Subtotal	**$4,021.2**	**($73.8)**	**$4,160.9**	**($147.5)**
Income Tax Fund				
Individual income tax	$6,936.4	($230.7)	$7,132.7	($106.7)
Corporate tax	$935.1	($294.9)	$920.7	($203.2)
Mineral production withholding	$52.0	$0.5	$52.3	$0.3
Escheats & other	$98.2	($3.0)	$109.9	($18.0)
Subtotal	**$8,021.7**	**($528.2)**	**$8,215.7**	**($327.6)**
Total, GF + ITF	**$12,042.9**	**($602.0)**	**$12,376.6**	**($475.1)**
Federal Funds	**$7,407.4**	**($492.0)**	**$7,624.2**	**($515.4)**

Table 2: Cycle/Trend Summary Using Linear Trend (millions $)

General Fund	FY 2026 Trend	FY 2026 Cycle	FY 2027 Trend	FY 2027 Cycle
Sales tax (GF only)	$3,394.8	($188.9)	$3,534.5	($139.7)
Cable tax	$24.3	($5.9)	$24.0	$0.3
Liquor profits	$138.6	($41.2)	$142.9	($4.3)
Insurance premiums	$219.7	$30.2	$229.9	($10.1)
Beer, cigarette, and tobacco	$94.1	($22.2)	$92.8	$1.3
Oil and gas severance	$19.1	$10.2	$16.6	$15.2
Metal severance	$3.6	$6.9	$2.5	$8.0
Investment income	$169.4	($32.6)	$182.9	($92.7)
Other	$98.3	$37.5	$100.6	$39.7
Property/energy credit	($6.6)	($1.8)	($6.6)	($2.2)
Subtotal	**$4,155.4**	**($208.0)**	**$4,320.1**	**($306.7)**
Income Tax Fund				
Individual income tax	$7,027.0	($321.3)	$7,359.6	($333.6)
Corporate tax	$937.3	($297.1)	$987.3	($269.7)
Mineral production withholding	$47.2	$5.2	$49.1	$3.5
Escheats & other	$88.3	$6.9	$93.7	($1.8)
Subtotal	**$8,099.8**	**($606.3)**	**$8,489.7**	**($601.6)**
Total, GF + ITF	**$12,255.2**	**($814.3)**	**$12,809.8**	**($908.3)**
Federal Funds	**$7,238.0**	**($322.6)**	**$7,549.2**	**($440.4)**

