

# Joint Economic Briefing

## House and Senate Ways & Means Committees

January 28, 2022

New Hampshire Department of Revenue Administration



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# Introduction

- The Department of Revenue Administration (DRA) administers 14 taxes for the State of New Hampshire, representing **79.3% (\$2.36 billion)** of the audited revenue collected for the general and education trust funds in FY2021.
- The DRA has important insights into the performance of the State's most significant revenue sources, but lacks the capacity to perform more complex economic predictions.
- Presentations Outline:
  - Year-to-date revenues
  - Factors affecting taxes
  - Trend vs. Plan

# Meals & Rentals (M&R) Tax

- The M&R Tax is levied on consumers for the purchase of taxable meals, accommodation rentals, and motor vehicle rentals. The tax rate was 9% through Sept. 30, 2021 and 8.5% from Oct. 1, 2021 onwards. The Tax is collected by the operator and remitted to the DRA monthly.
- The School Building Aid debt service (SBA) is a monthly transfer from gross M&R Tax revenue. The transfer was \$14.6 million per year in FY2012, gradually decreasing to \$8.3m in FY2021 and is currently \$8.1m in FY2022.
- Audited M&R Tax revenue rebounded since the initial impacts of COVID-19 in FY2020:
  - 5.5% increase in FY2019 over FY2018
  - 9.9% decrease in FY2020 over FY2019
  - 6.1% increase in FY2021 over FY2020
  - FY2022 actual revenue for the first 6 months of the fiscal year is 29.0% above FY2022 plan and 3.9% above FY2021 unaudited revenue year to date. (Note: FY2022 revenue is net of a monthly transfer to the Municipal Fund that didn't exist in FY2021. YTD transfer through December totals \$51.9m.)
- Factors affecting M&R tax revenue:
  - Low unemployment rates(US = 4.2%; NH = 2.7% for November 2021 vs. US = 6.7%; NH = 4.2% for November 2020<sup>1</sup>)
  - Strong wages
  - Federal stimulus money
  - Weather (sunny summers, colorful fall foliage, snowy winters)
  - Consumer behavior adapting to COVID-19 (outdoor dining, expanded takeout, shifts from hotel, camps, and cottages to rental agent and condo rentals)

<sup>1</sup>Source: *Labor Force and Unemployment Chart*. <https://www.nhes.nh.gov/elmi/products/chartroom/documents/chart01.pdf>, NH Employment Security . December 14, 2021

# Factors That May Affect Future M&R Tax Revenue

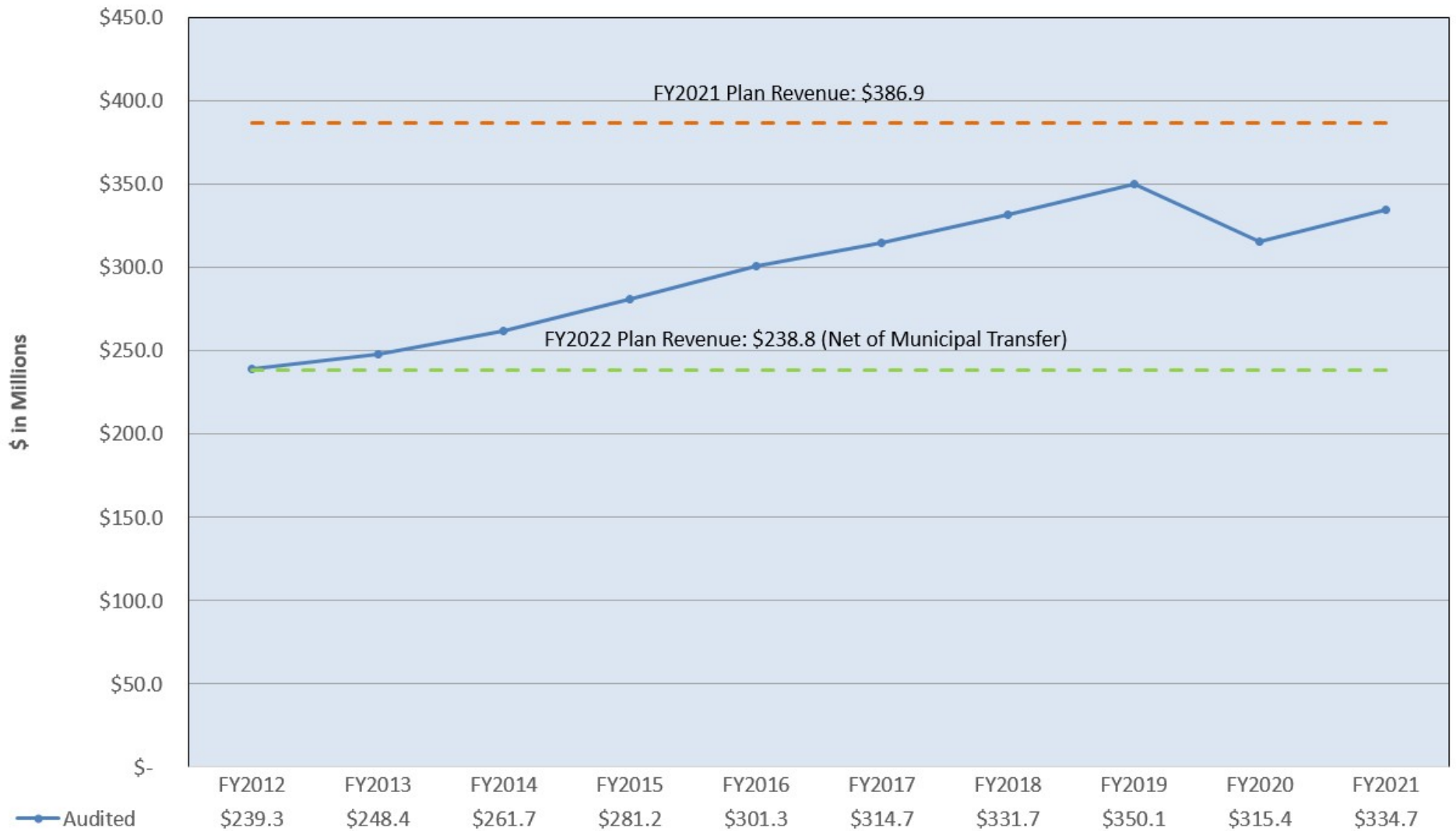
- The continuing direct effects of COVID-19 on consumer behavior
  - Infection and hospitalization rates
  - General public sentiment on social distancing
- Economic factors affecting consumer behavior
  - End of federal stimulus
  - Pandemic related employment trends
    - Falling unemployment<sup>1</sup>
    - Strong wage rates drive consumer demand
    - Staffing needs in the service industry: hospitality and restaurant sectors
  - Supply chain constraints
  - Inflation<sup>2</sup>
    - Rising fuel prices
- The shift in consumer spending behavior from pre-pandemic to current spending pattern might continue into the long term.

