

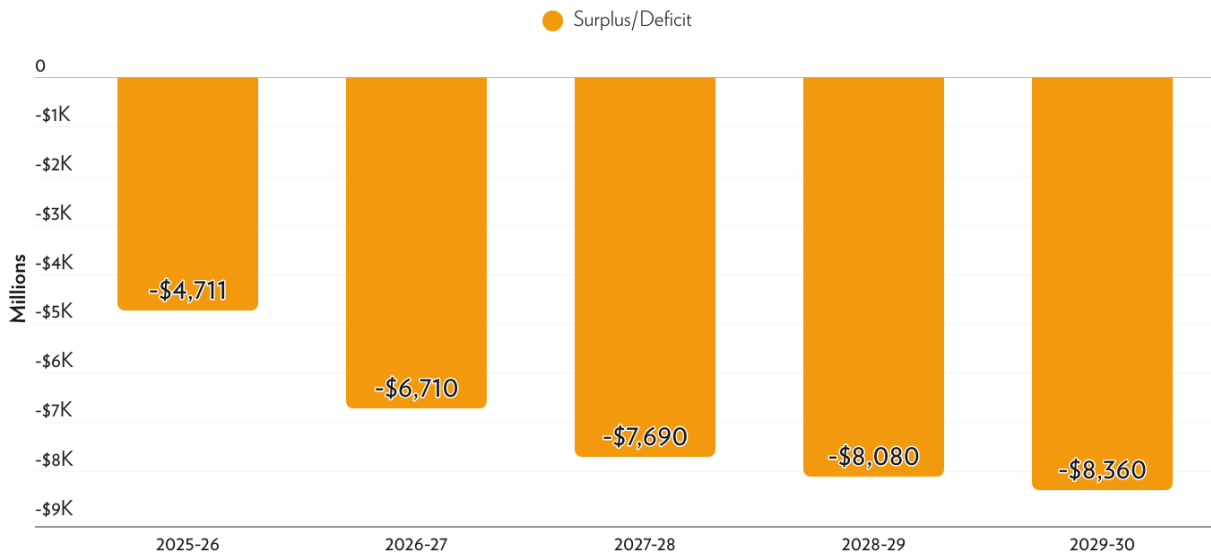
Deficit Watch: June 2026

BACKGROUND

Pennsylvania continues to face serious **fiscal** challenges. The enacted 2025–26 General Fund budget created a **\$4.6 billion** structural deficit. Gov. Josh Shapiro’s 2026–27 budget **proposal** would increase the deficit to more than **\$6 billion**. Under the current policy and spending growth, long-term forecasts indicate daunting deficit increases in future years.

Projected Budget Deficits

Pennsylvania is facing a budget deficit that will grow in future years.



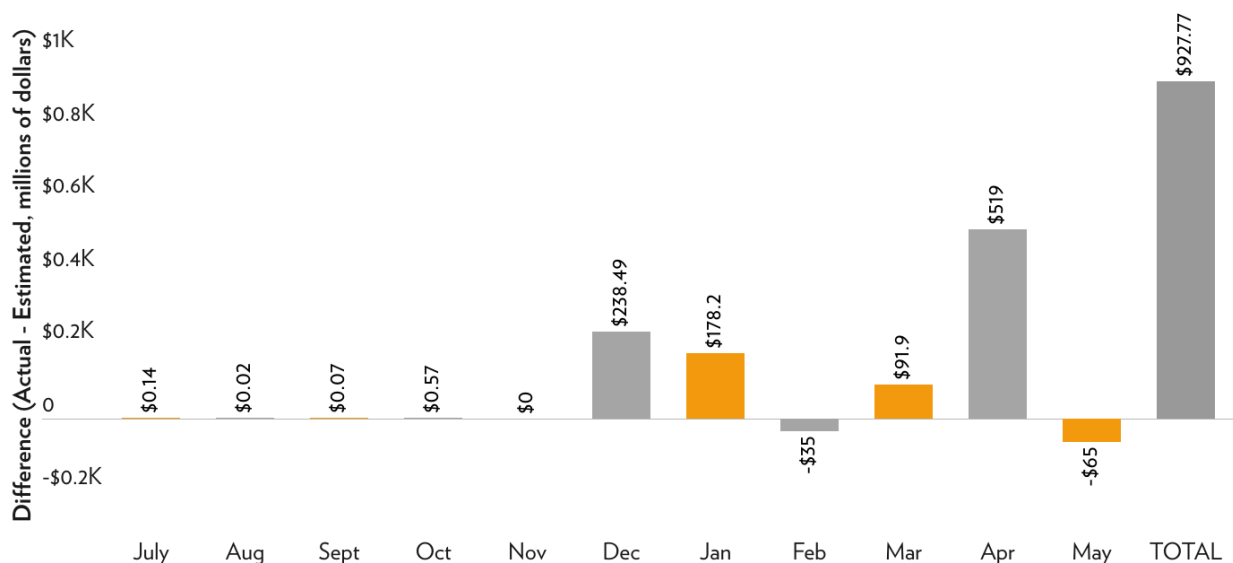
Sources: Pennsylvania Independent Fiscal Office, “Long Term Budget Outlook Update” February 2026, https://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/BB_Long-Term_Budget_Outlook_Update_2026_02.pdf

