

Joint Economic and Fiscal Orientation

House and Senate Finance Committees
House and Senate Ways & Means Committees

New Hampshire Department of
Revenue Administration

January 14, 2015

Introduction

- The Department of Revenue Administration(DRA) administers 16 taxes for the State of NH, representing more than 80% of the revenues collected for the general and education trust funds.
- The DRA has important insights into the performance of the state's most significant revenue sources, but lacks capacity to perform more complex economic analysis.
- Presentation Outline:
 - Trend vs. Plan
 - Year to Date revenues
 - Factors affecting taxes

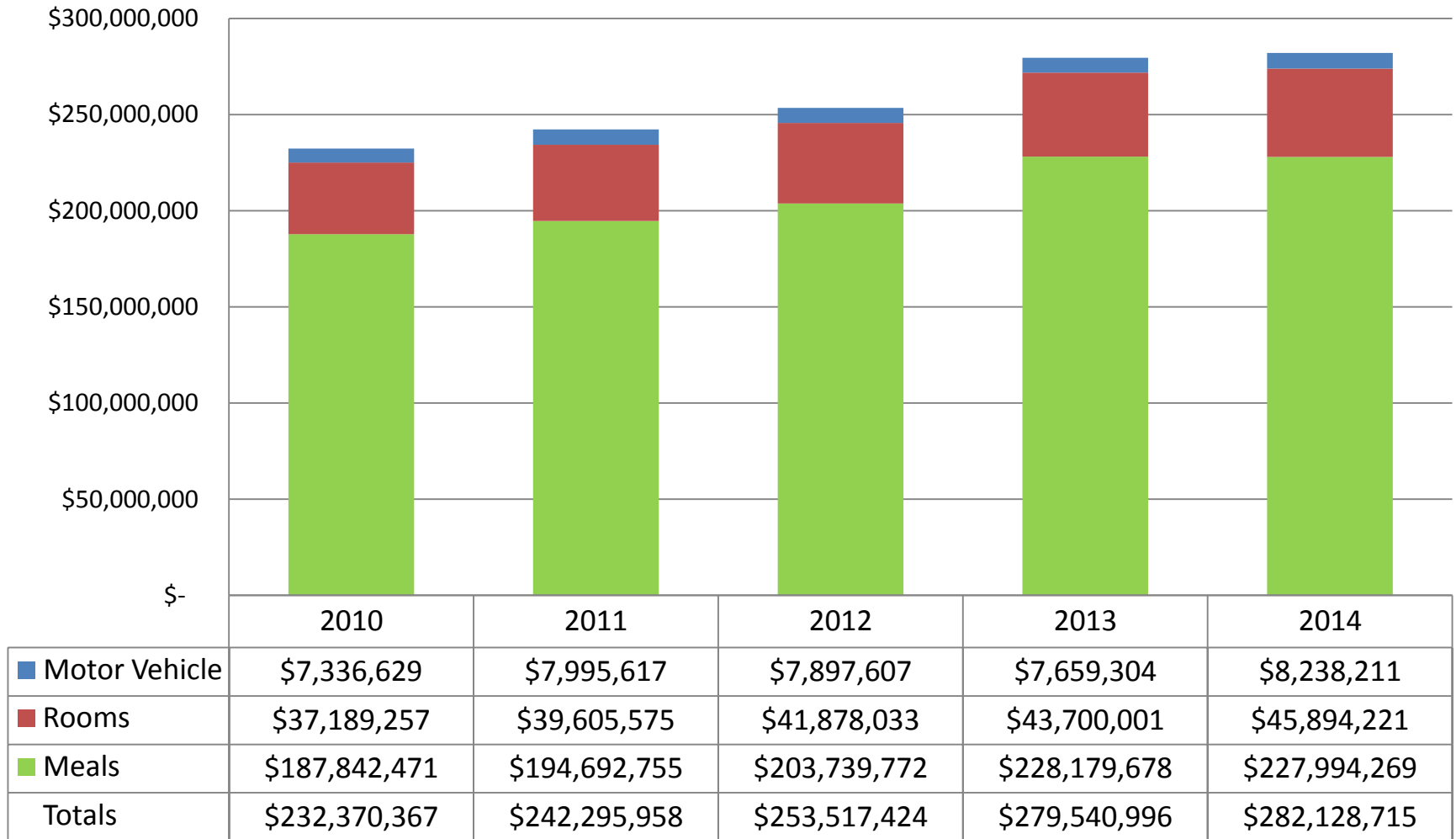
Meals & Rentals Tax (M&R)

- M&R Tax serves as a good pulse of the economy as a monthly tax that gives an immediate response to how the economy is doing
- The School Building Aid debt service (SBA) is a monthly transfer from the gross M&R revenue. The transfer has averaged \$1.0 million a month since FY2011 and has been very stable over the last several years (monthly transfers: FY11 \$419K, FY12 \$1.2M, FY13 \$1.2M, FY14 \$1.2M, FY15 \$1.1M)
- Net M&R Tax revenue has consistently increased over the last four years
 - 1.6% increase in FY2012 over FY2011
 - 3.6% increase in FY2013 over FY2012
 - 5.1% increase in FY2014 over FY2013
 - FY2015 actual revenue for the 1st half of the fiscal year is 3.7% above FY2015 plan and 5.9% above FY2014 year to date
- Factors that can affect the M&R tax are:
 - Weather (sunny summers, colorful fall foliage, snowy winters)
 - Economy (When the economy is thriving M&R tax revenue is usually up)
 - Unemployment (US = 5.8%; NH = 4.1% for November 2014 rates vs. US = 7.0%; NH = 5.2% for November 2013 rates¹)
 - Travel /Tourism (Visitor trips were up 6.8% from FY2013 to FY2014²)

