

Joint Economic Briefing

House and Senate Ways & Means Committees

January 11, 2023

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 **80.1% (\$2.59 billion)** of the audited revenue collected for the general and education trust funds in FY2022.
- 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 \$8.1m in FY2022 and is currently \$7.0m in FY2023.
- Audited M&R Tax revenue rebounded since the initial impacts of COVID-19 in FY2020:
 - 9.9% decrease in FY2020 from FY2019
 - 6.1% increase in FY2021 over FY2020
 - 21.7% increase in FY2022 over FY2021 (before Municipal Revenue Fund transfer)
 - FY2023 actual revenue for the first 6 months of the fiscal year is 30.4% above FY2023 plan and 6.7% above FY2022 unaudited revenue year to date, before Municipal Revenue Fund transfer. (Note: FY2022 revenue was subject to a monthly transfer to the Municipal Fund that didn't exist in FY2021. The total transfer in FY2022 was \$100.1m. YTD transfer through December totals \$66.2m.)
- Factors affecting M&R tax revenue:
 - Low unemployment rates (US = 3.7%; NH = 2.6% for November 2022 vs. US = 4.2%; NH = 3.0% for November 2021¹)
 - Strong wages
 - Weather (sunny summers, colorful fall foliage, snowy winters)
 - Consumer behavior post pandemic (outdoor dining, expanded takeout, shifts from hotel, camps, and cottages to rental agent and condo rentals)

¹Source: New Hampshire Employment Security. <https://www.nhes.nh.gov/elmi/statistics/documents/nr-current.pdf>. December 13, 2022

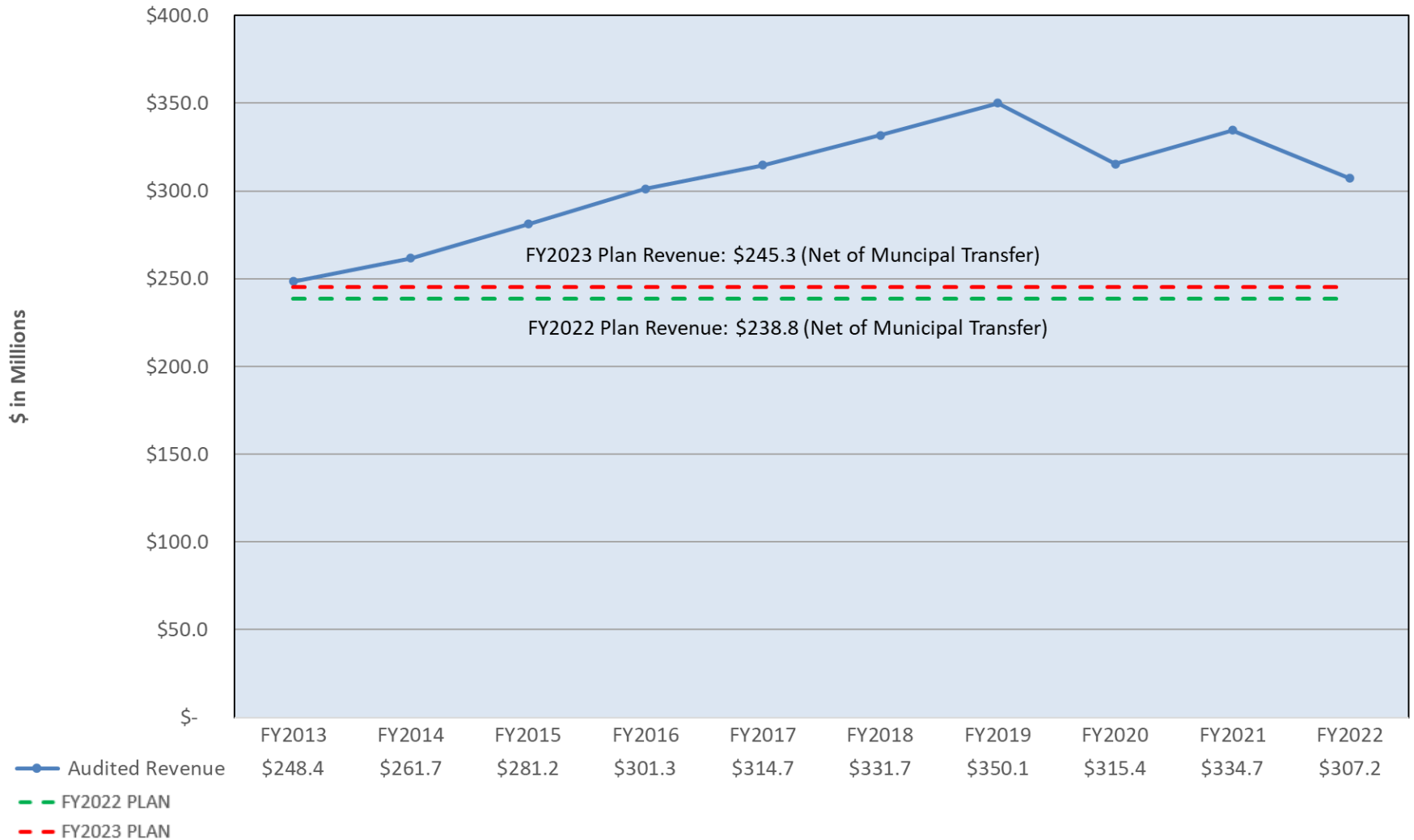
Factors That May Affect Future M&R Tax Revenue

- Economic factors on consumer behavior
 - Supply chain constraints
 - Inflation¹
 - Fuel prices
 - Food costs
 - Economic uncertainty
- The shift in consumer spending behavior from pre-pandemic to current spending pattern might continue into the long term.

¹Source: <https://www.nhes.nh.gov/elmi/statistics/documents/cpinecomp.pdf>, Northeast All Urban Consumers consumer price index (not seasonally adjusted) increased 6.4% in November 2022 over November 2021.

