



2017 Legislative Outlook

Presentation to
Concord Chamber of Commerce
January 23, 2017

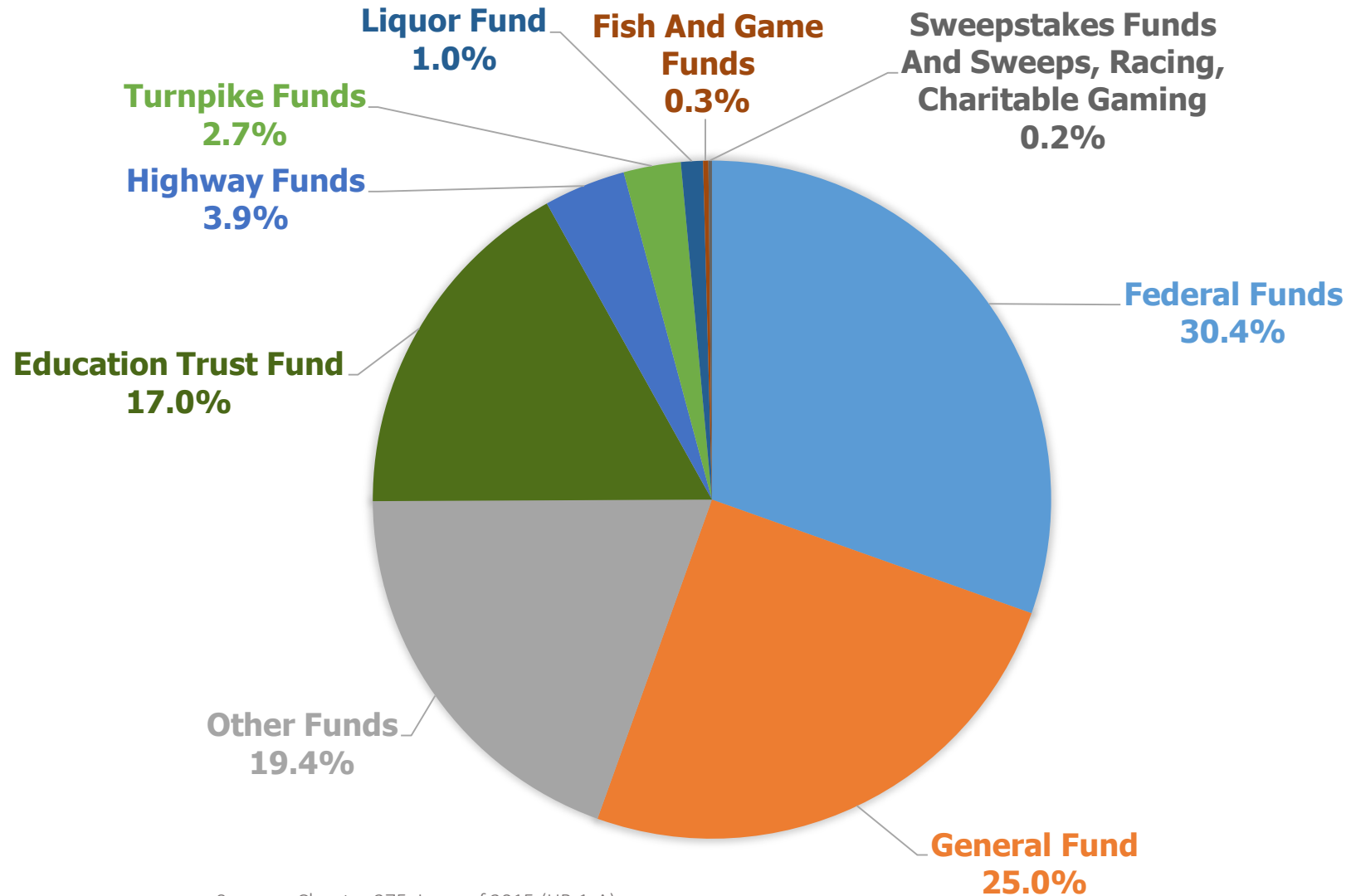
Phil Sletten
Policy Analyst
New Hampshire Fiscal Policy Institute
603.856.8337
www.nhfpi.org
@NHFPI

2017 Legislative Outlook – Business Taxes

- **Business taxes and the State budget**
- Tax incidence on businesses
- Possible tax changes going forward
- Revenues and the surplus

Budget-Identified Funds By Magnitude

State Fiscal Year (SFY) 2016-17 Biennial Budget



Sources: Chapter 275, Laws of 2015 (HB 1-A)

Example Sources Of State Revenue

Federal Sources

- Medicaid
- Federal transportation aid
- Education aid
 - Special education
 - School lunch program
 - Professional development
- TANF
- Veterans care aid
- WIC supplemental nutrition
- Water pollution and infrastructure funds
- Many other programs and grants

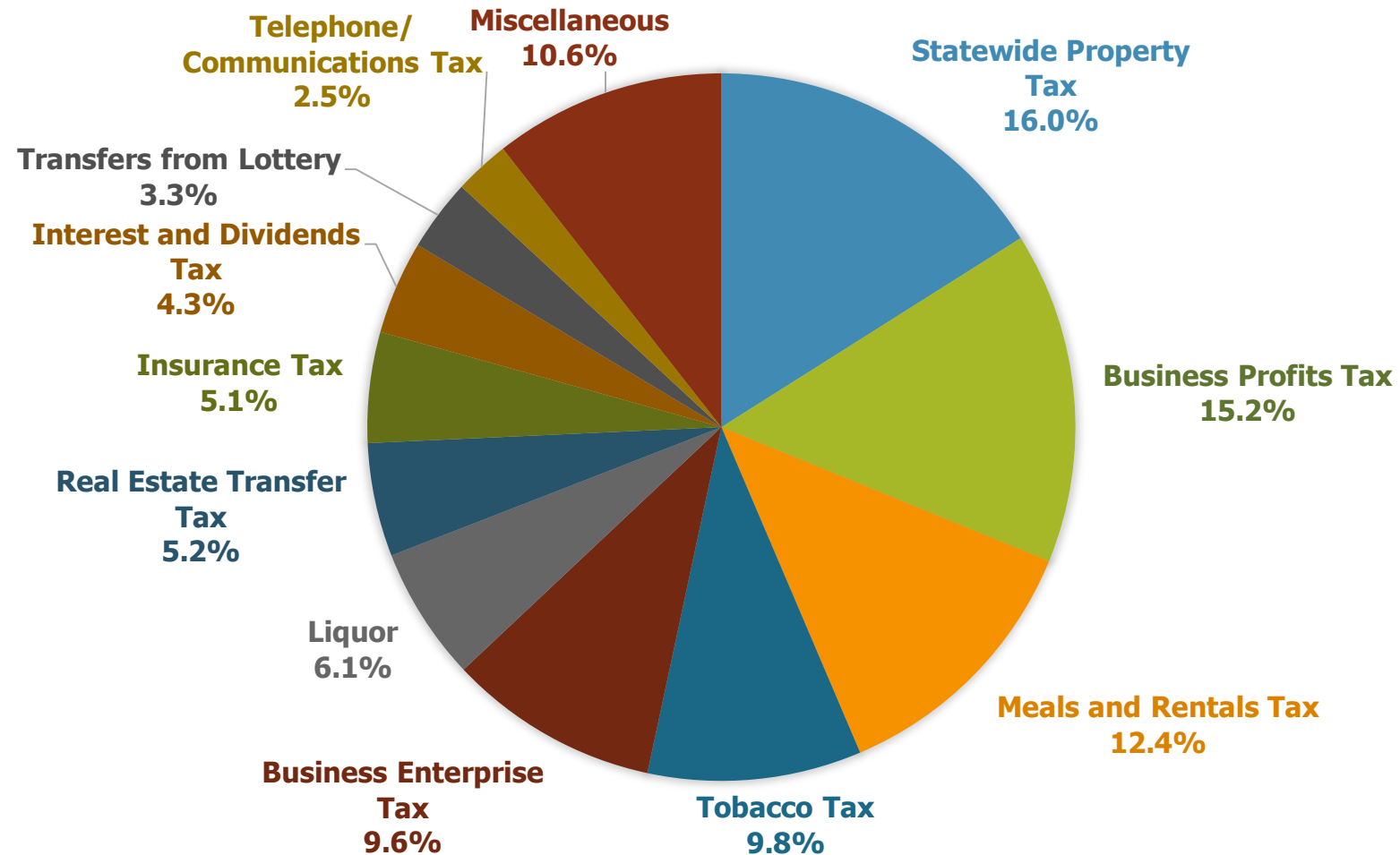
State Taxes And Charges

- Statewide Property Tax
- Business Profits Tax
- Business Enterprise Tax
- Road Toll (gasoline tax)
- Tobacco Tax
- Interest And Dividends Tax
- Real Estate Transfer Tax
- Meals And Rentals Tax
- Insurance Tax
- Communications Tax
- Other taxes and sales
- Fees and settlements
- Fines

