



NEW HAMPSHIRE STATE REVENUES AND THE ECONOMY

PRESENTED BY PHIL SLETTEN, RESEARCH DIRECTOR

NEW HAMPSHIRE HOUSE OF REPRESENTATIVES
WAYS AND MEANS COMMITTEE

JANUARY 17, 2023

IN THIS PRESENTATION

- The big picture of State revenues
- Revenue trends since the pandemic
- The Business Profits and Business Enterprise Taxes
- The Meals and Rentals Tax
- The Real Estate Transfer Tax
- The Interest and Dividends Tax
- Key factors in the economic outlook

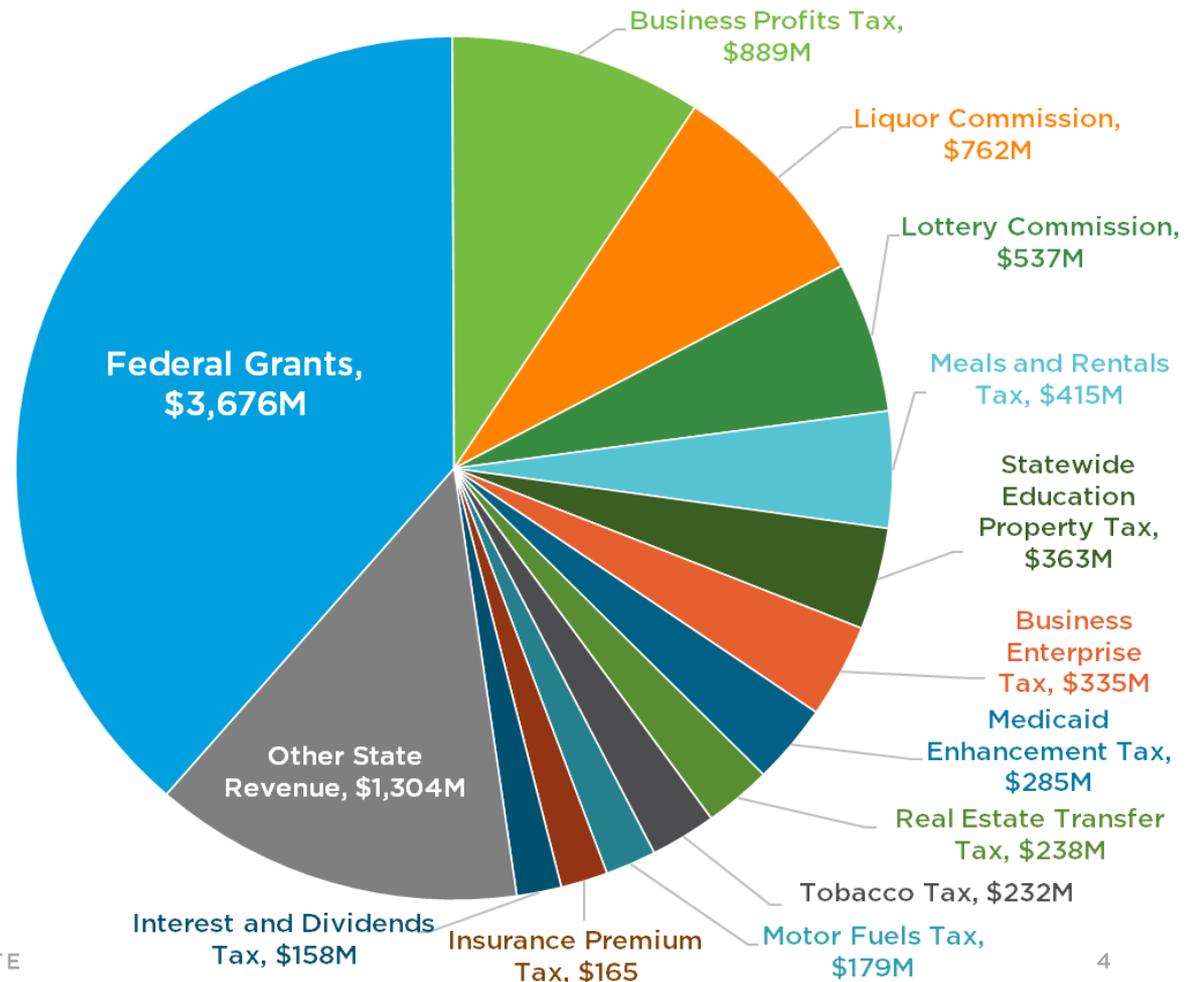
THE BIG PICTURE OF STATE REVENUES

STATE TAX AND OTHER REVENUES

- Federal transfers significant, still include some pandemic-related aid
- Not all federal aid, or all State spending, flows through the State Budget
- Gross revenues from the Liquor Commission and the Lottery Commission are among largest State revenue sources, but many funds go to support internal operations
- Business Profits Tax is the largest State tax revenue source

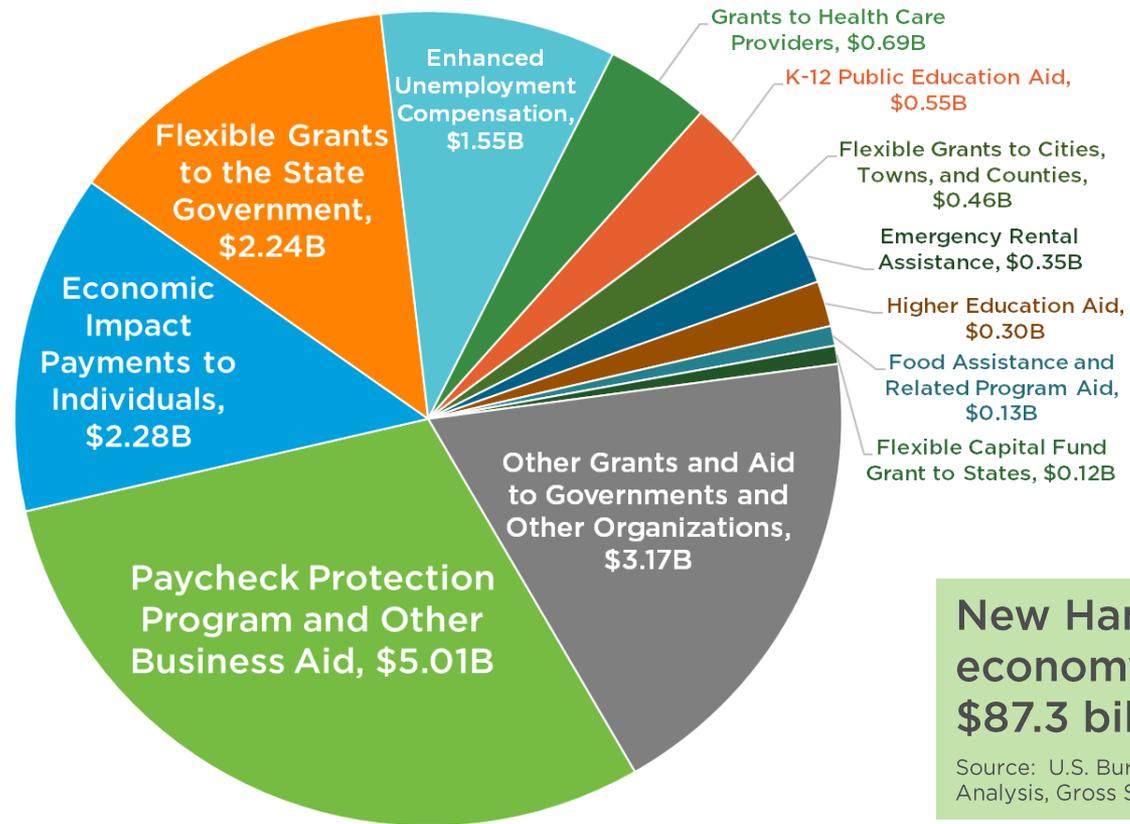
STATE REVENUE SOURCES, GOVERNMENTAL AND ENTERPRISE FUNDS, STATE FISCAL YEAR 2022

Sources: New Hampshire Annual Comprehensive Financial Report, SFY 2022; NH Department of Revenue Administration, 2022 Annual Report; NH Department of Health and Human Services



ABOUT \$17 BILLION TO NEW HAMPSHIRE FEDERAL ASSISTANCE RELATED TO COVID-19 IN NEW HAMPSHIRE

Total of Nearly \$16.9 billion Through July 7, 2022



New Hampshire economy in 2019: \$87.3 billion

Source: U.S. Bureau of Economic Analysis, Gross State Product

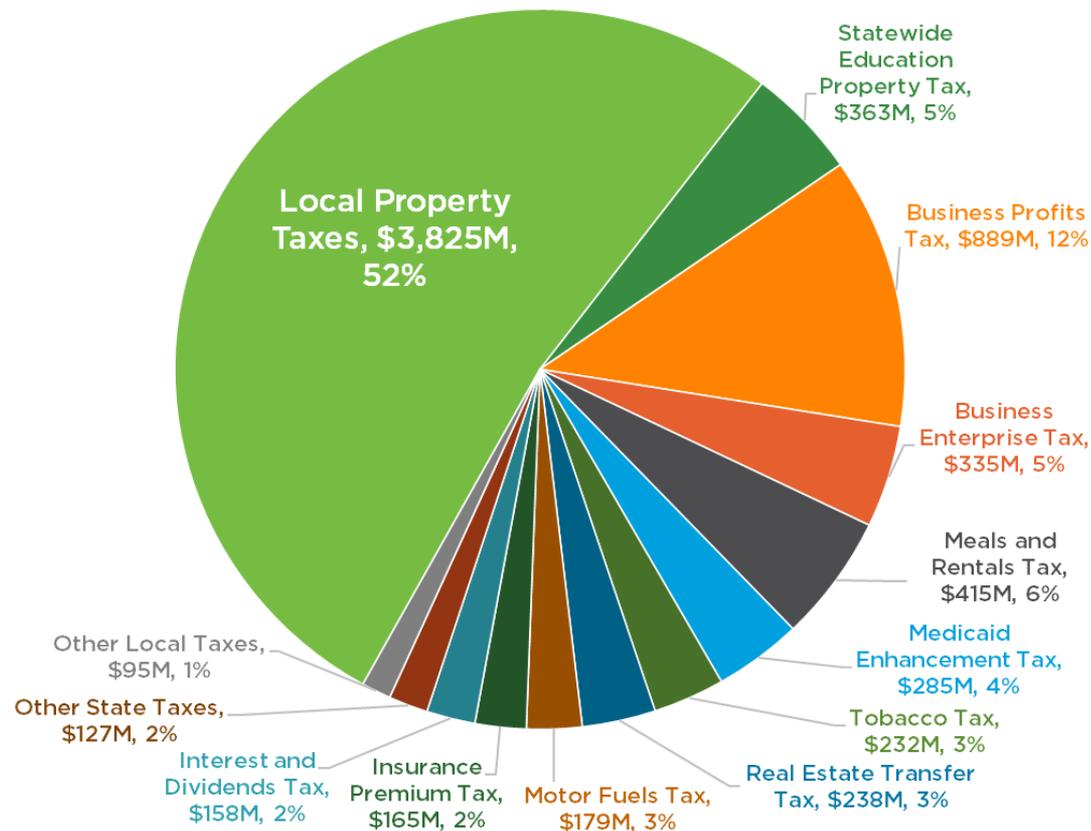
Note: Sums may include small amounts of double-counting due to summation mismatches. Totals presented are derivations. Small amounts of aid to individuals are also included in the "Other Grants and Aid" section, including aid for funeral expenses.

Source: New Hampshire Office of Legislative Budget Assistant, Federal COVID-19 Funds, New Hampshire Allocations, July 7, 2022.

PROPERTY TAXES MORE THAN HALF OF STATE AND LOCAL TAX REVENUES

STATE AND LOCAL TAXES IN NEW HAMPSHIRE

State Fiscal Year or Tax Year 2022

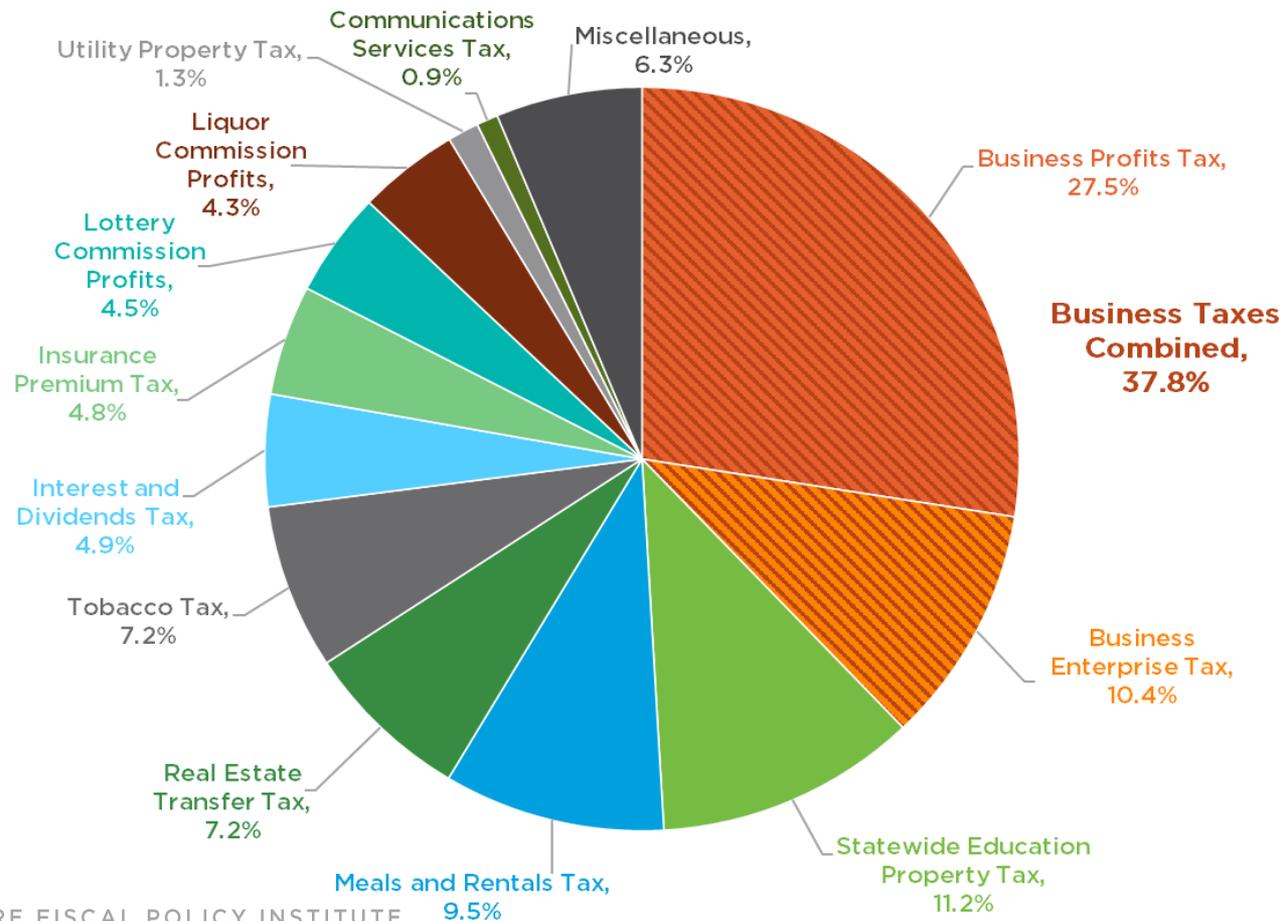


Sources: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2022; New Hampshire Department of Revenue Administration, 2022 Annual Report and Completed Public Tax Rates 2022; U.S. Census Bureau, Survey of State and Local Government Finances, 2020 ("Other Local Taxes")