Figure 1: GF/ITF Revenue History and Associated Trend

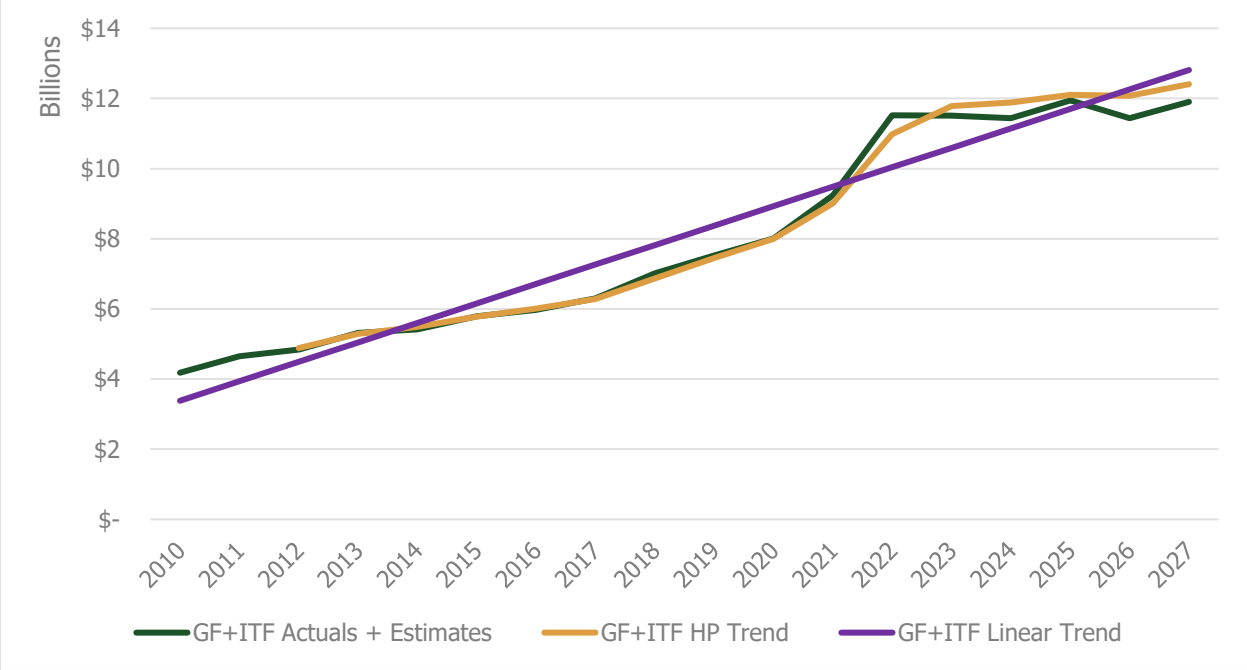


Figure 2: GF Revenue History and Associated Trend

