

Joint Economic Briefing

House and Senate Ways & Means Committees

January 13, 2025

New Hampshire Department of Revenue Administration



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Introduction

- The Department of Revenue Administration (DRA) administers 14 taxes for the State of New Hampshire, representing **76.7% (\$2.55 billion)*** of the revenue collected for the general and education trust funds in FY2024.
- The DRA has important insights into the performance of the State's most significant revenue sources but lacks the capacity to perform more complex economic predictions.
- Presentations Outline:
 - Year-to-date revenues
 - Factors affecting taxes
 - Trend vs. Plan

*Figures are preliminary and unaudited.

Meals & Rentals (M&R) Tax

- The M&R Tax is levied on consumers for the purchase of taxable meals, accommodation rentals, and motor vehicle rentals. The tax rate was 9% through Sept. 30, 2021 and 8.5% from Oct. 1, 2021 onwards. The Tax is collected by the operator and remitted to the DRA monthly.
- The School Building Aid debt service (SBA) is a monthly transfer from gross M&R Tax revenue. The transfer was \$14.6m per year in FY2012, gradually decreasing to \$6.8m in FY2024 and is currently \$6.6m in FY2025.
- The Municipal Revenue Fund Transfer is made pursuant to RSA 78-A:26. NH Treasury distributes 30% of net meals and rooms income from the most recent fiscal year to cities and towns following the formula within RSA 78-A:26. Monthly transfer amounts vary based on the timing of M&R revenue. The Municipal Revenue Fund transfer will total \$136.6M in FY2025.
- Audited Gross M&R Tax revenue before transfers rebounded since the initial impacts of COVID-19 in FY2020:
 - 21.7% increase in FY2022 over FY2021
 - 8.4% increase in FY2023 over FY2022
 - 3.9% increase in FY2024 unaudited over FY2023
 - FY2025 actual revenue for the first 6 months of the fiscal year is 2.3% above FY2025 plan and 3.8% above FY2024 unaudited revenue year to date.

Factors affecting M&R tax revenue:

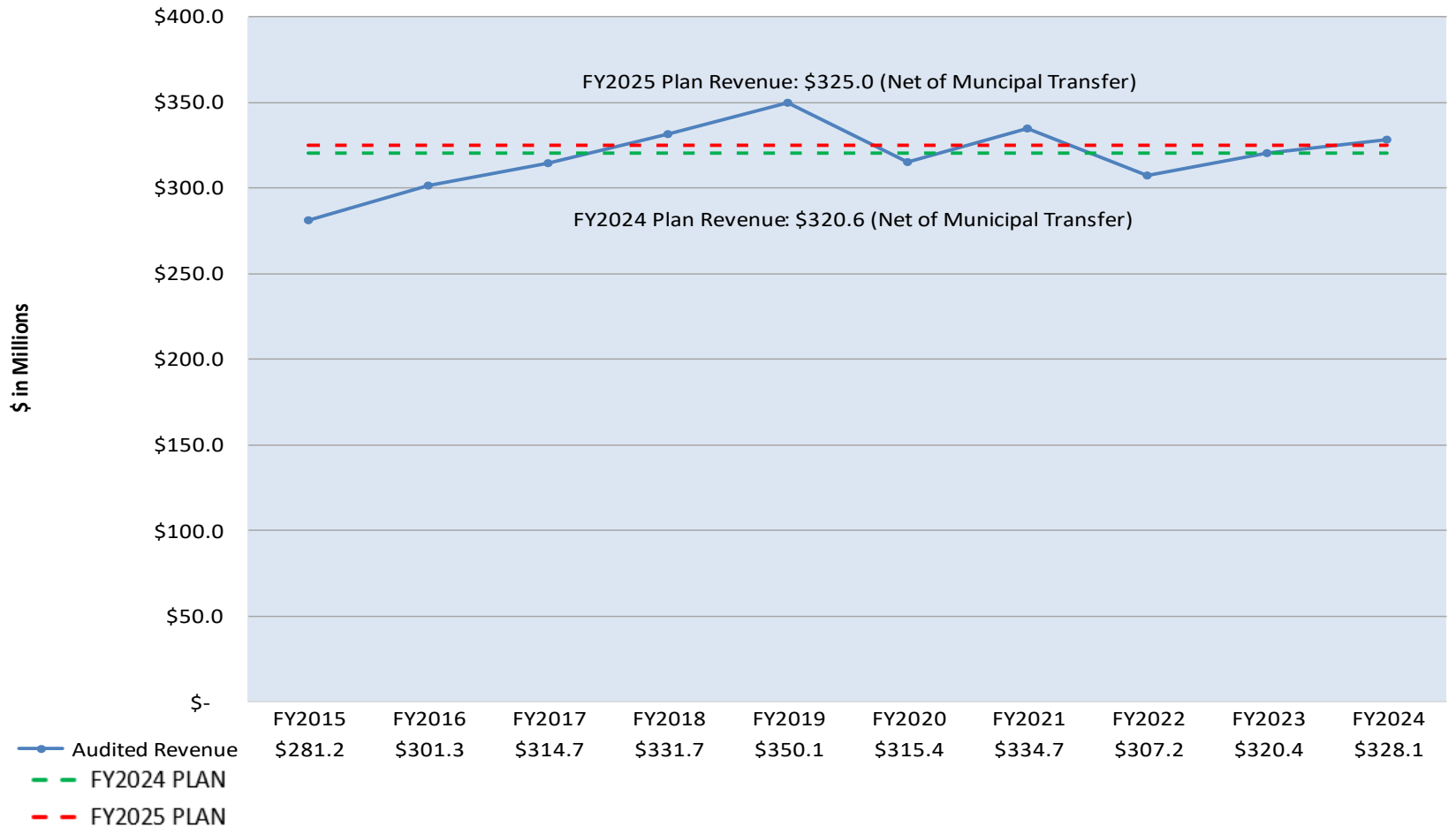
- Low unemployment rates (Seasonally adjusted US = 4.2%; NH = 2.5% for November 2024 vs. US = 3.7%; NH = 2.6% for November 2023¹)
- Impact of inflation on fuel prices and food costs²
- Strong wages
- Weather (sunny summers, colorful fall foliage, snowy winters)

¹Source: New Hampshire Employment Security. <https://www.nhes.nh.gov/elmi/statistics/documents/nr-current.pdf>. December 17, 2024

²Source: <https://www.nhes.nh.gov/elmi/statistics/documents/cpinecomp.pdf>, Northeast All Urban Consumers consumer price index (not seasonally adjusted) increased 3.5% in November 2024 over November 2023. Calendar year 2023 had 3.5% growth over calendar year 2022 after growing 7.0% in calendar year 2023 when annual inflation historically ranges between 0%-4%.