GENERAL AND EDUCATION TRUST FUNDS SHARE MANY REVENUE SOURCES

GENERAL AND EDUCATION TRUST FUNDS COMBINED REVENUE IN STATE FISCAL YEAR 2022

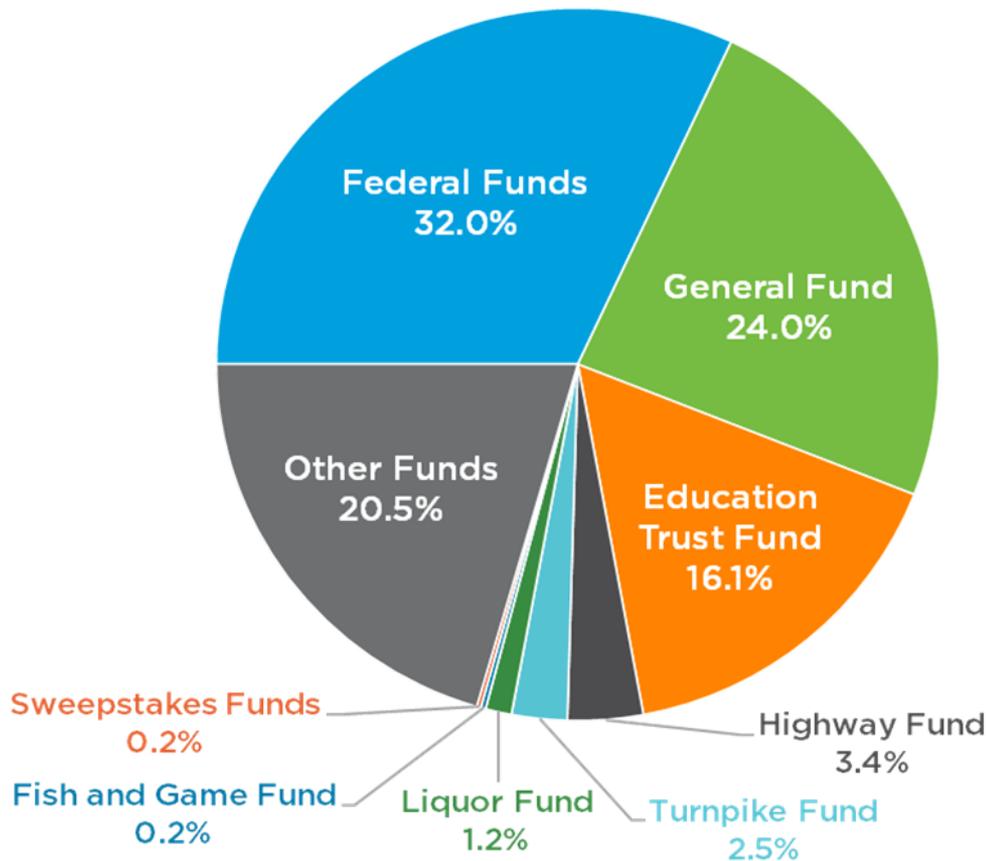
Source: New Hampshire Annual Comprehensive Financial Report, State Fiscal Year 2022



NEW HAMPSHIRE'S STATE BUDGET FUNDS

NEW HAMPSHIRE STATE BUDGET, STATE FISCAL YEAR 2022

Source: Chapter 90, Laws of 2021, Section 1.07



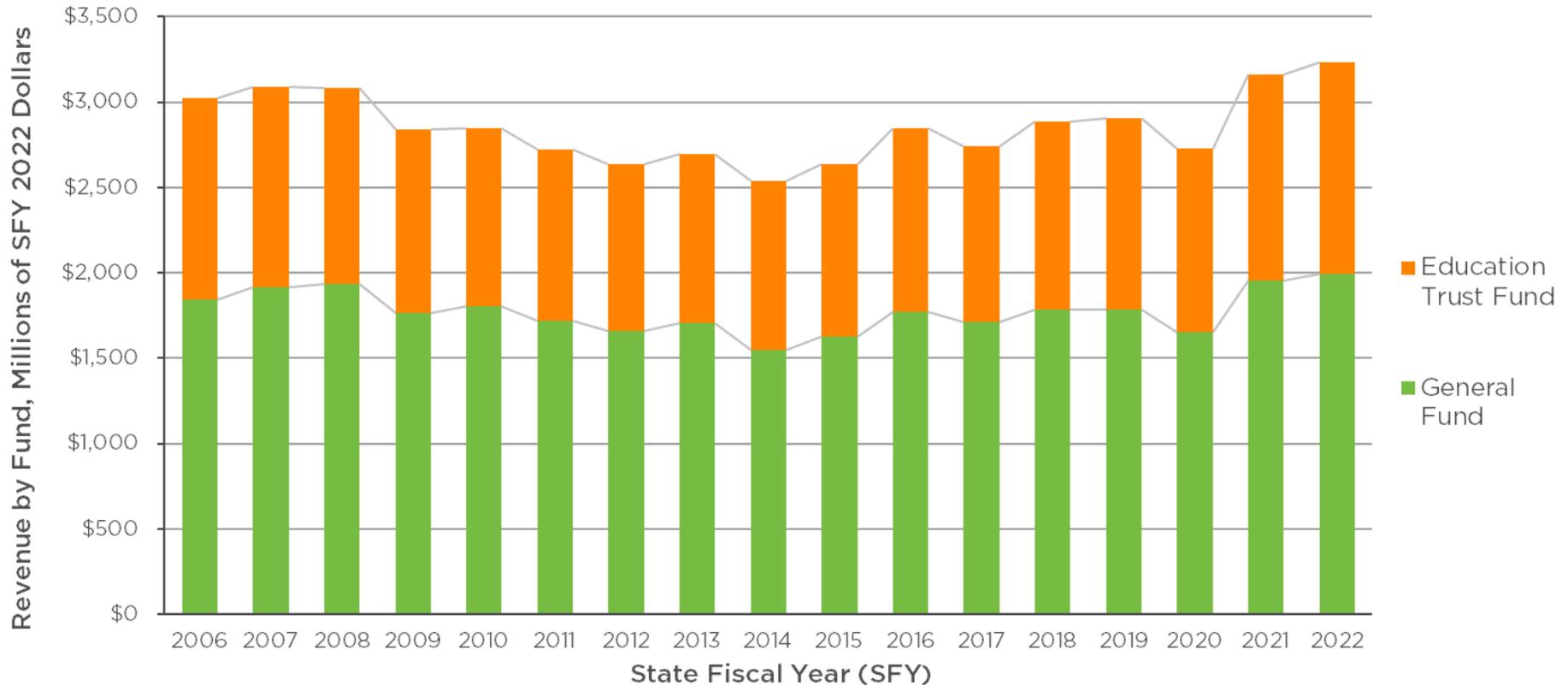
- Funds act like accounts
- Interact with one another
- General Fund most flexible
- General Fund fills any Education Trust Fund shortfall
- Lottery revenues, gasoline and motor-vehicle revenues directed by the State Constitution
- Other funds directed by statute
- Federal Funds support about a third of the State Budget

Sources: New Hampshire State Constitution, Part 2, Articles 6-a and 6-b; NHFPI, *Building the Budget*, February 2017.

REVENUE TRENDS SINCE THE PANDEMIC

INFLATION-ADJUSTED REVENUE TO KEY FUNDS SHOWS RECENT GROWTH

GENERAL AND EDUCATION TRUST FUND REVENUE, ADJUSTED FOR INFLATION

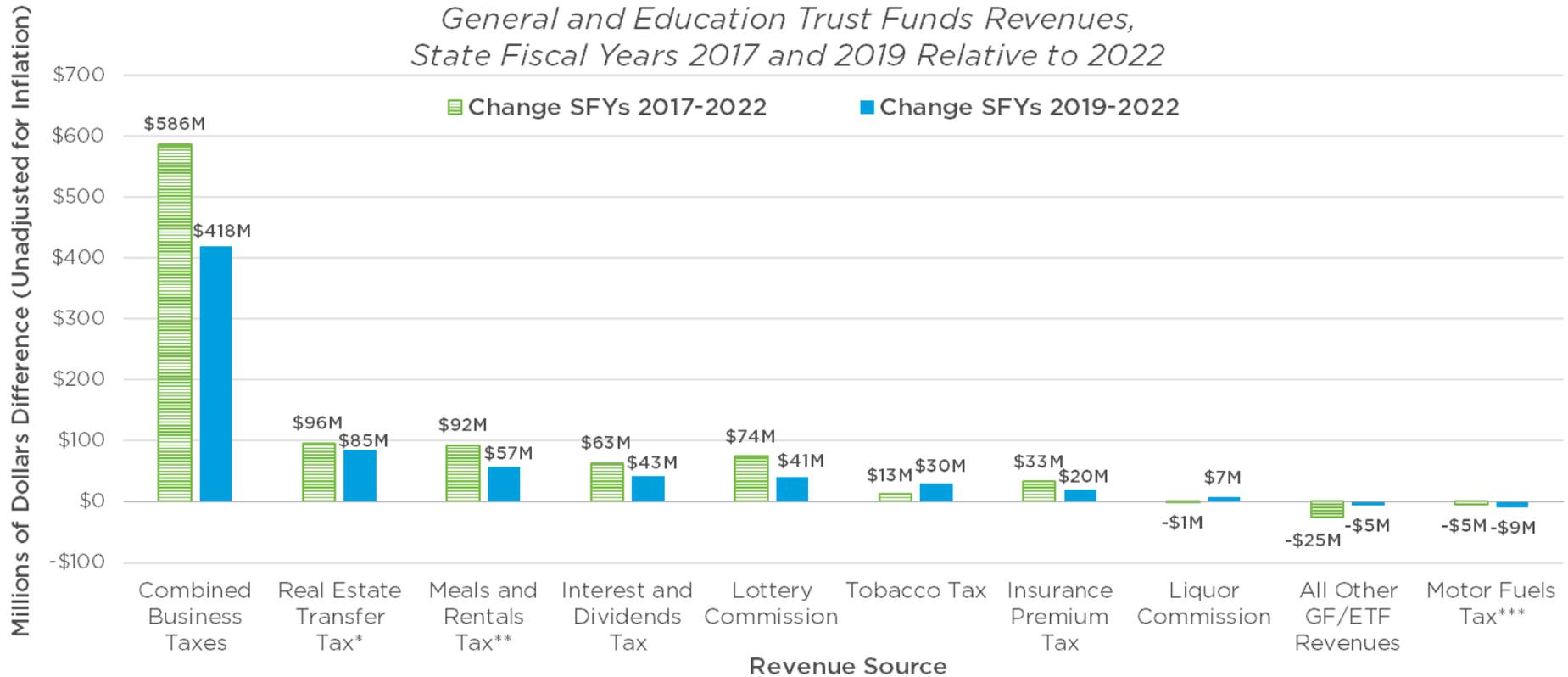


Sources: New Hampshire Comprehensive Annual Financial Reports, SFYs 2014-2022
U.S. Bureau of Labor Statistics Consumer Price Index-Urban, Northeast

BUSINESS, REAL ESTATE SALES, MEALS, RENTALS TAXES DRIVE RECENT GROWTH

DIFFERENCES IN REVENUE BY SOURCE

*General and Education Trust Funds Revenues,
State Fiscal Years 2017 and 2019 Relative to 2022*



Notes: *Includes \$5M annual transfer to Affordable Housing Fund, starting SFY 2021. **Includes Municipal Revenue Fund transfer, starting SFY 2022.

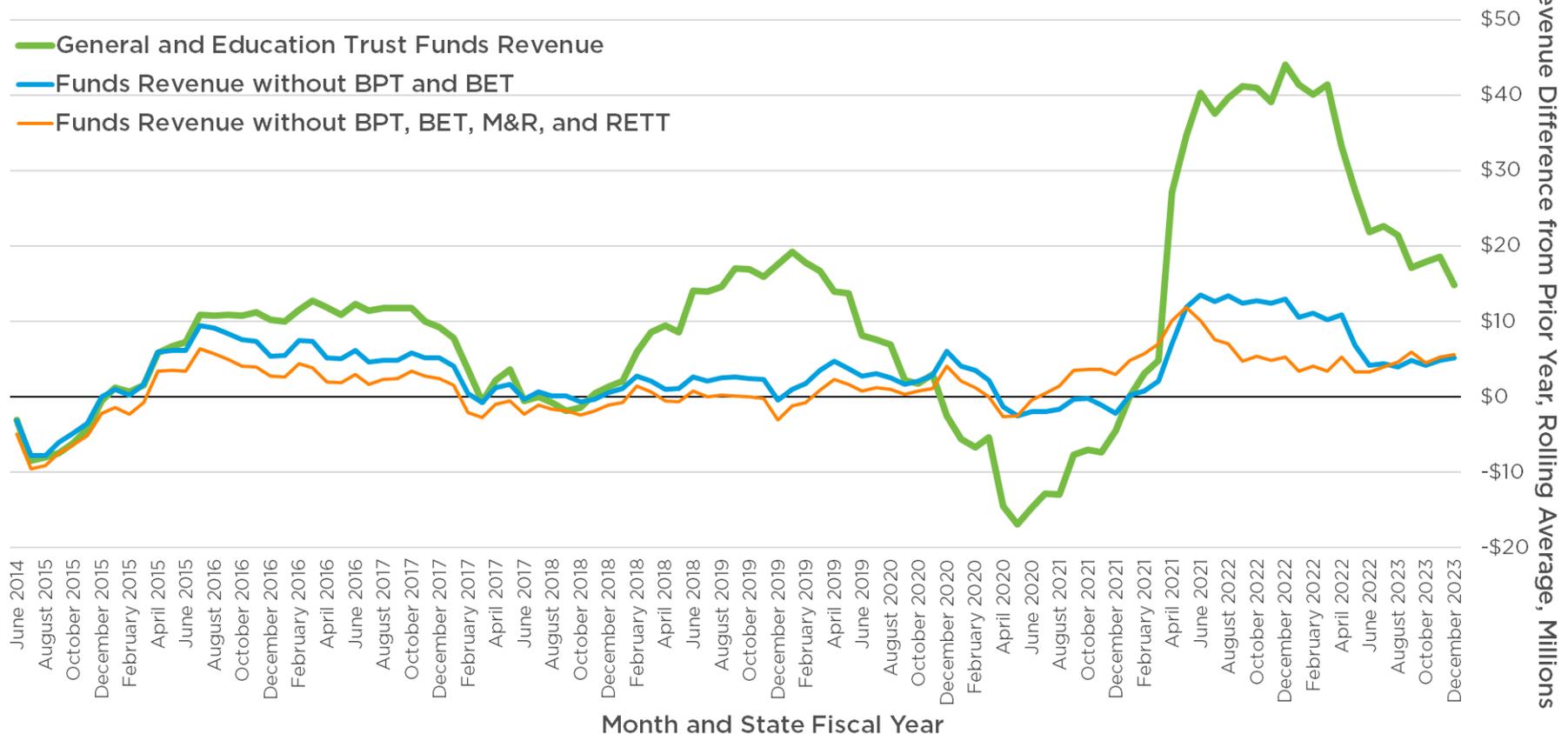
***Not a General or Education Trust Funds revenue source.

