MANAGEMENT AND BUDGET

Revenue and Economic Update

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Revenues Above February 2026 Forecast

Minnesota's net general fund receipts for fiscal year (FY) 2026 are now estimated to total $33.526 billion, $248 million (0.7 percent) more than projected in the February 2026 *Budget and Economic Forecast*. Net income, net sales tax, and net other tax receipts were above the forecast, while net corporate tax receipts were below the forecast. General fund revenues in the final quarter of FY 2026 were $430 million (4.4 percent) more than forecast in February (see page 5 for details).

Net individual income tax receipts are estimated to end the fiscal year $492 million (2.8 percent) more than forecast. Gross income tax receipts were $619 million above the forecast, while refunds were $127 million more than expected.

Income tax withholding payments were $61 million (0.5 percent) more than forecast. All positive variance reflects activity for tax year (TY) 2026.

Declarations exceeded the forecast by $71 million (2.7 percent). Of that variance, $48 million is due to higher estimated payments made in the months of April through June towards TY 2026 liability. The remainder of the variance ($23 million) is due to payments towards TY 2025 liability, consisting of estimated payments made in February and March, and extension payments made on or about April 15th. Extension payments are made by taxpayers who do not file a return on April 15 but estimate that they owe tax liability and make a payment to avoid penalty and interest. Typically, these taxpayers file their return on or before October 15.

Miscellaneous payments, consisting mostly of TY 2025 final payments, were $52 million (2.4 percent) more than forecast. This consists of final payments with tax returns and all other individual income tax payments that are not declarations or withholding. It also includes estimated and final payments for fiduciary income tax. The individual income tax payments accounted for $42 million of the variance, all of which was related to TY 2025 or prior years. The remainder of the variance is attributable to fiduciary payments exceeding forecast by approximately $10 million. This variance is related to both TY 2025 and TY 2026.

Partnership and S Corporation gross receipts exceeded our forecast by $435 million (16.5 percent). These payments consist of pass-through entity (PTE) tax payments, non-resident composite payments, nonresident withholding payments, and minimum fee payments. Of this variance, approximately $15 million is related to TY 2025, and most of that is likely due to higher PTE tax payments. All else equal, one would expect this to result in higher PTE tax credits claimed by individual taxpayers who file for an income tax filing extension through October 15. This

Summary of Revenues: Fiscal Year 2026

($ in millions)	February 2026 Forecast	Estimated Closing Revenues	$ Difference	% Difference
Individual Income Tax	$17,351	$17,843	$492	2.8%
General Sales Tax	7,847	7,866	19	0.2
Corporate Franchise Tax	3,302	2,989	(313)	(9.5)
Other Revenues	4,778	4,828	50	1.0
Total Revenues[1]	**$33,278**	**$33,526**	**$248**	**0.7%**

1. Totals may not add due to rounding.

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would imply higher refunds or lower final payments between now and the end of January 2027, when these returns are processed. The remaining $420 million in the variance relates to TY 2026 activity. Most of this variance is likely due to higher PTE tax payments. The February 2026 forecast assumed the PTE tax would expire after TY 2025 under then-current law. The 2026 legislature extended the PTE tax through TY 2027, likely causing pass-through entities to pay significantly higher PTE tax amounts in June than assumed in the February forecast. All else equal, this will result in higher PTE tax credits claimed on individual income tax returns in spring 2027, leading to higher refunds or lower final payments in spring 2027.

Total refunds were $127 million (3.5 percent) above forecast. Partnership and S Corporation entity refunds were $40 million above forecast, likely due to overpayment of the PTE tax for TY 2025. Individual, fiduciary, and other refunds were $86 million above forecast. There are a significant number of high-income returns that will be filed after the close; refunds on those returns may result in a larger refund variance in the first half of FY 2027.

Net corporate receipts for FY 2026 were $313 million (9.5 percent) less than forecast. Gross corporate tax payments were $326 million below the forecast, while refunds were $13 million lower than expected. The February 2026 forecast was prepared under current law and therefore assumed Minnesota would not conform to the federal business tax provisions in H.R. 1. Under that assumption, corporations that reduced their Minnesota estimated payments in response to lower expected federal tax liability were expected to make larger final payments when filing TY 2025 returns in the second quarter of calendar year 2026.

During the 2026 legislative session, Minnesota conformed to several revenue-raising federal business tax provisions but did not conform to most revenue-reducing provisions. We continue to expect some of the deferred liability to be paid in future filing periods.

