

# How We Fund Public Services and Recent Revenue Trends in New Hampshire

*Presented by Phil Sletten, Policy Analyst*

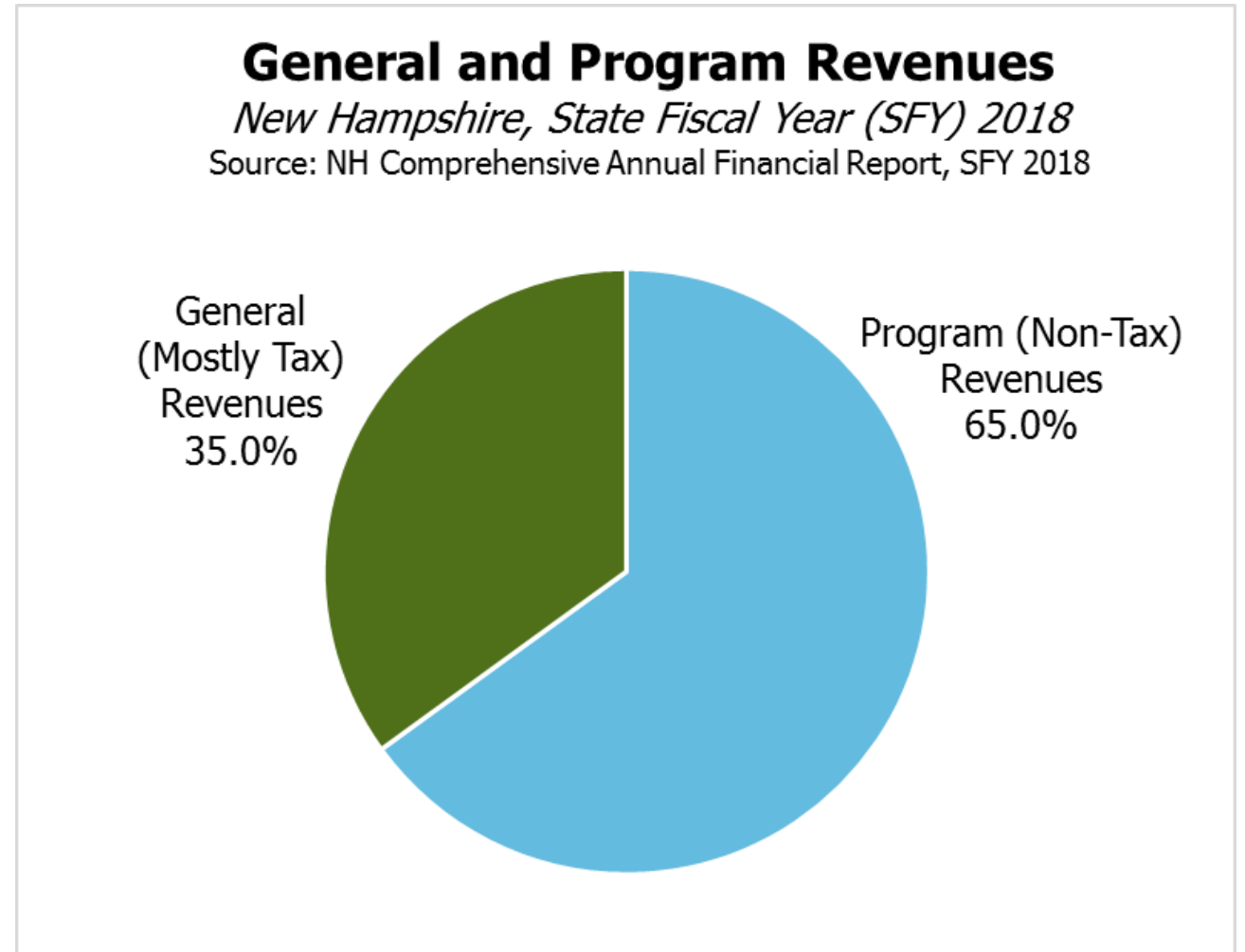
The State Employees' Association of New Hampshire  
Concord, New Hampshire  
February 11, 2019

# Public Services Help Ensure Quality of Life



# Why “Revenue”? Don’t You Mean Taxes?

- Not all government revenue comes from taxes
- Collections through fees, charges, interest, and programs that sell products or services
- Federal programs, grants, and aid supply a large amount of revenue to the State government directly, also may provide funding for local government initiatives, support for other organizations



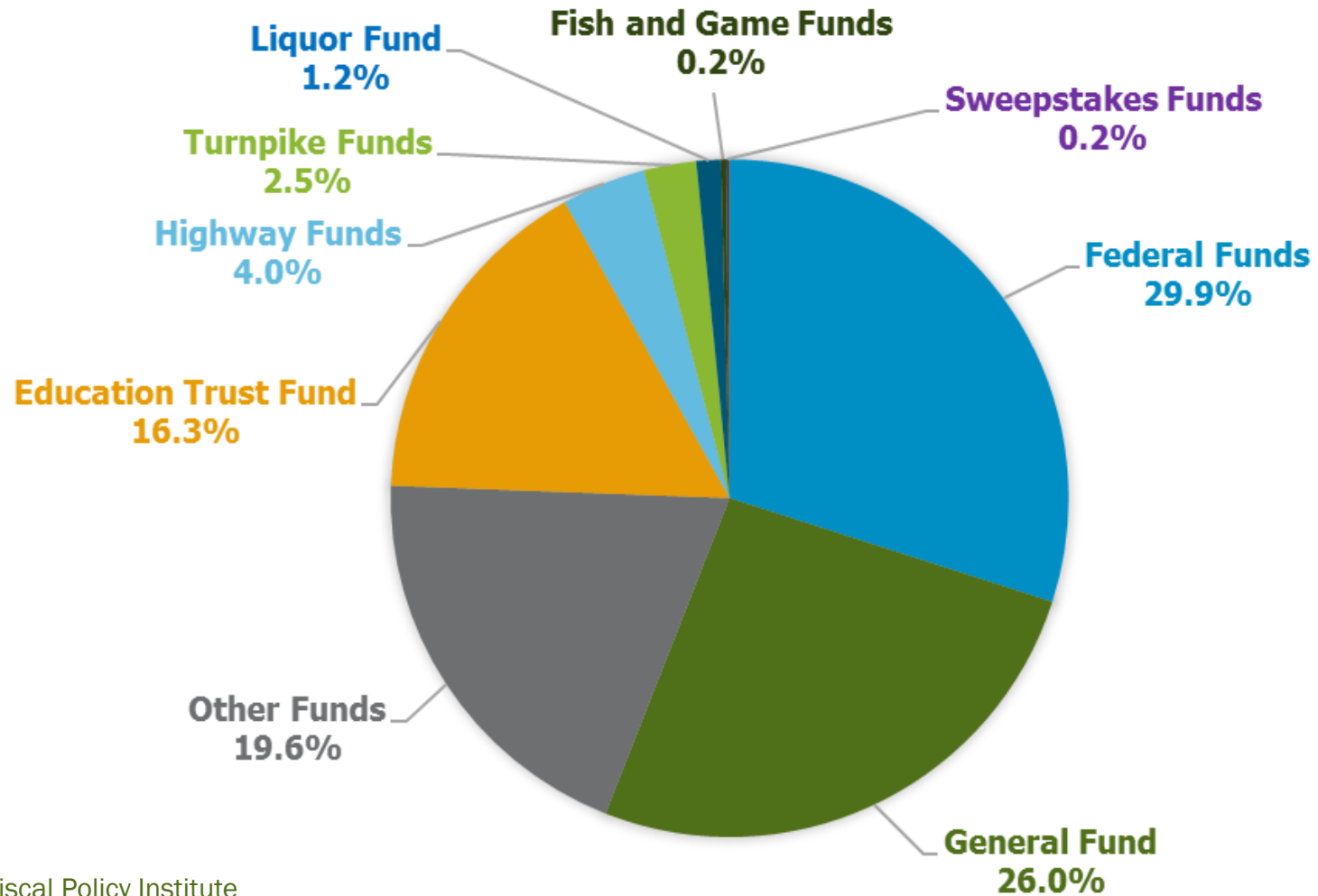
# What Revenue Are We Considering?

- The federal government collects revenue that ends up in State coffers, but that is not a focus here
- State Revenue: money collected through New Hampshire state taxation and other sources, including grants from the federal government
  - State tax revenue is usually the least restricted revenue, with federal grant programs and specific State fees more likely to have “strings attached”
- Local Revenue: money collected by New Hampshire counties, school districts, and municipalities (local governments), primarily through property taxes