Sources: New Hampshire Annual Comprehensive Financial Reports, SFYs 2017, 2019, and 2022; New Hampshire Department of Revenue Administration, 2022 Annual Report

REVENUE SWINGS FROM BUSINESS TAXES

DIFFERENCES IN NEW HAMPSHIRE 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, Meals and Rentals, and Real Estate Transfer Taxes



Sources: New Hampshire Department of Administrative Services Monthly Revenue Focus Reports
 Note: Medicaid Enhancement Tax excluded from historical data.

THE TWO PRIMARY BUSINESS TAXES: THE BUSINESS PROFITS TAX AND THE BUSINESS ENTERPRISE TAX

THE TWO PRIMARY BUSINESS TAXES

Business Profits Tax

- Tax based on gross business profits, adjustments (BET), and apportionment
- Tax base likely about \$6.8 billion in Tax Year 2020
- Recent rate reductions
 - 2001-2015: 8.5%, 2016-17: 8.2%, 2018: 7.9%, 2019-21: 7.7%, 2022: 7.6%, 2023: 7.5%
- Supports the General Fund and the Education Trust Fund

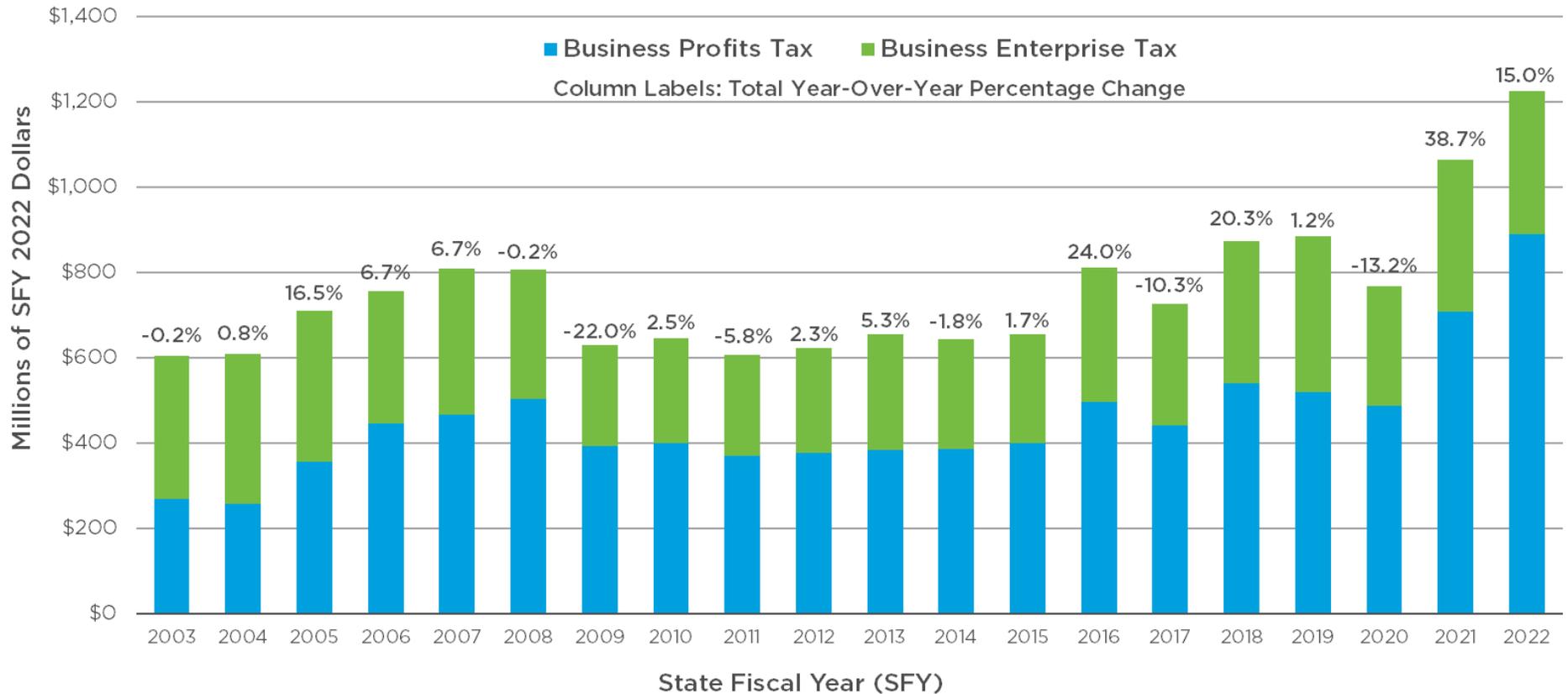
Business Enterprise Tax

- Unique among state business taxes, based on compensation and interest paid or accrued and dividends paid, adjustments, and apportionment
- Broader tax base, likely about \$36.0 billion in Tax Year 2020
- Recent rate reductions
 - 2001-2015: 0.750%, 2016-17: 0.720%, 2018: 0.675%, 2019-21: 0.600%, 2022: 0.550%
- Supports the Education Trust Fund and the General Fund

Sources: New Hampshire Fiscal Policy Institute, *Revenue in Review*, May 2017; New Hampshire Department of Revenue Administration

INFLATION-ADJUSTED REVENUE FROM TWO PRIMARY BUSINESS TAXES

NEW HAMPSHIRE BUSINESS PROFITS TAX AND BUSINESS ENTERPRISE TAX
GENERAL AND EDUCATION TRUST FUNDS INFLATION-ADJUSTED REVENUE

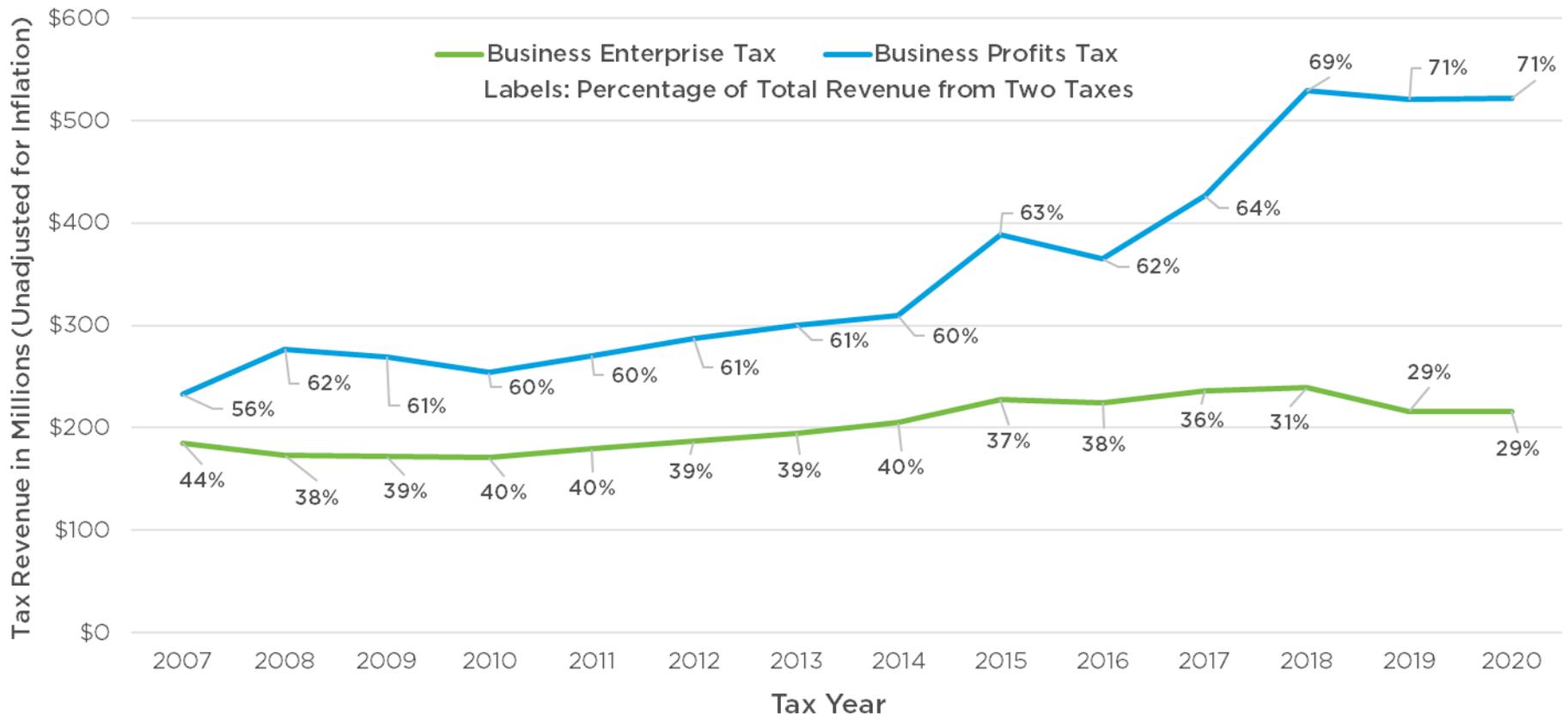


Note: Final sorting between these two taxes not reported fully in the Annual Comprehensive Financial Reports.
Sources: New Hampshire Annual Comprehensive Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast

BPT BECOMING SUBSTANTIALLY LARGER OF THE TWO TAXES IN RECENT YEARS

BUSINESS PROFITS TAX AND BUSINESS ENTERPRISE TAX

Revenue by Tax Year, Percentage of Revenue Total from These Two Taxes



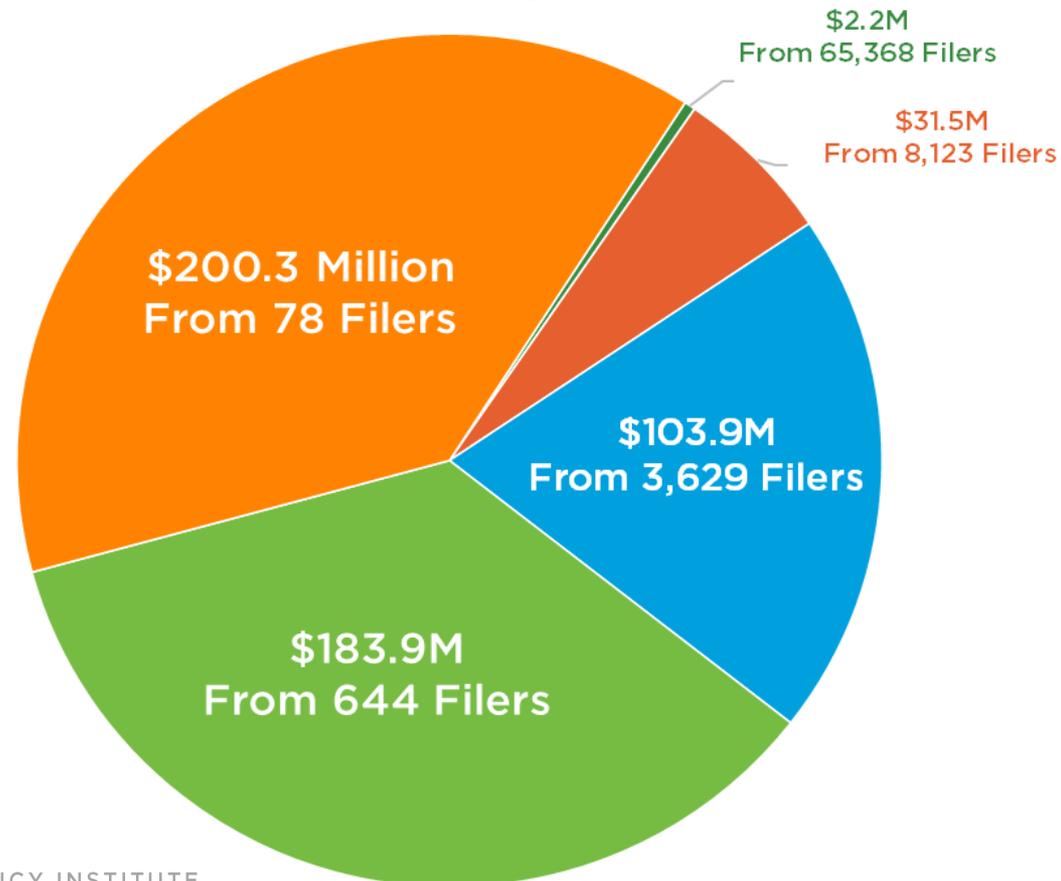
Source: New Hampshire Department of Revenue Administration, Annual Reports