M&R Tax Revenue 10-Year Trend

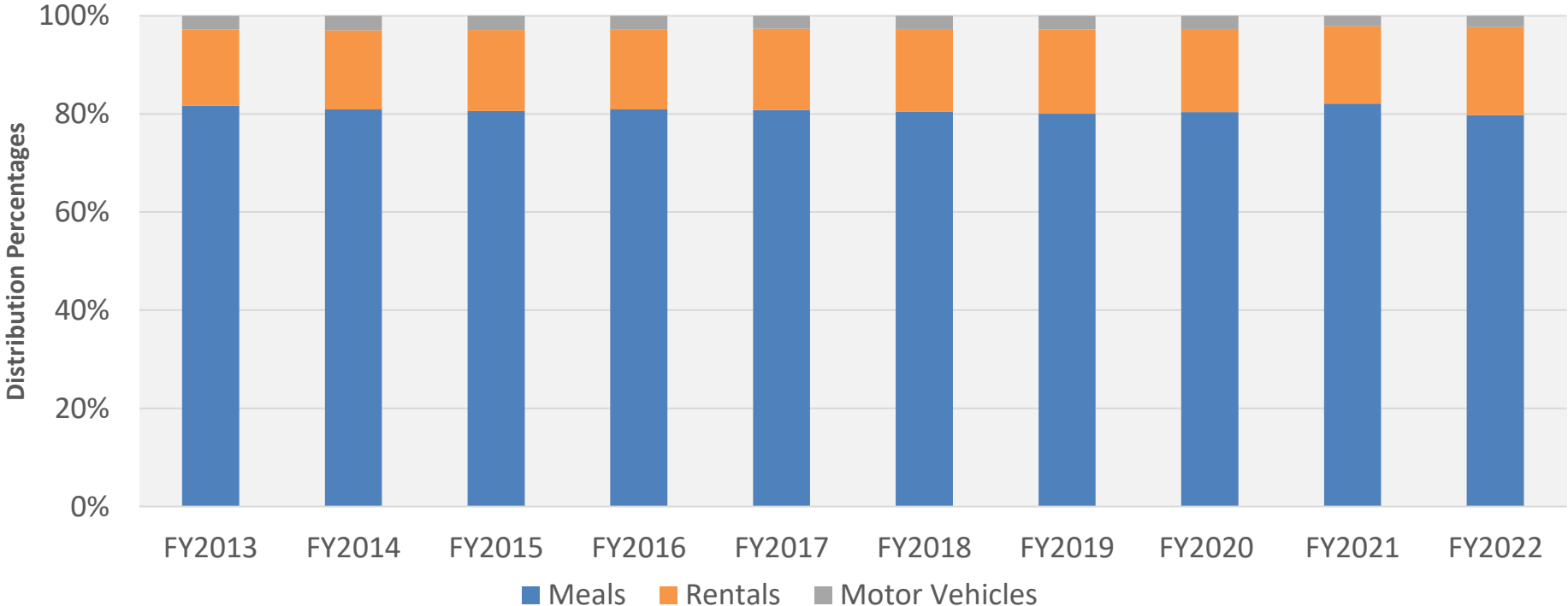
Audited Revenue



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)



	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Tax Rate	9%	9%	9%	9%	9%	9%	9%	9%	9%	8.5%
Meals	81.7%	80.9%	80.6%	80.9%	80.8%	80.4%	80.0%	80.4%	82.1%	79.7%
Rentals	15.5%	16.1%	16.5%	16.4%	16.6%	16.9%	17.2%	17.0%	15.8%	18.0%
Motor Vehicles	2.8%	2.9%	2.9%	2.7%	2.6%	2.7%	2.8%	2.7%	2.1%	2.3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NOTE: Data shown represents tax reported and is not net of refunds or School Building Aid debt service.
 Effective October 1, 2021 (FY22), the Meals & Rental Tax rate was reduced from 9% to 8.5%.

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:
 - 3.7% increase in FY2020 over FY2019
 - 32.4% increase in FY2021 over FY2020
 - 10.9% increase in FY2022 over FY2021
 - FY2023 actual revenue for the first 6 months of the fiscal year is 26.3% above FY2023 plan and 5.4% above FY2022 unaudited revenue year to date.
- Factors that affect RETT revenue:
 - Rising interest rates (mortgage interest rate increased from 3.07% in October 2021 to 6.90% in October 2022¹)
 - Inflation affecting household budgets
 - Slow down on demand
 - Property values (\$214.1 billion total equalized value for NH on April 21, 2022² vs \$193.5 billion equalized value for NH on April 21, 2021³)

¹Source: Housing Market Snapshot, November 2022, NHHFA.org. <https://www.nhhfa.org/wp-content/uploads/2020/04/HMS-Nov-2022.pdf>

²Source: Equalization Survey with Utilities and Railroad Summary, DRA 2022 Annual Report

³Source: Equalization Survey with Utilities and Railroad Summary, DRA 2021 Annual Report

Factors That May Affect Future RETT Revenue

- Housing Market Trend
 - Home prices may have peaked
 - Possible decline in home demand
 - Low inventory
- Economy
 - General low unemployment rate and strong wages
 - Inflation rate and rise in consumer prices and energy prices
 - Economic uncertainty
- Future Outlook
 - Changes in interest rates
 - Tapering buyer demand (average days on the market increased 7.7% in November 2022 as compared to November 2021, pending sales decreased 23% in November 2022 as compared to November 2021)¹

¹Source: <https://www.nhar.org> on January 4, 2023.

RETT Year-Over-Year Change

- For November 2022, new property listings and pending sales decreased for single family homes and condos from a year ago
- For November 2022, the median sales price and monthly supply of inventory for single family homes and condos increased when compared to November 2021
 - Average sales price for a single family home was \$435k in November 2022
 - Average sales price for a condo was \$355k in November 2022

Property Type	November 2022 vs November 2021 Comparison ¹			
	New Listings	Pending Sales	Median Sales Price	Monthly Supply of Inventory
Single Family - Nov 2021	1,097	1,245	\$401,750	1.1
Single Family - Nov 2022	880	959	\$435,000	1.5
Year-Over-Year Change	-19.8%	-23.0%	8.3%	36.4%
Condo- Nov 2021	363	399	\$305,000	0.9
Condo - Nov 2022	300	285	\$355,000	1.3
Year-Over-Year Change	-17.4%	-28.6%	16.4%	44.4%

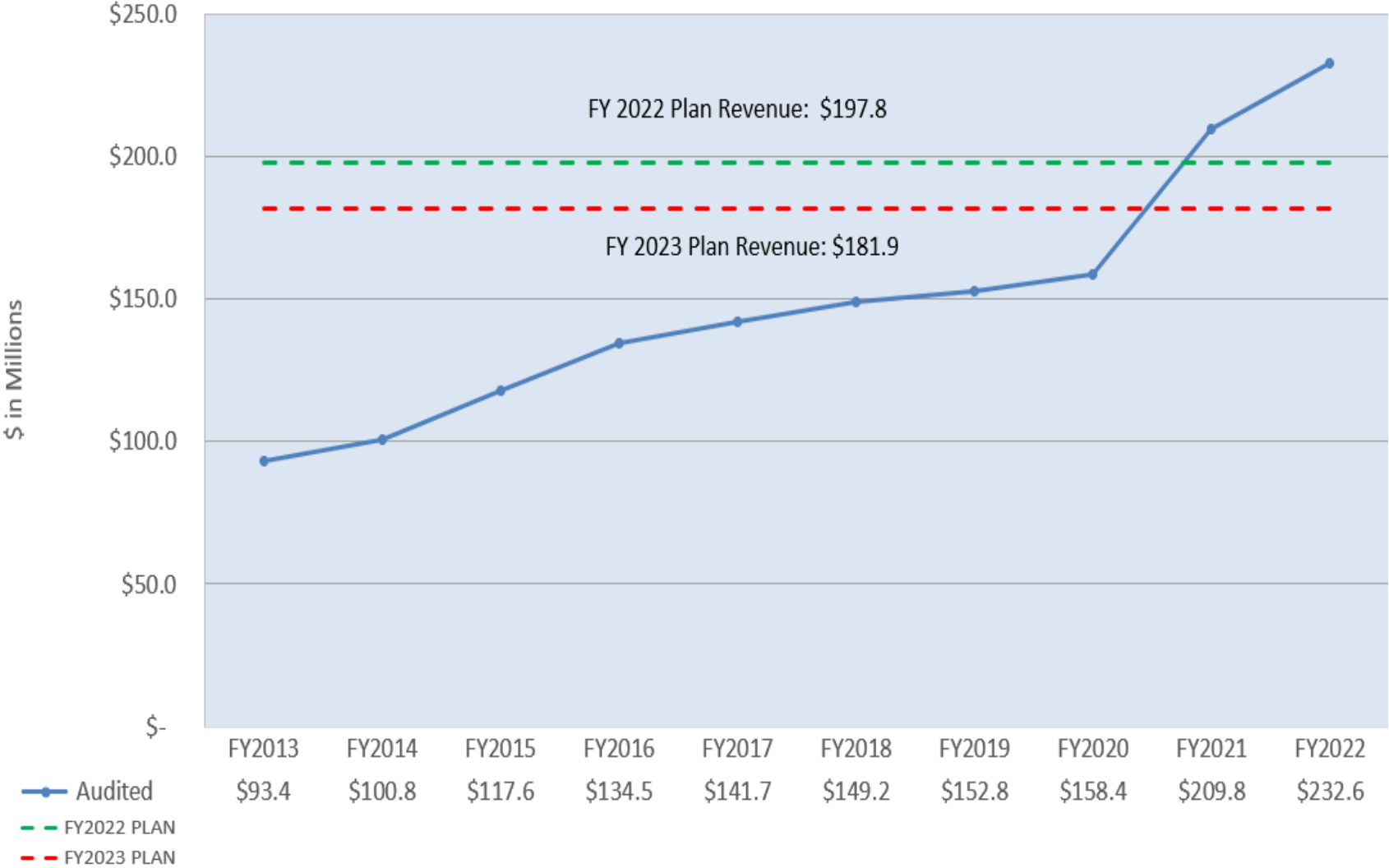
- November 2022 single family home had a 20-year low for affordability index² of 69, a decrease of 34.9% from November 2021.
- November 2022 single family home closed sales decreased 30.9% compared to November 2021.