# State Budget Funds

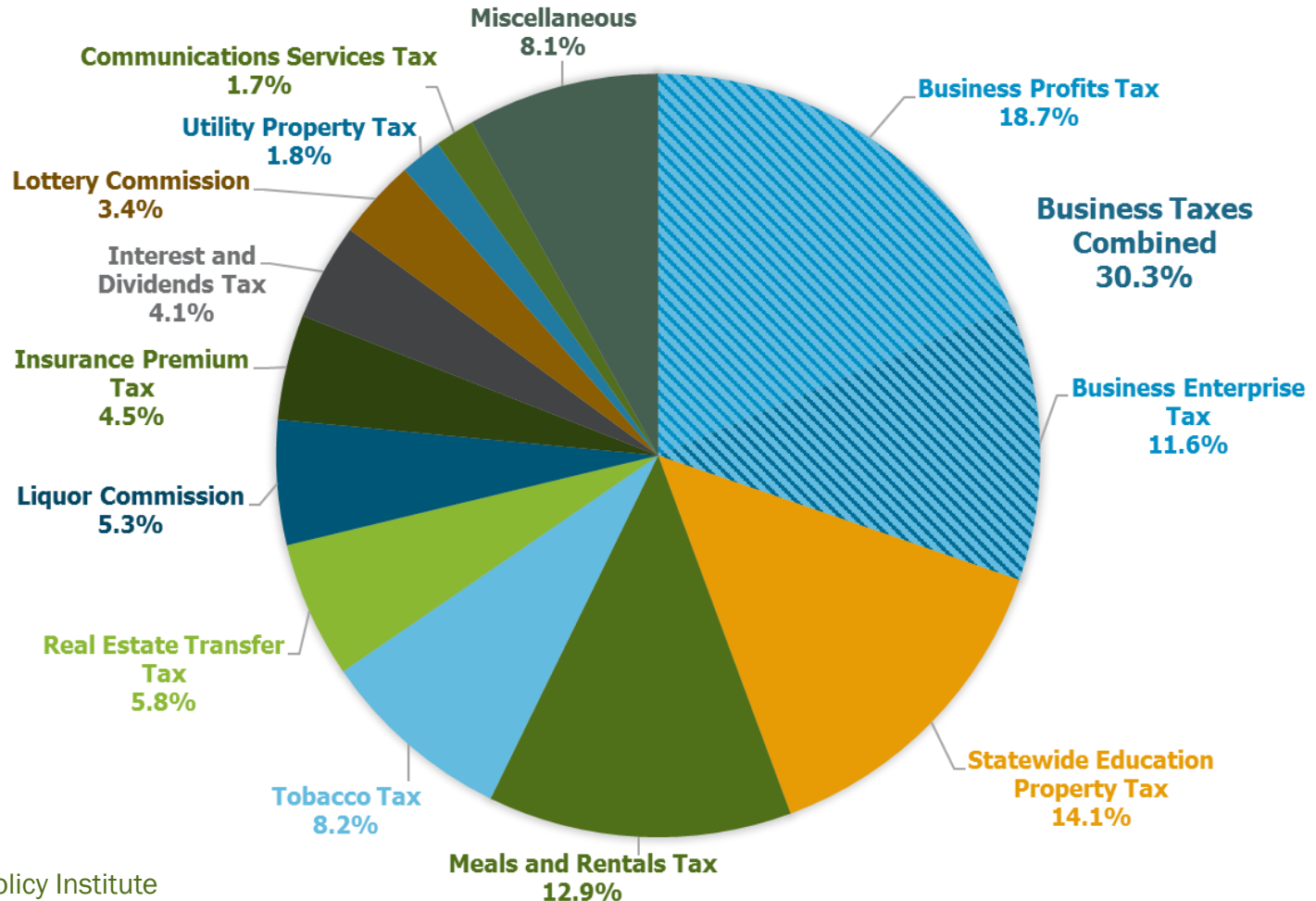
*New Hampshire, SFY 2018*

Source: Chapter 155, Laws of 2017



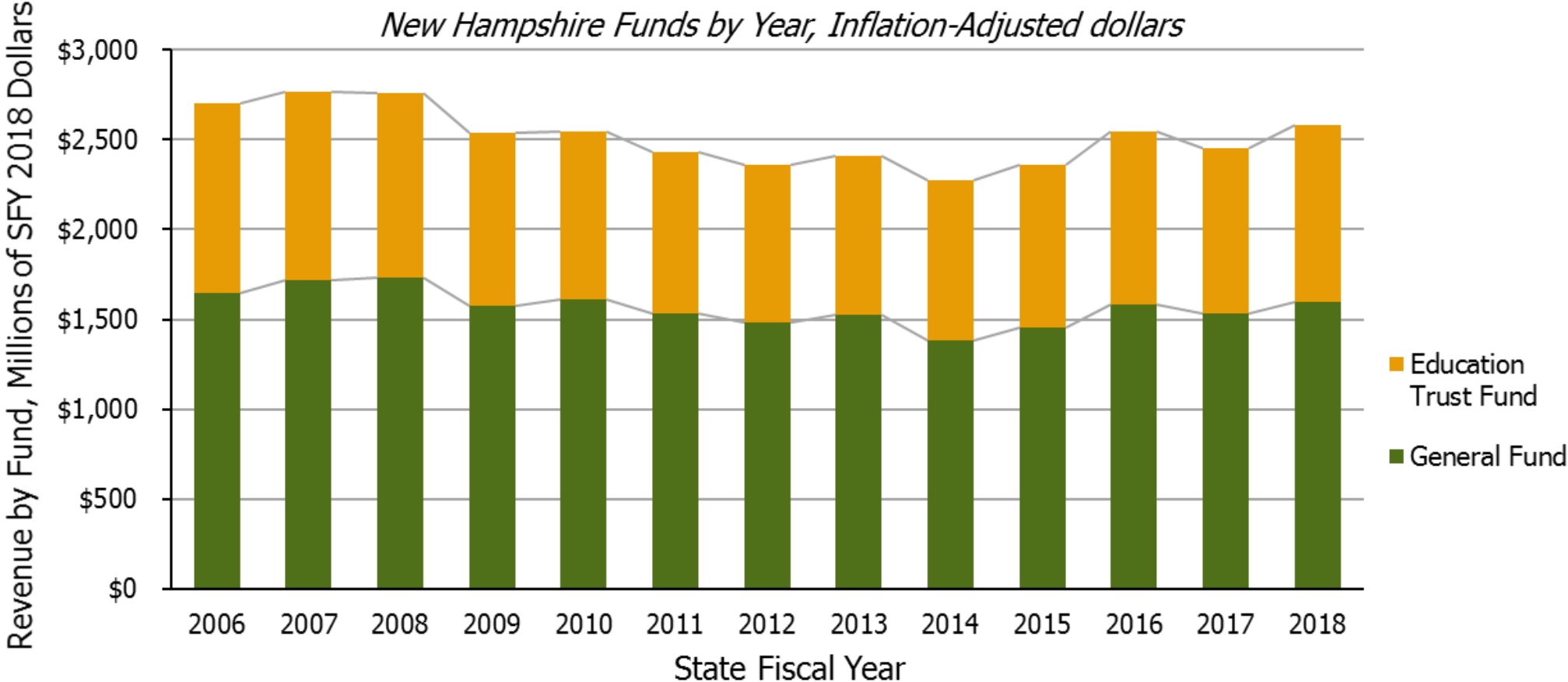
# The Big Picture - General and Education Trust Fund Revenue

*SFY 2018 State-Generated Revenue*  
Source: NH Comprehensive Annual Financial Report, SFY 2018



# The Big Picture - General and Education Trust Fund History

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

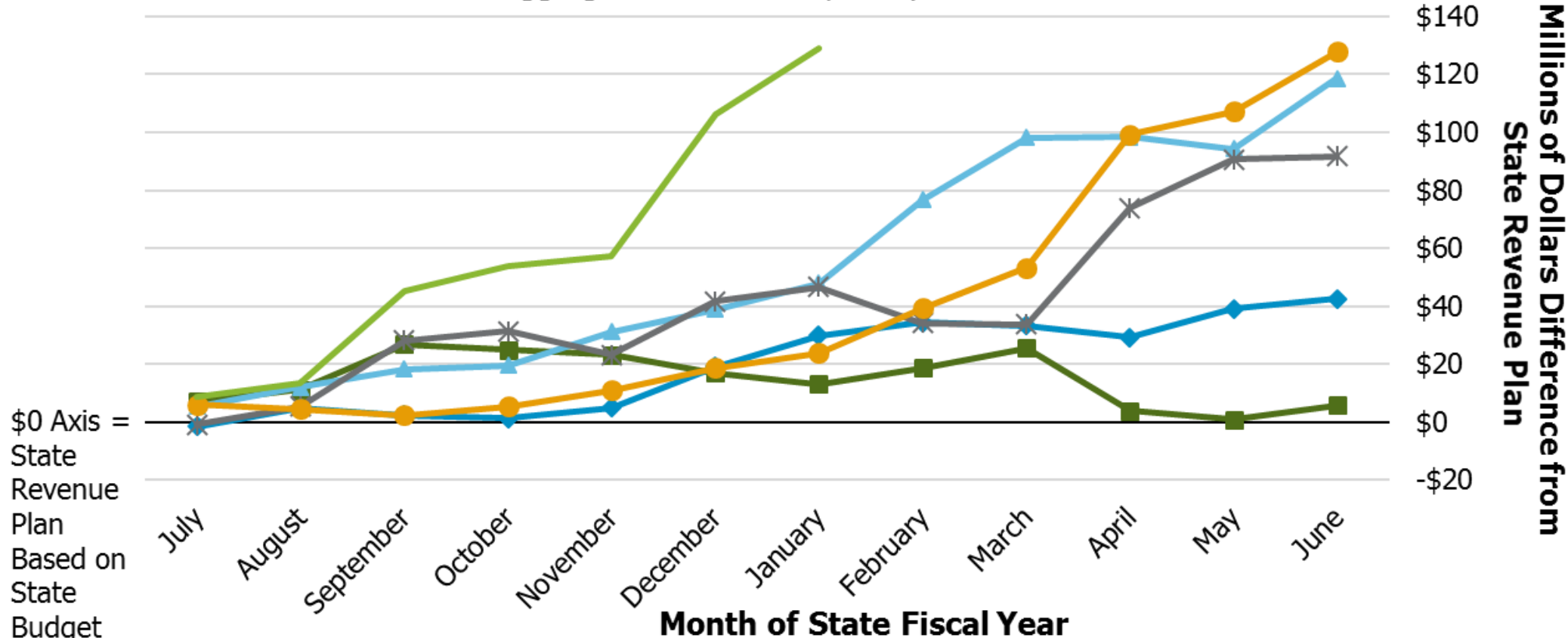


Sources: NH Comprehensive Annual Financial Reports, SFYs 2018, 2017, 2016, 2015, 2014;  
U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

# The Big Picture - Surplus Revenues Over State Budget Plans

## 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



# State Revenue – Two Primary Business Taxes

## Business Profits Tax

- Tax based on gross business profits, adjustments (BET), and apportionment
- Tax base likely about \$6.1 billion (State Fiscal Year 2018)
- Funds General Fund and Education Trust Fund
  - 1.5 percentage points of the total rate to the Education Trust Fund
- Rate reductions underway:
  - 8.5% in 2015, 8.2% in 2016, 7.9% in 2018, 7.7% in 2019, 7.5% in 2021

## Business Enterprise Tax

- Relatively unique among state business taxes, based on compensation, interest, dividends paid or accrued, adjustments, and apportionment
- Broader tax base, likely about \$44 billion (State Fiscal Year 2018)
  - Funds the Education Trust Fund (0.50 percentage points of total rate) and the General Fund until rate phase-down
- Rate reductions underway:
  - 0.75% in 2015, 0.72% in 2016, 0.675% in 2018, 0.60% in 2019, 0.50% in 2021

# State Revenue - 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%
<b>Totals</b>	72,400	100.0%			\$355,072,189	100.0%	

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

# State Revenue – Two Primary Business Taxes

<b>Business Enterprise Tax Incidence</b>							
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%
<b>Totals</b>	<b>72,400</b>	<b>100.0%</b>			<b>\$219,100,542</b>	<b>100.0%</b>	

