

Joint Economic Briefing

House and Senate Ways & Means Committees

January 19, 2021

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 78.0% (\$1.97 billion) of the audited revenue collected for the general and education trust funds in FY2020.
- 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 a 9% tax levied on consumers for the purchase of taxable meals, accommodation rentals, and motor vehicle rentals. 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 \$11.5m in FY2020 and is currently \$8.3m in FY2021.
- Audited M&R Tax revenue continued to increase until COVID-19:
 - 5.4% increase in FY2018 over FY2017
 - 5.5% increase in FY2019 over FY2018
 - 9.9% decrease in FY2020 over FY2019
 - FY2021 actual revenue for the first 6 months of the fiscal year is 21.3% below FY2021 plan and 16.6% below FY2020 unaudited revenue year to date.
- Factors that can affect M&R Tax:
 - COVID-19
 - Weather (sunny summers, colorful fall foliage, snowy winters)
 - Economy (when the economy is thriving M&R Tax revenue is usually up)
 - Unemployment (US = 6.7%; NH = 3.8% for November 2020 vs. US = 3.5%; NH = 2.6% for November 2019¹)

¹Source: *Labor Force and Unemployment News Release*. Economic & Labor Market Information Bureau, NH Employment Security . January 2021

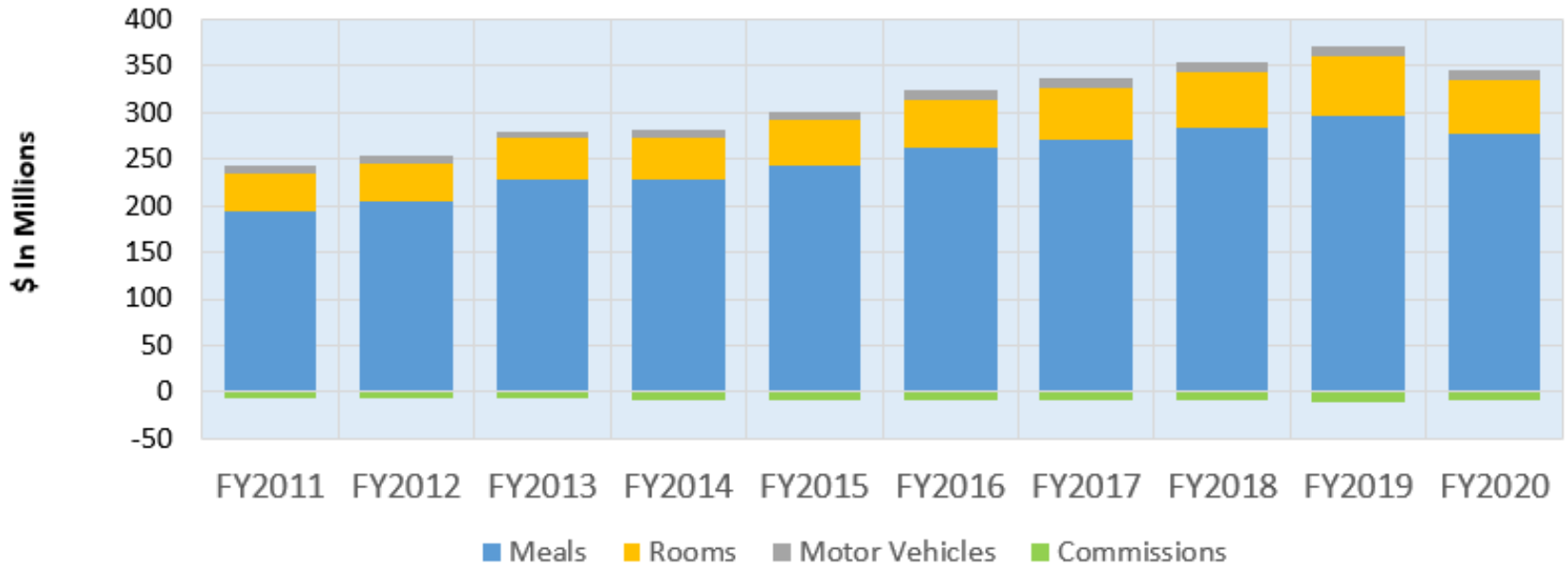
COVID-19 Effects on M&R

- General Impact
 - Stay-at-home order
 - Restrictions on restaurants
 - Restrictions on hotels
- Economy
 - Unemployment
 - Closure of restaurants
- Changes in behaviors
 - Outdoor dining
 - Expanded takeout
 - Shifts from sit down restaurants to fast food
 - Shifts from hotels to camps and cottages through rental agents
- Future Outlook
 - Lifted restrictions
 - Vaccine
 - Improvement in economy/Federal Government Stimulus Package

M&R Tax Breakdown

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

(Not Net of Refunds or School Building Debt Aid)