¹Source: Economic & Labor Market Information Bureau, NHES 16-Dec-14

²Source: Travel Barometer, Fiscal Year 2014, Institute for NH studies

M&R Tax Revenue Breakdown

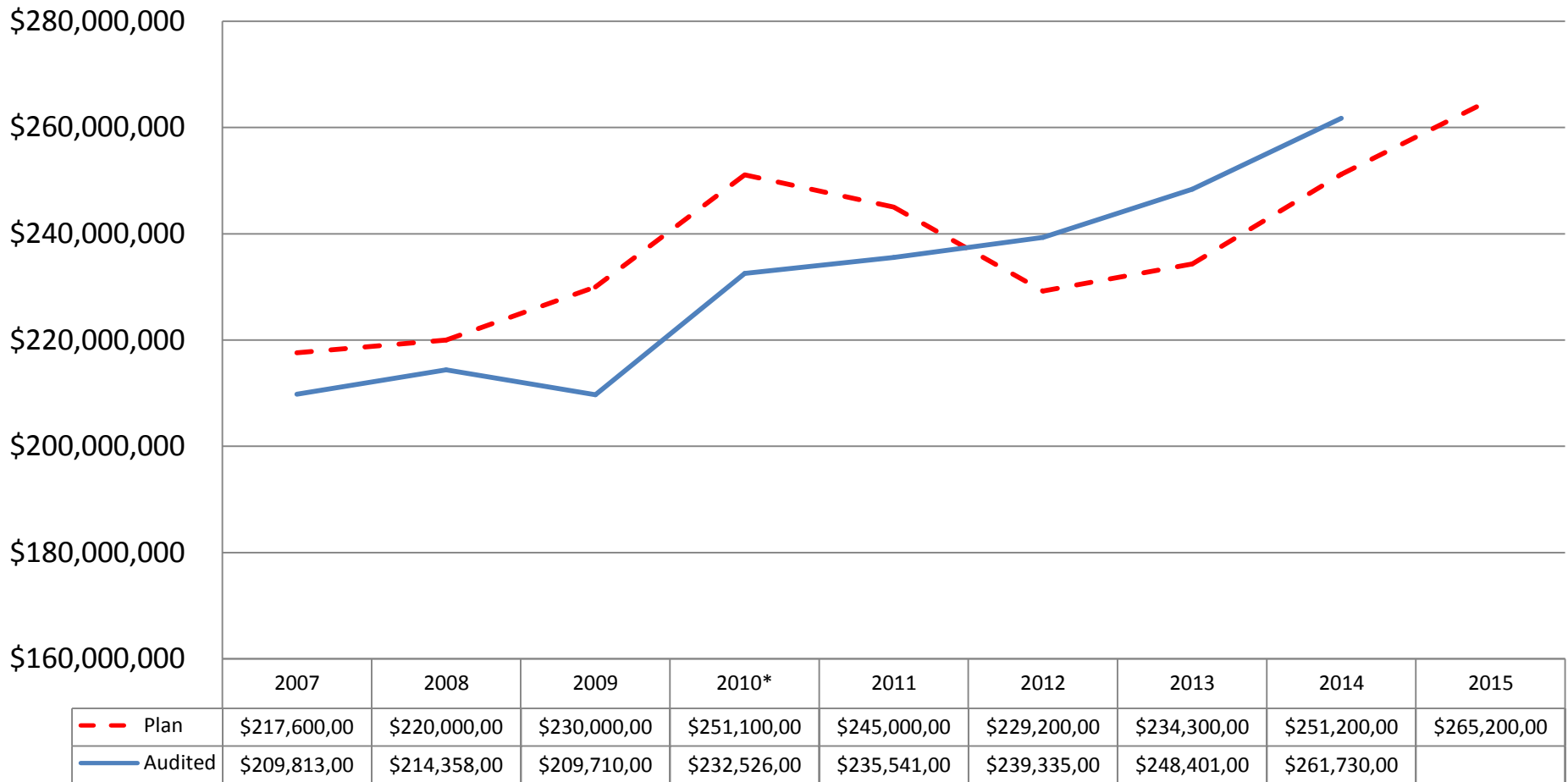


NOTE: Data shown are from the DRA 2014 Annual report and are not net of refunds , commissions or School Building Aid.

M&R Audited Revenue

vs.

Plan Revenue



*Tax Rate changed from 8% to 9% effective July 1, 2009

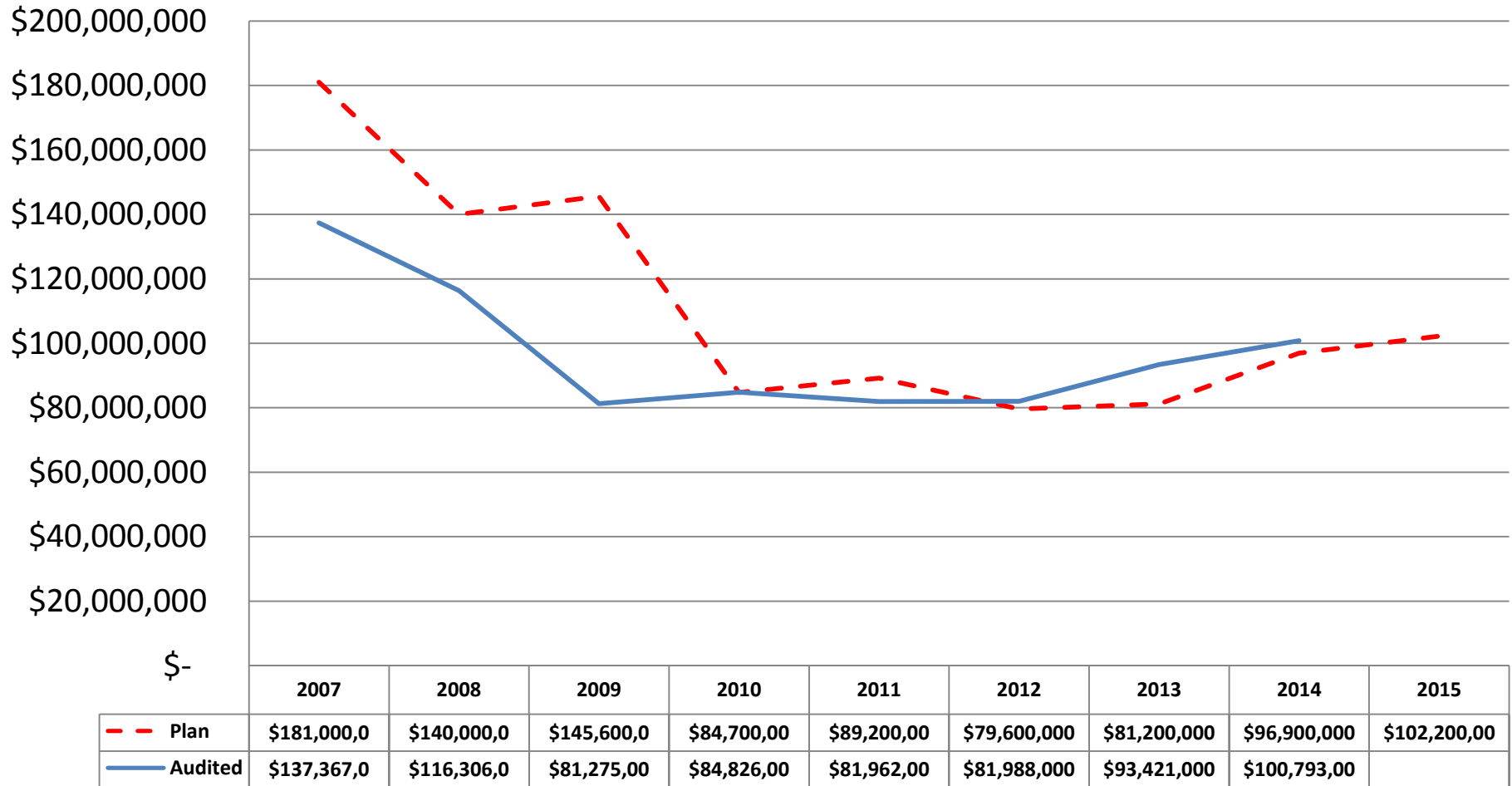
Real Estate Transfer Tax (RETT)

- RETT serves as a good pulse of the economy as a monthly tax that gives an immediate response to how the economy is doing
- RETT has increased dramatically over the last three years
 - 0% increase in FY2012 over FY2011
 - 12.2% increase in FY2013 over FY2012
 - 7.3 % increase in FY2014 over FY2013
 - FY2015 actual revenue for the 1st half of the fiscal year is 17.4% above FY2015 plan and 19.2% above FY2014 year to date
- Factors that affect RETT:
 - Economy (economic trends and cycles)
 - Interest Rates (4.327% NH 30-year fixed mortgage rate for May 2014 vs. 3.658% NH 30-year fixed mortgage rate for May 2013¹)
 - Property Values (\$155.2 billion was the total equalized value for NH April 1, 2013 vs. \$151.7 billion on April 1, 2012²)

¹Source: Mortgage Rate Trends and Analysis, HSH.com, 1-12-15

²Source: Equalization Survey with Utilities and Railroad Summary, DRA 2014 Annual Report