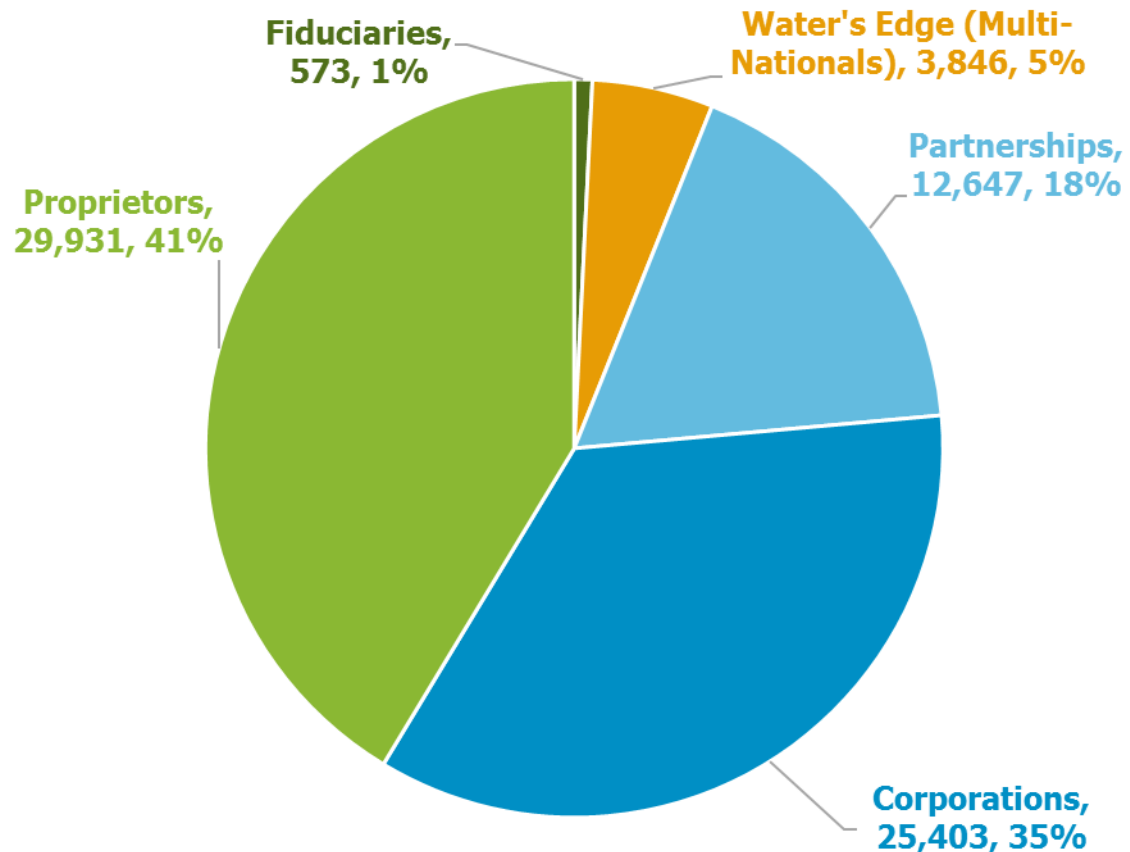
Source: New Hampshire Department of Revenue Administration 2018 Annual Report - Draft Data

# State Revenue - Two Primary Business Taxes

## Business Profits Tax Filers by Type

*Draft Data, Tax Year 2016*

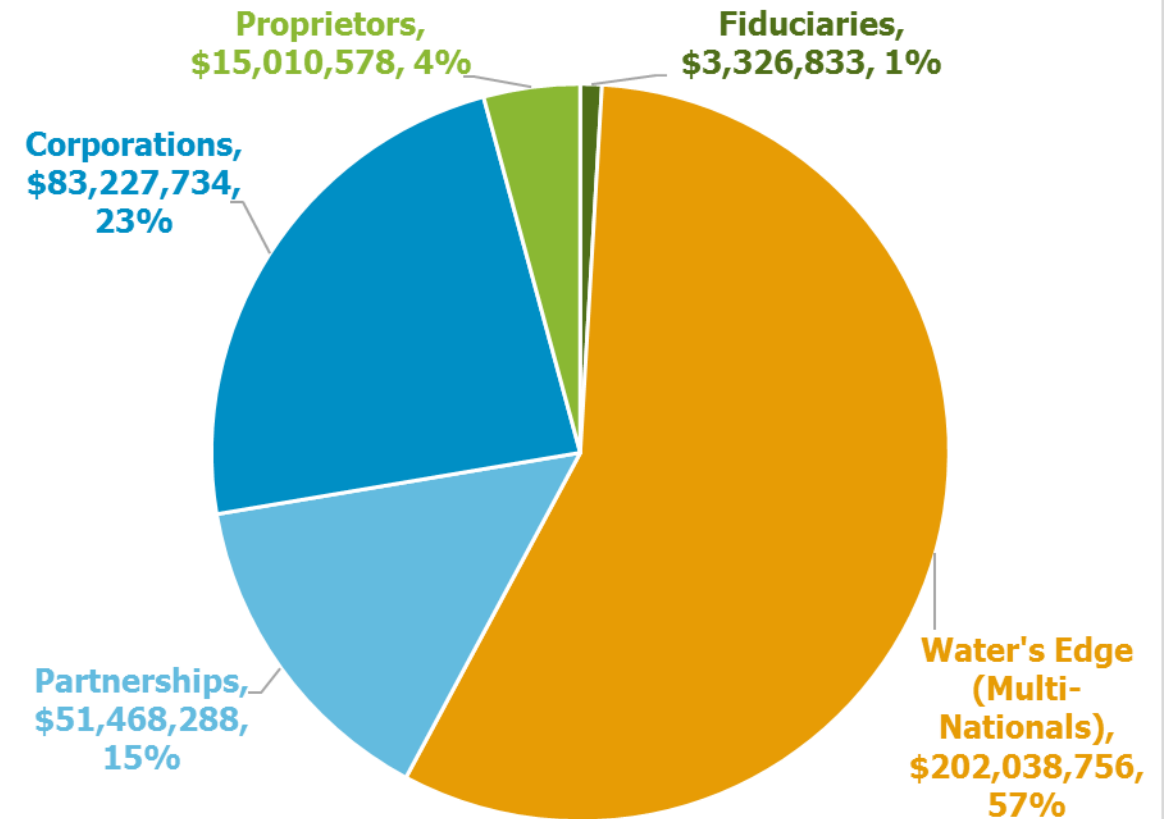
Source: NH Department of Revenue Administration, 2018 Annual Report



## Business Profits Tax Filers by Liability

*Draft Data, Tax Year 2016*

Source: NH Department of Revenue Administration, 2018 Annual Report

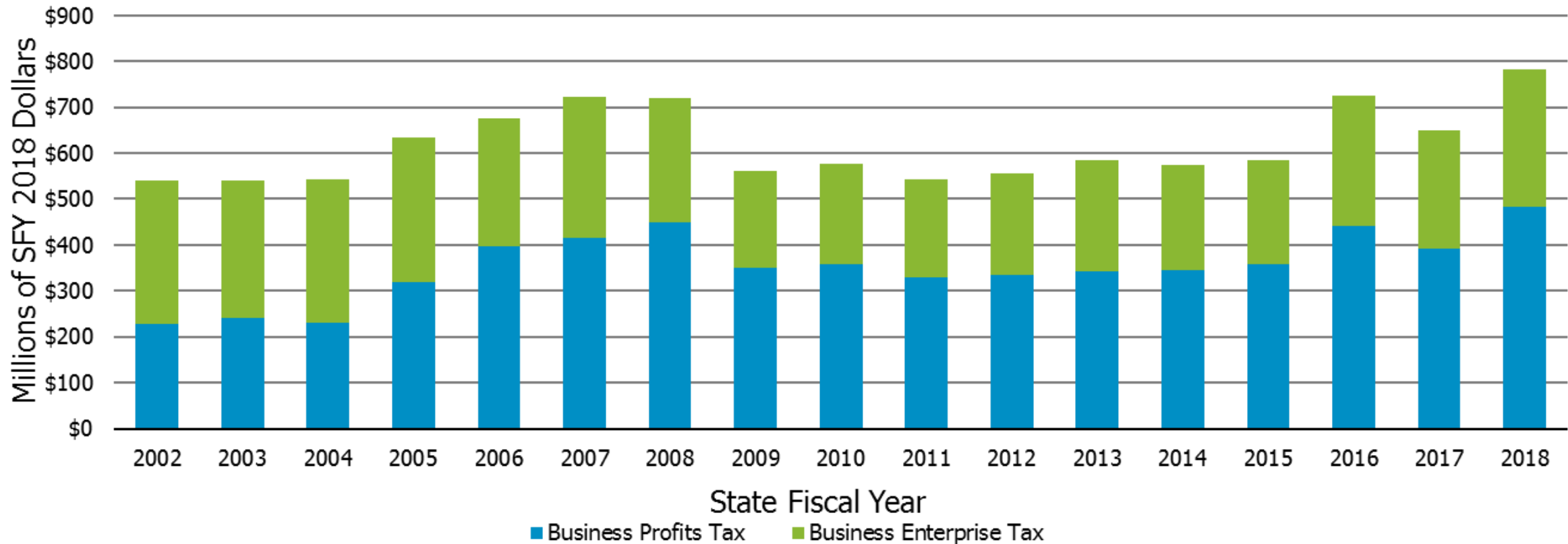


# State Revenue - Two Primary Business Taxes

## Business Profits Tax and Business Enterprise Tax

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

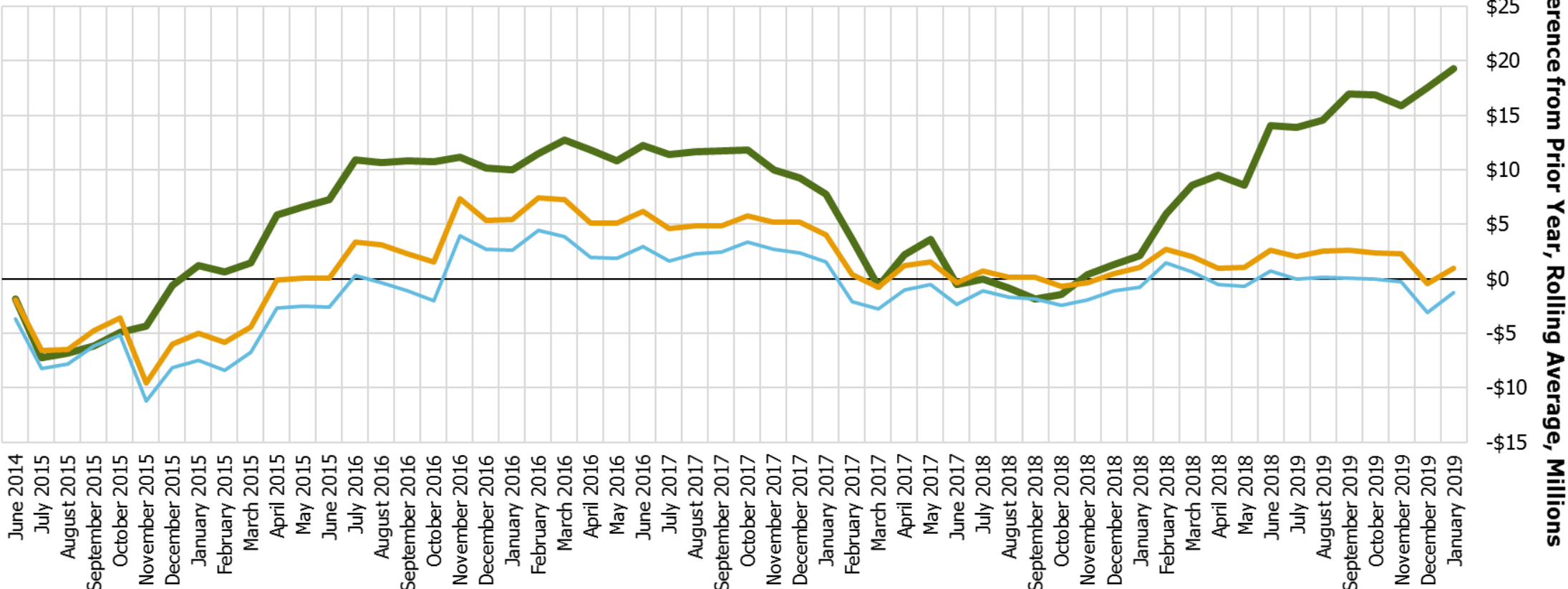
Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# State Revenue Sources and Business Taxes