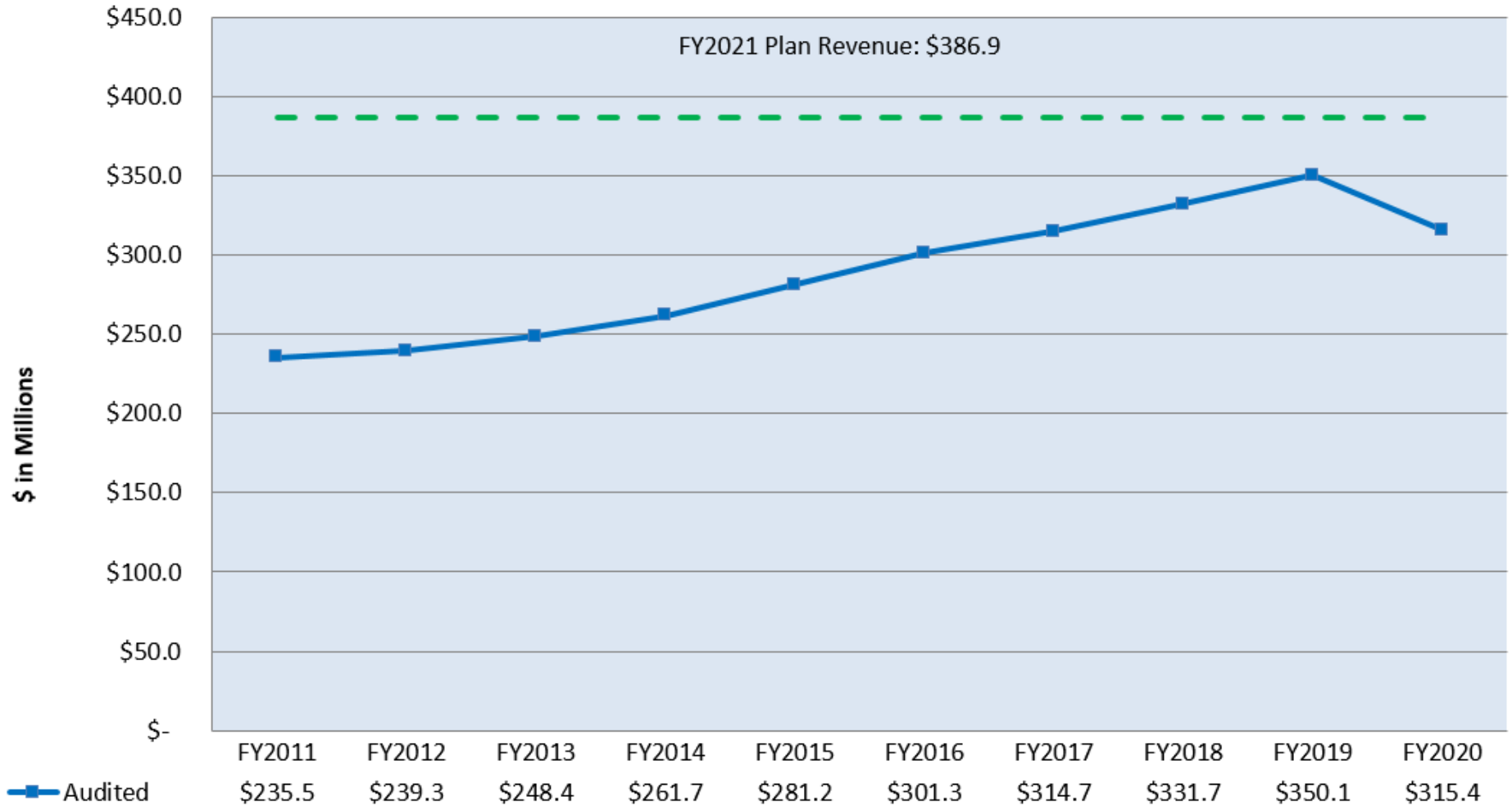


	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Tax Rate	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Meals	\$194.6	\$203.7	\$228.6	\$228.3	\$243.2	\$261.4	\$271.4	\$284.0	\$296.9	\$276.8
Rooms	\$39.6	\$41.9	\$43.4	\$45.5	\$49.8	\$53.0	\$55.8	\$59.9	\$63.2	\$58.4
Motor Vehicles	\$8.0	\$7.9	\$7.9	\$8.3	\$8.7	\$8.8	\$8.8	\$9.5	\$10.3	\$9.2
Commissions	-\$6.7	-\$7.0	-\$7.6	-\$7.7	-\$8.2	-\$8.9	-\$9.2	-\$9.7	-\$10.1	-\$9.3
Total	\$235.5	\$246.6	\$272.3	\$274.5	\$293.5	\$314.4	\$326.8	\$343.7	\$360.3	\$335.1

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

M&R Tax Revenue 10-Year Trend

Audited Revenue



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:
 - 5.3% increase in FY2018 over FY2017
 - 2.5% increase in FY2019 over FY2018
 - 3.7% increase in FY2020 over FY2019
 - FY2021 actual revenue for the first 6 months of the fiscal year is 14.6% above FY2021 plan and 7.4% above FY2020 unaudited revenue year to date. A new transfer of \$5.0m to the affordable housing fund occurred this year on October 1st.
- Factors that can affect RETT:
 - Economy (economic trends and cycles)
 - Low interest rates (2.77% mortgage rate for November 2020¹)
 - Inventory levels
 - Shift from urban areas to rural areas
 - Property values (\$184.9 billion was the total equalized value for NH on April 21, 2020² vs. \$175.9 billion on April 29, 2019³)

¹Source: Housing Market Snapshot, NHHFA.org, 1-8-2021

²Source: Equalization Survey with Utilities and Railroad Summary, DRA 2020 Annual Report

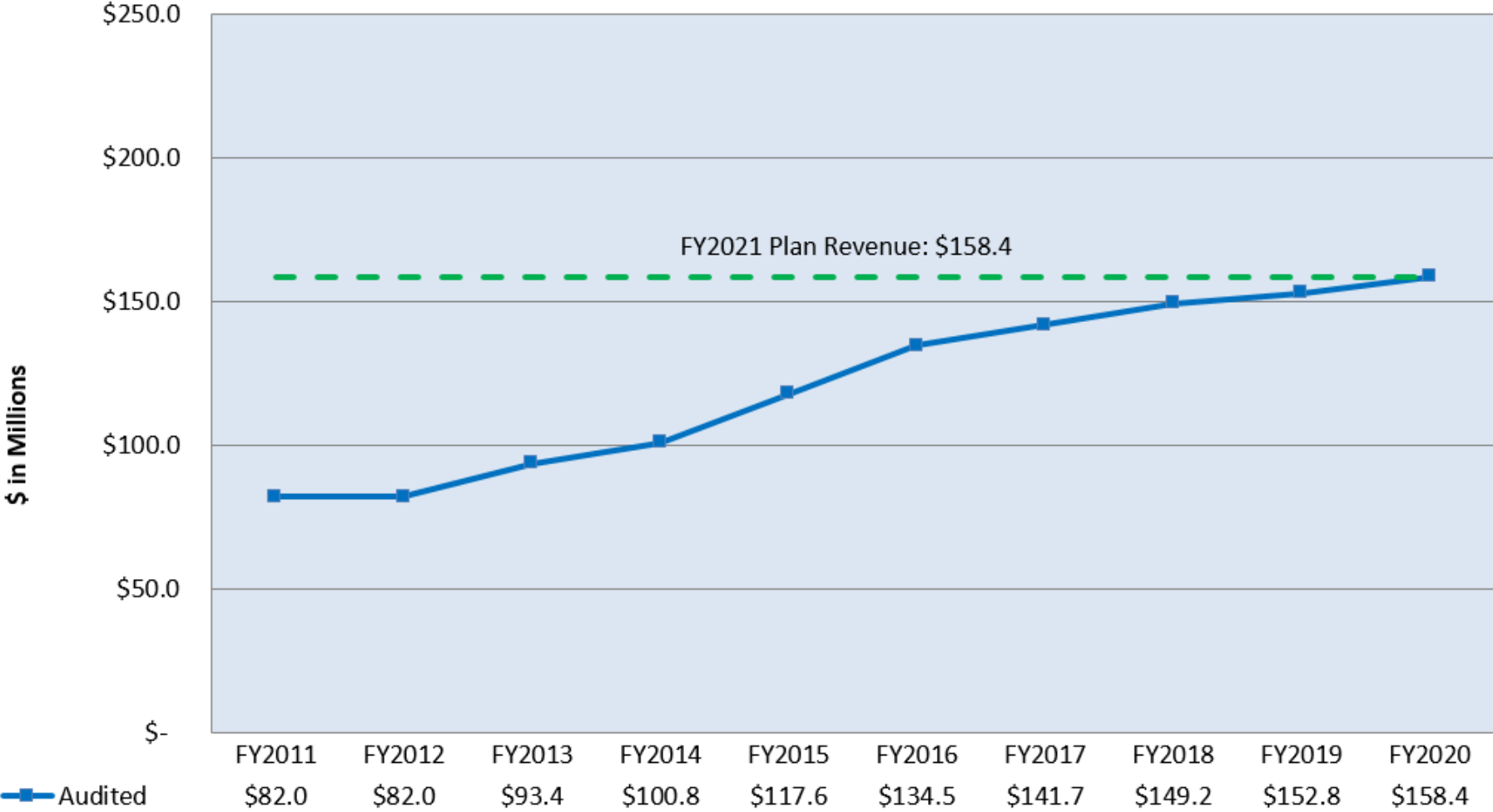
³Source: Equalization Survey with Utilities and Railroad Summary, DRA 2017 Annual Report

COVID-19 Effects on RETT

- General Impact
 - Stay-at-home order
 - Fewer houses on the market
 - Restrictions on viewing houses in person
- Economy
 - Unemployment
 - Larger savings due to less expenses
- Changes in behaviors
 - Virtual home sales
 - Home improvements
 - Ability to work from home, movement away from urban centers
- Future Outlook
 - Lifted restrictions
 - Vaccine
 - Improvement in economy
 - Slowing of home sales due to inventory

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.
- 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
- The composition of Tobacco Tax revenue is changing. OTP has grown and currently makes up 7.7% of Tobacco Tax revenue compared to FY2012 where it made up 3.4% of revenue.
- Factors that can affect Tobacco Tax:
 - Cross-border elasticity
 - Stamp sale trends
 - Massachusetts ban on mentholated tobacco products, in effect June 1, 2020.