¹ Source: <https://nhar-public.stats.showingtime.com/docs/mmi/2022-11/x/report?src=page>

² The Housing Affordability Index measures whether a typical family earns enough income to qualify for a mortgage loan on a typical home. For example, an index of 120 means the median household income is 120% of what is necessary to qualify for the median-priced home under prevailing interest rates. A higher number means greater affordability.

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:
 - 5.7% increase in FY2020 over FY2019
 - 18.1% increase in FY2021 over FY2020
 - 8.2% decrease in FY2022 from FY2021
 - FY2023 actual revenue for the first 6 months of the fiscal year is 7.0% below FY2023 plan and 4.7% below FY2022 unaudited revenue year to date.
- The share of OTP revenue continues to grow. It currently makes up 13.2% 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
 - Public sentiment on tobacco consumption
 - Availability of menthol and flavored tobacco products that are banned in Massachusetts
 - Potential federal ban on menthol flavored cigarettes and all characterizing flavors in cigars

Tobacco Tax Revenue

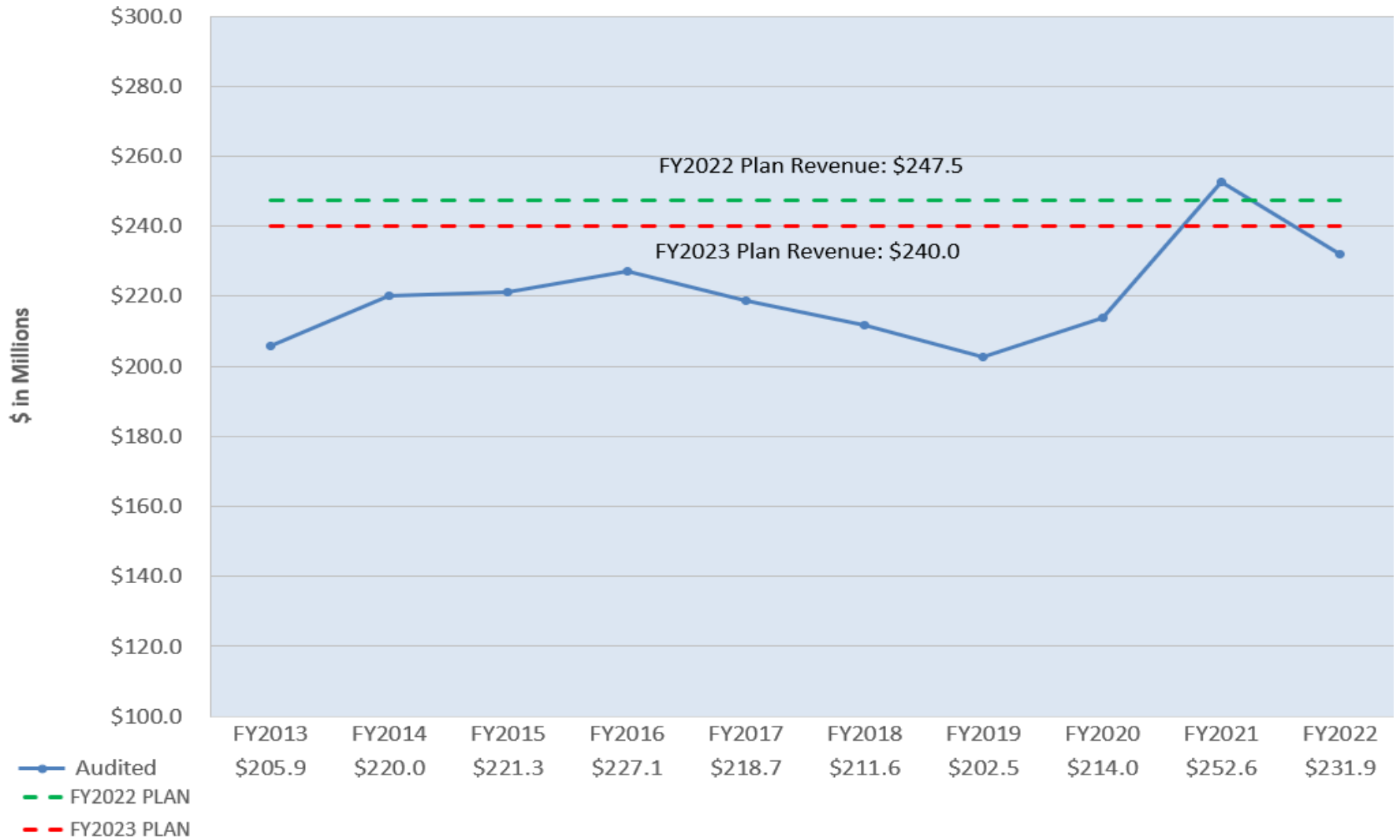
- E-Cigarette Tax went into effect on January 1, 2020. It is levied on both the closed system and open system. The closed systems tax rate is \$0.30 per milliliter on the volume of the liquid or other substance containing nicotine in the cartridge or container and the open system is 8% of the wholesales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

E-Cigarette Tax Liability Reported*					
Month	FY 2023	% Change	FY 2022	% Change	FY 2021
July	\$843,160	35%	\$624,974	94%	\$322,909
August	\$762,191	17%	\$652,897	114%	\$304,933
September	\$799,290	29%	\$620,441	103%	\$306,340
October	\$753,579	21%	\$623,474	36%	\$458,210
November	\$766,234	13%	\$675,944	59%	\$425,827
December	\$761,108	21%	\$628,781	84%	\$341,243
January			\$655,836	70%	\$386,274
February			\$693,471	113%	\$326,235
March			\$678,661	19%	\$571,155
April			\$711,643	26%	\$564,133
May			\$631,679	73%	\$365,348
June			\$685,262	-14%	\$796,664
Total	\$4,685,562	-41%	\$7,883,063	52%	\$5,169,272
FYTD	\$4,685,562	22%	\$3,826,511	77%	\$2,159,462