## 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



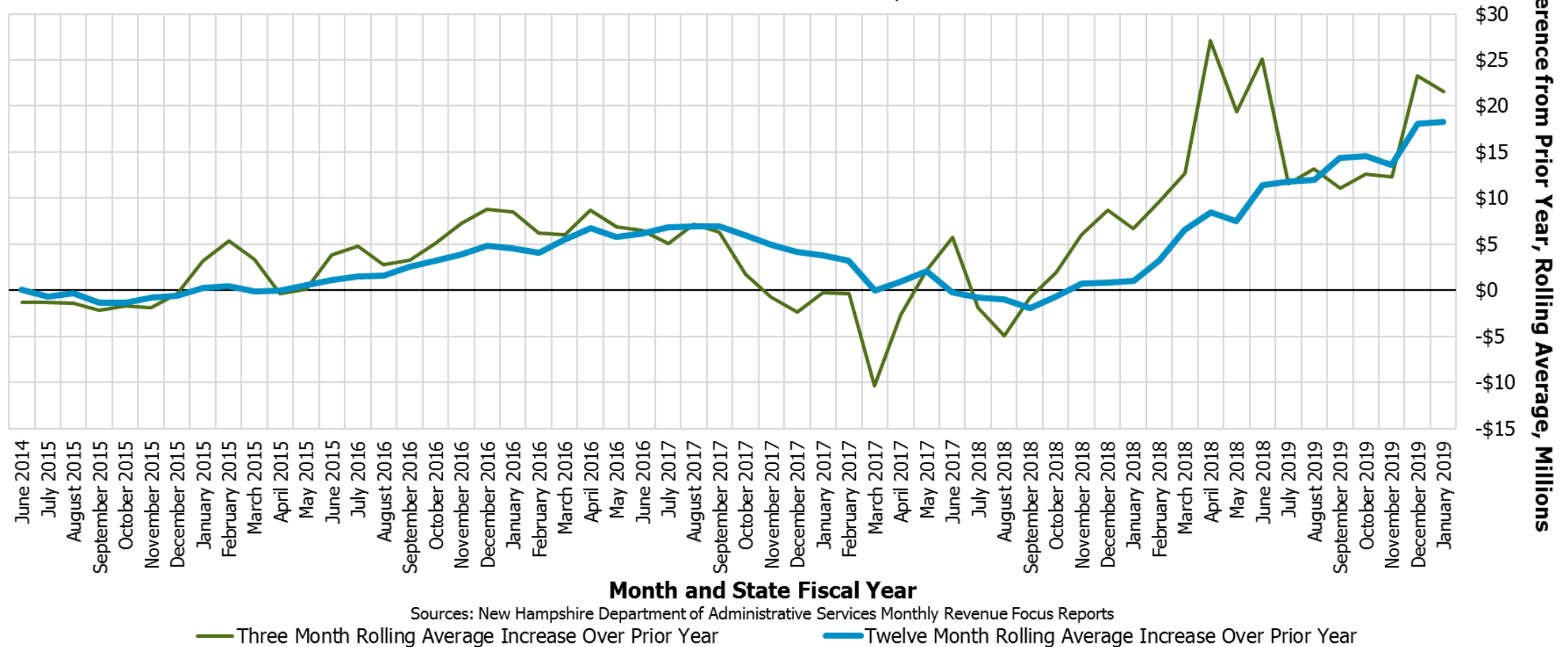
Month and State Fiscal Year

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

# Abnormal Behavior in Business Taxes

**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*



# 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 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
- Federal government still promulgating regulations



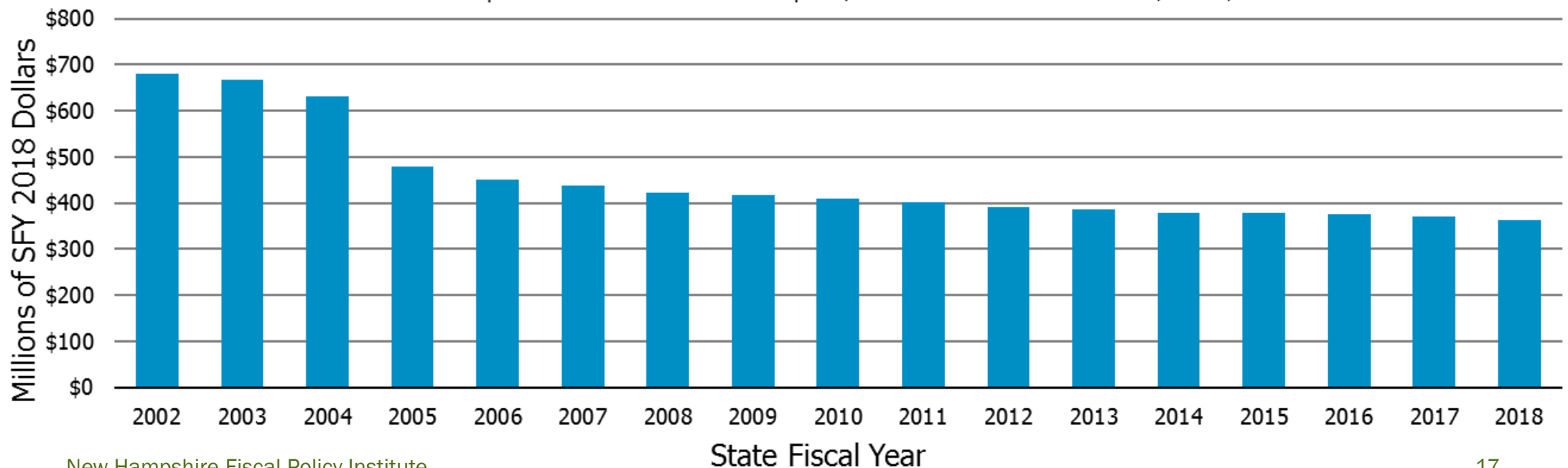
# State Revenue - Statewide Education Property Tax

- Established in 1999 to support newly created Education Trust Fund for Adequate Education Grants supporting each pupil
- Set to raise \$363 million in 2005, does not adjust for inflation
- Retained locally, required to be raised by the state by local governments

## Statewide Education Property Tax

*New Hampshire Education Trust Fund Inflation-Adjusted Revenue*

Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



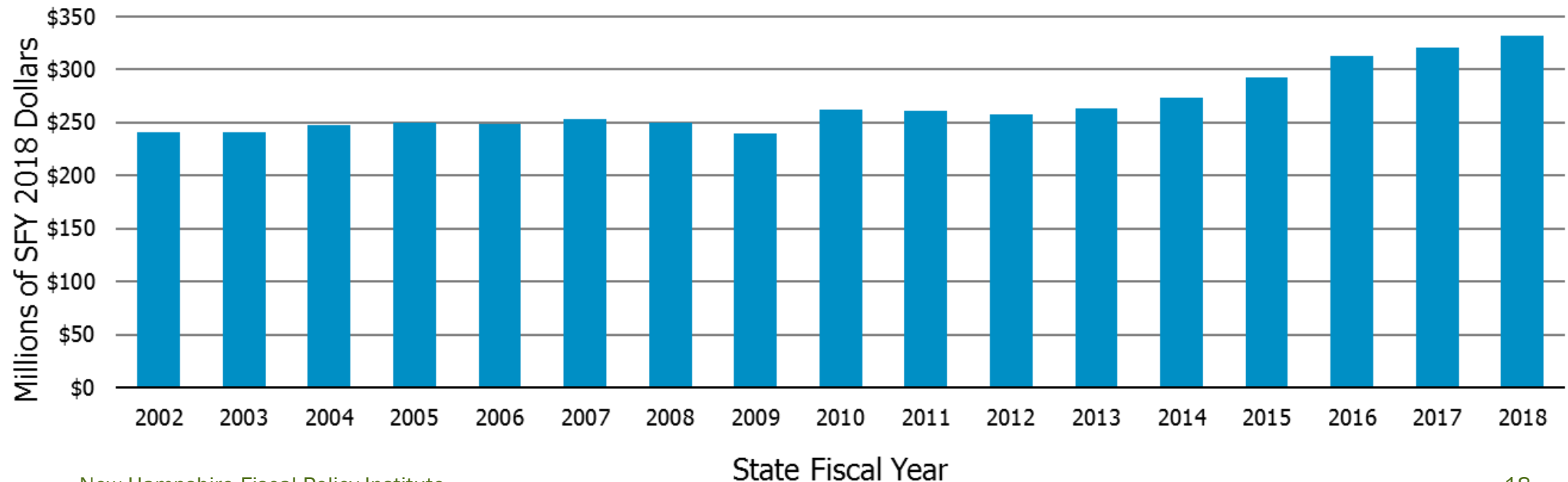
# State Revenue - Meals and Rentals Tax

- Tax of 9 percent levied on most purchases of food or beverages from restaurants, also on hotel rooms and car rentals; raised from 8 percent in SFY 2010
- Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid, State's travel and tourism development agency, municipalities

## Meals and Rentals 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



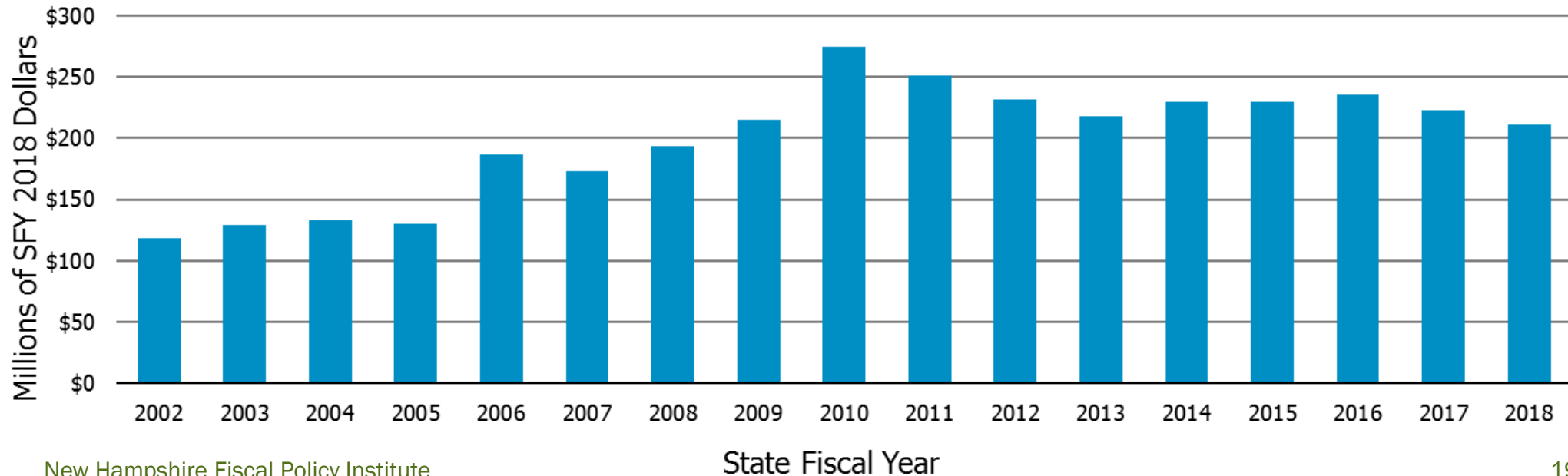
# State Revenue - Tobacco Tax

- \$1.78 per 20-cigarette pack, adjusted-proportionally for pack size
- 65.03 percent on wholesale price of other tobacco products
- Several rate changes in last 20 years (boosted up to \$0.37/pack in 1997)
- Supports General (\$1.00/pack) and Education Trust Funds (\$0.78/pack)