Tobacco Tax Revenue

- Audited Tobacco Tax revenue over the last three years:
 - 3.2% decrease in FY2018 over FY2017
 - 4.3% decrease in FY2019 over FY2018
 - 5.7% increase in FY2020 over FY2019
- FY2021 actual revenue for the first 6 months of the fiscal year is 24.8% above FY2021 plan and 26.2% above FY2020 unaudited revenue year to date.
- E-Cigarette Tax revenue over the last six months:

Month	FY 2021	% Change	FY 2020
July	\$322,909		
August	\$304,933		
September	\$306,340		
October	\$458,210		
November	\$425,827		
December	\$341,243		
January			
February		-100%	\$175,245
March		-100%	\$180,494
April		-100%	\$221,340
May		-100%	\$293,889
June		-100%	\$324,884
Total	\$2,159,462	81%	\$1,195,852

E-Cigarette Tax
Effective 01/01/2020 and Reported
Starting February 2020
-Closed System: \$0.30 per milliliter
-Open System: 8% of wholesale
sales price

Tobacco Stamp Rates

FY2011

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78

FY2012 – FY2013

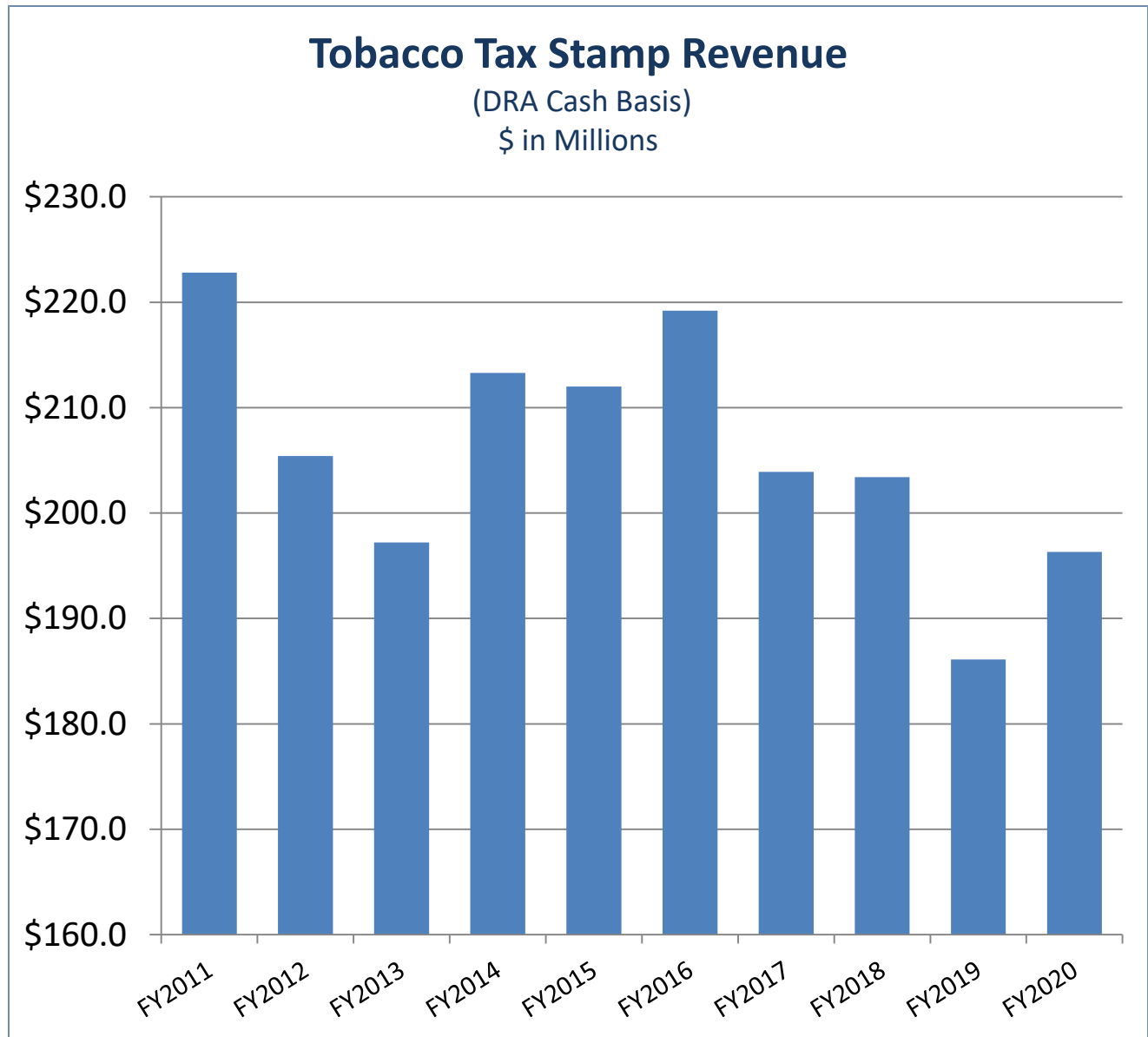
A Stamp Rate = \$2.10

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.

OTP Tax Rates (Wholesale Price)