M&R Tax Revenue 10-Year Trend

Audited Revenue*

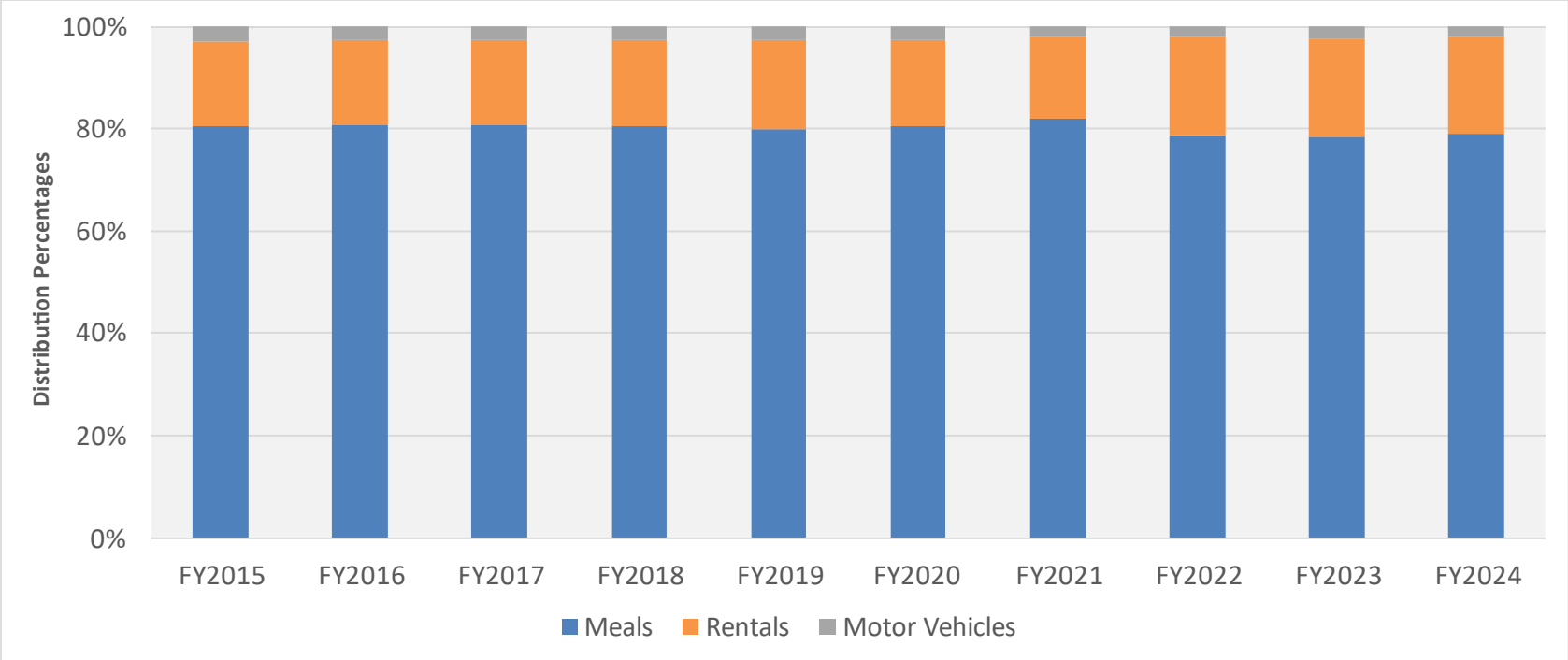


*FY2024 revenue is preliminary and unaudited.

M&R Tax Breakdown

Meals & Rentals (M&R) Tax Liability Reported by Activity Type

(Not Net of Refunds, Transfers to the Municipal Revenue Fund, or School Building Aid Debt Payments, based on Returns received during each Fiscal Year)



	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Tax Rate	9%	9%	9%	9%	9%	9%	9%	8.5%	8.5%	8.5%
Meals	80.6%	80.9%	80.8%	80.4%	80.0%	80.4%	82.1%	78.8%	78.4%	79.2%
Rentals	16.5%	16.4%	16.6%	16.9%	17.2%	17.0%	15.8%	19.0%	19.2%	18.8%
Motor Vehicles	2.9%	2.7%	2.6%	2.7%	2.8%	2.7%	2.1%	2.2%	2.3%	2.0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NOTE: Data shown represents tax reported and is not net of refunds, transfers to the Municipal Revenue Fund or School Building Aid debt service. Effective October 1, 2021 (FY22), the Meals & Rentals Tax rate was reduced from 9% to 8.5%.

Real Estate Transfer Tax (RETT)

- The RETT is a tax on the transfer, sale or granting of real property at a rate of \$1.50 per \$100 of the price or consideration for the transfer (\$.75 is the obligation of the purchaser and \$.75 is the obligation of the seller).
- Audited RETT revenue has increased in recent years, peaking in FY2022. Revenue after FY2022 remains at historical highs despite year-over-year declines:
 - 10.9% increase in FY2022 over FY2021
 - 11.6% decrease in FY2023 from FY2022
 - 10.6% decrease in FY2024 unaudited from FY2023
 - FY2025 actual revenue for the first 6 months of the fiscal year is 6.8% below FY2025 plan and 6.1% above FY2024 unaudited revenue year to date.
- Factors that affect RETT revenue:
 - Interest rates (mortgage interest rate increased from 2.65% January 7, 2021 to 6.91% January 2, 2025¹)
 - Inflation affecting household budgets
 - Available inventory
 - Property values (\$311.9 billion total equalized value for NH in 2022² vs \$337.5 billion equalized value for NH in 2023³)

¹Source: Freddie Mac Primary Mortgage Market Survey. <https://www.freddiemac.com/pmms> accessed January 3, 2025.

²Source: Equalization Survey with Utilities and Railroad Summary, DRA 2023 Annual Report

³Source: Equalization Survey with Utilities and Railroad Summary, DRA 2024 Annual Report

RETT Year-Over-Year Change

- For November 2024, new property listings declined for single family homes and condos compared to November 2023.
- For November 2024, pending sales increased for single family homes and decreased for condos compared to November 2023.
- For November 2024, the median sales price increased for single family homes and decreased for condos compared to November 2023.
 - Median sales price for a single-family home was \$500k in November 2024
 - Median sales price for a condo was \$410k in November 2024

	November 2024 vs November 2023 Comparison ¹			
Property Type	New Listings	Pending Sales	Median Sales Price	Monthly Supply of Inventory
Single Family - Nov 2023	866	1,156	\$450,000	1.9
Single Family - Nov 2024	847	1,334	\$500,000	1.9
Year-Over-Year Change	-2.2%	15.4%	11.1%	0.0%
Condo - Nov 2023	383	283	\$429,000	1.8
Condo - Nov 2024	263	273	\$410,000	1.9
Year-Over-Year Change	-31.3%	-3.5%	-4.4%	5.6%

