New Hampshire Revenue Sources and Recent Trends

Presented by Phil Sletten, Policy Analyst

New Hampshire House of Representatives
Ways and Means Committee
January 15, 2019
Context for New Hampshire Revenue System

**Governmental and Enterprise Funds Revenues**
Source: Comprehensive Annual Financial Report, State Fiscal Year 2016
Note: Certain Categories Combined, Summary Titles Provided Here

- Turnpike System 1.9%
- Personal (Tobacco) Taxes 3.2%
- Environmental Litigation Settlement 3.9%
- Lottery Commission 4.3%
- General Property Taxes 5.7%
- License Taxes 6.0%
- Liquor Commission 9.7%
- Sales and Assessments 1.6%
- Fees, Fines, and Interest 3.1%
- Other Grants 3.4%
- Special (Other State) Taxes 21.4%
- Miscellaneous 5.1%
- Federal Grants 30.7%

**General and Program Revenues**
New Hampshire, State Fiscal Year (SFY) 2018
Source: NH Comprehensive Annual Financial Report, SFY 2018

- General (Mostly Tax) Revenues 35.0%
- Program (Non-Tax) Revenues 65.0%
Context for New Hampshire Revenue System

New Hampshire Tax Revenue
By Level of Government, Fiscal Year 2015
Source: U.S. Census Bureau, 2015 Annual Surveys of State and Local Government Finances

- State Tax Revenue 40.2%
- Local Tax Revenue 59.8%

New Hampshire Total Local Property Tax Commitment
Tax Year, Inflation-Adjusted Dollars

<table>
<thead>
<tr>
<th>Tax Year (April 1 of Calendar Year)</th>
<th>Billions of Inflation-Adjusted Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$3.0</td>
</tr>
<tr>
<td>2010</td>
<td>$3.0</td>
</tr>
<tr>
<td>2011</td>
<td>$3.0</td>
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<tr>
<td>2012</td>
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<td>2013</td>
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<td>2014</td>
<td>$3.0</td>
</tr>
<tr>
<td>2015</td>
<td>$3.0</td>
</tr>
<tr>
<td>2016</td>
<td>$3.0</td>
</tr>
<tr>
<td>2017</td>
<td>$3.5</td>
</tr>
</tbody>
</table>

Note: Inflation-adjustment based on the second half of same numbered calendar year
Sources: NH Department of Revenue Administration;
State Budget Funds

New Hampshire State Budget Funds
State Fiscal Year 2018
Source: Chapter 155, Laws of 2017

- General Fund: 26.0%
- Federal Funds: 29.9%
- Other Funds: 19.6%
- Education Trust Fund: 16.3%
- Highway Funds: 4.0%
- Turnpike Funds: 2.5%
- Liquor Fund: 1.2%
- Fish and Game Funds: 0.2%
- Sweepstakes Funds: 0.2%
General and Education Trust Funds

**General and Education Trust Fund Revenue, State Fiscal Year 2018**

Source: New Hampshire Comprehensive Annual Financial Report, SFY 2018

- Business Profits Tax: 18.7%
- Business Taxes Combined: 30.3%
- Business Enterprise Tax: 11.6%
- Statewide Education Property Tax: 14.1%
- Meals and Rentals Tax: 12.9%
- Tobacco Tax: 8.2%
- Real Estate Transfer Tax: 5.8%
- Liquor Commission: 5.3%
- Insurance Premium Tax: 4.5%
- Interest and Dividends Tax: 4.1%
- Lottery Commission: 3.4%
- Utility Property Tax: 1.8%
- Communications Services Tax: 1.7%
- Miscellaneous: 8.1%

**General and Education Trust Fund Revenue by Year, Inflation-Adjusted dollars**

- General Fund
- Education Trust Fund

Trends in Revenue Sources

Differences in General and Education Trust Funds Monthly Cash Receipts
Twelve-Month Rolling Averages of Monthly Cash Receipts to the General and Education Trust Funds Relative to Prior Year from All Sources; Less Business Taxes; and Less Business, Real Estate Transfer, and Meals and Rentals Taxes