FY2011

65.03%

FY2012

48.00%

FY2013

48.00%

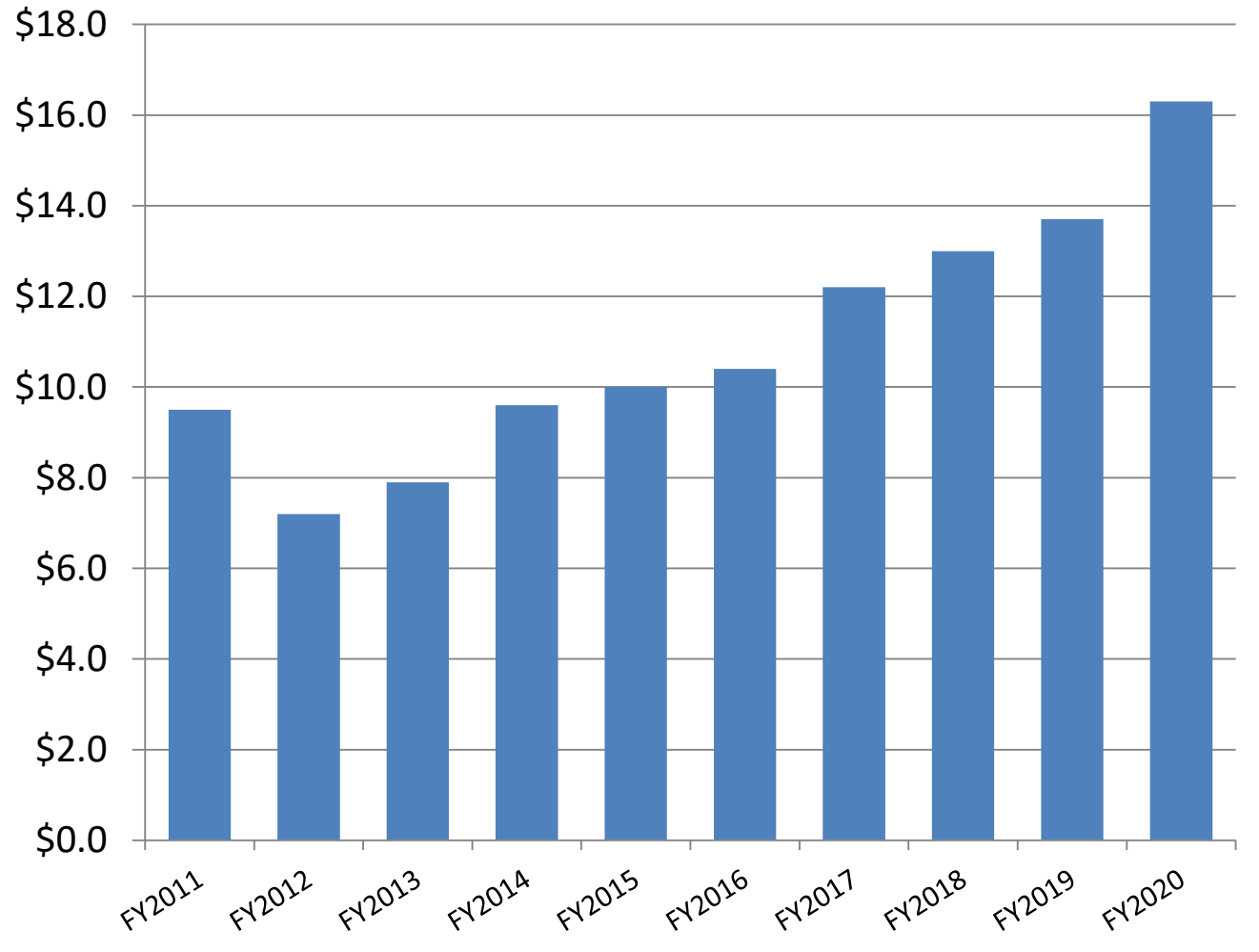
FY2014 – Current

65.03%

Other Tobacco Products (OTP) Tax Revenue

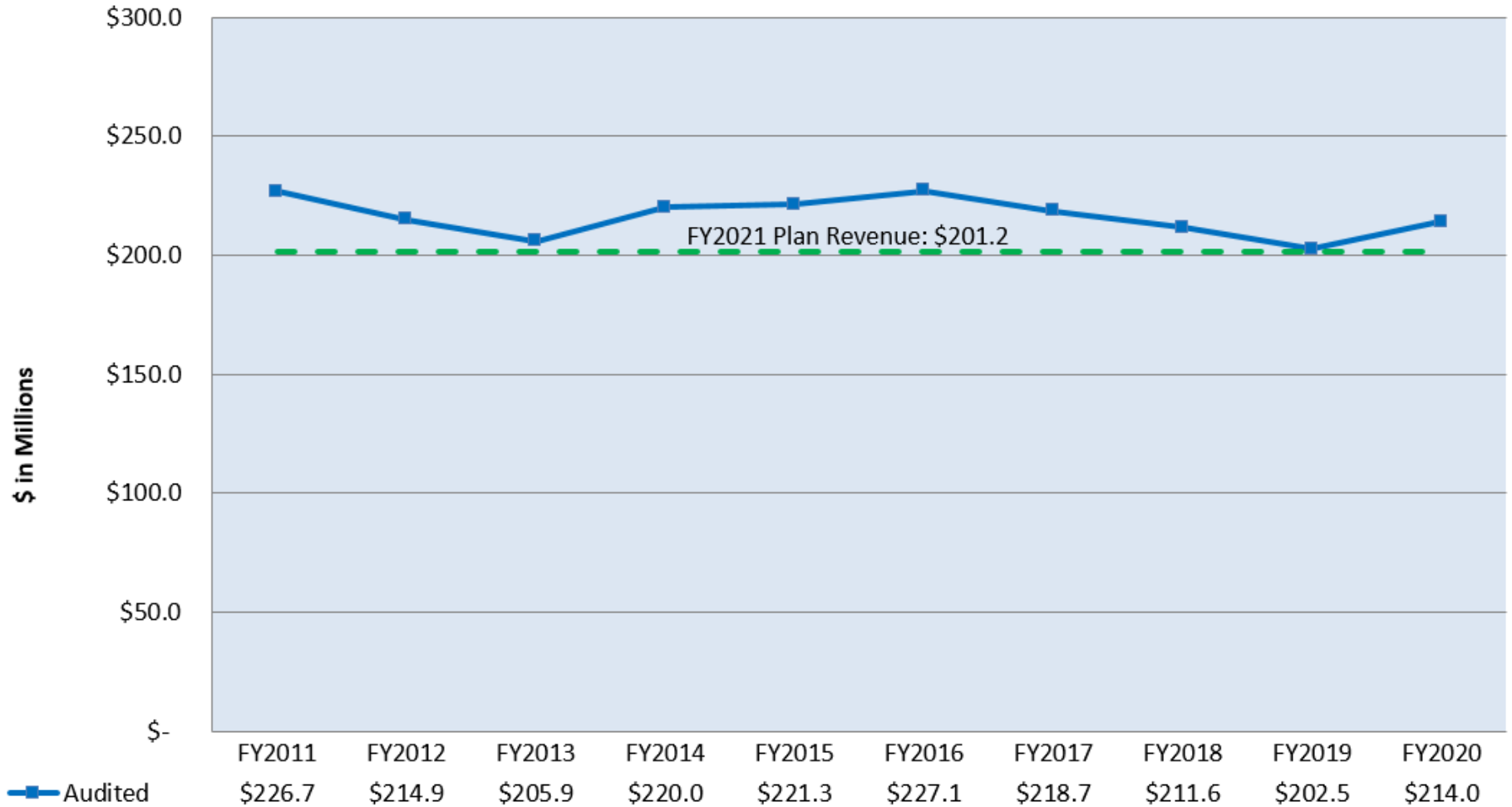
(DRA Cash Basis)