RETT Audited Revenue vs. Plan Revenue



Tobacco Tax

- Tobacco Tax consists of stamp sales and sales of Other Tobacco Product (OTP)
- Tobacco Tax trend over the last four years
 - 5.5% decrease in FY2012 over FY2011 (decreased rate)
 - 4.4% decrease in FY2013 over FY2012 (same rate)
 - 6.4% increase in FY2014 over FY2013 (increased rate)
 - FY2015 actual revenue for the 1st half of the fiscal year is 6.6% above FY2015 plan and 0.1% above FY2014 year to date
- In the last 10 years there has been a shift in the composition of Tobacco Tax revenue.
 - FY2005 to FY2009 OTP revenue made up 1% of total Tobacco Tax revenue
 - FY2010 to FY2014 OTP revenue made up 4% of total Tobacco Tax revenue
- Factors that affect Tobacco Tax:
 - Cross border elasticity
 - Downward trend of stamp sales

Tobacco Stamp Rates

FY2007

A Stamp Rate = \$1.00

B Stamp Rate = \$.80

FY 2008

A Stamp Rate = \$1.35

B Stamp Rate = \$1.08

FY2009

A Stamp Rate = \$1.65

B Stamp Rate = \$1.33

FY2010 – FY2011

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78

FY2012 – FY2013

A Stamp Rate = \$2.10

B Stamp Rate = \$1.68

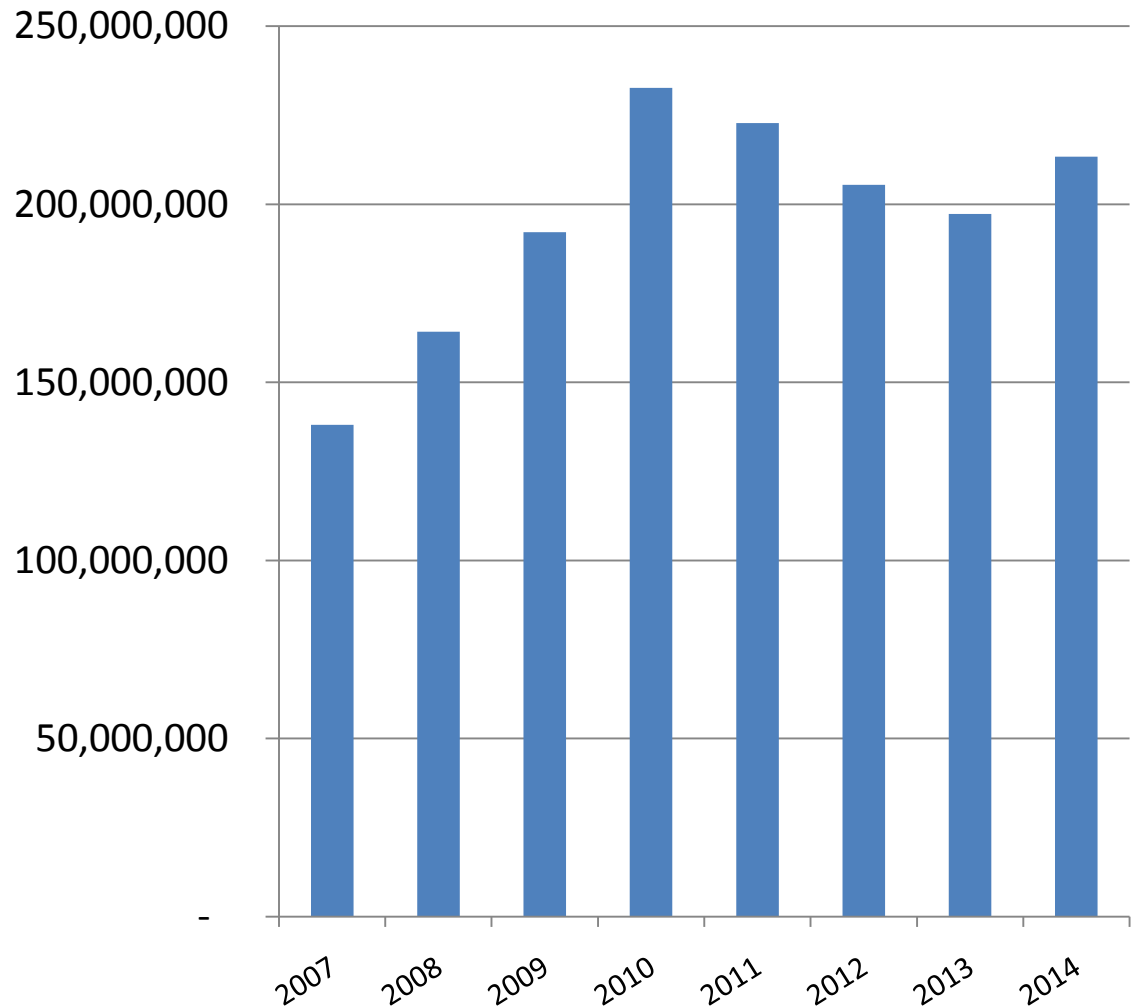
FY2014 – Current

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78

Tobacco Tax Stamp Revenue

(DRA Cash Basis)



Smokeless Tobacco Rates (Wholesale Price)