## Tobacco 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



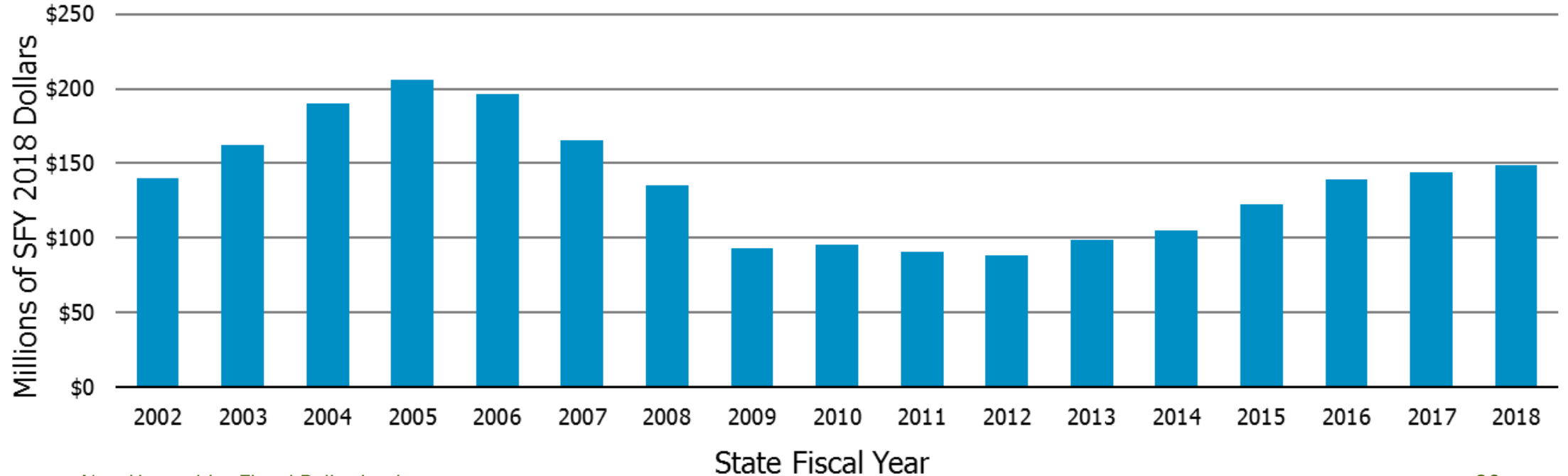
# State Revenue - Real Estate Transfer Tax

- \$0.75 per \$100 of sale of real estate or interest in real estate
- Levied against buyer and seller for total revenue of \$1.50 per \$100
- \$0.25 of the \$0.75 goes to the Education Trust Fund, rest to General Fund

## Real Estate Transfer 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



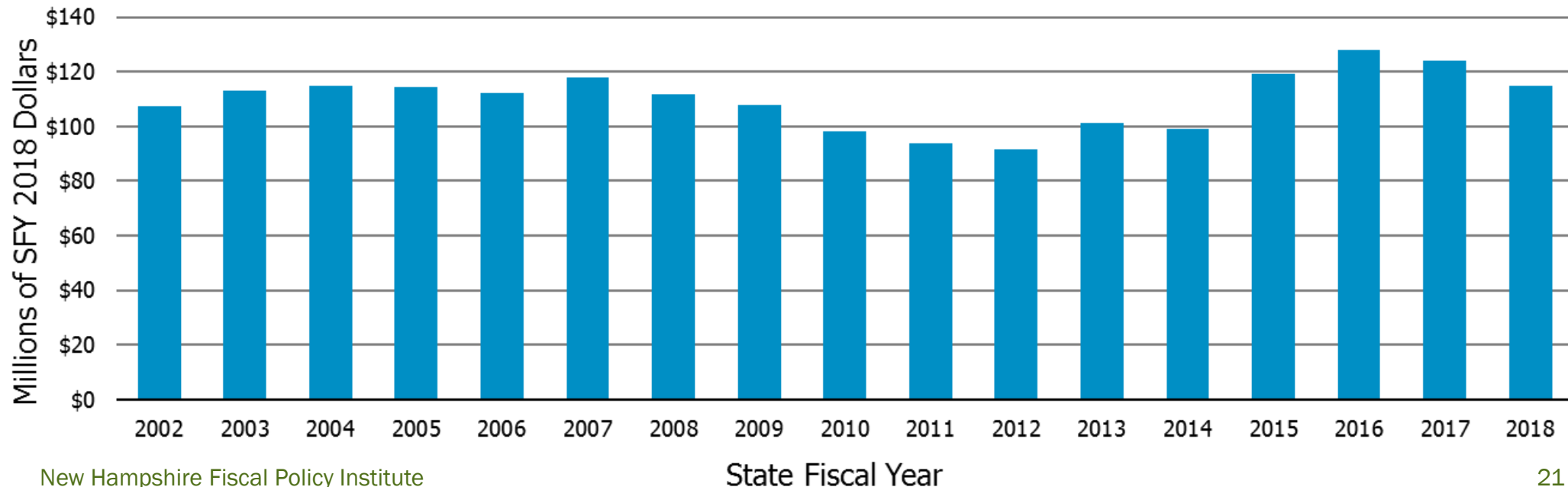
# State Revenue – Insurance Premium Tax

- 1.25 percent on premiums from insurers
- 2 percent health, accident, and certain life insurance premiums
- Goes to General Fund except revenues from those insured under expanded Medicaid, which go to fund the non-federal share of the program's cost

## Insurance Premium Tax

*New Hampshire General Fund Inflation-Adjusted Revenue*

Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



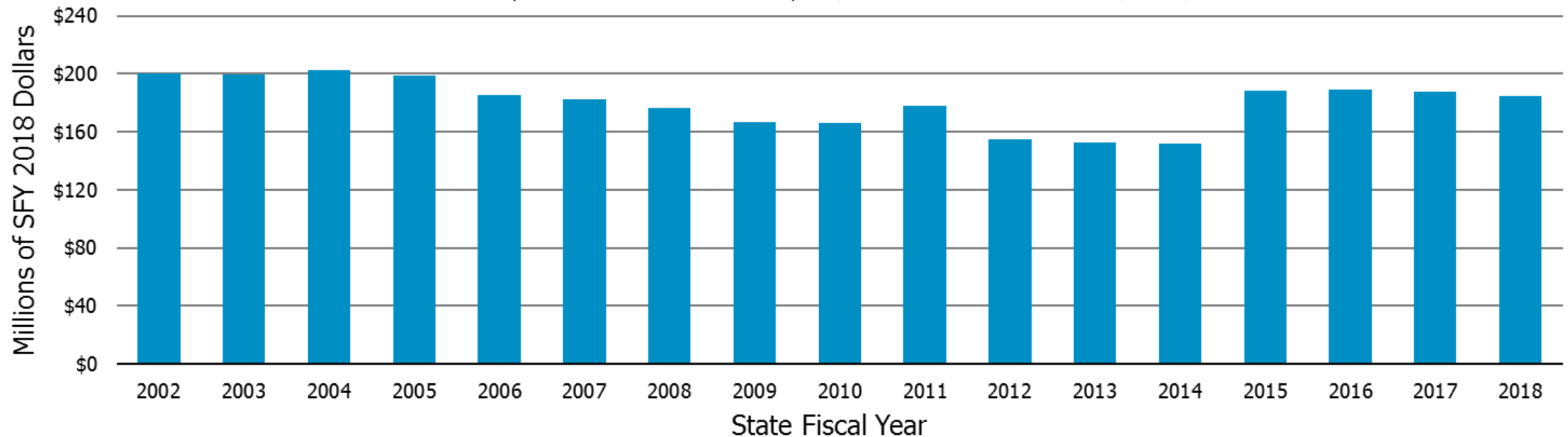
# State Revenue – Motor Fuels Tax

- \$0.222 per gallon on motor fuels, aviation fuel taxed at different rate
- Can only be used for highway-related purposes, other restrictions on portions
- Revenues go to the Highway Fund, used for interest on highway bonds and notes

## Motor Fuels Tax Revenue

*New Hampshire Highway Fund Inflation-Adjusted Revenue*

Sources: NH Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast



# State Revenue – Other Taxes

## Medicaid Enhancement Tax

- 5.25 percent of charges hospitals make for services, \$243 million in SFY 2018
- Revenues to Uncompensated Care and Medicaid Fund, leverages federal dollars

## Interest and Dividends Tax

- Individuals pay 5 percent of interest earned (over at least \$2,400 per individual) from interest payments or dividends from certain stock ownership
- Revenues go to General Fund, \$105.8 million in SFY 2018

## Communications Services Tax

- 7 percent on two-way communications services, not internet, declining revenue

## Utility Property Tax

- \$6.60 per \$1,000 levied on machinery, real estate, structures for electricity, natural gas or petroleum distribution

# State Revenue – Enterprise Funds

## Liquor Commission

- Operates State liquor stores that are sole source for liquor and spirits, while certain wine may be sold from licensed businesses and beer is taxed
- Pays for its own operations, the Alcohol Abuse Prevention and Treatment Fund, and the General Fund
- \$691.9 million in SFY 2018 generated from sales and services, \$4.3 million from licenses; General Fund received \$136.4 million plus \$12.8 million from beer tax

## Lottery Commission

- Sells lottery tickets and oversees taxed racing, charitable gaming, and Keno
- \$337.8 million revenue in SFY 2018, \$87.2 million profit to Education Trust Fund