Sources: NH LBA 2015 Introduction to State Taxes, SFY 2018-2019 Proposed Agency Budget Spreadsheet, NH Department of Education

State Collection: General And Education Trust Funds

SFY 2015 State Revenue Collected



Source: Comprehensive Annual Financial Report, SFY 2015

New Hampshire Taxes: Sources And Destinations

	Principal Taxes	SFY 2015 (Millions)	Rate	Percent of SFY 2015 State Budget
General Fund	Business Profits Tax ¹	\$282	7.00%	5.2%
	Meals And Rentals Tax ²	\$273	9.00%	5.0%
	Tobacco Tax	\$129	\$1.00/pack	2.4%
	Insurance Tax	\$114	1.25%	2.1%
	Interest And Dividends Tax	\$97	5.00%	1.8%
	Real Estate Transfer Tax	\$79	\$0.50/\$100	1.5%
	Business Enterprise Tax ¹	\$72	0.25%	1.3%
Education Trust Fund	Statewide Property Tax	\$363	Varies – Fixed Target	6.7%
	Business Enterprise Tax	\$146	0.50%	2.7%
	Tobacco Tax	\$93	\$0.78/pack	1.7%
	Business Profits Tax	\$61	1.50%	1.1%
	Real Estate Transfer Tax	\$39	\$0.25/\$100	0.7%
	Meals And Rentals Tax ²	\$9	9.00%	0.2%
Highway Fund	Road Toll (gasoline tax)	\$182	\$0.222/gal.	3.4%
	Motor Vehicle Fees	\$117	Varies – By Vehicle Type	2.2%

¹ The General Fund rates for the Business Profits and Enterprise Taxes have been reduced to 6.70 percent and 0.22 percent since SFY 2015.

² Tax receipts from rentals go to the Education Trust Fund while receipts from meals and rooms transactions go to the General Fund.

New Hampshire Taxes: Sources And Destinations

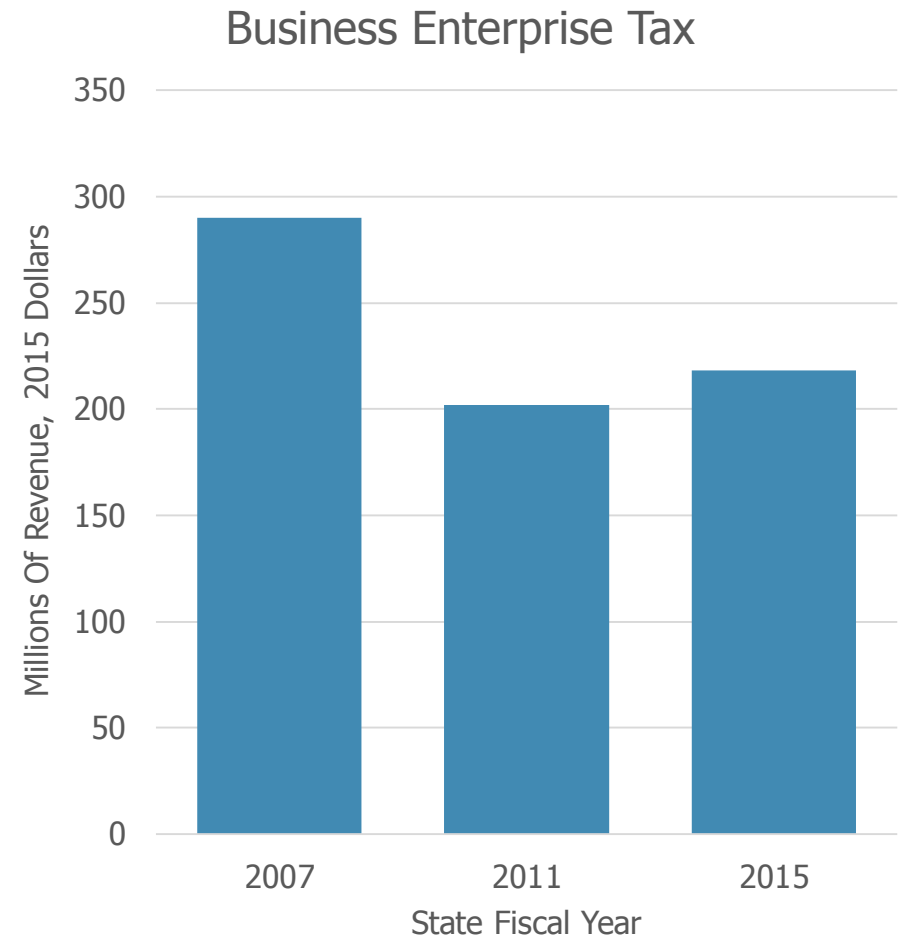
	Principal Taxes	SFY 2015 (Millions)	Rate	Percent of SFY 2015 State Budget
General Fund	Business Profits Tax ¹	\$282	7.00%	5.2%
	Meals And Rentals Tax ²	\$273	9.00%	5.0%
	Tobacco Tax	\$129	\$1.00/pack	2.4%
	Insurance Tax	\$114	1.25%	2.1%
	Interest And Dividends Tax	\$97	5.00%	1.8%
	Real Estate Transfer Tax	\$79	\$0.50/\$100	1.5%
	Business Enterprise Tax ¹	\$72	0.25%	1.3%
Education Trust Fund	Statewide Property Tax	\$363	Varies – Fixed Target	6.7%
	Business Enterprise Tax	\$146	0.50%	2.7%
	Tobacco Tax	\$93	\$0.78/pack	1.7%
	Business Profits Tax	\$61	1.50%	1.1%
	Real Estate Transfer Tax	\$39	\$0.25/\$100	0.7%
	Meals And Rentals Tax ²	\$9	9.00%	0.2%
Highway Fund	Road Toll (gasoline tax)	\$182	\$0.222/gal.	3.4%
	Motor Vehicle Fees	\$117	Varies – By Vehicle Type	2.2%

¹ The General Fund rates for the Business Profits and Enterprise Taxes have been reduced to 6.70 percent and 0.22 percent since SFY 2015.

² Tax receipts from rentals go to the Education Trust Fund while receipts from meals and rooms transactions go to the General Fund.