<sup>1</sup>Source: <https://www.nhes.nh.gov/elmi/statistics/claims-data.htm>, Unemployment compensation weekly claims decreased from 34,672 from May 2021 to 9,868 in October 2021. New Hampshire Economic Conditions, New Hampshire Employment Security, Dec. 2021, p. 9

<sup>2</sup>Source: <https://www.nhes.nh.gov/elmi/documents/ec-1221.pdf>, Northeast All Urban Consumers consumer price index (not seasonally adjusted) increased 5.4% in Oct. 2021 over Oct. 2020. New Hampshire Economic Conditions, New Hampshire Employment Security, Dec. 2021, p. 9

# M&R Tax Revenue 10-Year Trend

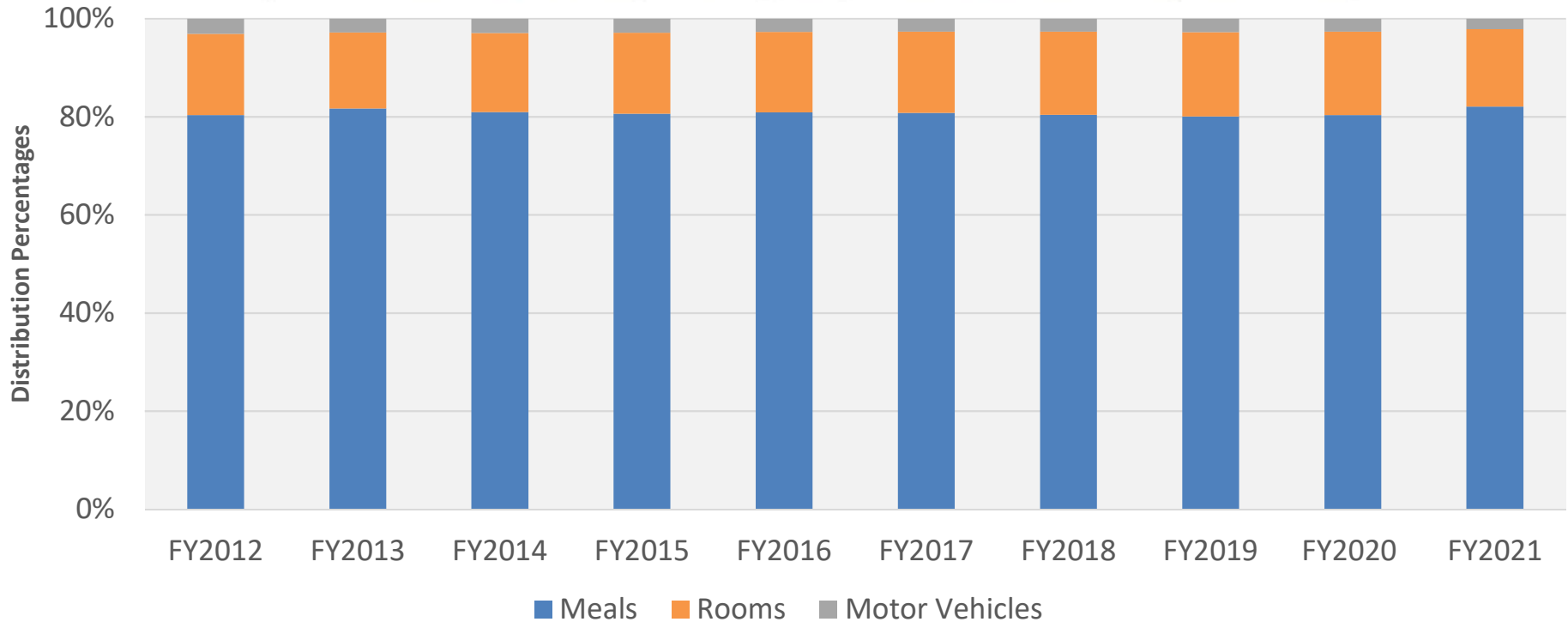
## Audited Revenue



# M&R Tax Breakdown

## Meals & Rentals (M&R) Tax Liability Reported by Activity Type

(Not Net of Refunds or School Building Aid Debt Payments, based on Returns received during each Fiscal Year)



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
<b>Tax Rate</b>	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%
<b>Meals</b>	80.4%	81.7%	80.9%	80.6%	80.9%	80.8%	80.4%	80.0%	80.4%	82.1%
<b>Rooms</b>	16.5%	15.5%	16.1%	16.5%	16.4%	16.6%	16.9%	17.2%	17.0%	15.8%
<b>Motor Vehicles</b>	3.1%	2.8%	2.9%	2.9%	2.7%	2.6%	2.7%	2.8%	2.7%	2.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

NOTE: Data shown represents tax reported and is not net of refunds or School Building Aid debt service.

# Real Estate Transfer Tax (RETT)

- The RETT is a tax on the transfer, sale or granting of real property at a rate of \$1.50 per \$100 of the price or consideration for the transfer (\$.75 is the obligation of the purchaser and \$.75 is the obligation of the seller).
- Audited RETT revenue has increased in recent years:
  - 2.5% increase in FY2019 over FY2018
  - 3.7% increase in FY2020 over FY2019
  - 32.4% increase in FY2021 over FY2020
  - FY2022 actual revenue for the first 6 months of the fiscal year is 8.1% above FY2022 plan and 18.9% above FY2021 unaudited revenue year to date.
- Factors that affect RETT revenue:
  - Low interest rates (3.07% mortgage rate for October 2021<sup>1</sup>)
  - Strong demand coupled with decreasing inventory levels
  - Shift from urban areas to rural areas
  - Property values (\$193.5 billion was the total equalized value for NH on April 21, 2021<sup>2</sup> vs \$184.9 billion was the total equalized value for NH on April 21, 2020<sup>3</sup>)

<sup>1</sup>Source: Housing Market Snapshot, NHHFA.org, 1-7-2022

<sup>2</sup>Source: Equalization Survey with Utilities and Railroad Summary, DRA 2021 Annual Report

<sup>3</sup>Source: Equalization Survey with Utilities and Railroad Summary, DRA 2020 Annual Report

# Factors That May Affect Future RETT Revenue

- Housing market trend
  - Continued strong demand for homes
  - Home prices continues to stay strong
  - Low inventory
- Economy
  - General low unemployment rate and strong wages
  - Inflation rate and rise in consumer prices and energy prices
- Changes in behaviors
  - Virtual home sales
  - Home improvements
  - Ability to work from home, movement away from urban centers
- Future Outlook
  - Potential interest rate increase
  - Strong buyer demand
  - Limited or shrinking inventory (Inventory in December 2021 decreased year-over-year 34.4% for single family homes and 41% for townhouse-condo properties) <sup>1</sup>

<sup>1</sup>Source: [https://www.nhar.org/assets/docs/NHAR\\_MMI\\_2021-12.pdf](https://www.nhar.org/assets/docs/NHAR_MMI_2021-12.pdf), NH Association of Realtors expects a continued strong buyer demand and low inventory to persists in 2022 but at a tempered rate. NH Monthly Indicators, New Hampshire Realtors, Dec. 2021, p.1



# RETT Year-Over-Year Change

- For November 2021, new property listings, pending sales, and monthly supply of inventory for single family homes and condos decreased from a year ago
- For November 2021, the median sales price for single family homes and condos increased when compared to November 2020
  - Average sales price for a single family home was \$401k in November 2021
  - Average sales price for a condo was \$310k in November 2021

November 2021 vs November 2020 Comparison <sup>1</sup>				
Property Type	New Listings	Pending Sales	Median Sales Price	Monthly Supply of Inventory
Single Family - Nov 2020	1208	1384	\$353,000.00	1.3
Single Family - Nov 2021	1102	1354	\$401,000.00	0.9
<b>Year-Over-Year Change</b>	<b>-8.8%</b>	<b>-2.2%</b>	13.6%	<b>-30.8%</b>
Condo - Nov 2020	382	375	\$255,500.00	1.4
Condo - Nov 2021	360	432	\$309,900.00	0.8
<b>Year-Over-Year Change</b>	<b>-5.8%</b>	15.2%	21.3%	<b>-42.9%</b>

- Increasing construction material costs and supply chain issues causing 4-12 month backlog of certain materials per the Associated General Contractors of America
- December 2021 was the lowest month in the last year on the affordability index for single family homes
  - Single family homes had an Affordability Index rating of 101 in December 2021, meaning the median household income was 101% of what was necessary to qualify for the median-priced home under prevailing interest rates. By contrast, the state's residential Affordability Index has been as high as 220 in February 2012, and there was a seven-year period between 2009 and 2016 during which the Index never dropped below 150.