FY2007

19.00%

FY 2008

19.00%

FY2009

19.00%

FY2010

48.59%

FY2011

65.03%

FY2012

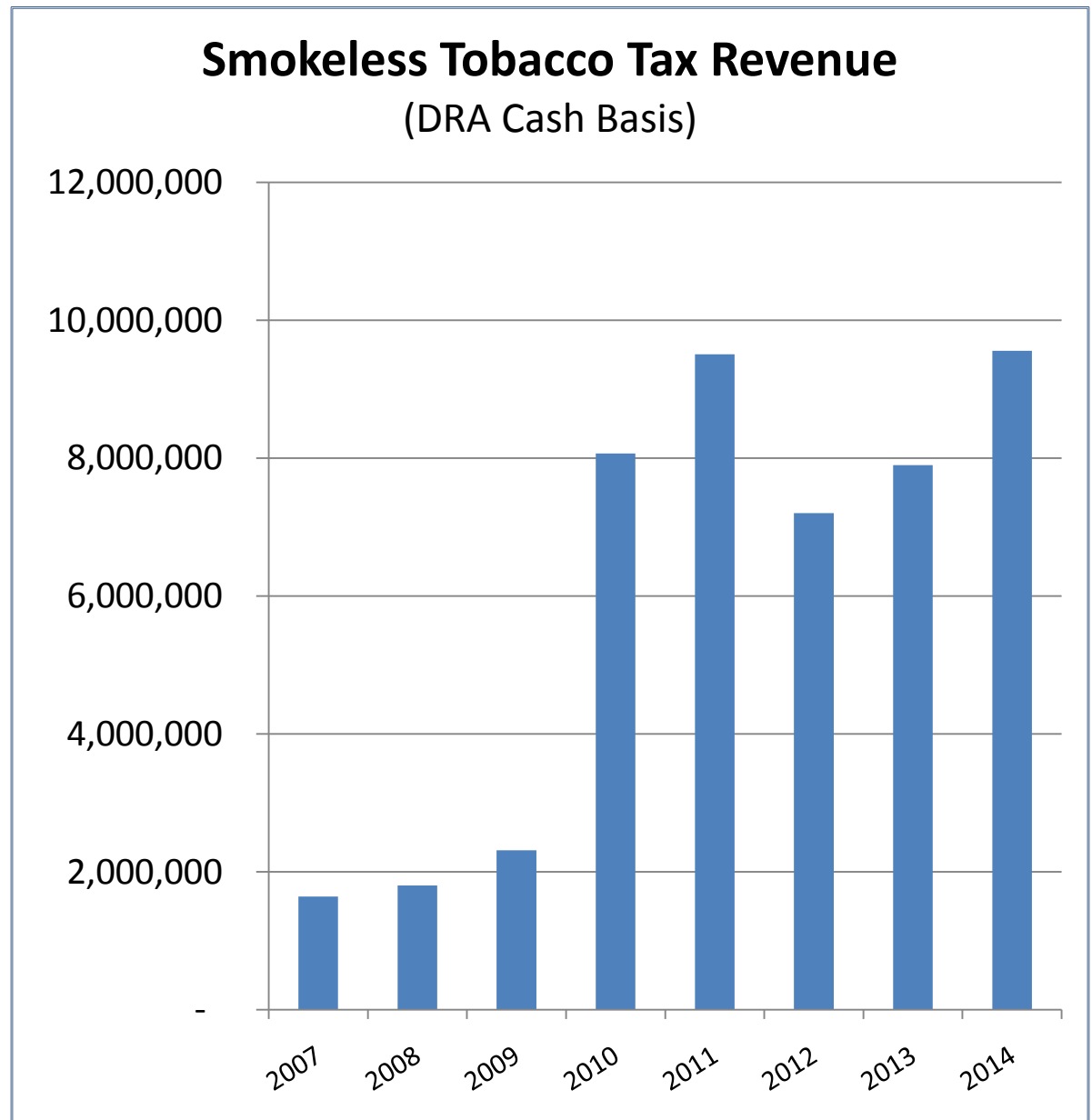
48.00%

FY2013

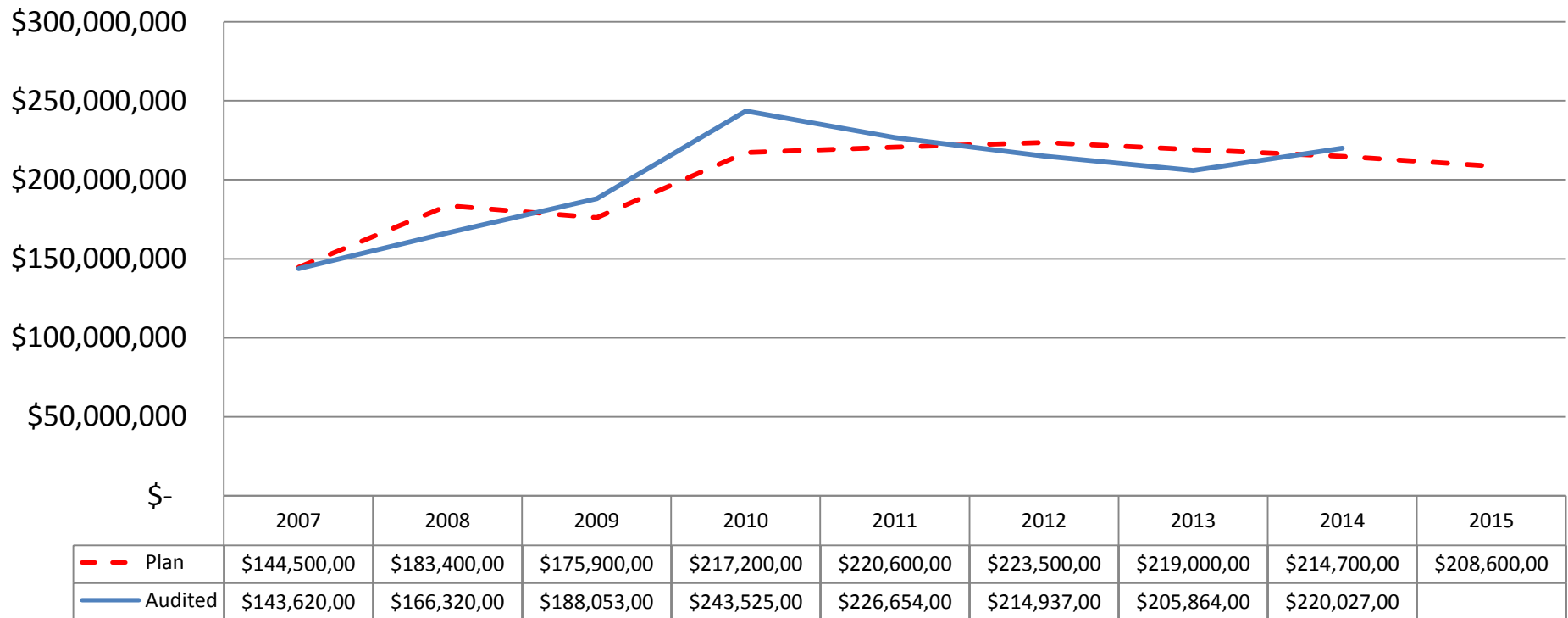
48.00%

FY2014 – Current

65.03%



Tobacco Tax Audited Revenue vs. Plan Revenue



Note: See slides 9 & 10 for rate changes

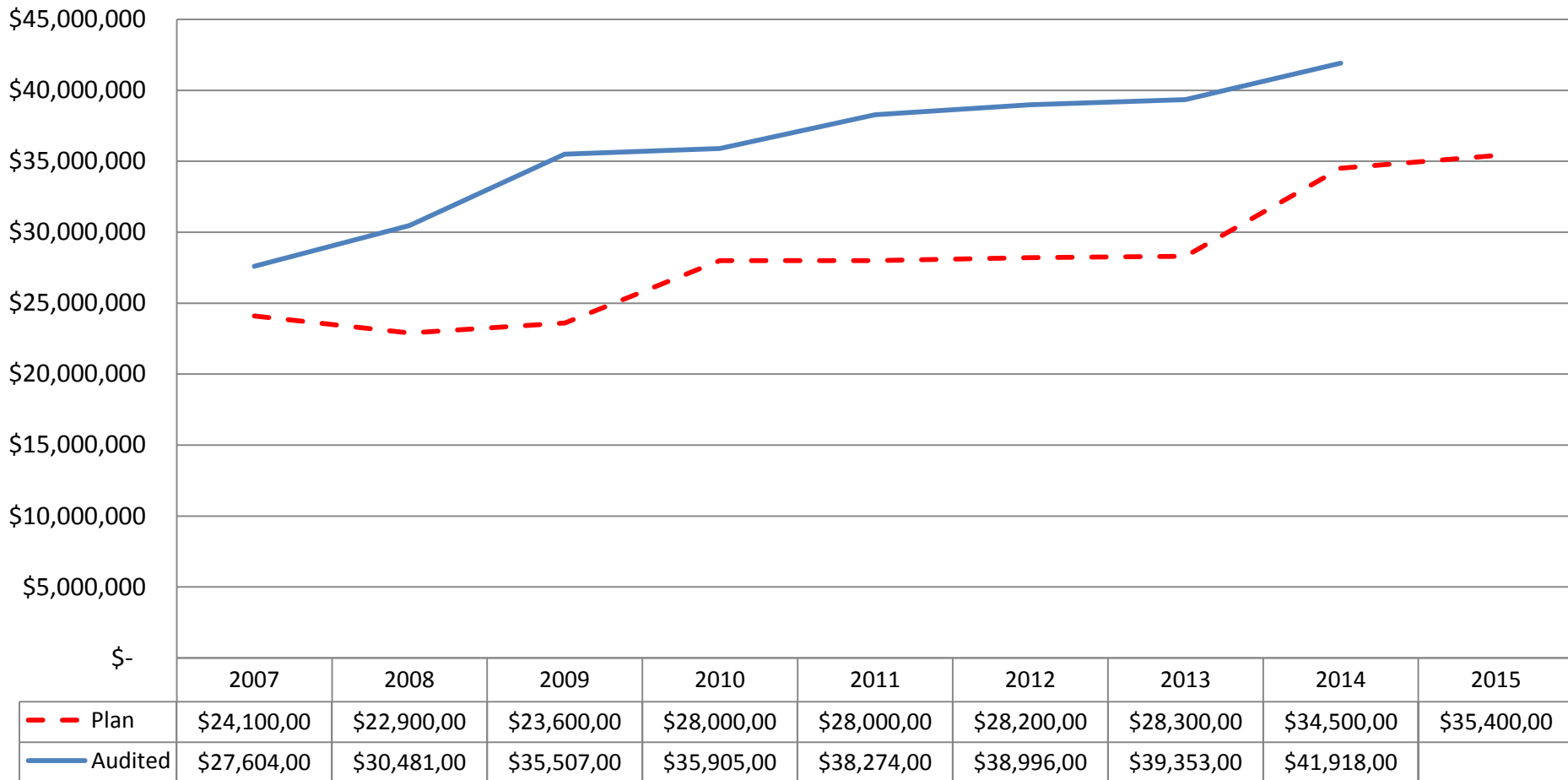
Utility Property Tax (UPT)