LARGE ENTITIES KEY TO BPT BASE

NEW HAMPSHIRE BUSINESS PROFITS TAX PAID AND NUMBER OF FILERS

Tax Year 2020

Source: New Hampshire Department of Revenue Administration,
2022 Annual Report

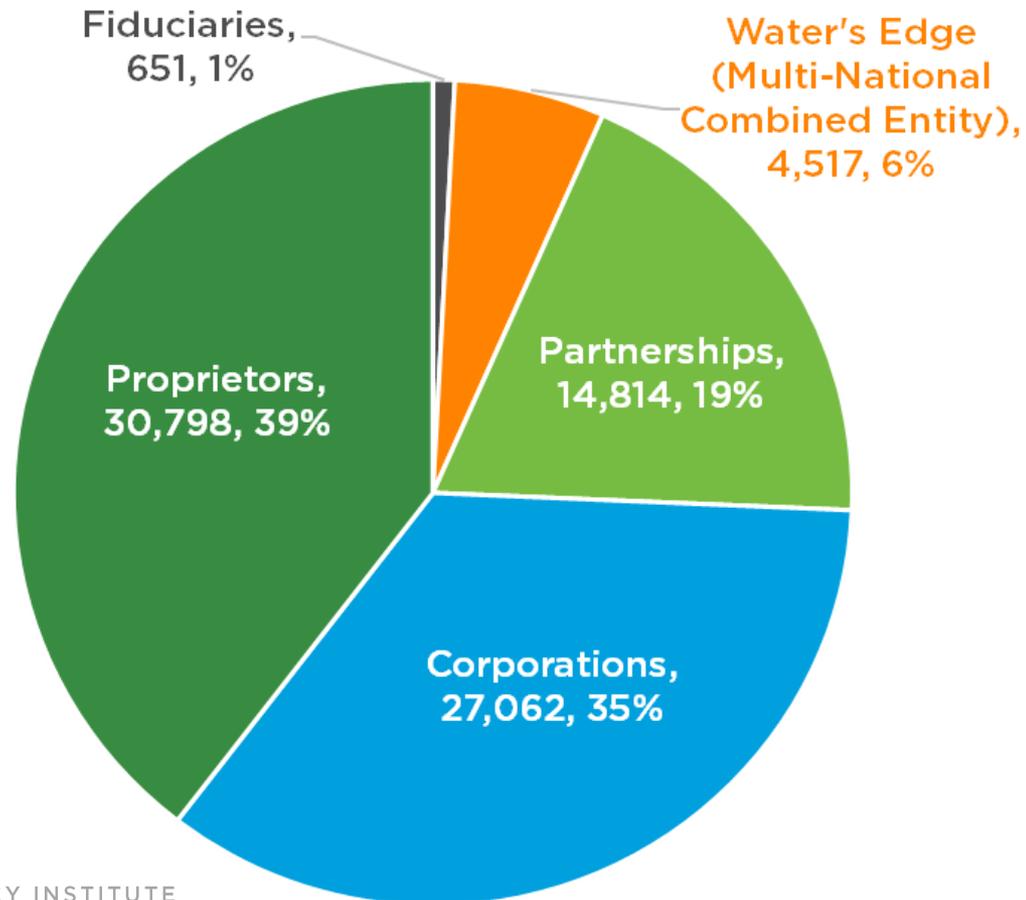


BUSINESS TYPES IN THE BPT BASE

BUSINESS PROFITS TAX FILERS BY TYPE

Tax Year 2020

Source: New Hampshire Department of Revenue Administration, 2022 Annual Report

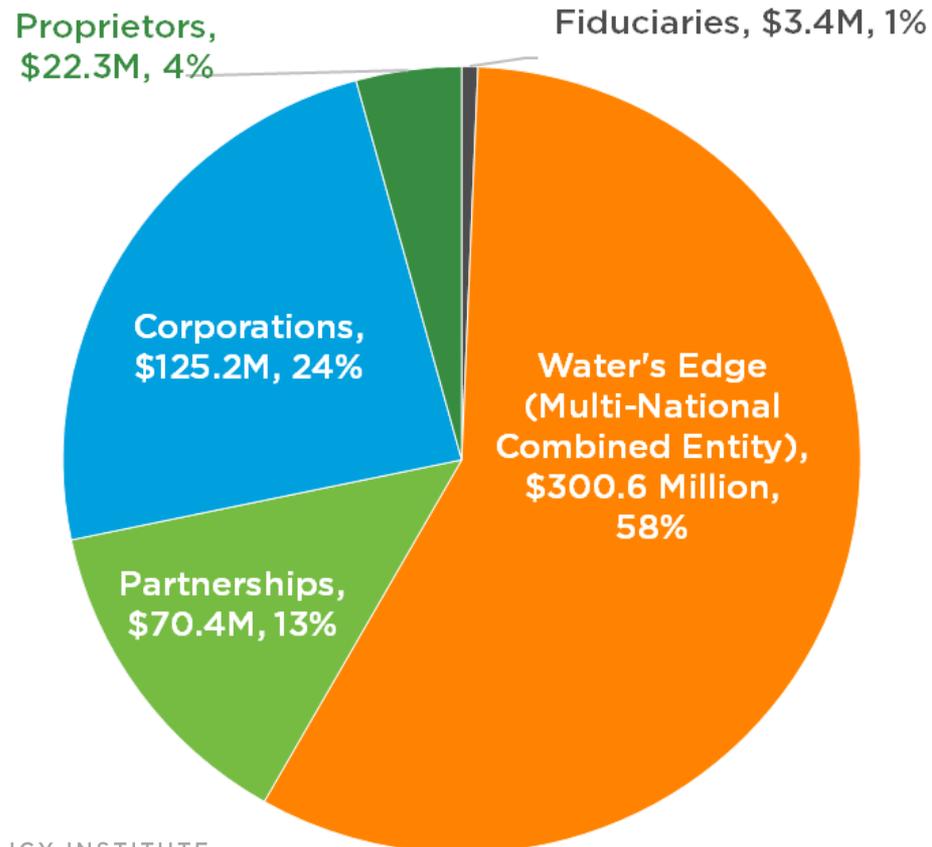


MAJORITY OF TAX REVENUE FROM FILERS WITH SIGNIFICANT OVERSEAS COMPONENT

BUSINESS PROFITS TAX FILERS BY LIABILITY

Tax Year 2020

Source: New Hampshire Department of Revenue Administration,
2022 Annual Report

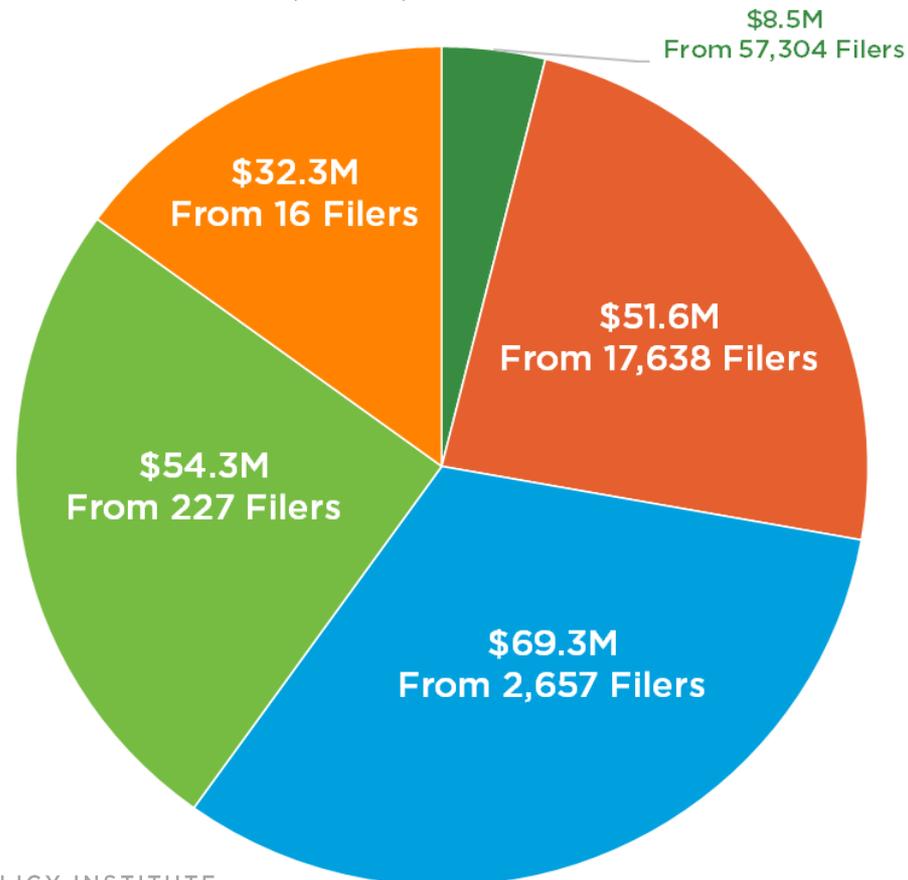


BROADER TAX BASE FOR BET, NOT DEPENDENT ON LARGE PROFITS

NEW HAMPSHIRE BUSINESS ENTERPRISE TAX PAID AND NUMBER OF FILERS

Tax Year 2020

Source: New Hampshire Department of Revenue Administration



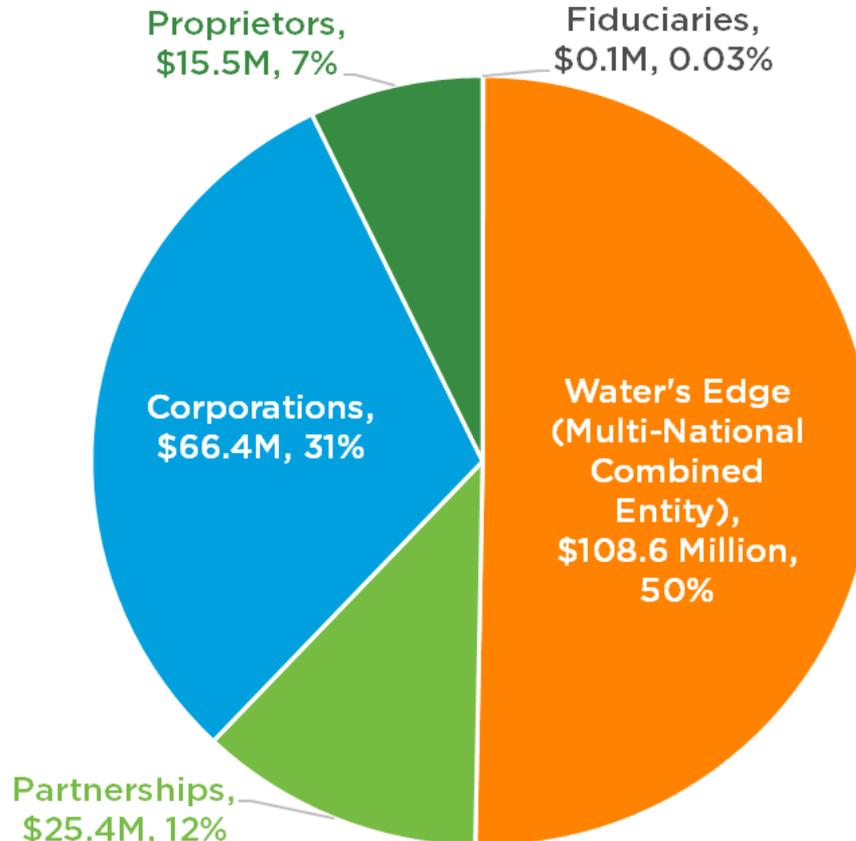
Note: Slide updated to address a data error on January 19, 2023.

ENTITIES WITH SIGNIFICANT OVERSEAS OPERATIONS STILL IMPORTANT TO BET

BET FILERS BY LIABILITY

Tax Year 2020

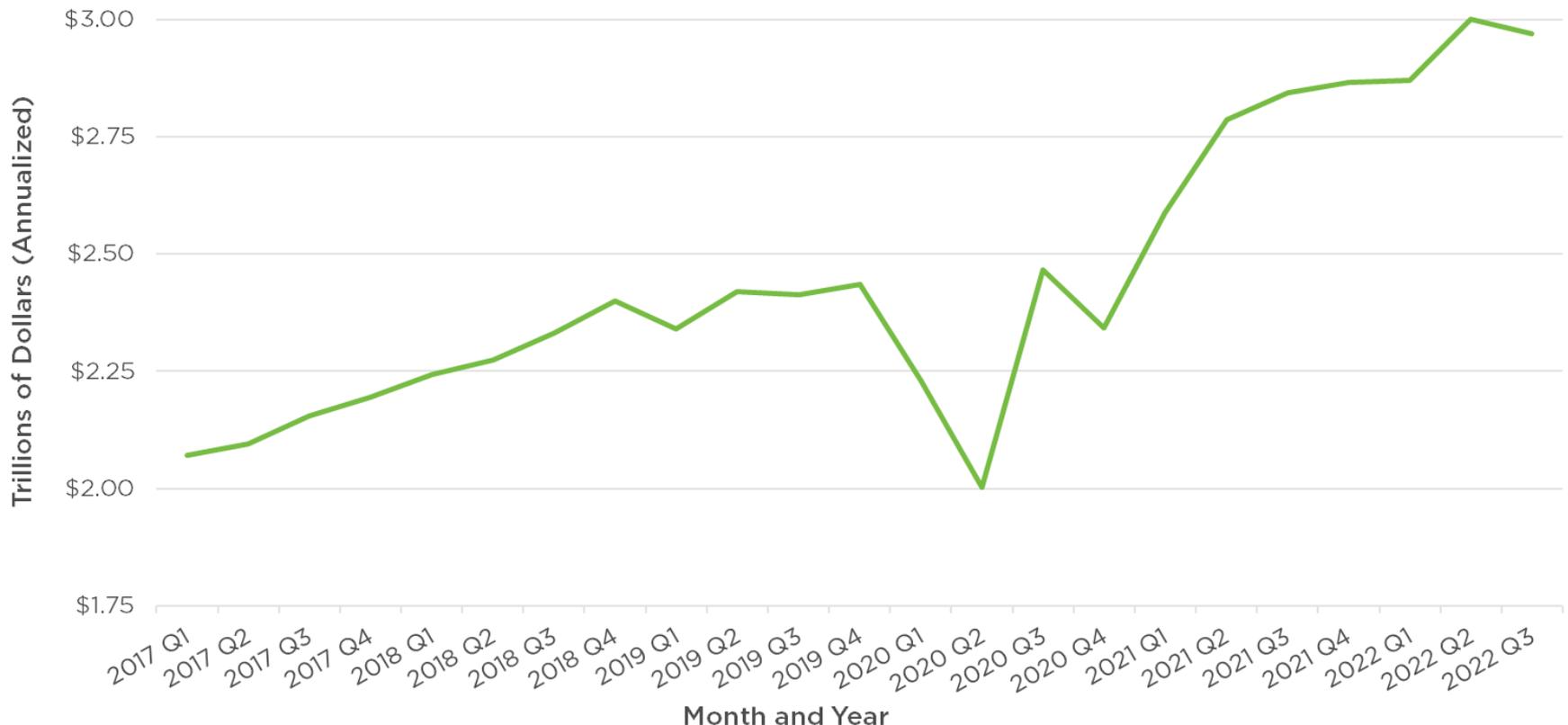
Source: New Hampshire Department of Revenue Administration,
2022 Annual Report



HIGH NATIONAL CORPORATE PROFITS LIKELY BOOSTING BPT REVENUES

U.S. CORPORATE PROFITS BY QUARTER

*Corporate Profits Adjusted for Inventory Valuation and Capital Consumption,
Annual Rate, Seasonally Adjusted*

