

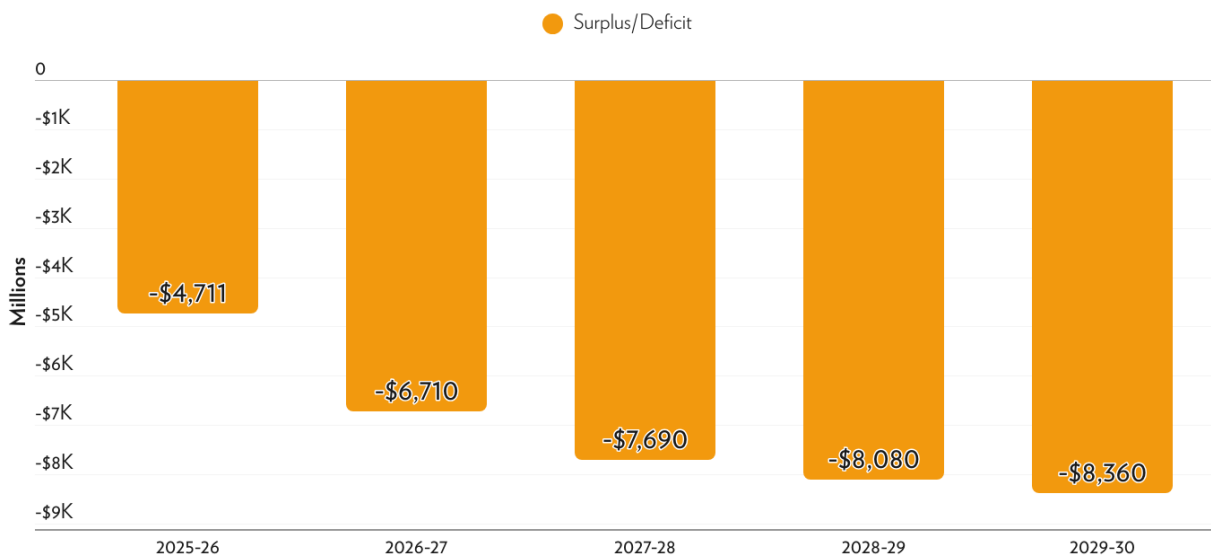
Deficit Watch: July 2026

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. Notably, this year marks Shapiro’s fourth **missed** June 30 state-mandated budget deadline.

Projected Budget Deficits

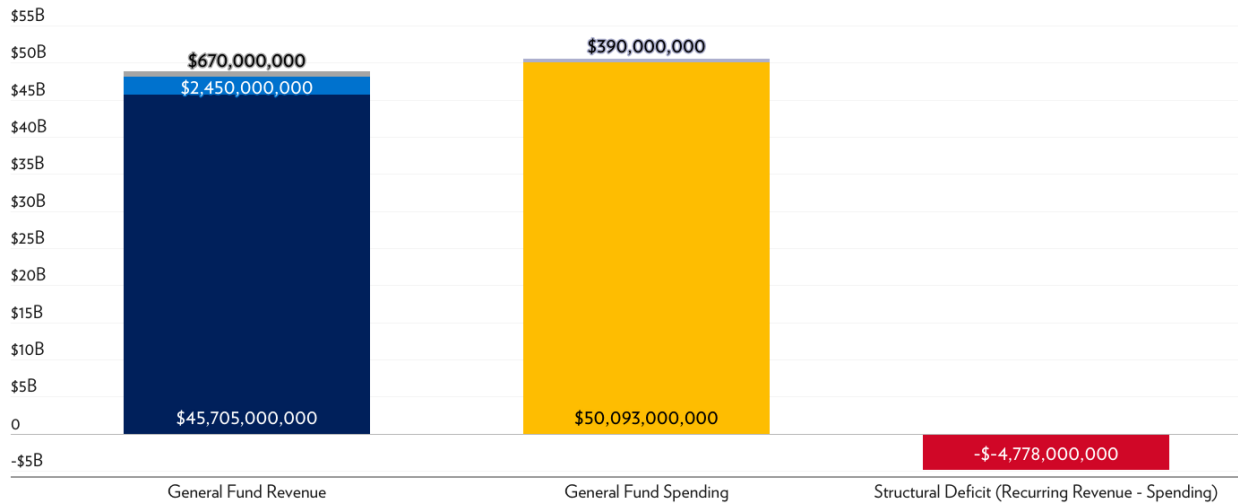
Pennsylvania is facing a budget deficit that will grow in future years.