Net general sales tax receipts are estimated to end FY 2026 $19 million (0.2 percent) more than forecast. Gross sales tax payments were $23 million above the forecast, and refunds were $4 million higher than expected. Net sales tax receipts are estimated to end the fiscal year in line with the February 2026 forecast. Steady performance in this category indicates that consumer spending has remained resilient despite weaker consumer sentiment. Some of the strength in sales tax collections reflects higher taxable sales values due to elevated inflation.

Other net revenues were $50 million (1.0 percent) more than forecast. Estate taxes, investment income, and department earnings & MSOP collections were the primary drivers of the higher-than-forecasted variance. Net healthcare surcharge taxes, deed and mortgage taxes, and fines and surcharges were lower than forecasted.

All FY 2026 results are preliminary and subject to change. The state's fiscal year that ended June 30, 2026, will officially close on August 14. Values in the actual columns on page 5 reflect actual revenues attributable to FY 2026 as well as estimates of revenue accruals through closing.

As of June 30, total FY 2026 revenue was $33.556 billion. Estimated accruals and pre-close adjustments add $29 million on a net basis. Revenues that will be received or recognized between the end of the fiscal year and the close add an estimated $146 million. Income, corporate, and sales tax refunds attributable to FY 2026, expected to be paid out before the close, subtract $176 million. A complete reporting of FY 2026 revenues will be part of October's *Revenue and Economic Update*.

Near-Term U.S. Economic Outlook Weaker than the February Forecast

The near-term outlook for U.S. real GDP has weakened since Minnesota's *Budget and Economic Forecast* was prepared in February 2026. S&P Global Market Intelligence (SPGMI), Minnesota's macroeconomic consultant, now expects annual real GDP to grow 2.0 percent in 2026, 0.7 percentage points below the February forecast, followed by 2.3 percent in 2027, 0.3 percentage points higher than in February (see the chart on page 4 for details).

The most significant update since the February 2026 forecast is the conflict between the United States and Iran, and the impact of the conflict on energy prices. SPGMI expects the average price of Brent crude oil to peak at $97 per barrel in the second quarter of 2026, then decline to $88 per barrel in the fourth quarter of 2026. In February, SPGMI forecast Brent crude oil would average $59 per barrel in 2026. For 2027, SPGMI now expects an average of $82 per barrel, compared with the February forecast of $62 per barrel.

SPGMI expects CPI inflation of 3.4 percent in 2026, up from 2.5 percent in their February outlook. SPGMI expects CPI inflation of 2.4 percent in 2027, down from 2.8 percent in their February forecast. Higher inflation reflects the pass-through of higher oil prices, which is only partially offset by a lower tariff rate. In February, SPGMI assumed an average effective tariff rate of 14 percent. The current forecast assumes an average effective tariff rate of 10 percent, reflecting the temporary measures authorized under Section 122 of the Trade Act and the Supreme Court's ruling striking down the International Emergency Economic Powers Act (IEEPA) tariffs. SPGMI expects the first Federal Open Market Committee (FOMC) rate cut to occur in June 2027, one year later than in the February forecast.

Consumer spending remains subdued as inflation continues to outpace wage growth, limiting gains in household purchasing power. SPGMI expects households to prioritize rebuilding savings and to pay down debt rather than increasing spending. As a result, consumer spending is expected to remain positive but modest through 2026. In February, SPGMI forecast consumer spending to increase 2.8 percent in 2026. The July forecast expects consumer spending to increase 1.8 percent in 2026.

The SPGMI July baseline forecast for 2026 is comparable to Haver Analytics' June 2026 "Blue Chip Economic Indicators" consensus forecasts, the means of 50 business and academic forecasts.[1] The July Blue Chip Consensus calls for real GDP growth of 2.1 percent in 2026, slightly above the SPGMI forecast of 2.0 percent for this year. SPGMI expects real GDP to grow 2.3 percent in 2027, above the Blue Chip Consensus of 2.0 percent.

The Bureau of Labor Statistics (BLS) reports that in June, the seasonally adjusted U.S. unemployment rate was 4.2 percent, little changed from 4.1 percent one year ago. However, this metric alone paints an incomplete picture of the labor market. The demand for labor is weakening, and at the same time, the labor force is contracting. Since June 2025, the civilian labor force has declined by 1,022,000 individuals. The U.S. labor force participation rate was 61.5 percent in June, down 0.8 percentage points from one year ago. The number of unemployed in the United States was 7.1 million people (seasonally adjusted) in June 2026, an increase of 40,000 from one year ago.