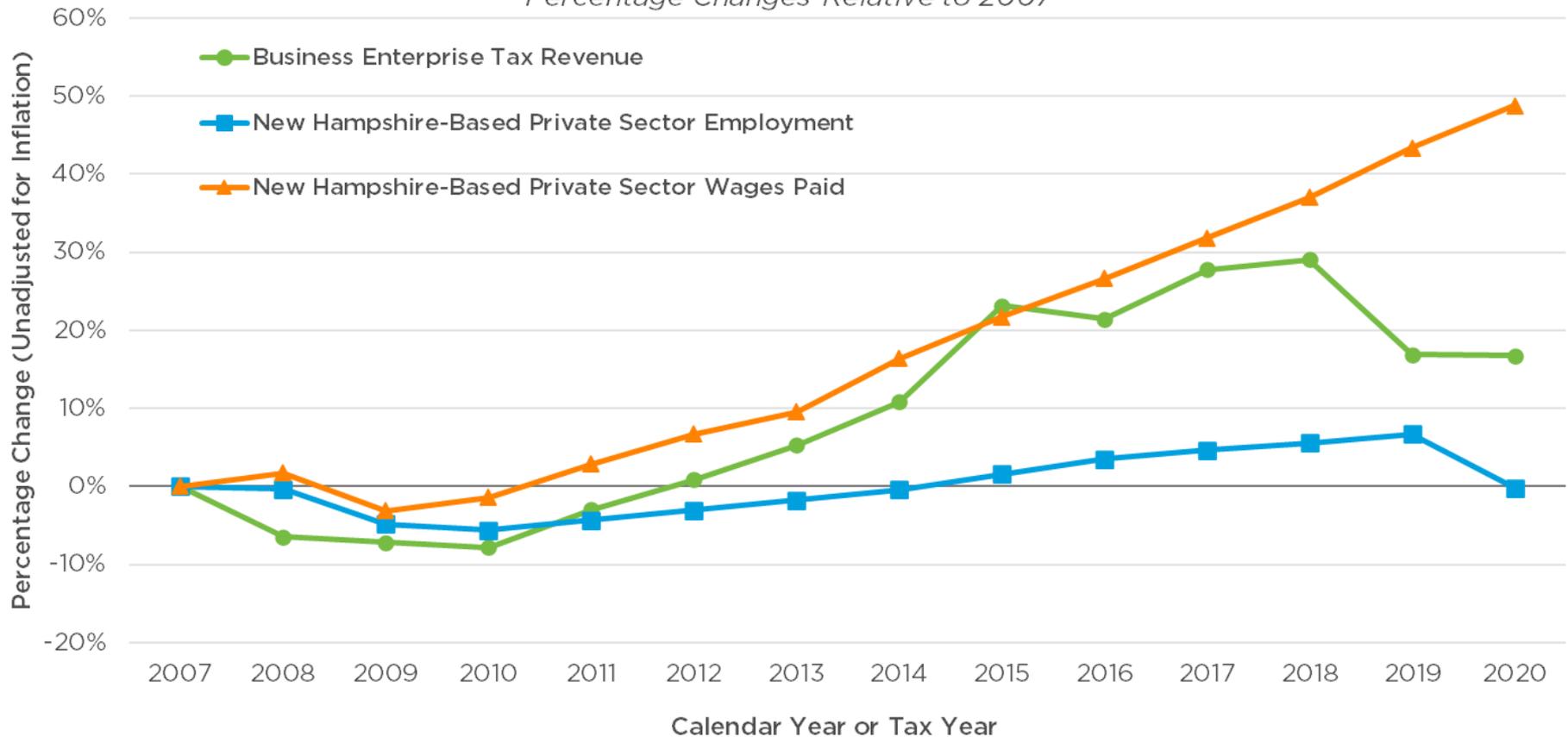


Source: U.S. Federal Reserve Bank of St. Louis, accessed December 21, 2022

BET REVENUES HISTORICALLY TREND WITH TOTAL WAGES PAID IN NEW HAMPSHIRE

BUSINESS ENTERPRISE TAX REVENUES, EMPLOYMENT, AND WAGES

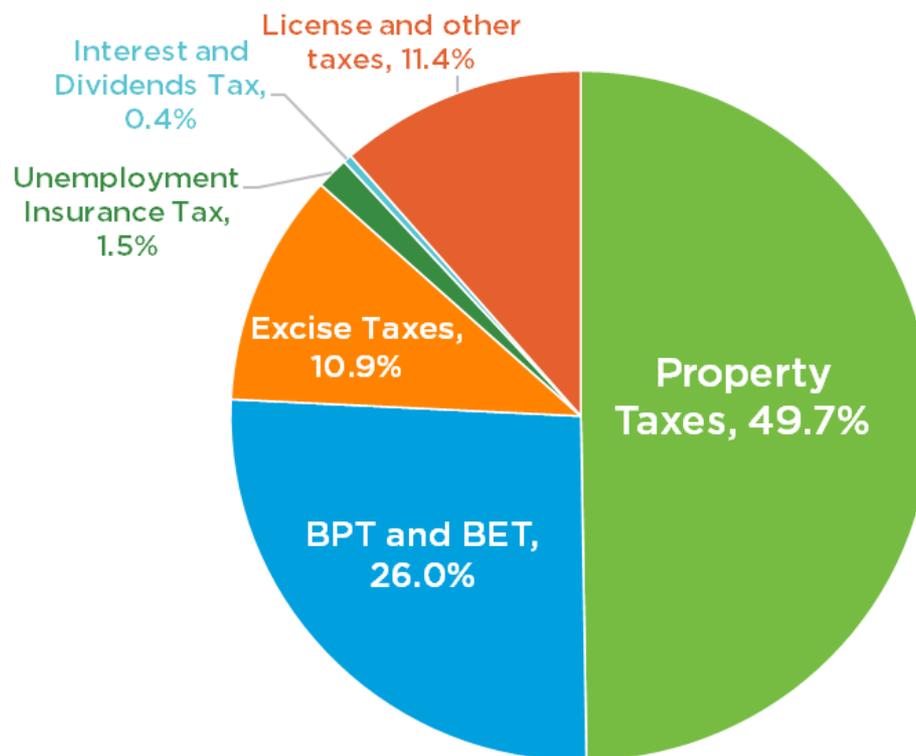
Percentage Changes Relative to 2007



Source: New Hampshire Department of Revenue Administration, Annual Reports; New Hampshire Employment Security, Covered Employment and Wages; U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

HALF OF STATE AND LOCAL TAX DOLLARS PAID BY BUSINESSES ARE PROPERTY TAXES

TAXES PAID BY BUSINESSES, NEW HAMPSHIRE STATE AND LOCAL TAXES, FISCAL YEAR 2021



Note: Totals do not sum to 100 percent due to rounding.

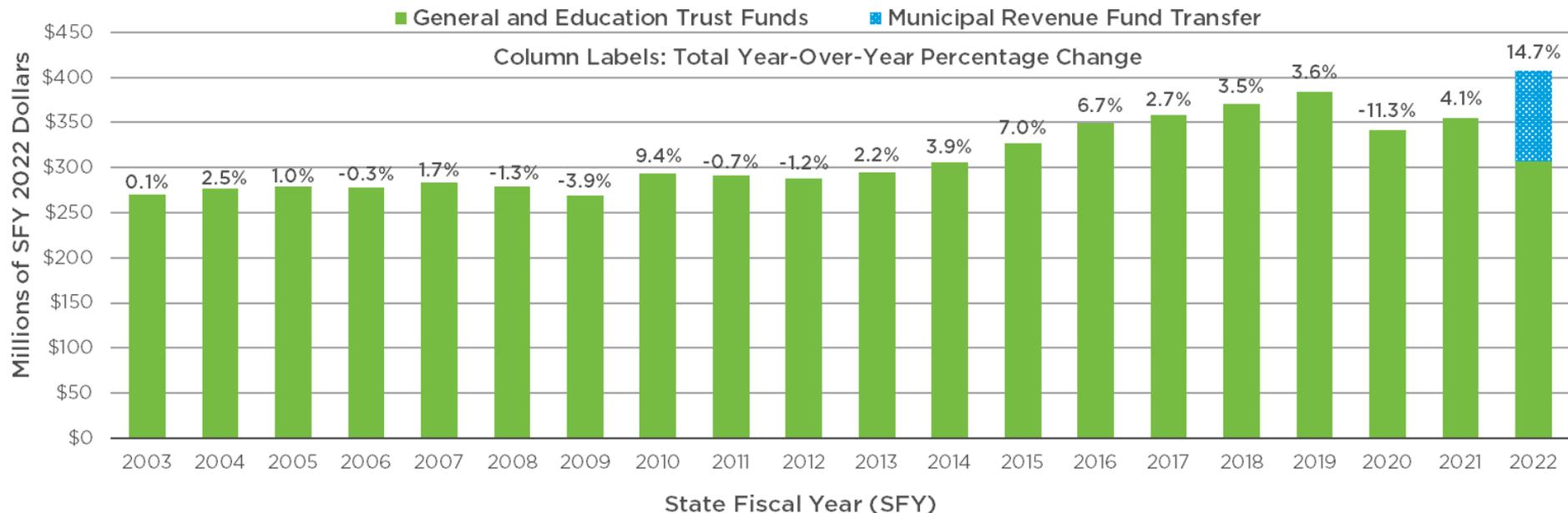
Source: Council on State Taxation, *Total State and Local Business Taxes*, December 2022

THE MEALS AND RENTALS TAX

MEALS AND RENTALS TAX

- Tax of 8.5 percent levied on most purchases of food or beverages from restaurants, also on hotel rooms and car rentals; 9 percent before Oct. 2021
- Funds the General Fund, Education Trust Fund (car rentals portion), certain school building aid, State’s travel and tourism development agency, municipalities (30 percent directed to a special fund outside State Budget)

NEW HAMPSHIRE MEALS AND RENTALS TAX
INFLATION-ADJUSTED REVENUE

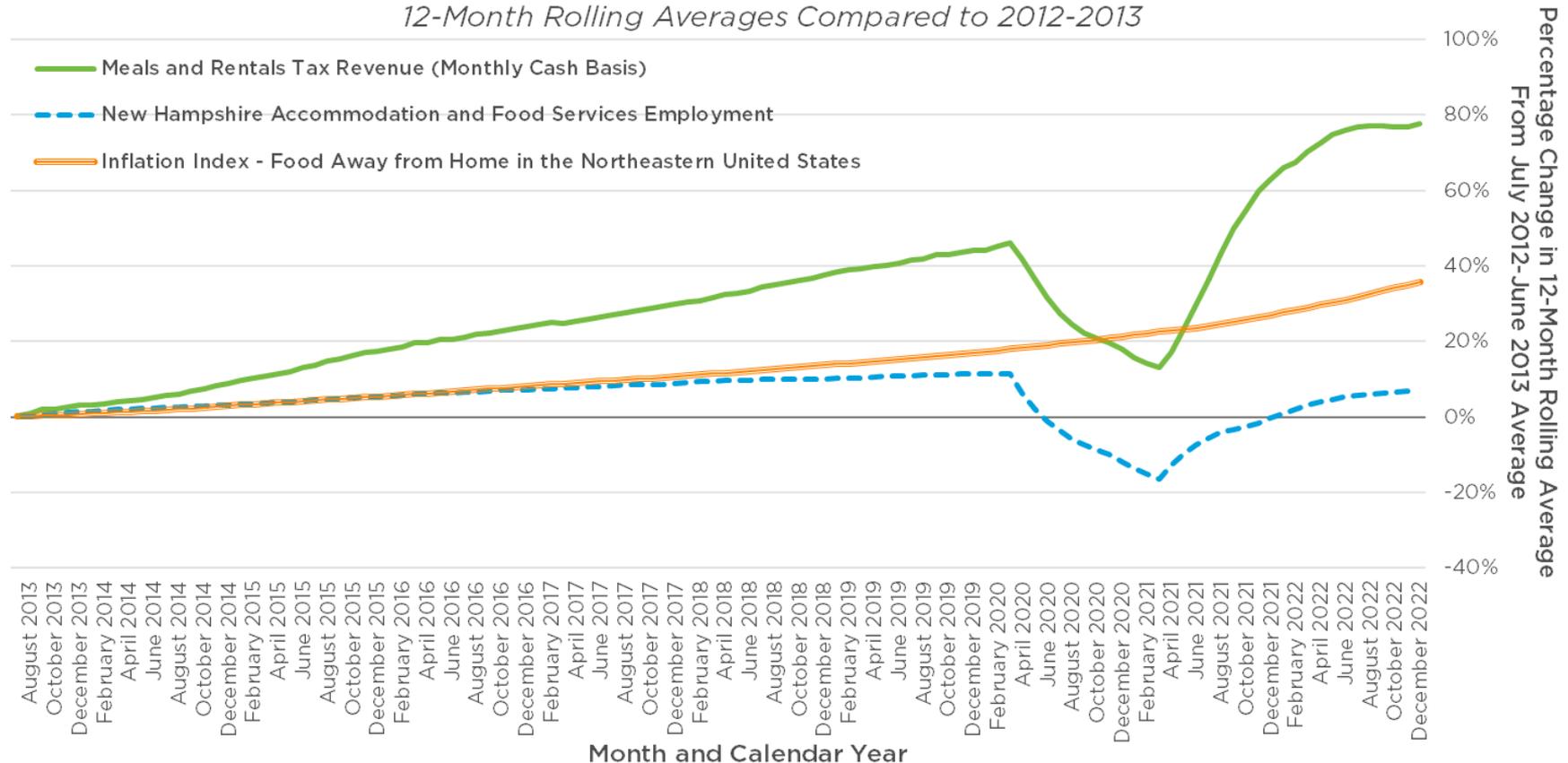


Sources: New Hampshire Annual Comprehensive Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast

COST INCREASES BOLSTER PRIOR GROWTH, NOW MOMENTUM SLOWING

MEALS AND RENTALS TAX REVENUE RELATIVE TO ACCOMMODATION AND FOOD SERVICES EMPLOYMENT AND RESTAURANT MEAL COST INCREASES

12-Month Rolling Averages Compared to 2012-2013



Note: Cash basis revenues for July 2021 forward based on estimated General and Education Trust Fund cash revenues representing 70 percent of actual total.

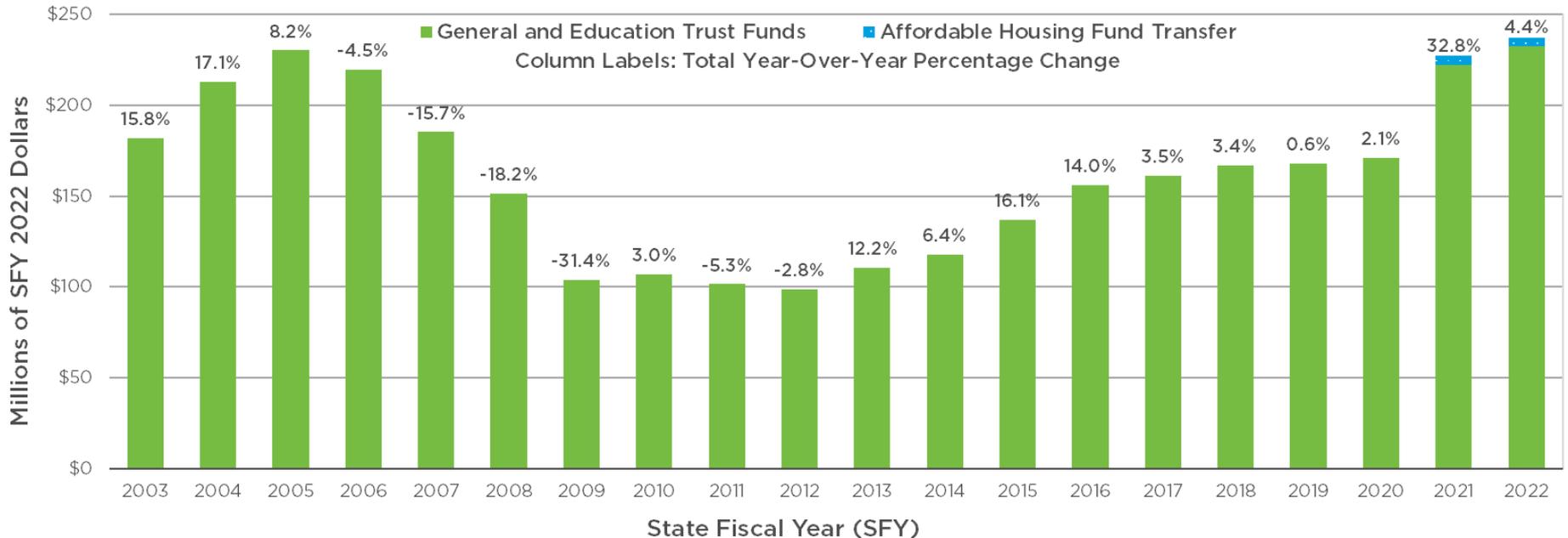
Sources: New Hampshire Employment Security, Current Employment Statistics; New Hampshire Department of Administrative Services, Monthly Revenue Focus (Cash Basis); U.S. Bureau of Labor Statistics, CPI-U Northeast; RSA 78-A:26, III

THE REAL ESTATE TRANSFER TAX

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 \$0.75 to Education Trust Fund, \$5 million to the Affordable Housing Fund, rest to General Fund, associated fees to L-CHIP