\$ in Millions



Tobacco Tax Revenue 10-Year Trend

Audited Revenue



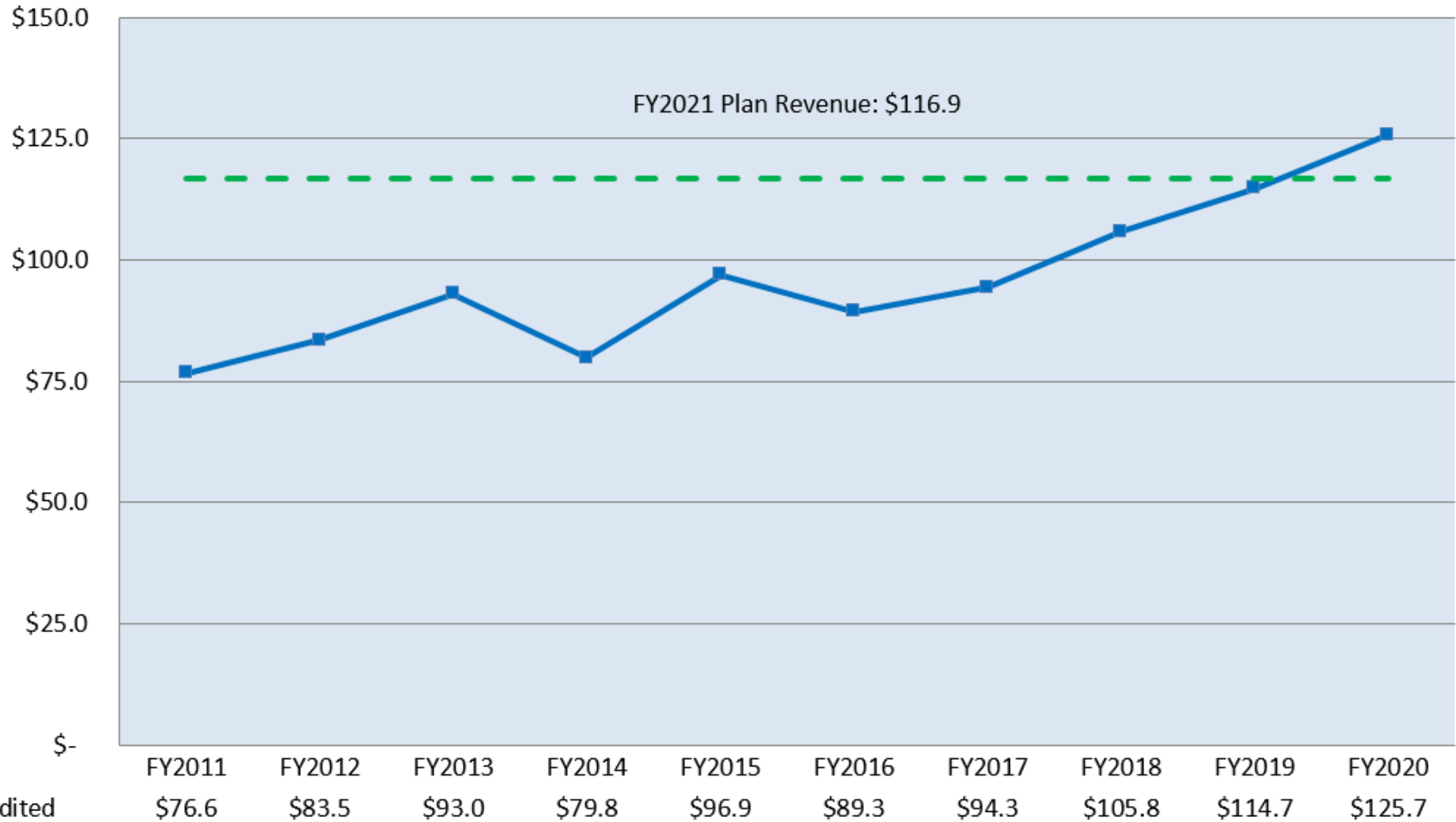
Note: See slides 12 & 13 for rate changes.

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:
 - 12.2% increase in FY2018 over FY2017
 - 8.4% increase in FY2019 over FY2018
 - 9.6% increase in FY2020 over FY2019
 - FY2021 actual revenue for the first 6 months of the fiscal year is 31.9% above FY2021 plan and 34.1% above FY2020 unaudited revenue year to date. FY2021 is with the \$9.2m anomalous receivable removed.
- Factors that can affect I&D:
 - Economy
 - Stock market performance
 - Past federal tax reform
 - Money in the bank
 - Interest rates

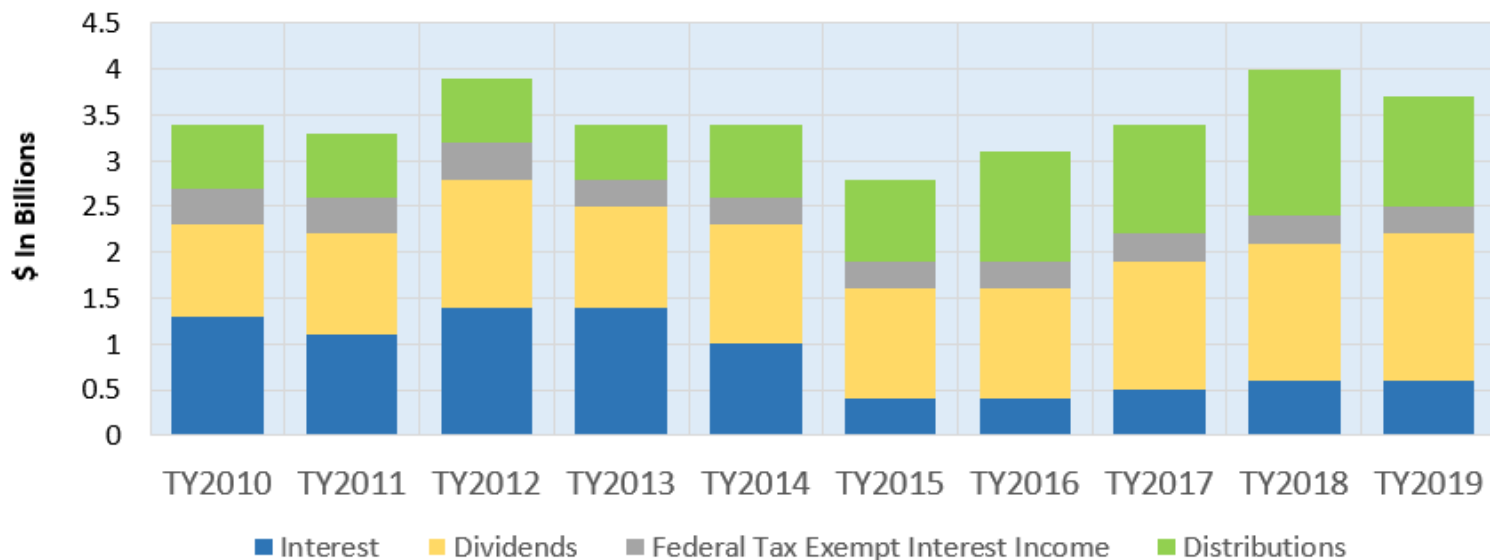
I&D Tax Revenue 10-Year Trend

Audited Revenue



Interest and Dividends Tax Components 10 Year Trend

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



	TY2010	TY2011	TY2012	TY2013	TY2014	TY2015	TY2016	TY2017	TY2018	TY2019
Distributions	\$0.7	\$0.7	\$0.7	\$0.6	\$0.8	\$0.9	\$1.2	\$1.2	\$1.6	\$1.2
Dividends	\$1.0	\$1.1	\$1.4	\$1.1	\$1.3	\$1.2	\$1.2	\$1.4	\$1.5	\$1.6
Federal Tax Exempt Interest Income	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Interest	\$1.3	\$1.1	\$1.4	\$1.4	\$1.0	\$0.4	\$0.4	\$0.5	\$0.6	\$0.6
Total	\$3.4	\$3.3	\$3.9	\$3.4	\$3.4	\$2.8	\$3.1	\$3.4	\$4.0	\$3.7

*Note: As reported on lines 1(a), 1(b), 1(c) and 2 on Form DP-10

*Note: Tax returns reporting a tax liability of zero were excluded from the data

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 1st.
- Audited UPT revenue over the last three years:
 - 8.2% increase in FY2018 over FY2017
 - 12.5% decrease in FY2019 over FY2018
 - 9.6% increase in FY2020 over FY2019
 - FY2021 actual revenue for the first 6 months of the fiscal year is 4.8% ahead of FY2021 plan and 8.5% ahead of FY2020 unaudited revenue year to date.
- Tax year 2020 assessments = \$38.9 million (utility property value of \$5.9 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 actual revenue for the first 6 months of the fiscal year is 8.8% below FY2021 plan and 4.6% below FY2020 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, 2016, with adjustments, for taxable periods beginning on or after January 1, 2018. For all taxable periods beginning on or after January 1, 2020, the applicable version will be the IRC of 1986 in effect on December 31, 2018.
- Factors that affect Business Taxes:
 - Economy
 - Federal tax reform
 - Mergers and acquisitions
 - Credits/exemptions
 - Statutory changes
- Recent statutory changes
 - Business Tax rate reductions, trigger was not met
 - 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

