

# Joint Economic and Fiscal Orientation

House and Senate Finance Committees

House and Senate Ways & Means Committees

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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 more than 80% (\$1.8 billion) of the revenue 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 the capacity to perform more complex economic analysis
- Presentations Outline:
  - Trend vs. Plan
  - Year to date revenues
  - Factors affecting taxes

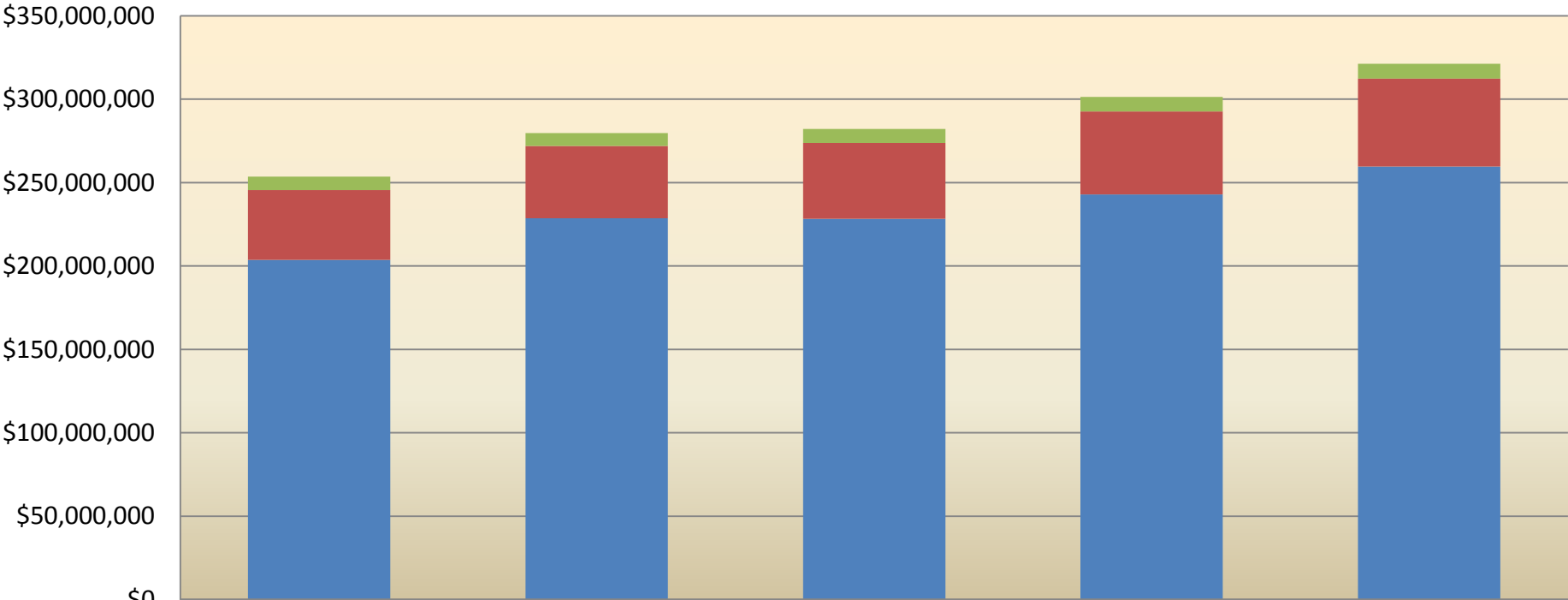
# Meals & Rentals (M&R) Tax

- 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
- 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 performing
- The School Building Aid debt service (SBA) is a monthly transfer from gross M&R revenue. The transfer has been \$1.2 million a month since FY2011 and is \$1.1 million in FY2017
- Net M&R Tax revenue has consistently increased over the last four years
  - 5.4% increase in FY2014 over FY2013
  - 7.4% increase in FY2015 over FY2014
  - 6.6% increase in FY2016 over FY2015
  - FY2017 actual revenue for the 1<sup>st</sup> half of the fiscal year is 3.0% above FY2017 plan and 5.2% above FY2016 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 = 4.4%; NH = 2.5% for November 2016 vs. US = 4.8%; NH = 3.0% for November 2015<sup>1</sup>)
    - Travel /Tourism (visitor trips were up 5.1% from FY2014 to FY2015<sup>2</sup>)