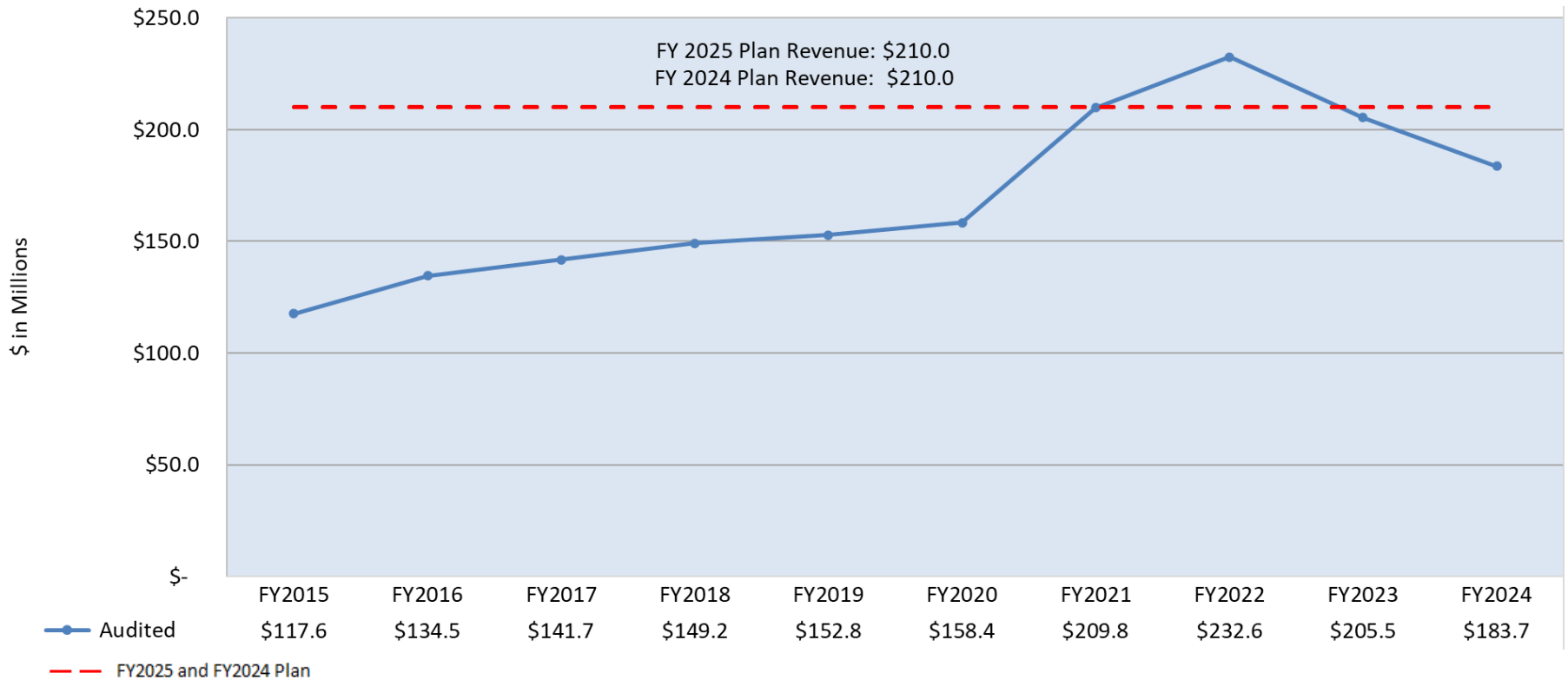
- For November 2024, a single family home had an affordability index² of 73, an increase of 9.0% compared to November 2023.
- For November 2024, YTD single family home closed sales increased 3.5% compared to November 2023.

¹ Source <https://nhar-public.stats.showingtime.com/docs/mmi/x/report?src=page>

² The Housing Affordability Index measures whether a typical family earns enough income to qualify for a mortgage loan on a typical home. For example, an index of 120 means the median household income is 120% of what is necessary to qualify for the median-priced home under prevailing interest rates. A higher number means greater affordability.

RETT Revenue 10-Year Trend

Audited Revenue*



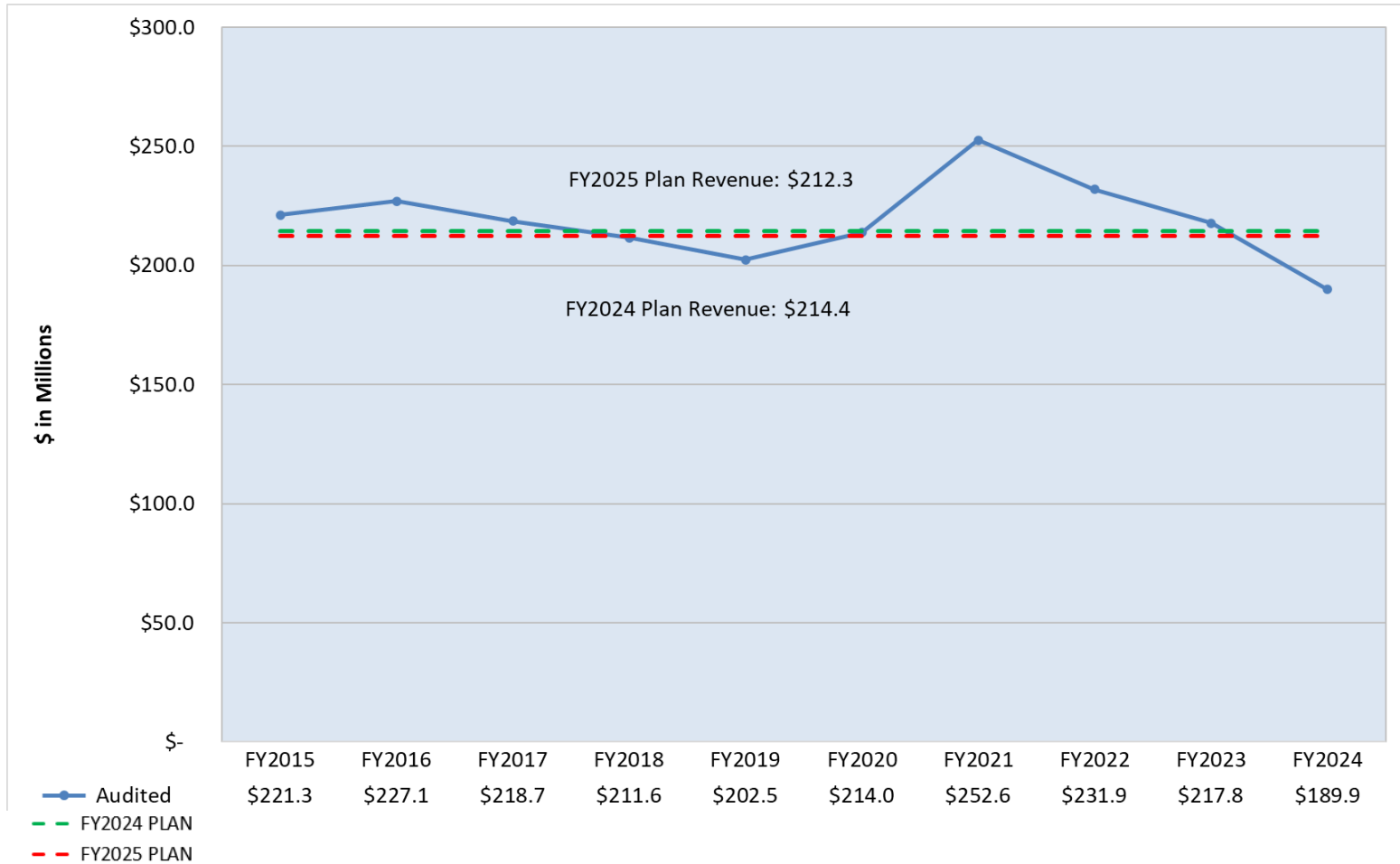
*FY2024 revenue is preliminary and unaudited.

Tobacco Tax

- The Tobacco Tax is levied on each package of cigarettes at a rate of \$1.78 per pack of 20 cigarettes and \$2.23 per pack of 25 cigarettes. The Tobacco Tax is also levied on all other tobacco products (OTP), that are not e-cigarettes, at a rate of 65.03% of the wholesale sales price.
- E-Cigarette Tax went into effect on January 1, 2020. It is levied on both the closed system and open system. The closed systems tax rate is \$0.30 per milliliter on the volume of the liquid or other substance containing nicotine in the cartridge or container and the open system is 8% of the wholesales price of the container of liquid or other substance containing nicotine.
- The Tobacco Tax consists of stamp sales and sales of OTP. Included in OTP is E-Cigarette Tax. Audited Tobacco Tax revenue over the last three years:
 - 8.2% decrease in FY2022 from FY2021
 - 6.1% decrease in FY2023 from FY2022
 - 12.8% decrease in FY2024 unaudited from FY2023
 - FY2025 actual revenue for the first 6 months of the fiscal year is 14.6% below FY2025 plan and 3.9% below FY2024 unaudited revenue year to date.
- The share of OTP revenue continues to grow. For the first 6 months of the fiscal year, it currently makes up 19.3% of Tobacco Tax revenue compared to FY2013 where it made up 3.8% of revenue.
- Factors that contributed to the Tobacco Tax revenue:
 - Cross-border elasticity
 - Public sentiment on tobacco consumption
 - Availability of menthol and flavored tobacco products that are banned in other states