Month and State Fiscal Year
Sources: NH Department of Administrative Services Monthly Revenue Focus
- General and Education Trust Funds Revenue
- Funds Revenue without BPT and BET
- Funds Revenue without BPT, BET, M&R, and RETT

Difference from Prior Year, Rolling Average, Millions

New Hampshire Fiscal Policy Institute
The Two Primary Business Taxes

Business Profits Tax and Business Enterprise Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue


Millions of SFY 2018 Dollars

State Fiscal Year

- Business Profits Tax
- Business Enterprise Tax


$0 $100 $200 $300 $400 $500 $600 $700 $800 $900
The Two Primary Business Taxes

Business Profits Tax and Business Enterprise Tax
Percent Change from Prior State Fiscal Year to General and Education Trust Funds
Sources: New Hampshire Comprehensive Annual Financial Reports
### Business Profits Tax Incidence
**Tax Year 2016 - Filing Businesses**

<table>
<thead>
<tr>
<th>Tax Paid</th>
<th>Number of Businesses by Tax Paid</th>
<th>Percent of Businesses by Tax Paid</th>
<th>Cumulative Number of Businesses by Tax Paid</th>
<th>Cumulative Percent of Business by Tax Paid</th>
<th>Revenue by Amount of Tax Paid</th>
<th>Percent of Revenue by Tax Paid</th>
<th>Cumulative Percent of Revenue by Tax Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>55,624</td>
<td>76.8%</td>
<td>72,400</td>
<td>100.0%</td>
<td>$0</td>
<td>0.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>$1-$500</td>
<td>4,951</td>
<td>6.8%</td>
<td>16,776</td>
<td>23.2%</td>
<td>$805,516</td>
<td>0.2%</td>
<td>100.0%</td>
</tr>
<tr>
<td>$500-$1K</td>
<td>1,782</td>
<td>2.5%</td>
<td>11,825</td>
<td>16.3%</td>
<td>$1,292,515</td>
<td>0.4%</td>
<td>99.8%</td>
</tr>
<tr>
<td>$1K-$10K</td>
<td>6,907</td>
<td>9.5%</td>
<td>10,043</td>
<td>13.9%</td>
<td>$25,824,645</td>
<td>7.3%</td>
<td>99.4%</td>
</tr>
<tr>
<td>$10K-$50K</td>
<td>2,210</td>
<td>3.1%</td>
<td>3,136</td>
<td>4.3%</td>
<td>$46,691,247</td>
<td>13.1%</td>
<td>92.1%</td>
</tr>
<tr>
<td>$50K-$100K</td>
<td>389</td>
<td>0.5%</td>
<td>926</td>
<td>1.3%</td>
<td>$27,248,282</td>
<td>7.7%</td>
<td>79.0%</td>
</tr>
<tr>
<td>$100K-$1M</td>
<td>490</td>
<td>0.7%</td>
<td>537</td>
<td>0.7%</td>
<td>$139,337,740</td>
<td>39.2%</td>
<td>71.3%</td>
</tr>
<tr>
<td>&gt;$1M</td>
<td>47</td>
<td>0.1%</td>
<td>47</td>
<td>0.1%</td>
<td>$113,872,244</td>
<td>32.1%</td>
<td>32.1%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>72,400</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>72,400</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$355,072,189</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Source: New Hampshire Department of Revenue Administration 2018 Annual Report - Draft Data*

