

FY 2016-17 Economic and Fiscal Orientation

Presentation to the House Finance Committee,
House Ways & Means Committee, and Senate
Finance Committee

January 14, 2015

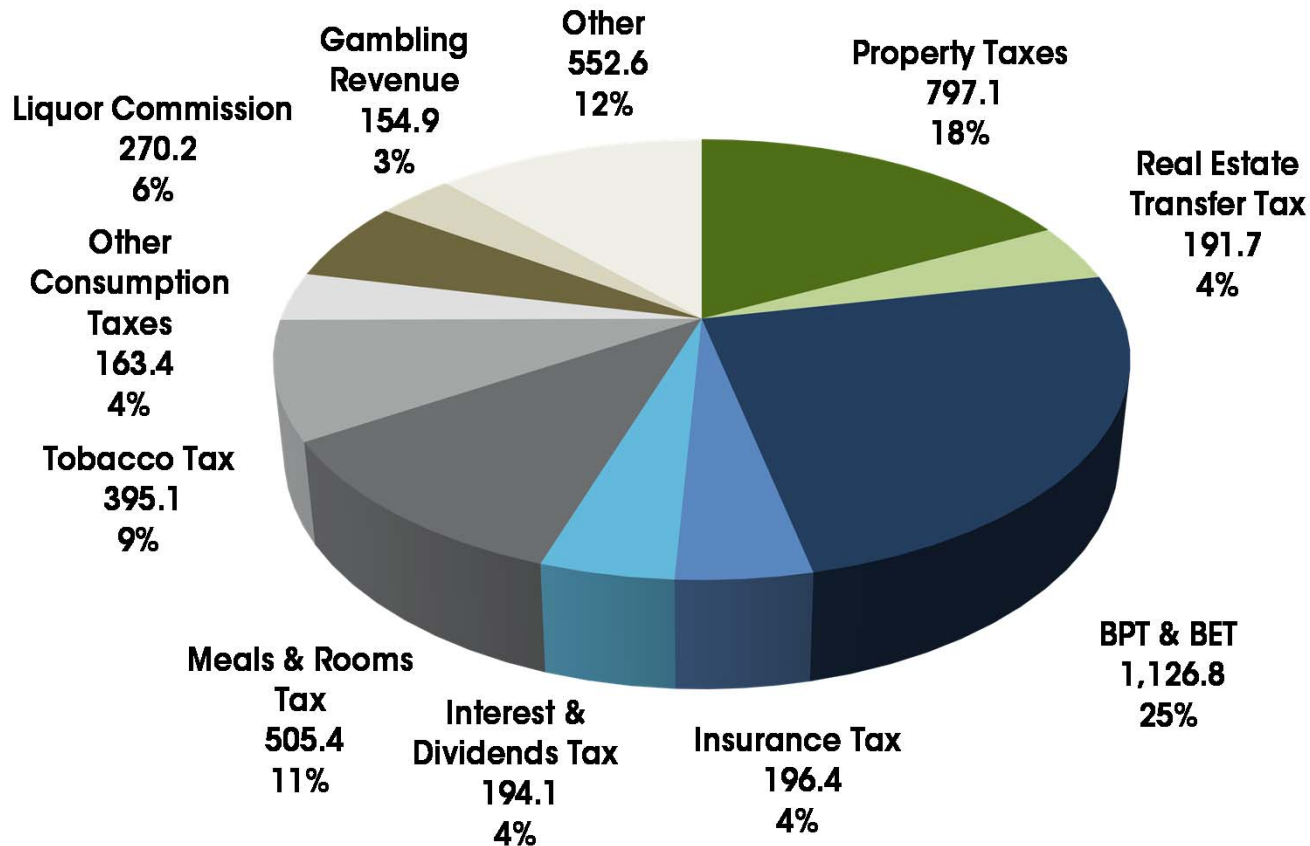
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FY 2016-2017 Economic and Fiscal Orientation

- **What are the key elements of New Hampshire's tax system?**
- What are some of the economic trends relevant to tax collections in New Hampshire?
- What are some of the distinguishing features of New Hampshire's tax system?
- How might New Hampshire's revenue estimation process be further improved?

How Does New Hampshire Generate Revenue?

*FY14-15 Projected General & Education Fund Revenue: \$4.55 billion
individual sources of revenue in millions of dollars*



Source: NHFPI calculations based on HB 1 as enacted June 28, 2013

How Does New Hampshire Generate Revenue?

Principal Sources of Tax Revenue, FY 2014

	<u>FY 2014 Revenue</u>	<u>Rate</u>
<i>General & Education Funds</i>		
Business Profits Tax	\$330 M	8.50%
Business Enterprise Tax	\$219 M	0.75%
Meals & Rooms Tax	\$262 M	9.00%
Real Estate Transfer Tax	\$101 M	\$0.75 / \$100 value
Tobacco Tax	\$220 M	\$1.78 / pack
<i>General Fund only</i>		
Interest & Dividends Tax	\$80 M	5.00%
<i>Education Fund only</i>		
State Property Tax	\$363 M	Varies (\$2.435 / \$1000 value)
<i>Highway Fund only</i>		
Motor Fuel	\$125 M	\$0.18 / gallon \$0.222 / gallon eff. 7.1.14

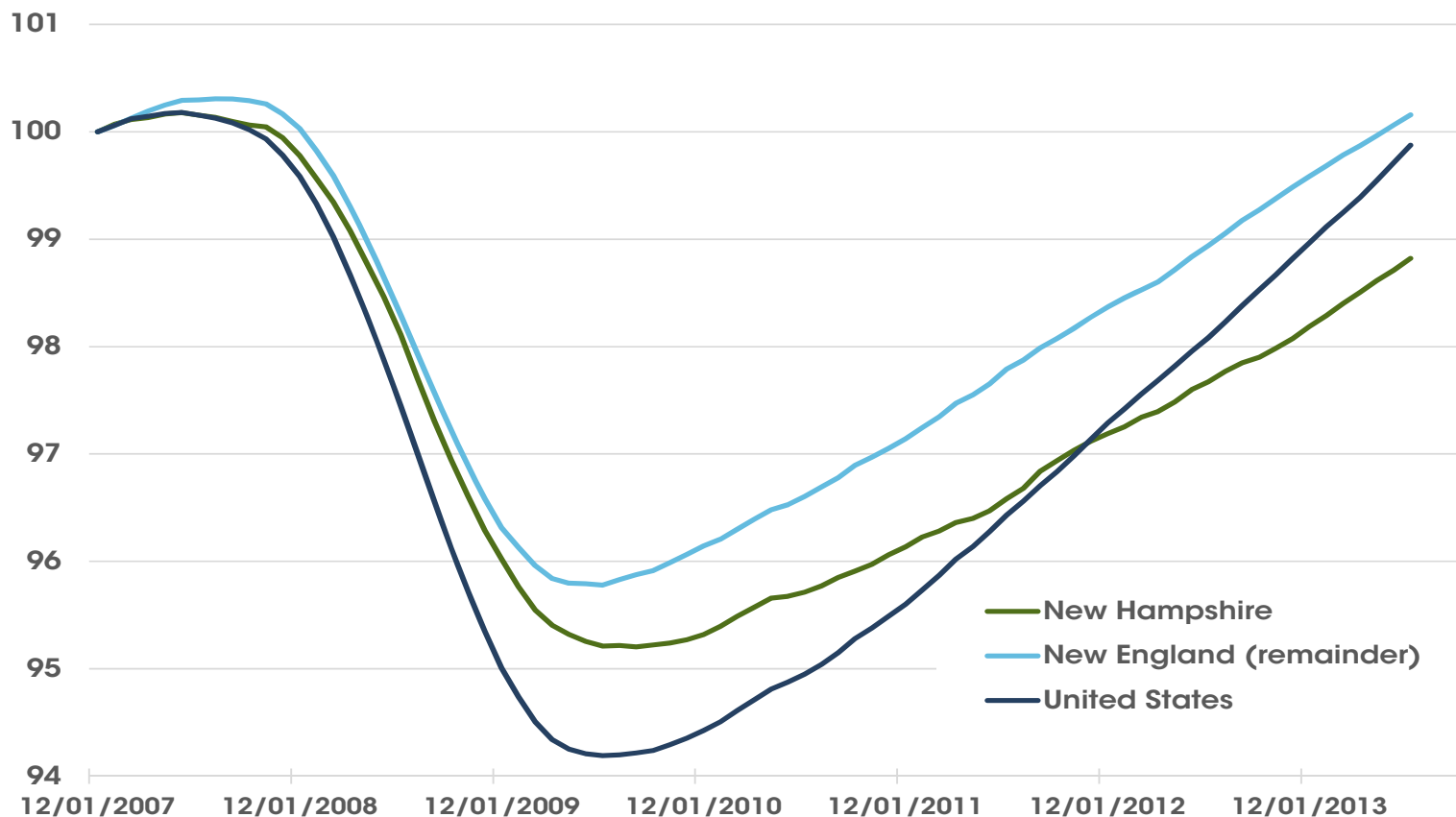
Source: Department of Administrative Services; Department of Revenue Administration

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NH Employment Returning to Pre-Recession Level

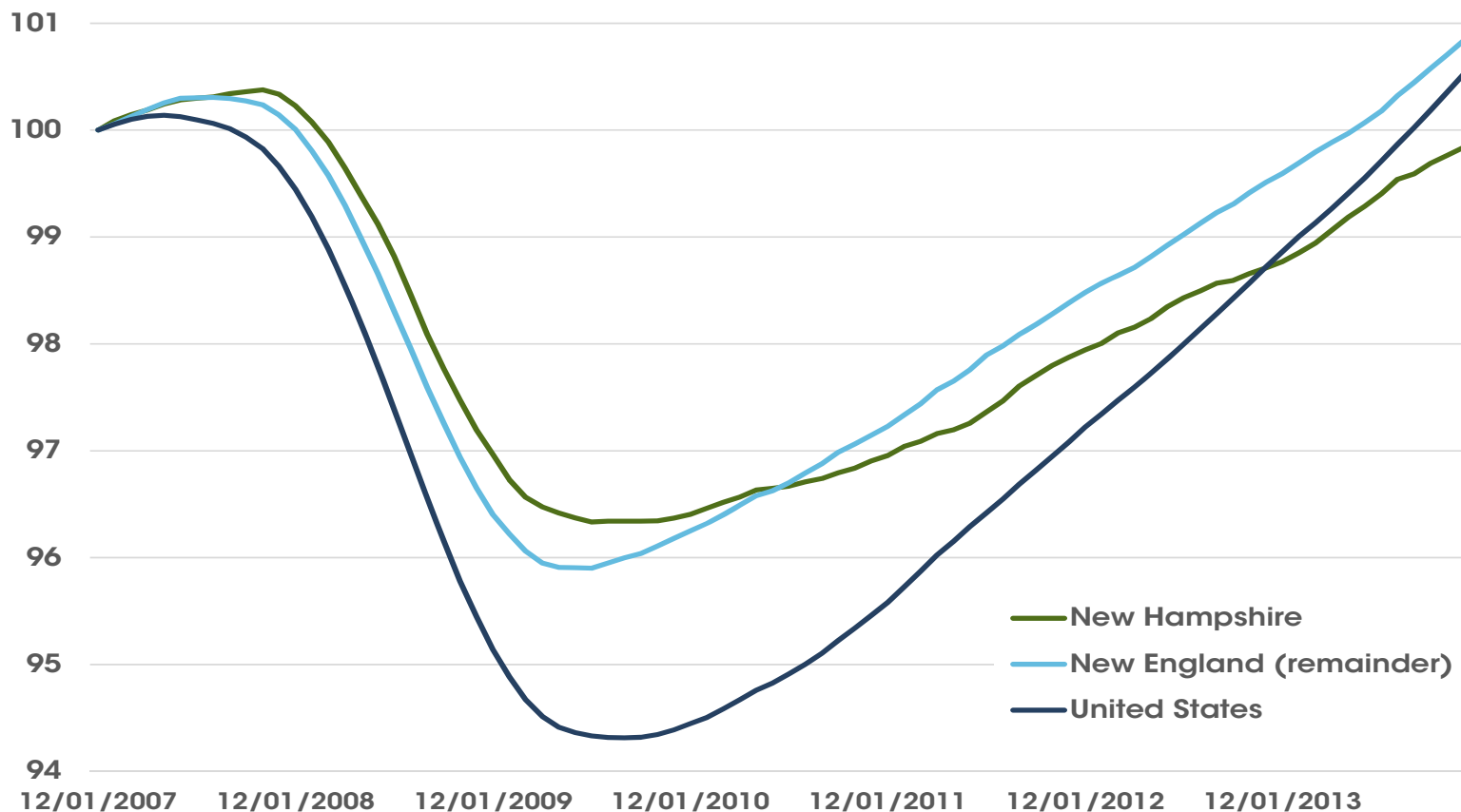
Total Payroll Employment, 12mo. avg., US, NH, rest of New England; December 2007 = 100