Tobacco Tax Revenue 10-Year Trend

Audited Revenue*



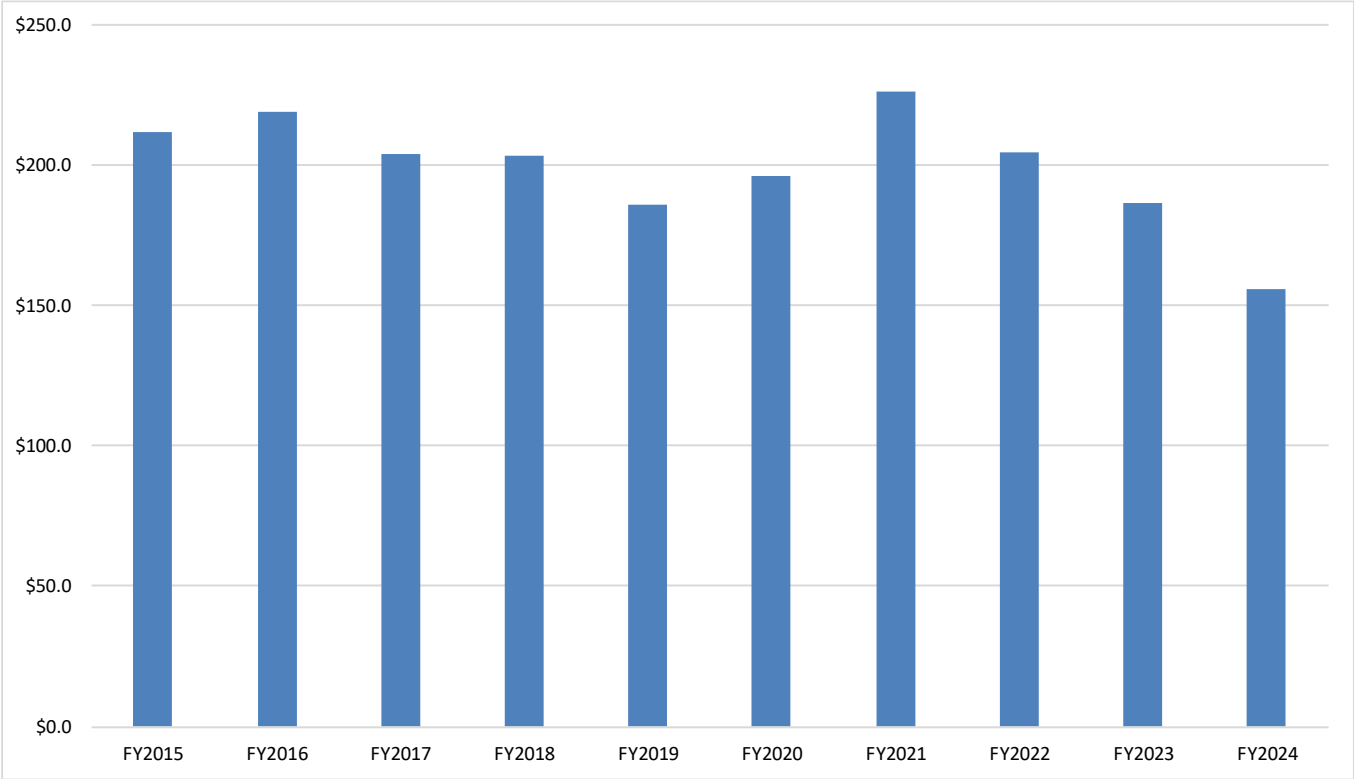
*FY2024 revenue is preliminary and unaudited.

Tobacco Tax Stamp Revenue
(DRA Cash Basis)
\$ in Millions

Tobacco Stamp Rates

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78



Note: "A" Stamps are affixed to cigarette packs containing 25 cigarettes. "B" Stamps are affixed to cigarette packs containing 20 cigarettes.

Other Tobacco Products (OTP) Tax Revenue

(DRA Cash Basis)

\$ in Millions

OTP Tax Rates (Wholesale Price)

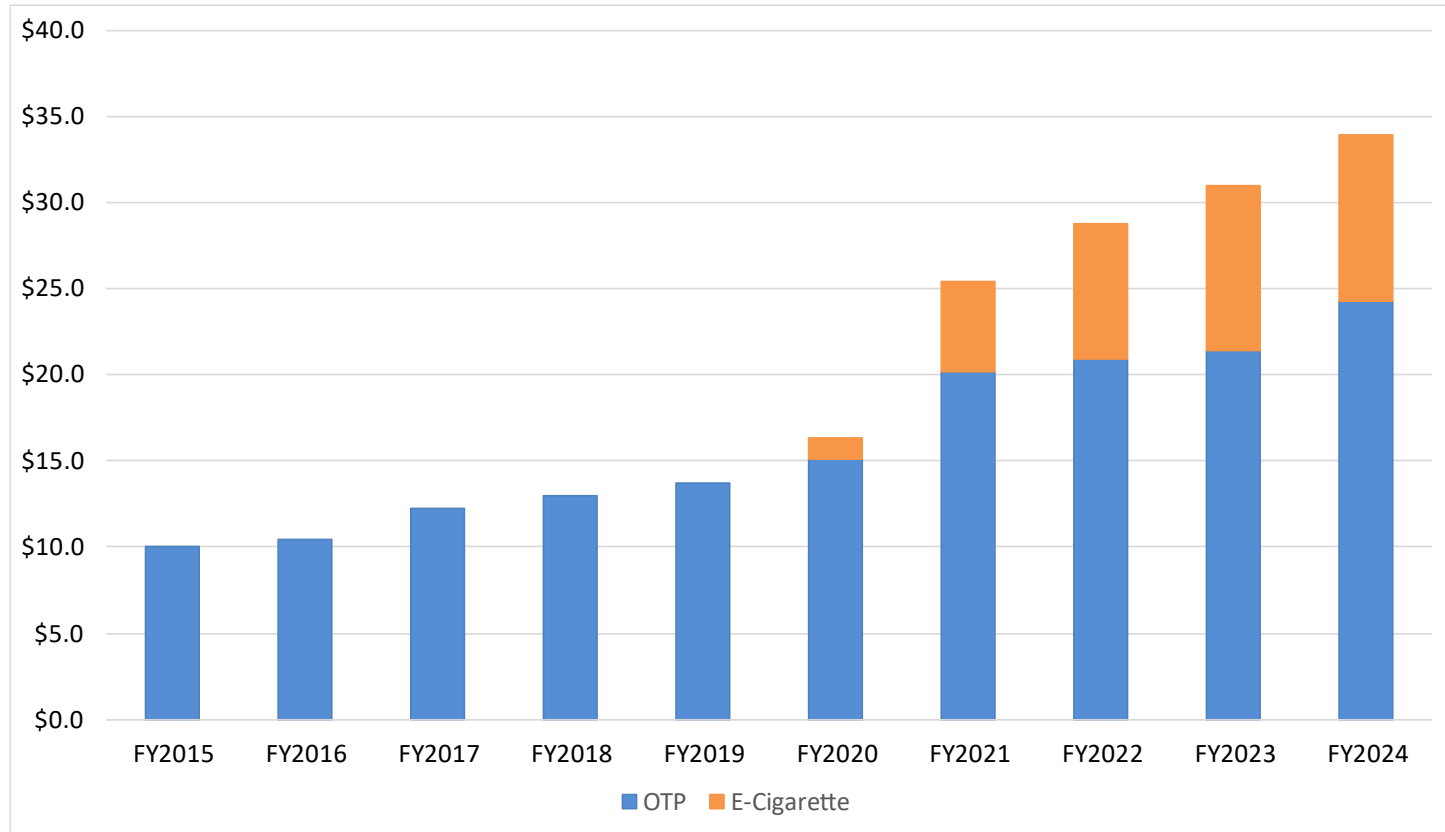
65.03%

E-Cigarette Tax Rates

January 1, 2020 – Current

Closed Systems
\$0.30 per milliliter

Open Systems
8% of Wholesale Price



Utility Property Tax (UPT)

