

New Hampshire Revenue Sources and Recent Trends

Presented by Phil Sletten, Policy Analyst

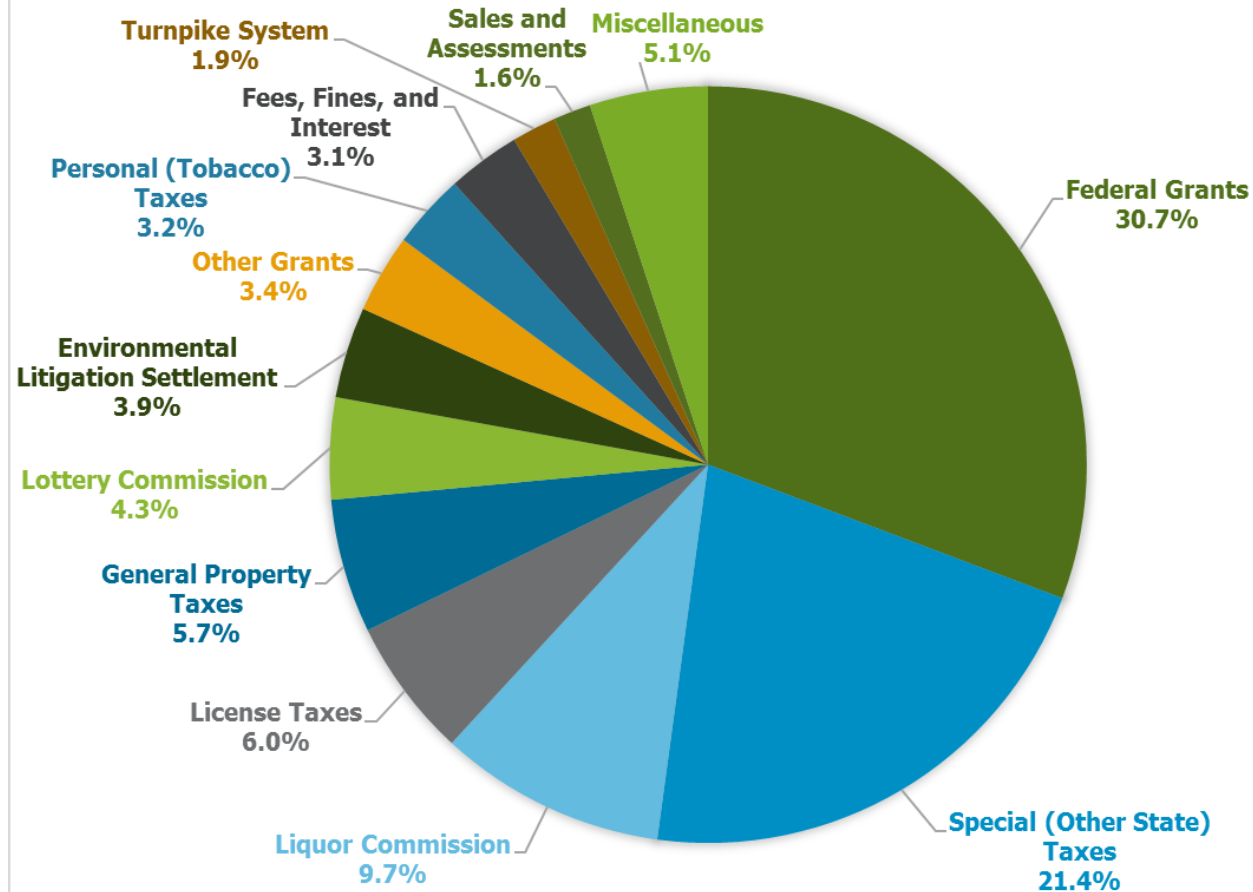
New Hampshire Senate
Ways and Means Committee
April 3, 2019

Context for New Hampshire Revenue System

Governmental and Enterprise Funds Revenues

Source: Comprehensive Annual Financial Report, State Fiscal Year 2016

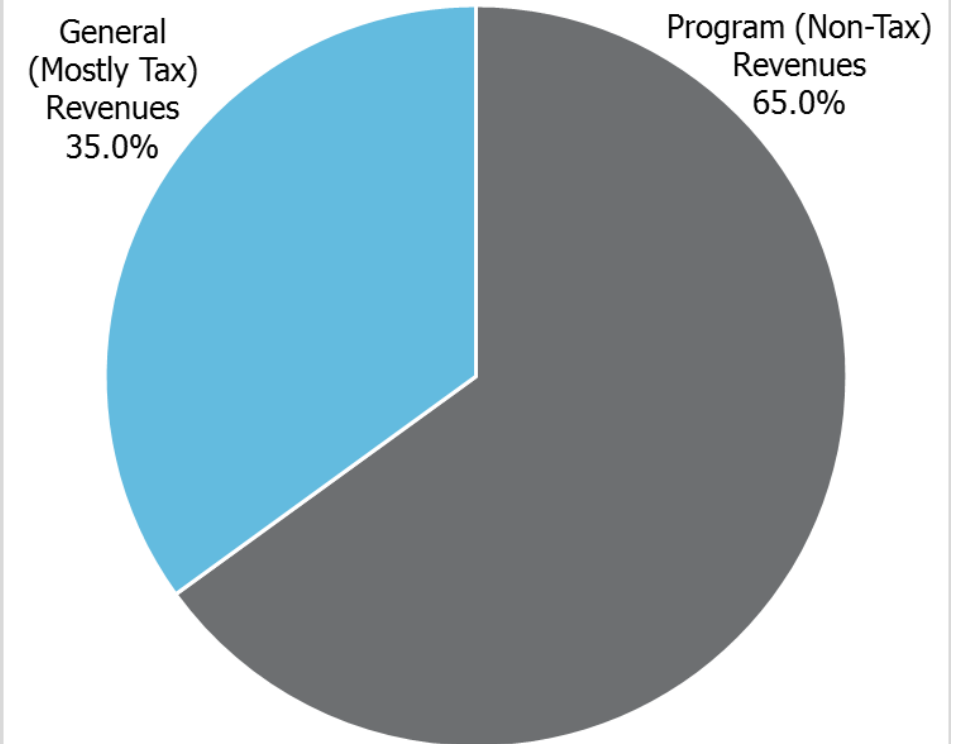
Note: Certain Categories Combined, Summary Titles Provided Here