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

Tobacco Tax Revenue 10-Year Trend

Audited Revenue



Tobacco Tax Stamp Revenue
(DRA Cash Basis)
\$ in Millions

Tobacco Stamp Rates

FY2012 – FY2013

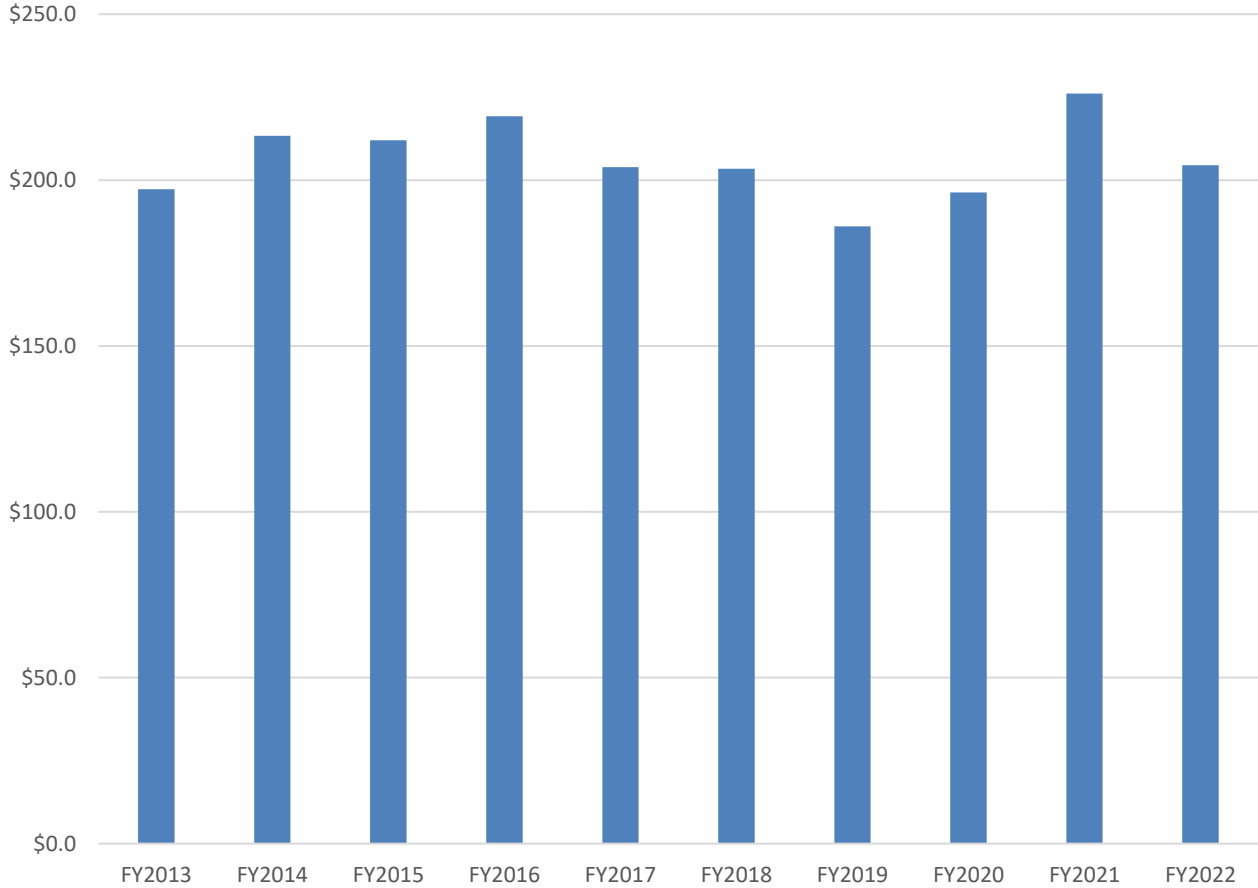
A Stamp Rate = \$2.10

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

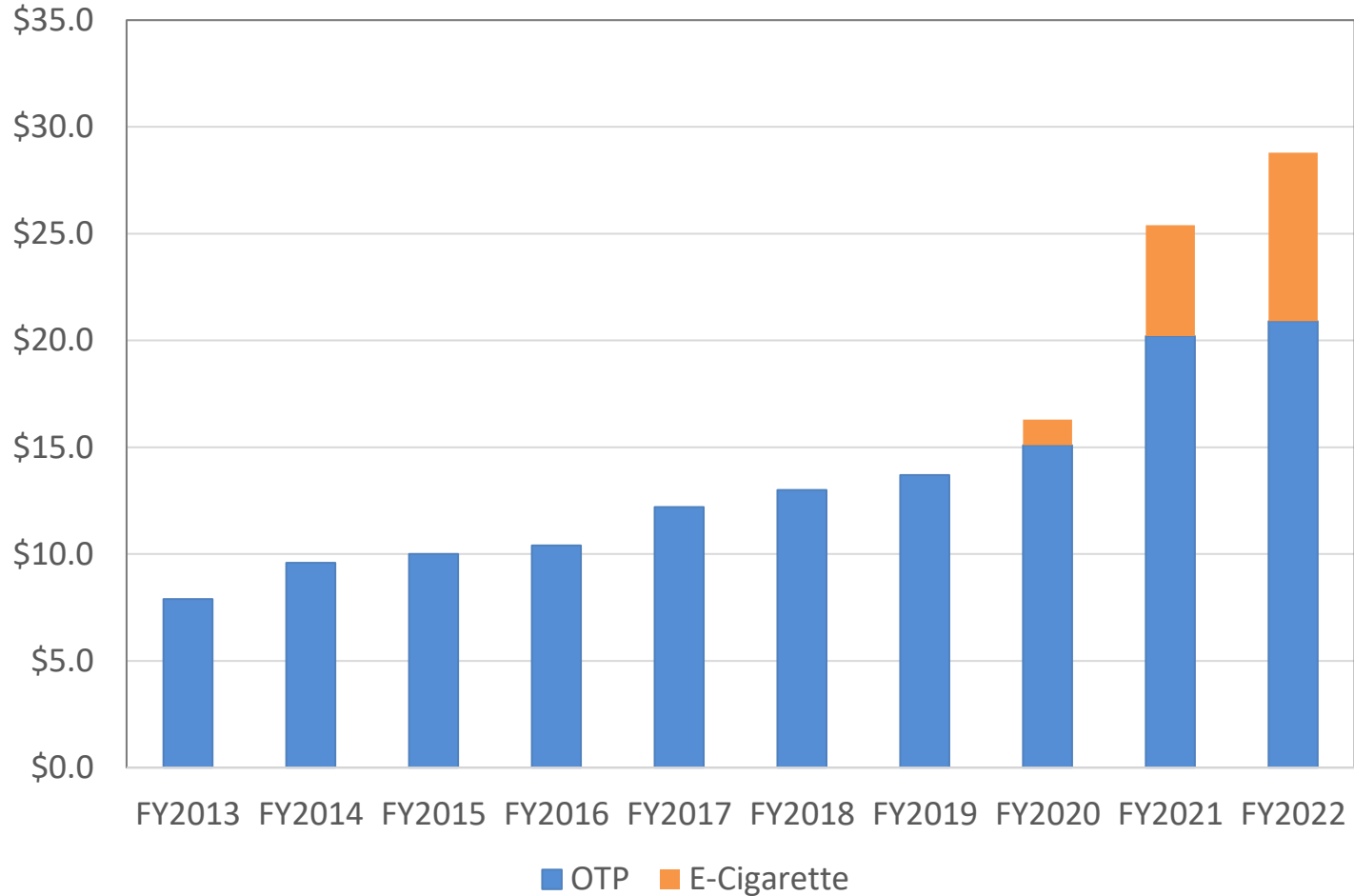
48.00%

FY2013

48.00%

FY2014 – Current

65.03%

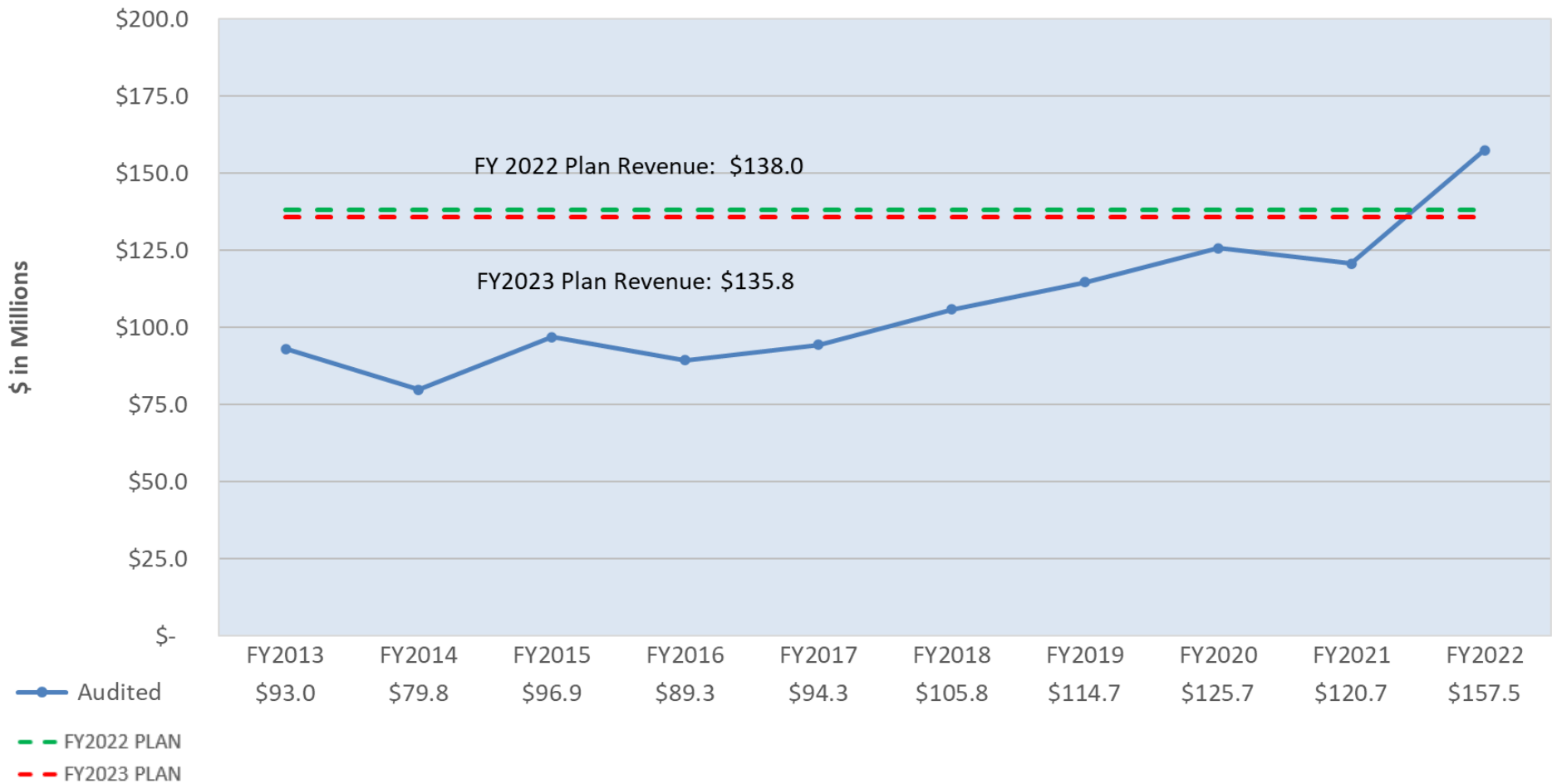


Interest & Dividends (I&D) Tax

- The I&D Tax is assessed on the interest and dividend income of individuals, partnerships, and fiduciaries. The tax rate was 5% for taxable period ending on or before December 31, 2022 and will be phased out as follows:
 - 4% for taxable periods ending on or after December 31, 2023
 - 3% for taxable periods ending on or after December 31, 2024
 - 2% for taxable periods ending on or after December 31, 2025
 - 1% for taxable periods ending on or after December 31, 2026
 - The tax will be fully repealed for taxable periods beginning after December 31, 2026
- Audited I&D Tax revenue over the last three years:
 - 9.6% increase in FY2020 over FY2019
 - 4.0% decrease in FY2021 from FY2020
 - 30.5% increase in FY2022 over FY2021
 - FY2023 actual revenue for the first 6 months of the fiscal year is 1.8% above FY2023 plan and 5.4% above FY2022 unaudited revenue year to date
- Factors that can affect I&D:
 - Economy & Stock market performance
 - Changing makeup of how I&D is paid overtime. Ex: Distributions
 - Money in the bank
 - Interest rates