- UPT revenue has consistently increased over the last four years
 - 1.9% increase for FY2012 over FY2011
 - 0.9% increase for FY2013 over FY2012
 - 6.1% increase for FY2014 over FY2013
 - FY2015 revenue for the 1st half of the fiscal year is 15.3% above FY2015 plan and 25.9% above FY2014 year to date
- 2013 tax period assessments = \$34.6 million (Utility Prop value \$5.3 billion) and 2014 tax period assessments = \$39.9 million (Utility Prop value \$6.1 billion)
- Factors that can affect UPT:
 - Development of new renewable energy facilities
 - Valuation of utility property
 - Energy pricing, supply and demand

UPT Audited Revenue

vs.

Plan Revenue



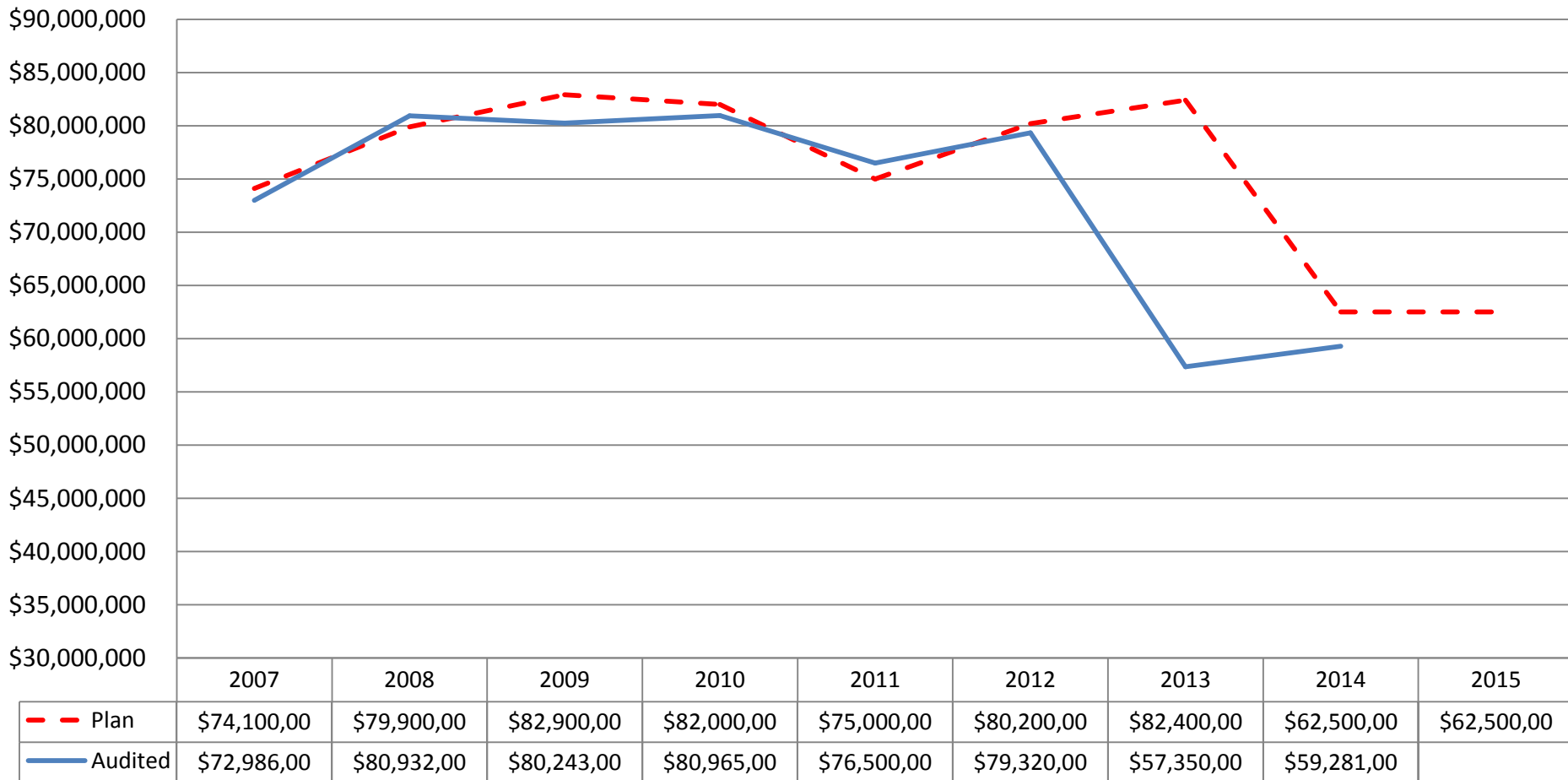
Communications Services Tax (CST)

- FY2009 – FY2012 – CST revenue was between \$77 million and \$81 million per year
- FY2013 and FY2014 – CST revenue was between \$57 million and \$59 million per year
- FY2015 revenue for the 1st half of the fiscal year is 3.9% below FY2015 plan, but is 2.4% above FY2014 year to date
- Factors affecting CST:
 - 2012 exclusion of charges for Internet access
 - Decrease in landlines
 - Prepaid communication service providers increased sales in NH by 50% from 2011 to 2013

CST Audited Revenue

vs.