<sup>1</sup>Source: [https://www.nhar.org/assets/docs/NHAR\\_MMI\\_2021-11.pdf](https://www.nhar.org/assets/docs/NHAR_MMI_2021-11.pdf)

# RETT Revenue 10-Year Trend

Audited Revenue



# Tobacco Tax

- The Tobacco Tax is levied on each package of cigarettes at a rate of \$1.78 per pack of 20 cigarettes and \$2.23 per pack of 25 cigarettes. The Tobacco Tax is also levied on all other tobacco products (OTP) at a rate of 65.03% of the wholesale sales price.
- The Tobacco Tax consists of stamp sales and sales of OTP. Included in OTP is E-Cigarette Tax. Audited Tobacco Tax revenue over the last three years:
  - 4.3% decrease in FY2019 over FY2018
  - 5.7% increase in FY2020 over FY2019
  - 18.1% increase in FY2021 over FY2020
  - FY2022 actual revenue for the first 6 months of the fiscal year is 1.9% below FY2022 plan and 4.8% below FY2021 unaudited revenue year to date.
- The composition of Tobacco Tax revenue is changing. OTP has grown and currently makes up 10.1% of Tobacco Tax revenue compared to FY2012 where it made up 3.4% of revenue.
- Factors that contributed to the Tobacco Tax revenue:
  - Cross-border elasticity
    - Massachusetts ban on mentholated tobacco products, in effect June 1, 2020
  - Full fiscal year tax revenue from e-cigarettes

# Tobacco Tax Revenue

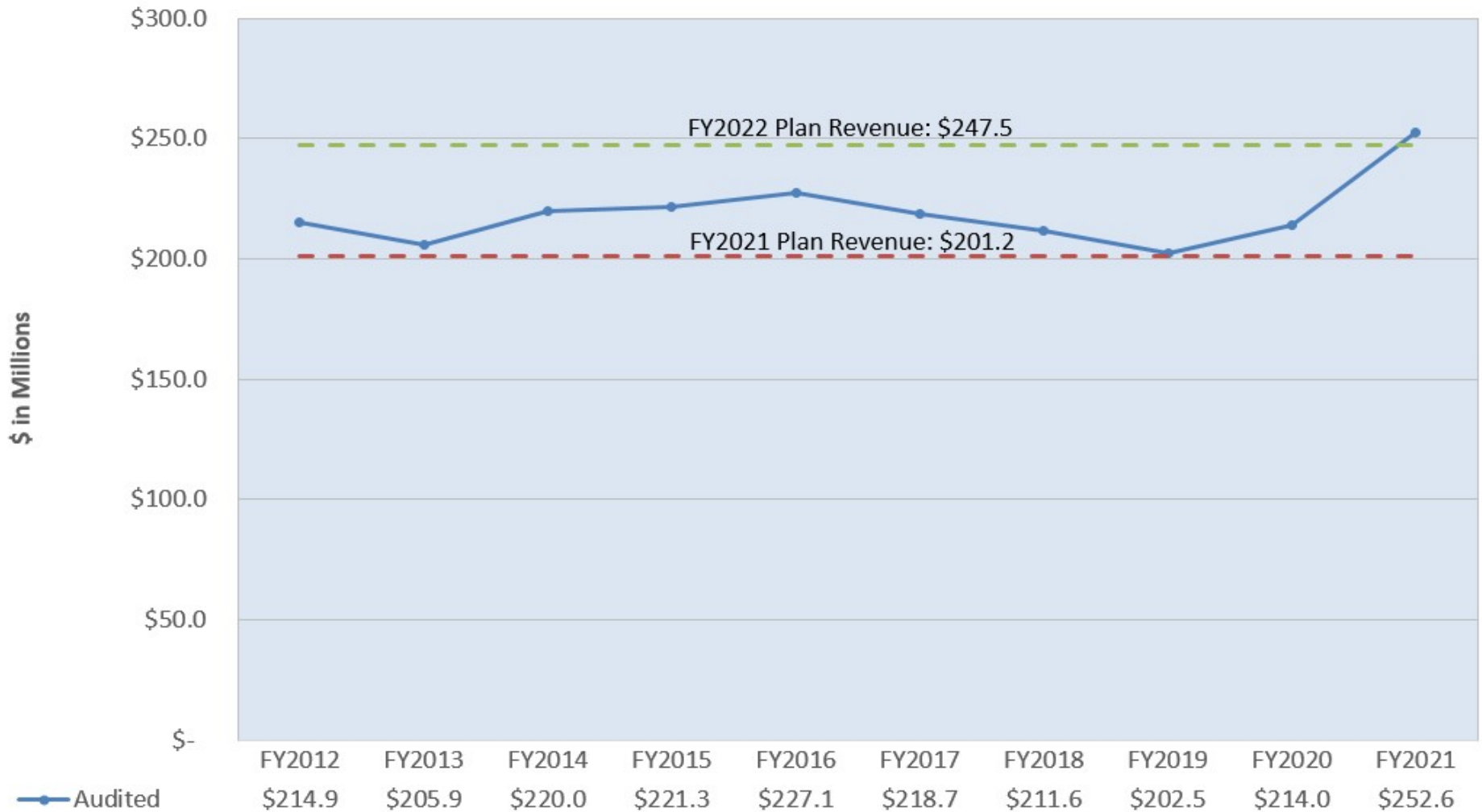
- E-Cigarette Tax went into effect on January 1, 2020. It is levied on both the closed system and open system. The closed systems tax rate is \$0.30 per milliliter on the volume of the liquid or other substance containing nicotine in the cartridge or container and the open system is 8% of the wholesales price of the container of liquid or other substance containing nicotine.

E-Cigarette Tax Liability Reported*					
Month	FY 2022	% Change	FY 2021	% Change	FY 2020
July	\$624,974	94%	\$322,909		
August	\$652,897	114%	\$304,933		
September	\$620,441	103%	\$306,340		
October	\$623,474	36%	\$458,210		
November	\$675,944	59%	\$425,827		
December	\$628,781	84%	\$341,243		
January			\$386,274		
February			\$326,235	86%	\$175,245
March			\$571,155	216%	\$180,494
April			\$564,133	155%	\$221,340
May			\$365,348	24%	\$293,889
June			\$796,664	145%	\$324,884
<b>Total</b>	<b>\$3,826,511</b>	<b>-26%</b>	<b>\$5,169,272</b>	<b>332%</b>	<b>\$1,195,852</b>
<b>FYTD</b>	<b>\$3,826,511</b>	<b>77%</b>	<b>\$2,159,462</b>		

\*Amounts shown are E-Cigarette Tax Liability Reported on original returns received during the month shown.

# Tobacco Tax Revenue 10-Year Trend

## Audited Revenue



Note: See slides 12 & 13 for rate changes.