Non-farm payroll employment increased by 57,000 jobs in June. The number of long-term unemployed (those jobless for 27 weeks or more) was 1.9 million (seasonally adjusted) in June, an increase of 286,000 individuals from one year ago. SPGMI expects the U.S. unemployment rate to peak at 4.5 percent in late 2026, then average 4.5 percent in 2027 and 4.4 percent in 2028.

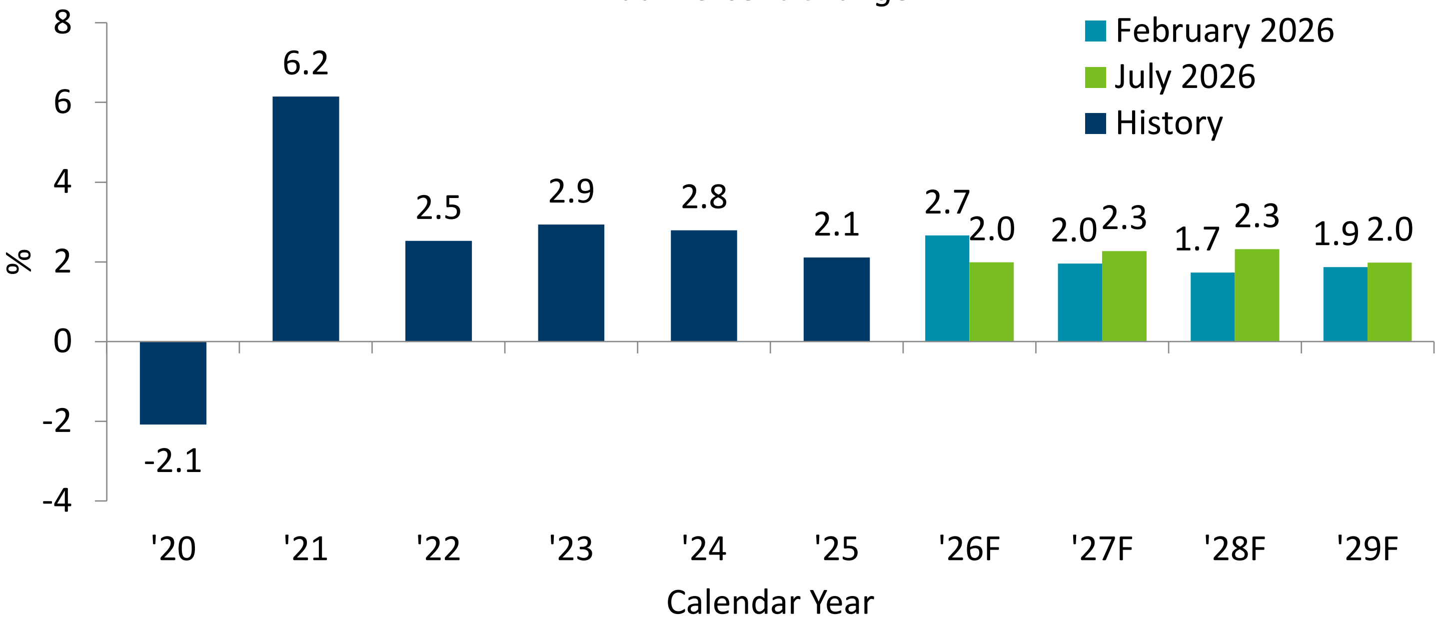
SPGMI assigns a 50 percent probability to the July baseline outlook. SPGMI assigns a 25 percent probability to a more pessimistic scenario, characterized by (1) tighter energy markets resulting from the conflict in Iran and the disruption in the global supply of oil and other commodities, (2) elevated energy prices that reduce consumer demand, and (3) lower equity valuations. As a result, real GDP will grow 1.9 percent in 2026 and 2.0 percent in 2027, compared to 2.0 percent in 2026 and 2.3 percent in 2027 in the baseline outlook.

In the more optimistic scenario, SPGMI assumes (1) improved energy market conditions due to a quicker resolution to the conflict in Iran and a well-functioning global supply of oil and other commodities, and (2) lower energy prices that contribute to lower inflation, higher equity valuations, and stronger consumer demand. In this scenario, real GDP will grow 2.0 percent in 2026 and 2.4 percent in 2027. The optimistic scenario receives a 25 percent probability.

[1] Haver Analytics, "Blue Chip Economic Indicators," July 2026 Edition. CCH Incorporated, New York, New York.