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

FY 2025-26 Deficit Breakdown

● Recurring Revenue
 ● Refunds
 ● One-time Transfer Revenue
 ● Enacted Budget
 ● Supplemental Appropriations in HB 2400
● (Recurring Revenue - Total Spending)



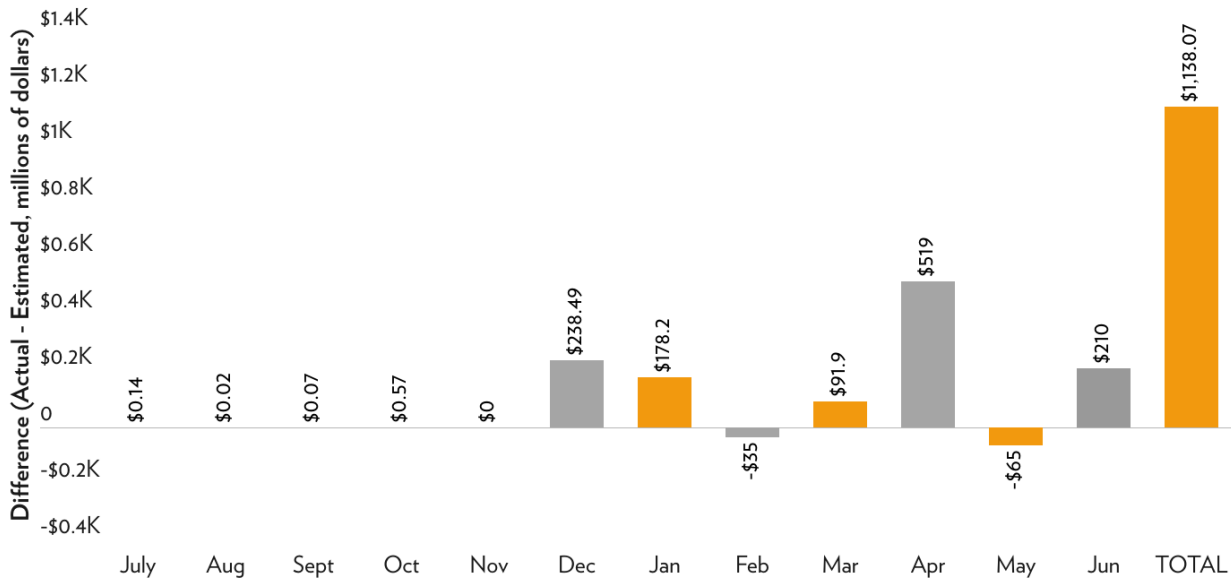
Source: Pennsylvania Department of Education, [Annual Financial Reports](#), 2022-23 General Fund Balance.



REVENUE ESTIMATES AND COLLECTIONS

- The \$6.8 billion deficit equals the difference between net revenue (projected revenues minus refunds) and proposed spending (including one-time transfers). For the 2026–27 budget plan, these are \$46.4 billion and \$53.3 billion, respectively.
- In June 2026, Pennsylvania **collected** \$3.96 billion in revenue, \$210 million above the official revenue estimate. In total, fiscal year (FY) 2025–26 collections are **almost \$1.14 billion** (or \$1,138 million) above estimated revenues.
- Shapiro’s 2026–27 budget proposal drastically overestimates the impact of his proposed tax increases. A **February analysis** by the Pennsylvania 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 July 2026, <https://www.pa.gov/agencies/revenue/newsroom>

- In June, the IFO released a [revised forecast](#) for FY 2026–27, which raises estimated revenues to \$49.75 billion—a \$923 million increase compared to the previous estimate.

RECOMMENDATIONS

- If left unaddressed, the budget deficit will represent a tax increase of \$2,100 per family of four beginning in 2027.
- Lawmakers must pass a state budget that protects working families from tax increases. Other legislative actions that can assist with reducing the deficit and eliminating 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 [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 [corporate welfare](#) and economic development spending to lower tax rates for all Pennsylvanians. This would reduce the personal income tax (PIT) rate to 2.82 percent, saving a family of four roughly \$530 annually, and 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.