## Tobacco Stamp Rates

### FY2012 – FY2013

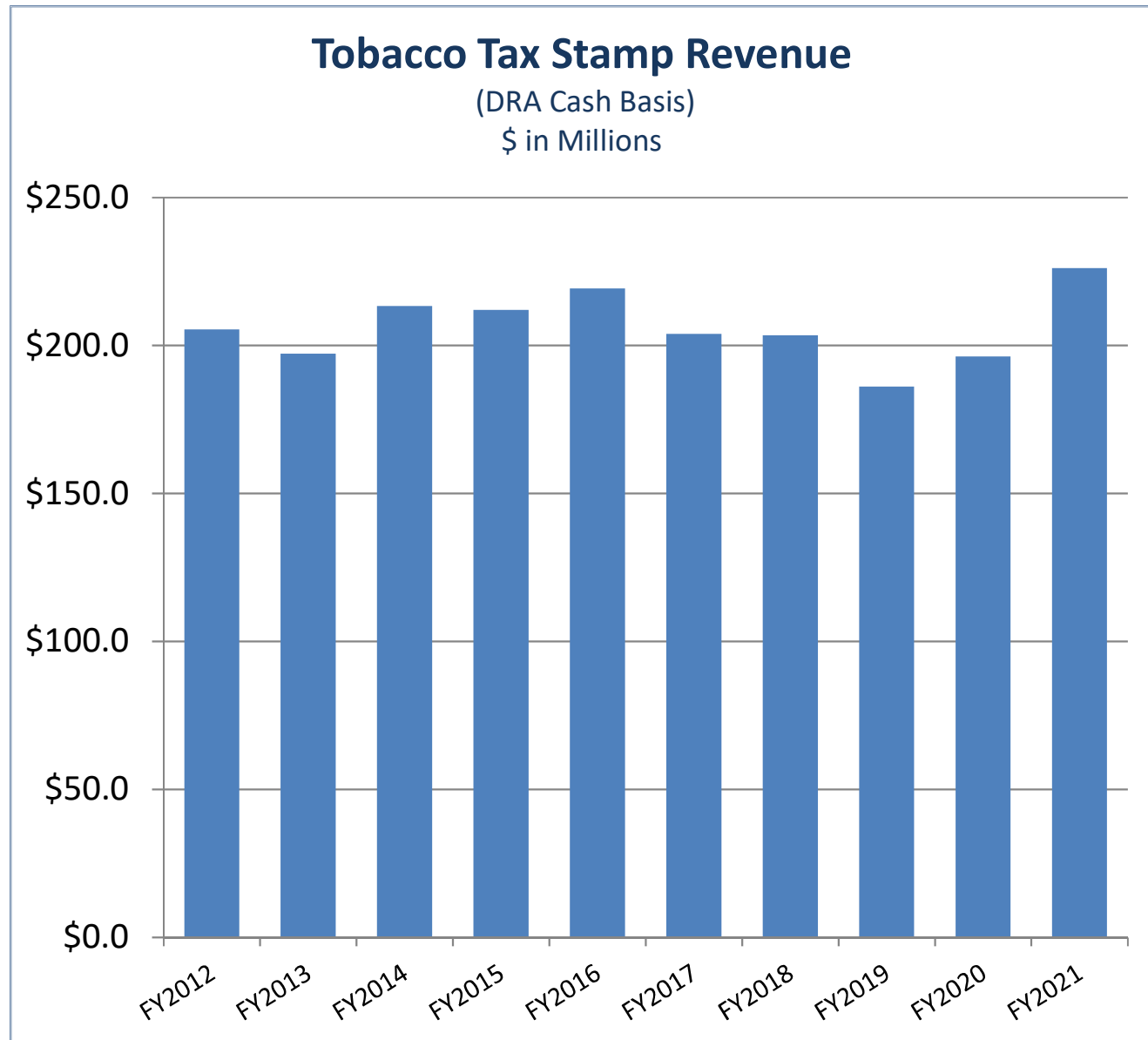
A Stamp Rate = \$2.10

B Stamp Rate = \$1.68

### FY2014 – Current

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78



Note: "A" Stamps are affixed to cigarette packs containing 25 cigarettes. "B" Stamps are affixed to cigarette packs containing 20 cigarettes.

## Other Tobacco Products (OTP) Tax Revenue

(DRA Cash Basis)