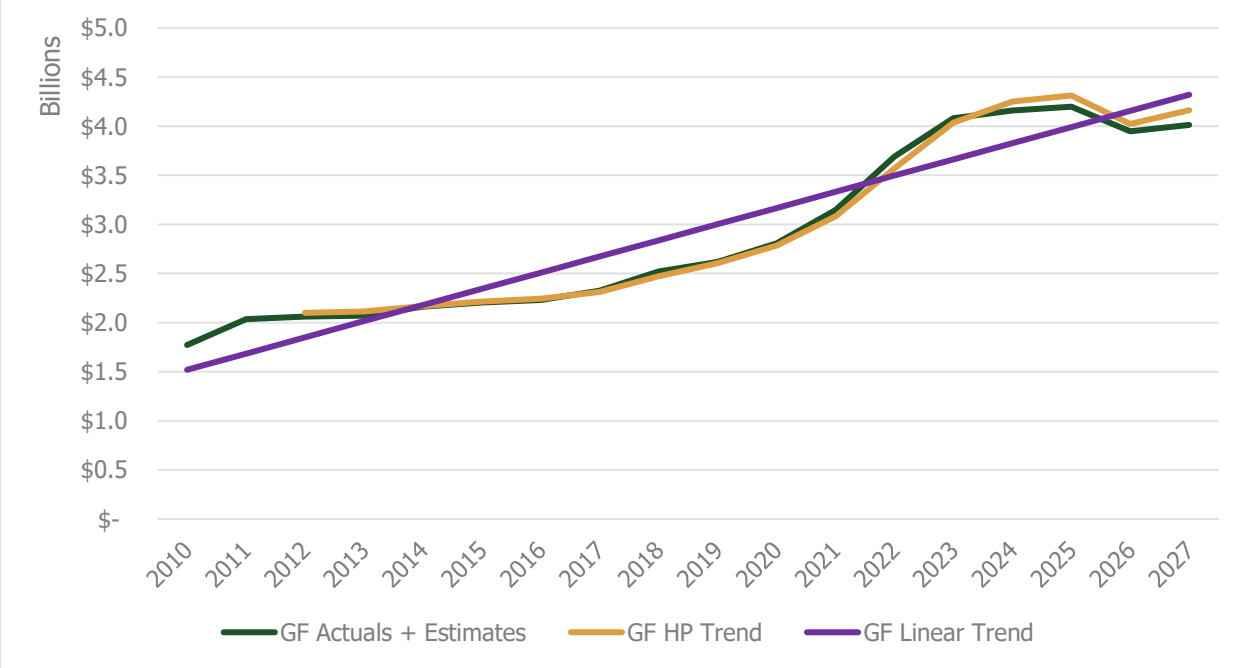


Figure 3: ITF Revenue History and Associated Trend

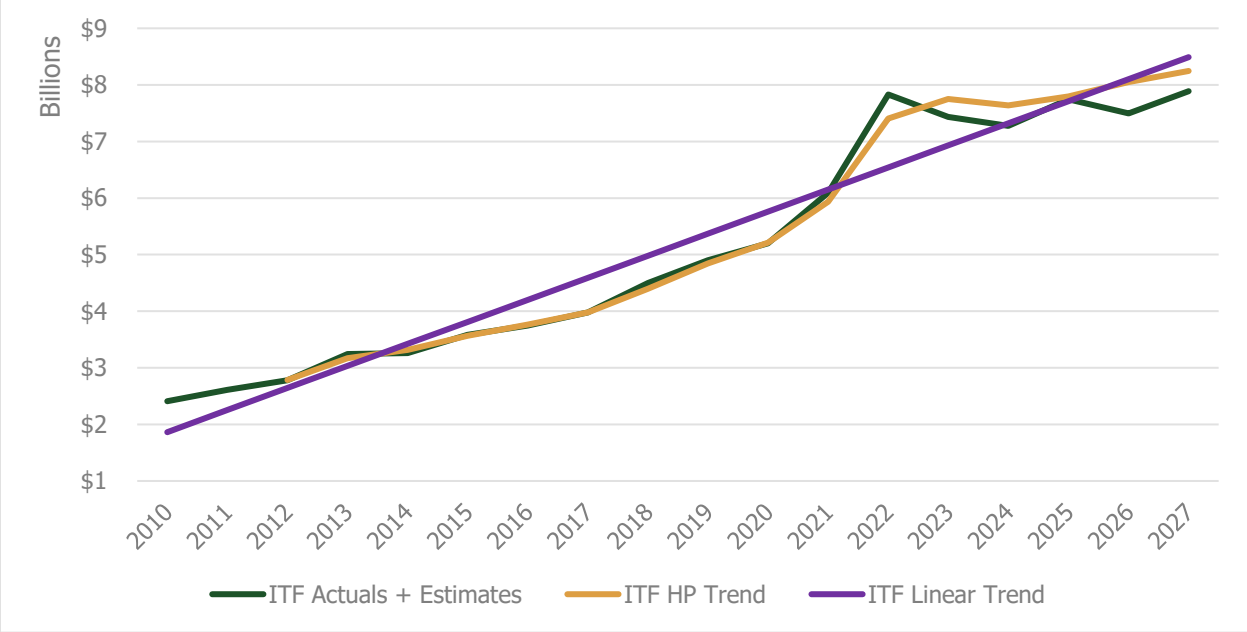
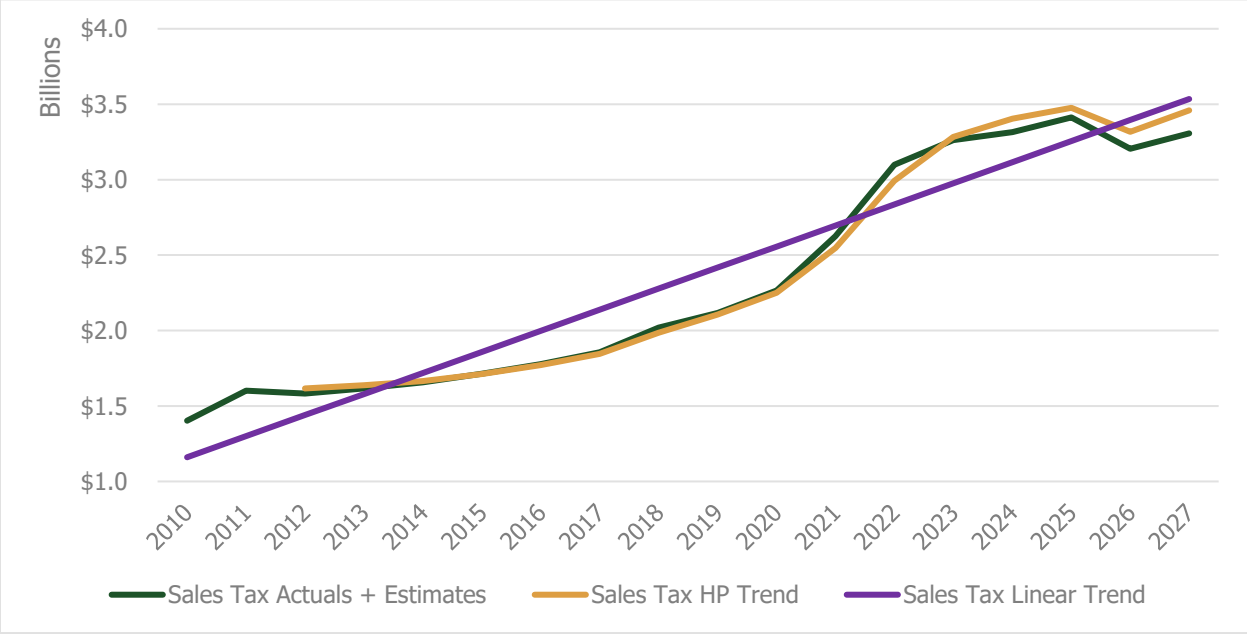