Changes In Tax Revenues

Inflation-adjusted Change In Select NH Taxes: SFY 2007, SFY 2011, SFY 2015

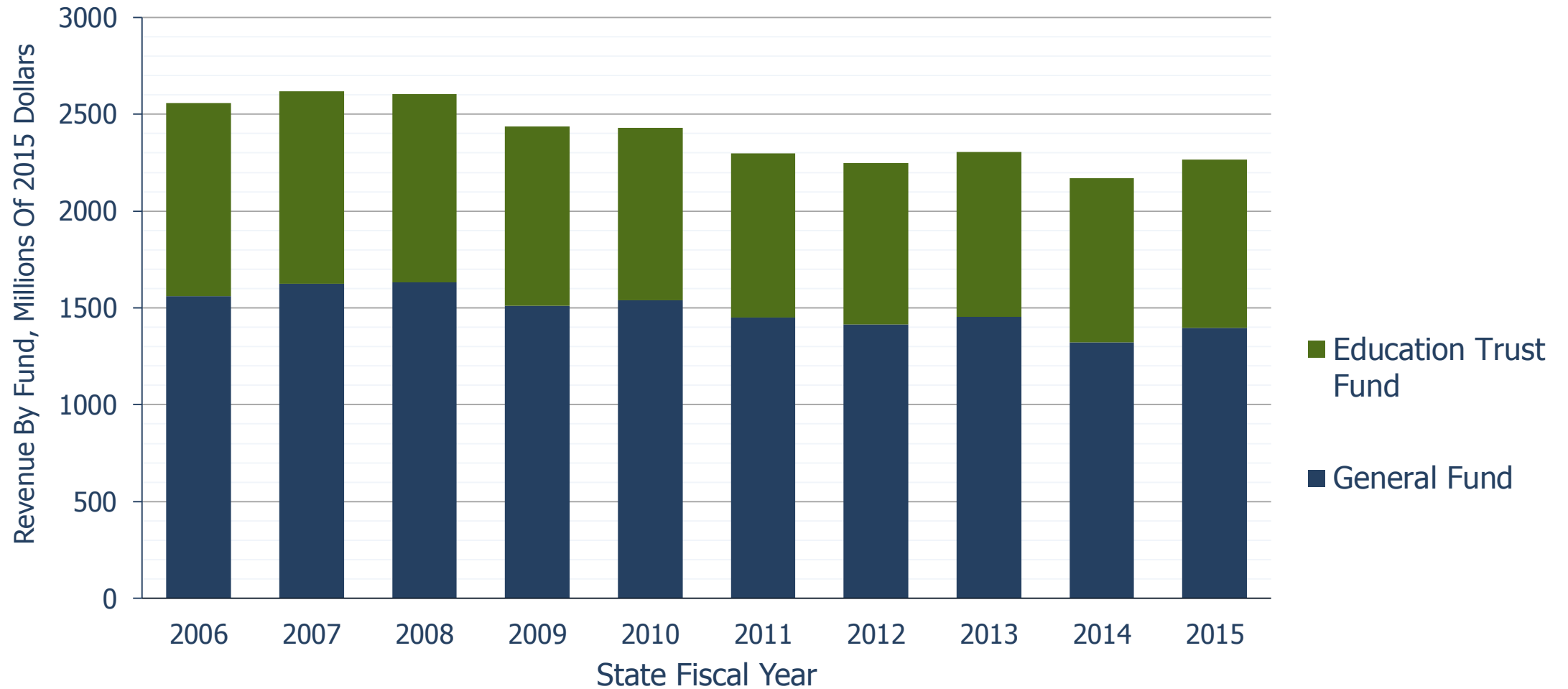


Note: Inflation adjustments computed using CPI-U, Northeast. All dollars are 2015.

Sources: Comprehensive Annual Financial Reports, SFYs 2014 and 2015, DRA reports, and US Bureau of Labor Statistics data

General And Education Trust Fund Revenue

Inflation-adjusted 2015 Dollars



Source: CAFR SFY 2015 and the U.S. Bureau of Labor Statistics

2017 Legislative Outlook – Business Taxes

- Business taxes and the State budget
- **Tax incidence on businesses**
- Possible tax changes going forward
- Revenues and the surplus

Business Profits Tax

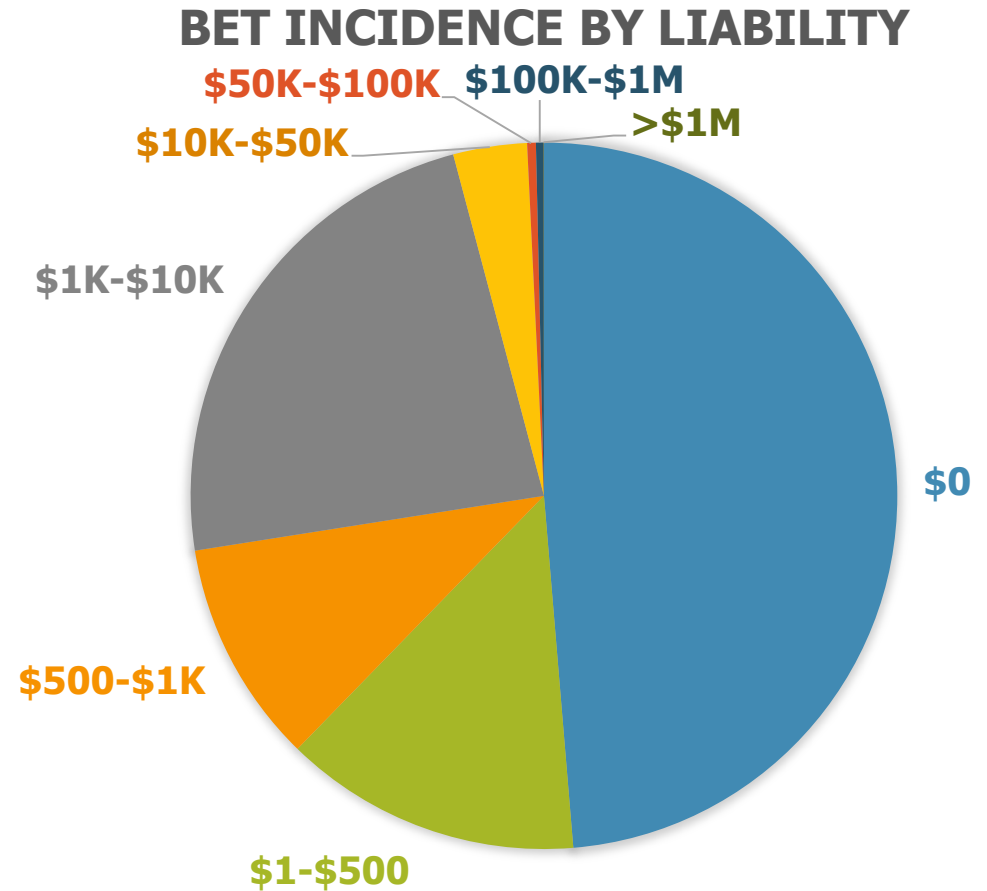
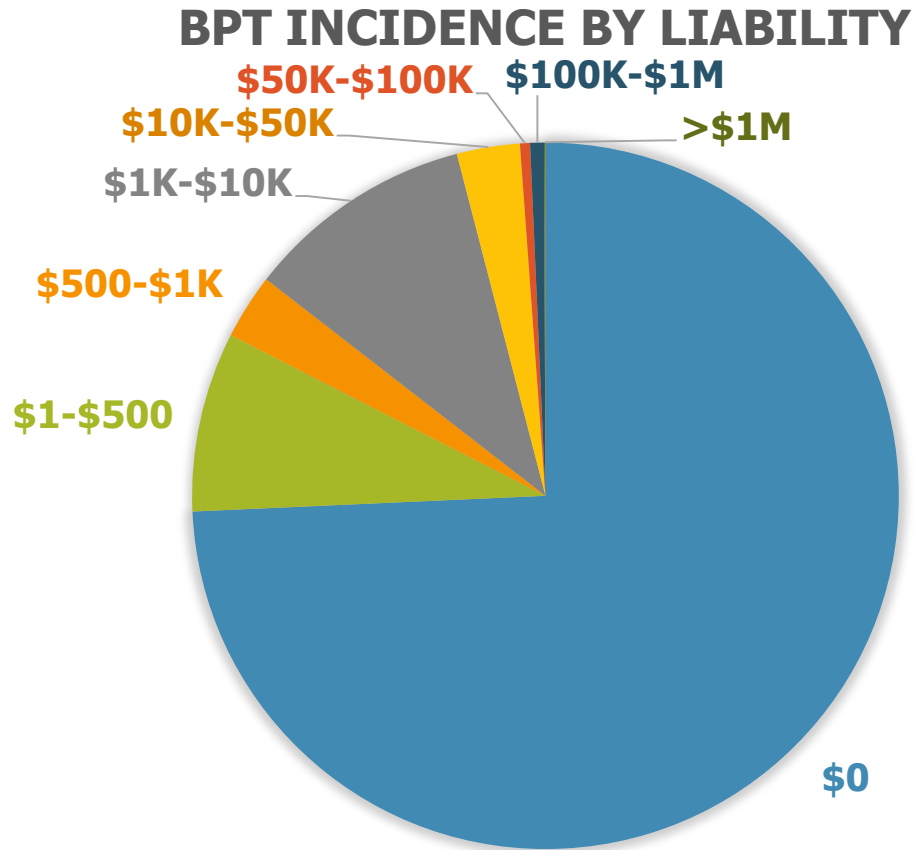
- Tax based on gross business profits, adjustments (BET), and apportionment
- Thresholds:
 - \$50,000 in gross business income over tax period
 - \$200 or higher tax liability estimated, declaration for subsequent period
 - Businesses with loss or gain in sale or exchange of interest in business organization
- Tax base likely about \$4.5 billion
- Rate in process of dropping:
 - 8.5% in 2015, 8.2% in 2016, 7.9% in 2018 (revenue-dependent)