## Turnpike System

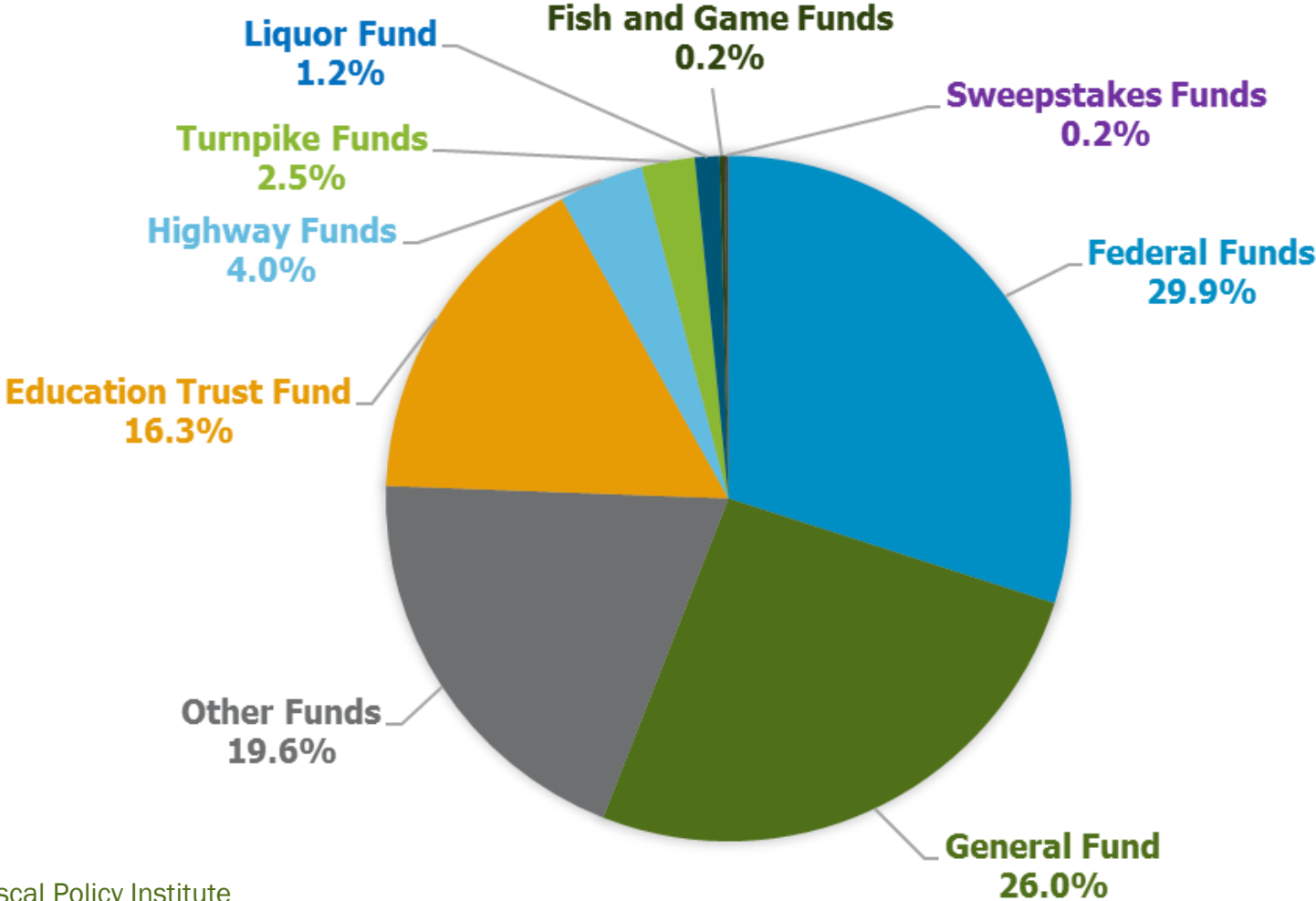
- Tolls users of three turnpikes to operate, construct, and maintain them
- \$134.8 million from tolling operations in SFY 2018



# State Budget Funds

*New Hampshire, SFY 2018*

Source: Chapter 155, Laws of 2017



# State Revenue – Federal Funds

## Medicaid

- In all funds (State on-budget, State off-budget, federal), about \$2.0 billion in SFY 2016 was Medicaid, approximately 29 percent of all State spending
- Recent proposals at the federal level would have significantly reduced federal contributions, which are a 50%-50% match or better for the State

## Other Program Areas

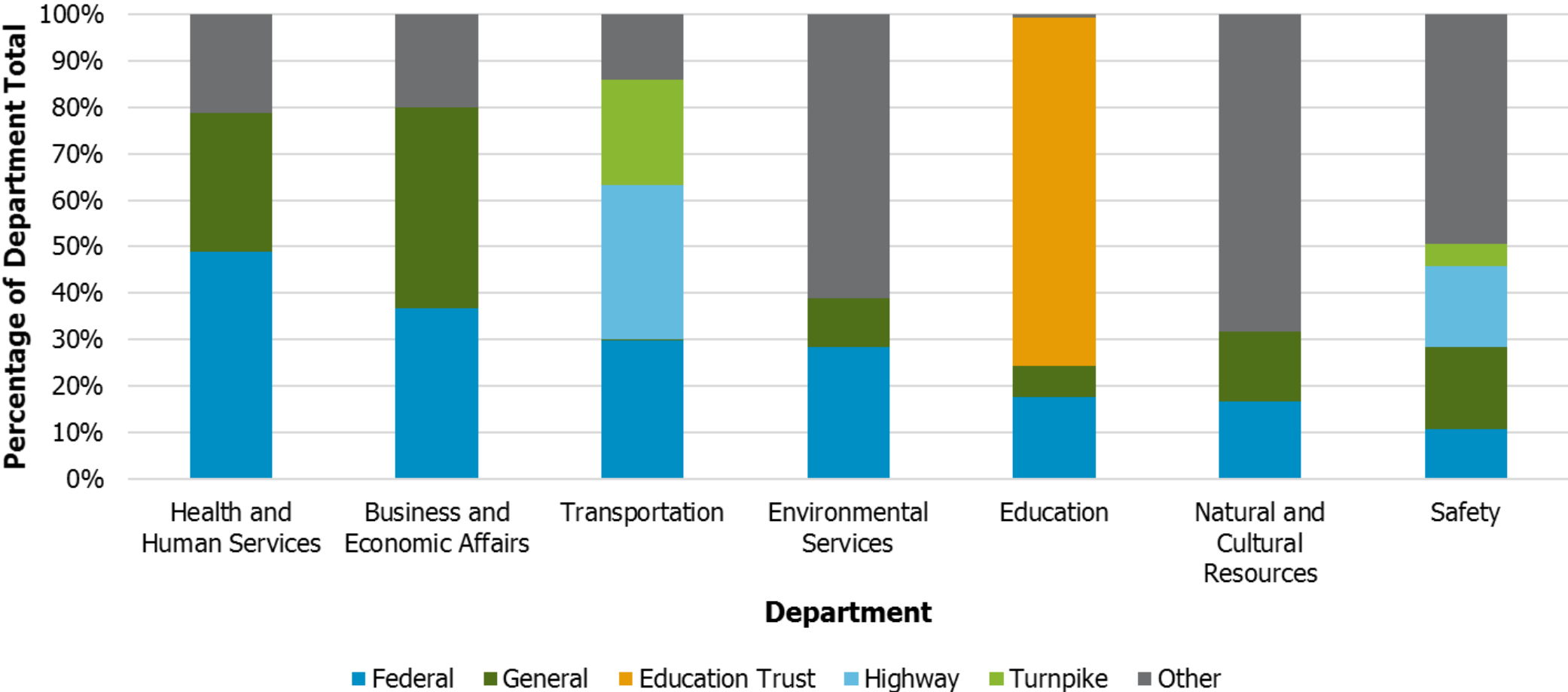
- Federal transportation aid
- Education aid – special education, school lunch program, professional development
- Water pollution and infrastructure funds, clean and drinking water programs
- Temporary Assistance for Needy Families
- Food Stamps/SNAP; Women, Infants, and Children Nutrition Program
- Low Income Home Energy Assistance Program, funds State Fuel Assistance Program
- Veterans' care aid

# State Revenue - Federal Funds

## Funds Supporting Selected Departments

*New Hampshire State Budget, SFY 2018*

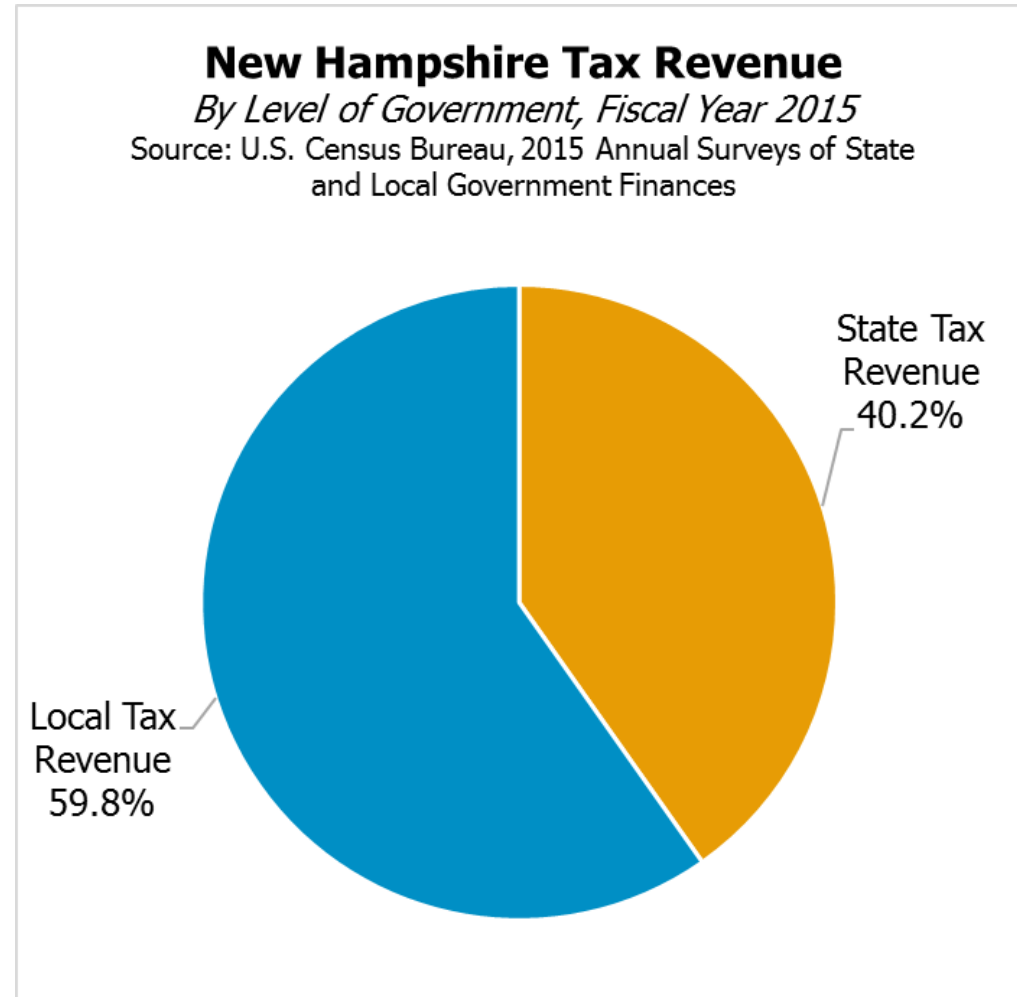
Source: Chapter 155, Laws of 2017



# Local Revenue System – Local Governments

## Local governments includes:

- County governments
  - Sheriff's departments
  - County nursing homes and long-term care
  - County jails
  - County attorney
  - Register of deeds office
  - Unincorporated townships
- School districts
- Municipal governments (town and city)



# Local Revenue System – Sources

- Grants from other levels of governments (state and federal)
- Fees, grants, or gifts
- However, only viable tax option is the property tax