General and Program Revenues

New Hampshire, State Fiscal Year (SFY) 2018

Source: NH Comprehensive Annual Financial Report, SFY 2018

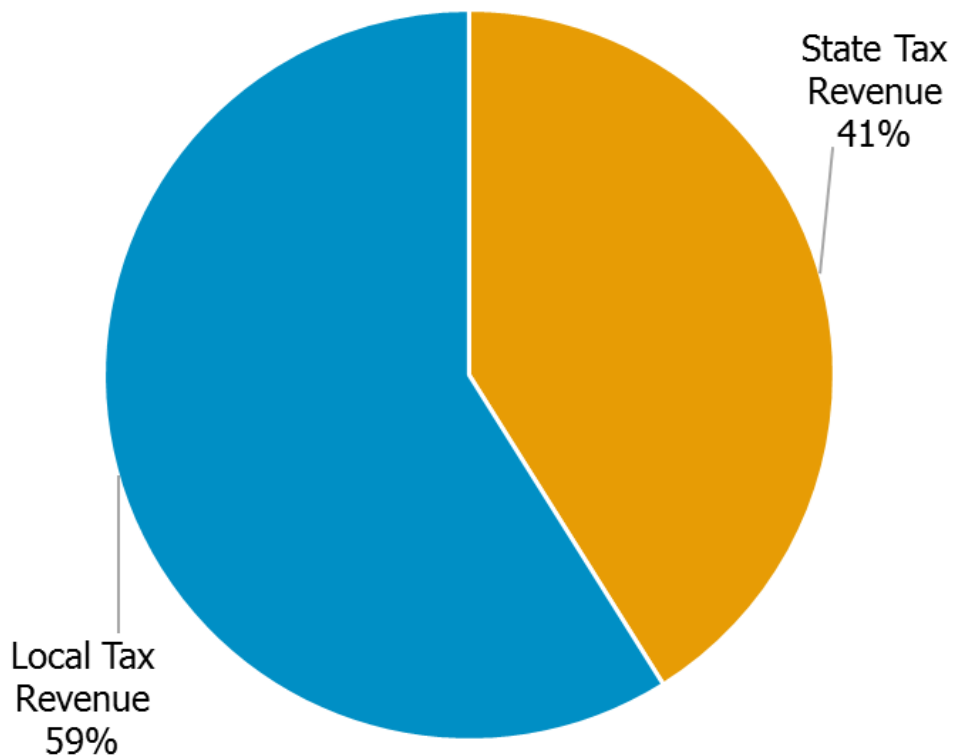


Context for New Hampshire Revenue System

New Hampshire Tax Revenue

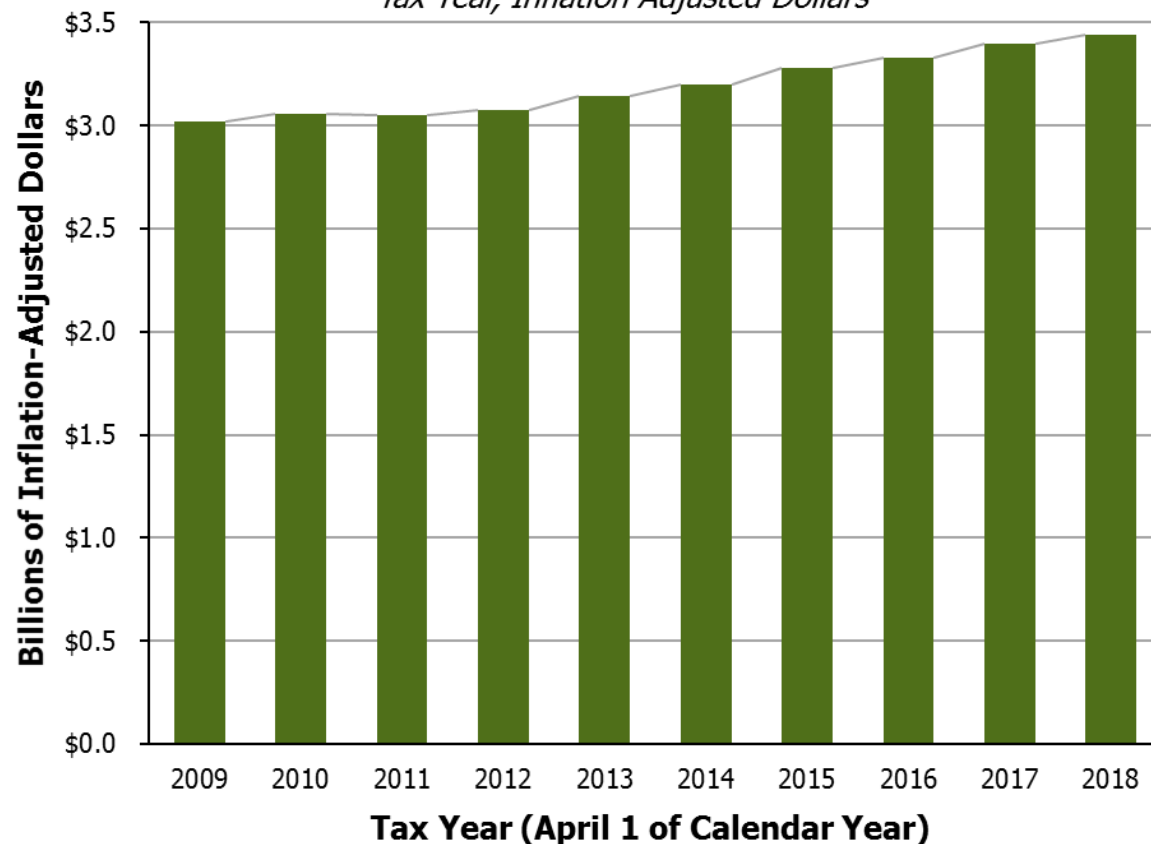
Estimates By Government Level, Fiscal Year 2016

Source: U.S. Census Bureau, 2016 Annual Surveys of State and Local Government Finances



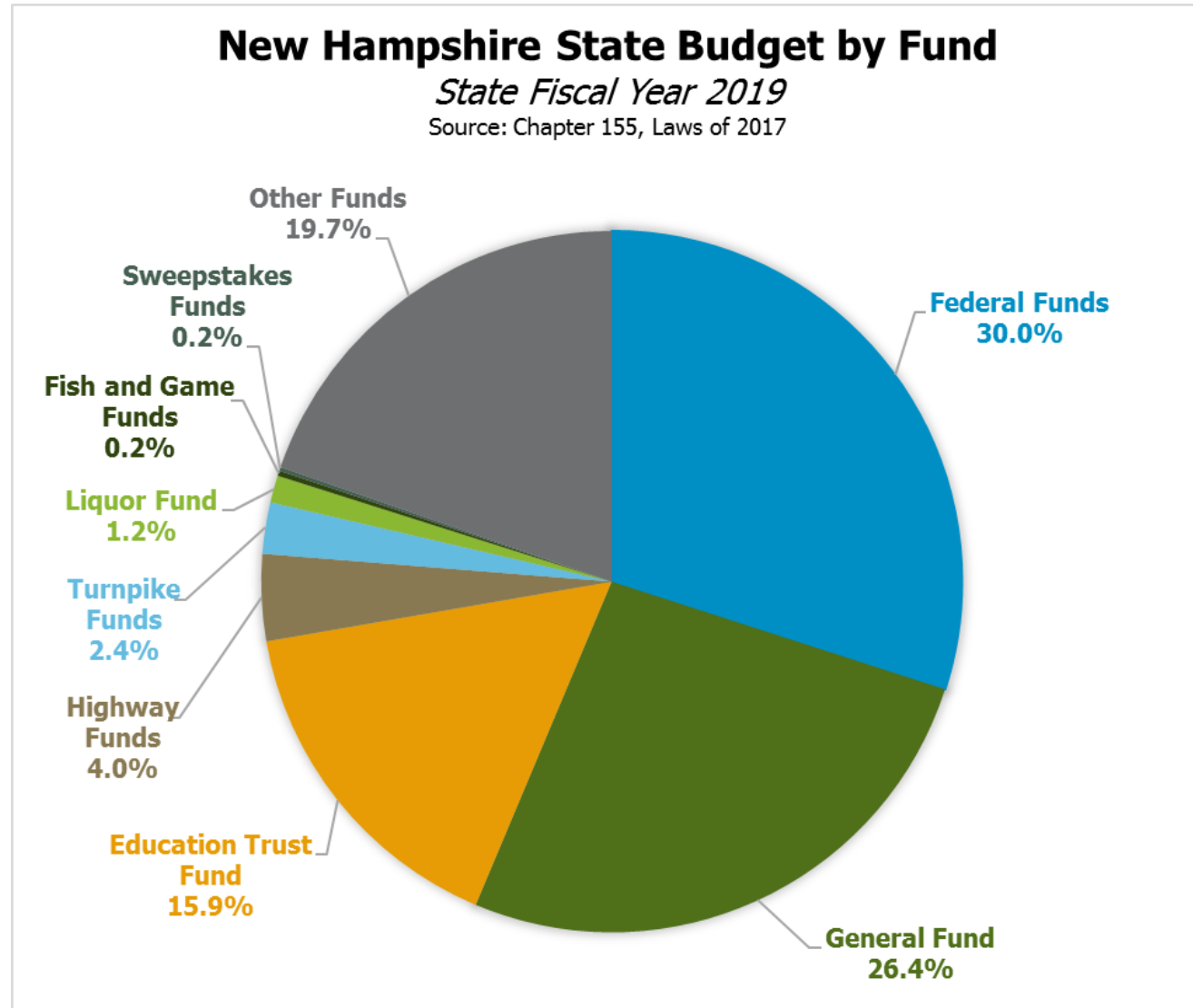
New Hampshire Total Local Property Tax Commitment

Tax Year, Inflation-Adjusted Dollars



Note: Inflation-adjustment based on the second half of same numbered calendar year
Sources: NH Department of Revenue Administration;
U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