### Business Enterprise Tax Incidence
**Tax Year 2016 - Filing Businesses**

<table>
<thead>
<tr>
<th>Tax Paid</th>
<th>Number of Businesses by Tax Paid</th>
<th>Percent of Businesses by Tax Paid</th>
<th>Cumulative Number of Businesses by Tax Paid</th>
<th>Cumulative Percent of Business by Tax Paid</th>
<th>Revenue by Amount of Tax Paid</th>
<th>Percent of Revenue by Tax Paid</th>
<th>Cumulative Percent of Revenue by Tax Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>35,286</td>
<td>46.7%</td>
<td>72,400</td>
<td>100.0%</td>
<td>$0</td>
<td>0.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>$1-$500</td>
<td>9,778</td>
<td>13.5%</td>
<td>37,114</td>
<td>51.3%</td>
<td>$1,922,074</td>
<td>0.9%</td>
<td>100.0%</td>
</tr>
<tr>
<td>$500-$1K</td>
<td>7,358</td>
<td>10.2%</td>
<td>27,336</td>
<td>37.8%</td>
<td>$5,515,881</td>
<td>2.5%</td>
<td>99.1%</td>
</tr>
<tr>
<td>$1K-$10K</td>
<td>17,016</td>
<td>23.5%</td>
<td>19,978</td>
<td>27.6%</td>
<td>$50,690,443</td>
<td>23.1%</td>
<td>96.6%</td>
</tr>
<tr>
<td>$10K-$50K</td>
<td>2,381</td>
<td>3.3%</td>
<td>2,962</td>
<td>4.1%</td>
<td>$48,256,263</td>
<td>22.0%</td>
<td>73.5%</td>
</tr>
<tr>
<td>$50K-$100K</td>
<td>320</td>
<td>0.4%</td>
<td>581</td>
<td>0.8%</td>
<td>$22,320,038</td>
<td>10.2%</td>
<td>51.4%</td>
</tr>
<tr>
<td>$100K-$1M</td>
<td>248</td>
<td>0.3%</td>
<td>261</td>
<td>0.4%</td>
<td>$61,150,040</td>
<td>27.9%</td>
<td>41.3%</td>
</tr>
<tr>
<td>&gt;$1M</td>
<td>13</td>
<td>0.0%</td>
<td>13</td>
<td>0.0%</td>
<td>$29,245,803</td>
<td>13.3%</td>
<td>13.3%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>72,400</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>72,400</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>$219,100,542</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Source: New Hampshire Department of Revenue Administration 2018 Annual Report - Draft Data*
Abnormal Behavior in Business Taxes Continues

Average Differences in Business Tax Monthly Cash Receipts
Averages of Monthly Cash Receipts to the General and Education Trust Funds Relative to Prior Year from the Business Profits and Business Enterprise Taxes

Month and State Fiscal Year
Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports
- Three Month Rolling Average Increase Over Prior Year
- Twelve Month Rolling Average Increase Over Prior Year

Difference from Prior Year, Rolling Average, Millions
- $30
- $25
- $20
- $15
- $10
- $5
- $0
- $5
- $10
- $15
- $20
- $25
- $30

New Hampshire Fiscal Policy Institute
Extension revenue (full return delayed, but payment made) up 378 percent in SFY 2019 through December

Returns coming in high as well, December 1,873 percent over last December, up 74 percent in SFY 2019 thus far

Estimates up 14 percent through December, similar to SFY 2016 at December

How long does unusual behavior last? What does new “normal” look like?
Potential Factors in Business Tax Revenue Upswing

■ Economy
  ➢ May explain portion of rise, but unlikely to explain all
  ➢ BPT driven by U.S./multinational corporate profits, New Hampshire economy or recent policy decisions unlikely to explain all changes in BPT receipts
  ➢ BET base includes compensation, interest, and dividends paid, so higher wages in a tighter labor market and also dividend payments may be helping disproportionally

■ Mergers and acquisitions high
  ➢ Can impact tax base in one-time instances
  ➢ Can also impact tax base in longer term due to apportionment

■ Repatriation and other Tax Cuts and Jobs Act effects
  ➢ Deemed repatriation not in tax base, but dividends are in base
  ➢ Effects on corporate profits over time, changes in federal tax base
  ➢ Federal government still promulgating regulations
Economic Growth Strong, But Likely Not Only Factor

New Hampshire Gross State Product Growth
Estimated Growth from the Previous Quarter, Inflation-Adjusted Dollars

Percent Quarterly Growth, Inflation-Adjusted

Calendar Year and Quarter
Source: U.S. Bureau of Economic Analysis
Note: Percent Change in Real Gross State Product in Inflation-Adjusted 2012 Dollars
Economic Growth Strong, But Likely Not Only Factor

Percentage Change in New Hampshire Employment
Total Nonfarm Employment, Change from Prior Year, Seasonally-Adjusted Data

Note: 2018 data (in blue) are unbenchmarked.