- The UPT is a tax imposed on the value of utility property at a rate of \$6.60 per \$1,000 of value, as determined by the DRA as of each April 1st.
- Audited UPT revenue over the last three years:
 - 13.4% increase in FY2022 over FY2021
 - 0.9% decrease in FY2023 from FY2022
 - 9.1% increase in FY2024 unaudited over FY2023
 - FY2025 actual revenue for the first 6 months of the fiscal year is 10.6% above FY2025 plan and flat above unaudited FY2024 revenue year to date.
- Tax year 2024 assessments = \$48.4 million (utility property value of \$7.3 billion)
- Factors that can affect UPT:
 - Development of new renewable energy facilities
 - Valuation of utility property
 - Energy pricing, supply, and demand

Communications Services Tax (CST)

- The CST is a tax of 7% on all two-way communication services.
- Audited CST revenue over the last three years:
 - FY2022 CST audited revenue was \$29.9 million
 - FY2023 CST audited revenue was \$28.1 million
 - FY2024 CST preliminary and unaudited revenue was \$30.6 million
 - FY2025 actual revenue for the first 6 months of the fiscal year is 2.0% below FY2025 plan and 4.3% below FY2024 unaudited revenue year to date.
- Factors affecting CST:
 - Decrease in landlines
 - Modern pricing and purchasing trends for wireless communications
 - VoIP and video conferencing

Business Taxes

- Business Taxes consist of the **Business Enterprise Tax (BET)** and the **Business Profits Tax (BPT)**. The BET is assessed on the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business. The BPT is assessed on income from the conduct of business activity within the state.
- The BPT conforms to the United States Internal Revenue Code of 1986 in effect on December 31, 2018, with adjustments, for taxable periods beginning on or after January 1, 2020.
- Factors that affect Business Taxes:
 - Economy
 - Federal tax reform and stimulus programs
 - Mergers and acquisitions
 - Credits/exemptions
 - Statutory changes

Business Taxes

- Highlights of recent statutory changes
 - Cap on credit carryover:
 - 500% of the total tax liability for taxable periods ending on or after December 31, 2022
 - 250% of the total tax liability for taxable periods ending on or after December 31, 2029
 - 100% of the total tax liability for taxable periods ending on or after December 31, 2031
 - BPT reduces from 7.6% to 7.5% for taxable periods ending on or after December 31, 2023

<u>For Taxable Periods Ending</u>	<u>BPT Rate</u>	<u>BET Rate</u>
on or after December 31, 2023	7.5%	0.55%
on or after December 31, 2022	7.6%	0.55%
on or after December 31, 2021	7.7%	0.60%
on or after December 31, 2020	7.7%	0.60%
on or after December 31, 2019	7.7%	0.60%
on or after December 31, 2018	7.9%	0.675%
on or after December 31, 2017	8.2%	0.72%
on or after December 31, 2016	8.2%	0.72%

Business Tax Revenue FY2015 - FY2024

	Business Revenue (Audited)	Change in Revenue (\$)	Change in Revenue (%)	Business Planned Revenue	Change in Plan (\$)	Change in Plan (%)
FY2015	\$ 561,663,000	\$ 12,034,000	2.2%	\$ 568,200,000	\$ 7,100,000	1.3%
FY2016	\$ 699,291,000	\$ 137,628,000	24.5%	\$ 566,500,000	\$ (1,700,000)	-0.3%
FY2017	\$ 637,799,000	\$ (61,492,000)	-8.8%	\$ 565,100,000	\$ (1,400,000)	-0.2%
FY2018	\$ 781,112,000	\$ 143,313,000	22.5%	\$ 662,300,000	\$ 97,200,000	17.2%
FY2019	\$ 805,602,000	\$ 24,490,000	3.1%	\$ 654,000,000	\$ (8,300,000)	-1.3%
FY2020	\$ 709,739,000	\$ (95,863,000)	-11.9%	\$ 795,100,000	\$ 141,100,000	21.6%
FY2021	\$ 1,003,211,000	\$ 293,472,000	41.3%	\$ 786,000,000	\$ (9,100,000)	-1.1%
FY2022	\$ 1,224,000,000	\$ 220,789,000	22.0%	\$ 963,100,000	\$ 177,100,000	22.5%
FY2023	\$ 1,258,900,000	\$ 34,900,000	2.9%	\$ 957,800,000	\$ (5,300,000)	-0.6%
FY2024*	\$ 1,217,900,000	\$ (41,000,000)	-3.3%	\$ 1,247,000,000	\$ 289,200,000	30.2%

*FY2024 revenue is preliminary and unaudited.

- Business Tax Revenues Year to Date:

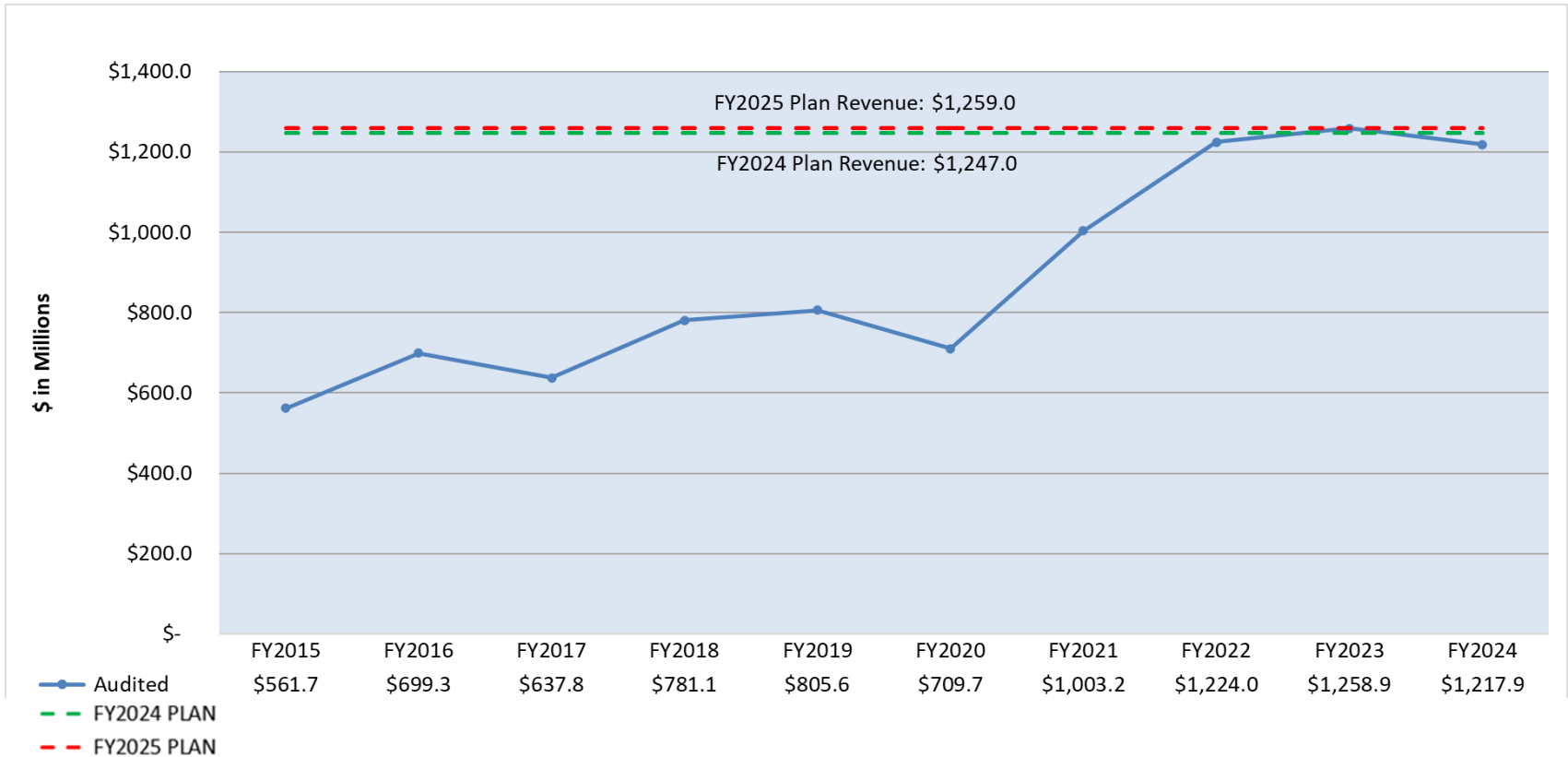
FY2025 actual revenue for the first 6 months of the fiscal year is 15.5% below FY2025 plan and 15.4% below FY2024 unaudited revenue year to date.