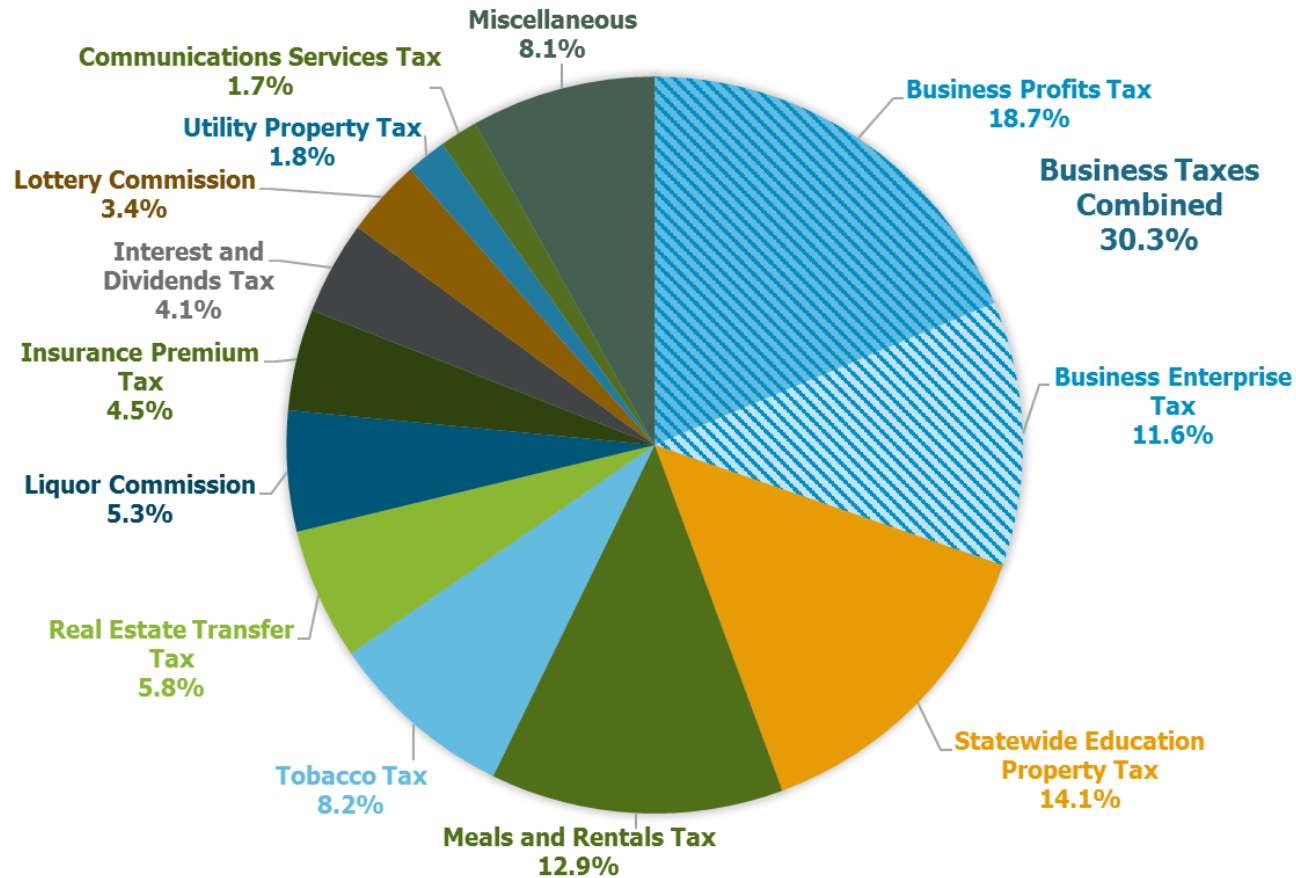
State Budget Funds



General and Education Trust Funds

General and Education Trust Fund Revenue, State Fiscal Year 2018

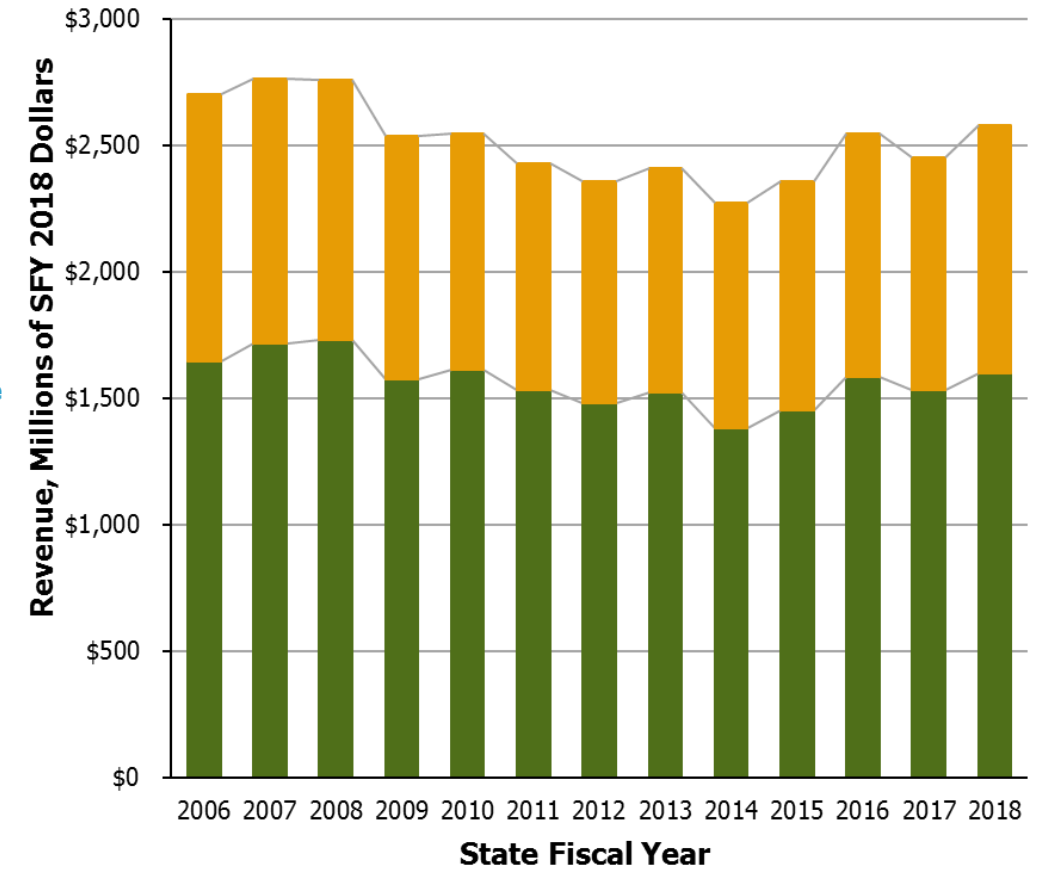
Source: New Hampshire Comprehensive Annual Financial Report, SFY 2018



General and Education Trust Fund Revenue

New Hampshire Funds by Year, Inflation-Adjusted Dollars

■ General Fund ■ Education Trust Fund

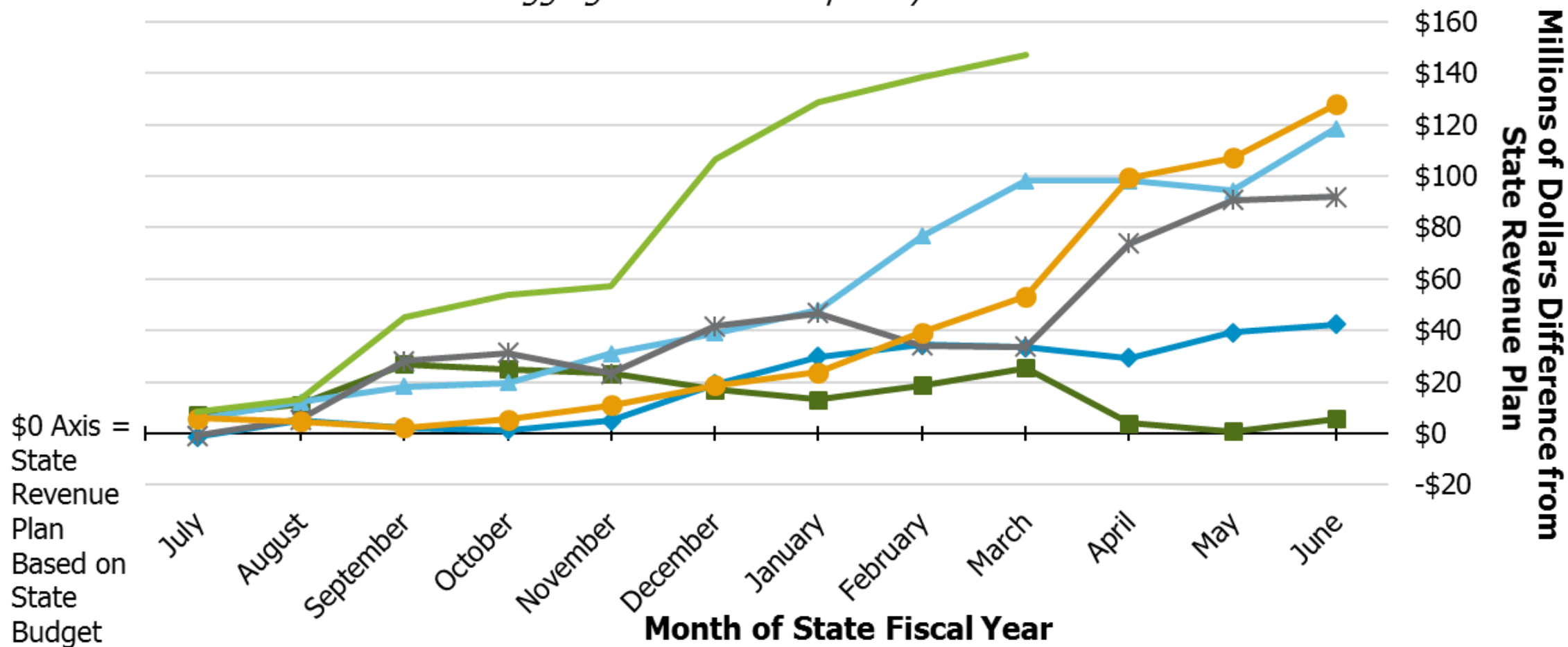


Sources: New Hampshire Comprehensive Annual Financial Reports;
U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