\$ in Millions

### OTP Tax Rates (Wholesale Price)

**FY2012**

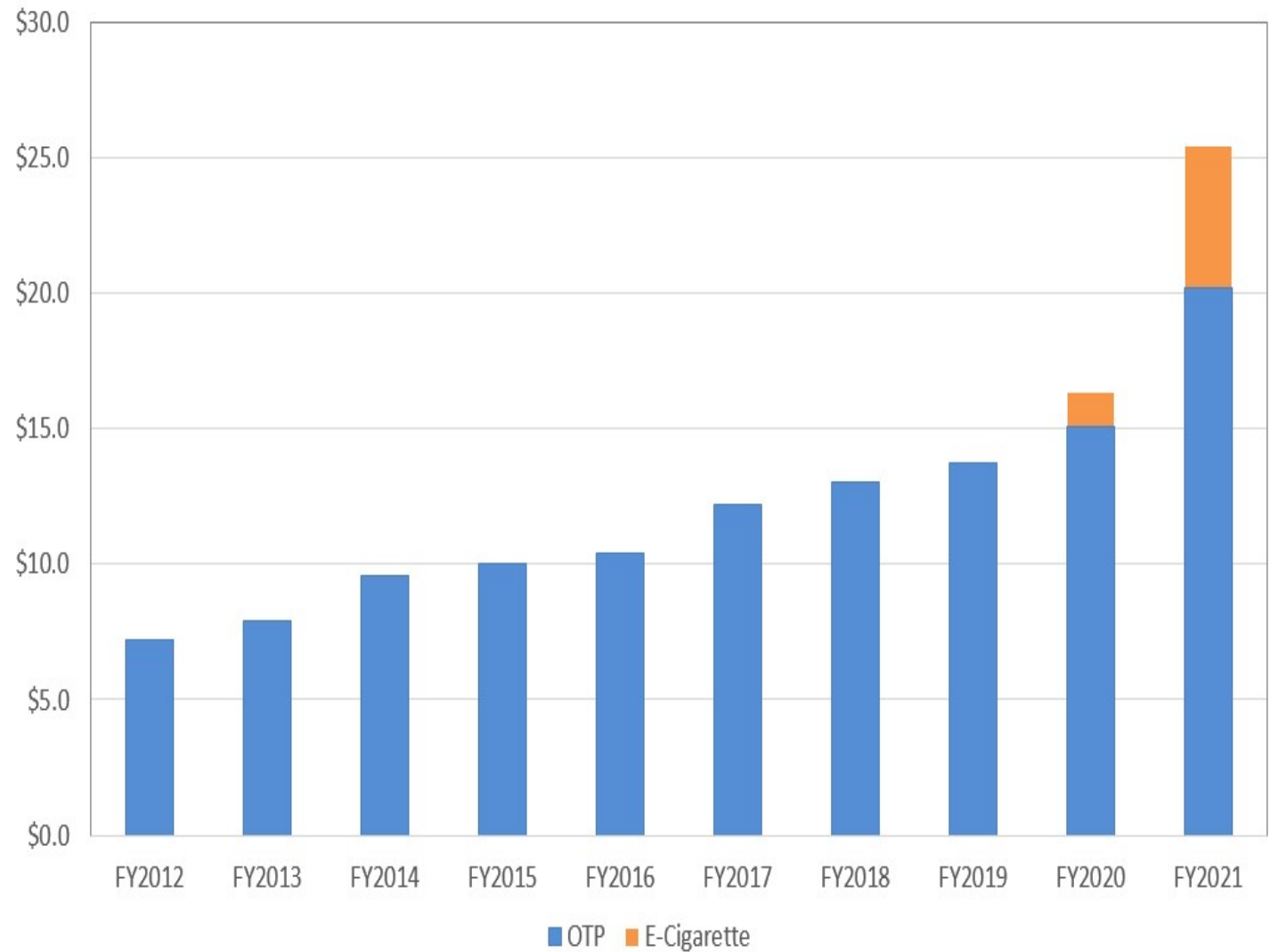
48.00%

**FY2013**

48.00%

**FY2014 – Current**

65.03%



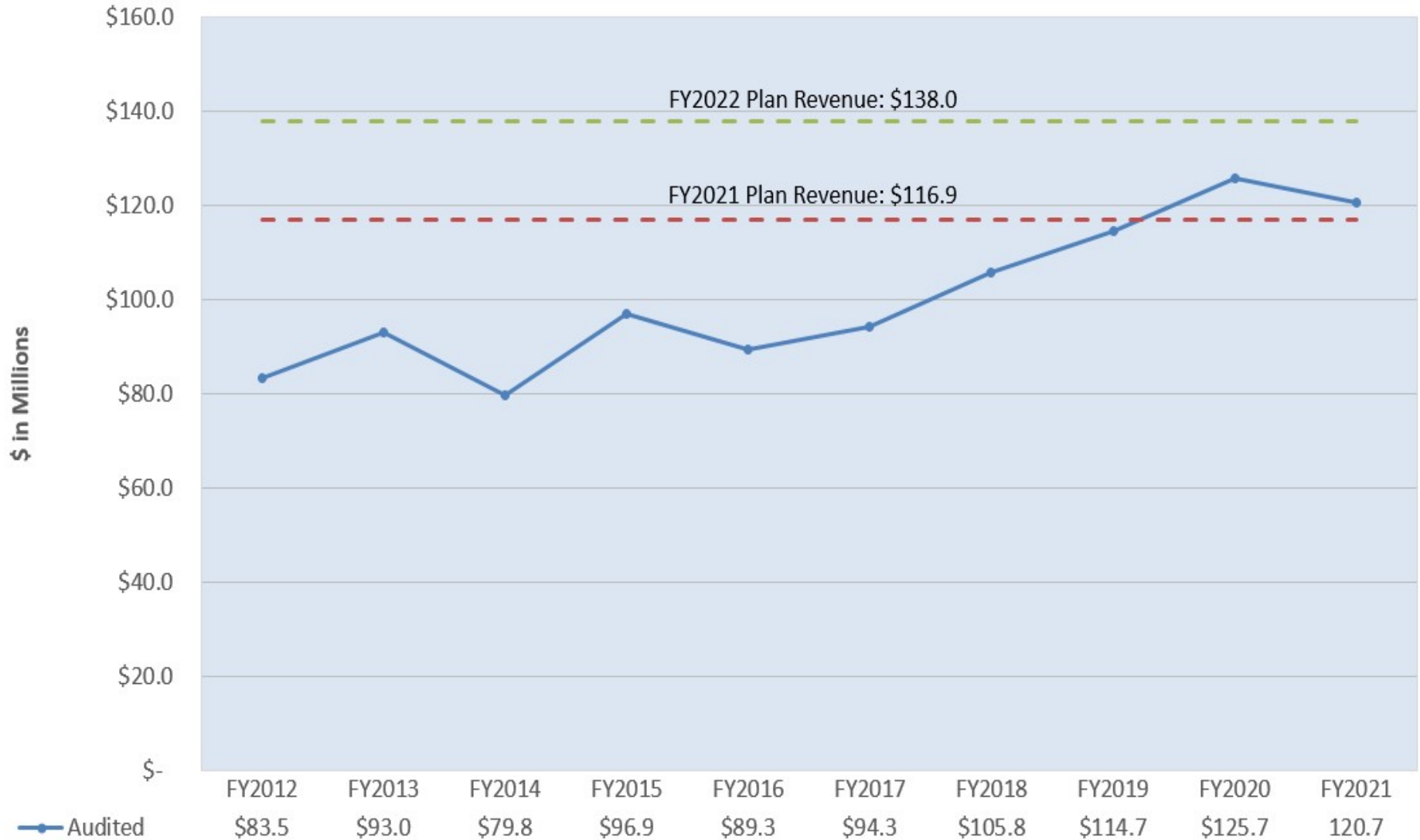
# Interest & Dividends (I&D) Tax

- The I&D Tax is assessed at a rate of 5% on the interest and dividend income of individuals, partnerships, and fiduciaries.
- Audited I&D Tax revenue over the last three years:
  - 8.4% increase in FY2019 over FY2018
  - 9.6% increase in FY2020 over FY2019
  - 4.0% decrease in FY2021 over FY2020
  - FY2022 actual revenue for the first 6 months of the fiscal year is 21.1% above FY2022 plan and 17.3% below FY2021 unaudited revenue year to date.
- I&D tax rates will reduce 1% each year for taxable periods ending December 31, 2023 forward and the tax will be fully repealed for taxable periods beginning after December 31, 2026.
- Factors that can affect I&D:
  - Economy & Stock market performance
  - Changing makeup of how I&D is paid overtime. Ex: Distributions
  - Past federal tax reform
  - Money in the bank
  - Interest rates



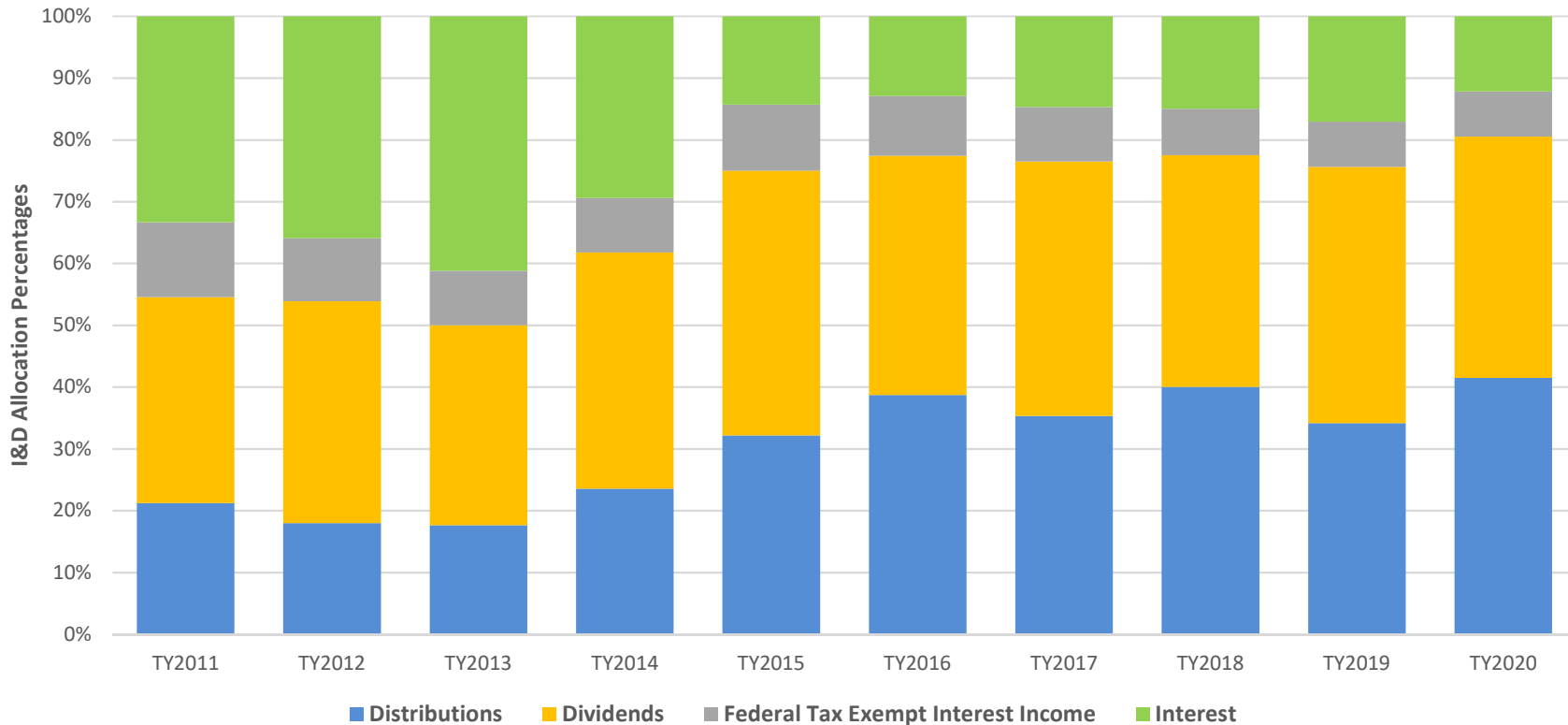
# I&D Tax Revenue 10-Year Trend

## Audited Revenue



# Interest and Dividends Tax Components 10 Year Trend

(Gross I&D Income & Distributions as Reported by the Taxpayers )