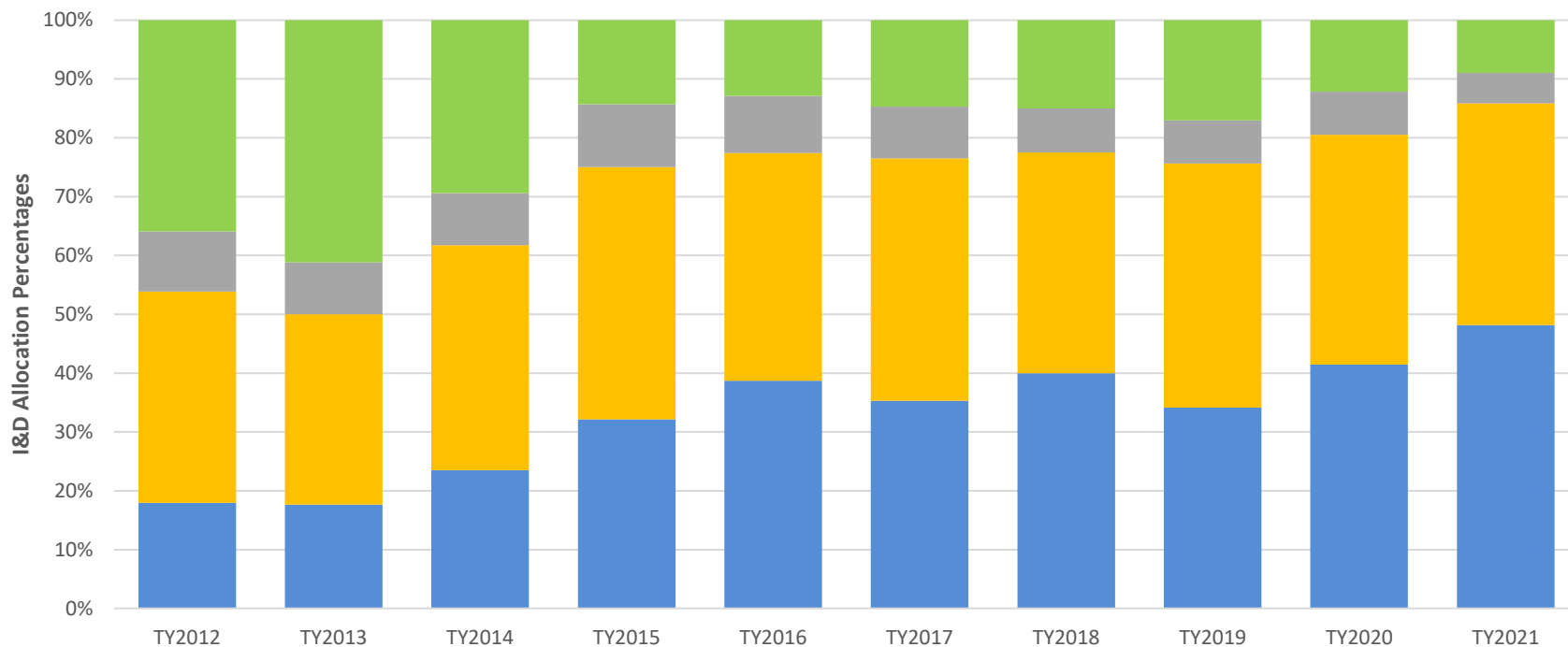
I&D Tax Revenue 10-Year Trend

Audited Revenue



Interest and Dividends Tax Components 10 Year Trend

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



	TY2012	TY2013	TY2014	TY2015	TY2016	TY2017	TY2018	TY2019	TY2020	TY2021
Distributions	17.9%	17.6%	23.5%	32.1%	38.7%	35.3%	40.0%	34.1%	41.5%	48.2%
Dividends	35.9%	32.4%	38.2%	42.9%	38.7%	41.2%	37.5%	41.5%	39.0%	37.7%
Federal Tax Exempt Interest Income	10.3%	8.8%	8.8%	10.7%	9.7%	8.8%	7.5%	7.3%	7.3%	5.2%
Interest	35.9%	41.2%	29.4%	14.3%	12.9%	14.7%	15.0%	17.1%	12.2%	9.0%
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 1st.
- Audited UPT revenue over the last three years:
 - 9.6% increase in FY2020 over FY2019
 - 11.8% decrease in FY2021 from FY2020
 - 13.4% increase in FY2022 over FY2021
 - FY2023 actual revenue for the first 6 months of the fiscal year is 3.5% above FY2023 plan and 9.0% above FY2022 unaudited revenue year to date.
- Tax year 2022 assessments = \$43.6 million (utility property value of \$6.6 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:
 - FY2020 CST audited revenue was \$39.8 million
 - FY2021 CST audited revenue was \$40.0 million
 - FY2022 CST audited revenue was \$29.9 million
 - FY2023 actual revenue for the first 6 months of the fiscal year is 23.8% below FY2023 plan and 6.4% below FY2022 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
 - Cap on credit carryover:
 - 500% of the total tax liability for taxable periods ending on or after December 31, 2022
 - 250% of the total tax liability for taxable periods ending on or after December 31, 2025
 - 100% of the total tax liability for taxable periods ending on or after December 31, 2027
 - Single Sales Factor 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, and adjusted biennially for inflation
 - BPT filing threshold for taxable periods beginning January 1, 2023, is gross business income in excess of \$103,000
 - 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, and adjusted biennially for inflation
 - BET filing threshold for taxable periods beginning January 1, 2023, is gross business receipts in excess of \$281,000 or enterprise value tax base greater than \$281,000

Business Taxes

- Highlights of recent statutory changes (Cont'd)
 - NOL calculation apportioned only in the year of loss for taxable periods ending on or after December 31, 2022
 - BPT reduces from 7.6% to 7.5% for taxable periods ending on or after December 31, 2023

BPT & BET Tax Rates

<u>For Taxable Periods Ending</u>	<u>BPT Rate</u>	<u>BET Rate</u>
on or after December 31, 2023	7.5%	0.55%
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 FY2013 - FY2022

	Business Revenue (Audited)	Change in Revenue (\$)	Change in Revenue (%)	Business Planned Revenue	Change in Plan (\$)	Change in Plan (%)
FY2013	\$ 551,765,000			\$ 518,100,000		
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%
FY2022	\$ 1,224,000,000	\$ 220,789,000	22.0%	\$ 963,100,000	\$ 177,100,000	22.5%

- Business Tax revenues fiscal year to date:

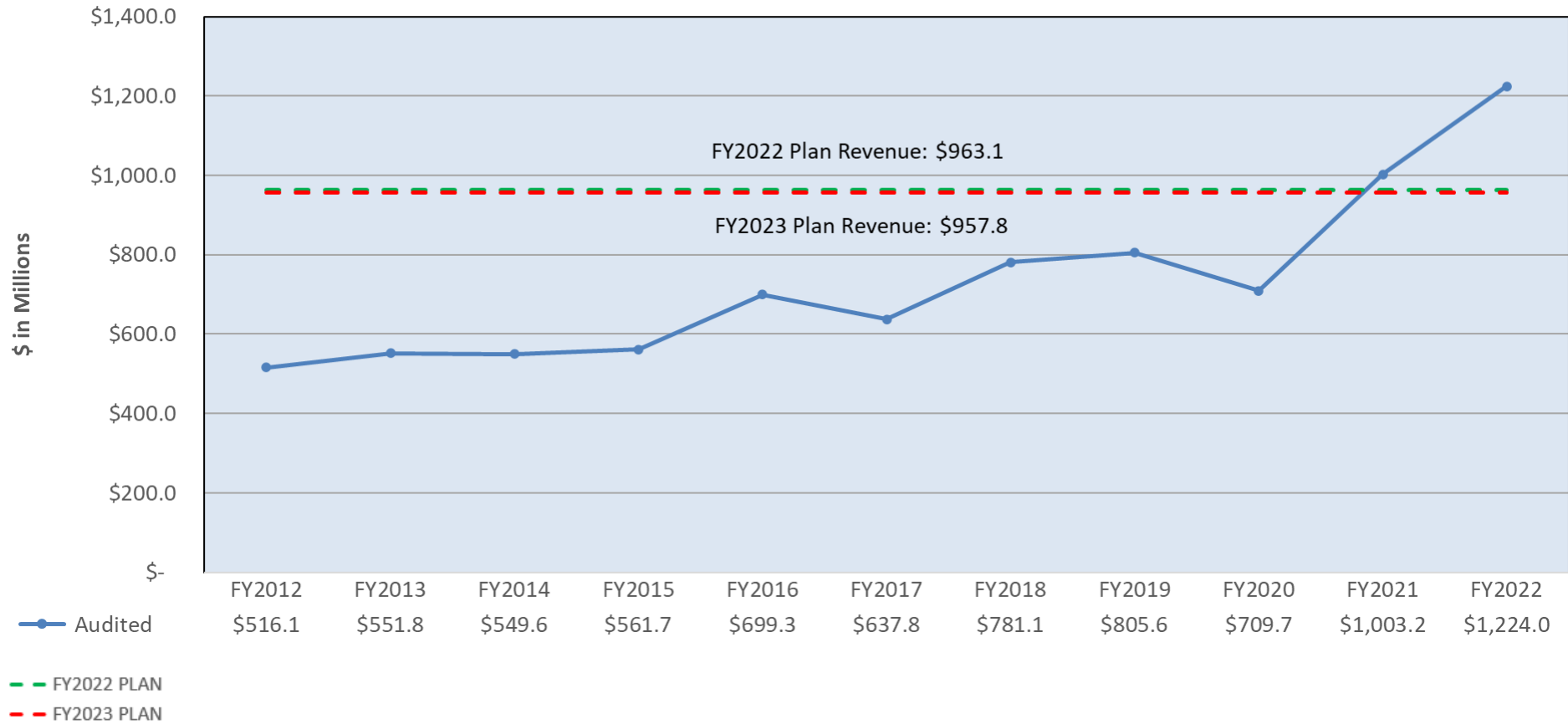
FY2023 actual revenue for the first 6 months of the fiscal year is 28.7% above FY2023 plan and 2.7% above FY2022 unaudited revenue year to date.