<sup>1</sup>Source: Economic & Labor Market Information Bureau, NHES Dec-16

<sup>2</sup>Source: Travel Barometer, Fiscal Year 2014, Institute for NH studies

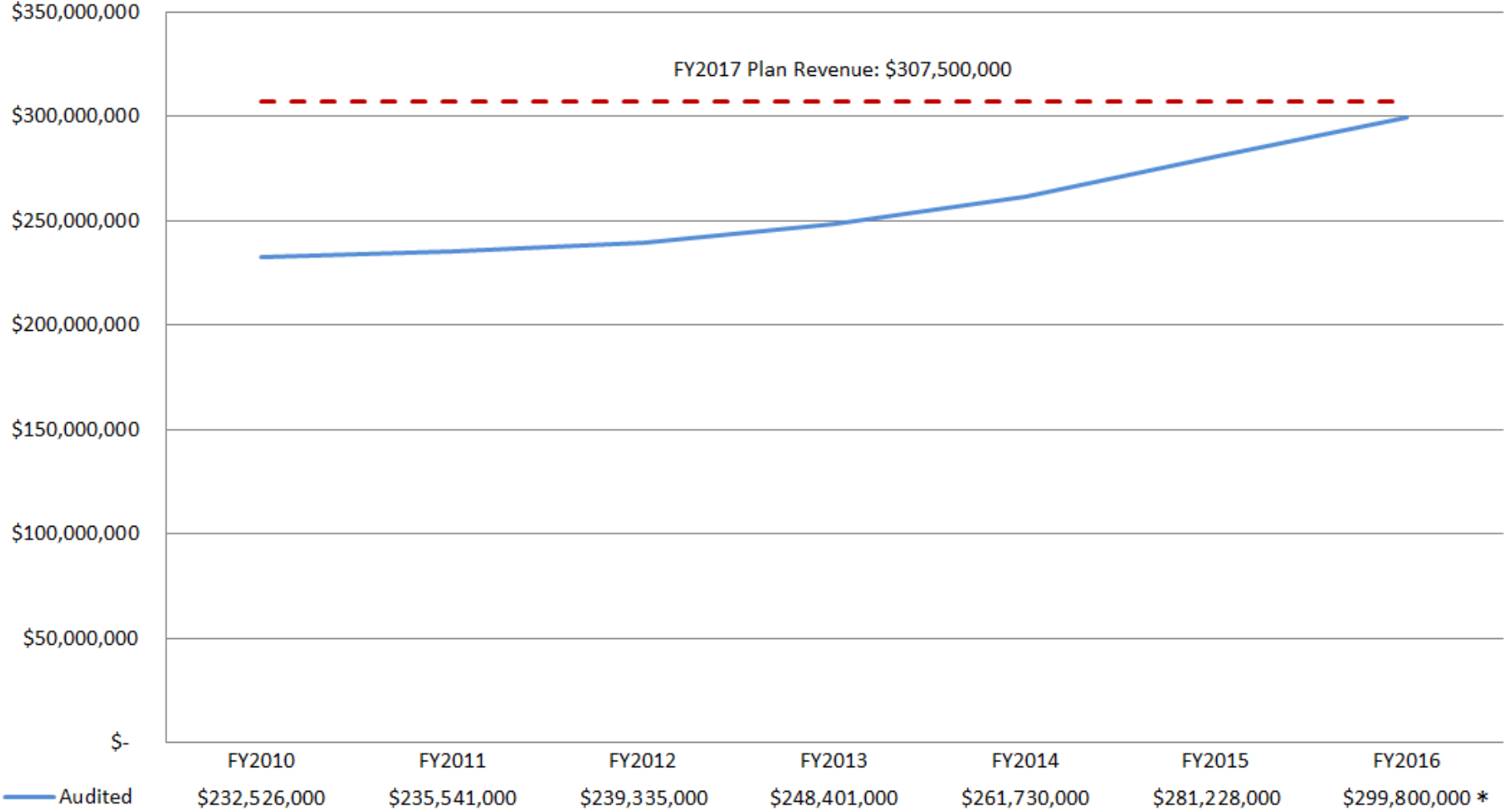
# M&R Tax Breakdown



	FY2012	FY2013	FY2014	FY2015	FY2016
Tax Rate	9%	9%	9%	9%	9%
Motor	\$7,909,195	\$7,659,766	\$8,259,090	\$8,704,008	\$8,799,514
Rentals	\$41,909,118	\$43,440,392	\$45,548,780	\$49,781,607	\$52,798,731
Meals	\$203,719,467	\$228,592,918	\$228,328,915	\$242,895,070	\$259,672,499

NOTE: Data shown represents tax reported prior to the Operator deducting the 3% commission pursuant to RSA 78-A:7, III and is not net of refunds or School Building Aid debt service.

# M&R Audited Revenue



\* FY2016 data is based on the DAS June 2016 Monthly Revenue Focus PRELIMINARY ACCRUAL-BASED revenues and is UNAUDITED and subject to change.

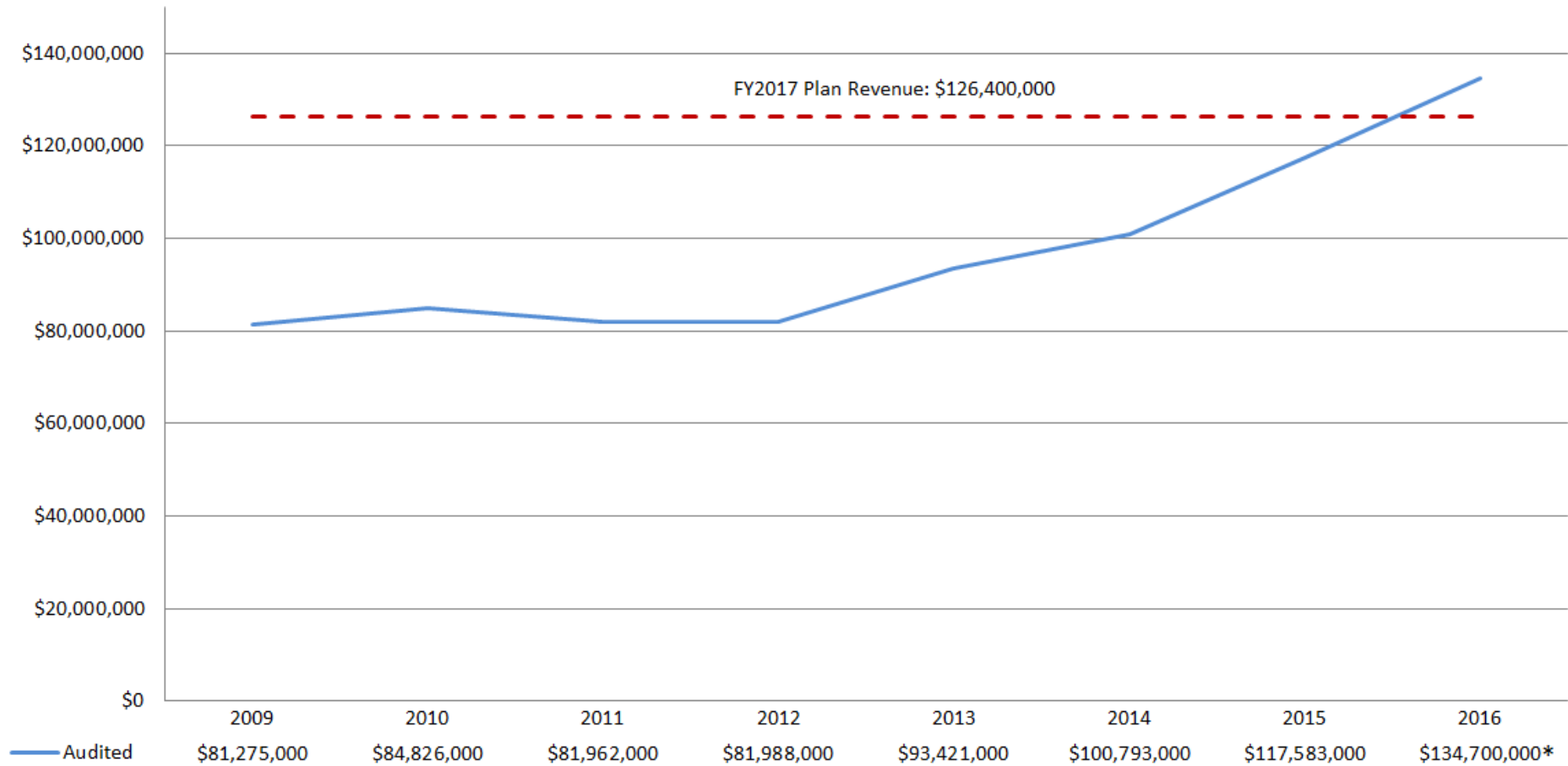
# Real Estate Transfer Tax (RETT)

- 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)
- RETT serves as a good pulse of the economy as a monthly tax that gives an immediate response to how the economy is performing
- RETT revenue has increased dramatically over the last three years
  - 7.9% increase in FY2014 over FY2013
  - 16.7% increase in FY2015 over FY2014
  - 14.6% increase in FY2016 over FY2015
  - FY2017 actual revenue for the 1<sup>st</sup> half of the fiscal year is 11.0% above FY2017 plan and 7.1% above FY2016 year to date
- Factors that affect RETT:
  - Economy (economic trends and cycles)
  - Interest Rates (4.300% NH 30-year fixed mortgage rate for December 2016 vs. 4.035% NH 30-year fixed mortgage rate for December 2015<sup>1</sup>)
  - Property Values (\$160.7 billion was the total equalized value for NH April 1, 2015 vs. \$146.5 billion on April 1, 2012<sup>2</sup>)