<u>For Taxable Periods Ending</u>	<u>BPT Rate</u>	<u>BET Rate</u>
Prior Periods	8.5%	0.75%
on or after December 31, 2016	8.2%	0.72%
on or after December 31, 2017	8.2%	0.72%
on or after December 31, 2018	7.9%	0.675%
on or after December 31, 2019	7.7%	0.60%
on or after December 31, 2020	7.7%	0.60%
on or after December 31, 2021	7.7%	0.60%

Business Tax Revenue FY2011 - FY2020

	Business Revenue (Audited)	Change in \$	Change in %
FY2011	\$490,205,000		
FY2012	\$516,135,000	\$25,930,000	5.3%
FY2013	\$551,765,000	\$35,630,000	6.9%
FY2014	\$549,629,000	(\$2,136,000)	-0.4%
FY2015	\$561,663,000	\$12,034,000	2.2%
FY2016	\$699,291,000	\$137,628,000	24.5%
FY2017	\$637,799,000	(\$61,492,000)	-8.8%
FY2018	\$781,112,000	\$143,313,000	22.5%
FY2019	\$805,602,000	\$24,490,000	3.1%
FY2020	\$709,739,000	(\$95,863,000)	-11.9%

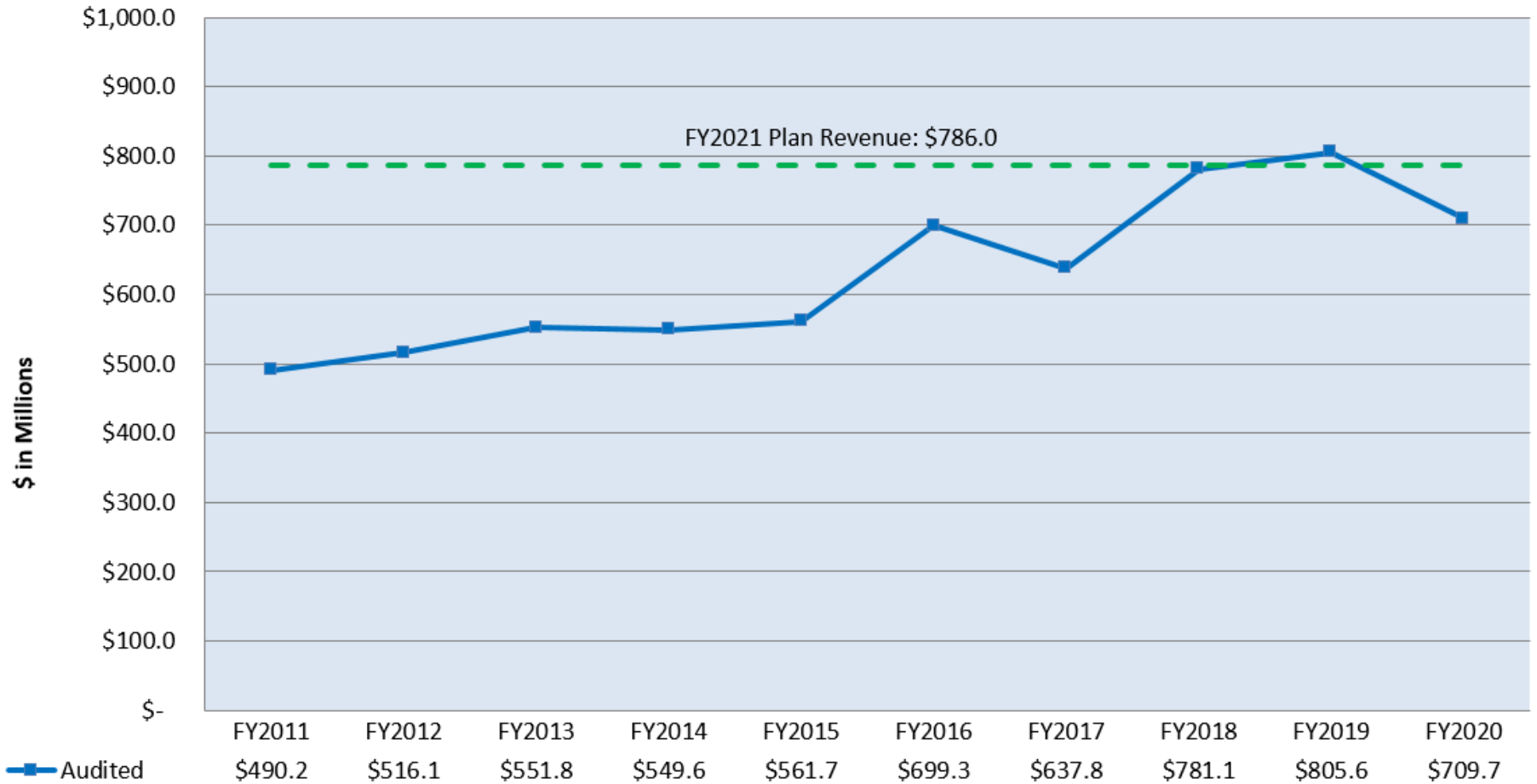
- Business Tax revenues fiscal year to date:
 FY2021 actual revenue for the first 6 months of the fiscal year is 14.3% above FY2021 plan and 12.1% above FY2020 unaudited revenue year to date. FY2021 is with the \$18.3m anomalous receivable removed.

COVID-19 Effects on Business Taxes

- General Impact
 - Stay-at-home order
 - Less activity in the economy
 - Strain on businesses due to restrictions on employees.
- Economy
 - Unemployment
 - Shift in business behaviors
 - Federal stimulus money
 - State Aid programs; Main Street Relief Fund (MSRF) 1.0 and 2.0, Self Employed Livelihood Fund (SELF), General Assistance & Preservation (GAP) Fund, Live Venue Relief Program, and Agriculture COVID-19 Relief Fund
 - Federal Aid programs: PPP Loans/Grants, EIDL
- Changes in behaviors
 - Certain businesses thriving: home improvement, big box stores, technology, medical
- Future Outlook
 - Lifted restrictions
 - Vaccine
 - Improvement in economy