Business Enterprise Tax

- Relatively unique among state business taxes, based on compensation, interest, dividends paid or accrued, adjustments, and apportionment
- Thresholds:
 - \$207,000 gross business receipts (inflation-adjusted)
 - \$103,000 business enterprise value tax base (inflation-adjusted)
 - \$260 or higher tax liability estimated, declaration for subsequent period
- Broader tax base, likely about \$35 billion
- Rate in process of dropping:
 - 0.75% in 2015, 0.72% in 2016, 0.675% in 2018 (revenue-dependent)

Business Tax Incidence

Most Businesses Have No BPT Liability, Almost Half Have No BET Liability
Number Of Businesses By Liability, Tax Year 2014, DRA Draft Data



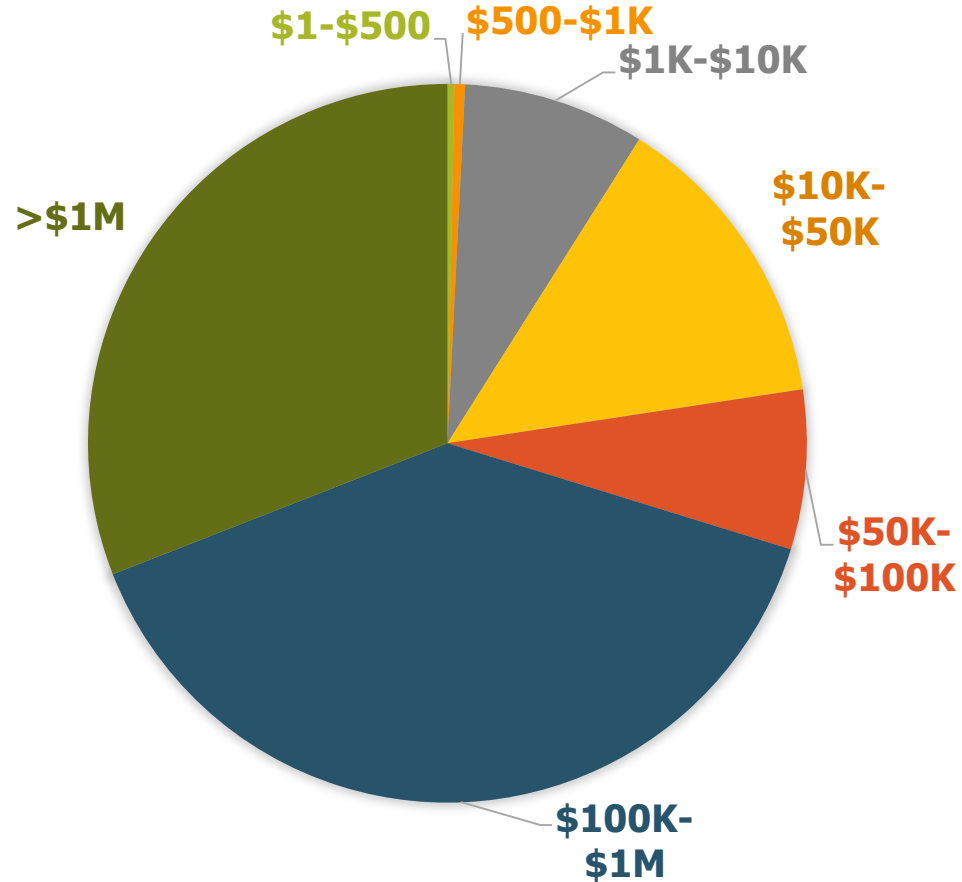
Source: Department of Revenue Administration 2016 Annual Report

Business Tax Payments

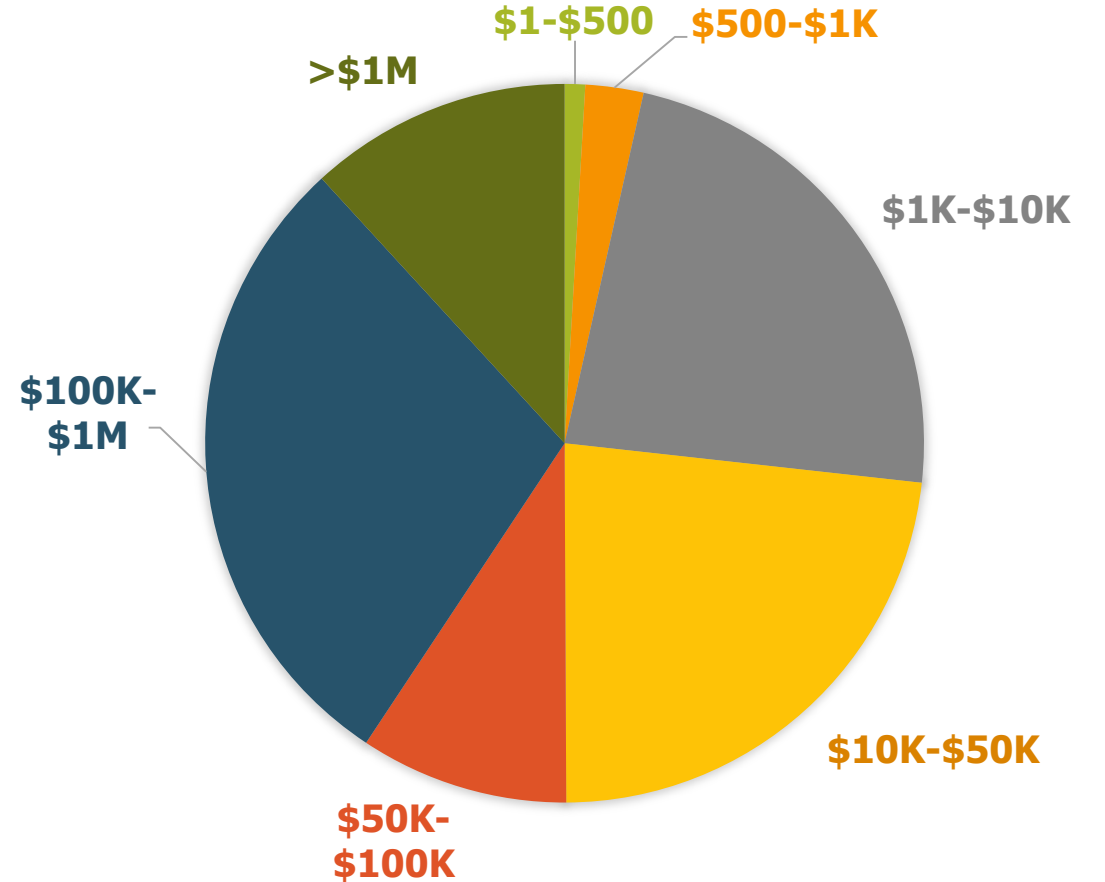
Largest BPT And BET Liabilities Fall On Few Businesses