## The Local Property Tax

- 99 percent of all local tax revenue
- 60 percent of all local revenue, including grants from State and federal government, school lunches, etc.
- \$3.3 billion dollars in tax year 2017
- About 90 percent of property taxes paid in NH are local taxes

# Local Revenue System - Reliance on the Property Tax

Property Tax as a Percentage of All Local Tax Revenue <i>Fiscal Year 2015</i>		
	State	Estimated Percentage
<b>Highest</b>	New Hampshire	99%
	Maine	99%
	Connecticut	98%
	New Jersey	98%
	Rhode Island	98%
	<i>United States</i>	<i>72%</i>
<b>Lowest</b>	Kentucky	56%
	Oklahoma	53%
	Louisiana	46%
	Arkansas	43%
	Alabama	42%

Source: U.S. Census Bureau, 2015 Annual Surveys of State and Local Government Finances

# Overall New Hampshire Revenue System Leans Heavily on the Property Tax

## Property Tax as a Percentage of All State and Local Tax Revenue *Fiscal Year 2015*

	State	Estimated Percentage
<b>Highest</b>	New Hampshire	66%
	Alaska	57%
	New Jersey	46%
	Vermont	44%
	Rhode Island	43%
	<i>United States</i>	<i>31%</i>
<b>Lowest</b>	Arkansas	18%
	Delaware	18%
	Hawaii	18%
	Alabama	17%
	North Dakota	13%

Source: U.S. Census Bureau, 2015 Annual Surveys of State and Local Government Finances

# New Hampshire's Revenue System Among Higher Per Capita Tax From Property Taxes

State and Local Property Tax Revenue Per Capita <i>Fiscal Year 2015</i>		
	State	Estimated Amount
<b>Highest</b>	New Jersey	\$3,082
	New Hampshire	\$3,055
	Connecticut	\$2,851
	New York	\$2,704
	Vermont	\$2,542
	<i>United States</i>	<i>\$1,521</i>
<b>Lowest</b>	Kentucky	\$781
	New Mexico	\$772
	Arkansas	\$699
	Oklahoma	\$679
	Alabama	\$540

Source: U.S. Census Bureau, 2015 Annual Surveys of State and Local Government Finances

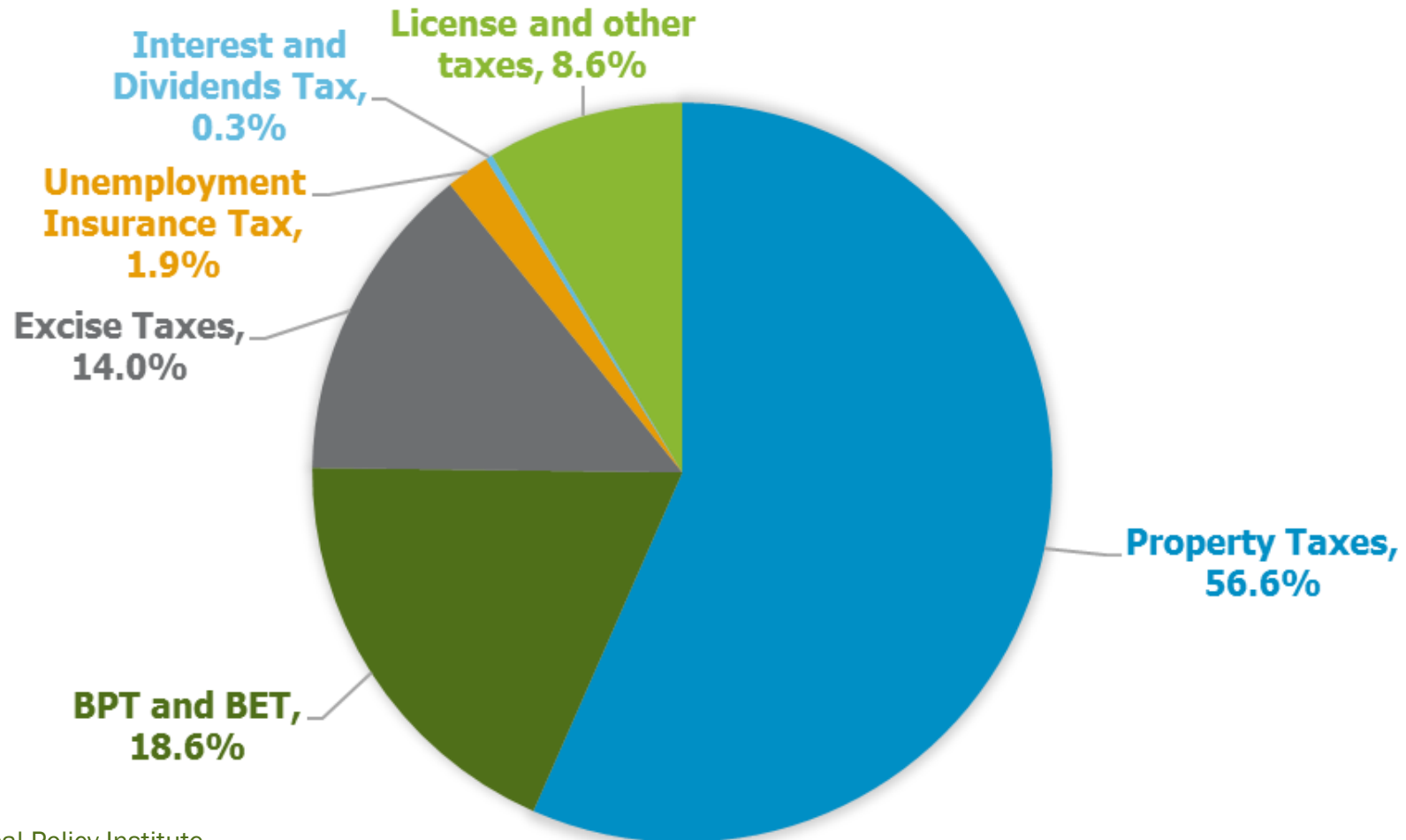


# Businesses Feel The Property Tax

## Taxes Paid by Businesses

*New Hampshire State and Local Taxes, Fiscal Year 2017*

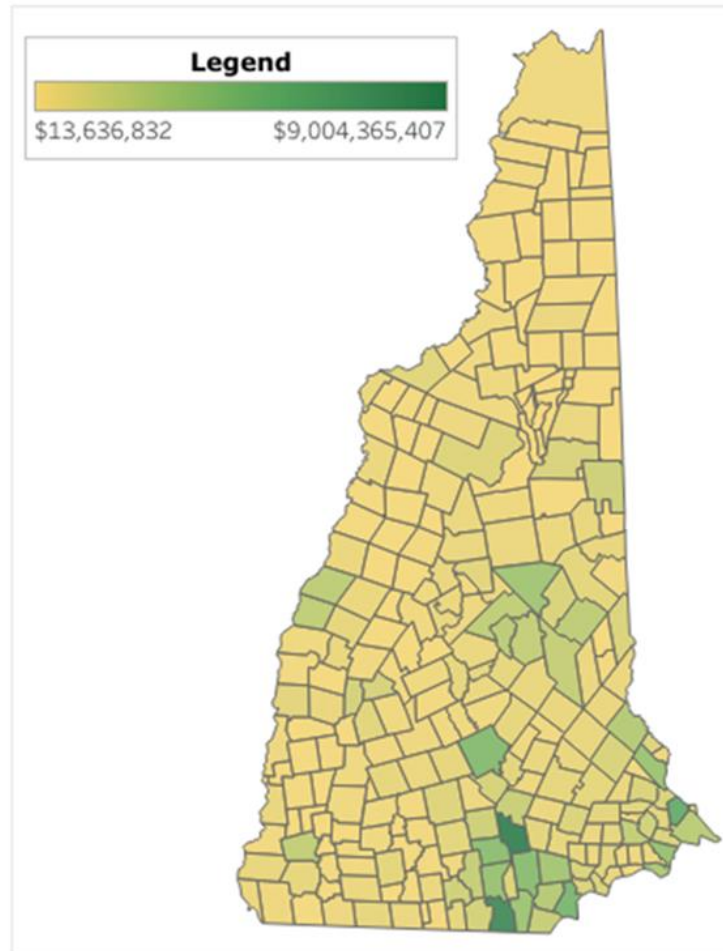
Source: Council on State Taxation, *Total State and Local Business Taxes*, Nov. 2018