Source: NHFPI analysis of US Bureau of Labor Statistics Quarterly Census of Employment & Wages

NH Employment Returning to Pre-Recession Level

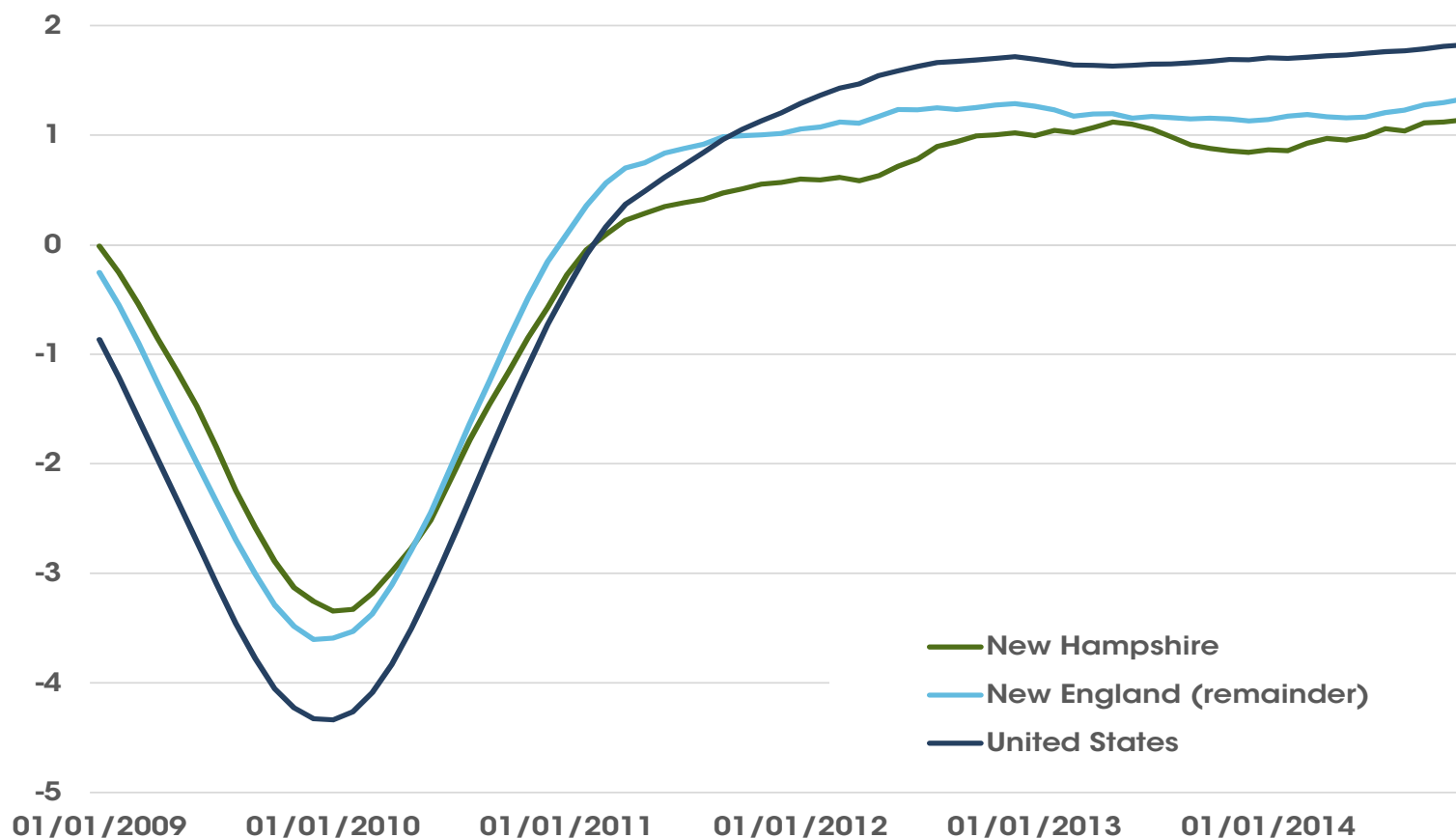
Total Payroll Employment, 12mo. avg., US, NH, rest of New England; December 2007 = 100



Source: NHFPI analysis of US Bureau of Labor Statistics Current Employment Statistics data

NH Employment Growing, but More Slowly than Rest of Region, Country as a Whole

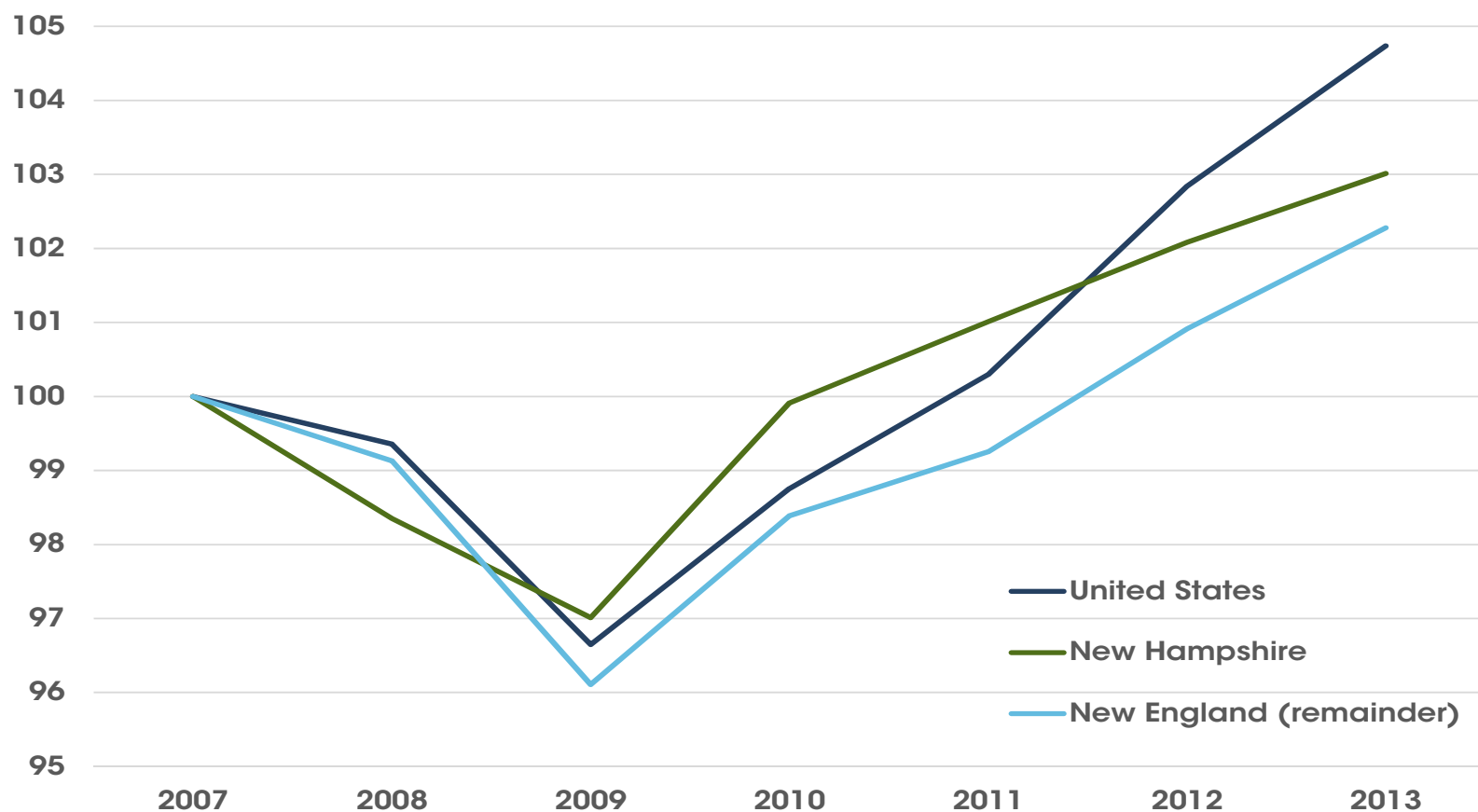
Percent change in total payroll employment over prior year, 12 month moving average



Source: NHFPI analysis of US Bureau of Labor Statistics Current Employment Statistics data

Economic Output in NH Higher than Before Recession

Real Gross Domestic Product (2009 dollars) for NH, US, and rest of New England, 2007 = 100



Source: NHFPI analysis of US Bureau of Economic Analysis data

Recent GDP Growth in NH Slower than Rest of Region, Country as a Whole

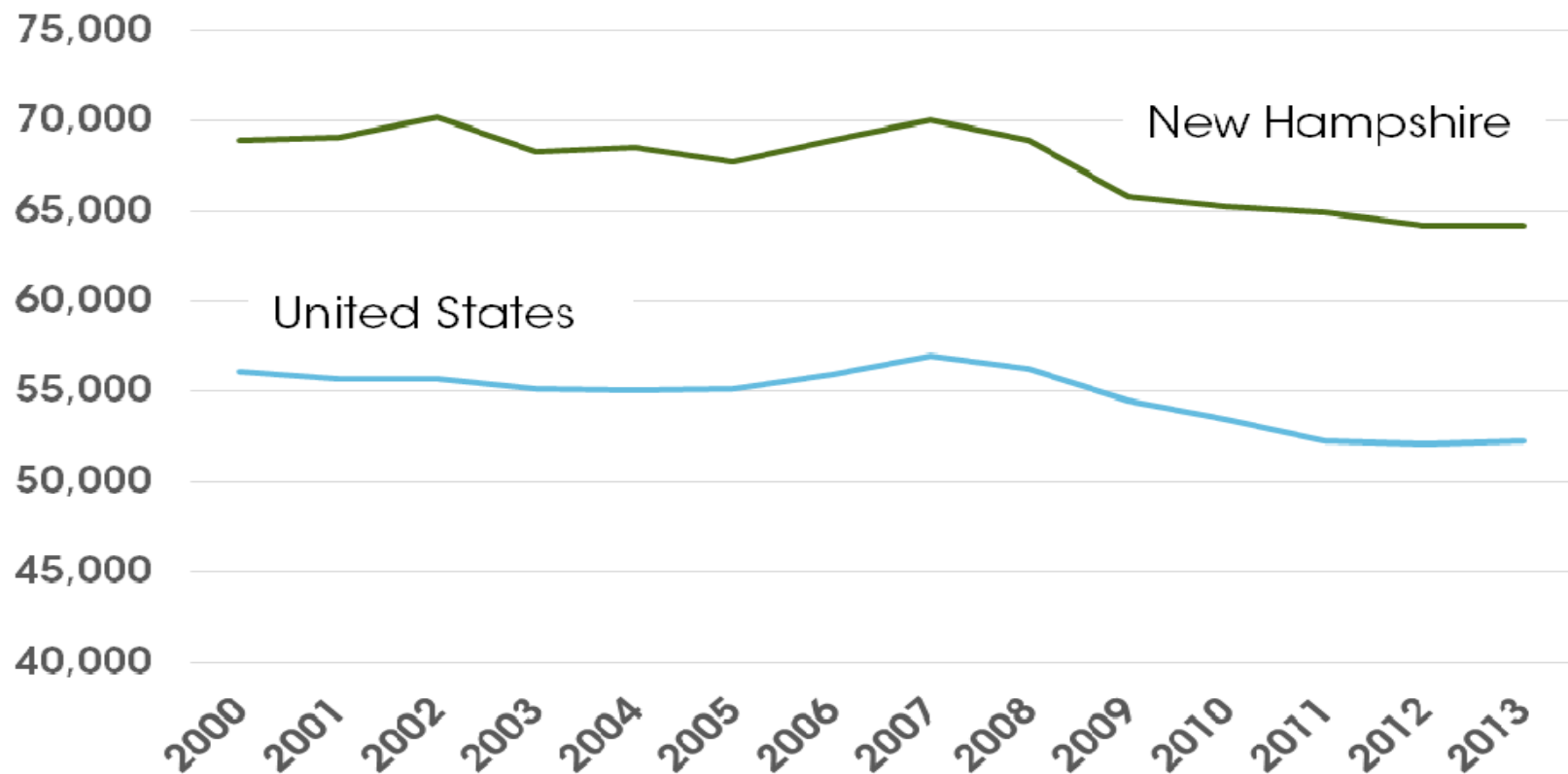
Percent change in real GDP over prior year, NH, US, and rest of New England