Tax Revenue By Business Liability, Tax Year 2014, DRA Draft Data

BPT PAYMENTS BY LIABILITY



BET PAYMENTS BY LIABILITY

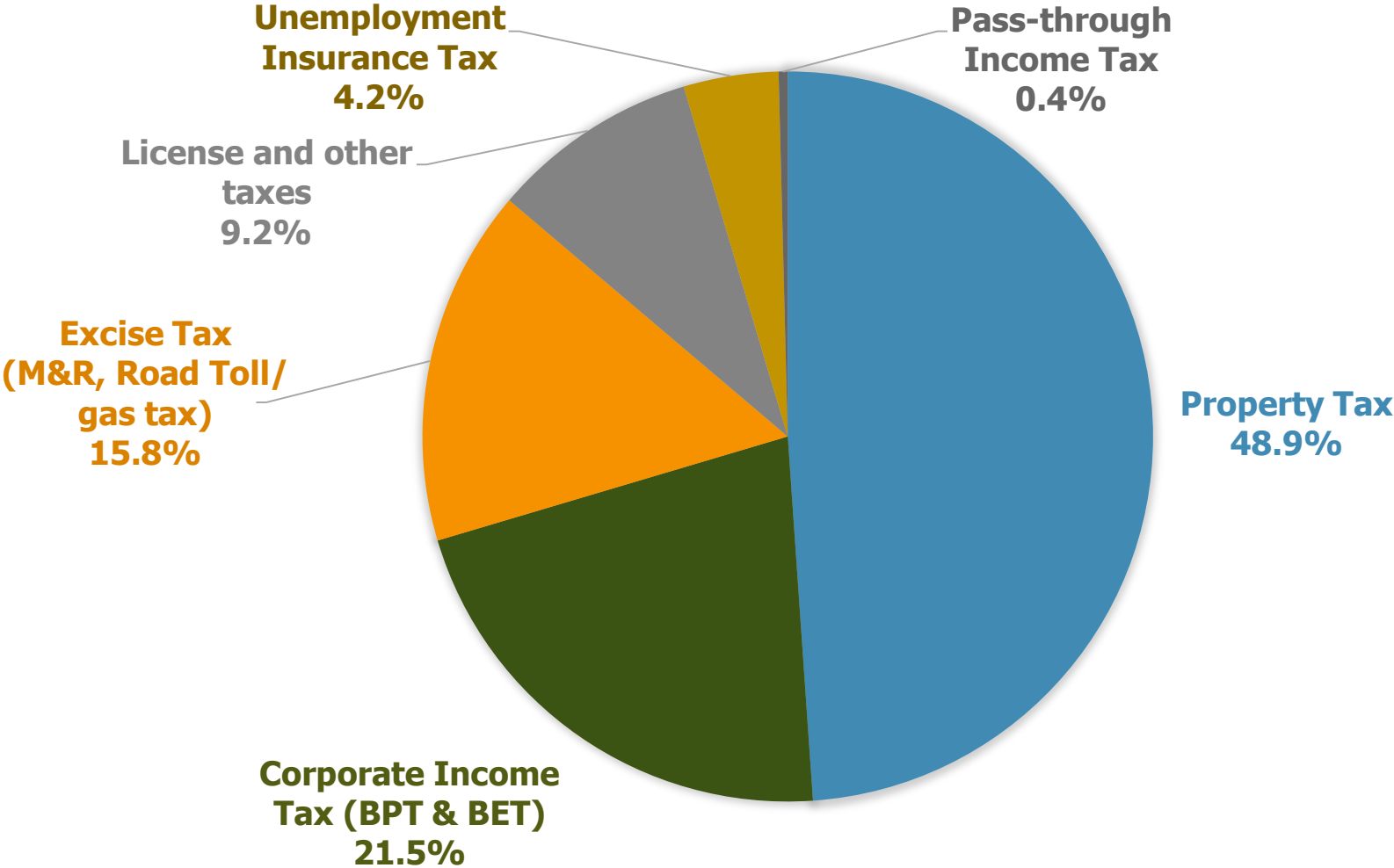


Source: Department of Revenue Administration 2016 Annual Report

State And Local Taxes Paid By Businesses

NH State Business Taxes Are Less Than A Quarter Of All Taxes Paid

Fiscal Year 2015

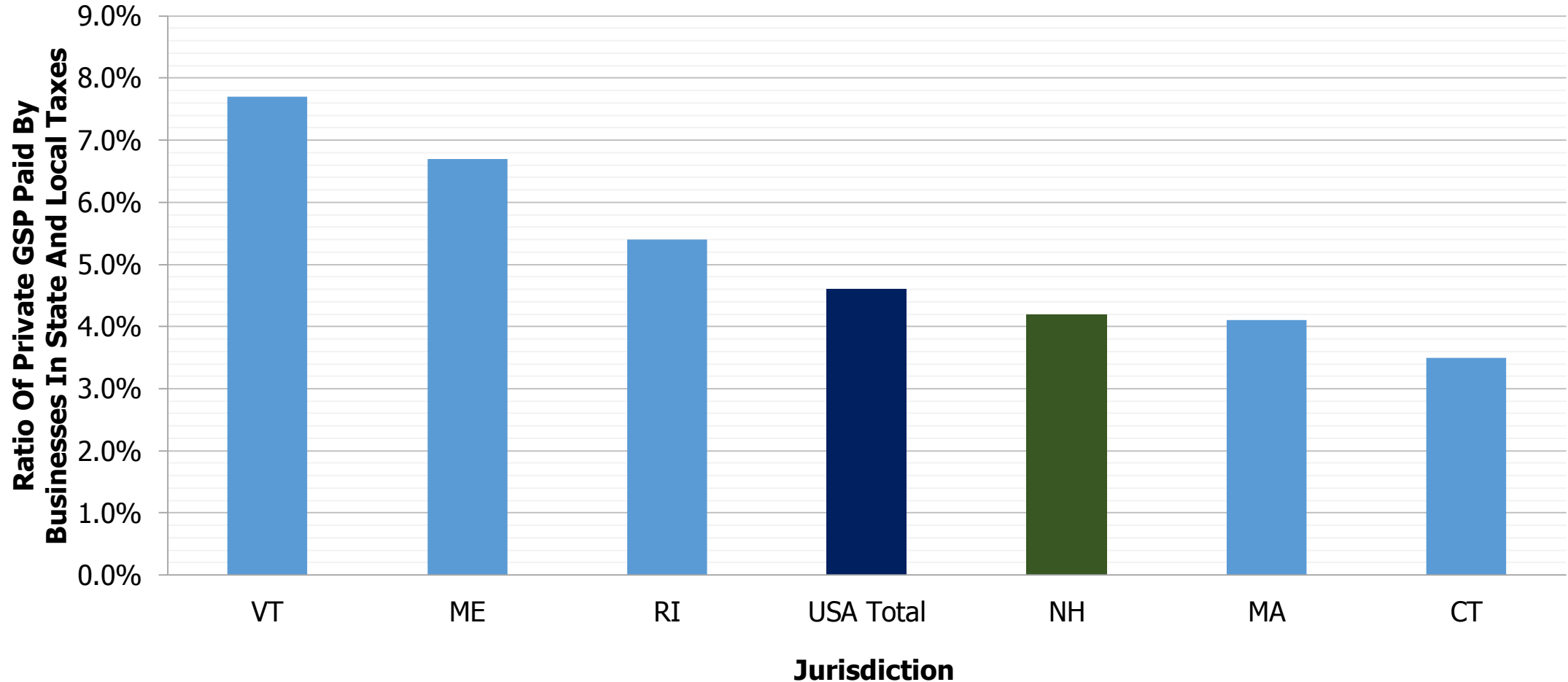


Source: Council on State Taxation, December 2016

One Measure Of State Business Taxation

New Hampshire Ranks 15th Lowest

*Ratio Of Total State And Local Taxes Paid By Business
To Private Sector Gross State Product, 2015*



Source: Council on State Taxation, December 2016

2017 Legislative Outlook – Business Taxes

- Business taxes and the State budget
- Tax incidence on businesses
- **Possible tax changes going forward**
- Revenues and the surplus