Other Growth Drivers: Meals and Rentals Tax

**Meals and Rentals Tax**

*New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue*


**Millions of SFY 2018 Dollars**

- 2002: $250
- 2003: $275
- 2004: $280
- 2005: $290
- 2006: $295
- 2007: $300
- 2008: $305
- 2009: $310
- 2010: $315
- 2011: $320
- 2012: $325
- 2013: $330
- 2014: $335
- 2015: $340
- 2016: $345
- 2017: $350
- 2018: $355

**State Fiscal Year**

**Meals and Rentals Tax**

*Percent Change from Prior State Fiscal Year to General and Education Trust Funds*

Sources: New Hampshire Comprehensive Annual Financial Reports

**Percentage Change**

- 2003: 0%
- 2004: 4%
- 2005: 2%
- 2006: 0%
- 2007: 0%
- 2008: 0%
- 2009: 0%
- 2010: 12%
- 2011: 0%
- 2012: 0%
- 2013: 4%
- 2014: 2%
- 2015: 2%
- 2016: 2%
- 2017: 2%
- 2018: 2%
Other Growth Drivers: Real Estate Transfer Tax

Real Estate Transfer Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue


Real Estate Transfer Tax

Percent Change from Prior State Fiscal Year to General and Education Trust Funds

Sources: New Hampshire Comprehensive Annual Financial Reports
Sources to Watch: Interest and Dividends Tax

Interest and Dividends Tax
New Hampshire General Fund Inflation-Adjusted Revenue

Interest and Dividends Tax
Percent Change from Prior State Fiscal Year to General Fund
Sources: New Hampshire Comprehensive Annual Financial Reports
Sources to Watch: Tobacco Tax

Tobacco Tax

New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue


Tobacco Tax

Percent Change from Prior State Fiscal Year to General and Education Trust Funds

Sources: New Hampshire Comprehensive Annual Financial Reports
Sources to Watch: Insurance Premium Tax

Insurance Premium Tax
New Hampshire General Fund Inflation-Adjusted Revenue

Insurance Premium Tax
Percent Change from Prior State Fiscal Year to General Fund
Sources: New Hampshire Comprehensive Annual Financial Reports
Sources to Watch: Liquor Commission Profit

Liquor Commission Profits Revenue to General Fund
New Hampshire General Fund Inflation-Adjusted Revenue

Liquor Commission Profits Revenue to General Fund
Percent Change From Prior State Fiscal Year
Sources: New Hampshire Comprehensive Annual Financial Reports
Conclusions

- Projecting revenue always a difficult task, likely especially difficult this year

- Business taxes complicate picture
  - Federal corporate tax environment still unsettled
  - Effects of federal tax overhaul may linger
  - Rate reductions complicate comparisons

- Potential changes in other revenue sources
  - Continued slowing in Real Estate Transfer Tax with housing constraint?
  - Slowing Tobacco Tax, other sources?

- Economic slowdown, downturn, recession?
Additional NHFPI Resources

- **NHFPI NH State Budget page**: [http://nhfpi.org/resources/nh-state-budget](http://nhfpi.org/resources/nh-state-budget)
- **NHFPI Common Cents blog**: [http://nhfpi.org/commoncents](http://nhfpi.org/commoncents)
- **NHFPI Annual Conference**: **Investments to Sustain a Vibrant Economy**
  
  **Friday, February 22, 2019, 8:00 a.m. to 12:30 p.m.**
  
  Grappone Conference Center, Concord, NH
New Hampshire Fiscal Policy Institute

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