NEW HAMPSHIRE REAL ESTATE TRANSFER TAX
INFLATION-ADJUSTED REVENUE

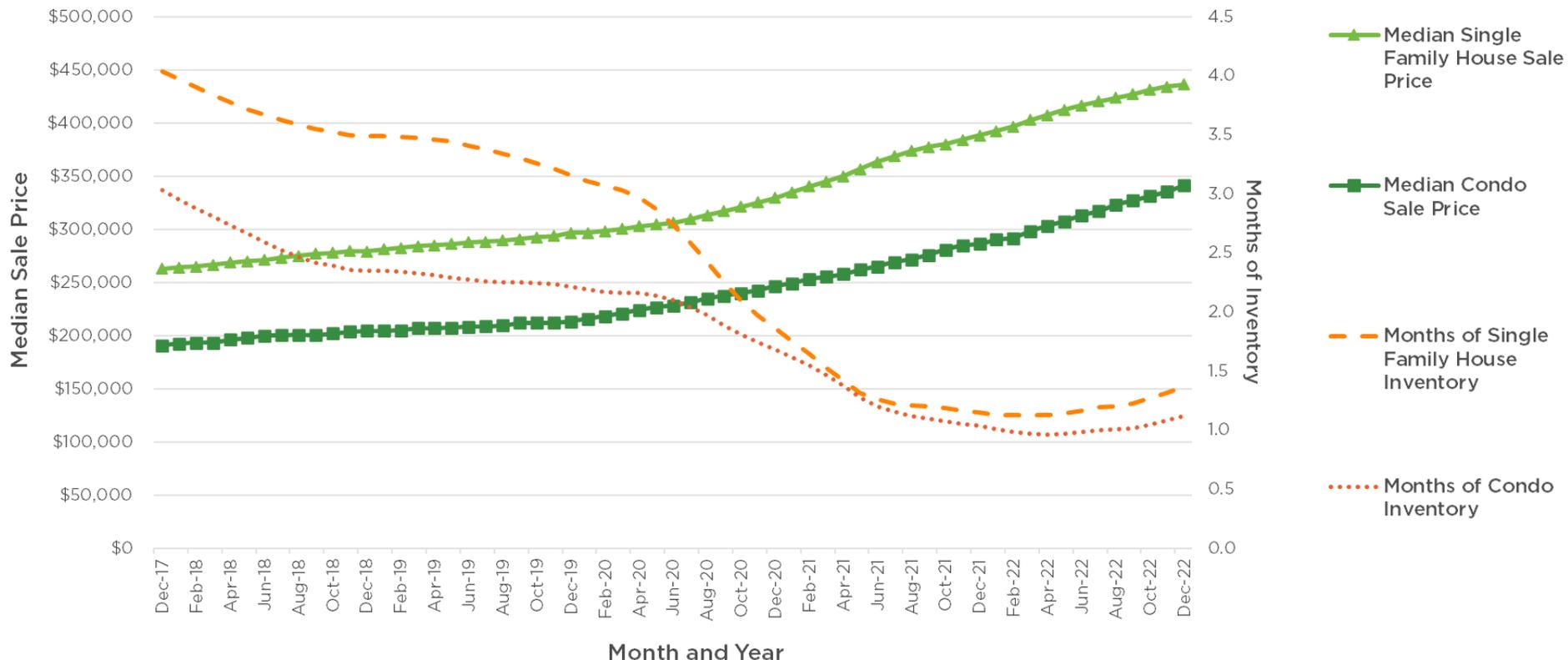


Sources: New Hampshire Annual Comprehensive Financial Reports; U.S. Bureau of Labor Statistics, CPI-U, Northeast; New Hampshire Department of Revenue Administration

DECLINE IN HOUSING SUPPLY MEETS BURST OF DEMAND, PRICES INCREASE

NEW HAMPSHIRE HOUSE AND CONDO PRICES AND SUPPLY

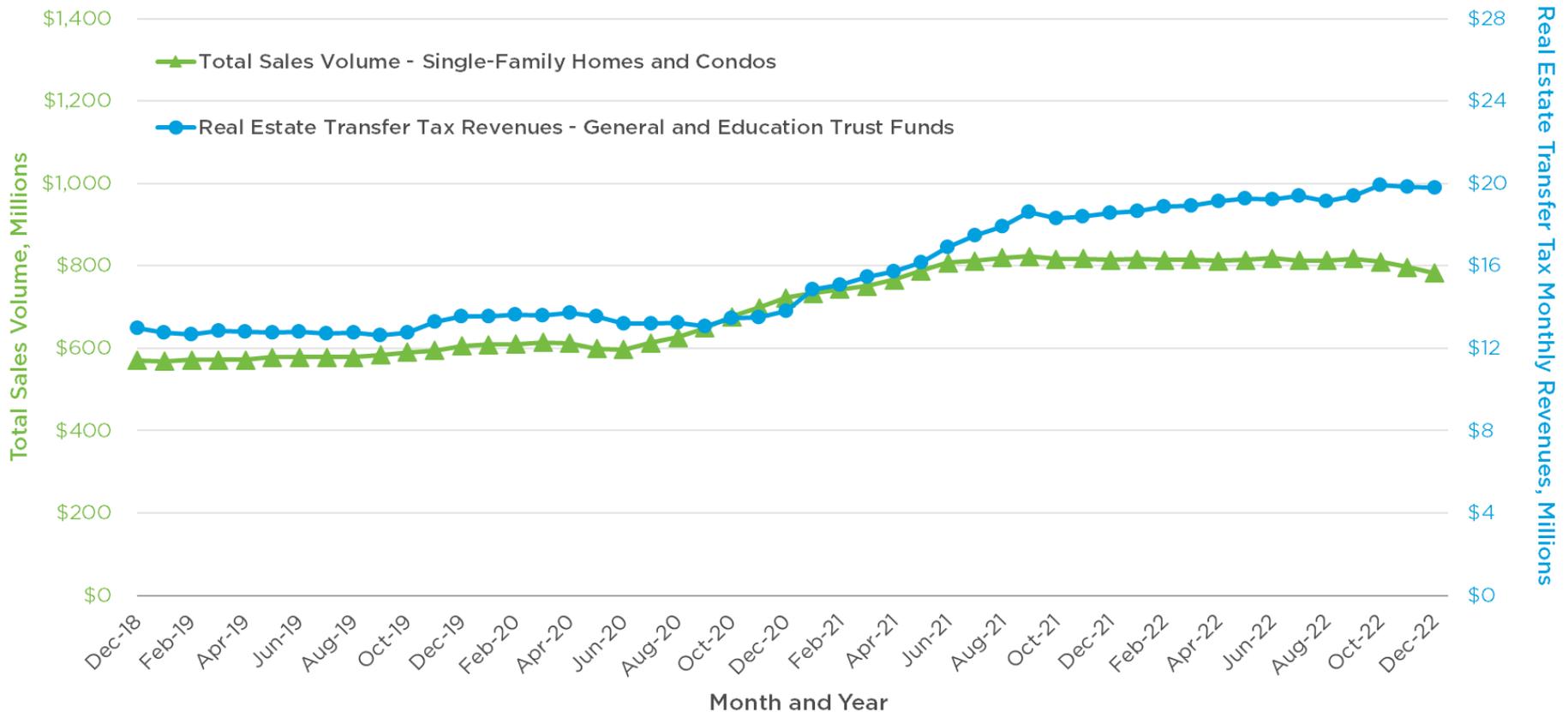
Single Family Home and Condo Median Sale Prices and Months of Inventory, 12-Month Rolling Averages



Source: New Hampshire Association of Realtors, September 2022

HOUSING SUPPLY MAY NOT BE ABLE TO SUSTAIN HIGH REVENUE GROWTH

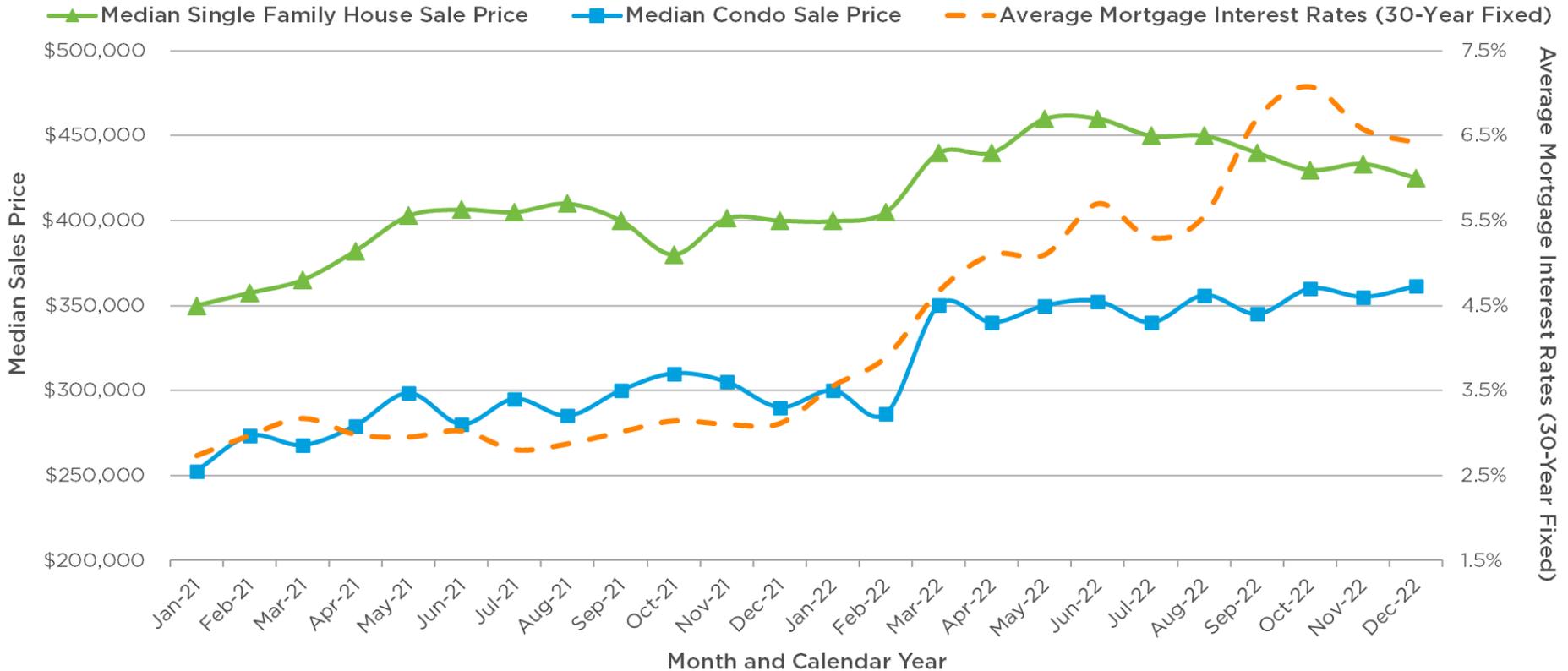
NEW HAMPSHIRE HOME SALES AND REAL ESTATE TRANSFER TAX REVENUE
12-Month Rolling Averages



Sources: New Hampshire Association of Realtors, New Hampshire Department of Administrative Services

PRICE GROWTH MAY BE SLOWING AS INTEREST COSTS FOR BUYERS INCREASE

NEW HAMPSHIRE MONTHLY MEDIAN HOME AND CONDO SALES PRICES AND NATIONAL MORTGAGE INTEREST RATES

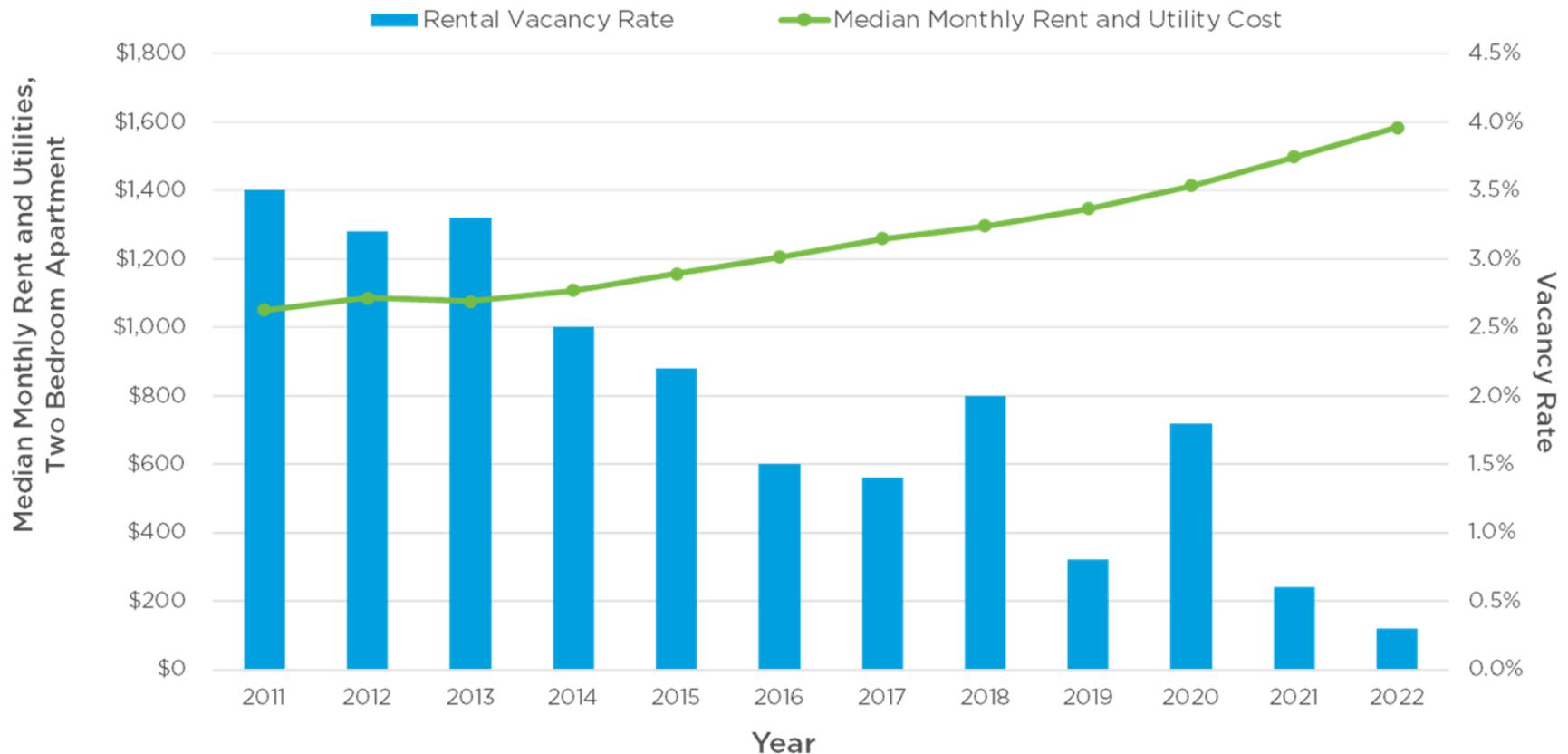


Notes: Monthly average mortgage rates represent the national rate on the last Thursday within the calendar month. Mortgage rate data from Freddie Mac, based on surveys and accessed through the Federal Reserve Bank of Saint Louis.
 Source: New Hampshire Association of Realtors; Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States, retrieved from the Federal Reserve Bank of Saint Louis, January 16, 2023.