Selected Recent Tax Law Changes

Many Changes, Cuts Muddle Analyses Of Individual Tweaks

Legislation	Change	Effective Date
HB 187 (^11)	Extend BET carryforwards to ten years	7.1.14
SB 326 (^12)	Exempts trusts from I&D taxation, to beneficiaries	12.31.16
SB 327 (^12)	Economic Revitalization Zone credit	8.15.14
HB 1418 (^12)	Excluded Internet access from CST	6.21.12
SB 211 (^15)	BET employee leasing company elective	7.1.15
SB 9 (^15)	BPT/BET rate reductions, phase-in	12.31.16
HB 2 (^15)	R&D tax credit from \$2 mil to \$7 mil	7.1.17
SB 232 (^15)	Exempts leases for less than 99 years from RETT	7.1.15
SB 239 (^16)	Internal Revenue Code synchronization	1.1.17
SB 342 (^16)	BPT Sales or Exchange additions	1.1.16
HB 1656 (^16)	RETT exemptions for certain entity exchanges	6.21.16

Source: NH DRA summary for Governor's Consensus Revenue Estimating Panel, 7/1/2016

Potential Upcoming Legislation

- Still some unknowns
- Governor's State budget proposal February 9
- Business Profits Tax rate
- Reapportionment
- Tax credits
- Thresholds
- Interest and Dividends tax reduction
- Business Enterprise Tax rate reductions seem less likely

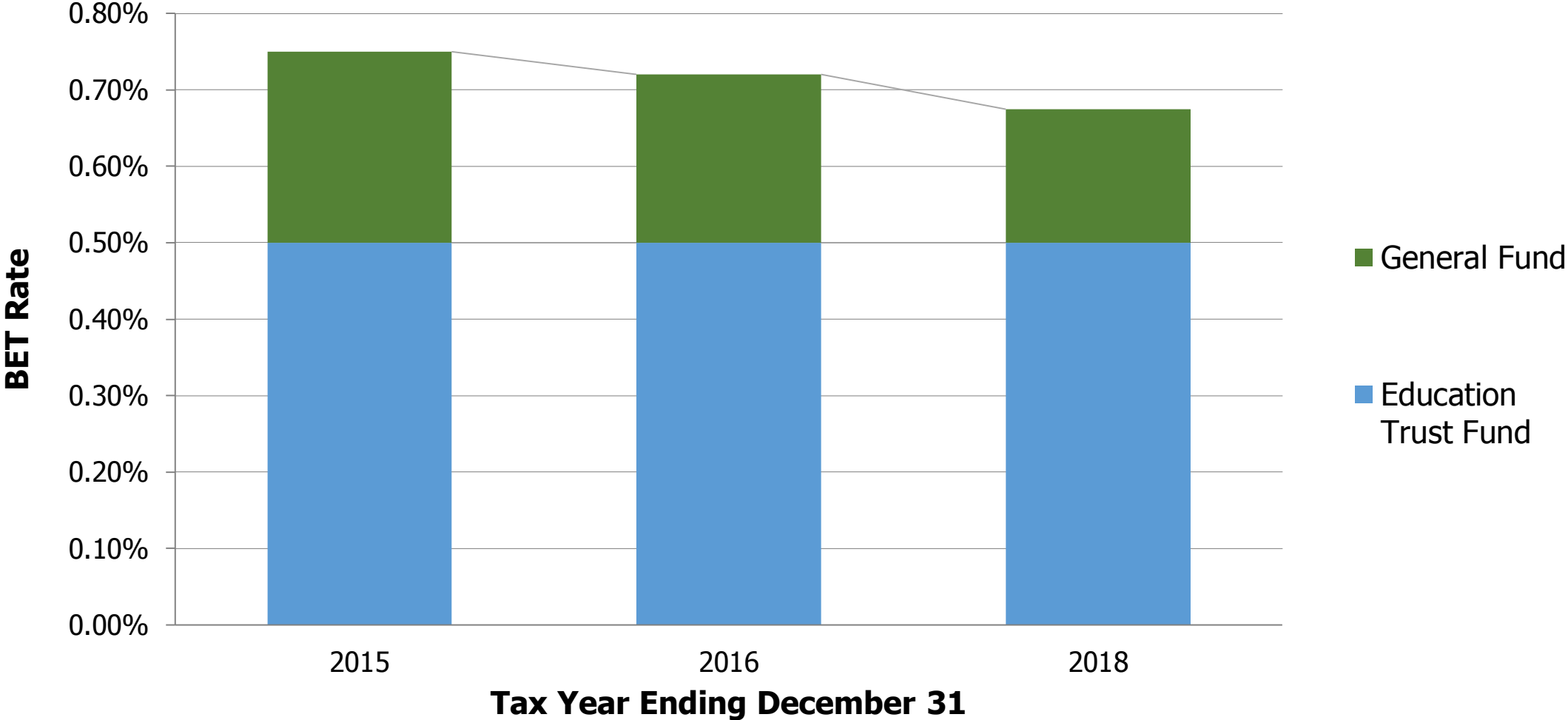
New Hampshire Taxes: Sources And Destinations

	Principal Taxes	SFY 2015 (Millions)	Rate	Percent of SFY 2015 State Budget
General Fund	Business Profits Tax ¹	\$282	7.00%	5.2%
	Meals And Rentals Tax ²	\$273	9.00%	5.0%
	Tobacco Tax	\$129	\$1.00/pack	2.4%
	Insurance Tax	\$114	1.25%	2.1%
	Interest And Dividends Tax	\$97	5.00%	1.8%
	Real Estate Transfer Tax	\$79	\$0.50/\$100	1.5%
	Business Enterprise Tax ¹	\$72	0.25%	1.3%
Education Trust Fund	Statewide Property Tax	\$363	Varies – Fixed Target	6.7%
	Business Enterprise Tax	\$146	0.50%	2.7%
	Tobacco Tax	\$93	\$0.78/pack	1.7%
	Business Profits Tax	\$61	1.50%	1.1%
	Real Estate Transfer Tax	\$39	\$0.25/\$100	0.7%
	Meals And Rentals Tax ²	\$9	9.00%	0.2%
Highway Fund	Road Toll (gasoline tax)	\$182	\$0.222/gal.	3.4%
	Motor Vehicle Fees	\$117	Varies – By Vehicle Type	2.2%

¹ The General Fund rates for the Business Profits and Enterprise Taxes have been reduced to 6.70 percent and 0.22 percent since SFY 2015.

² Tax receipts from rentals go to the Education Trust Fund while receipts from meals and rooms transactions go to the General Fund.

Business Enterprise Tax Destinations



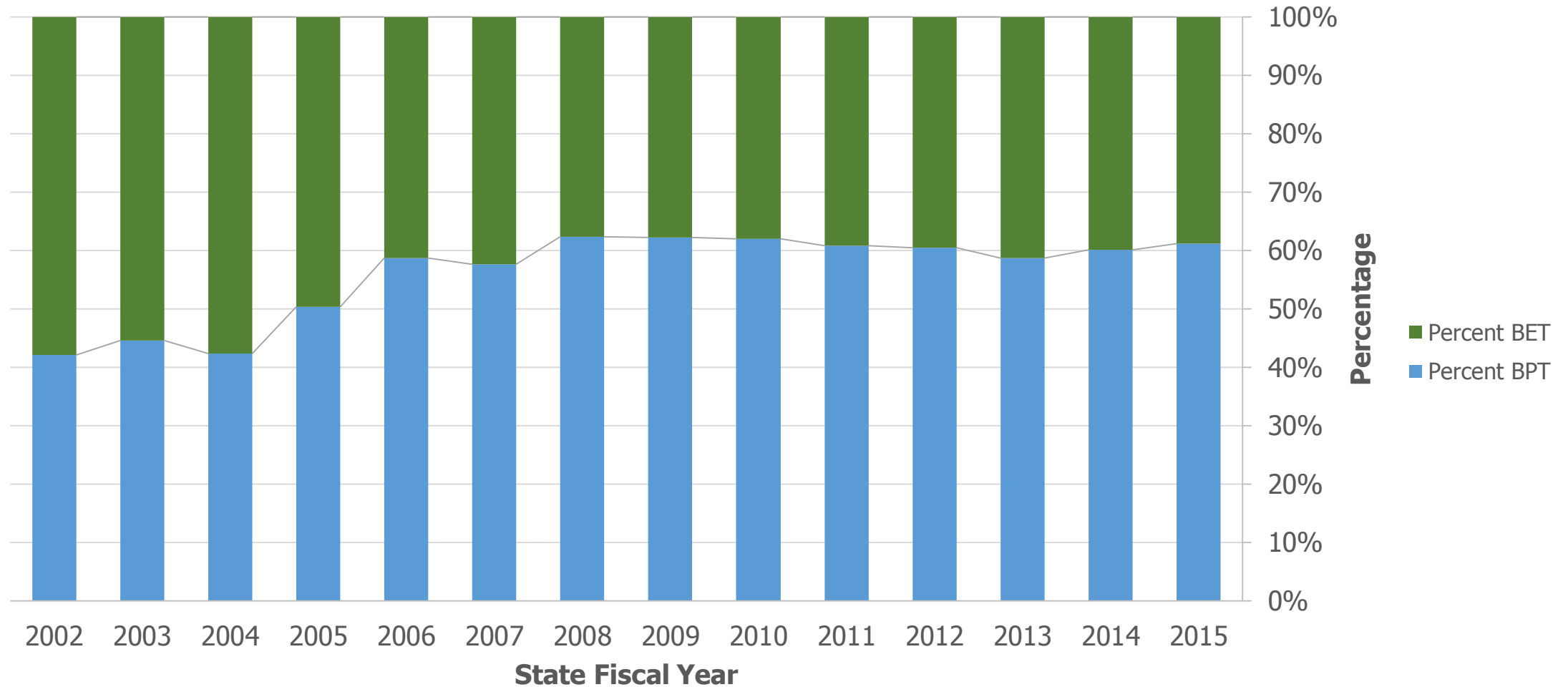
Source: RSA 77-E, assuming revenue threshold reached for 2018 reduction