Source: NHFPI analysis of US Bureau of Economic Analysis data

Incomes Stagnant, Yet to Regain Lost Ground

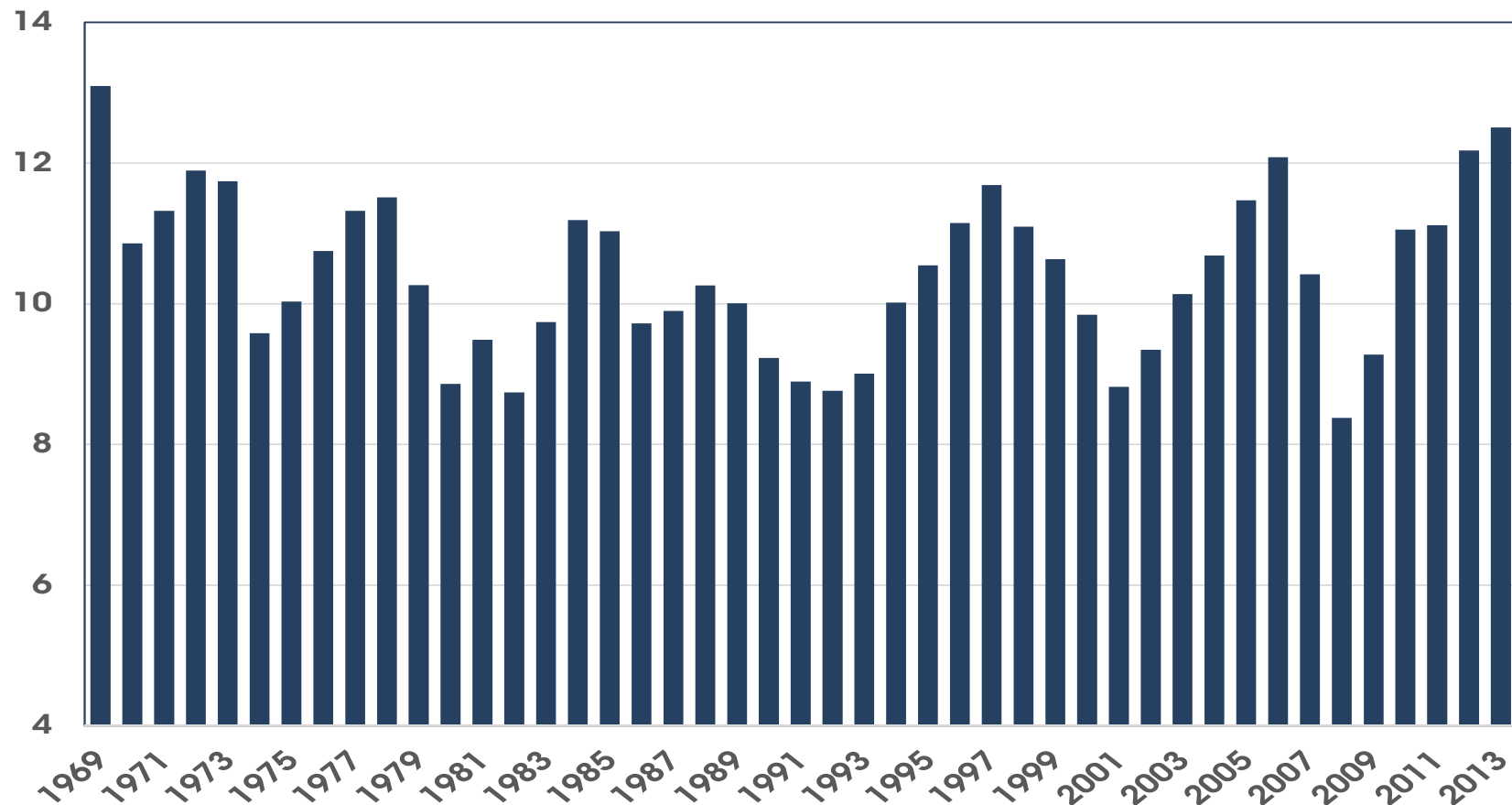
Median household income, constant 2013 dollars, 2000-2013



Source: US Census Bureau, American Community Survey

US Corporate Profitability at Highest Point in Several Decades

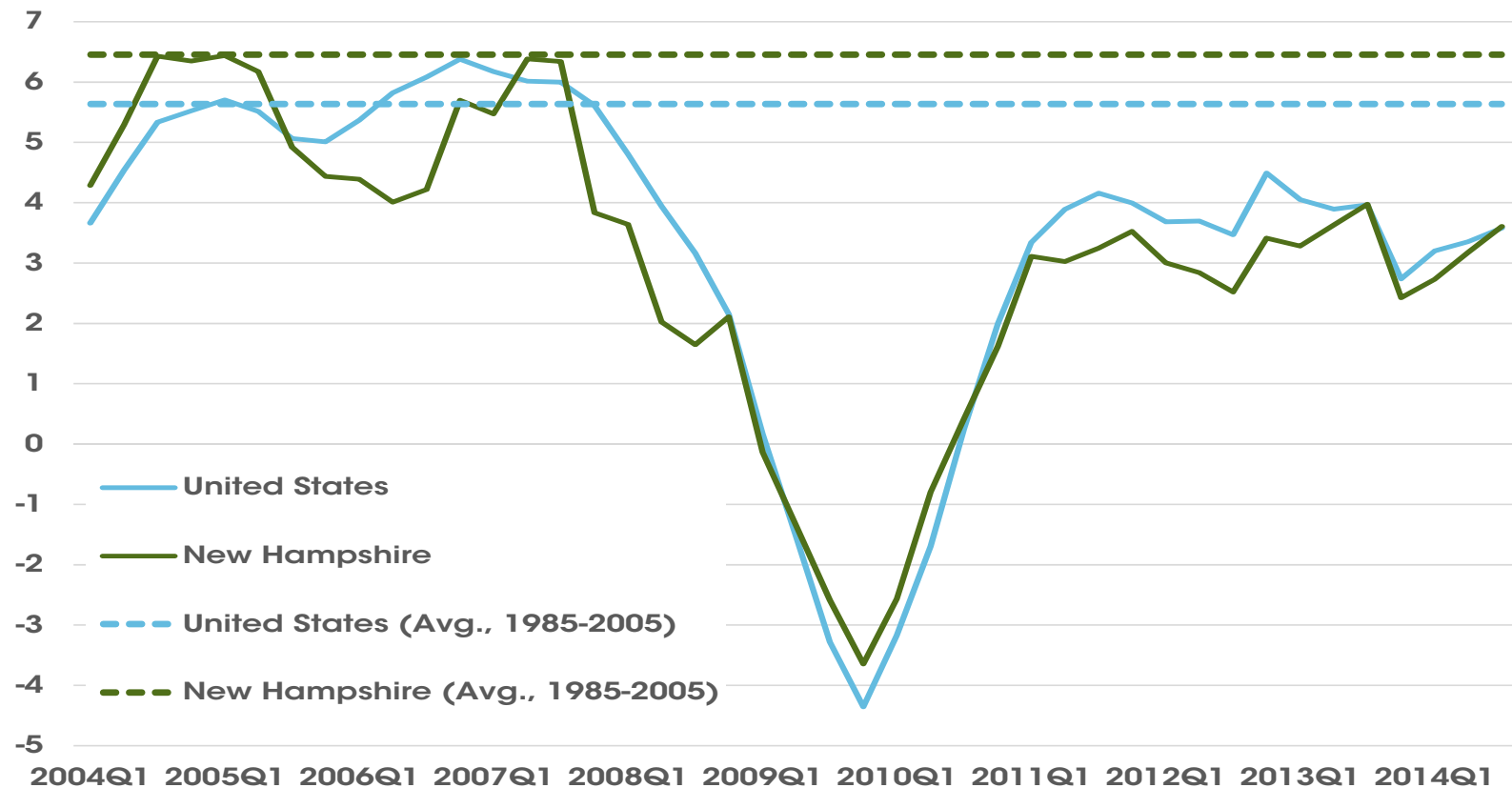
Net operating surplus as a share of fixed corporate assets, 1969-2013