LACK OF HOUSING INVENTORY CONTRIBUTES TO RENT INCREASES

MEDIAN MONTHLY RENTAL COSTS AND VACANCY RATES

New Hampshire Statewide Data, Two Bedroom Apartments

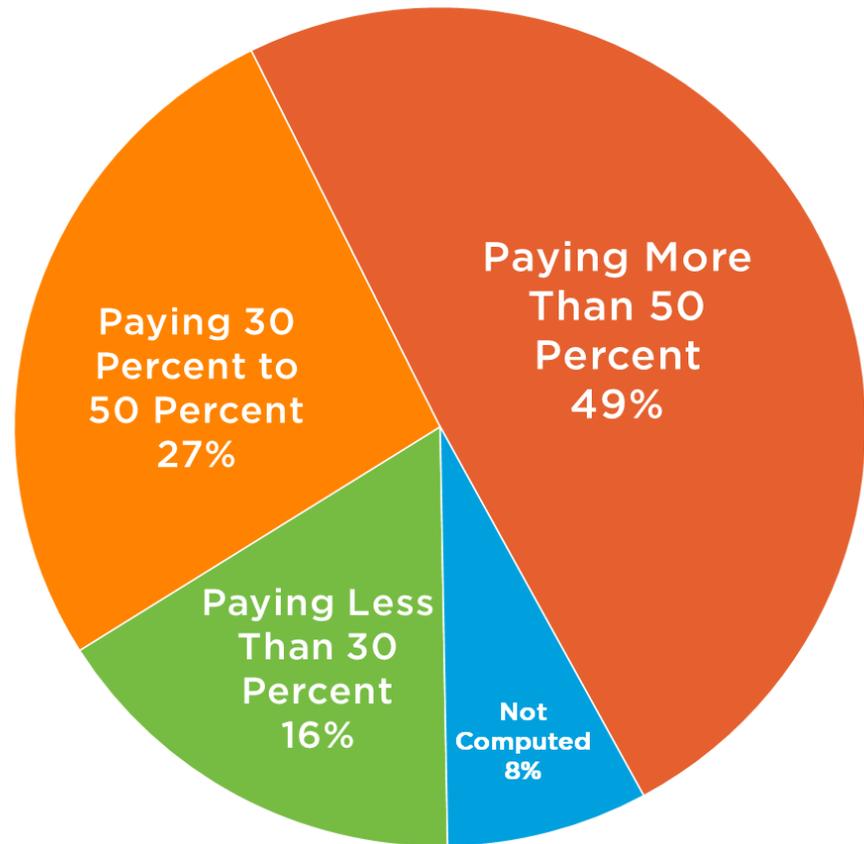


Source: New Hampshire Housing Finance Authority

RENTAL COSTS SUBSTANTIAL FOR HOUSEHOLDS WITH LOW INCOMES

- In 2021, rent and utility costs over 30 percent of income for 45 percent of renters
- Median household income for owner-occupied units in New Hampshire: \$103,700
- Median household income for renter households: \$53,100

RENT AND UTILITIES PAYMENTS AS A PERCENTAGE OF INCOME FOR LOWER-INCOME NEW HAMPSHIRE RENTERS
Percentage of Income Paid by Renter Households with Less Than \$35,000 Per Year of Income (36 Percent of All Renters), 2017-2021



Sources: U.S. Census Bureau, American Community Survey, 2021 One-Year Data for New Hampshire

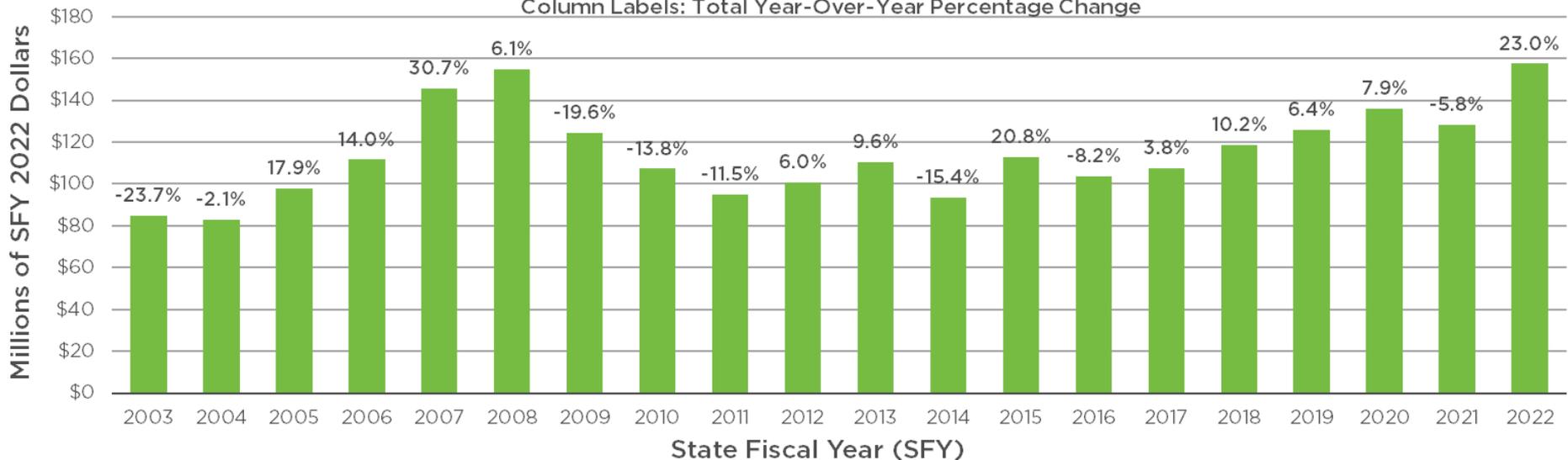
THE INTEREST AND DIVIDENDS TAX

INTEREST AND DIVIDENDS TAX

- 5 percent tax on interest, dividend, and distribution income from assets
- Individuals, joint filers, and certain companies and partnerships
- Filing threshold of \$2,400, and \$4,800 for joint filers; additional \$1,200 exemptions for older adults, blind individuals, or certain disabilities
- To be phased out entirely under current law, starting in 2023

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX GENERAL FUND INFLATION-ADJUSTED REVENUE

Column Labels: Total Year-Over-Year Percentage Change



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

HIGH-INCOME INDIVIDUALS KEY PART OF INTEREST AND DIVIDENDS TAX BASE

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2020

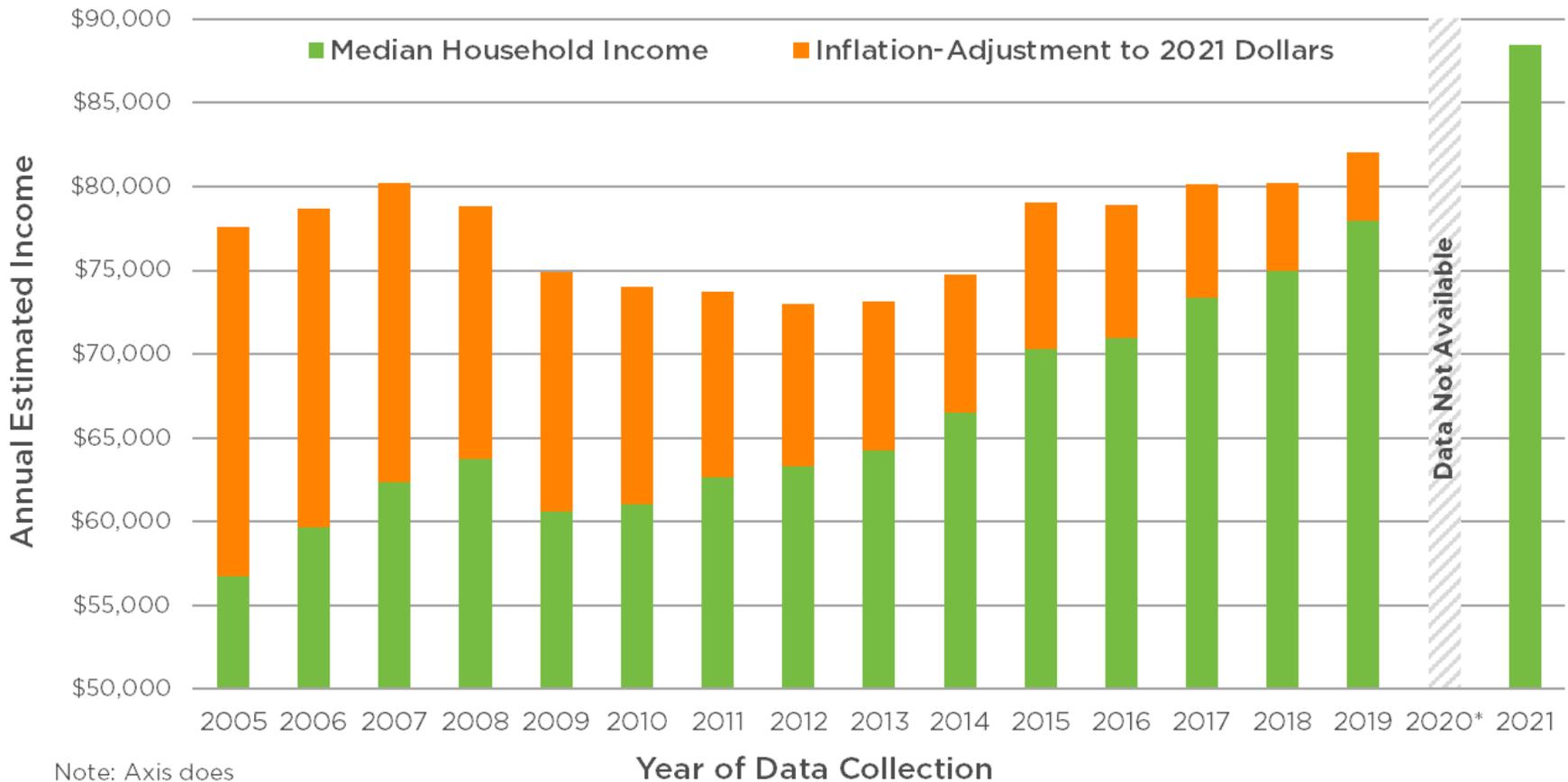
| Taxable Interest and Dividend Income of At Least: | Percentage of Filers | Percentage of Total Tax Revenue Paid |
|---|----------------------|--------------------------------------|
| \$5,000,000 | 0.03% | 11.25% |
| \$2,000,000 | 0.12% | 19.49% |
| \$1,000,000 | 0.29% | 26.67% |
| \$200,000 | 2.51% | 51.94% |
| \$20,000 | 24.51% | 89.58% |
| \$10,000 | 37.57% | 95.24% |
| \$20 | 78.76% | 100.00% |
| \$0 | 100.00% | 100.00% |
| Total Filers/Revenue | 68,664 | \$113,548,753 |

Source: New Hampshire Department of Revenue Administration, 2022 Annual Report

KEY FACTORS IN THE ECONOMIC OUTLOOK

MUCH FASTER INCOME GROWTH THAN RECOVERY FROM THE GREAT RECESSION

MEDIAN HOUSEHOLD INCOME IN NEW HAMPSHIRE



Note: Axis does not begin at zero.

*Note: These data were not available for 2020 due to disruptions associated with the pandemic.
Sources: U.S. Census Bureau, American Community Survey One-Year Estimates;
U.S. Bureau of Labor Statistics, Consumer Price Index-Urban, Northeast

FEDERAL STIMULUS TARGETED AT GROWTH

RETURNS ON INVESTMENT FROM CERTAIN POLICIES

Fiscal Stimulus Multipliers, 2021

| Estimates of Change in Size of the Economy (Gross Domestic Product) in the Fourth Quarter of 2021 for Each \$1.00 Change in Selected Federal Expenditure or Tax Changes in the First Quarter of 2021 | |
|--|----------------------------------|
| Selected Policy Change Analyzed | Economic Growth Per \$1 Invested |
| Supplemental Nutrition Assistance Program Benefits | \$1.61 |
| Supplemental Unemployment Insurance | \$1.49 |
| Work-Share Unemployment Insurance | \$1.37 |
| Aid to State and Local Governments | \$1.34 |
| Low Income Home Energy Assistance Program (LIHEAP) | \$1.31 |
| Transportation Infrastructure Spending | \$1.29 |
| Earned Income Tax Credit | \$1.27 |
| Child Tax Credit | \$1.25 |
| Child Care (Universal Child Care Act) | \$1.19 |
| Universal Pre-Kindergarten | \$1.17 |
| Care for Older Adults | \$1.15 |
| Economic Impact Payments | \$1.09 |
| Payroll Tax Holiday for Employees | \$1.07 |
| Payroll Tax Holiday for Employers | \$0.95 |
| Personal Income Tax Rate Reduction | \$0.88 |
| Student Loan Debt Forgiveness | \$0.65 |
| Dividend and Capital Gain Tax Rate Reduction | \$0.38 |
| Corporate Tax Rate Reduction | \$0.32 |
| Business Net Operating Losses Tax Offset | \$0.24 |

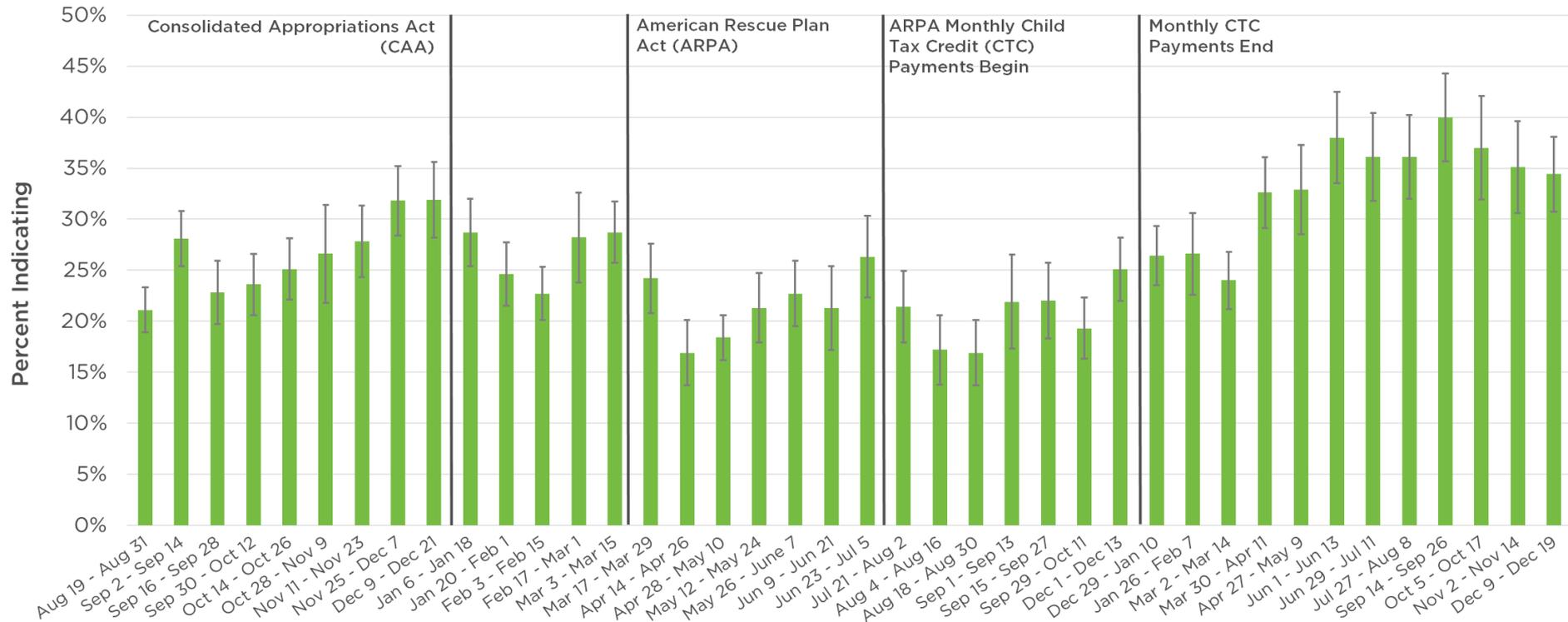
Note: Evaluated relative to the parameters of the federal 2021 American Rescue Plan Act as proposed in January 2021.