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



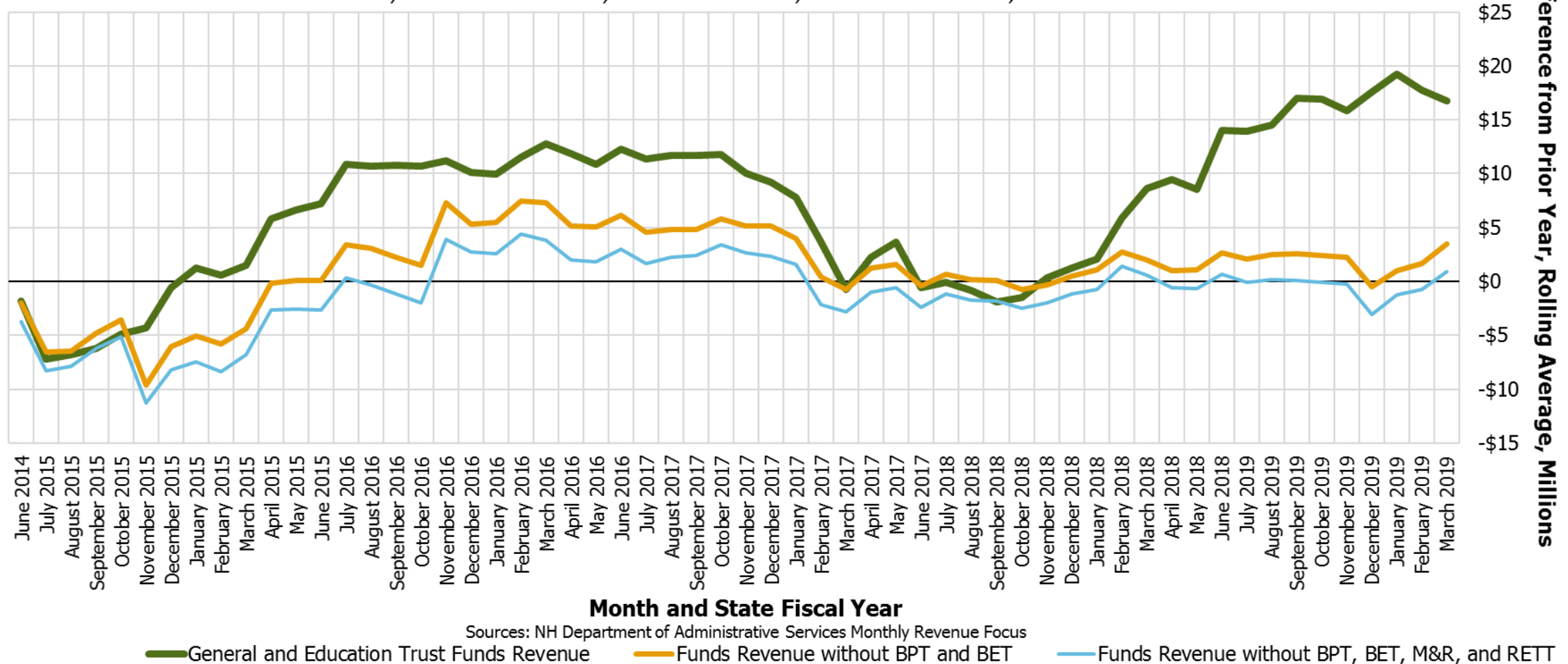
Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports

■ 2014 ◆ 2015 ▲ 2016 * 2017 ● 2018 — 2019

Trends in Revenue Sources

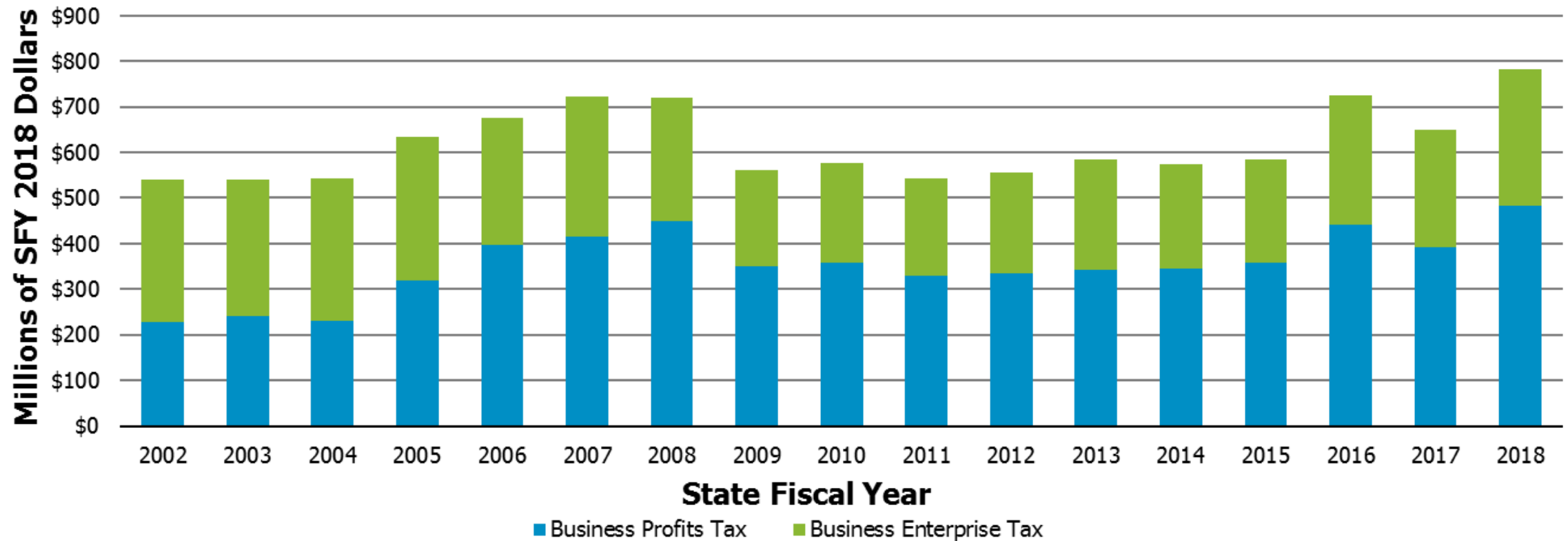
Differences in General and Education Trust Funds Monthly Cash Receipts

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

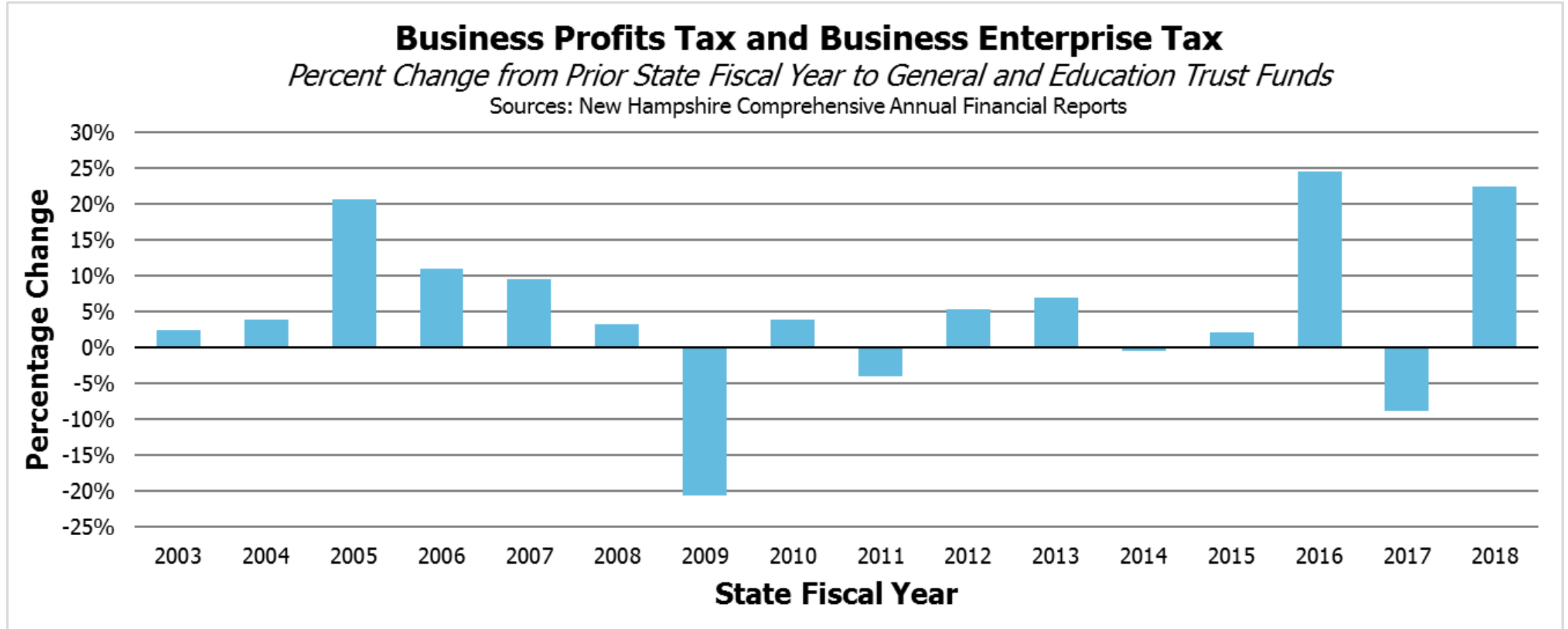


The Two Primary Business Taxes

Business Profits Tax and Business Enterprise Tax
New Hampshire General and Education Trust Fund Inflation-Adjusted Revenue
Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