Source: NHFPI analysis of data from US Bureau of Economic Analysis

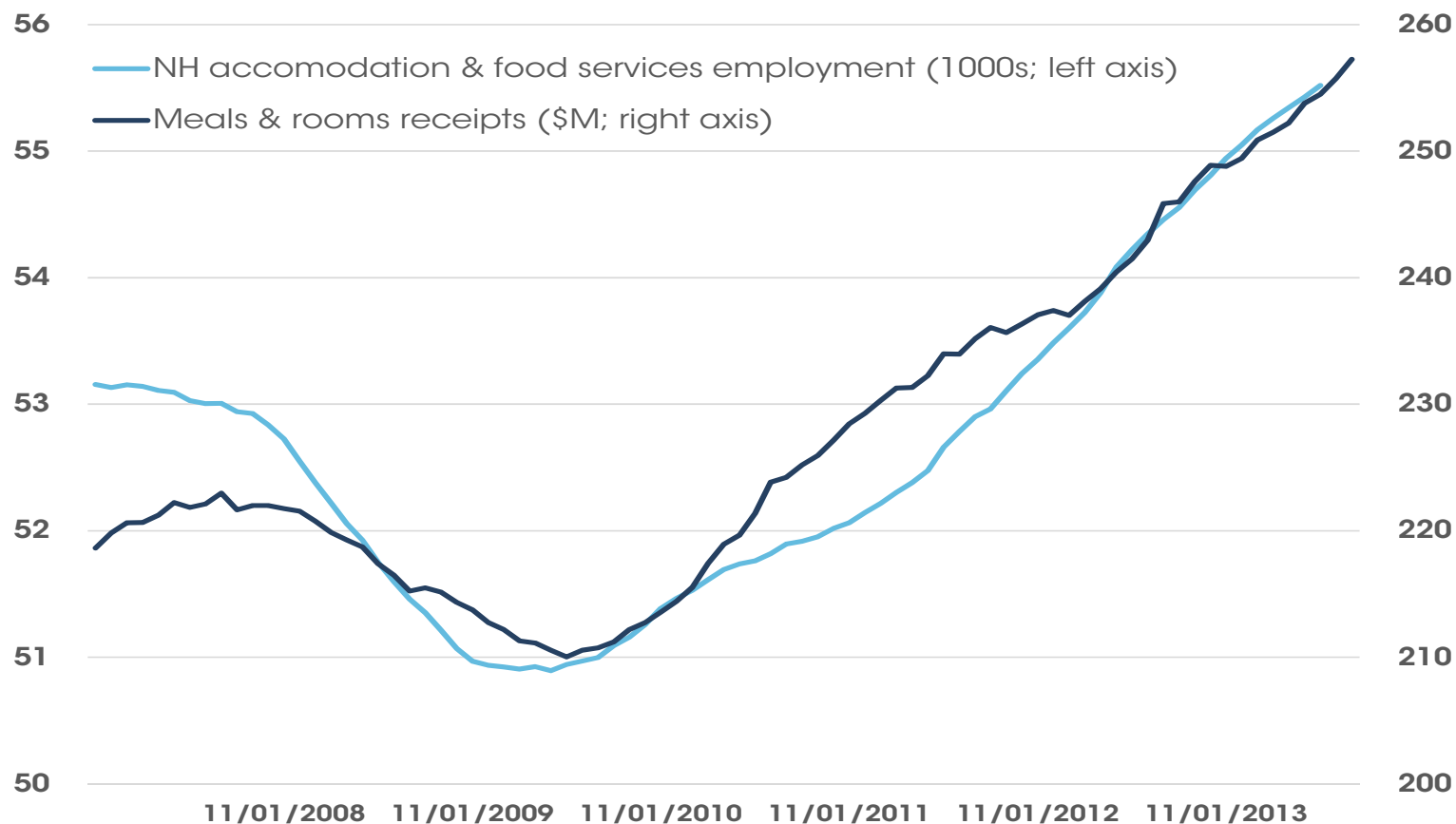
Wages & Salaries Growing Too, but Not as Quickly as Prior Periods

Percent change in wages and salaries over prior year, 4-quarter moving average, NH and US



Source: NHFPI analysis of US Bureau of Economic Analysis data

Meals & Rooms Collections Consistent with Industry Employment



Source: NH Department of Revenue Administration; US Bureau of Labor Statistics

Cigarette Consumption in NH Considerably Lower than Late 2000s

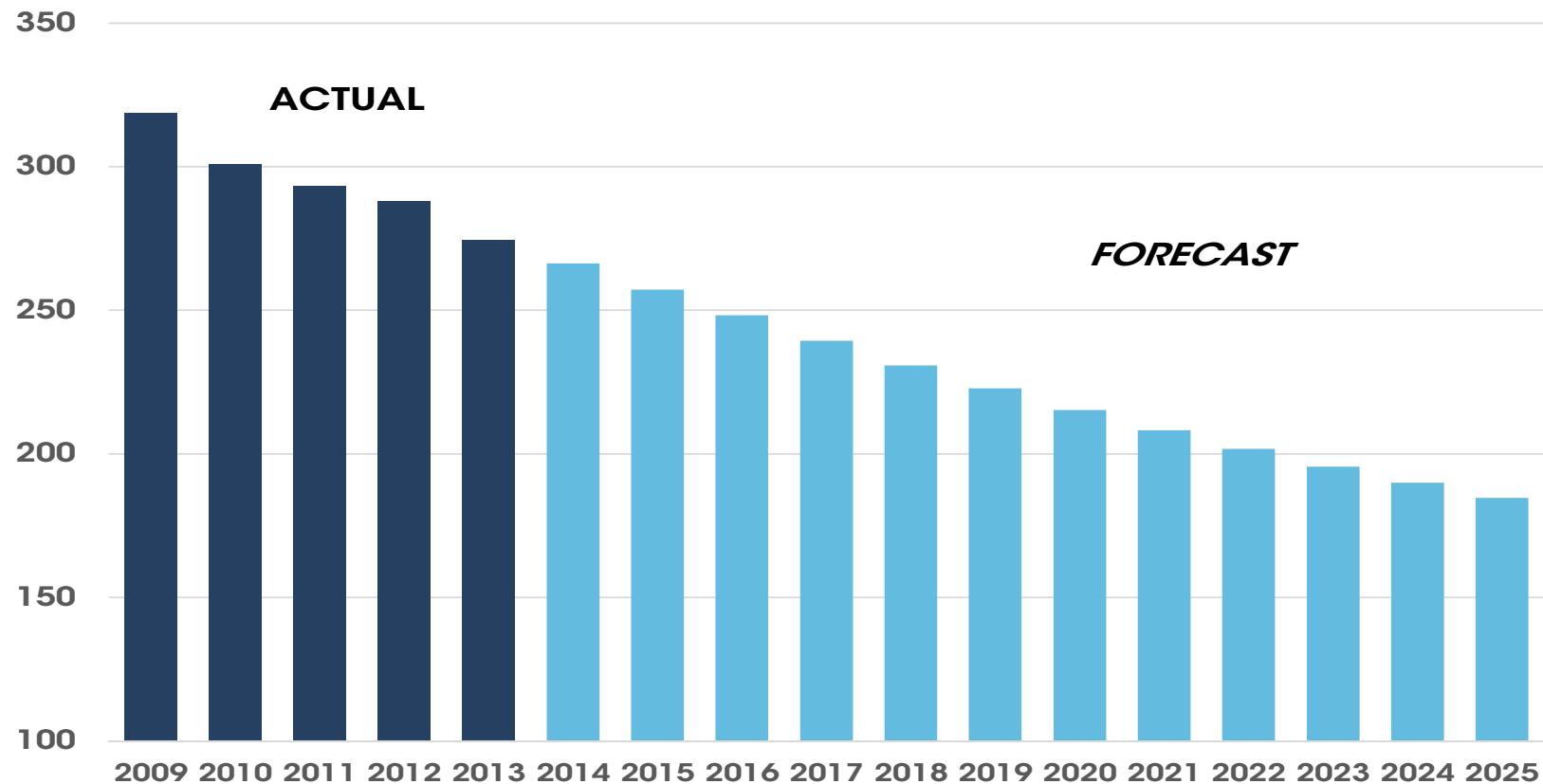
NH tobacco stamp sales in millions, 12 month moving average, June 2007- November 2014



Source: NHFPI analysis of data from NH Department of Revenue Administration

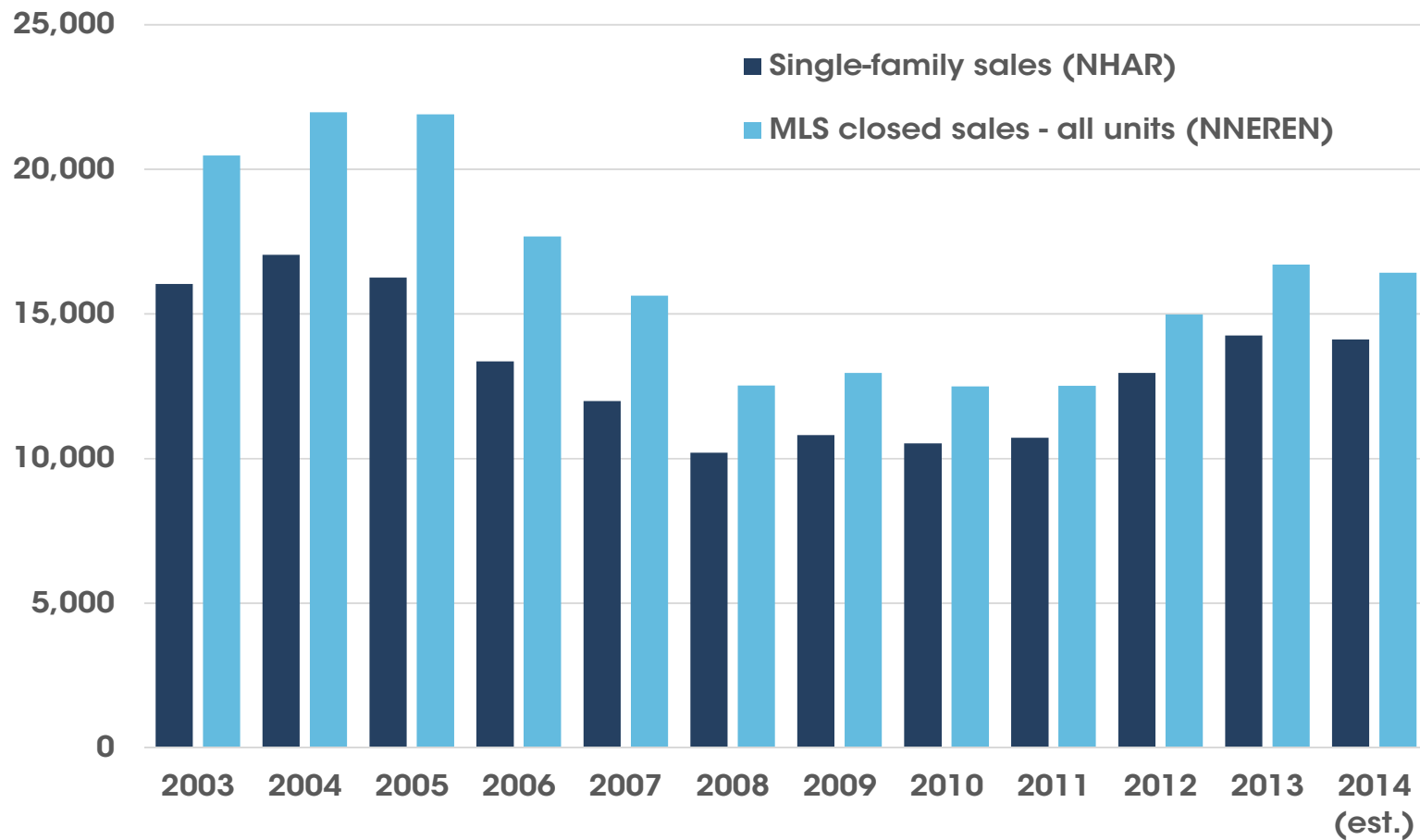
National Decline in Cigarette Consumption Expected to Continue