Factors Impacting Business Tax Revenue

- Factors that contributed to the Business Tax Revenues
 - Economic stimulus
 - Impact of legislative changes (CCO cap, market-based sourcing and single sales factor apportionment changes)
- Factors that may affect future Business Tax Revenues
 - Statutory changes
 - Economy
 - Supply chain constraints
 - Disruptions in ports and factories
 - Potential tariffs or sanctions
 - Inflation rate
 - Effects on consumer spending
 - Low unemployment rate
 - Effects on labor costs
 - Future Outlook
 - Interest rate changes
 - Global geopolitical stability
 - Economic uncertainty

Business Tax Revenue 10-Year Trend

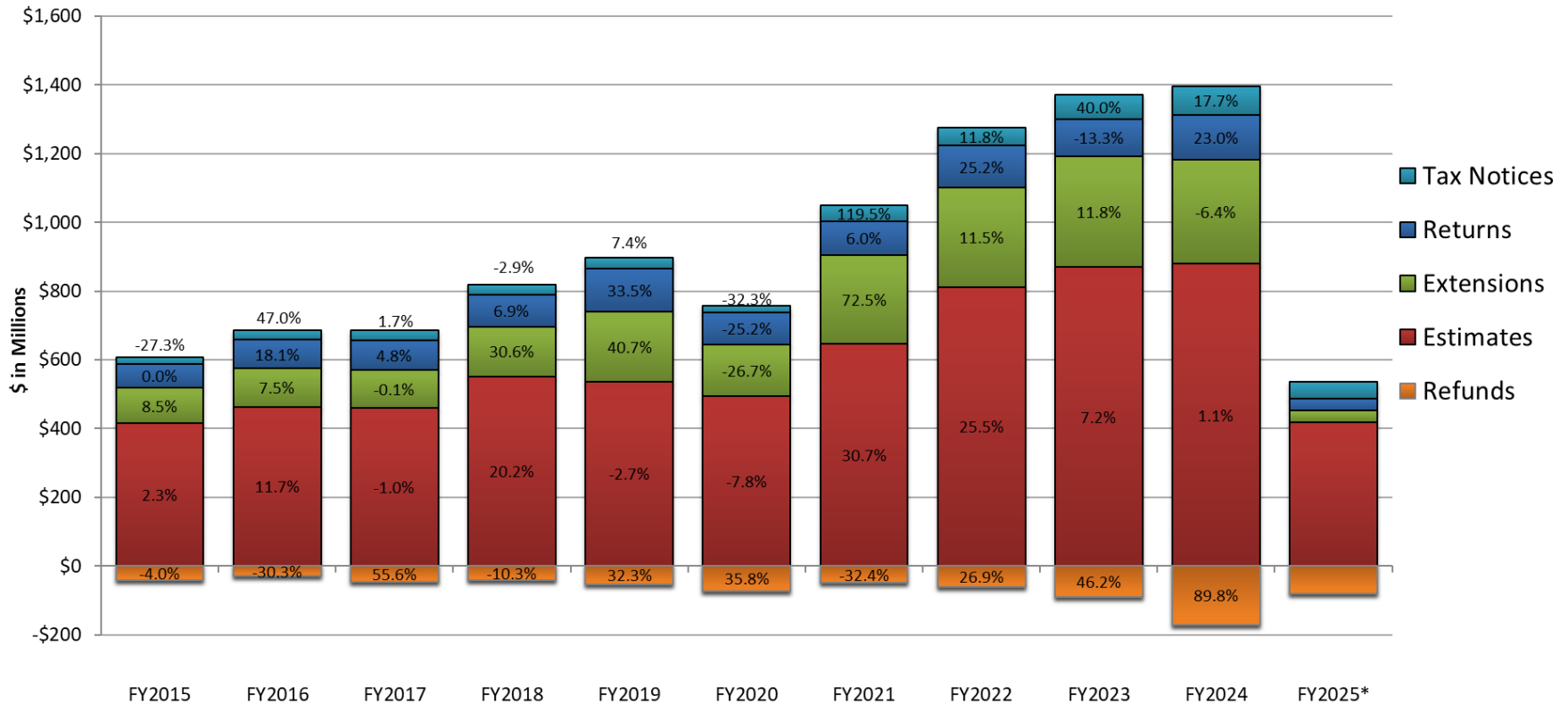
Audited Revenue*



*FY2024 revenue is preliminary and unaudited.

Historical Business Tax Returns, Estimates, Extensions, Tax Notice Payments, and Refunds

Year-Over-Year Change
(Cash Basis)