The Two Primary Business Taxes



Business Profits Tax Incidence							
Tax Year 2016 - Filing Businesses							
Tax Paid	Number of Businesses by Tax Paid	Percent of Businesses by Tax Paid	Cumulative Number of Businesses by Tax Paid	Cumulative Percent of Business by Tax Paid	Revenue by Amount of Tax Paid	Percent of Revenue by Tax Paid	Cumulative Percent of Revenue by Tax Paid
\$0	55,624	76.8%	72,400	100.0%	\$0	0.0%	100.0%
\$1-\$500	4,951	6.8%	16,776	23.2%	\$805,516	0.2%	100.0%
\$500-\$1K	1,782	2.5%	11,825	16.3%	\$1,292,515	0.4%	99.8%
\$1K-\$10K	6,907	9.5%	10,043	13.9%	\$25,824,645	7.3%	99.4%
\$10K-\$50K	2,210	3.1%	3,136	4.3%	\$46,691,247	13.1%	92.1%
\$50K-\$100K	389	0.5%	926	1.3%	\$27,248,282	7.7%	79.0%
\$100K-\$1M	490	0.7%	537	0.7%	\$139,337,740	39.2%	71.3%
>\$1M	47	0.1%	47	0.1%	\$113,872,244	32.1%	32.1%
Totals	72,400	100.0%			\$355,072,189	100.0%	

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

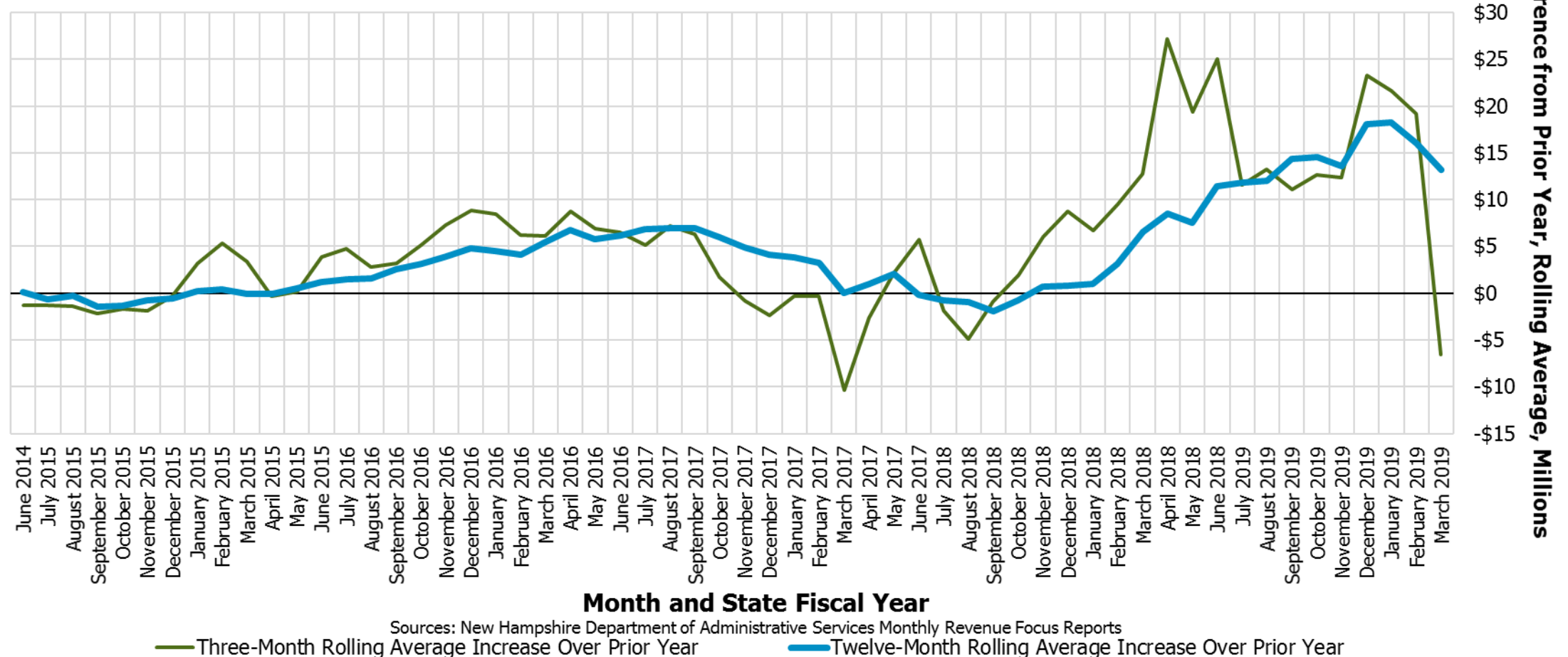
Business Enterprise Tax Incidence							
Tax Year 2016 - Filing Businesses							
Tax Paid	Number of Businesses by Tax Paid	Percent of Businesses by Tax Paid	Cumulative Number of Businesses by Tax Paid	Cumulative Percent of Business by Tax Paid	Revenue by Amount of Tax Paid	Percent of Revenue by Tax Paid	Cumulative Percent of Revenue by Tax Paid
\$0	35,286	48.7%	72,400	100.0%	\$0	0.0%	100.0%
\$1-\$500	9,778	13.5%	37,114	51.3%	\$1,922,074	0.9%	100.0%
\$500-\$1K	7,358	10.2%	27,336	37.8%	\$5,515,881	2.5%	99.1%
\$1K-\$10K	17,016	23.5%	19,978	27.6%	\$50,690,443	23.1%	96.6%
\$10K-\$50K	2,381	3.3%	2,962	4.1%	\$48,256,263	22.0%	73.5%
\$50K-\$100K	320	0.4%	581	0.8%	\$22,320,038	10.2%	51.4%
\$100K-\$1M	248	0.3%	261	0.4%	\$61,150,040	27.9%	41.3%
>\$1M	13	0.0%	13	0.0%	\$29,245,803	13.3%	13.3%
Totals	72,400	100.0%			\$219,100,542	100.0%	

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

Recent Abnormal Business Tax Behavior

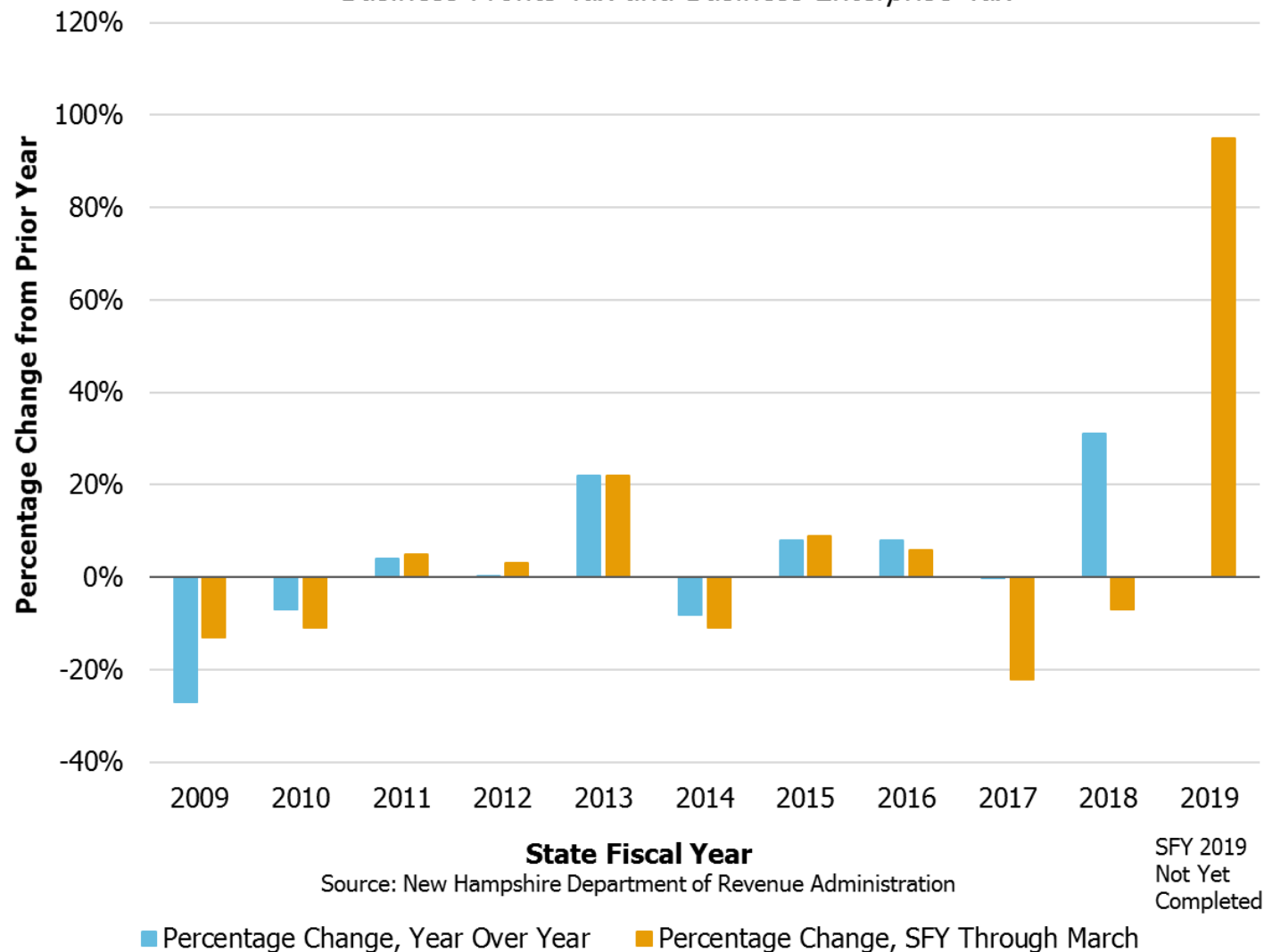
Average Differences in Business Tax Monthly Cash Receipts