United States cigarette consumption in billions, 2009-2025



Source: IHS Global Insight

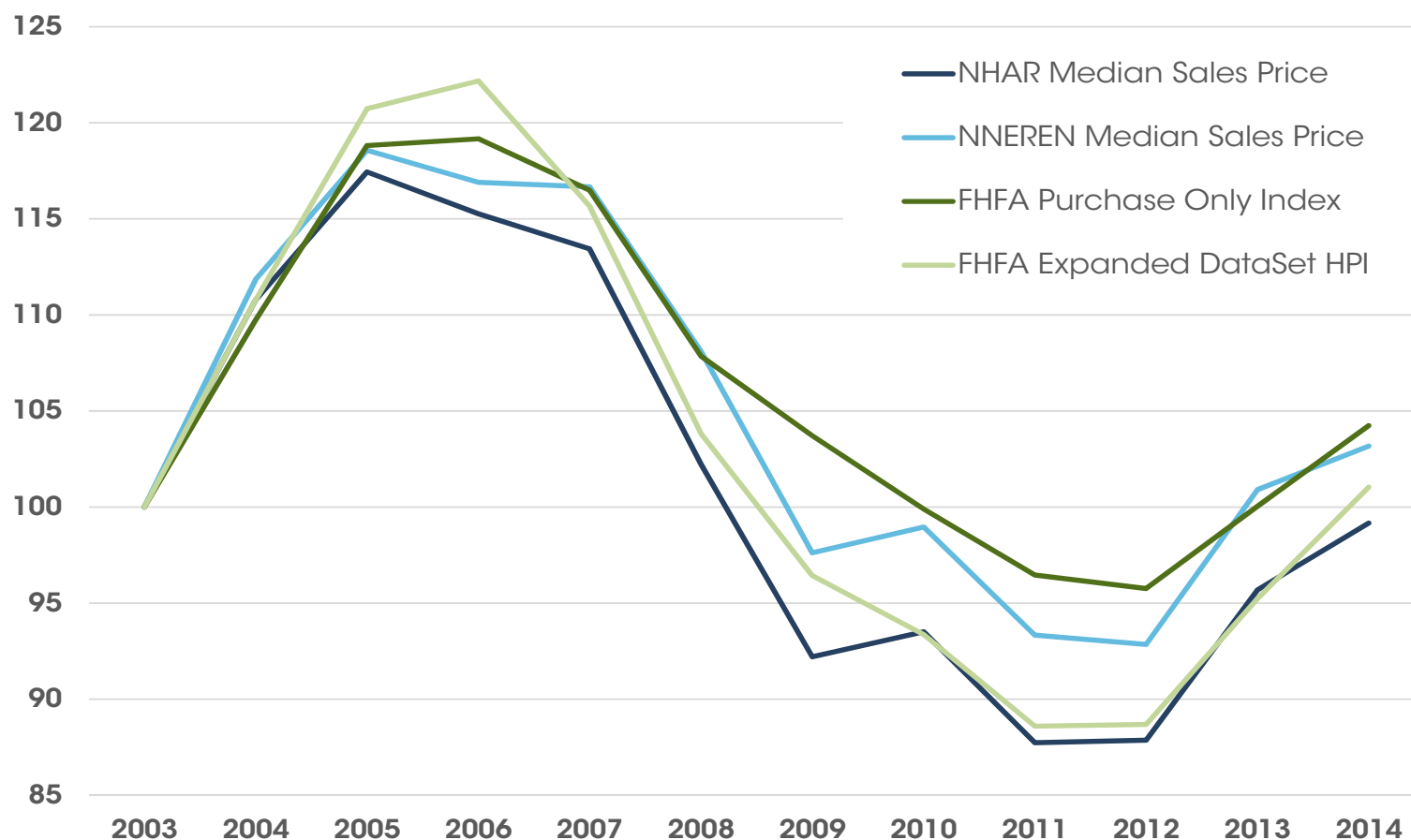
NH Home Sales on the Rebound



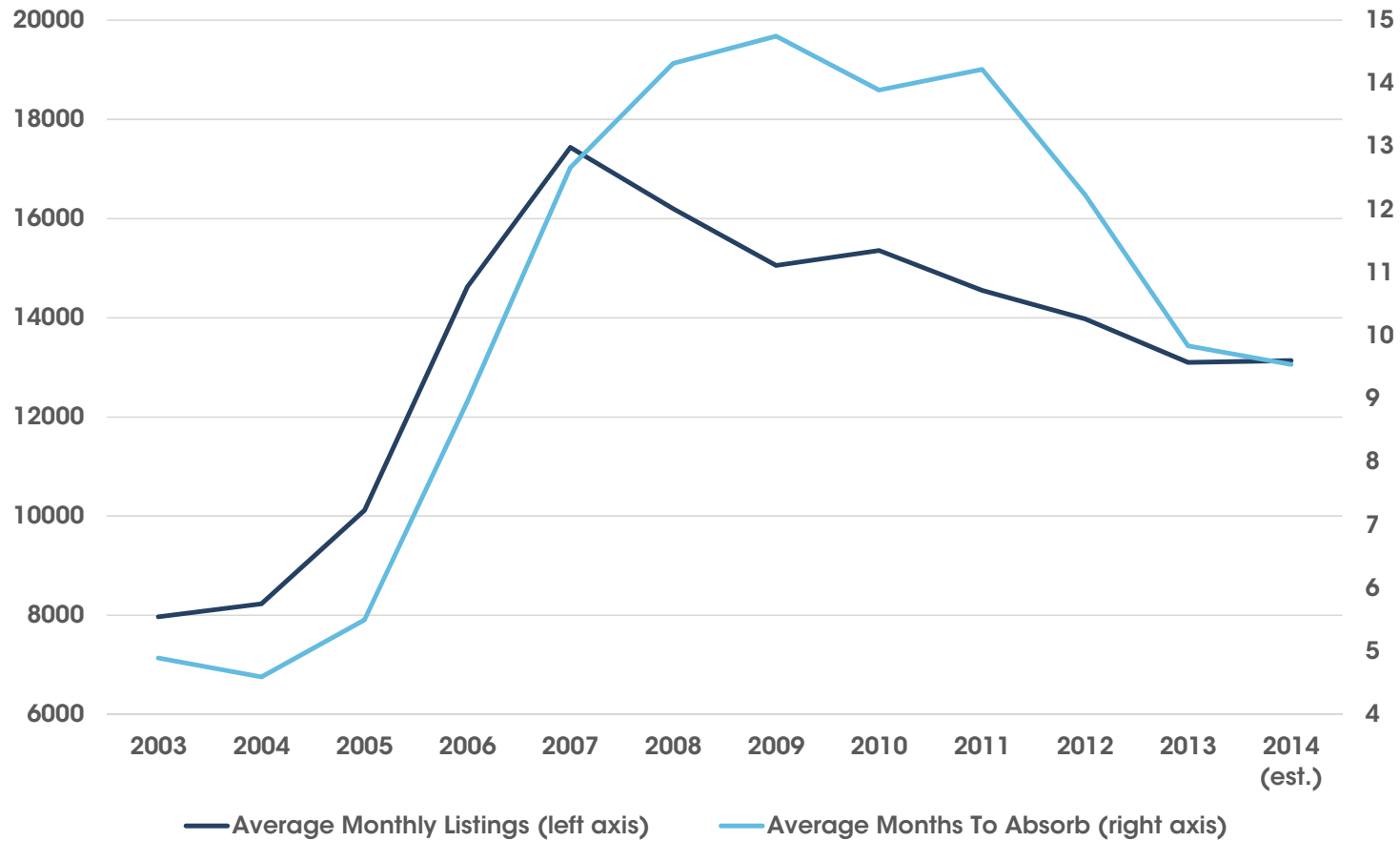
Source: NH Association of Realtors, NH Housing Finance Authority

NH Home Prices on the Rebound

Various Housing Price Indices for NH, 2003 = 100

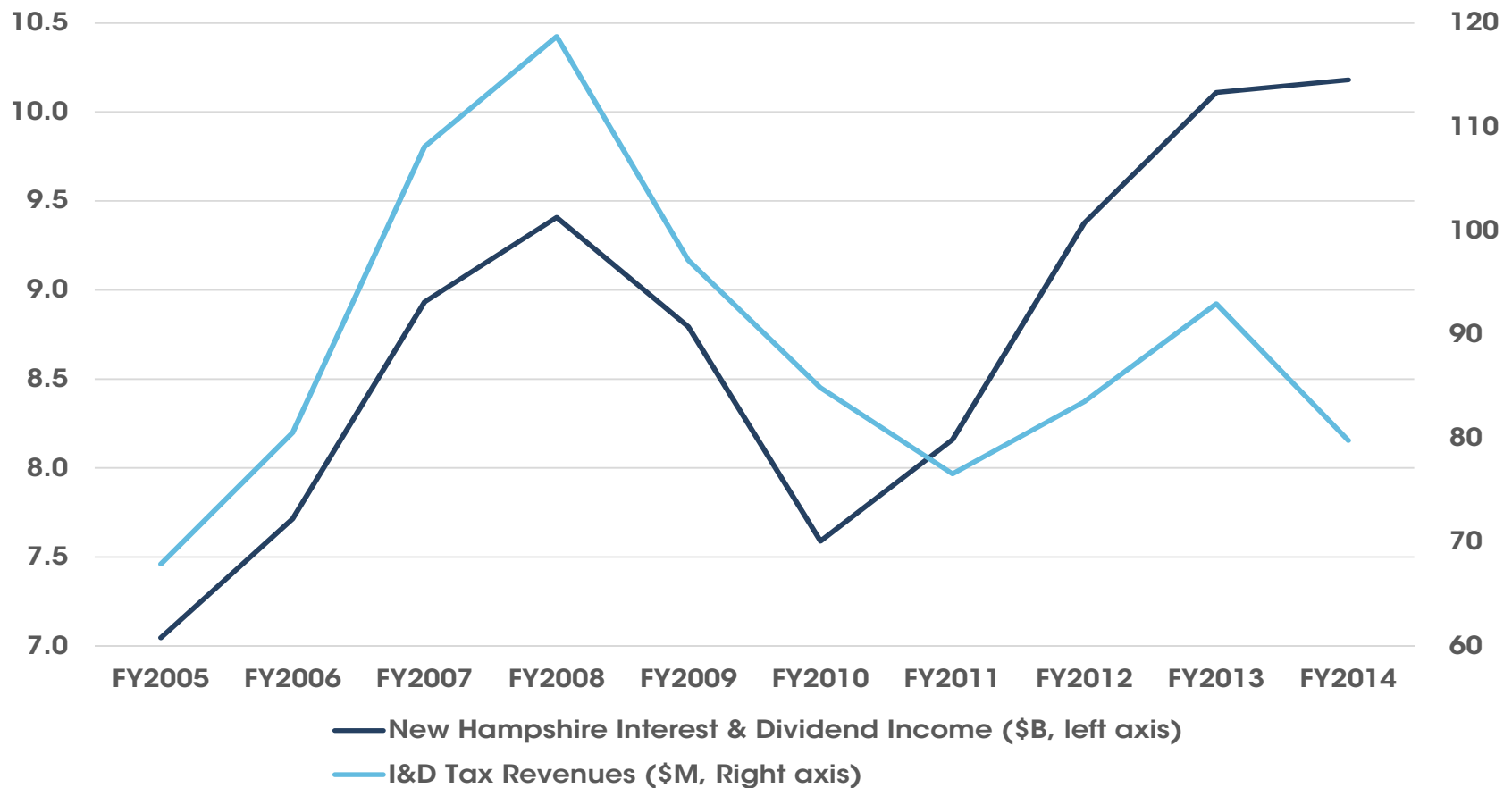


Trend toward Tighter NH Housing Market?



Source: Northern New England Real Estate Network

Emerging Split between Interest and Dividend Income and Tax Receipts?