Plan Revenue

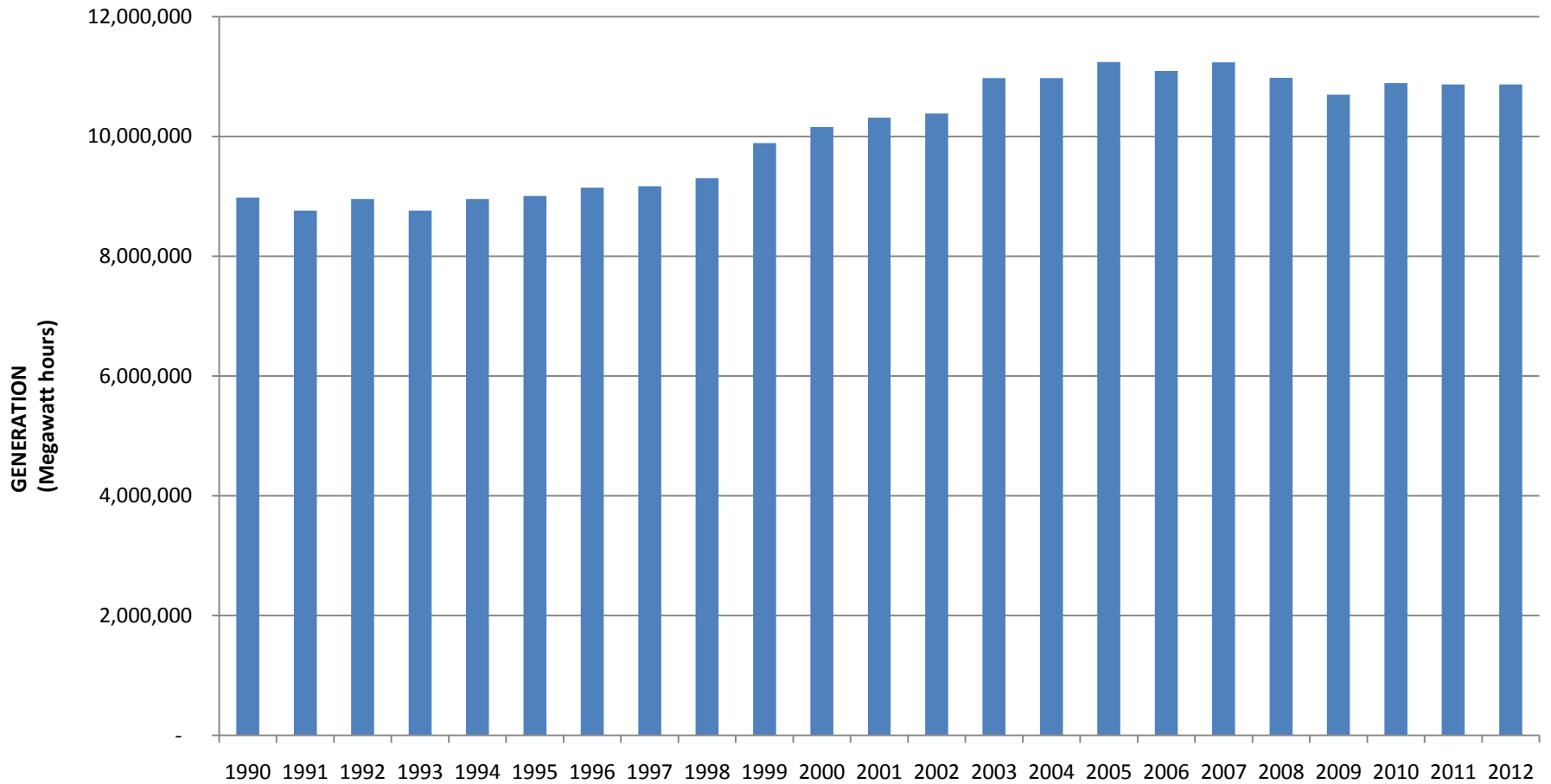


Electricity Consumption Tax (ECT)

- Has been a consistently stable revenue source over the last four years (\$0.00055 per kilowatt hour (usage based))
 - \$6.0 million in FY 2011
 - \$6.0 million in FY 2012
 - \$6.1 million in FY 2013
 - \$6.1 million in FY 2014
 - FY2015 revenue for the 1st half of the fiscal year is 3.3% below FY2015 plan and 3.3% below FY2014 year to date
- Factors that can affect ECT:
 - Weather (AC/Heat usage)
 - Business growth or decline (largest users)