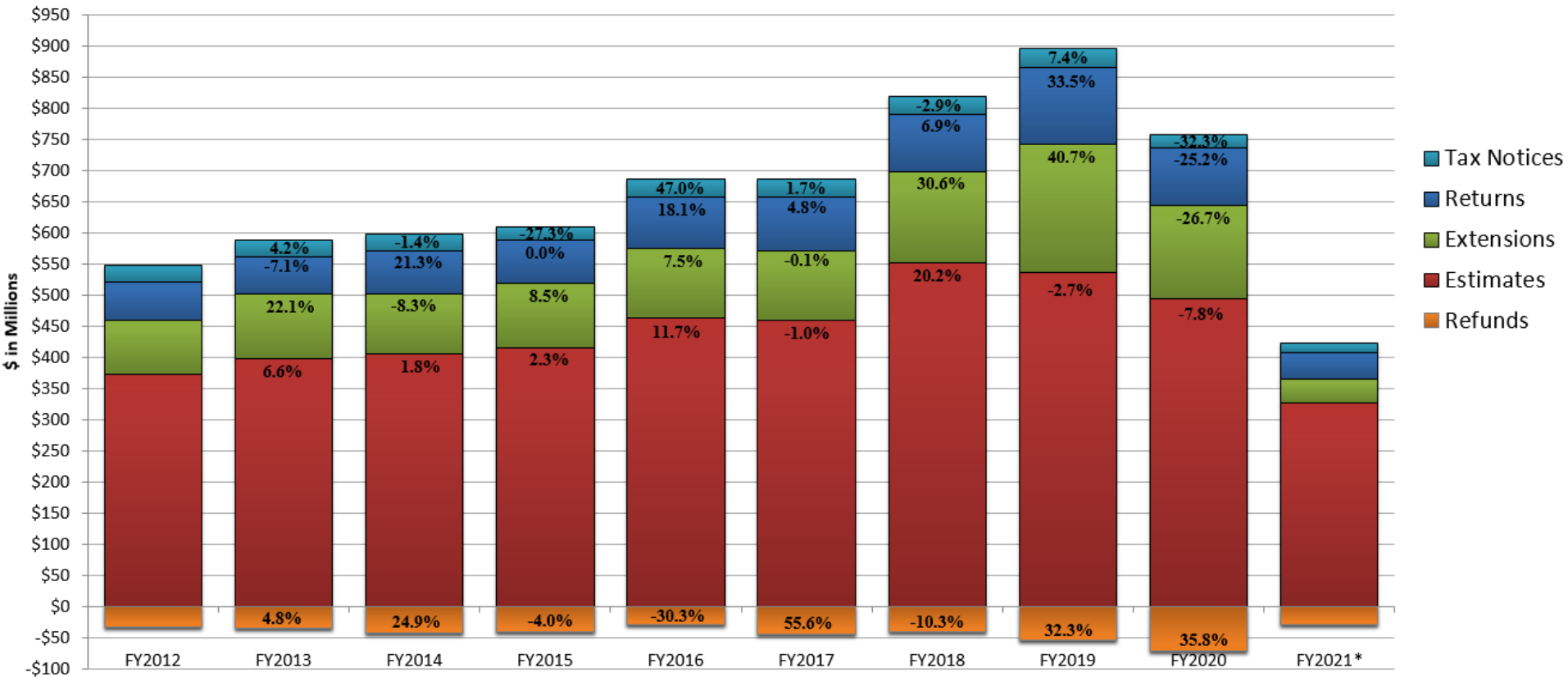
Business Tax Revenue 10-Year Trend

Audited Revenue



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

Year-Over-Year Change
(Cash Basis)



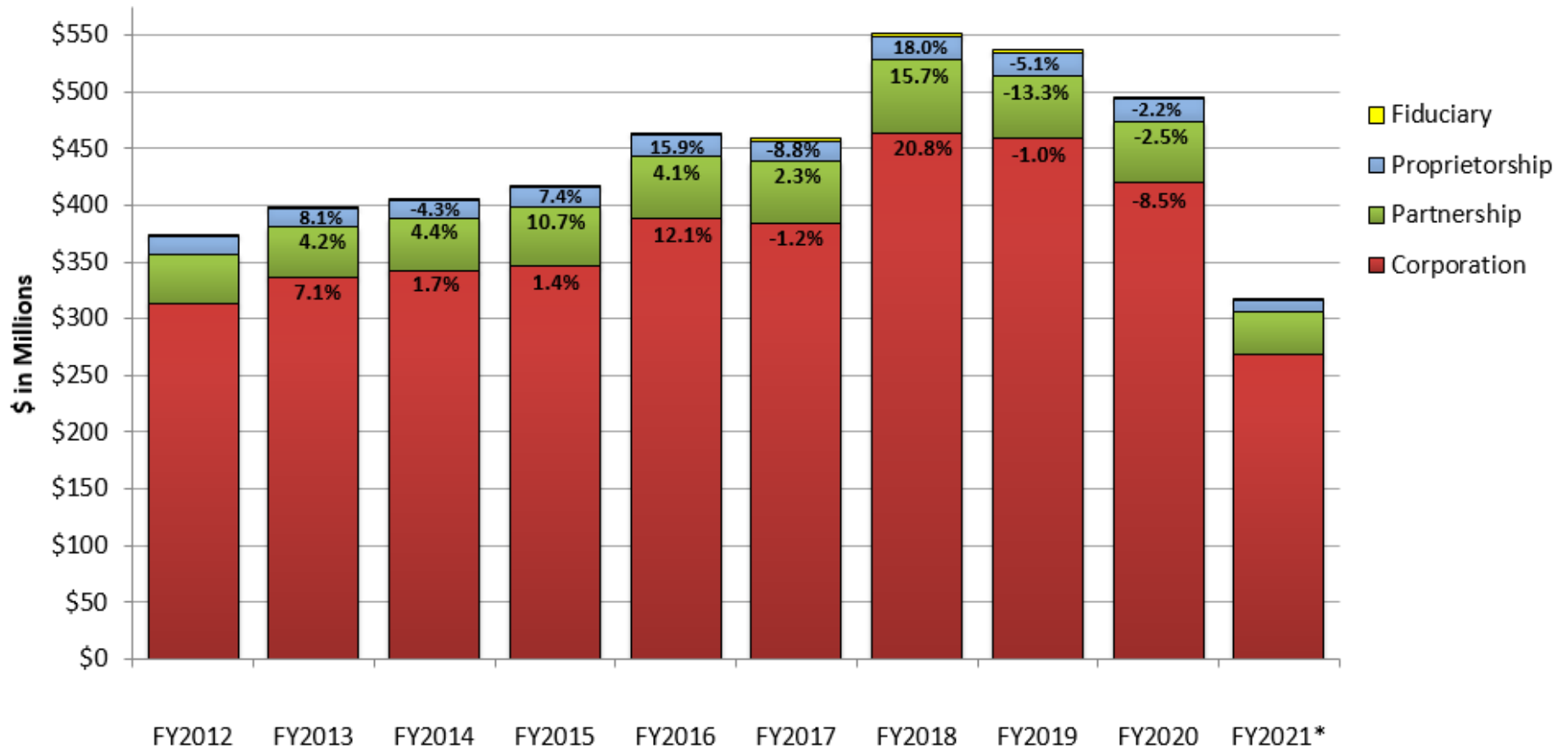
* FY2021 includes July 2020 – December 2020

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.