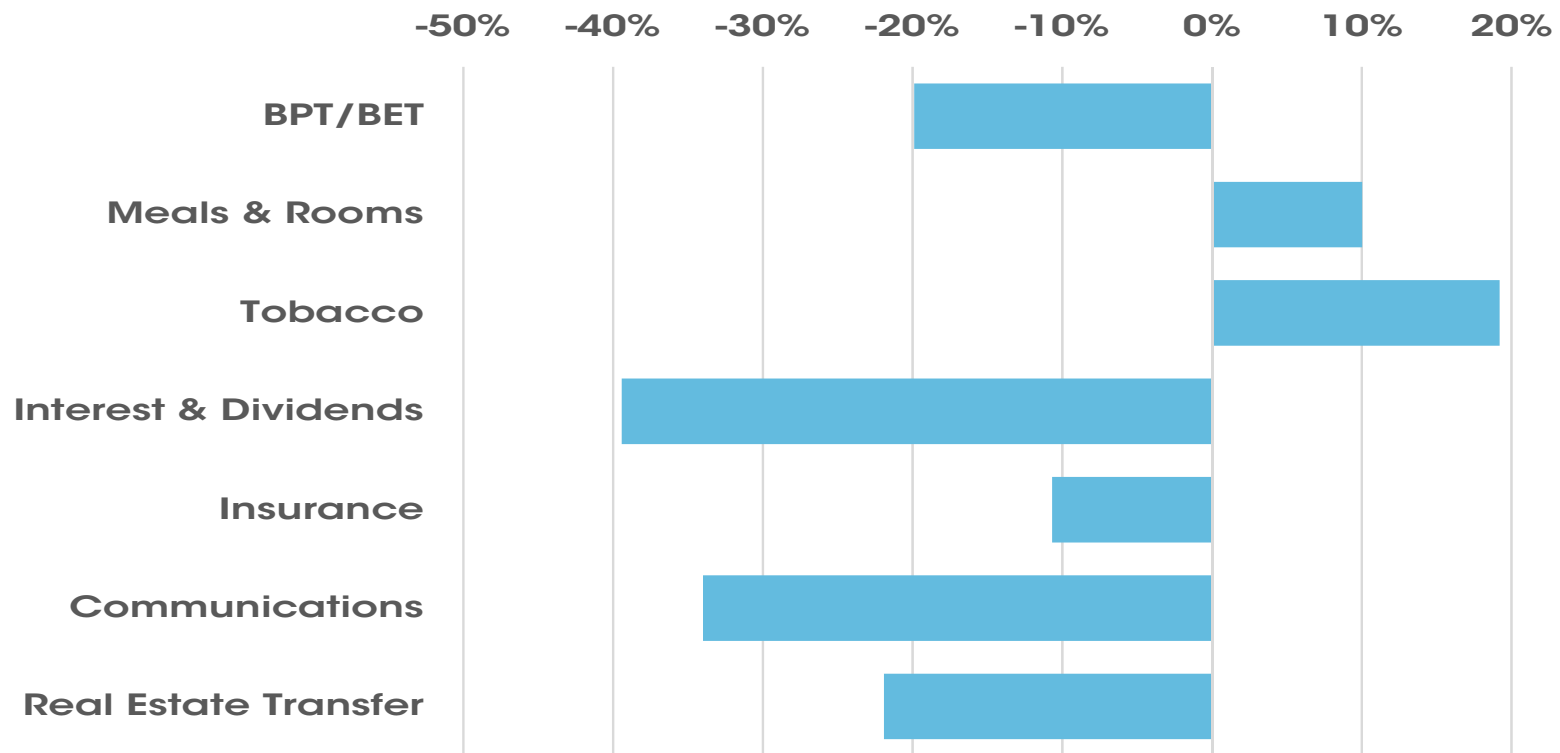
Source: NHFPI analysis of US Bureau of Economic Analysis, NH DRA data

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Major Sources of Tax Revenue Have Declined Significantly Since Start of Recession

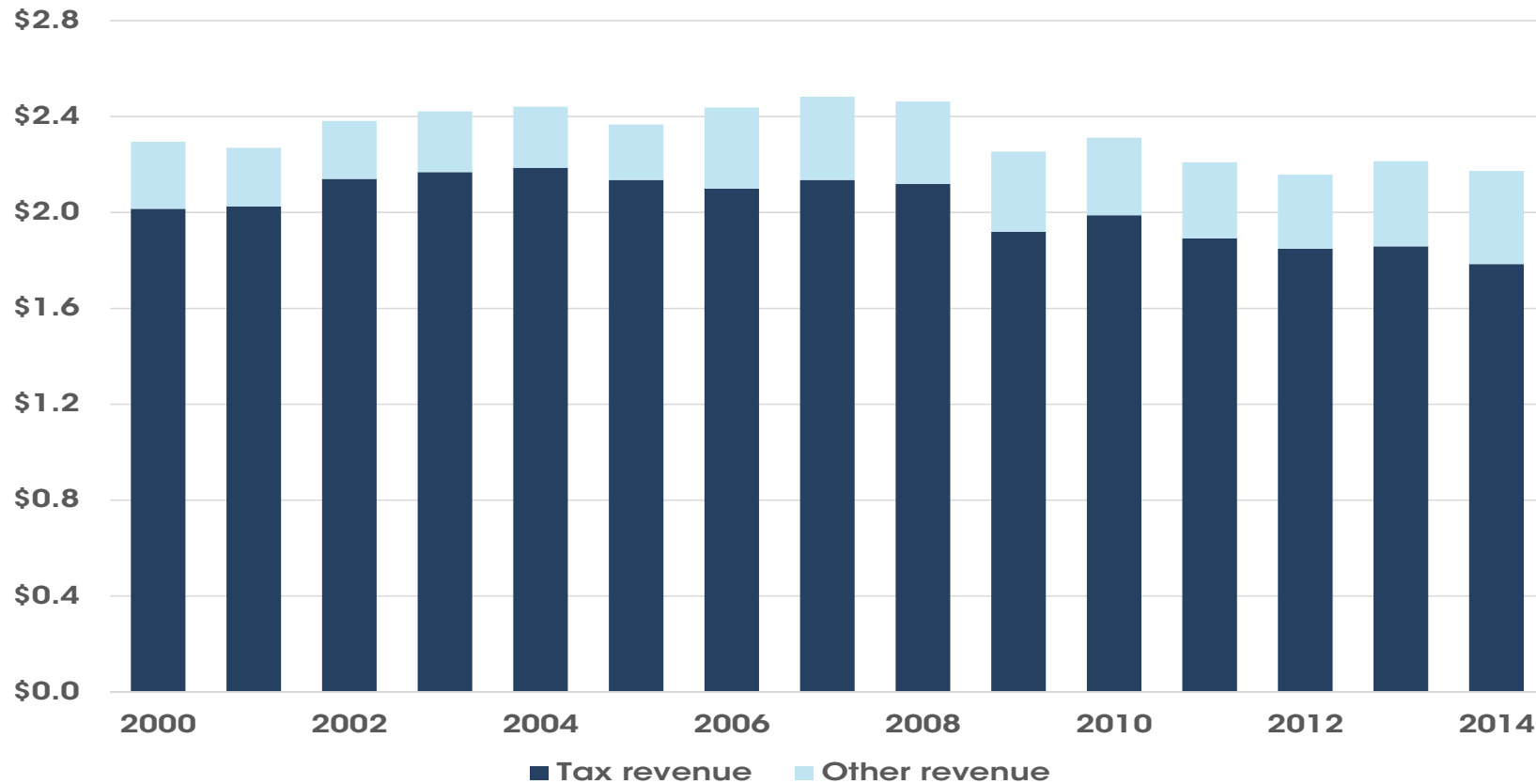
Real Aggregate Change in Select NH Taxes, FY 2008 – FY 2014



Source: NHFPI calculations based on NH Department of Administrative Services & US Bureau of Labor Statistics data

Revenue Still Well Below Prior Levels

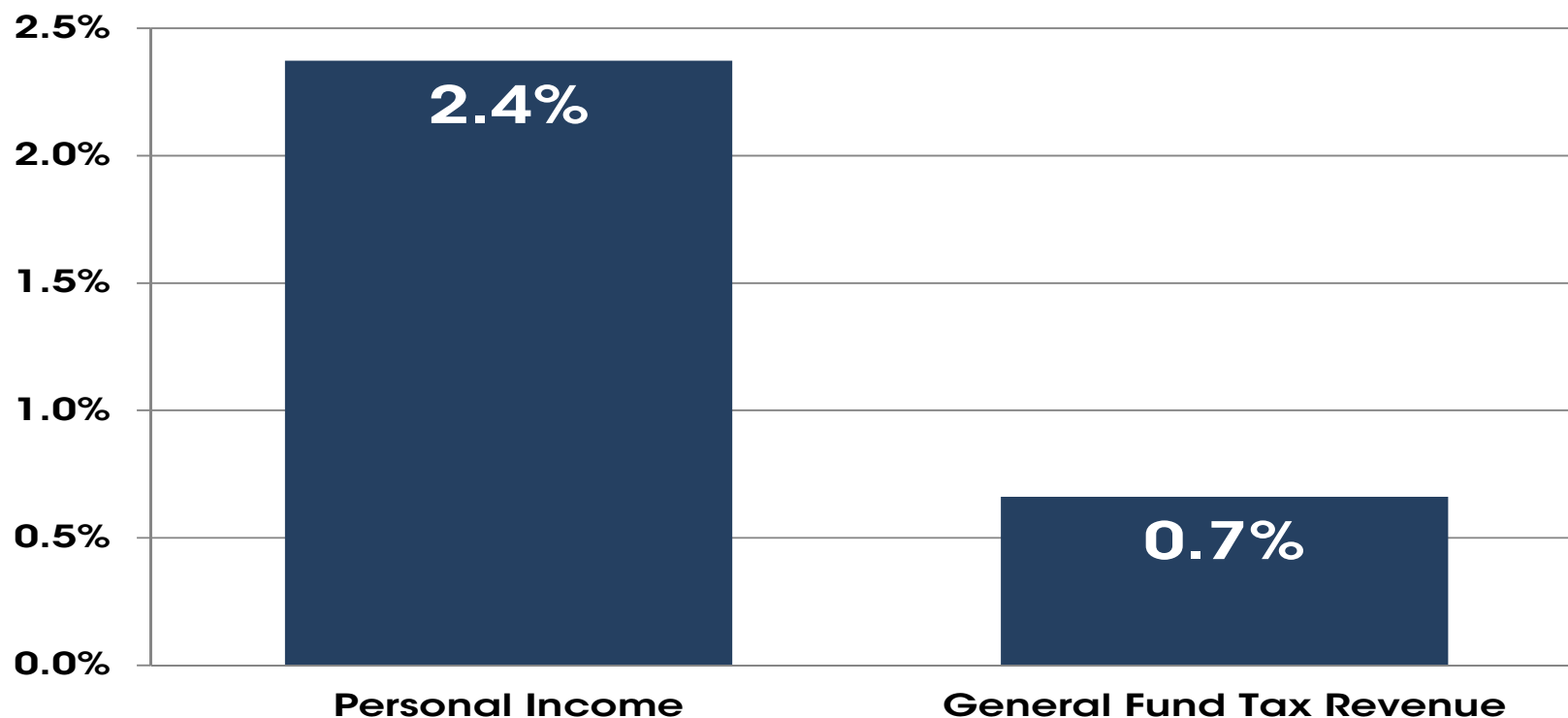
General & Education Fund Collections in Millions of FY14 Dollars, FY 2000-2014



Source: NHFPI calculations based on NH Department of Administrative Services and US Bureau of Labor Statistics data
Note: Figures exclude Board & Care and Medicaid Enhancement Tax revenues and are net of Liquor Commission administrative expenses

New Hampshire's Tax System Contributes to Perpetual Budget Woes

Average Annual Change in Personal Income and in General Fund Tax Revenue, Adjusted for Inflation and Rate Changes, 1994-2013