	TY2011	TY2012	TY2013	TY2014	TY2015	TY2016	TY2017	TY2018	TY2019	TY2020
Distributions	21.2%	17.9%	17.6%	23.5%	32.1%	38.7%	35.3%	40.0%	34.1%	41.5%
Dividends	33.3%	35.9%	32.4%	38.2%	42.9%	38.7%	41.2%	37.5%	41.5%	39.0%
Federal Tax Exempt Interest Income	12.1%	10.3%	8.8%	8.8%	10.7%	9.7%	8.8%	7.5%	7.3%	7.3%
Interest	33.3%	35.9%	41.2%	29.4%	14.3%	12.9%	14.7%	15.0%	17.1%	12.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

# Utility Property Tax (UPT)

- The UPT is a tax imposed on the value of utility property at a rate of \$6.60 per \$1,000 of value, as determined by the DRA as of each April 1<sup>st</sup>.
- Audited UPT revenue over the last three years:
  - 12.5% decrease in FY2019 over FY2018
  - 9.6% increase in FY2020 over FY2019
  - 11.8% decrease in FY2021 over FY2020FY2022 actual revenue for the first 6 months of the fiscal year is 5.5% below FY2022 plan and 13.4% below FY2021 unaudited revenue year to date.
- Tax year 2021 assessments = \$42.8 million (utility property value of \$6.5 billion)
- Factors that can affect UPT:
  - Development of new renewable energy facilities
  - Valuation of utility property
  - Energy pricing, supply, and demand

# Communications Services Tax (CST)

- The CST is a tax of 7% on all two-way communication services.
- In 2012 an exclusion of charges for internet access decreased CST revenues significantly.
  - FY2009 to FY2012 CST revenue was between \$76.5 million and \$81.0 million
  - FY2013 to FY2017 CST revenue was between \$47.1 million and \$59.3 million
- Audited CST revenue over the last three years:
  - FY2018 CST audited revenue was \$43.4 million
  - FY2019 CST audited revenue was \$41.2 million
  - FY2020 CST audited revenue was \$39.8 million
  - FY2021 CST audited revenue was \$40.0 million
  - FY2022 actual revenue for the first 6 months of the fiscal year is 18.2% below FY2022 plan and 16.0% below FY2021 unaudited revenue year to date.
- Factors affecting CST:
  - Decrease in landlines
  - Modern pricing and purchasing trends for wireless communications
  - VoIP and video conferencing

# Business Taxes

- Business Taxes consists of the **Business Enterprise Tax (BET)** and the **Business Profits Tax (BPT)**. The BET is assessed on the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business. The BPT is assessed on income from the conduct of business activity within the state.
- The BPT conforms to the United States Internal Revenue Code of 1986 in effect on December 31, 2018, with adjustments, for taxable periods beginning on or after January 1, 2020.
- Factors that affect Business Taxes:
  - Economy
  - Federal tax reform and stimulus programs
  - Mergers and acquisitions
  - Credits/exemptions
  - Statutory changes

# Business Taxes

- Highlights of recent statutory changes
  - Market Based sourcing, for taxable periods ending on or after December 31, 2021
  - Single Sale apportionment, for taxable periods ending on or after December 31, 2022
  - Increase in gross business income BPT filing threshold from \$50,000 to \$92,000 for taxable periods ending on or after December 31, 2022
  - Increase in gross business receipts BET filing threshold from \$220,000 to \$250,000. and enterprise value threshold from \$111,000 to \$250,000 for taxable periods ending on or after December 31, 2022
  - Forgiven Paycheck Protection Program loans excluded from BPT
  - BPT rate reduces from 7.7% to 7.6% and BET rate reduces from 0.6% to 0.55% for taxable periods ending on or after December 31, 2022

<u>For Taxable Periods Ending</u>	<u>BPT Rate</u>	<u>BET Rate</u>
on or after December 31, 2022	7.6%	0.55%
on or after December 31, 2021	7.7%	0.60%
on or after December 31, 2020	7.7%	0.60%
on or after December 31, 2019	7.7%	0.60%
on or after December 31, 2018	7.9%	0.675%
on or after December 31, 2017	8.2%	0.72%
on or after December 31, 2016	8.2%	0.72%

# Business Tax Revenue FY2012 - FY2021

	Business Revenue (Audited)	Change in Revenue (\$)	Change in Revenue (%)	Business Planned Revenue	Change in Plan (\$)	Change in Plan (%)
FY2012	\$ 516,135,000			\$ 503,000,000		
FY2013	\$ 551,765,000	\$ 35,630,000	6.9%	\$ 518,100,000	\$ 15,100,000	3.0%
FY2014	\$ 549,629,000	\$ (2,136,000)	-0.4%	\$ 561,100,000	\$ 43,000,000	8.3%
FY2015	\$ 561,663,000	\$ 12,034,000	2.2%	\$ 568,200,000	\$ 7,100,000	1.3%
FY2016	\$ 699,291,000	\$ 137,628,000	24.5%	\$ 566,500,000	\$ (1,700,000)	-0.3%
FY2017	\$ 637,799,000	\$ (61,492,000)	-8.8%	\$ 565,100,000	\$ (1,400,000)	-0.2%
FY2018	\$ 781,112,000	\$ 143,313,000	22.5%	\$ 662,300,000	\$ 97,200,000	17.2%
FY2019	\$ 805,602,000	\$ 24,490,000	3.1%	\$ 654,000,000	\$ (8,300,000)	-1.3%
FY2020	\$ 709,739,000	\$ (95,863,000)	-11.9%	\$ 795,100,000	\$ 141,100,000	21.6%
FY2021	\$ 1,003,211,000	\$ 293,472,000	41.3%	\$ 786,000,000	\$ (9,100,000)	-1.1%

- Business Tax revenues fiscal year to date:

FY2022 actual revenue for the first 6 months of the fiscal year is 16.9% above FY2022 plan and 27.9% above FY2021 unaudited revenue year to date.