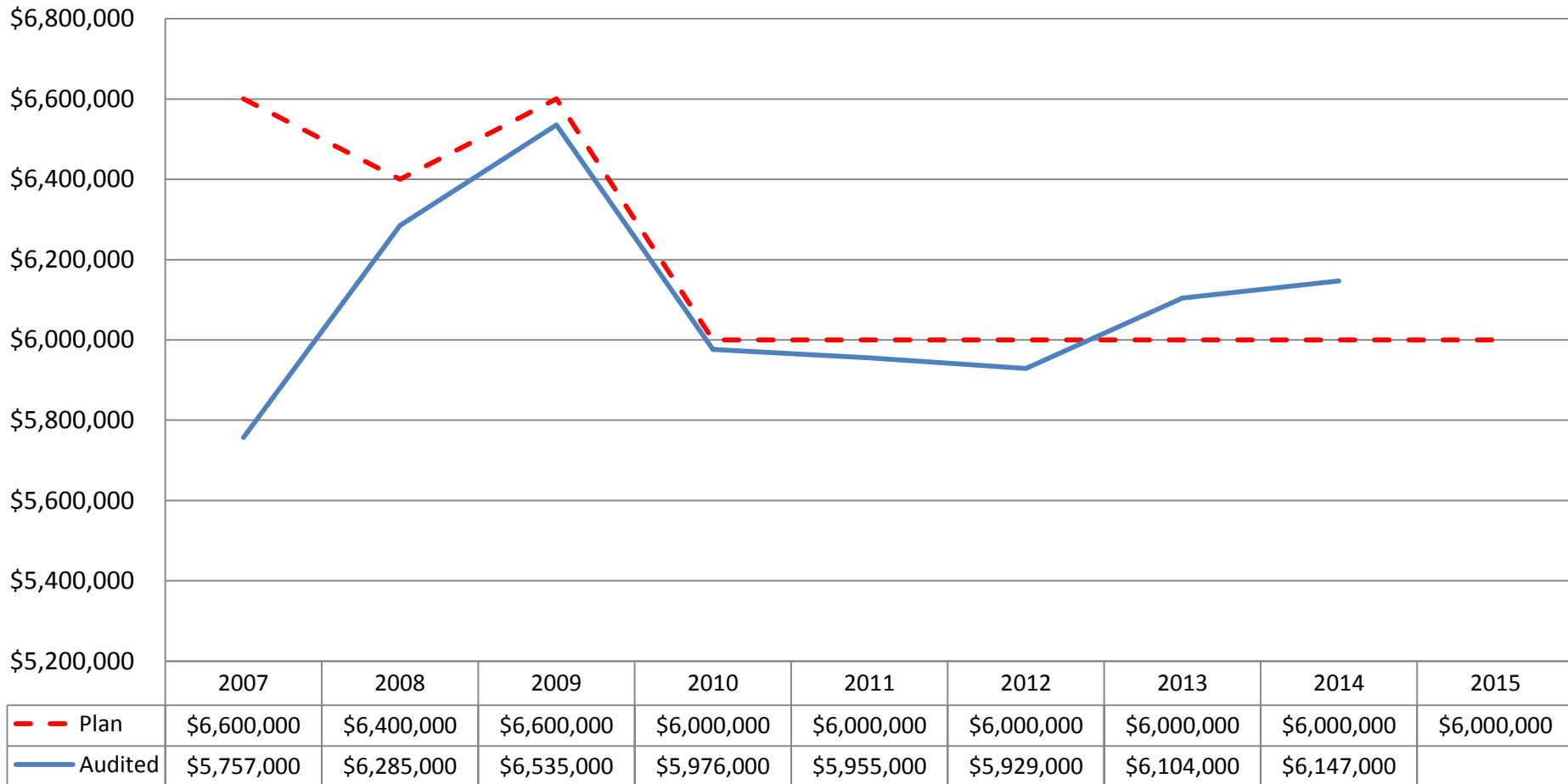
ECT

Total Electricity Consumption¹



¹Source: U.S. Energy Information Administration (EIA), December, 2013

ECT Audited Revenue vs. Plan Revenue



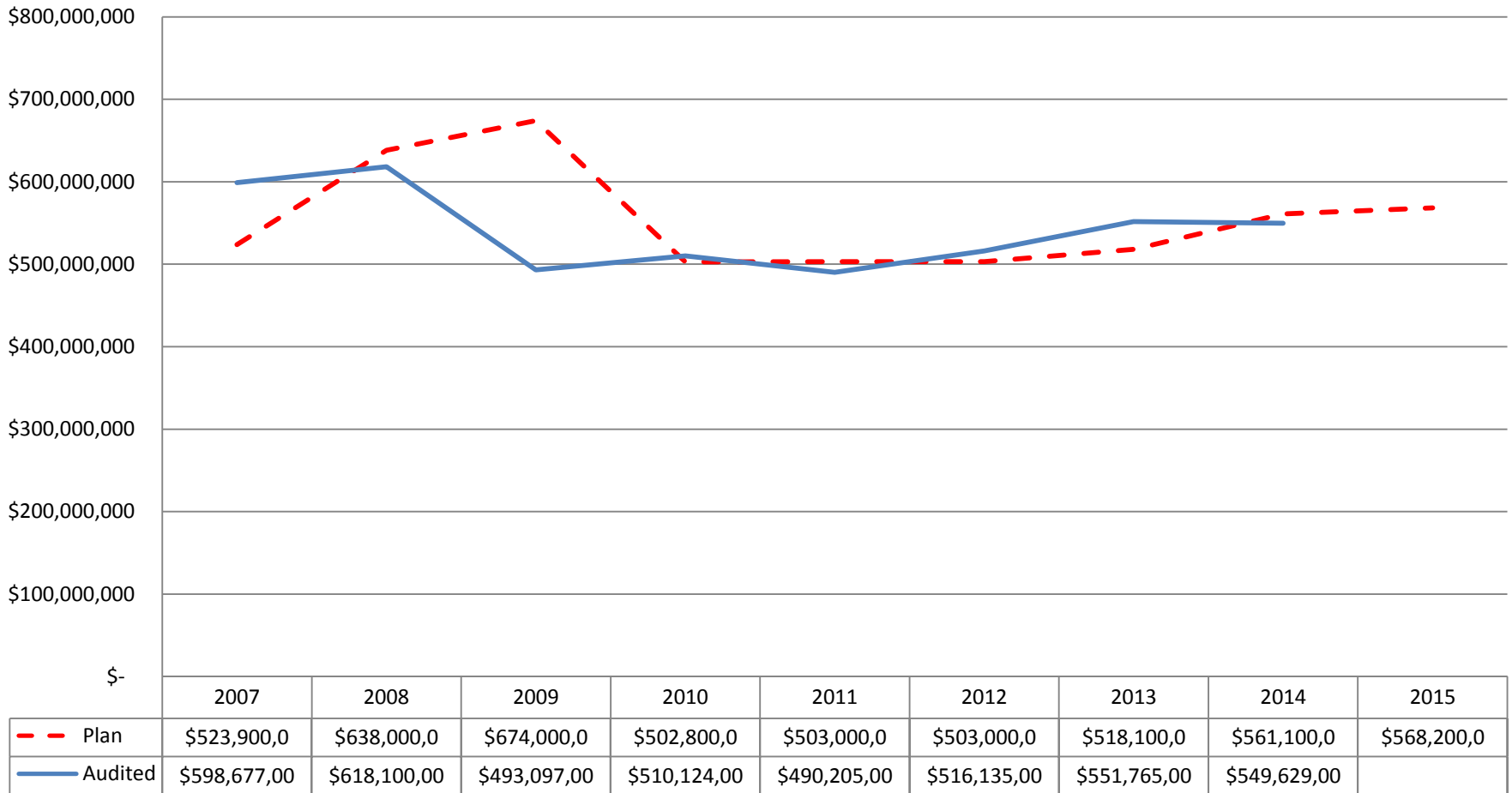
Business Taxes

- Business Taxes are composed of the Business Enterprise Tax and the Business Profits Tax
- Business Taxes trend over the last four years
 - 5.0% increase in FY2012 over FY2011
 - 6.5% increase in FY2013 over FY2012
 - 0.4% decrease in FY2014 over FY2013
 - FY2015 actual revenue for the 1st half of the fiscal year is 4.7% below FY2015 plan and 3.1% below FY2014 year to date
- Factors that affect Business Taxes:
 - Economic cycle
 - Credits
 - Statutory changes (NOL , §179 deduction, comp deduction burden shift, etc.)

Business Taxes FY2007 through FY2014

	Business Revenue (Audited)	Change in \$	Change in %
FY2007	\$598,677,000	\$ -	-
FY2008	\$618,100,000	\$ 19,423,000	3.1%
FY2009	\$491,097,000	\$ (127,003,000)	-25.9%
FY2010	\$510,124,000	\$ 19,027,000	3.7%
FY2011	\$490,205,000	\$ (19,919,000)	-4.1%
FY2012	\$516,135,000	\$ 25,930,000	5.0%
FY2013	\$551,765,000	\$ 35,630,000	6.5%
FY2014	\$549,629,000	\$ (2,136,000)	-0.4%

Business Taxes Audited Revenue vs. Plan Revenue



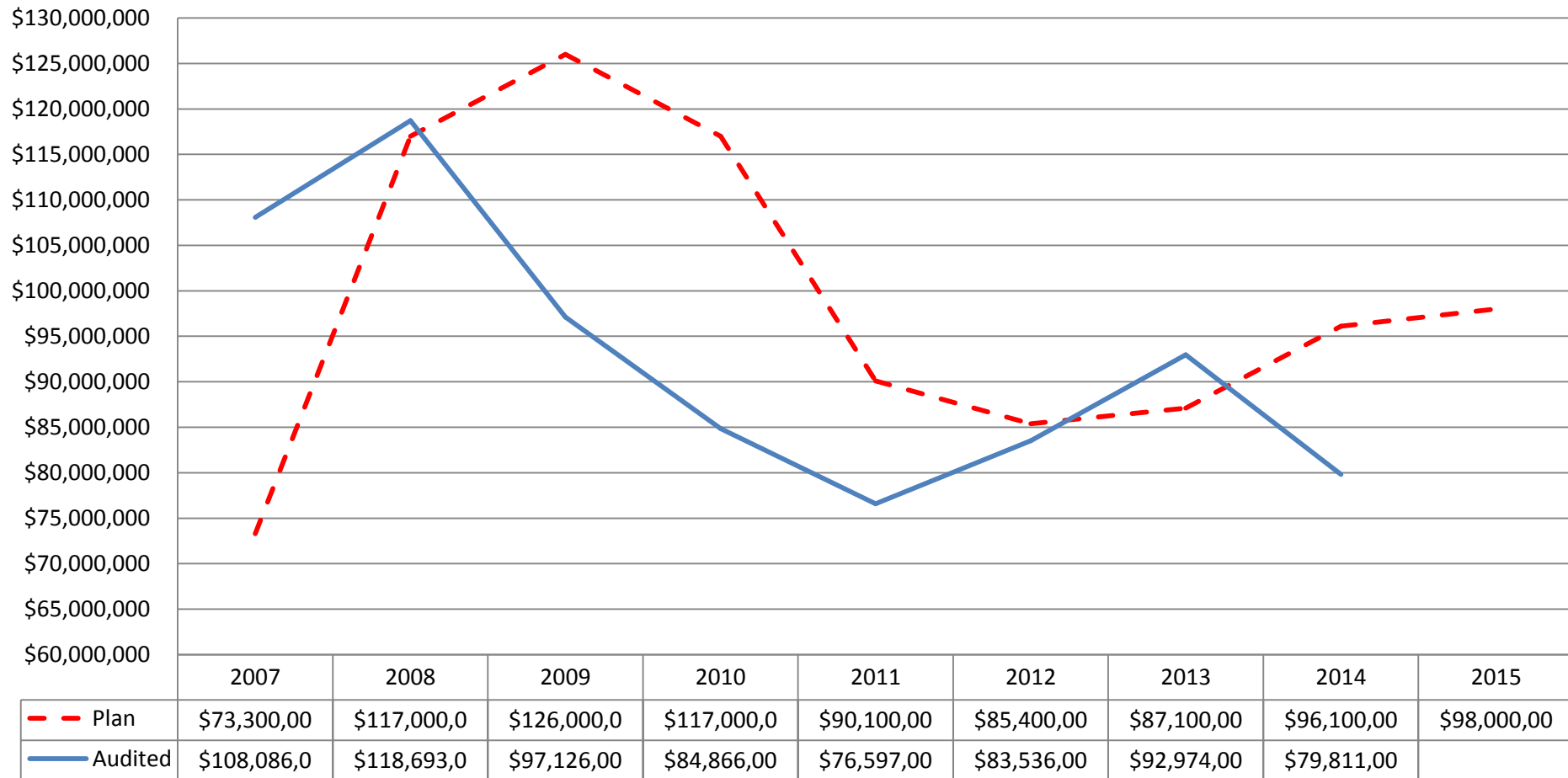
Interest & Dividends Tax (I&D)