Figure 4 captures the business cycle and trend of sales tax revenue[1]. The HP filter suggests that sales tax will be $111.9 million below trend in FY 2026 and $64.9 million below trend in FY 2027. The linear trend model suggests that sales tax will be $188.9 million below trend in FY 2026 and $139.7 million below trend in FY 2027.

Figure 4: Total Sales Tax Above/Below Trend Revenue



[1] Unrestricted Sales Tax Revenue deposited into the GF after earmarks

Figure 5 captures the business cycle associated with individual income tax. The FY 2020 and FY 2021 numbers are adjusted to account for the income tax filing shift. The HP filter suggests that individual income tax will be $230.7 million below trend in FY 2026 and $106.7 million below trend in FY 2027. The linear trend model suggests that individual income tax will be $321.3 million below trend in FY 2026 and $333.6 million below trend in FY 2027.

Figure 5: Individual Income Tax Revenue History and Associated Trend

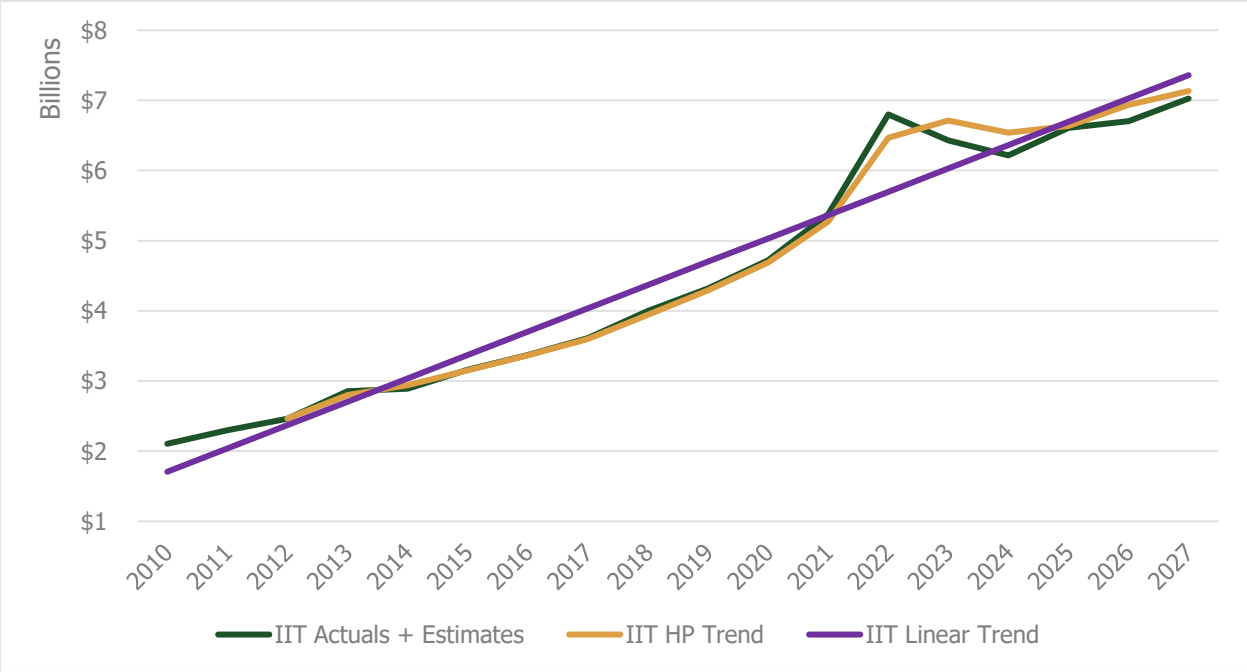
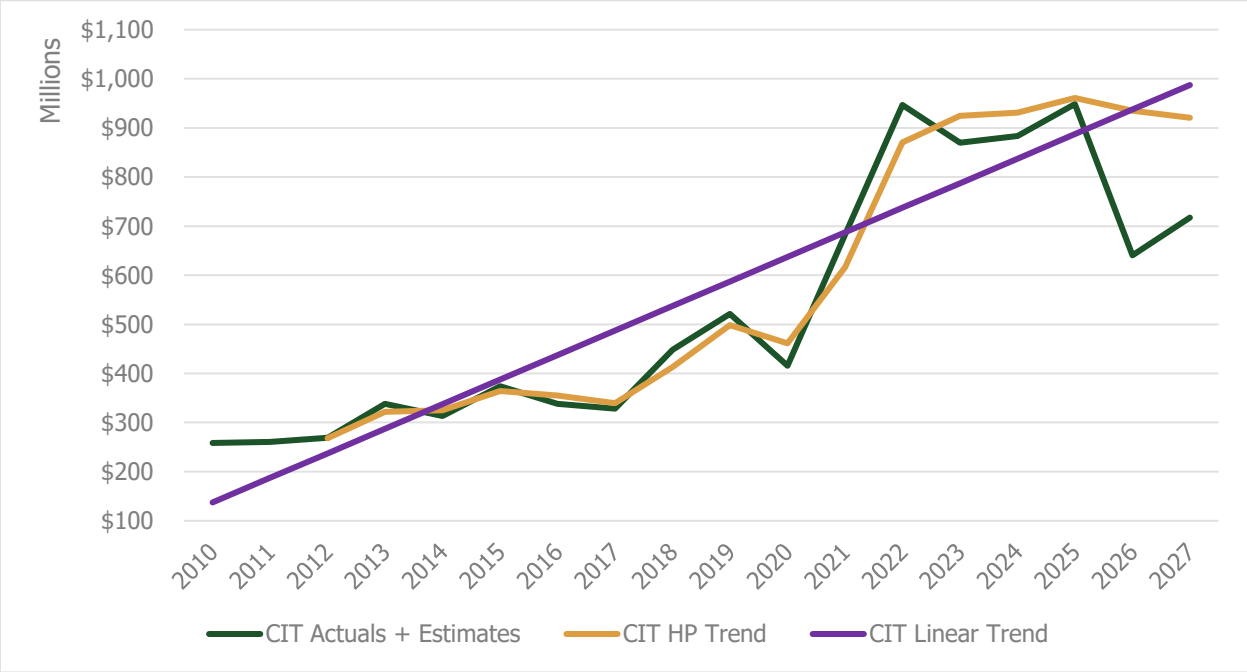