<sup>1</sup>Source: Mortgage Rate Trends and Analysis, HSH.com, 1-12-15

<sup>2</sup>Source: Equalization Survey with Utilities and Railroad Summary, DRA 2016 Annual Report

# RETT Audited Revenue



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# 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
- Tobacco Tax consists of stamp sales and sales of OTP
- Tobacco Tax revenue trend over the last few years
  - 5.2% decrease in FY2012 over FY2011 (decreased rate)
  - 4.2% decrease in FY2013 over FY2012 (same rate)
  - 6.9% increase in FY2014 over FY2013 (increased rate)
  - 0.6% increase in FY2015 over FY2014 (same rate)
  - 2.2% increase in FY2016 over FY2015 (same rate)
  - FY2017 actual revenue for the 1<sup>st</sup> half of the fiscal year is 5.9% below FY2017 plan and 6.4% below FY2016 year to date
- In the last 10 years there has been a shift in the composition of Tobacco Tax revenue
  - FY2006 to FY2010 OTP revenue made up 1.7% of total Tobacco Tax revenue
  - FY2011 to FY2016 OTP revenue made up 4.1% of total Tobacco Tax revenue
- Factors that affect Tobacco Tax:
  - Cross border elasticity
  - Downward trend of stamp sales in FY2017
  - E-Cigarette consumption