Factors Impacting Business Tax Revenue

- Factors That Contributed to the Business Tax Revenues
 - Overall businesses continue to show strong financial performance
- Factors That May Affect Future Business Tax Revenues
 - Statutory changes
 - Economy
 - Supply chain constraints
 - Disruptions in ports and factories
 - Rising freight rates
 - Warehouse prices due to decreasing warehouse space
 - Inflation rate
 - Affects on consumer spending
 - Low unemployment rate
 - Affects on labor costs
 - Future Outlook
 - Interest rate changes
 - Global geopolitical stability
 - Economic uncertainty

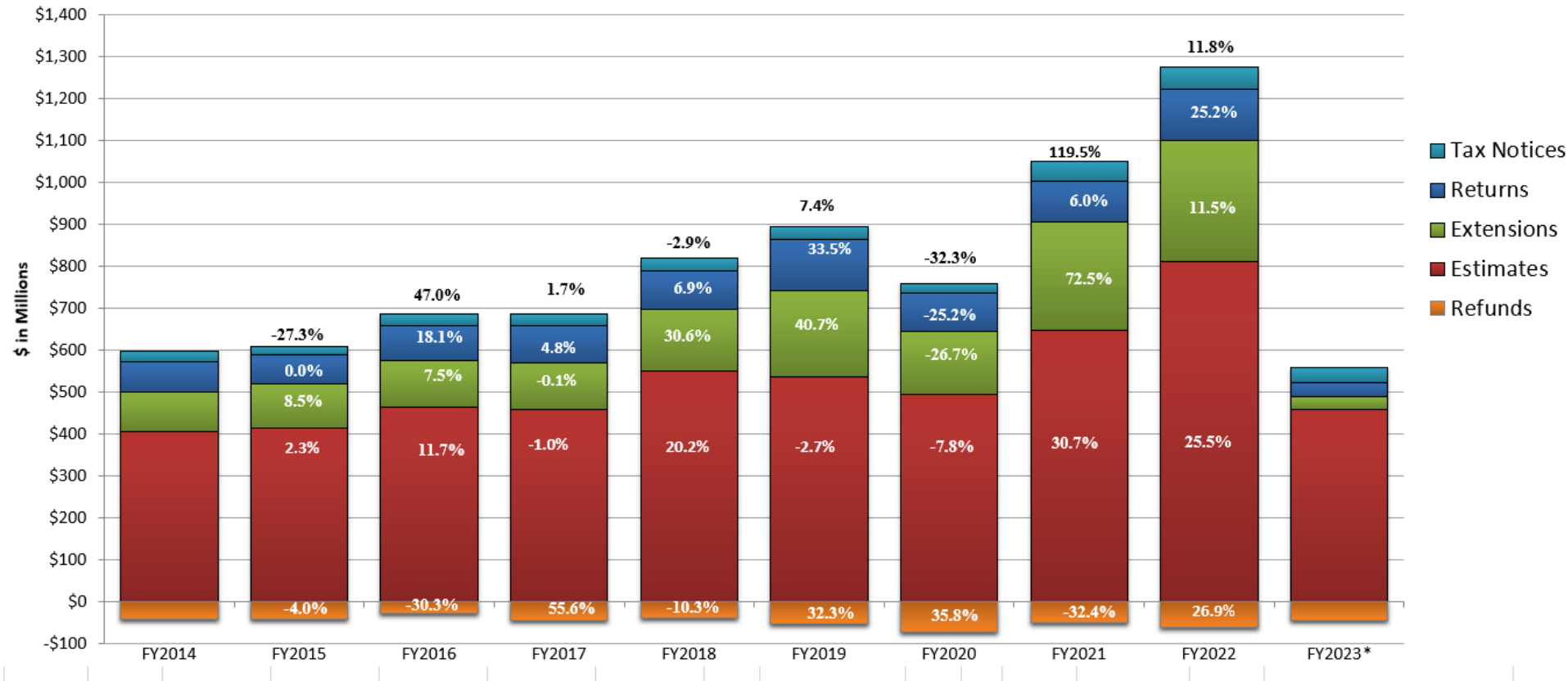
Business Tax Revenue 10-Year Trend

Audited Revenue



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

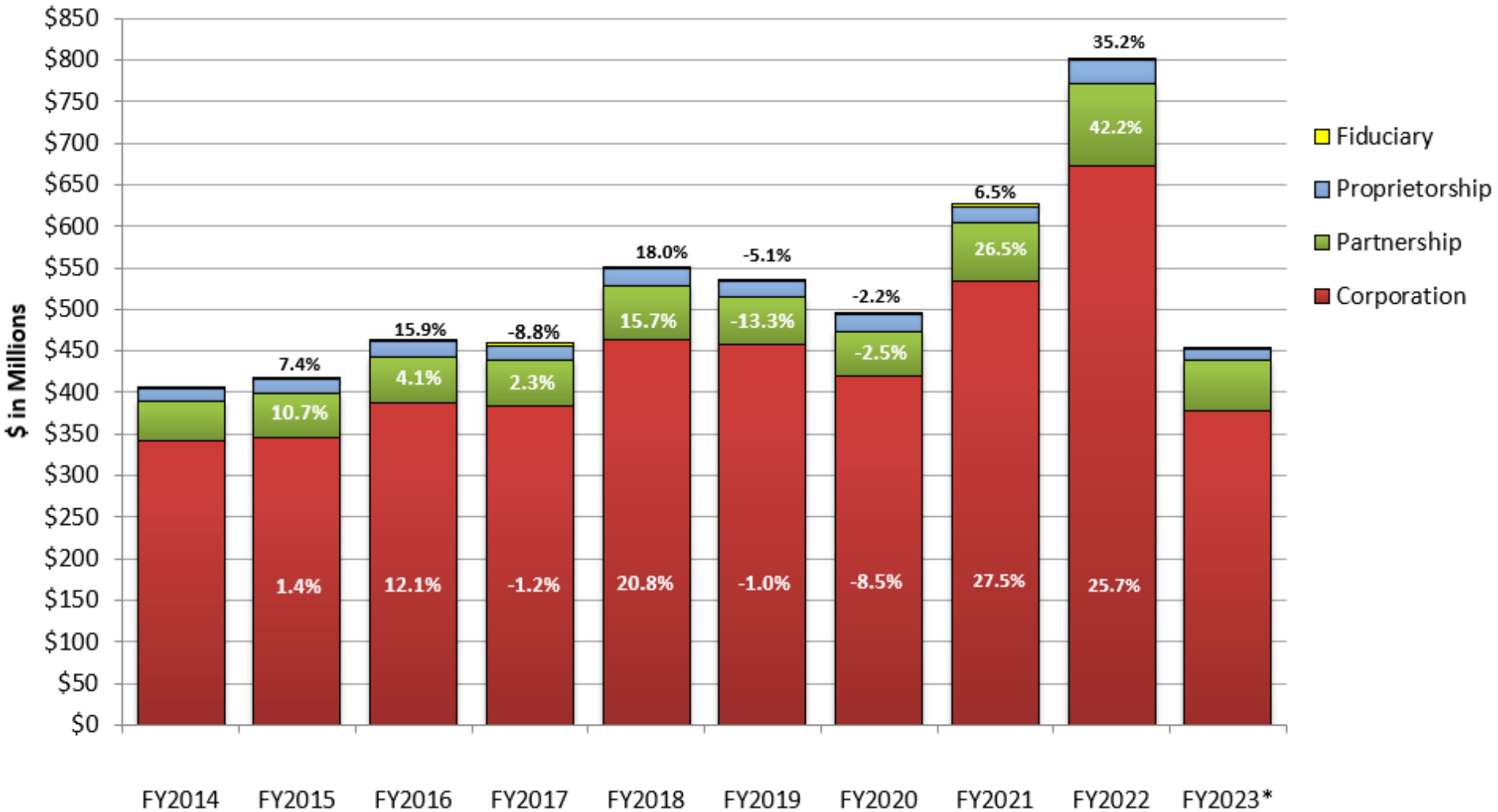
Year-Over-Year Change
(Cash Basis)