Figure 6 captures the business cycle associated with corporate income tax. The FY 2020 and FY 2021 numbers are adjusted to account for the income tax filing shift. The HP filter suggests that corporate income tax will be $294.9 million below trend in FY 2026 and $203.2 million below trend in FY 2027. The linear trend model suggests that corporate income tax will be $297.1 million below trend in FY 2026 and $269.7 million below trend in FY 2027.

Figure 6: Corporate Income Tax Revenue History and Associated Trend



Federal Funds

Statute (UCA Section 63J-1-205) also requires that the revenue volatility report consider federal funding included in the state budget and discuss any projected changes in the amount or value of federal funding.

In FY 2026, Utah is expected to receive approximately $6.9 billion in federal funds, and in FY 2027, Utah is expected to receive approximately $7.1 billion in federal funds. Major programs funded by federal funds include Medicaid, public education programs and school lunches, transportation projects, the Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF).

While the concept of normalizing and evaluating funding flows against 15-year trends has been statutorily popularized in recent years, it is difficult to estimate changes in federal funding with precision because it is uncertain what actions Congress will take with the federal budget or exactly how federal programs will respond to changes in the economy. When using a Hodrick-Prescott filter, it is estimated that Utah's receipt of federal funds in FY 2026 will be about $492 million below trend and about $515.4 million below trend in FY 2027. As discussed previously, the sensitivity of the Hodrick-Prescott model begins to pick up on the anomalous increases in federal funding in FY 2020 and FY 2021, thus indicating that FY 2026 and FY 2027 federal fund

receipts, which will likely begin to normalize, will be below the now-inflated trend. When using a linear trend, the model estimates that federal funds revenue in FY 2026 will be $322.6 million below trend and about $440.4 million below trend in FY 2027. Figure 7 illustrates the historical federal fund collections, the estimated future collections, and the associated trends.

Figure 7: Federal Funds Revenue History and Associated Trend