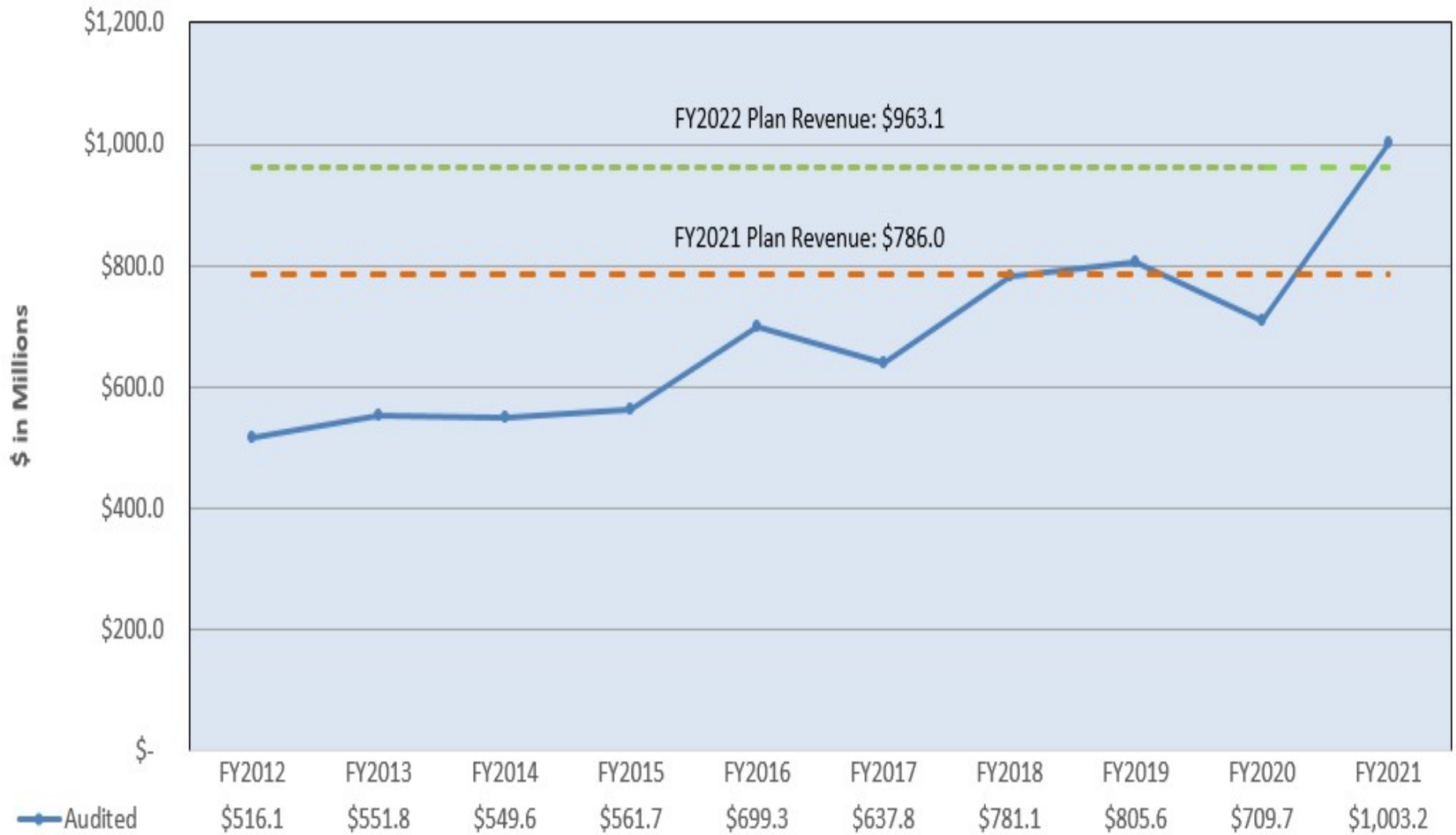
# Factors Impacting Business Tax Revenue

- Factors That Contributed to the Business Tax Revenues
  - Overall business gains experienced in the technology, medical, retail, and financial sectors
- Factors That May Affect Future Business Tax Revenues
  - Direct effects of COVID-19
    - Infection rates at workplace - dependent on remote work capabilities
    - Workforce shortages
  - Statutory changes
  - Economy
    - Supply chain constraints
      - Disruptions in ports and factories
      - Rising freight rates
    - Inflation rate and ending stimulus programs
      - Affects on consumer spending
    - Low unemployment rate
      - Affects on labor costs
  - Future Outlook
    - Potential interest rate increase
    - Global geopolitical stability



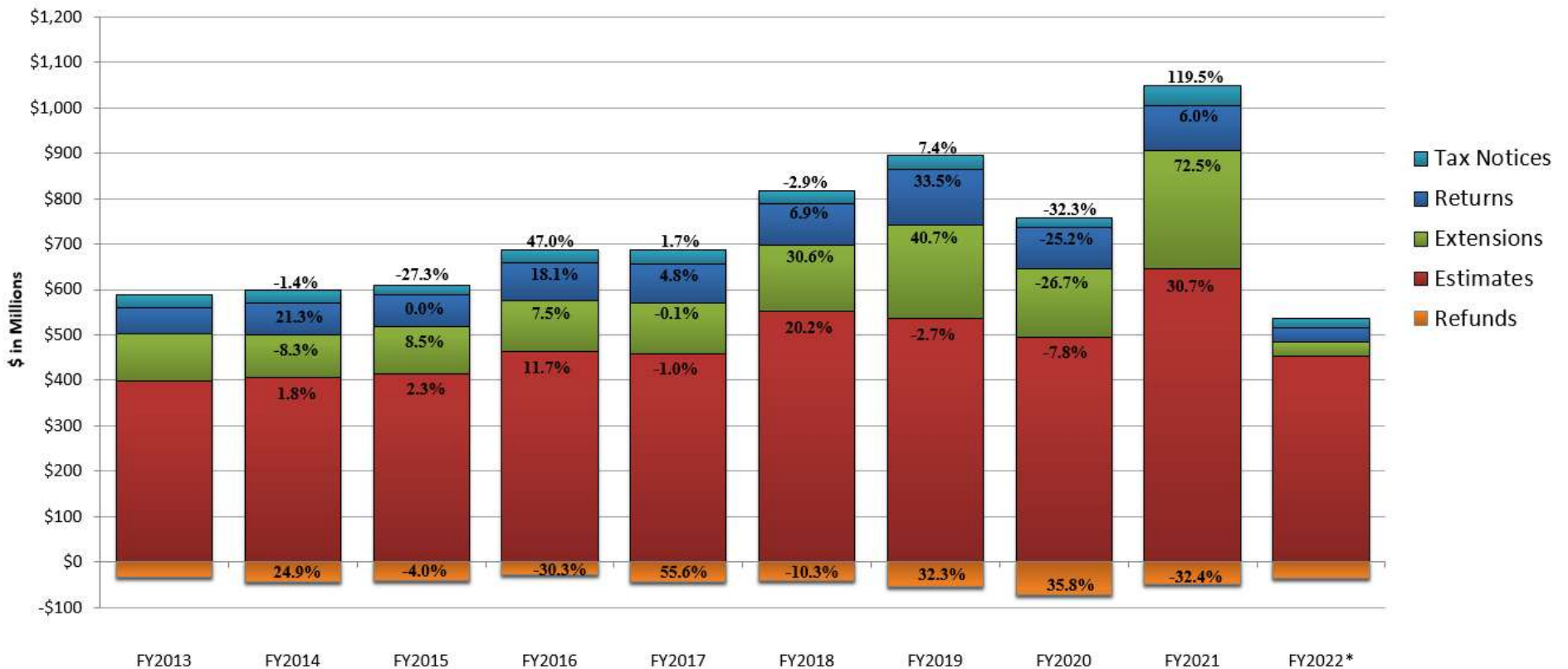
# Business Tax Revenue 10-Year Trend

Audited Revenue



# Historical Business Tax Returns, Estimates, Extensions, Tax Notices Payments, and Refunds

Year-Over-Year Change  
(Cash Basis)