REVENUE ESTIMATES AND COLLECTIONS

- The \$6 billion-plus structural deficit equals the difference between net revenue (projected revenues minus refunds) and proposed spending. Shapiro proposes spending \$53.3 billion in his 2026–27 budget, compared to the most recent estimate of \$47.2 billion in net revenue.
- In May 2026, Pennsylvania **collected** \$3.31 billion in revenue, \$65 million below the official revenue estimate. In total, fiscal year (FY) 2025–26 collections are **\$926.97 million** above estimates. Despite the year’s higher-than-expected revenues, a \$4.6 billion gap between revenues and spending remains.

- Shapiro's 2026–27 budget proposal drastically overestimates the impact of his proposed tax increases. A [February analysis](#) by Pennsylvania's Independent Fiscal Office (IFO) calculates Shapiro's revenue estimates for his marijuana, skill games, and combined reporting proposals exceed IFO estimates by \$4.4 billion over the next three fiscal years.

Actual vs. Estimated Revenue Collections, FY 25-26



Pennsylvania Department of Revenue, monthly collections news releases August 2025 through June 2026. <https://www.pa.gov/agencies/revenue/newsroom>

- In May, the IFO released [revised numbers](#) that raise estimated revenues to \$48.77 billion for FY 2025–26 and \$49.56 billion for FY 2026–27. Compared to previous estimates, these represent respective increases of \$848 million and \$789 million.
- The biggest revenue variance from the newly revised IFO numbers is the projection for personal income tax (PIT) non-withholding (6.7 percent above estimate), which the IFO says is “likely driven by capital gains” (i.e., a strong stock market).

RECOMMENDATIONS

- If left unaddressed, the budget deficit will represent a tax increase of \$2,100 per family of four beginning in 2027.
- Lawmakers must act now to reduce the structural deficit to protect working families from tax increases. Legislative actions that would help cut deficit and wasteful spending include:
 - Implementing [welfare reforms](#) to frequently verify eligibility and strengthen work requirements to reduce waste and fraud.
 - Opting into the [Federal Scholarship Tax Credit](#) and passing other education reforms to ensure funding that follows children, such as expanding state [tax credit scholarships](#) and [Lifeline Scholarships](#).

- Supporting the [Taxpayer Protection Act \(TPA\)](#), a fiscal guardrail that limits state spending growth to the average rate of inflation plus population growth or personal income growth.
- Eliminate all [corporate welfare](#) and economic development spending to lower tax rates for all Pennsylvanians. This would reduce the PIT rate to 2.82 percent, saving a family of four roughly \$530 annually, and instantly lower the corporate net income tax (CNIT) to 5.75 percent.
- Pass the Regulations from the Executive in Need of Scrutiny (REINS) Act, requiring a formal cost verification process, followed by a mandatory vote in the General Assembly for regulations with an annual financial impact of \$1 million or more.