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



Extension Revenue Percentage Changes, Annual and Through March

*Cash Basis, Reported at Month End,
Business Profits Tax and Business Enterprise Tax*



Business Tax Revenue Behavior Unusual

- 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

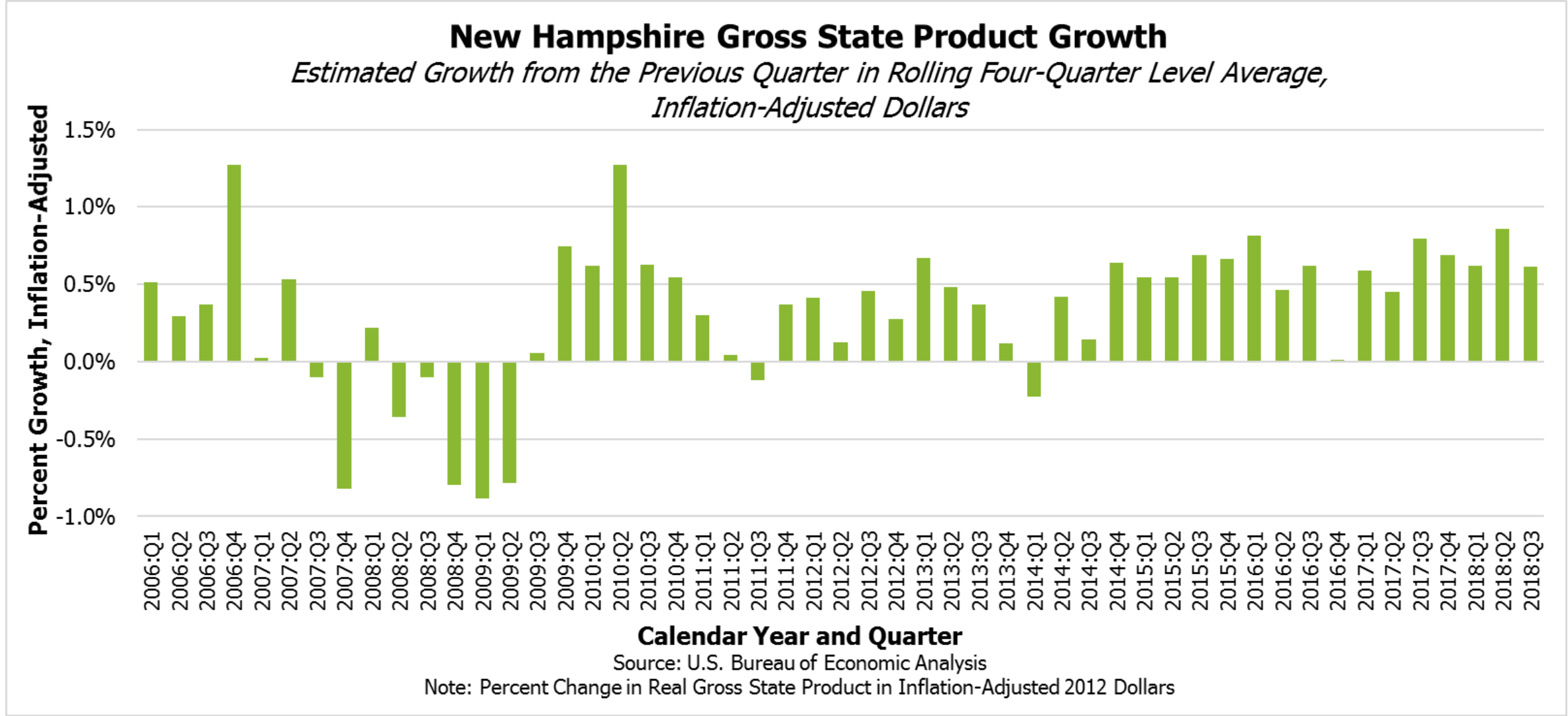
■ Mergers and acquisitions high

- 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

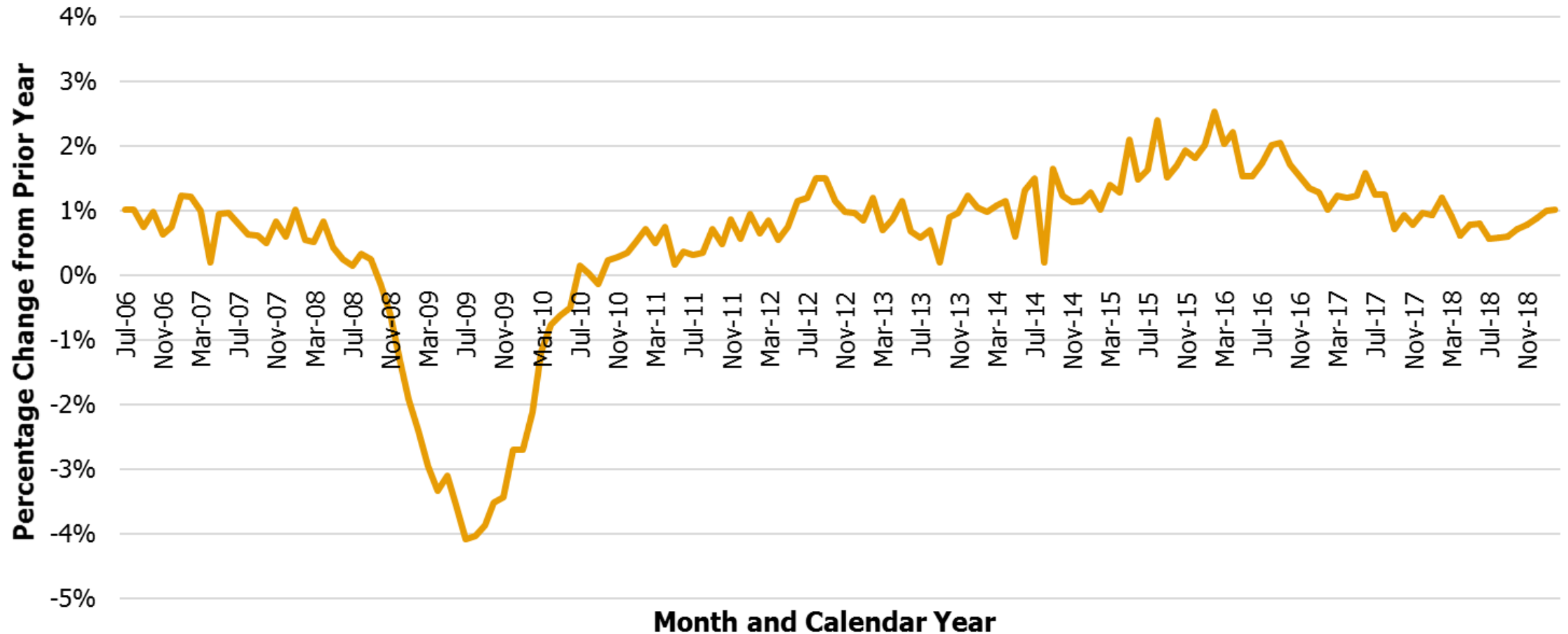
Economic Growth Strong, But Likely Not Only Factor



Economic Growth Strong, But Likely Not Only Factor

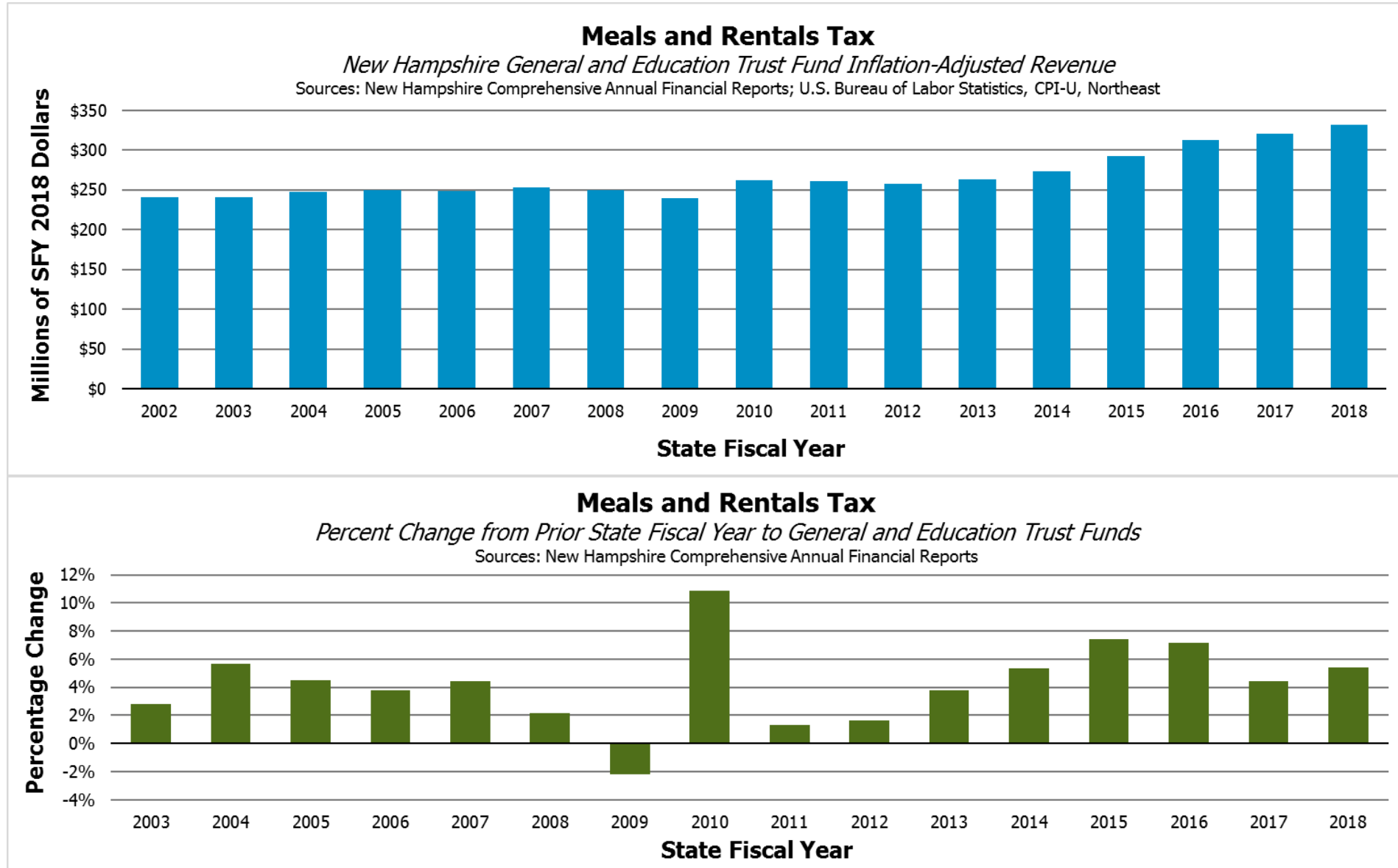
Percentage Change in New Hampshire Employment