- I&D Tax trend over the last four years
 - 8.3% increase in FY2012 over FY2011
 - 10.2% increase in FY2013 over FY2012
 - 16.5% decrease in FY2014 over FY2013
 - FY2015 actual revenue for the 1st half of the fiscal year is 13.9% below FY2015 plan and 6.5% above FY2014 year to date
- Factors that affect I&D:
 - Interest rates
 - Statutory changes (elimination of taxation of trusts)
 - Fiscal Cliff

I&D Audited Revenue

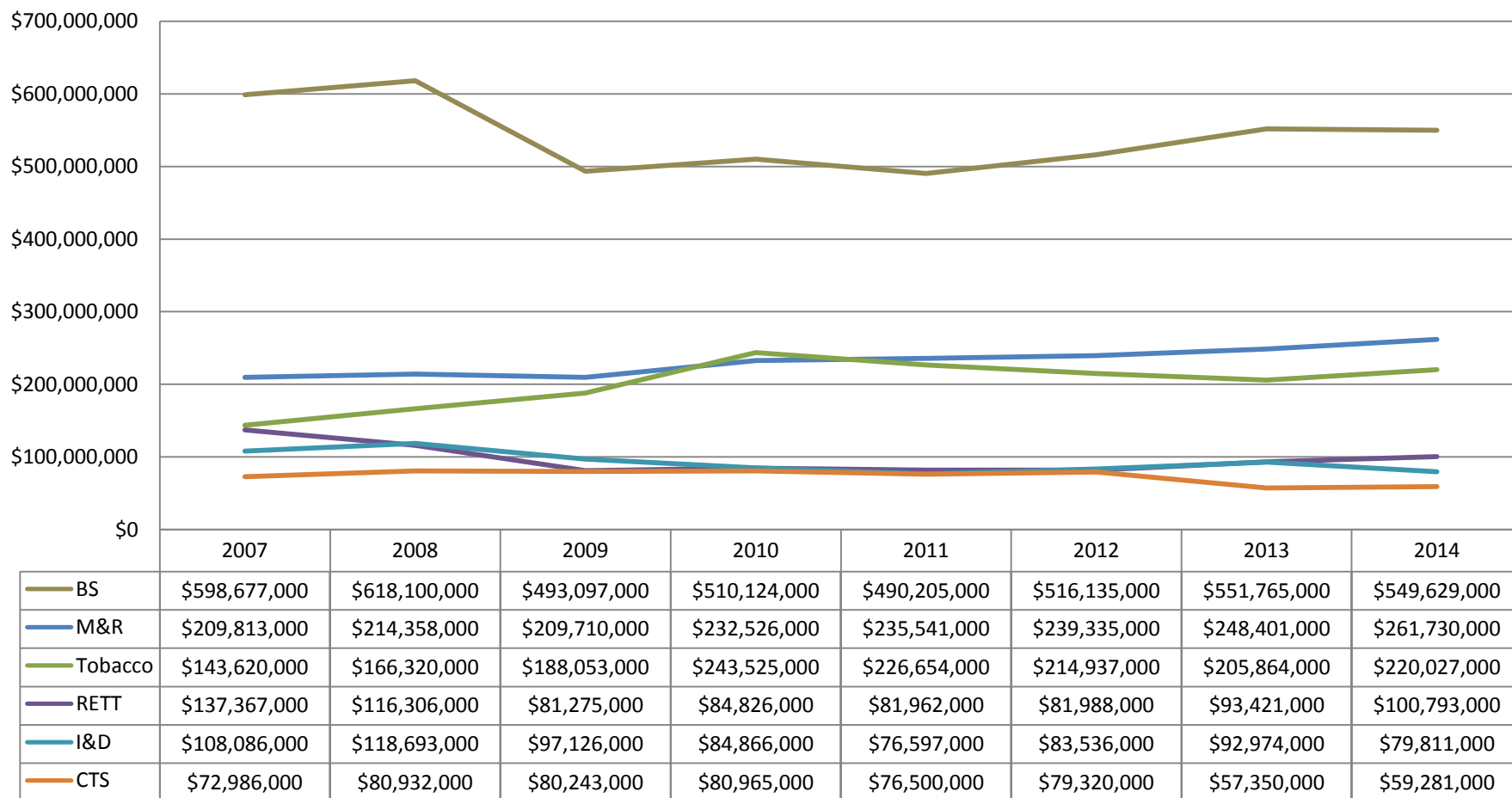
vs.

Plan Revenue



Revenue Trends Over the Years

(Audited)



Note: UPT & ECT are not included

FY2015 Tax Revenues through December 2014

Taxes	1 ST Half Actual	2 nd Half Plan	2 nd Half Plan as a % of Total Plan	Revenues Needed to Make Plan	Difference
Business	\$234,000,000	\$322,700,000	56.8%	\$334,200,000	\$11,500,000
M&R	\$155,000,000	\$116,000,000	43.7%	\$110,200,000	(\$5,800,000)
Tobacco	\$116,800,000	\$98,400,000	47.2%	\$91,800,000	(\$6,600,000)
RETT	\$68,300,000	\$44,000,000	43.1%	\$38,000,000	(\$6,000,000)
I&D	\$22,900,000	\$71,400,000	72.9%	\$75,100,000	\$3,700,000
CST	\$29,900,000	\$31,400,000	40.2%	\$32,600,000	\$1,200,000
UPT	\$20,400,000	\$17,700,000	50.0%	\$14,100,000	(\$3,600,000)
ECT	\$2,900,000	\$3,000,000	50.0%	\$3,100,000	\$100,000
				TOTAL	(\$5,500,000)