## 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

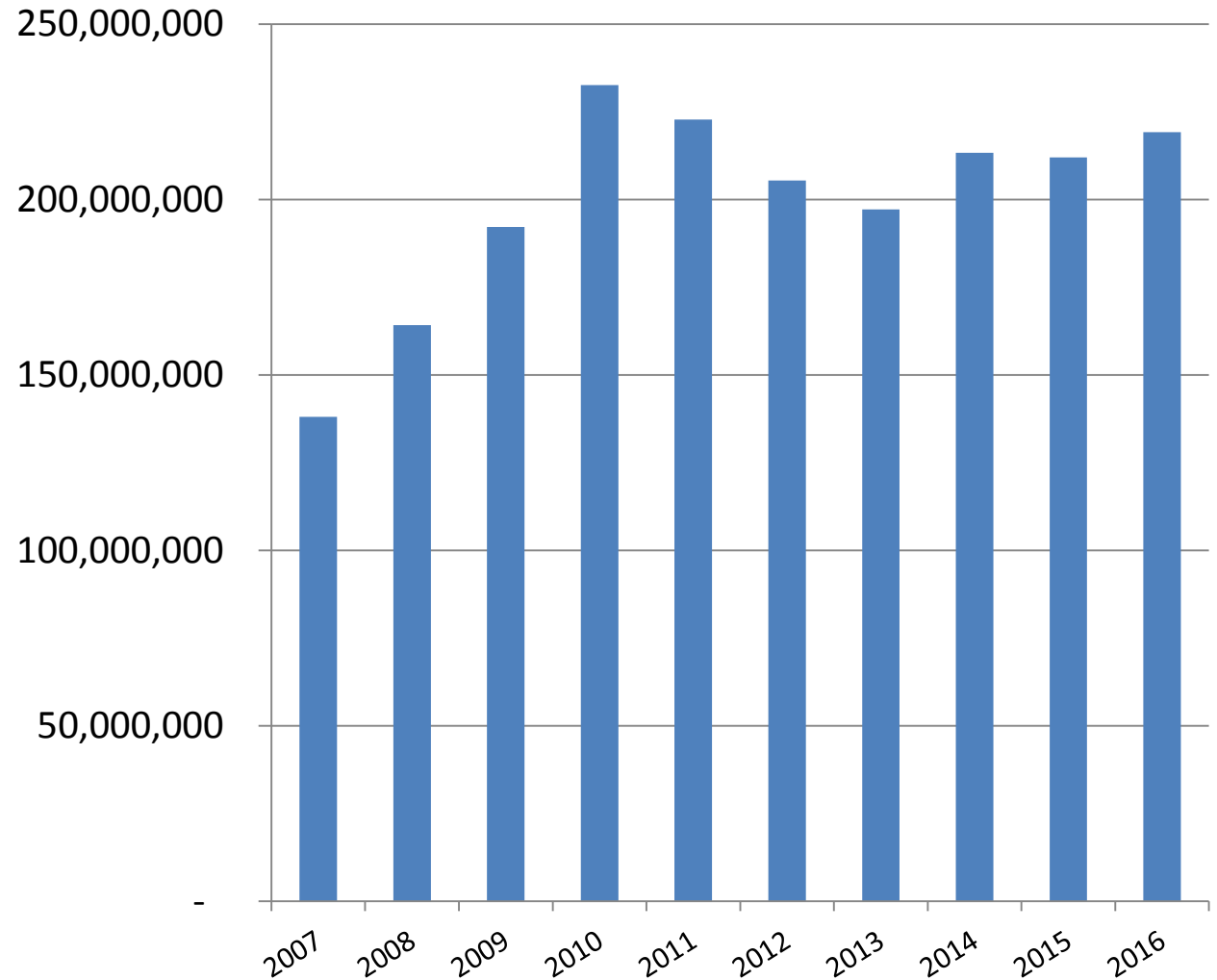
### FY2014 – Current

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78

## Tobacco Tax Stamp Revenue

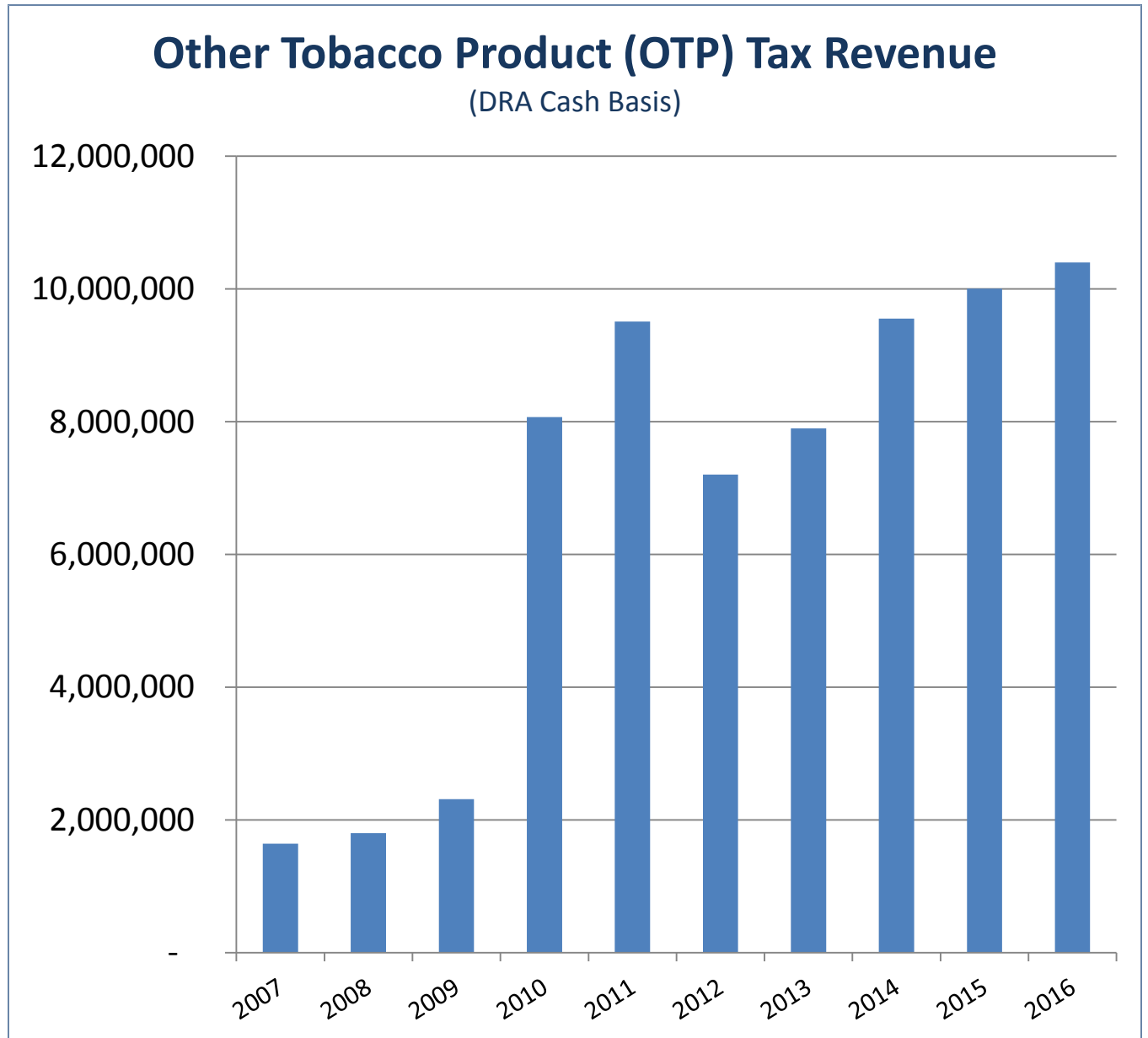
(DRA Cash Basis)



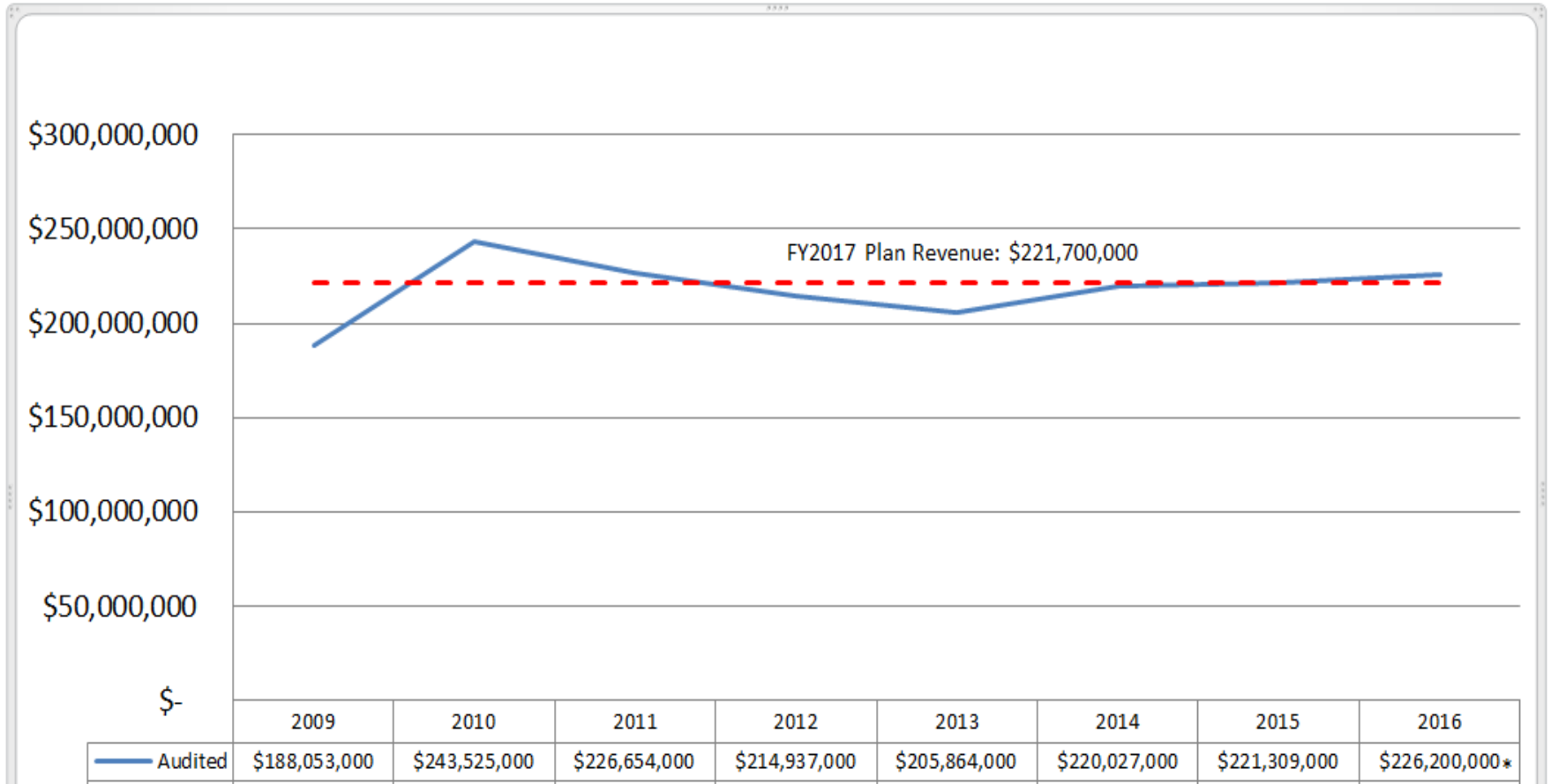
Note: "A" Stamps are affixed to cigarette packs containing 25 cigarettes. "B" Stamps are affixed to cigarette packs containing 20 cigarettes.