Total Nonfarm Employment, Change from Prior Year, Seasonally-Adjusted Data

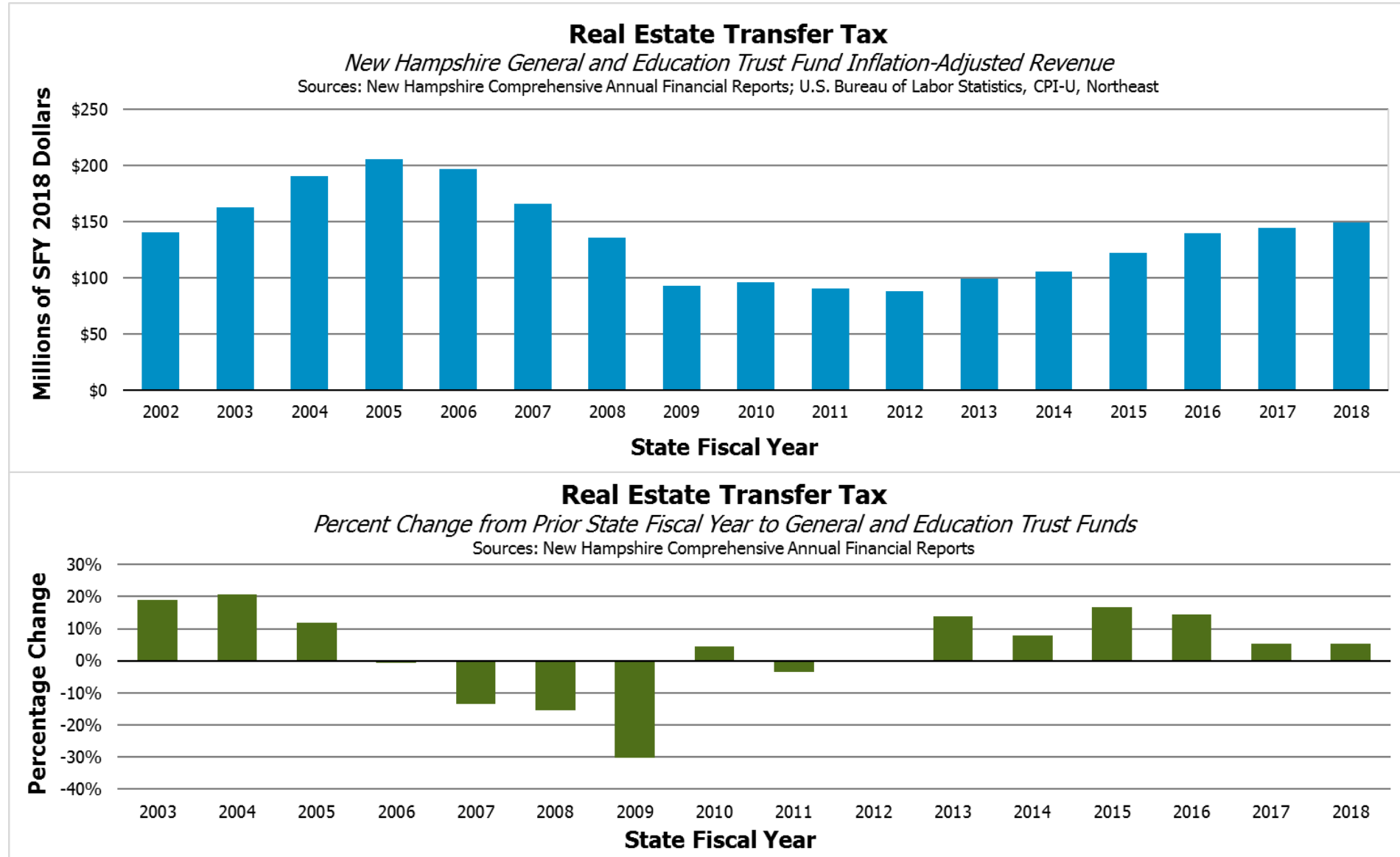


Source: New Hampshire Employment Security, Economic and Labor Market Information Bureau, Current Employment Statistics

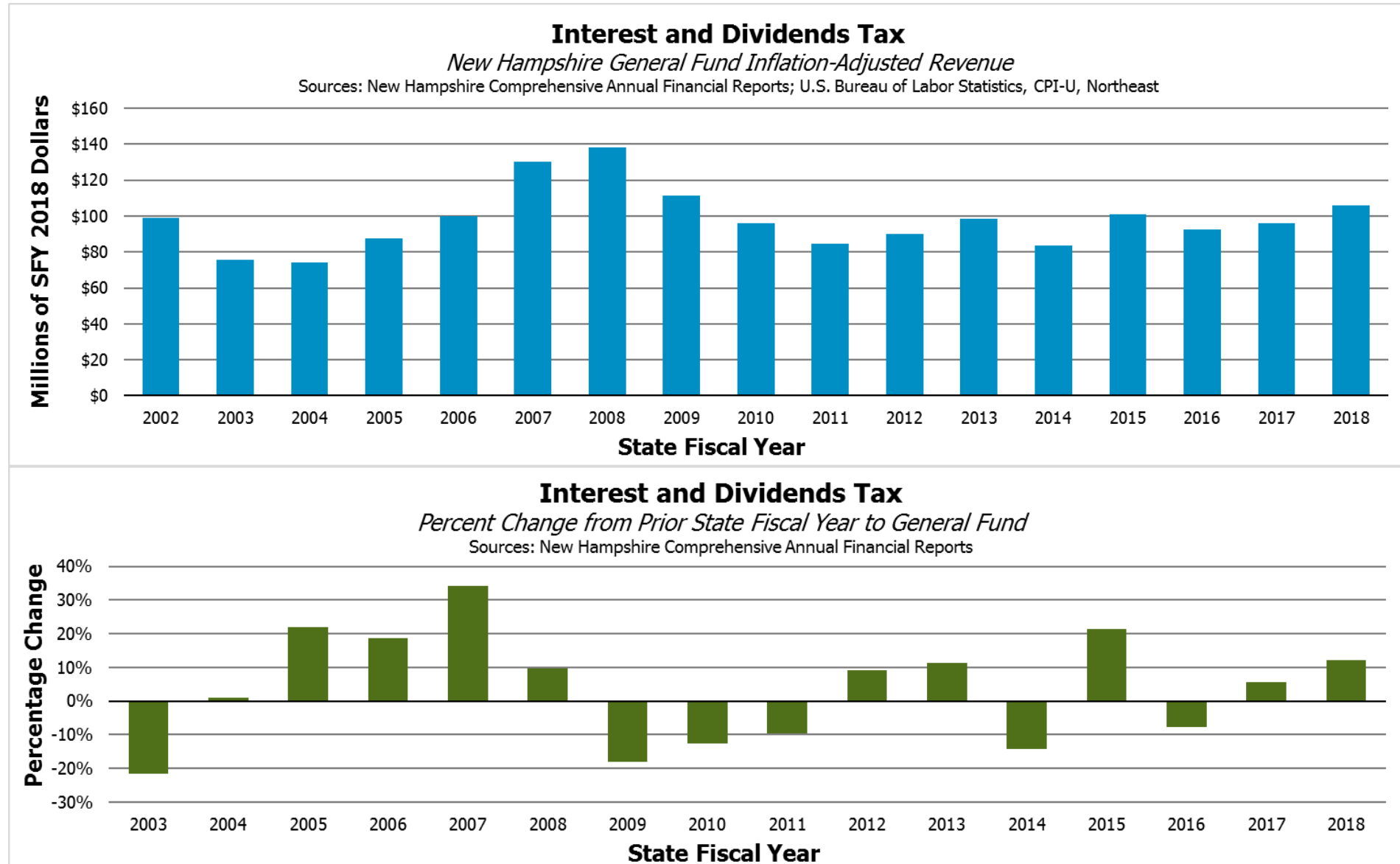
Other Growth Drivers: Meals and Rentals Tax