U.S. Real Gross Domestic Product

Annual Percent Change



Source: U.S. Bureau of Economic Analysis (BEA), and SPGMI

Comparison of Actual and Forecast Non-Dedicated Revenues

($ in thousands)

	Fiscal Year 2026			April-June 2026		
	FORECAST REVENUES[1]	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES[1]	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	13,505,716	13,566,755	61,039	3,248,182	3,298,728	50,546
Declarations	2,628,125	2,698,641	70,516	1,421,741	1,494,616	72,875
Miscellaneous	2,158,697	2,210,892	52,196	1,423,254	1,481,822	58,567
Partnership & S Corporation Gross	2,634,032	3,069,316	435,284	399,229	819,690	420,461
Gross	20,926,569	21,545,605	619,036	6,492,406	7,094,855	602,449
Partnership & S Corporation Refunds	188,706	228,868	40,162	78,933	85,036	6,103
Individual, Fiduciary, Withholding Refunds	3,387,216	3,473,620	86,404	1,315,694	1,294,034	(21,660)
Total Refunds	3,575,921	3,702,488	126,567	1,394,627	1,379,070	(15,558)
Net Income Tax	17,350,648	17,843,117	492,469	5,097,779	5,715,785	618,007
Corporate Franchise Tax						
Declarations	3,215,127	2,971,868	(243,259)	1,324,480	1,085,087	(239,393)
Miscellaneous	301,169	218,447	(82,722)	133,181	53,125	(80,056)
Gross	3,516,296	3,190,316	(325,981)	1,457,662	1,138,212	(319,449)
Refund	213,875	201,230	(12,645)	38,228	17,334	(20,893)
Net Corporate Franchise Tax	3,302,421	2,989,085	(313,336)	1,419,434	1,120,878	(298,556)
General Sales and Use Tax						
Gross	8,074,067	8,097,366	23,299	1,964,143	1,977,965	13,822
MPLS Sales Tax Transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	18,964	18,964	-	4,719	4,719	0
Sales Tax Gross	8,093,031	8,116,330	23,299	1,968,863	1,982,685	13,822
Refunds (including Indian refunds)	246,500	250,321	3,821	88,154	99,128	10,973
Net Sales and Use Tax	7,846,531	7,866,009	19,478	1,880,708	1,883,557	2,849
Other Revenues						
Net Estate	332,400	383,176	50,777	61,471	110,295	48,824
Net Liquor/Wine/Beer	111,550	110,810	(740)	37,875	37,741	(134)
Net Cigarette/Tobacco	503,700	504,264	563	144,187	139,771	(4,416)
Deed and Mortgage	314,547	299,579	(14,969)	97,734	86,724	(11,010)
Net Insurance Premium Taxes	635,524	636,312	788	136,903	147,808	10,905
Net Lawful Gambling	196,700	212,926	16,226	52,972	63,433	10,461
Health Care Surcharge	392,192	353,184	(39,008)	191,708	166,000	(25,708)
Other Taxes	5,455	6,605	1,150	5,317	6,447	1,130
Statewide Property Tax	731,259	745,266	14,007	392,163	405,368	13,205
DHS SOS Collections	119,000	132,509	13,509	28,226	39,884	11,658
Investment Income	588,000	634,298	46,298	156,230	202,202	45,972
Tobacco Settlement	149,187	143,210	(5,977)	25,576	19,599	(5,977)
Dept. Earnings & MSOP Recovery	267,182	302,807	35,625	71,575	108,359	36,784
Fines and Surcharges	67,914	53,820	(14,094)	16,985	15,933	(1,052)
Lottery Revenues	80,620	79,317	(1,304)	42,450	32,880	(9,570)
Revenues yet to be allocated	-	-	-	(14,689)	(22,807)	(8,118)
Residual Revenues	289,360	235,634	(53,726)	34,101	28,493	(5,608)
Other Revenues Subtotal	4,784,591	4,833,716	49,125	1,480,784	1,588,130	107,346
Other Refunds	6,201	5,808	(393)	2,187	2,085	(102)
Net Other Revenues	4,778,390	4,827,907	49,518	1,478,597	1,586,045	107,448
Total Gross	37,320,487	37,685,966	365,479	11,399,714	11,803,882	404,168
Total Refunds	4,042,497	4,159,848	117,350	1,523,196	1,497,617	(25,579)
Total Net	33,277,989	33,526,118	248,129	9,876,518	10,306,265	429,747

1. February 2026 Budget and Economic Forecast.