# Local Property Tax Bases

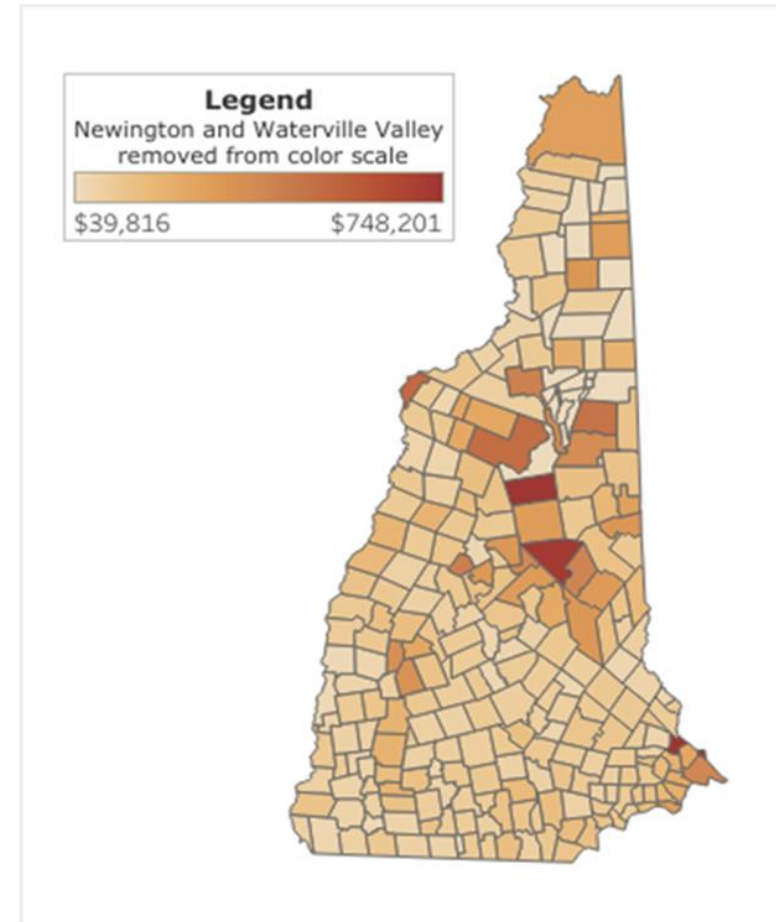
## Total Municipal Property Value

Source: Completed Public Tax Rates 2017,  
NH Dept. of Revenue Administration



## Municipal Property Value Per Capita

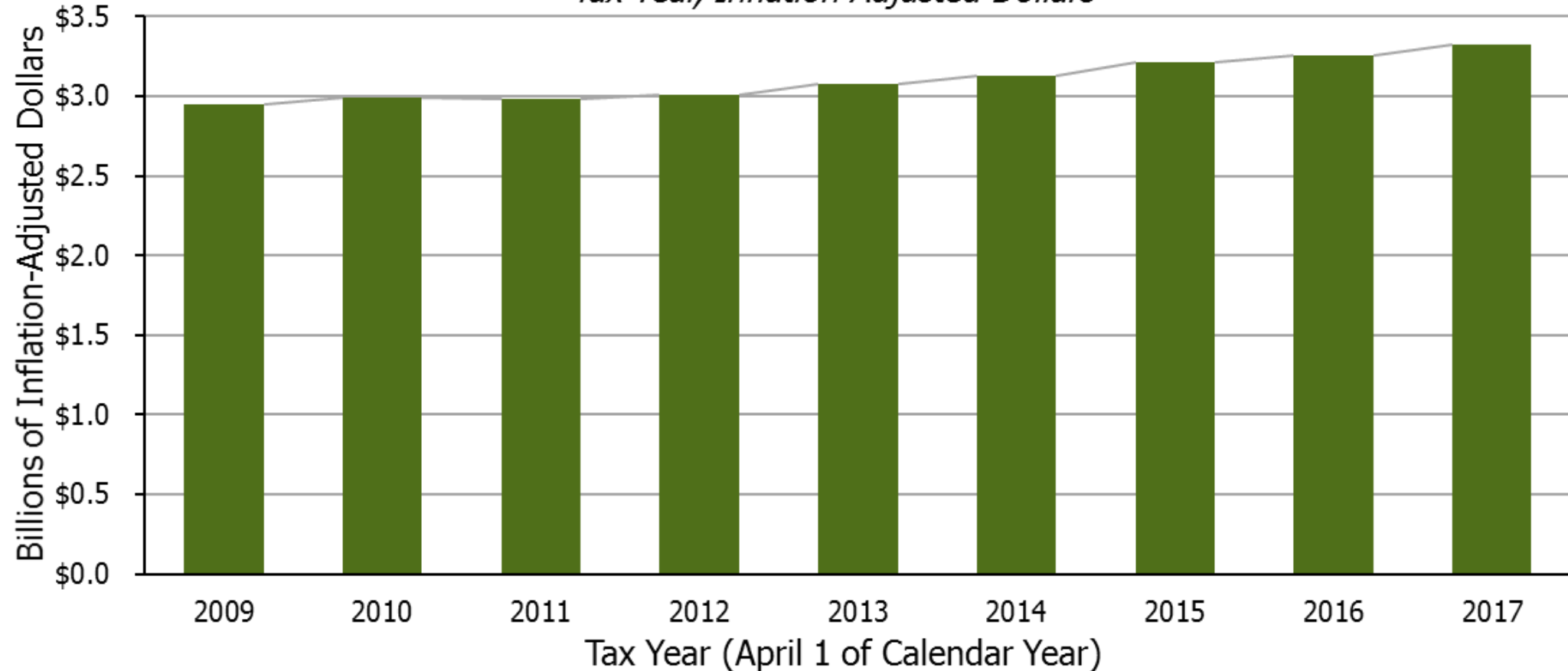
Source: Completed Public Tax Rates 2017,  
NH Dept. of Revenue Administration.  
2010 U.S. Census.



# Local Property Taxes in New Hampshire

## 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

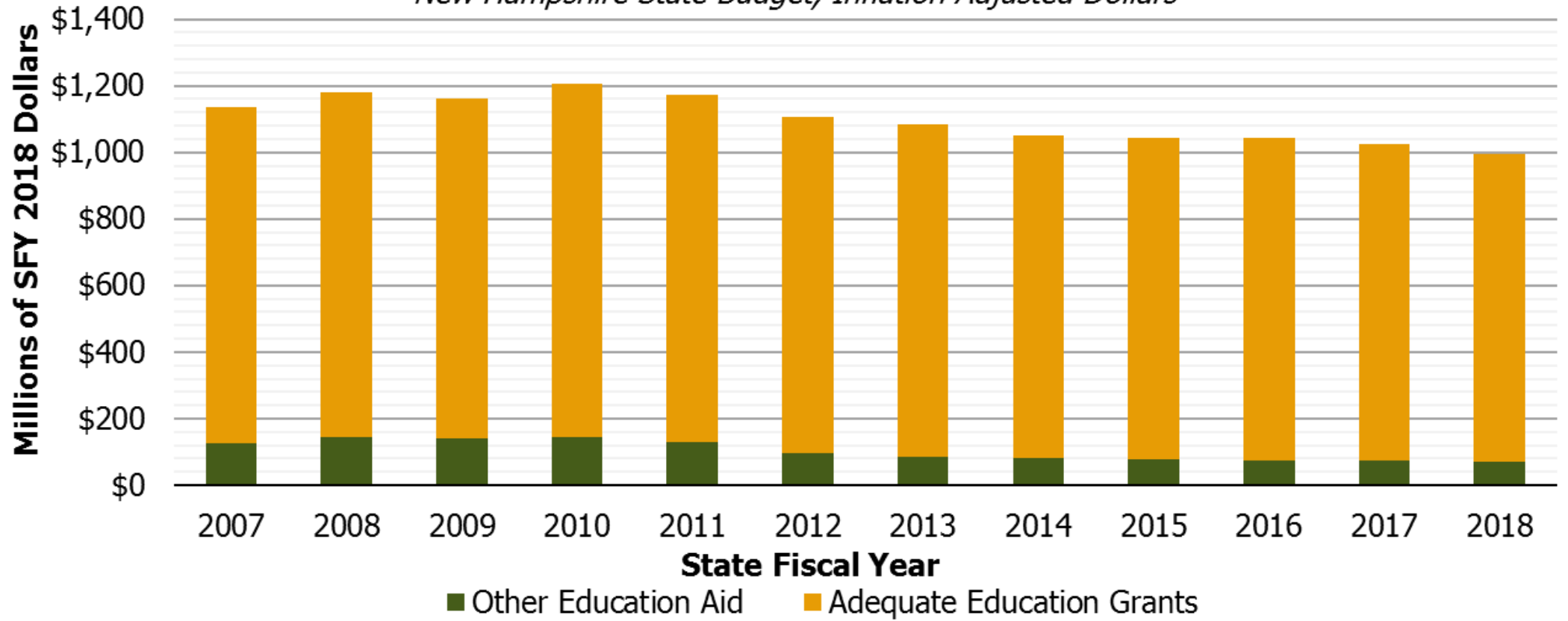
Sources: NH Department of Revenue Administration;

U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

# State Funding For Local Governments – Education-Related Aid

## Education Aid To Local Governments

*New Hampshire State Budget, Inflation-Adjusted Dollars*



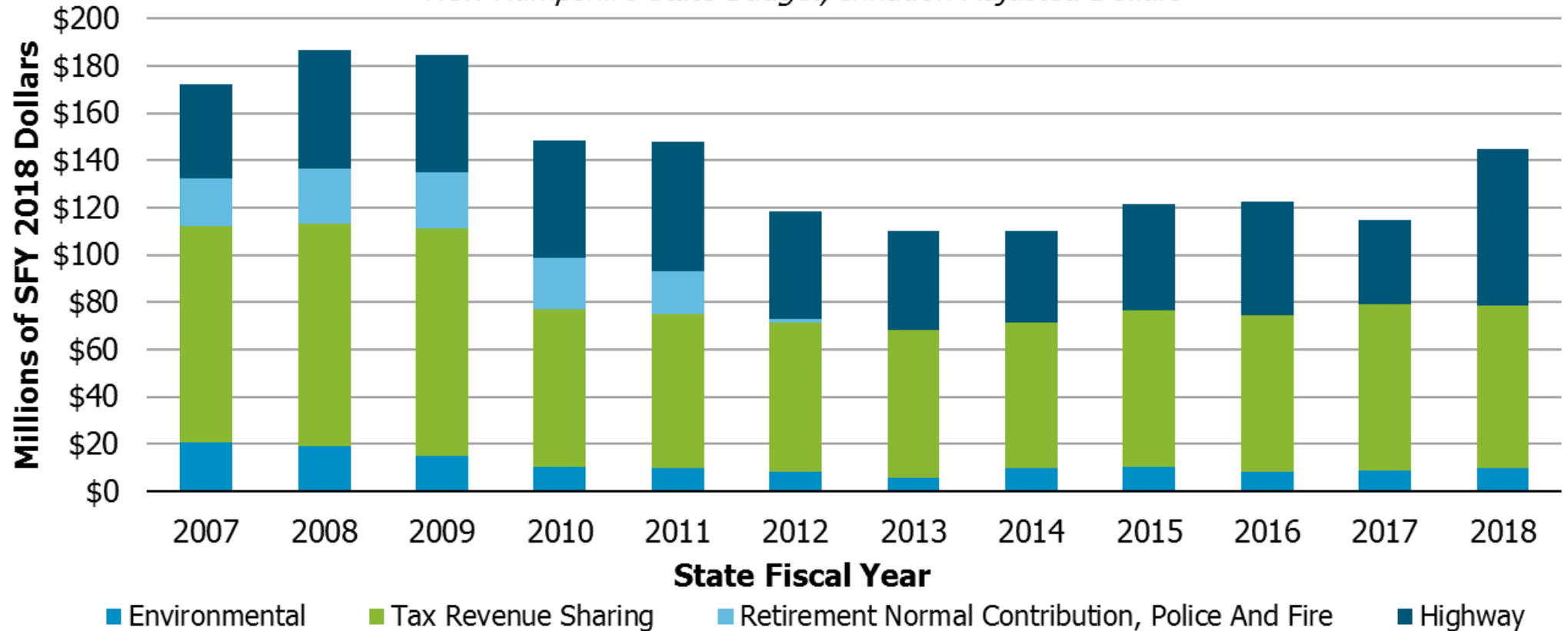
Note: Does not include certain school building aid dispensed from the temporary Public School Infrastructure Fund.

Sources: Office of Legislative Budget Assistant, *Schedule of State Aid to Cities, Towns, and School Districts*, October 12, 2018; U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

# State Funding For Local Governments – Non-Education Aid

## Non-Education Aid to Local Governments

*New Hampshire State Budget, Inflation-Adjusted Dollars*



Note: Does not include certain municipal bridge aid not included in the State Budget.

Sources: Office of Legislative Budget Assistant, *Schedule of State Aid to Cities, Towns, and School Districts*, October 12, 2018; U.S. Bureau of Labor Statistics, Consumer Price Index-Northeast, State Fiscal Year Adjustment from NHFPI Calculations

# Additional NHFPI Resources

- *Revenue in Review*: <http://nhfpi.org/research/state-tax/revenue-review-overview-new-hampshire-tax-system-major-revenue-sources.html>
- *Building the Budget*: <http://nhfpi.org/research/state-budget/building-budget-new-hampshires-state-budget-process-recent-funding-trends.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>
- 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



# THANK YOU FOR YOUR TIME

## New Hampshire Fiscal Policy Institute

Address: 64 North Main Street  
Concord, NH 03301

Phone: 603-856-8337

Website: [www.nhfpi.org](http://www.nhfpi.org)

Email: [info@nhfpi.org](mailto:info@nhfpi.org)

Twitter: @NHFPI

Facebook: NewHampshireFiscalPolicyInstitute