## OTP Tax Rates (Wholesale Price)

<b>FY2007</b>	19.00%
<b>FY 2008</b>	19.00%
<b>FY2009</b>	19.00%
<b>FY2010</b>	48.59%
<b>FY2011</b>	65.03%
<b>FY2012</b>	48.00%
<b>FY2013</b>	48.00%
<b>FY2014 – Current</b>	65.03%



# Tobacco Tax Audited Revenue



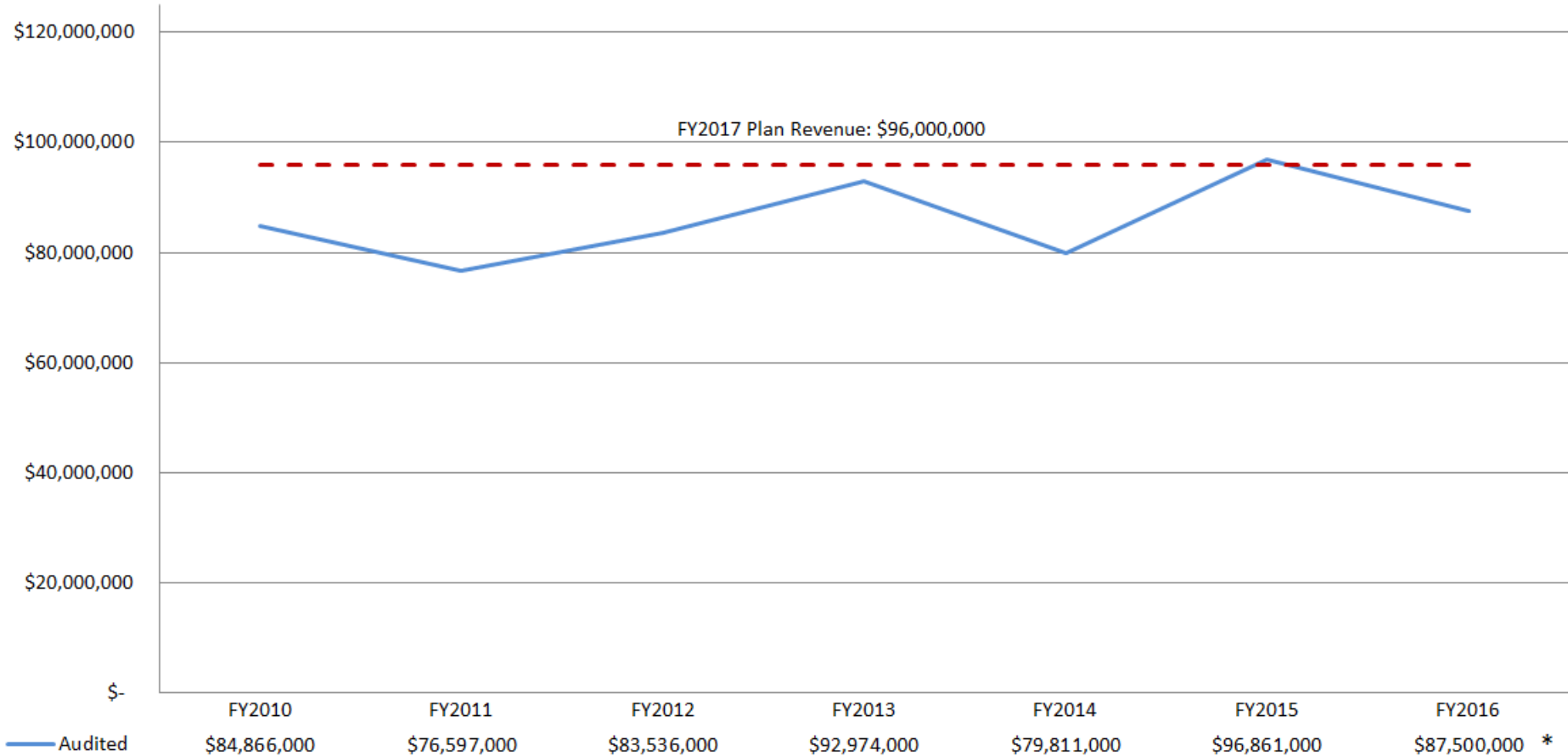
\*FY2016 Data is based on the DAS June 2016 Monthly Revenue Focus PRELIMINARY ACCRUAL – BASED revenues and is UNAUDITED and subject to change.

Note: See slides 9 & 10 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
- I&D Tax revenue trend over the last four years
  - 9.1% increase in FY2012 over FY2011
  - 11.3% increase in FY2013 over FY2012
  - 14.5% decrease in FY2014 over FY2013
  - 21.4% increase in FY2015 over FY2014
  - 9.7% decrease in FY2016 over FY2015
  - FY2017 actual revenue for the 1<sup>st</sup> half of the fiscal year is 4.0% below FY2017 plan and 7.1% above FY2016 year to date
- Factors that affect I&D:
  - Low interest rates
  - Money being held in non-interest bearing accounts
  - Disappearance of nest eggs

# I&D Audited Revenue



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# Utility Property Tax (UPT)

- The UPT is a tax imposed on the value of utility property at a rate of \$6.60 per \$1000 of value, as determined by the DRA each April 1<sup>st</sup>
- UPT revenue has consistently increased over the last 4 years (year over year increase of 1.9%-6.1%)
- 2015 tax period 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
- FY2009 – FY2010 – CST revenue was between \$77 million and \$81 million
- FY2013 – FY2015 – CST revenue was between \$57 million and \$59 million
- FY2016 CST revenue was \$52.3 million
- Factors affecting CST:
  - 2012 exclusion of charges for internet access
  - Decrease in landlines
  - Modern pricing and purchasing trends for wireless communications

# Electricity Consumption Tax (ECT)

- The ECT is assessed on consumers of electricity in the amount of \$.00055 per kilowatt hour of electricity consumed
- ECT has been a consistently stable revenue source over the last five years
  - \$6.1 million in FY 2014
  - \$6 million in FY 2015
  - \$5.9 million in FY 2016
- Factors that can affect ECT:
  - Weather (AC/heat usage)
  - Business growth or decline (largest users)