New Hampshire Taxes: Sources And Destinations

	Principal Taxes	SFY 2015 (Millions)	Rate	Percent of SFY 2015 State Budget
General Fund	Business Profits Tax	\$282	7.00%	5.2%
	Meals And Rentals Tax	\$273	9.00%	5.0%
	Tobacco Tax	\$129	\$1.00/pack	2.4%
	Insurance Tax	\$114	1.25%	2.1%
	Interest And Dividends Tax	\$97	5.00%	1.8%
	Real Estate Transfer Tax	\$79	\$0.50/\$100	1.5%
	Business Enterprise Tax	\$72	0.25%	1.3%
Education Trust Fund	Statewide Property Tax ¹	\$363	Varies – Fixed Target	6.7%
	Business Enterprise Tax	\$146	0.50%	2.7%
	Tobacco Tax	\$93	\$0.78/pack	1.7%
	Business Profits Tax	\$61	1.50%	1.1%
	Real Estate Transfer Tax	\$39	\$0.25/\$100	0.7%
	Meals And Rentals Tax	\$9	9.00%	0.2%
Highway Fund	Road Toll (gasoline tax)	\$182	\$0.222/gal.	3.4%
	Motor Vehicle Fees	\$117	Varies – By Vehicle Type	2.2%

¹ Using the annual Consumer Price Index-Urban, Northeast from the U.S. Bureau of Labor Statistics to make adjustments, \$363 million in 2005 is the equivalent of about \$296 million in 2016 dollars. To buy \$363 million of 2005 dollars worth of goods in 2016, one would need about \$446 million.

BET And BPT As Share Of Total Over Time

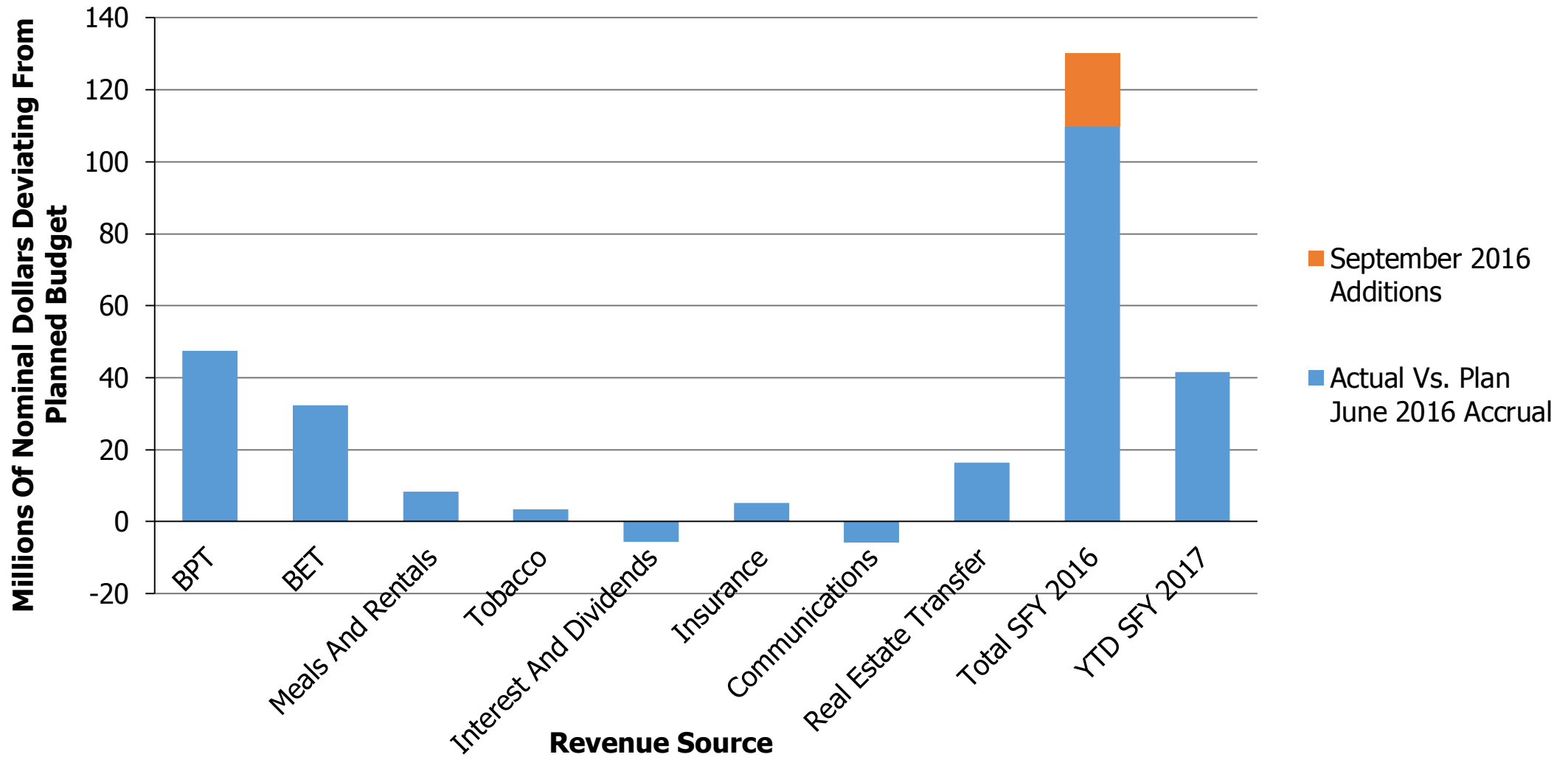


Sources: Comprehensive Annual Financial Reports, SFYs 2015, 2014, 2007, 2006, 2002