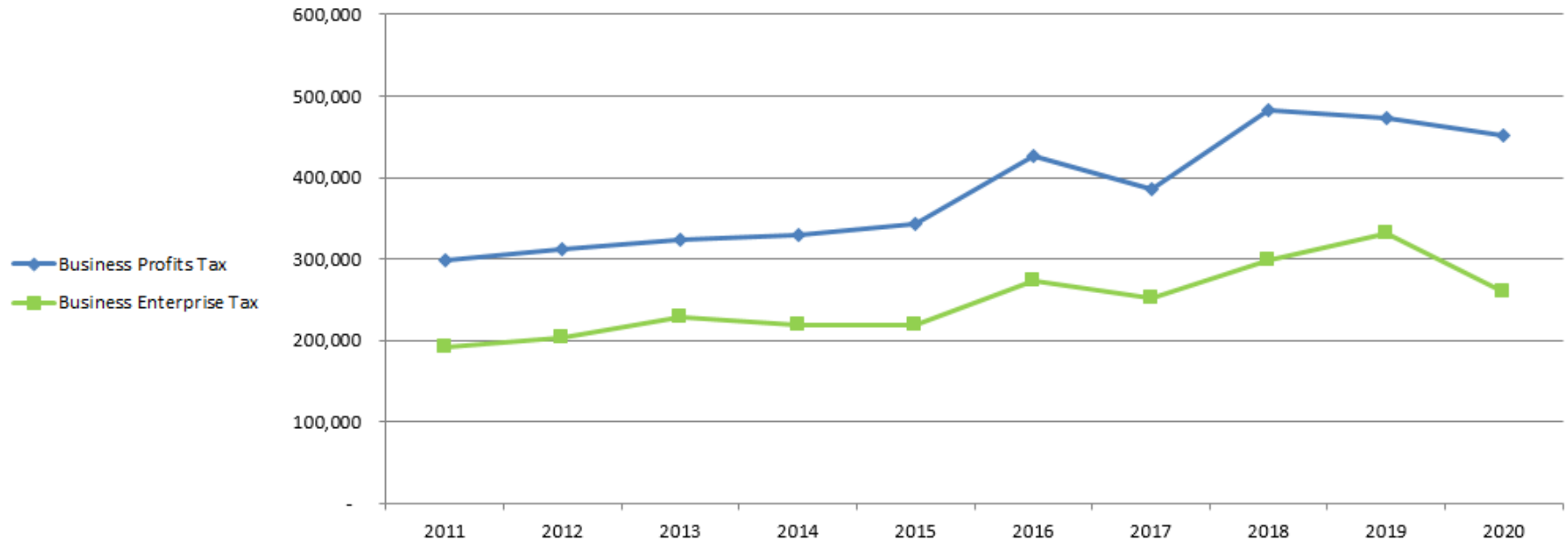
*FY2021 includes July 2020 – December 2020

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Business Profits Tax	297,801	311,861	323,754	330,149	343,427	426,955	385,809	482,228	473,466	450,828
Business Enterprise Tax	192,404	204,274	228,011	219,480	218,236	272,336	251,990	298,884	332,136	258,911
	490,205	516,135	551,765	549,629	561,663	699,291	637,799	781,112	805,602	709,739

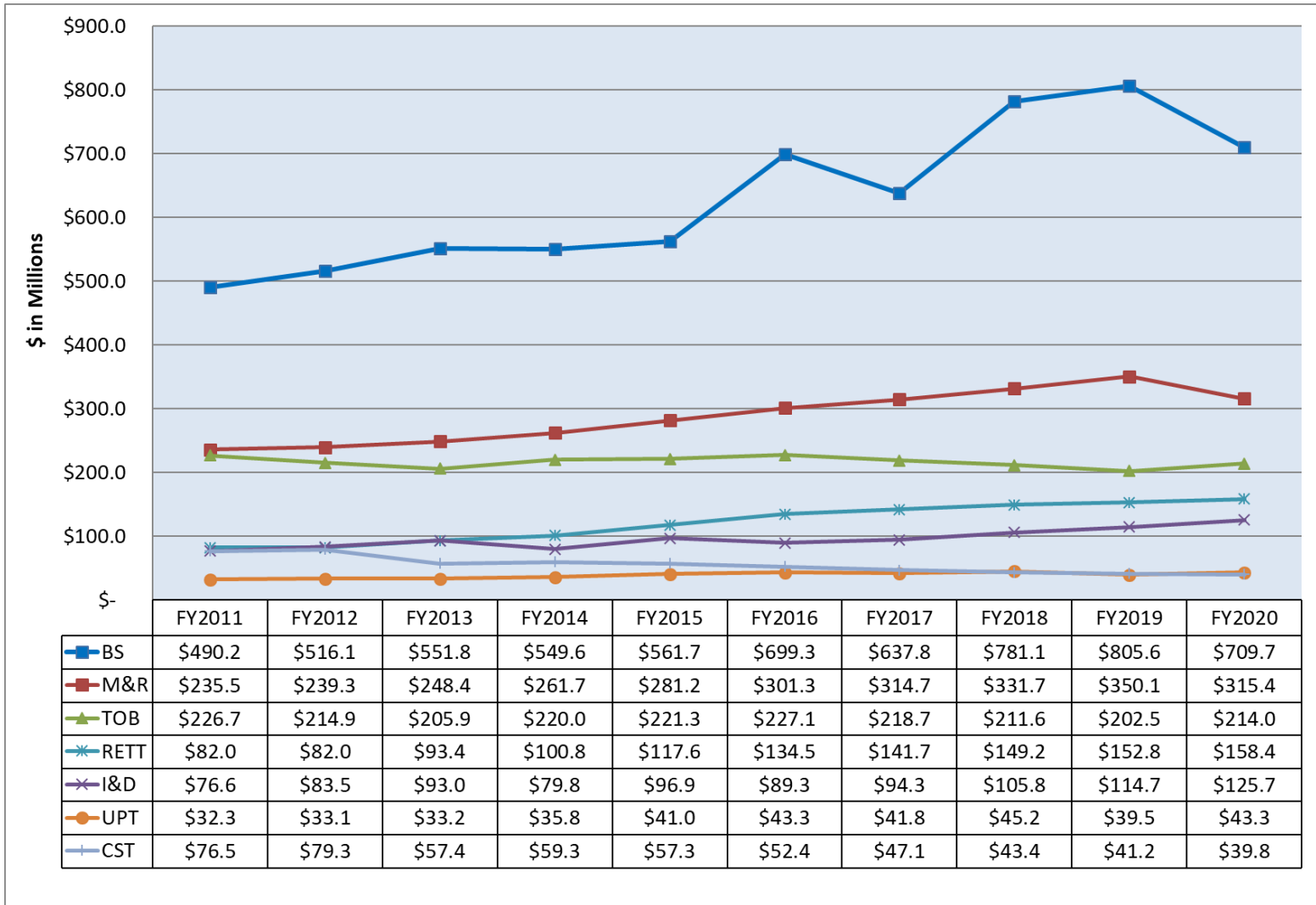


Percentage of Business Tax Revenue Fiscal Year Ended June 30

GENERAL & EDUCATION TRUST FUNDS	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Business Profits Tax	60.8%	60.4%	58.7%	60.1%	61.1%	61.1%	60.5%	61.7%	58.8%	63.5%
Business Enterprise Tax	39.2%	39.6%	41.3%	39.9%	38.9%	38.9%	39.5%	38.3%	41.2%	36.5%

Historical Revenue Trends

(Audited)



FY2021 Tax Revenues

through December 2020

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	\$ 392,100,000	\$ 327,300,000	19.8%	58.4%
M&R	\$ 168,400,000	\$ 214,000,000	-21.3%	44.7%
Tobacco	\$ 130,500,000	\$ 104,600,000	24.8%	48.0%
RETT	\$ 105,800,000	\$ 92,300,000	14.6%	41.7%
I&D	\$ 48,500,000	\$ 29,800,000	62.8%	74.5%
UPT	\$ 21,700,000	\$ 20,700,000	4.8%	53.2%
CST	\$ 18,700,000	\$ 20,500,000	-8.8%	51.0%
	\$ 885,700,000	\$809,200,000	9.5%	53.4%

Note: The 1st 6 Months of Actual revenue include the \$30.8m of anomalous receivable

Other Taxes DRA Administers

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