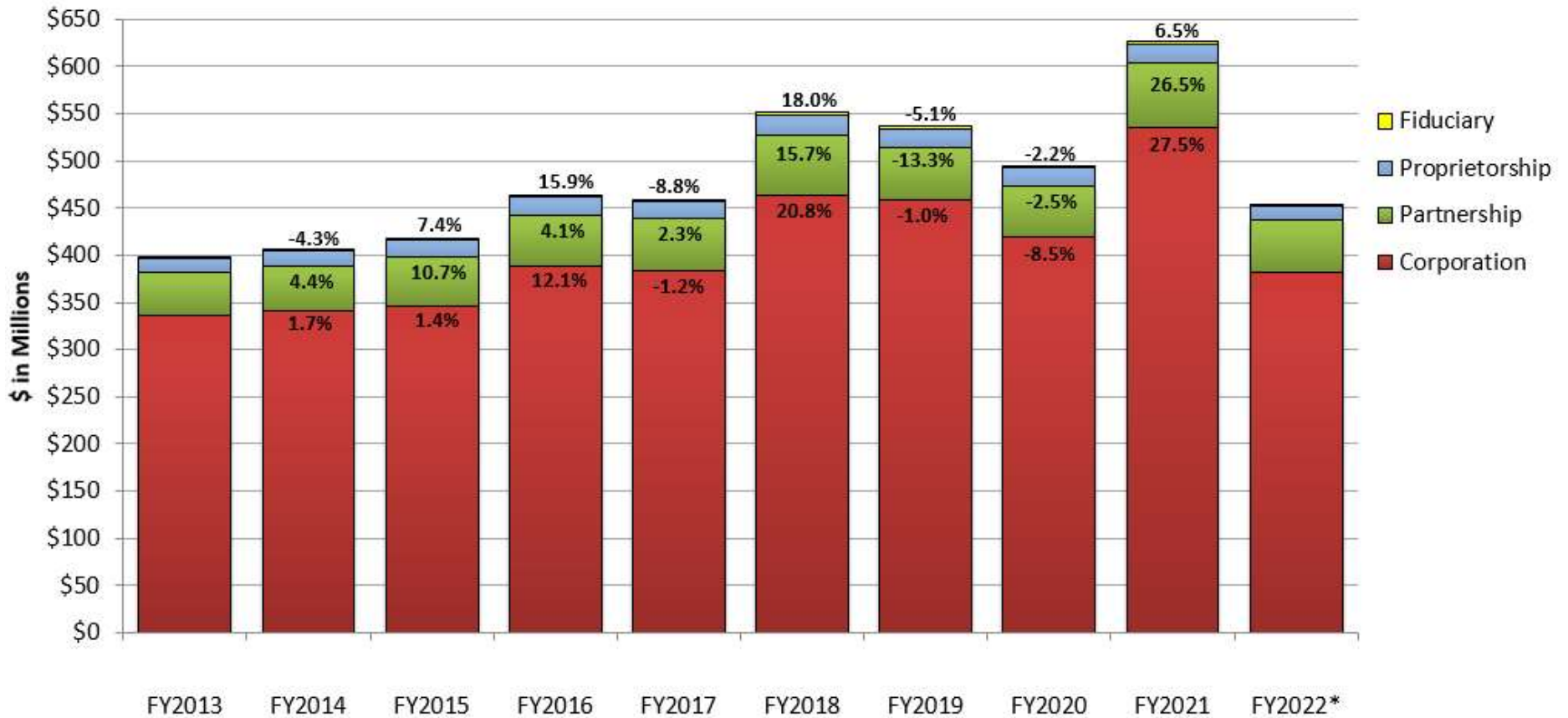
\* FY2022 includes July 2021 – December 2021

# Business Tax Estimate Payments Historical Analysis

Year-Over-Year Change  
(Cash Basis)

The majority of Business Tax revenue is derived from estimates.

The following chart depicts a 10-year history of NH Business Tax estimate revenue by entity type.

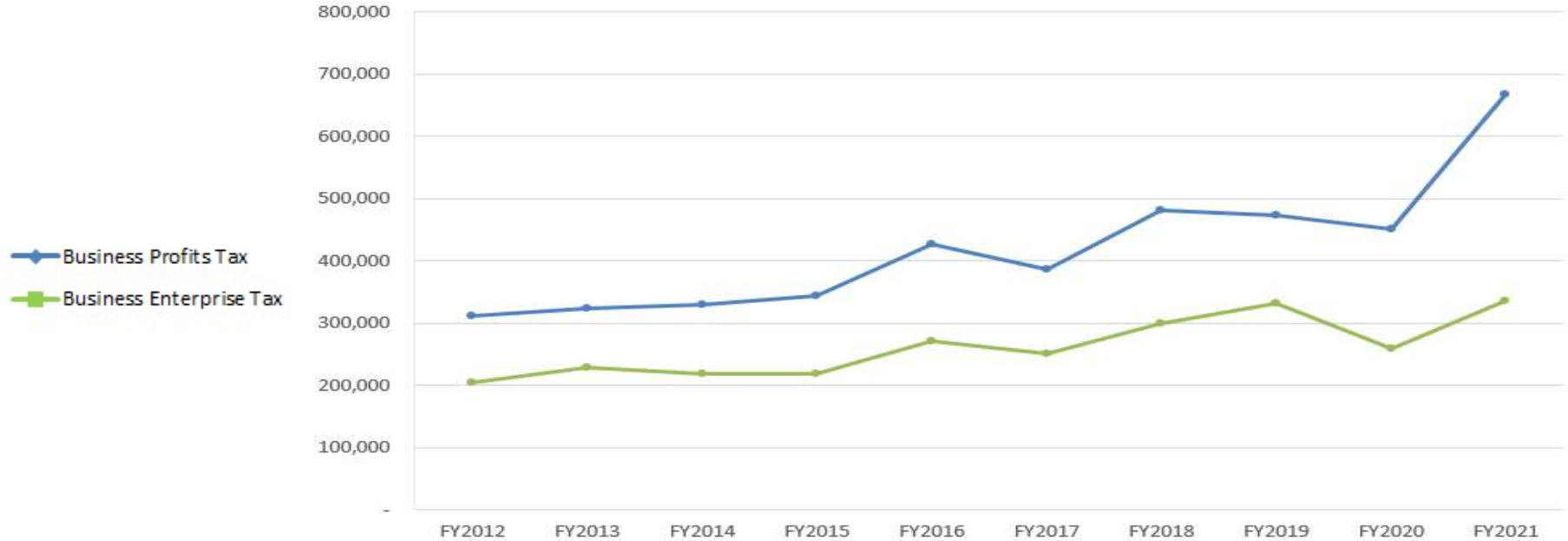


\*FY2022 includes July 2021 – December 2021

# Business Profits Tax vs. Business Enterprise Tax

STATE OF NEW HAMPSHIRE  
 SCHEDULE OF UNRESTRICTED REVENUE - GAAP BASIS  
 GENERAL FUND AND EDUCATION TRUST FUND  
 FOR THE LAST TEN FISCAL YEARS  
 (Expressed in Thousands)

	Fiscal Year Ended June 30									
GENERAL & EDUCATION TRUST FUNDS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Business Profits Tax	311,861	323,754	330,149	343,427	426,955	385,809	482,228	473,466	450,828	667,224
Business Enterprise Tax	204,274	228,011	219,480	218,236	272,336	251,990	298,884	332,136	258,911	335,987
	<b>516,135</b>	<b>551,765</b>	<b>549,629</b>	<b>561,663</b>	<b>699,291</b>	<b>637,799</b>	<b>781,112</b>	<b>805,602</b>	<b>709,739</b>	<b>1,003,211</b>



	Fiscal Year Ended June 30									
GENERAL & EDUCATION TRUST FUNDS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Business Profits Tax	60.4%	58.7%	60.1%	61.1%	61.1%	60.5%	61.7%	58.8%	63.5%	66.5%
Business Enterprise Tax	39.6%	41.3%	39.9%	38.9%	38.9%	39.5%	38.3%	41.2%	36.5%	33.5%

# Historical Revenue Trends

(Audited)



# FY2022 Tax Revenues

## through December 2021

### Unaudited

Taxes	1st 6 Months Actual	1st 6 Months Plan	Actual Revenue vs Plan Revenue	Last 6 months Plan as a % of Total Plan
Business	\$ 501,800,000	\$ 429,100,000	16.9%	55.4%
M&R	\$ 175,000,000	\$ 135,700,000	29.0%	43.2%
Tobacco	\$ 124,200,000	\$ 126,600,000	-1.9%	48.8%
RETT	\$ 125,800,000	\$ 116,400,000	8.1%	41.2%
I&D	\$ 40,100,000	\$ 33,100,000	21.1%	76.0%
UPT	\$ 18,800,000	\$ 19,900,000	-5.5%	51.0%
CST	\$ 15,700,000	\$ 19,200,000	-18.2%	50.9%
	\$ 1,001,400,000	\$ 880,000,000	13.8%	52.8%

# Other Taxes DRA Administers

- Medicaid Enhancement Tax
- Nursing Facility Quality Assessment
- Railroad Tax / Private Railroad Car Tax
- Excavation Tax
- Timber Tax
- State Education Property Tax