# Business Taxes

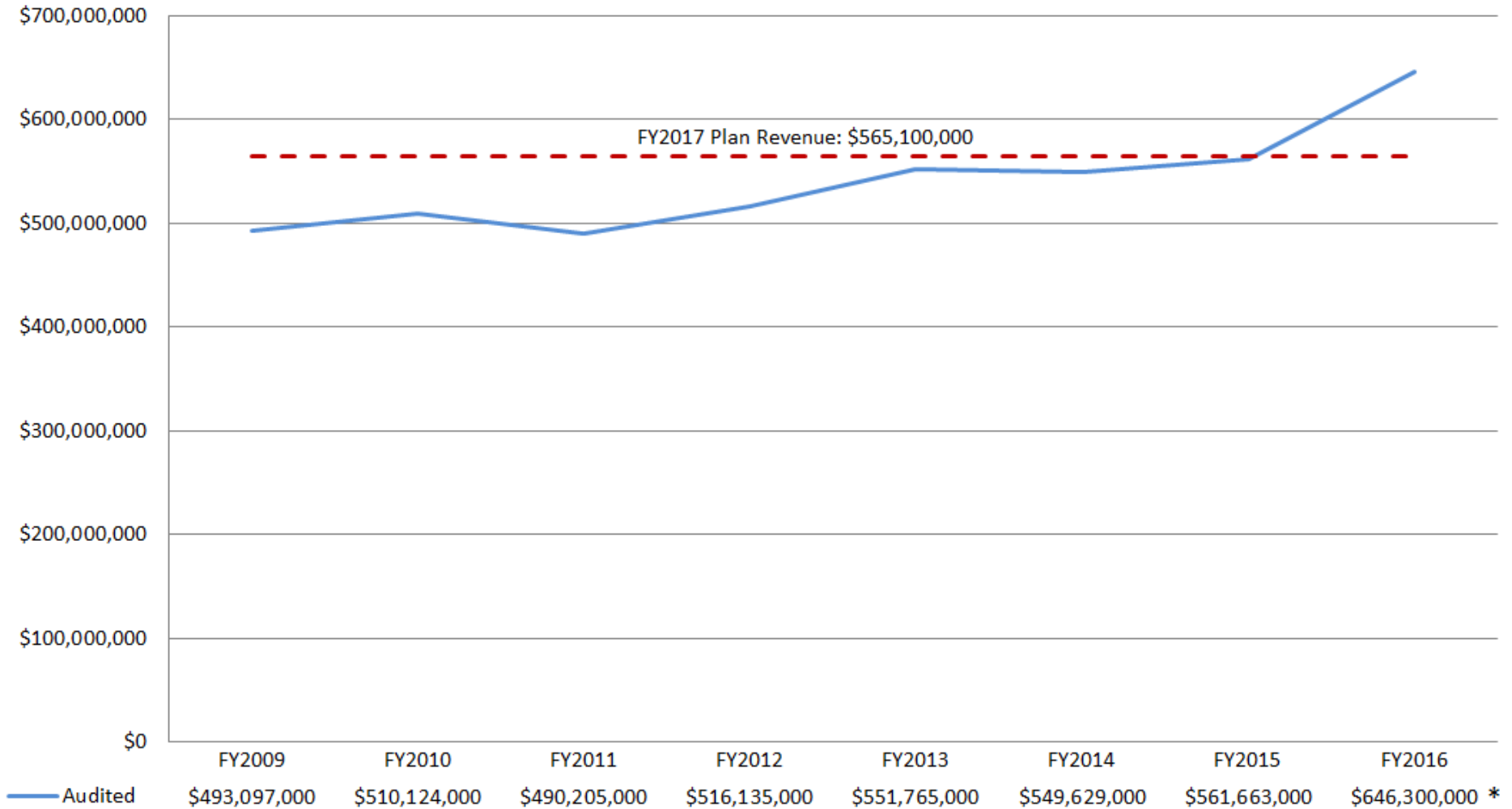
- Business Taxes are composed of the Business Enterprise Tax (BET) and the Business Profits Tax (BPT). The BET is assessed on the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business. The BPT is assessed on income from the conduct of business activity within the state
- Factors that affect Business Taxes:
  - Economic cycle
  - Credits
  - Statutory changes
- Recent statutory changes
  - Increase of R&D Tax Credit from \$1 million to \$2 million on July 1, 2015 (additional increase to \$7 million on July 1, 2017)
  - Business Tax rate reductions
    - BPT from 8.5% to 8.2% and BET from .75% to .72% for taxable periods ending on or after December 31, 2016
    - BPT from 8.2% to 7.9% and BET from .72% to .675% for taxable periods ending on or after December 31, 2018 (contingent upon meeting certain revenue targets)
  - Step-up tax election
  - §179 deduction (from \$25,000 to \$100,000 for property placed in service on or after January 1, 2017)

# Business Tax Revenue FY2009 - FY2016

	Business Revenue (Audited)	Change in \$	Change in %
FY2009	\$491,097,000	\$-	-
FY2010	\$510,124,000	\$ 19,027,000	3.9%
FY2011	\$490,205,000	\$ (19,919,000)	-3.9%
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	\$646,300,000 *	\$ 84,637,000	15.1%

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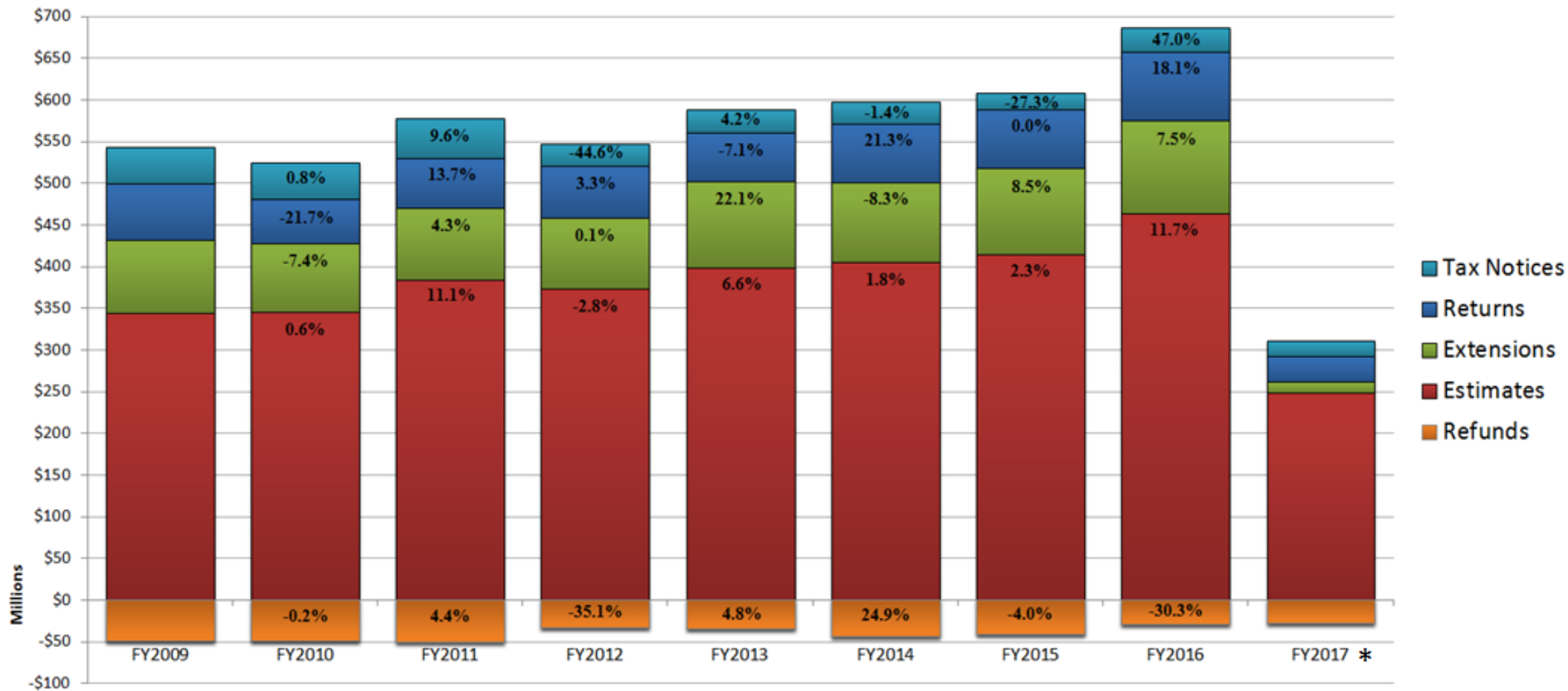
# Business Tax Audited Revenue



