New Hampshire Revenue Sources and Recent Trends

Presented by Phil Sletten, Policy Analyst

New Hampshire Senate Ways and Means Committee
April 3, 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

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

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

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

New Hampshire Tax Revenue
Estimates By Government Level, Fiscal Year 2016
Source: U.S. Census Bureau, 2016 Annual Surveys of State and Local Government Finances

- State Tax Revenue 41%
- Local Tax Revenue 59%

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

- Billions of Inflation-Adjusted Dollars

<table>
<thead>
<tr>
<th>Tax Year (April 1 of Calendar Year)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.0</td>
<td>$0.5</td>
<td>$1.0</td>
<td>$1.5</td>
<td>$2.0</td>
<td>$2.5</td>
<td>$3.0</td>
<td>$3.5</td>
<td>$3.0</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
Funds Relative to Budget Plan

General and Education Trust Fund Revenue Surplus
Unaudited Cash Basis Aggregate Revenue Surplus by Month for Each State Fiscal Year

$0 Axis = 
State Revenue Plan Based on State Budget

Month of State Fiscal Year

Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports

- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
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
The Two Primary Business Taxes

Business Profits Tax and Business Enterprise Tax
New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue
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>
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<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>
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<td>100.0%</td>
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<tr>
<td>$500-$1K</td>
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<td>11,825</td>
<td>16.3%</td>
<td>$1,292,515</td>
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<td>99.8%</td>
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<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>
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<td>$10K-$50K</td>
<td>2,210</td>
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<td>92.1%</td>
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<td>$50K-$100K</td>
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<td>$100K-$1M</td>
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<td>537</td>
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<td>$139,337,740</td>
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<tr>
<td>&gt;$1M</td>
<td>47</td>
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<td>47</td>
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<td>$113,872,244</td>
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<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></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>
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</thead>
<tbody>
<tr>
<td>$0</td>
<td>35,286</td>
<td>48.7%</td>
<td>72,400</td>
<td>100.0%</td>
<td>$0</td>
<td>0.0%</td>
<td>100.0%</td>
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<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>
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<td>100.0%</td>
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<tr>
<td>$500-$1K</td>
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<td>27,336</td>
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<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>
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<td>96.6%</td>
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<td>$10K-$50K</td>
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<td>2,962</td>
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<td>$48,256,263</td>
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<tr>
<td>$50K-$100K</td>
<td>320</td>
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<td>581</td>
<td>0.8%</td>
<td>$22,320,038</td>
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<td>51.4%</td>
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<tr>
<td>$100K-$1M</td>
<td>248</td>
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<td>261</td>
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<td>$61,150,040</td>
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<td>&gt;$1M</td>
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<td>$29,245,803</td>
<td>13.3%</td>
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<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></td>
</tr>
</tbody>
</table>

Source: New Hampshire Department of Revenue Administration 2018 Annual Report - Draft Data
Recent Abnormal Business Tax Behavior

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

_Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports_
Extension revenue (full return delayed, but tax paid) is up 95 percent in SFY 2019 through March from SFY 2018, reducing from earlier highs (up 482 percent from prior year through November)

Returns also coming in high, December was 1,873 percent over last December, up 39 percent in SFY 2019 through March thus far

Estimate payments up 2 percent through March, less throughout calendar year 2019

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, unlikely that New Hampshire economy or recent State policy decisions explain large 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 disproportionately

■ 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
  - Time required for federal government to promulgate regulations
  - Other States have also seen upswings in corporate tax revenue since TCJA
Economic Growth Strong, But Likely Not Only Factor

New Hampshire Gross State Product Growth

Estimated Growth from the Previous Quarter in Rolling Four-Quarter Level Average, Inflation-Adjusted Dollars

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

Month and Calendar Year
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**
- **State Fiscal Year**

- **2002**
- **2003**
- **2004**
- **2005**
- **2006**
- **2007**
- **2008**
- **2009**
- **2010**
- **2011**
- **2012**
- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2018**

**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**
- **State Fiscal Year**

- **2003**
- **2004**
- **2005**
- **2006**
- **2007**
- **2008**
- **2009**
- **2010**
- **2011**
- **2012**
- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2018**
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

New Hampshire Fiscal Policy Institute 18
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

Millions of SFY 2018 Dollars

<table>
<thead>
<tr>
<th>State Fiscal Year</th>
<th>Millions of SFY 2018 Dollars</th>
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<tbody>
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<td>2002</td>
<td>$100</td>
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<td>2003</td>
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<td>2017</td>
<td>$100</td>
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<tr>
<td>2018</td>
<td>$100</td>
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Insurance Premium Tax
Percent Change from Prior State Fiscal Year to General Fund
Sources: New Hampshire Comprehensive Annual Financial Reports

Percentage Change

<table>
<thead>
<tr>
<th>State Fiscal Year</th>
<th>Percentage Change</th>
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<tbody>
<tr>
<td>2003</td>
<td>-5%</td>
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<td>2004</td>
<td>-10%</td>
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<td>-15%</td>
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<td>2016</td>
<td>-70%</td>
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<tr>
<td>2017</td>
<td>-75%</td>
</tr>
<tr>
<td>2018</td>
<td>-80%</td>
</tr>
</tbody>
</table>
Conclusions

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

- Business taxes complicate picture
  - Parts of federal corporate tax environment still settling
  - 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)