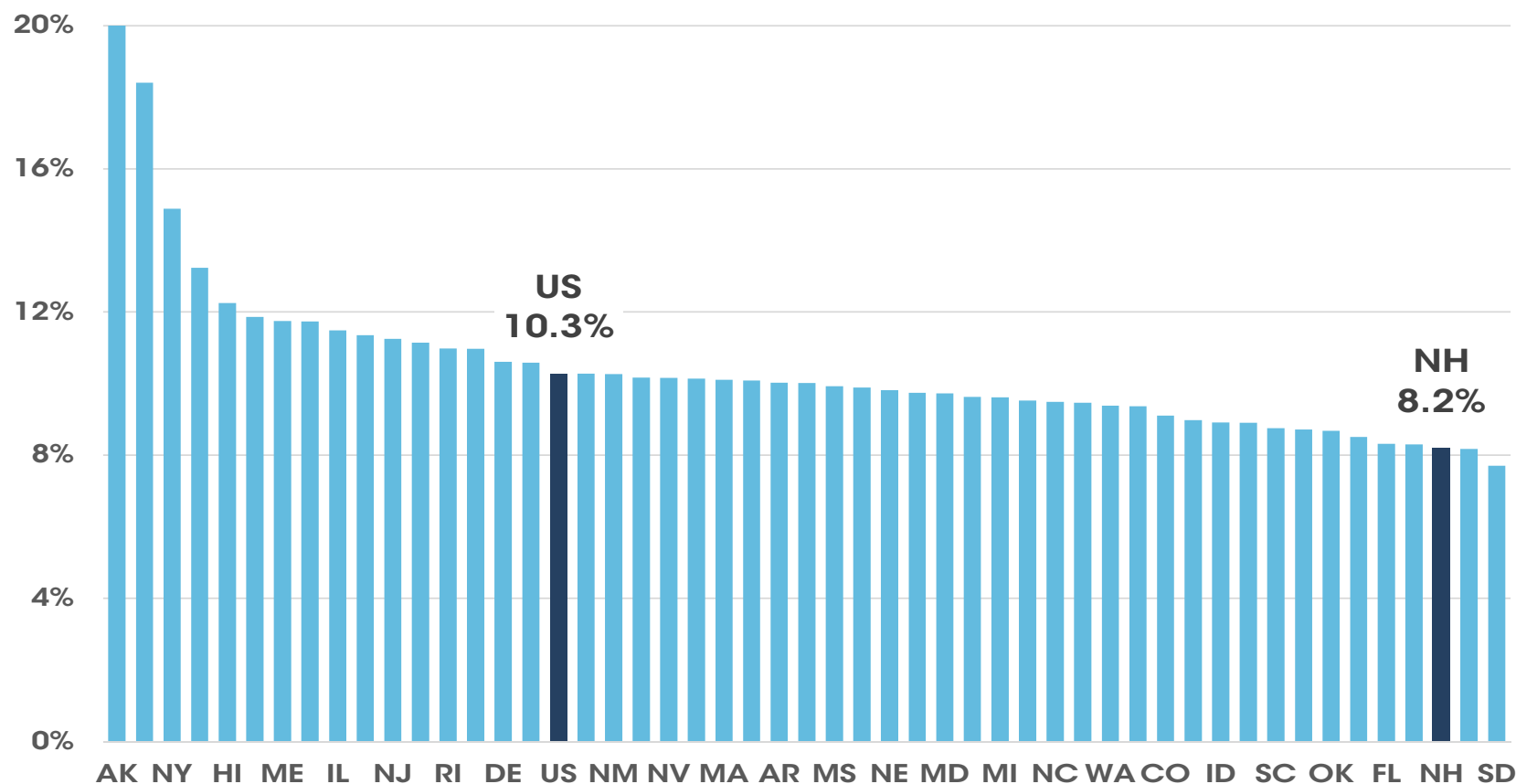
Source: NHFPI calculations based on LBA, US BEA data

Recent Tax Reductions Have Contributed to Revenue Woes

SB 125	BPT reasonable compensation deduction	1.1.11
HB 1418	BPT Sec. 179 Expensing	1.1.12
HB 1418	Exempt Internet access from CST	6.21.12
SB 372	Create education tax credit	1.1.13
HB 2	Exempt tipped wages from BET	1.1.13
HB 242	Increase NOL limit	1.1.13
SB 1	Double R&D tax credit and make permanent	5.20.13
HB 598	Increase BPT safe-harbor to \$75,000	7.1.13
SB 326	Eliminate I&D tax on trusts	12.31.13
HB 1418	Increase BET thresholds	12.31.13
HB 187	Extend BET carryforwards	7.1.14

Taxes in NH Very Low Relative to Aggregate Ability to Pay

Total State and Local Taxes as a Share of Personal Income, FY 2012



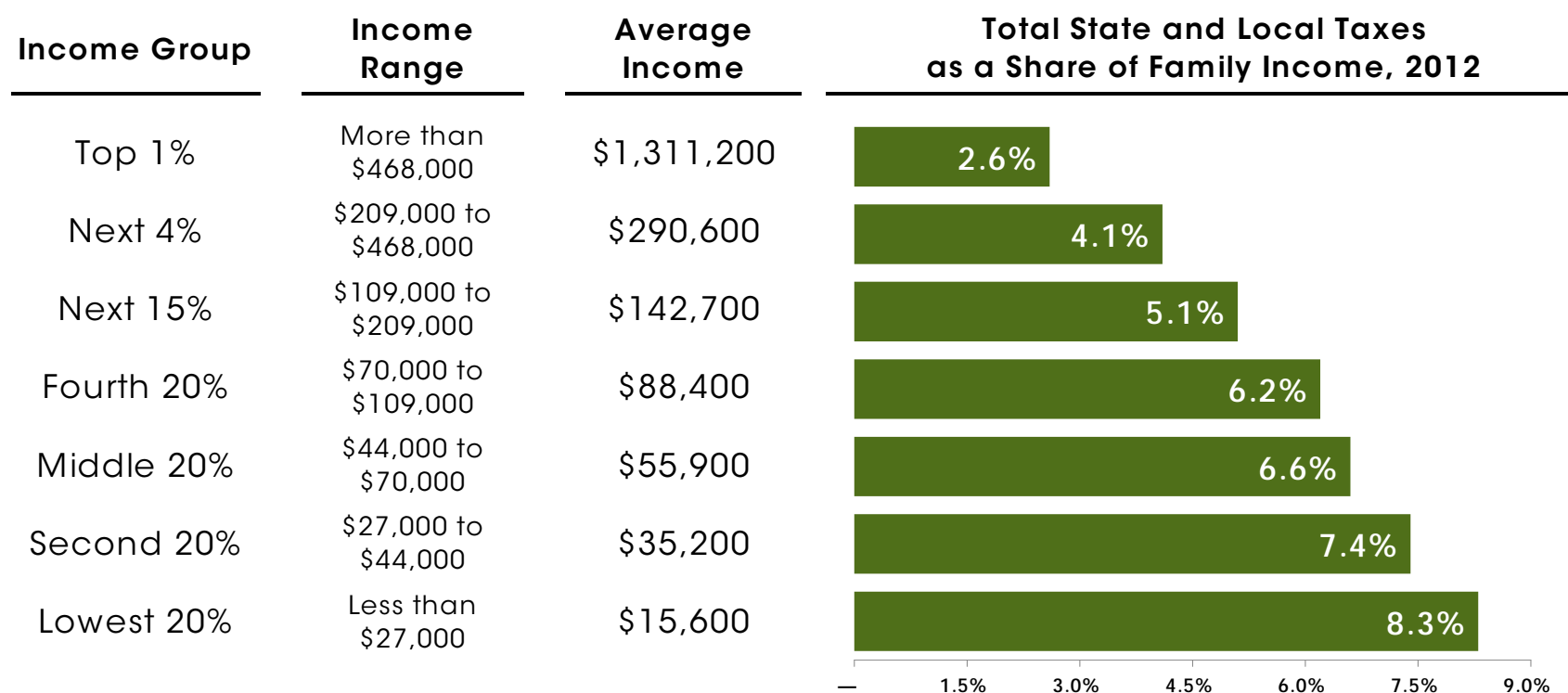
Source: NHFPI calculations based on US Census Bureau, US Bureau of Economic Analysis data

Note: Total state and local taxes in Alaska amounted to 24.2 percent of personal income in FY 2012

New Hampshire's Tax System is Regressive

Low-income Granite Staters have an effective tax rate that is more than three times that of the most well-off.

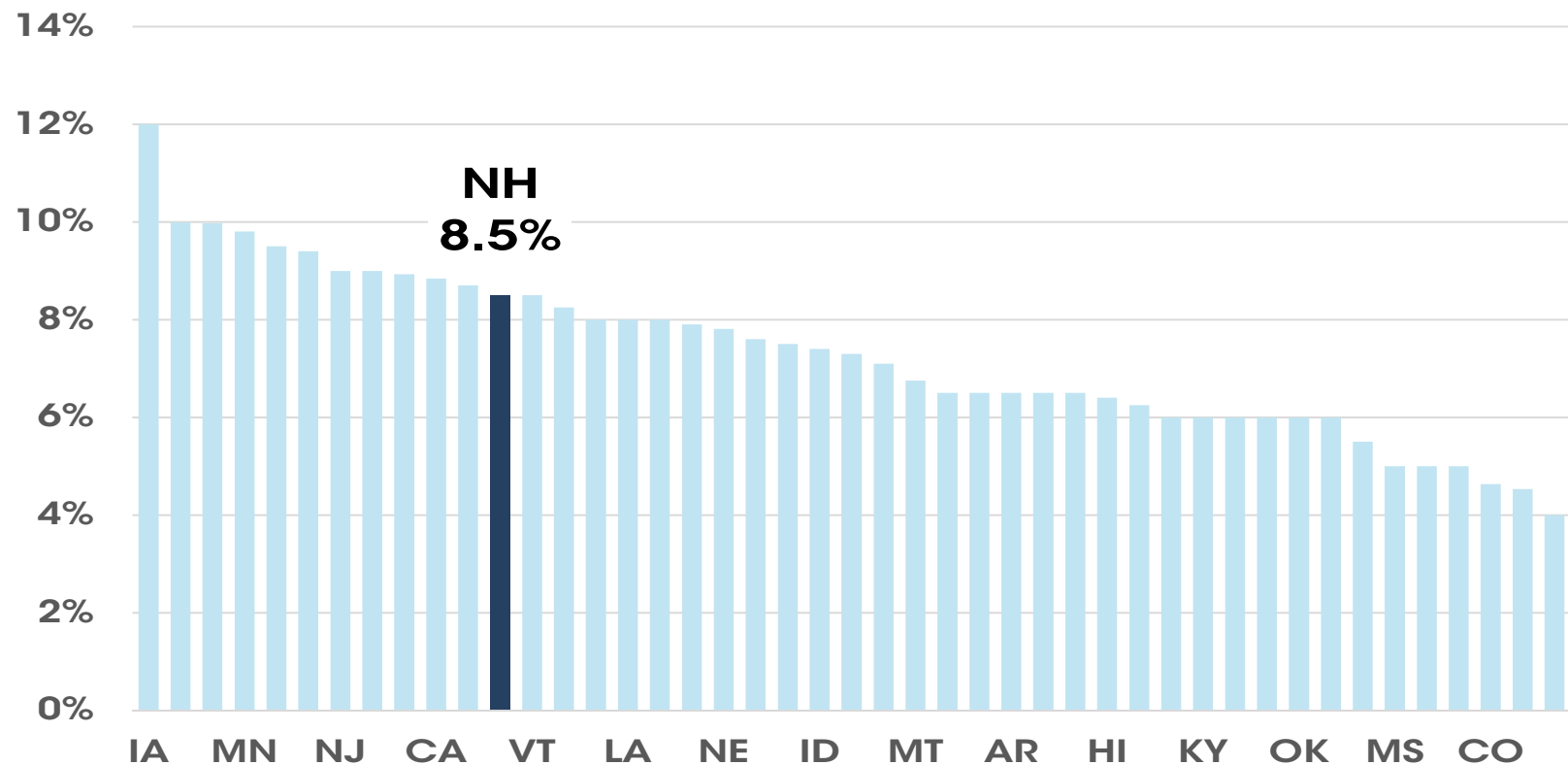
Total State and Local Taxes in New Hampshire, Non-Elderly Taxpayers



Source: Institute on Taxation and Economic Policy

New Hampshire Business Tax Employs a Higher Statutory Rate than Many States...