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

Year Over Year Change  
(Cash Basis)

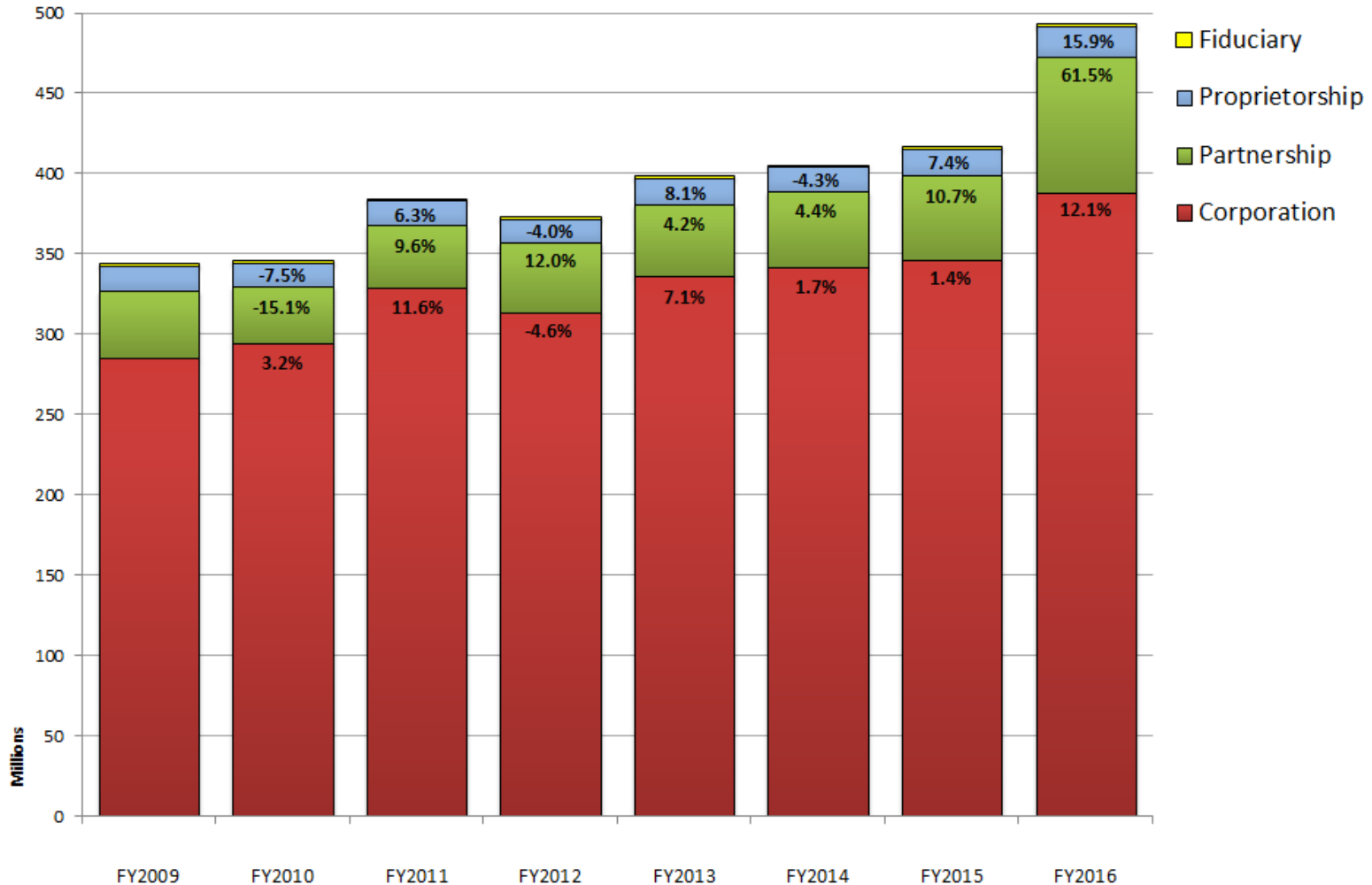


\*FY2017 includes July 2016 – December 2016

# Business Tax Estimate Analysis

Year Over Year Change  
(Cash Basis)

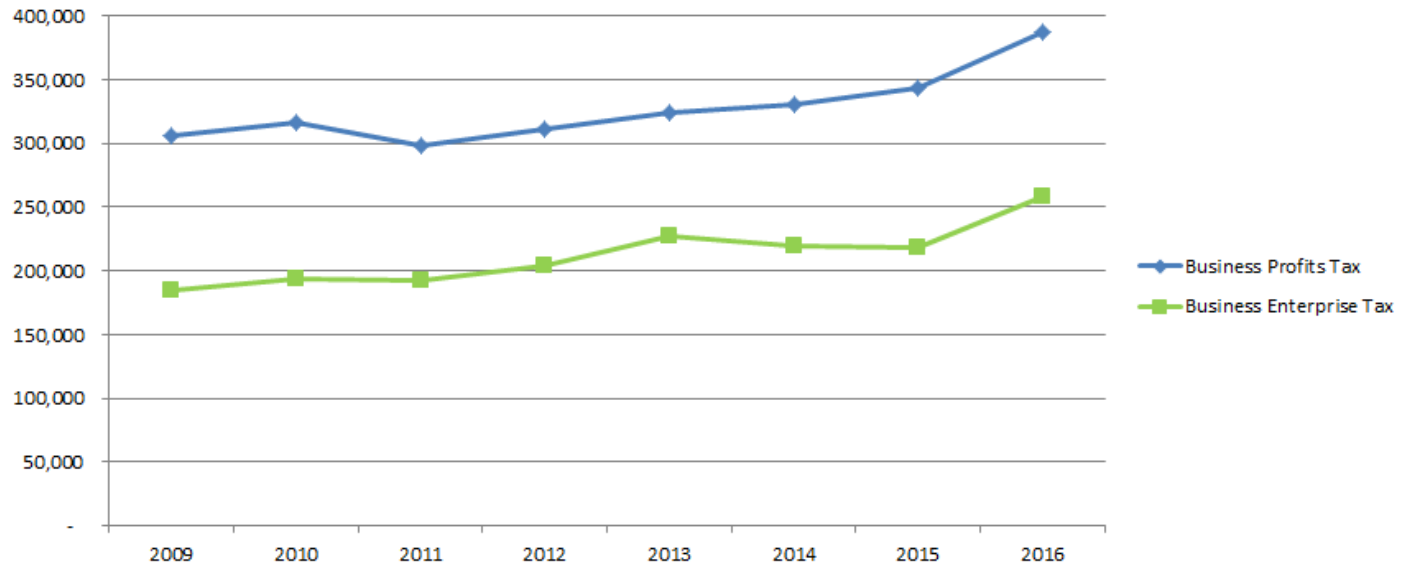
The majority of Business Tax revenue is derived from estimates. The following chart depicts an 8-year history of NH Business Tax estimate revenue by entity type