Source: Moody's Analytics, *The Biden Fiscal Rescue Package: Light on the Horizon*, January 15, 2021

PANDEMIC AID ENDING, HIGHER INFLATION STRAIN HOUSEHOLD BUDGETS

NEW HAMPSHIRE ADULTS REPORTING DIFFICULTY WITH USUAL EXPENSES

Percentage Living in Households Where it Has Been Somewhat or Very Difficult to Pay for Usual Household Expenses During The Last Seven Days



Survey Period (Years 2020-2022)

Note: Margin of error bars represent 90 percent confidence intervals

Source: U.S. Census Bureau, 2020-2022 Household Pulse Survey, accessed January 16, 2023

HOUSEHOLD SAVINGS MAY HELP ECONOMY, BUT SOME HAVE FEW SAVINGS

- More household savings may help spur economy going into period of economic uncertainty
- Households with low incomes appear least likely to have savings to weather a recession
- In 2019, an estimated 26 percent of New Hampshire households did not have at least \$2,000 in emergency savings

Sources: Board of Governors of the Federal Reserve System, FEDS Notes: Excess Savings During the Pandemic, October 21, 2022; Urban Institute, Financial Health and Wealth Dashboard, 2022

U.S. HOUSEHOLD ESTIMATED SAVINGS ABOVE PRE-PANDEMIC TRENDS, BY INCOME QUARTILE

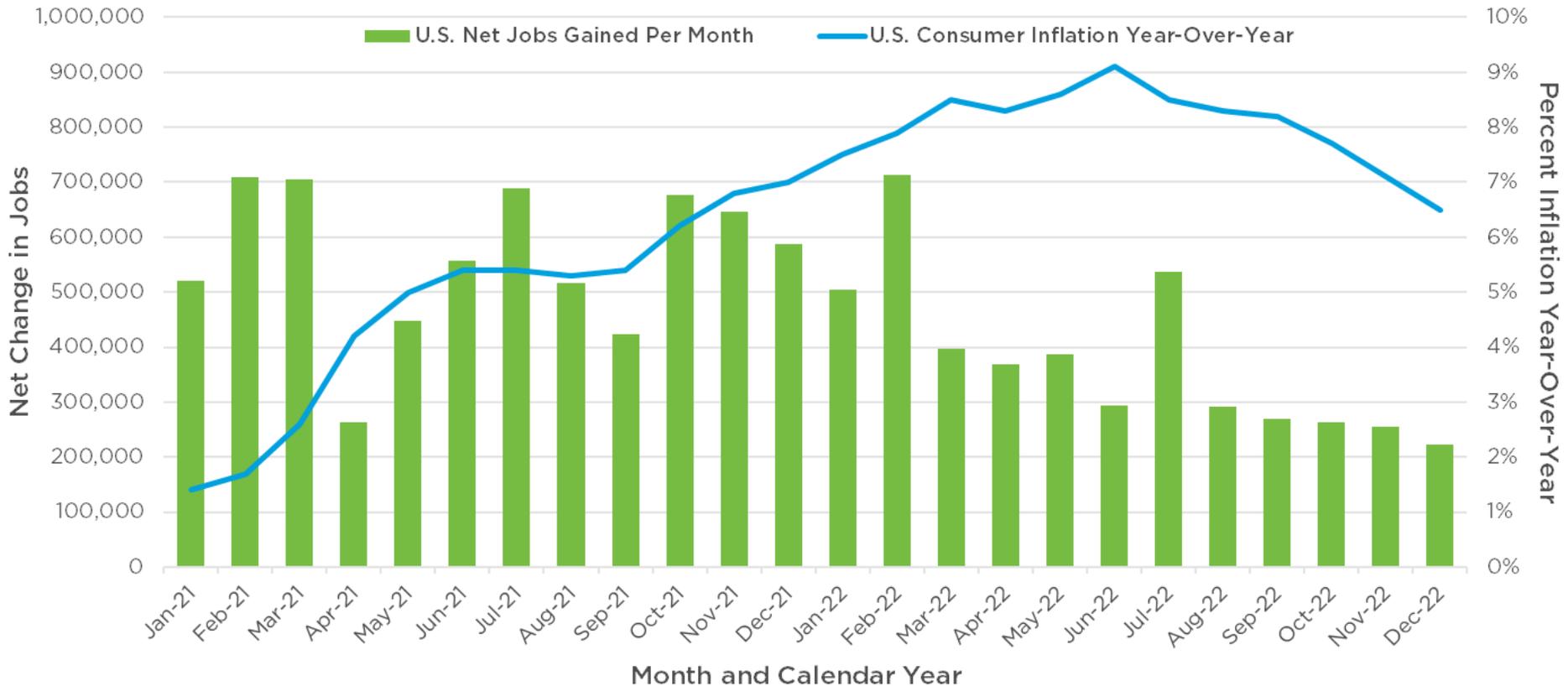


Source: Board of Governors of the Federal Reserve System, FEDS Notes: Excess Savings During the Pandemic, October 21, 2022

RECENT DATA SUGGESTS GRADUAL SLOWING OF ECONOMY

INFLATION AND JOB GROWTH IN THE UNITED STATES

Monthly Nonfarm Payroll Employment and the Consumer Price Index-Urban



Sources: U.S. Bureau of Labor Statistics, Consumer Price Index-Urban, Current Employment Statistics, retrieved January 16, 2022

SLOW EMPLOYMENT RECOVERY IN STATE SHOWS LABOR FORCE CONSTRAINTS

NEW HAMPSHIRE'S ECONOMY AND EMPLOYMENT

Inflation-Adjusted Quarterly Gross State Product and Three-Month Averages of Employment

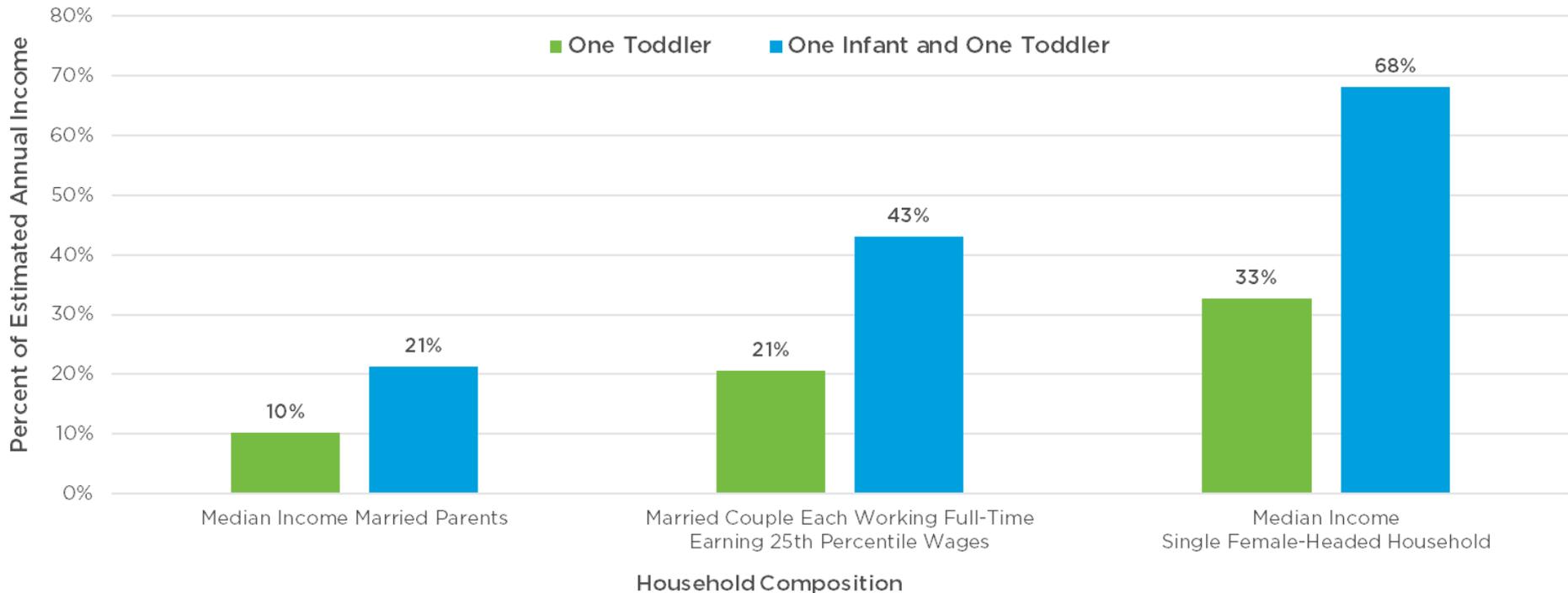


Sources: U.S. Bureau of Economic Analysis; New Hampshire Employment Security

CHILD CARE IS EXPENSIVE, ESPECIALLY FOR LOWER-INCOME HOUSEHOLDS

PRICES FOR CENTER-BASED CHILD CARE AS A PERCENT OF INCOME IN NEW HAMPSHIRE

Full-Time Annual Price in 2020 Relative to Household Incomes



Note: Full-time 25th percentile wage earner calculations based on estimated hourly wages for May 2020 and 2,080 hours worked per year. Calculation assumes the two 25th percentile wage jobs are the only sources of income for the household. Incomes for other households based on survey data collected from 2016-2020, and adjusted for inflation to 2020 dollars. Average child care prices for infants and toddlers added together for calculations. Sources: U.S. Bureau of Labor Statistics, May 2020 State Occupational Employment and Wage Estimates; U.S. Census Bureau, American Community Survey, 2016-2020 Five Year Estimates; Child Care Aware of America, Demanding Change: Repairing Our Child Care System, Appendix I, February 2022.

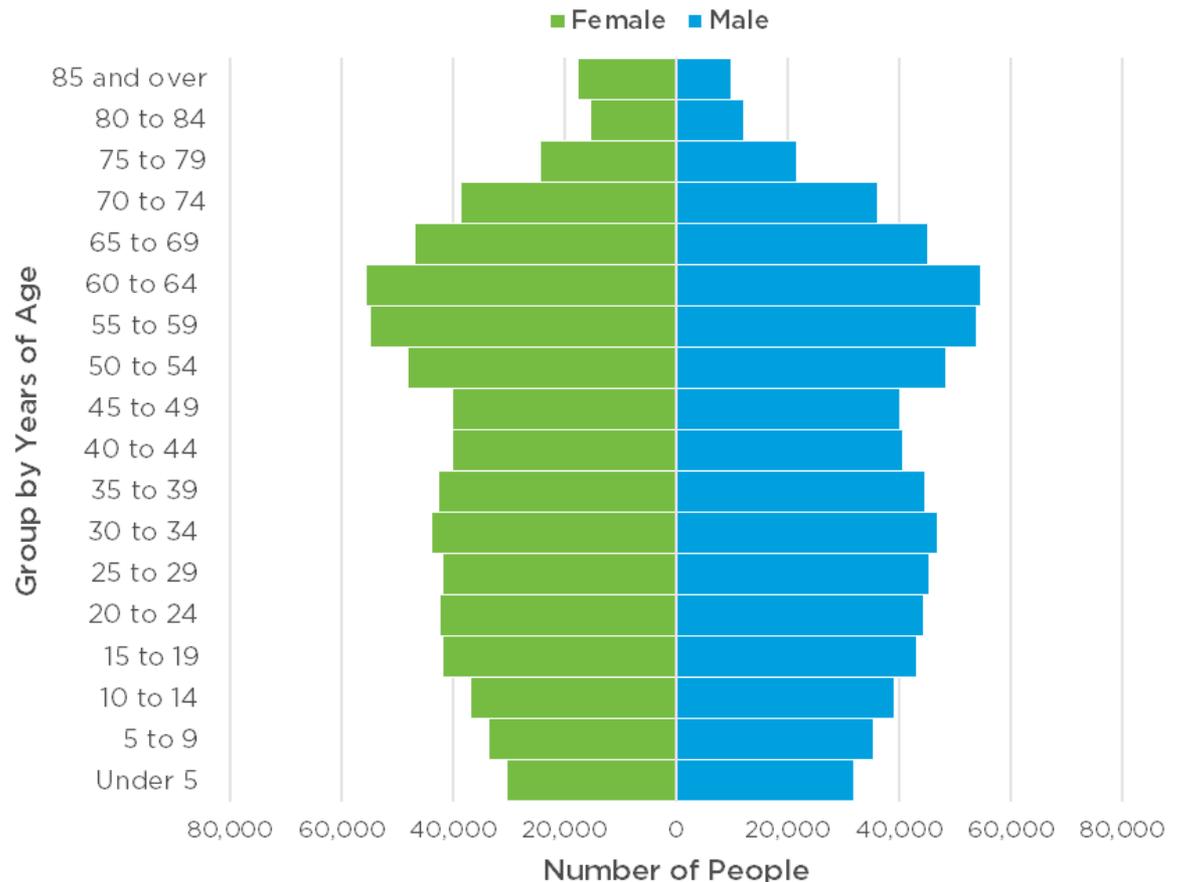
DEMOGRAPHICS LIKELY TO ADD TO LABOR FORCE CONSTRAINTS

- State projections estimate more than 30 percent of state population will be 60 years old or older by 2030
- Child care access, housing availability and affordability, and education will all be key for supporting the current and future workforce

Source: New Hampshire Department of Business and Economic Affairs, Office of Planning and Development September 2022 report State, County, and Municipal Population Projections: 2020-2050

NEW HAMPSHIRE POPULATION BY AGE

2021 Estimates for Age and Sex



Source: U.S. Census Bureau, Population Estimates Program, July 1, 2021 Estimates

KEY TAKEAWAYS

- State revenues relatively diverse, with federal funding consistently important for services and the economy
- Substantially increased revenues from Business Profits Tax in recent years, potentially volatile in a recession or slowdown
- Both Meals and Rentals Tax and Real Estate Transfer Tax revenues have jumped higher in the last two years, but growth may be slowing in both revenue sources
- Interest and Dividends Tax revenues will decline with phaseout
- Workforce growth and state's economy constrained by long-term demographics, access to child care, and limited housing
- A recession is not a certainty, but key revenue streams are at risk if a recession does occur, which would limit resources available to provide services and support the economy

ADDITIONAL RESOURCES

- Presentation: How Public Services are Funded in New Hampshire at the State And Local Levels – August 10, 2022
<https://nhfpi.org/resource/how-public-services-are-funded-in-new-hampshire-at-the-state-and-local-levels-2/>
- Issue Brief: Key Challenges Facing Granite State Workers Amid the COVID-19 Economic Recovery – August 31, 2022
<https://nhfpi.org/resource/key-challenges-facing-granite-state-workers-amid-the-covid-19-recovery/>
- Publication: Revenue in Review: An Overview of New Hampshire’s Tax System and Major Revenue Sources – May 24, 2017
<https://nhfpi.org/resource/revenue-in-review-an-overview-of-new-hampshires-tax-system-and-major-revenue-sources/>
- Resource Pages: Budget, Revenue & Tax, and Economy
<https://nhfpi.org/topic/budget/>
<https://nhfpi.org/topic/revenue-tax/>
<https://nhfpi.org/topic/economy/>



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