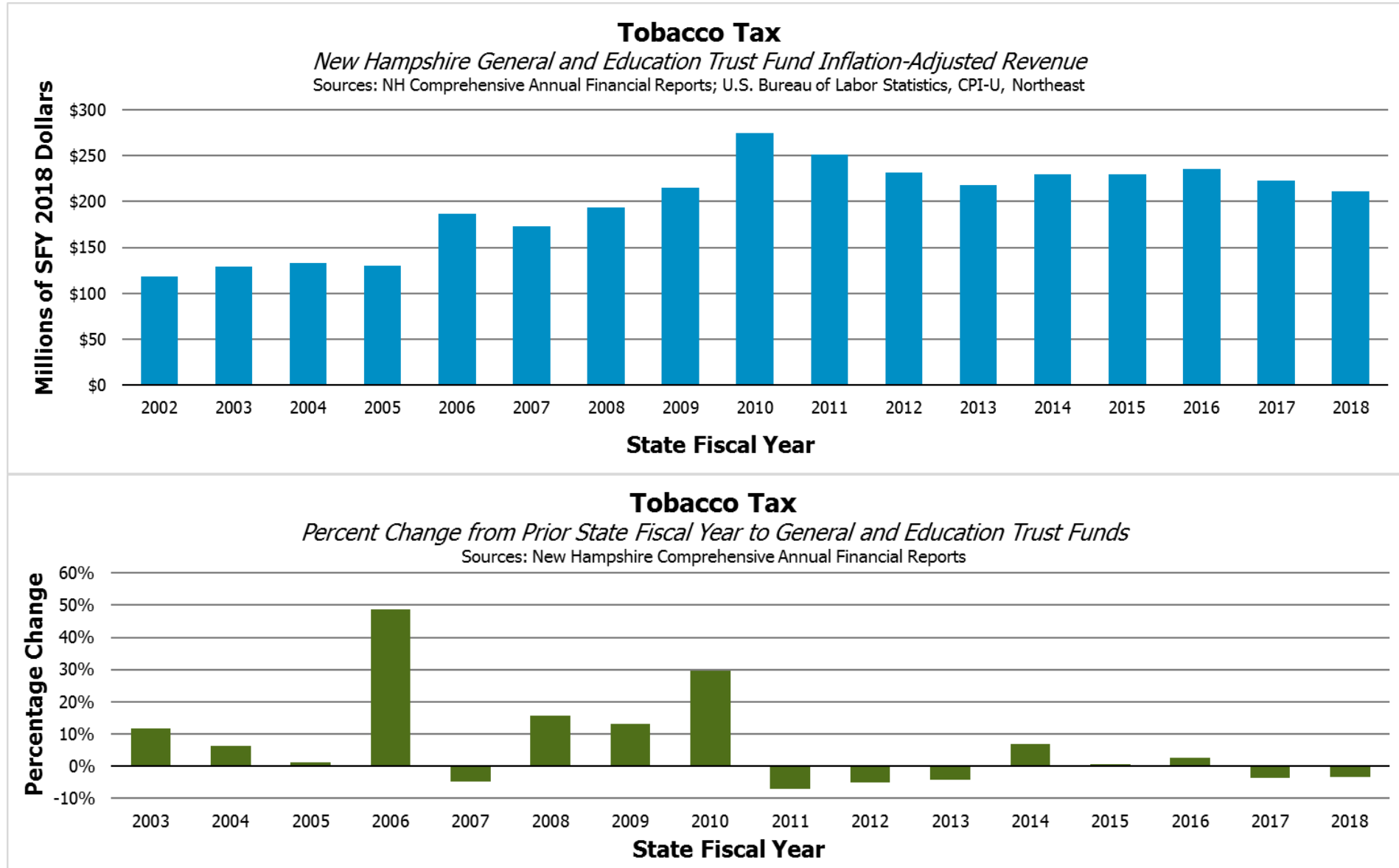
Other Growth Drivers: Real Estate Transfer Tax



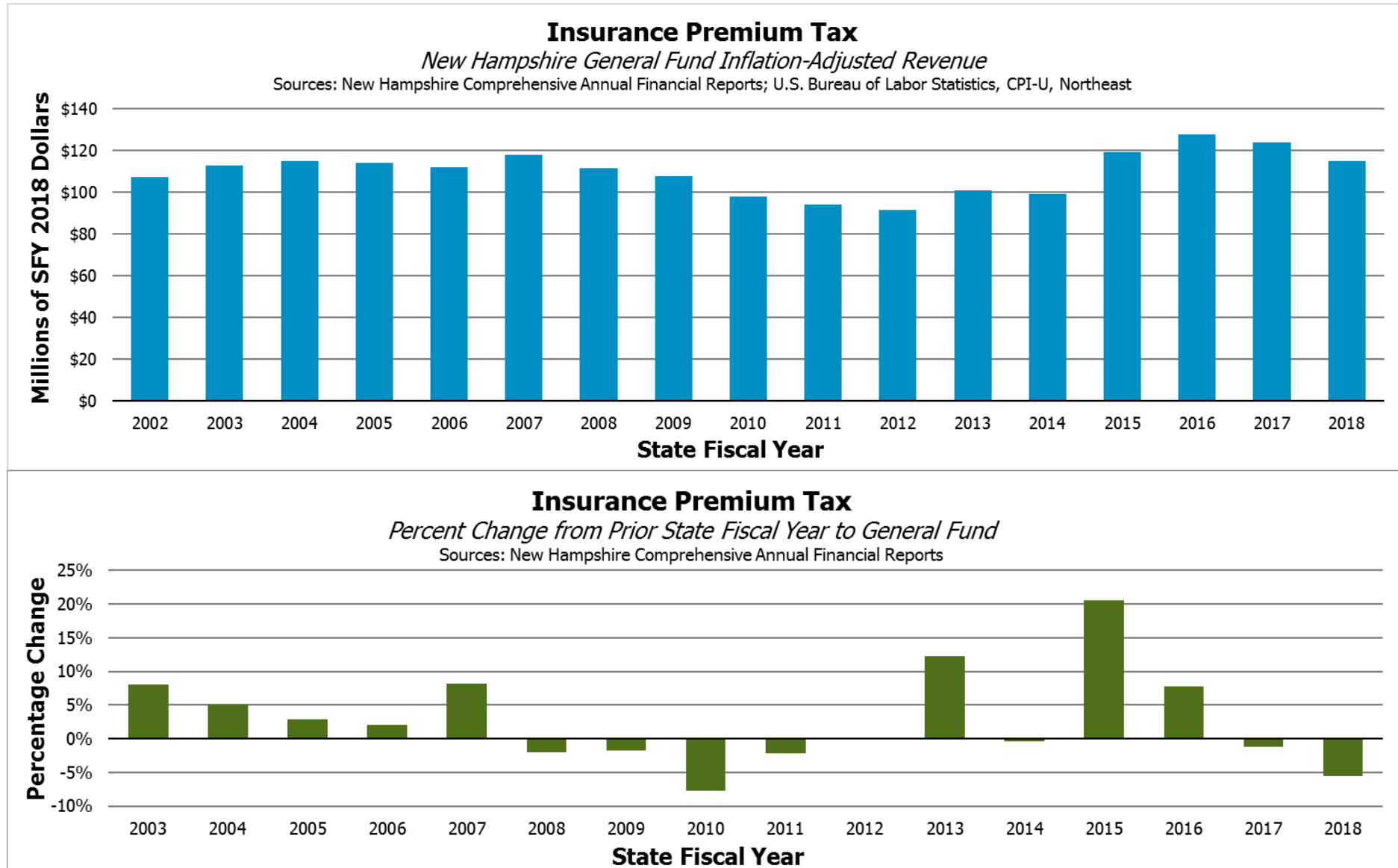
Sources to Watch: Interest and Dividends Tax



Sources to Watch: Tobacco Tax



Sources to Watch: Insurance Premium Tax



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

- *Revenue in Review:* <http://nhfpi.org/research/state-tax/revenue-review-overview-new-hampshire-tax-system-major-revenue-sources.html>
- Issue Brief: The Governor's Budget Proposal, State Fiscal Years 2020-2021: <http://nhfpi.org/research/state-budget/the-governors-budget-proposal-state-fiscal-years-2020-2021.html>
- Issue Brief: Measuring the Size of New Hampshire's State Budget: <http://nhfpi.org/research/state-budget/measuring-the-size-of-new-hampshires-state-budget.html>
- Issue Brief: The State Budget for Fiscal Years 2018 and 2019: <http://nhfpi.org/research/state-budget/the-state-budget-for-fiscal-years-2018-and-2019.html>
- NHFPI NH State Budget page: <http://nhfpi.org/resources/nh-state-budget>
- NHFPI Common Cents blog: <http://nhfpi.org/commoncents>



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