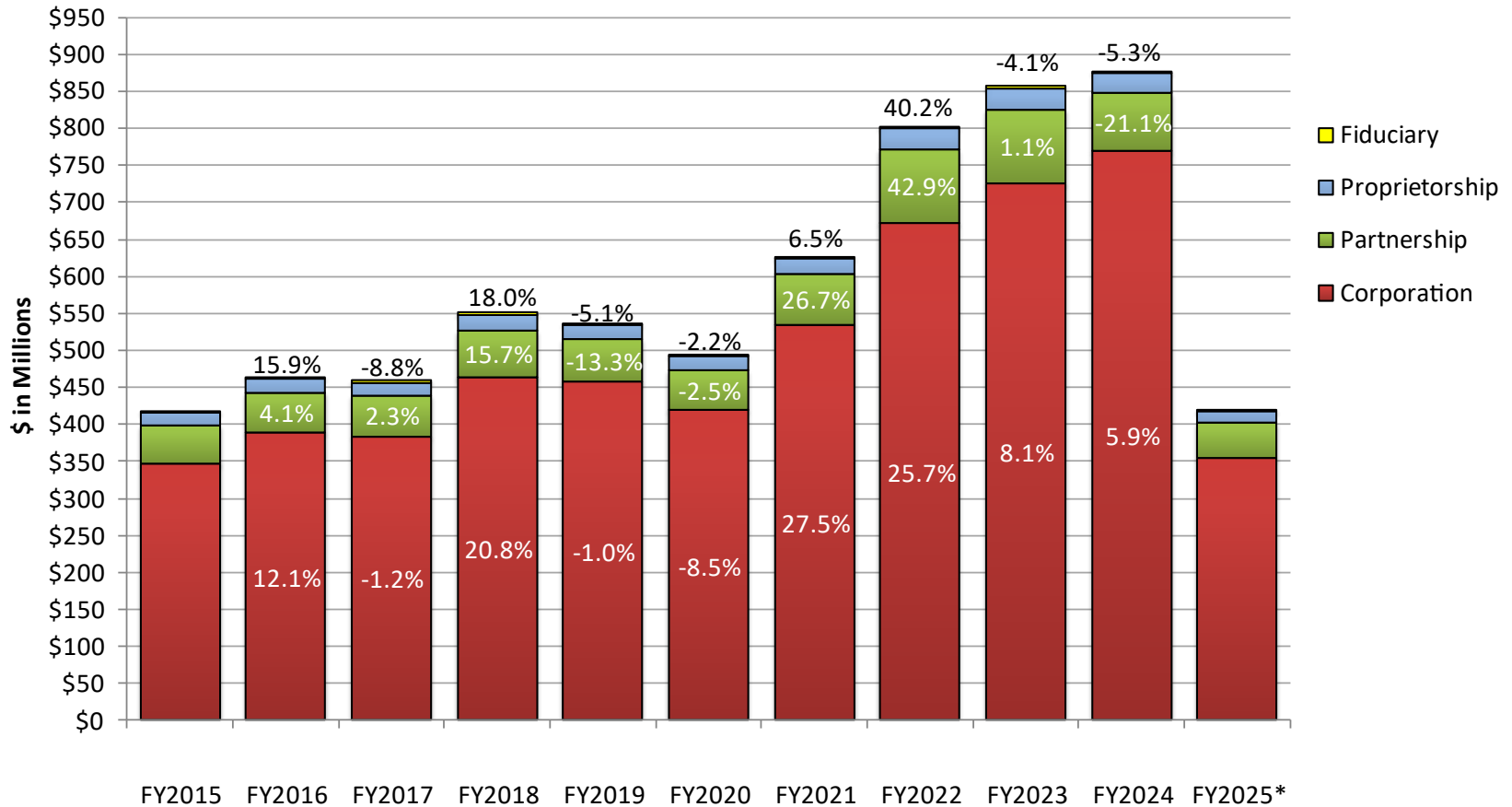
* FY2025 includes July 2024 – December 2024

Business Tax Estimate Payments Historical Analysis

Year-Over-Year Change
(Cash Basis)

Most of the Business Tax revenue is derived from estimates.

The following chart depicts a 10-year history of NH Business Tax estimate revenue by entity type.

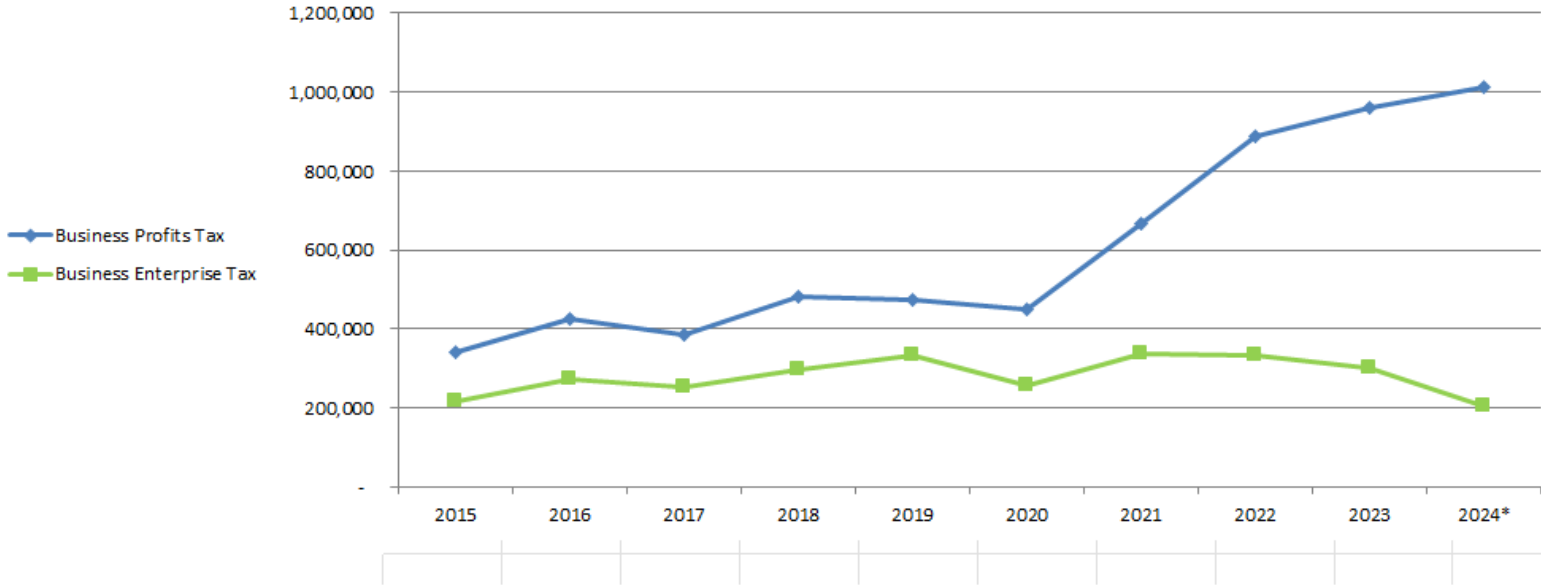


* FY2025 includes July 2024 – December 2024

Business Profits Tax vs. Business Enterprise Tax

STATE OF NEW HAMPSHIRE
 SCHEDULE OF UNRESTRICTED REVENUE - GAAP BASIS
 GENERAL FUND AND EDUCATION TRUST FUND
 FOR THE LAST TEN FISCAL YEARS
 (Expressed in Thousands)

GENERAL & EDUCATION TRUST FUNDS	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Business Profits Tax	343,427	426,955	385,809	482,228	473,466	450,828	667,224	889,100	958,800	1,011,700
Business Enterprise Tax	218,236	272,336	251,990	298,884	332,136	258,911	335,987	334,900	300,100	206,200
	561,663	699,291	637,799	781,112	805,602	709,739	1,003,211	1,224,000	1,258,900	1,217,900