2017 Legislative Outlook – Business Taxes

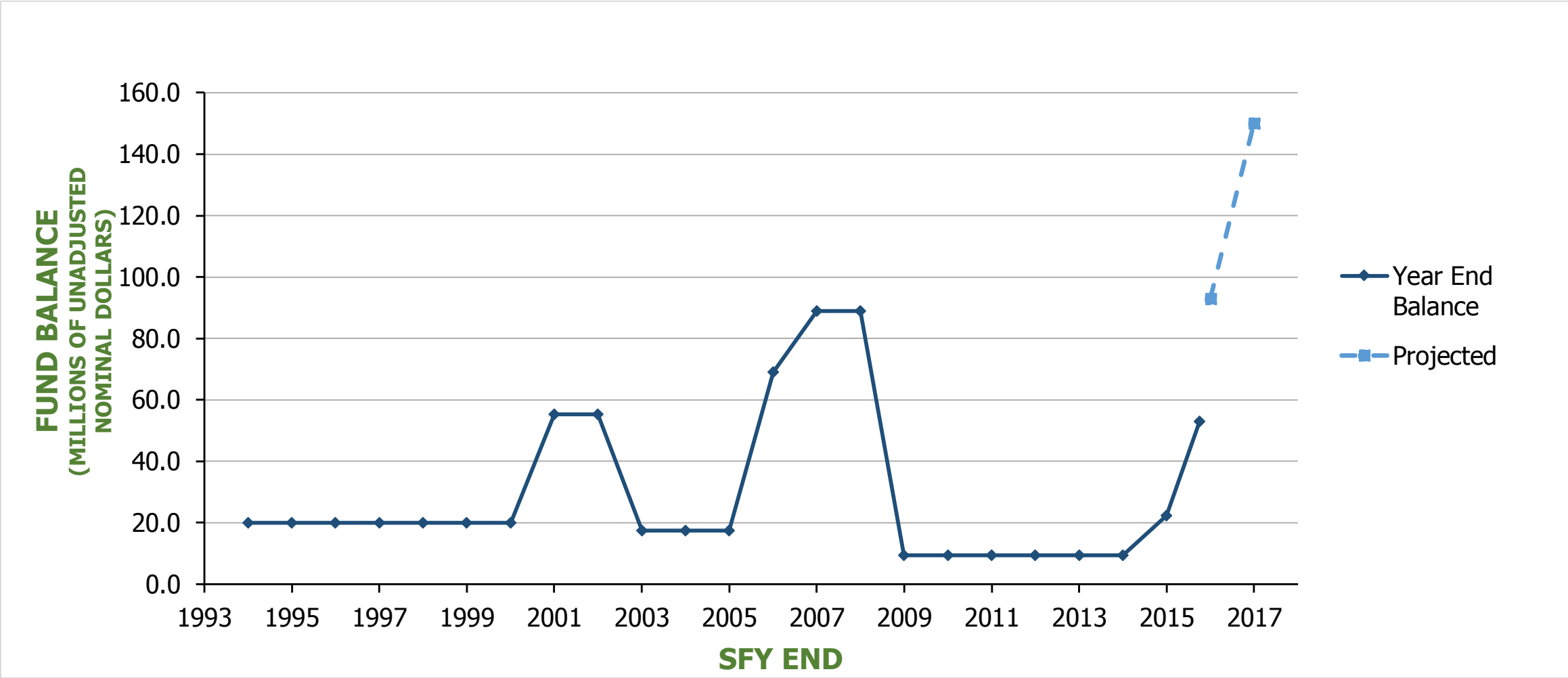
- Business taxes and the State budget
- Tax incidence on businesses
- Possible tax changes going forward
- **Revenues and the surplus**

Surplus By Source - *Preliminary*



Sources: New Hampshire GF And ETF 9/30/2016 Draft Preliminary Unaudited Fund Balance, DAS Monthly Revenue Focus June 2016 Preliminary Accrual, DAS Monthly Revenue Focus December 2016

Revenue Stabilization Reserve Account Balance



Sources: New Hampshire Comprehensive Annual Financial Reports: SFYs 2015, 2013, 2010, 2009, 2006, 2003, 2001, 1998; New Hampshire State Treasury General Obligation Refunding Bonds 2016 Series A And Capital Improvement Bonds 2016 Series B.

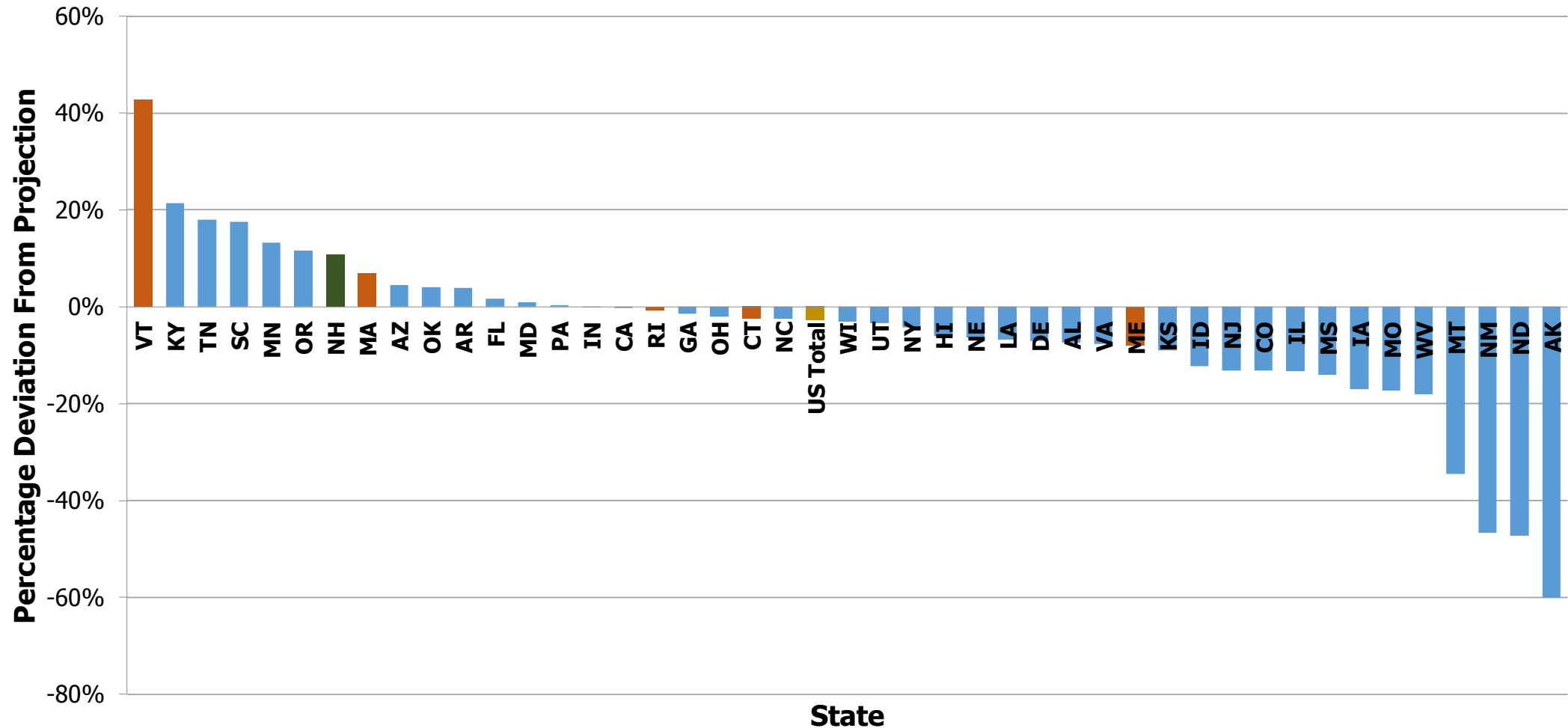
Revenues And The Surplus

- SFY 2016 surplus not definitive yet, but about **\$88.5 million** carried forward and **\$40 million** goes into the “rainy day fund”
- About \$60 million more dollars before “rainy day fund” is full, 10 percent of prior year General Fund cap
- However, DHHS is projecting a deficit for this biennium (pre-June 30) of about **\$66 million**
 - May be fixed through additional appropriations, but does not appear likely
 - Some money could come from estimated \$22 million DHHS lapse
 - Other internal savings, some areas running ahead of budget
- Concord Steam: **\$25 million**, capital or cash?
- Additional appropriations bills outside of budget?
- Credits from overpaid business taxes: \$173.4 million

Corporate Income Taxes Relative To Projections

New Hampshire One Of 14 States Meeting Or Exceeding Projections

Corporate Income Tax Preliminary Actuals As Percent Difference From Budget, FY 2016



Note: Michigan not included.

Source: National Association of State Budget Officers, Fiscal Survey of the States – Fall 2016



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

64 North Main Street – 3rd Floor

Concord, NH 03301

603.856.8337

www.nhfpi.org

@NHFPI