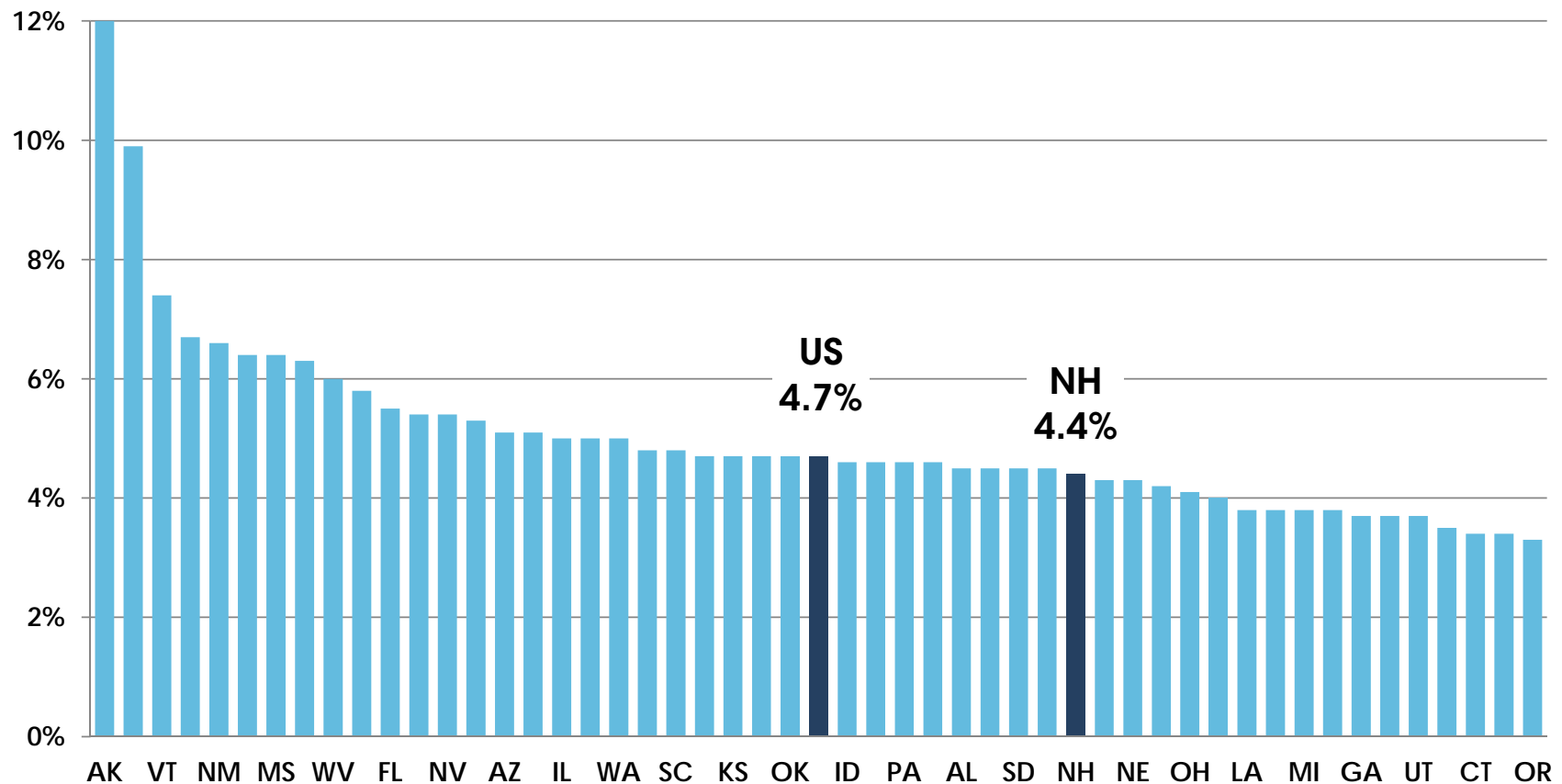
Highest Statutory Corporate Income Tax Rate, by State, 2014



Source: Urban-Brookings Tax Policy Center

...Yet, Business Taxation in NH Is Lower than in Most States

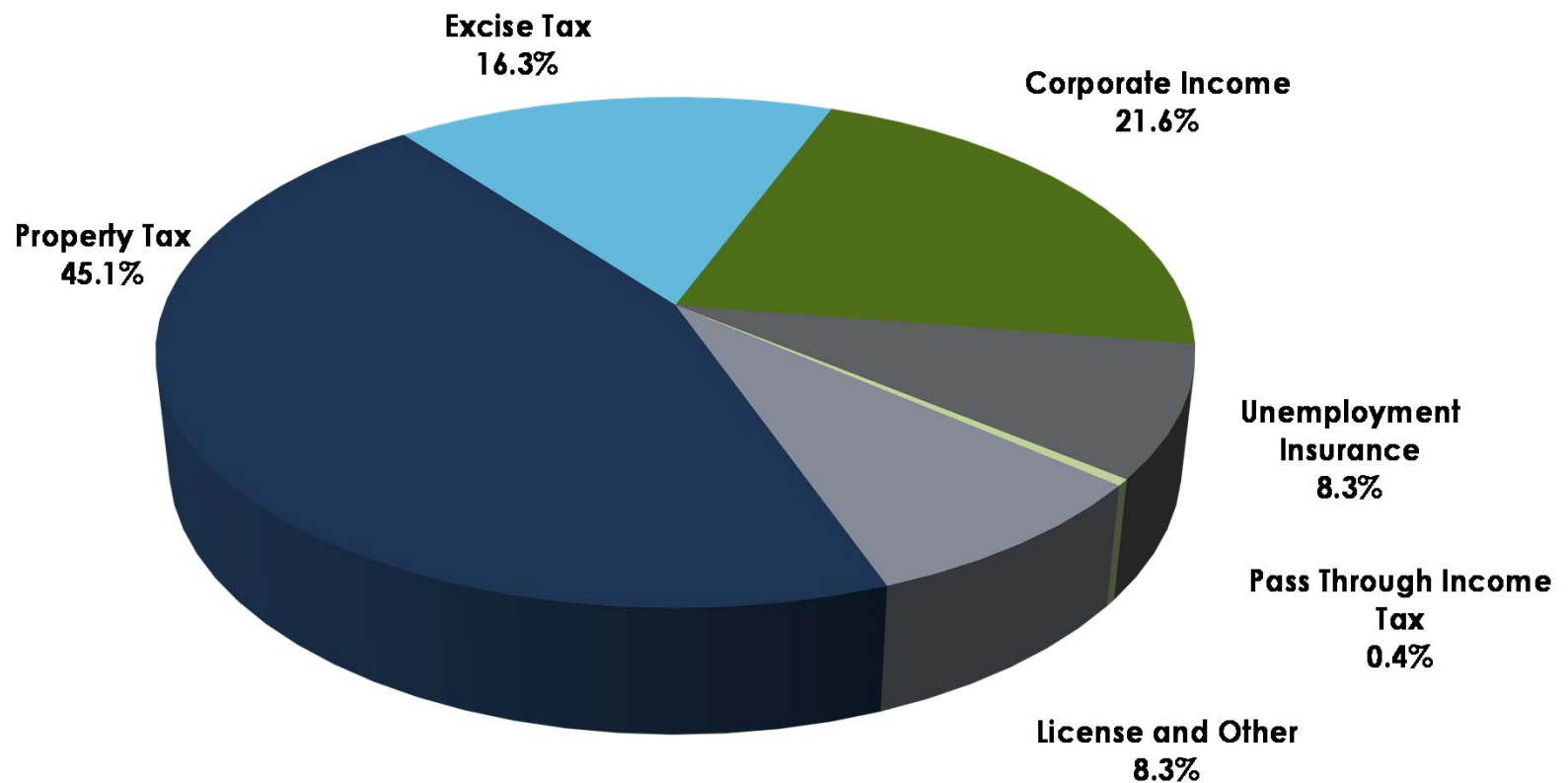
*Total State & Local Taxes Paid by Business
as a Share of Private Sector Gross State Product, FY 2013*



Source: Council on State Taxation, July 2014

State Business Taxes Are a Relatively Small Share of the Taxes Businesses Pay

Composition of State and Local Taxes Paid by New Hampshire Businesses, FY 2013



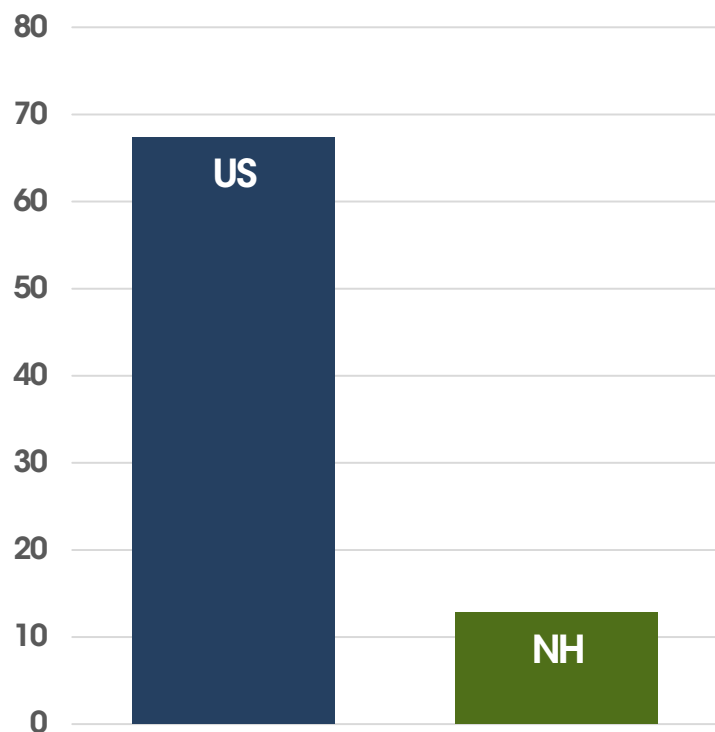
Source: Council on State Taxation, July 2014

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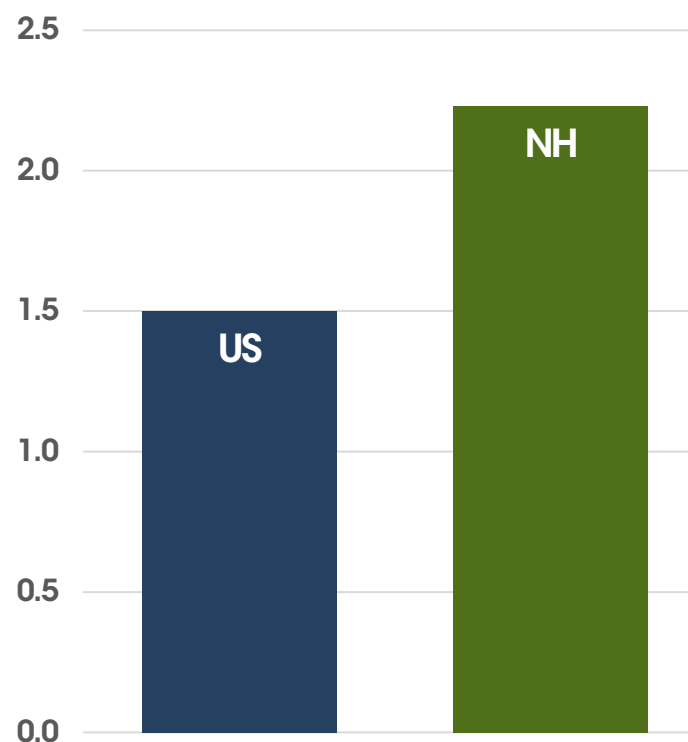
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New Hampshire Relies Less on Typical State Taxes, but Revenue Forecasts Slightly Less Reliable

"Big 3" Taxes as Pct. of Total Revenue



Median Pct. Forecast Error, 1987-2009



Source: Pew Center on the States, Rockefeller Institute of Government



Promising Approaches for Improving Revenue Estimation Process

- Analyze errors and refine assumptions
- Make frequent estimates
- Ensure independence from the political process
- Add expertise from outside government

Source: Pew Center on the States, Rockefeller Institute of Government



Best Practices in Revenue Estimation

- Governor and Legislature should jointly produce revenue estimate.
- Forecasting body should include outside experts.
- Forecast and its assumptions should be published and made easily accessible on the Internet.
- Meetings of forecasting body should be open to public.
- Estimates should be revised during the year.

Source: Center on Budget and Policy Priorities, September 2014



economic opportunity, prosperity, and security for all New Hampshire residents

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