* FY2023 includes July 2022 – December 2022

Business Tax Estimate Payments Historical Analysis

Year-Over-Year Change

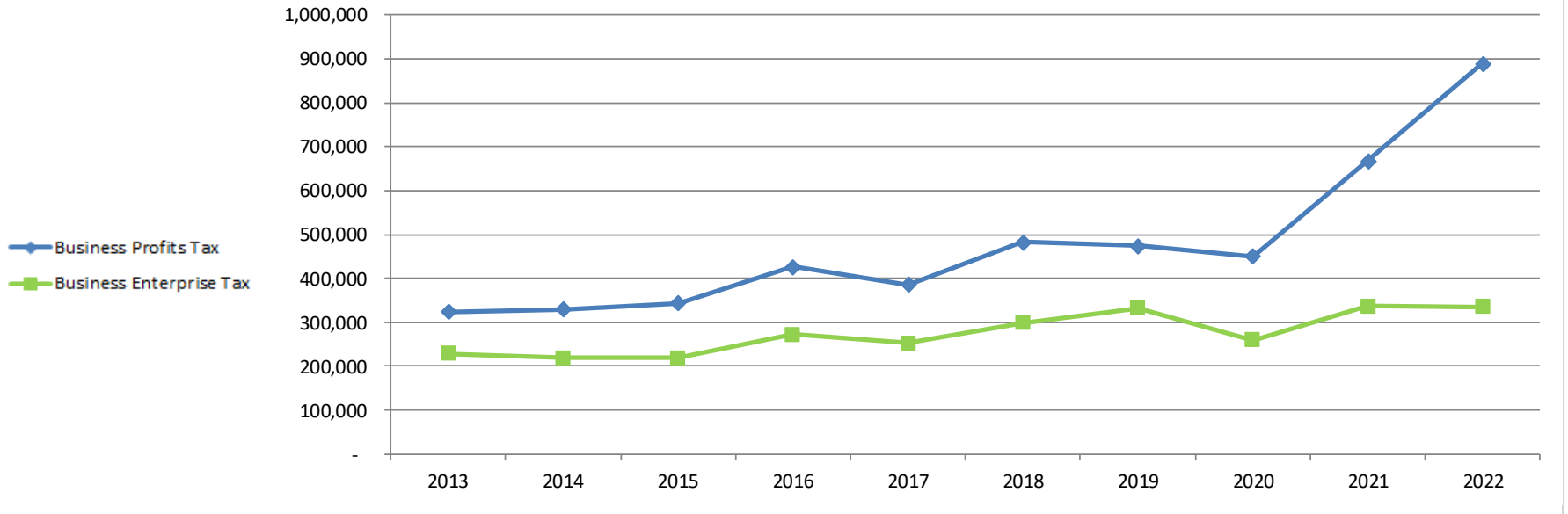


* FY2023 includes July 2022 – December 2022

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)

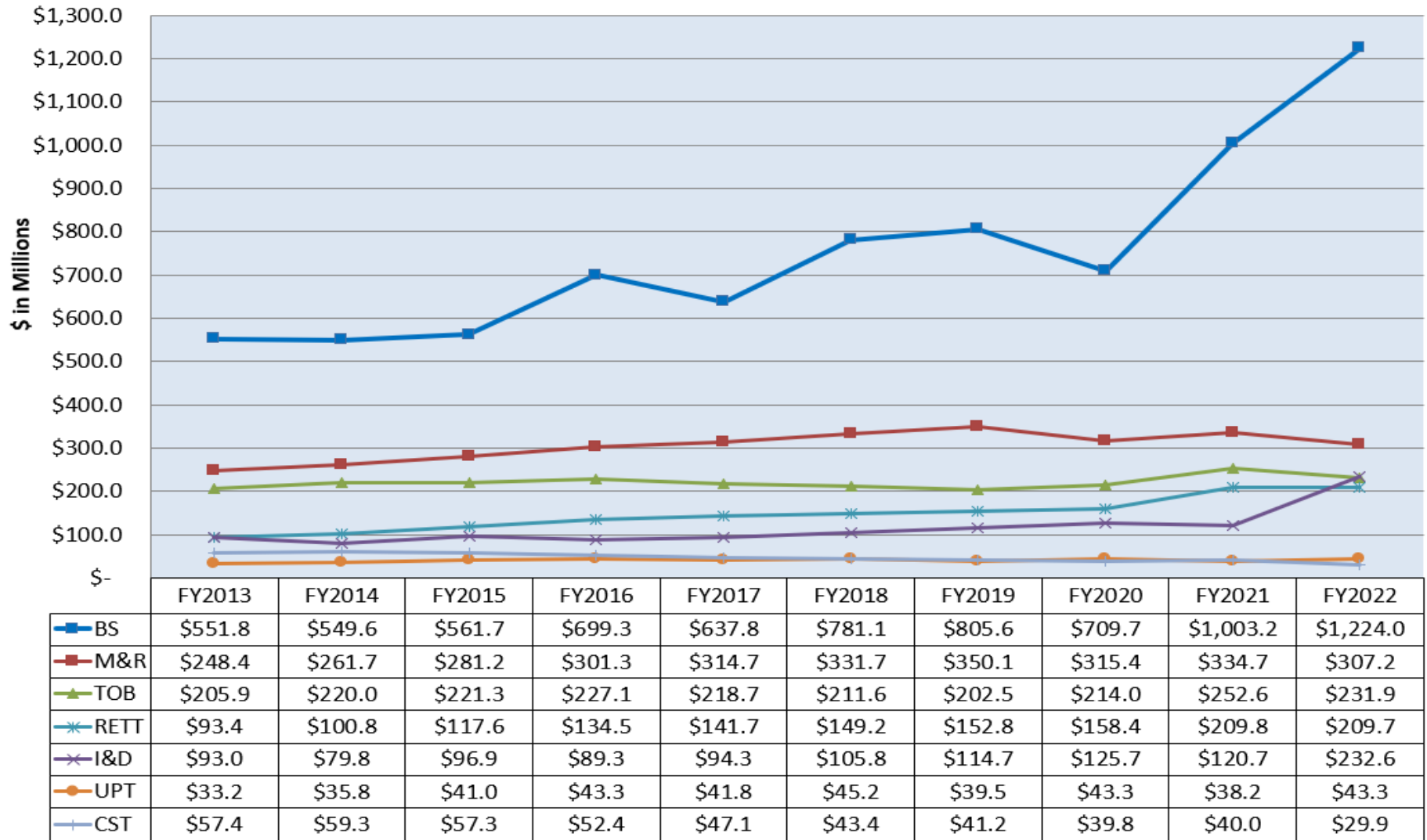
	Fiscal Year Ended June 30									
GENERAL & EDUCATION TRUST FUNDS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Business Profits Tax	323,754	330,149	343,427	426,955	385,809	482,228	473,466	450,828	667,224	889,100
Business Enterprise Tax	228,011	219,480	218,236	272,336	251,990	298,884	332,136	258,911	335,987	334,900
	551,765	549,629	561,663	699,291	637,799	781,112	805,602	709,739	1,003,211	1,224,000



Percentage of Business Tax Revenue	Fiscal Year Ended June 30									
GENERAL & EDUCATION TRUST FUNDS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Business Profits Tax	58.7%	60.1%	61.1%	61.1%	60.5%	61.7%	58.8%	63.5%	66.5%	72.6%
Business Enterprise Tax	41.3%	39.9%	38.9%	38.9%	39.5%	38.3%	41.2%	36.5%	33.5%	27.4%

Historical Revenue Trends

(Audited)



FY2023 Tax Revenues

through December 2022

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	\$ 515,100,000	\$ 400,200,000	28.7%	58.2%
M&R	\$ 175,800,000	\$ 134,800,000	30.4%	45.0%
Tobacco	\$ 117,900,000	\$ 126,800,000	-7.0%	47.2%
RETT	\$ 132,600,000	\$ 105,000,000	26.3%	42.3%
I&D	\$ 33,500,000	\$ 32,900,000	1.8%	75.8%
UPT	\$ 20,500,000	\$ 19,800,000	3.5%	51.2%
CST	\$ 14,700,000	\$ 19,300,000	-23.8%	50.6%
	\$ 1,010,100,000	\$ 838,800,000	20.4%	54.4%

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