# 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	2009	2010	2011	2012	2013	2014	2015	2016
Business Profits Tax	305,819	316,223	297,801	311,861	323,754	330,149	343,427	387,600
Business Enterprise Tax	185,278	193,901	192,404	204,274	228,011	219,480	218,236	258,700
	<b>491,097</b>	<b>510,124</b>	<b>490,205</b>	<b>516,135</b>	<b>551,765</b>	<b>549,629</b>	<b>561,663</b>	<b>646,300</b> *

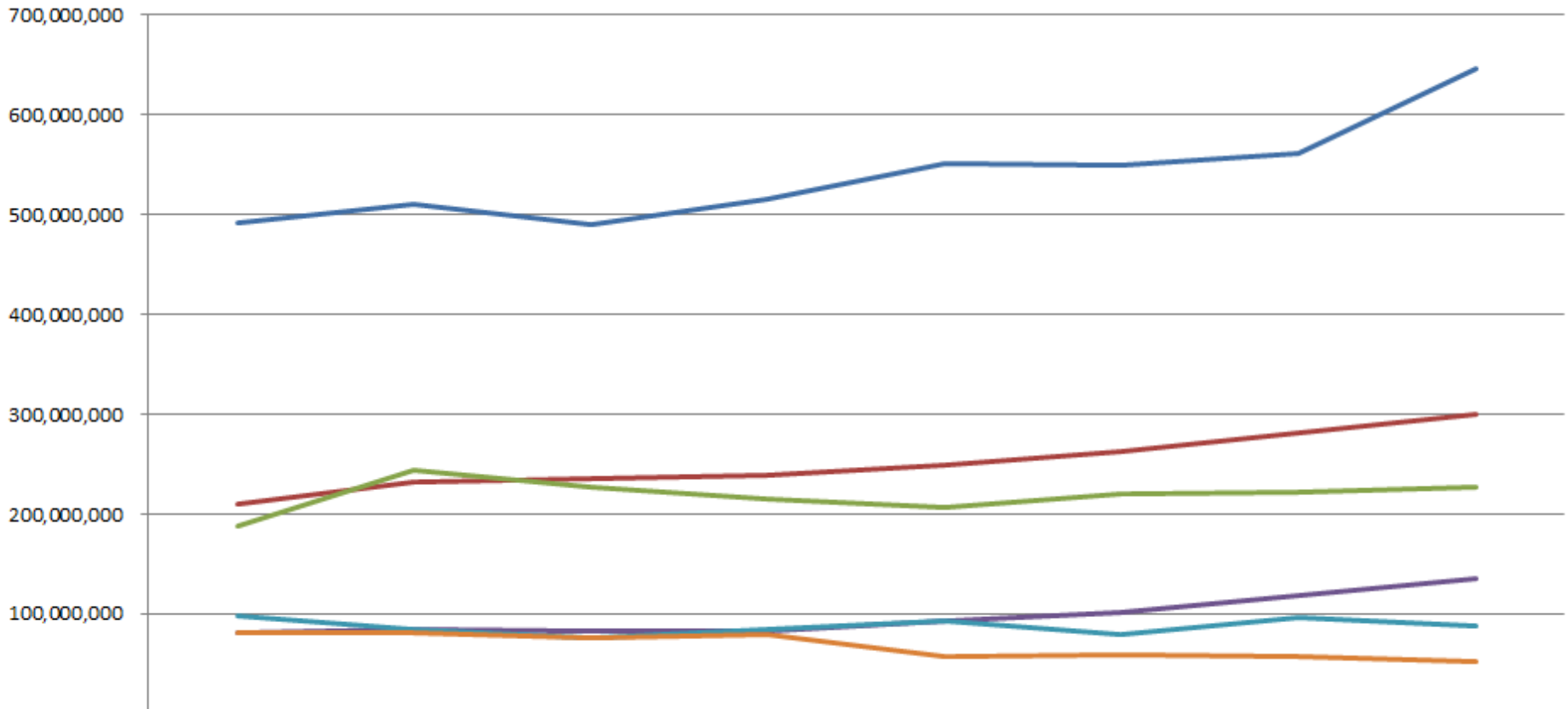


	Fiscal Year Ended June 30								10 Year Change
GENERAL & EDUCATION TRUST FUNDS	2009	2010	2011	2012	2013	2014	2015	2016	
Business Profits Tax	62.3%	62.0%	60.8%	60.4%	58.7%	60.1%	61.1%	60.0%	+2.4%
Business Enterprise Tax	37.7%	38.0%	39.2%	39.6%	41.3%	39.9%	38.9%	40.0%	-2.4%

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# Historical Revenue Trends

(Audited)



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
BS	491,097,000	510,124,000	490,205,000	516,135,000	551,765,000	549,629,000	561,663,000	646,300,000 *
M&R	209,710,000	232,526,000	235,541,000	239,335,000	248,401,000	261,730,000	281,228,000	299,800,000 *
Tobacco	188,053,000	243,525,000	226,654,000	214,937,000	205,864,000	220,027,000	221,309,000	226,200,000 *
RETT	81,275,000	84,826,000	81,962,000	81,988,000	93,421,000	100,793,000	117,583,000	134,700,000 *
I&D	97,126,000	84,866,000	76,597,000	83,536,000	92,974,000	79,811,000	96,861,000	87,500,000 *
CST	80,243,000	80,965,000	76,500,000	79,320,000	57,350,000	59,281,000	57,308,000	52,300,000 *

\* FY2016 data is based on the DAS June 2016 Monthly Revenue Focus PRELIMINARY ACCRUAL-BASED revenues and is UNAUDITED and subject to change.

# FY2017 Tax Revenues through December 2016

Taxes	1st Half Actual Revenue	1st Half Plan Revenue	Actual Revenue Compared to Plan Revenue	2nd Half Plan as a % of Total Plan
Business	\$ 282,100,000	\$ 240,800,000	17.2%	42.6%
M&R	\$ 174,700,000	\$ 169,600,000	3.0%	44.9%
Tobacco	\$ 112,100,000	\$ 119,100,000	-5.9%	46.3%
RETT	\$ 81,600,000	\$ 73,500,000	11.0%	41.9%
I&D	\$ 24,200,000	\$ 25,200,000	-4.0%	73.8%
CST	\$ 24,800,000	\$ 30,300,000	-18.2%	48.1%
UPT	\$ 19,600,000	\$ 20,600,000	-4.9%	50.7%
ECT	\$ 3,000,000	\$ 3,000,000	0.0%	50.0%
<b>Total</b>	<b>\$ 722,100,000</b>	<b>\$ 682,100,000</b>	<b>5.9%</b>	<b>52.1%</b>



# Other Taxes DRA Administers

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