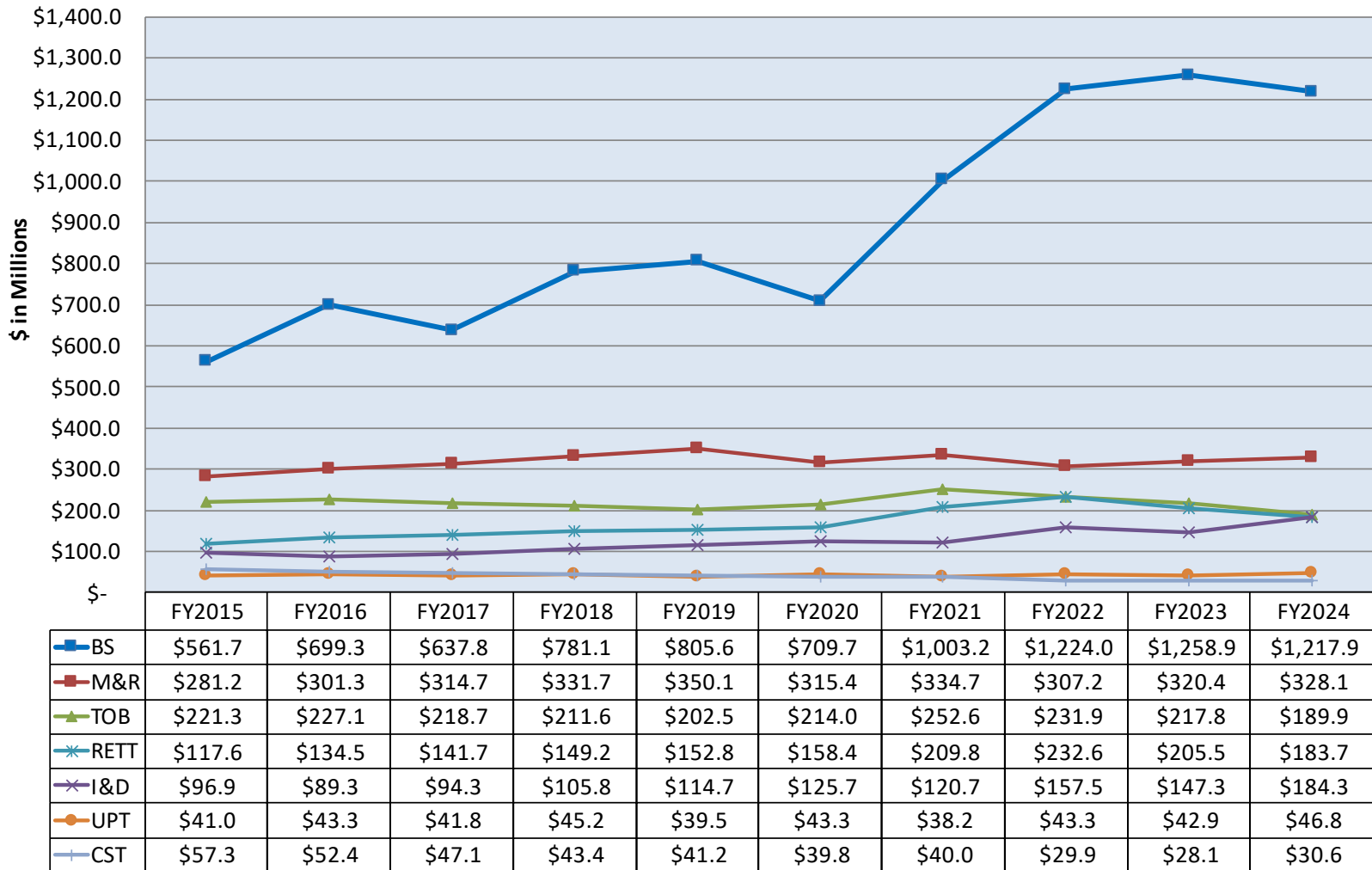
Percentage of Business Tax Revenue

GENERAL & EDUCATION TRUST FUNDS	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Business Profits Tax	61.1%	61.1%	60.5%	61.7%	58.8%	63.5%	66.5%	72.6%	76.2%	83.1%
Business Enterprise Tax	38.9%	38.9%	39.5%	38.3%	41.2%	36.5%	33.5%	27.4%	23.8%	16.9%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*FY2024 revenue is preliminary and unaudited.

Historical Revenue Trends

(Audited)*



*FY2024 revenue is preliminary and unaudited.

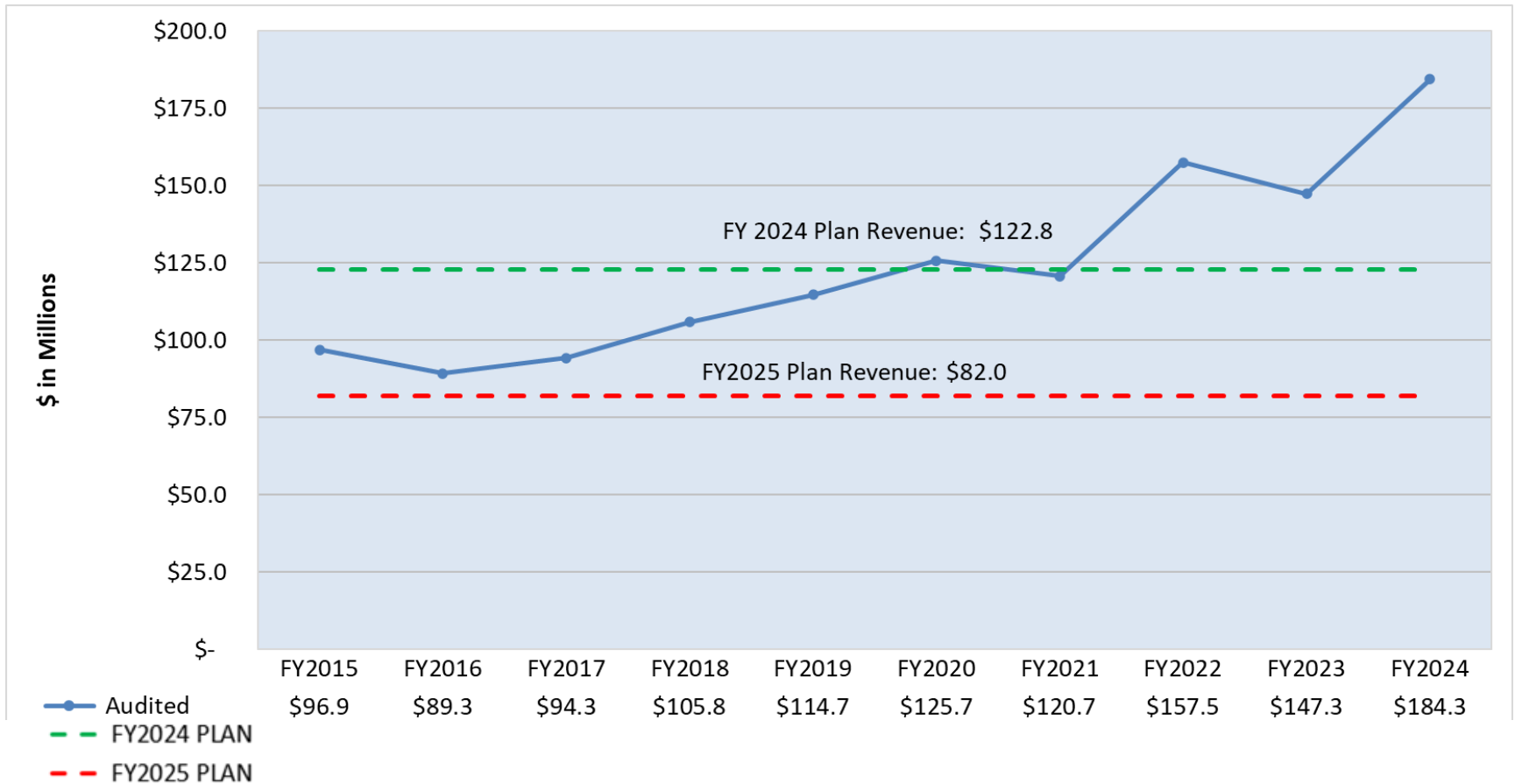
Interest & Dividends (I&D) Tax

Repealed as of January 1, 2025

- The I&D Tax was assessed on the interest and dividend income of individuals, partnerships, and fiduciaries. The tax rate was 3% for taxable periods ending on or after December 31, 2024. The I&D Tax will still generate some revenue during the wind-up period.
- Audited I&D Tax revenue over the last three years:
 - 30.5% increase in FY2022 over FY2021
 - 6.5% decrease in FY2023 from FY2022
 - 25.1% increase in FY2024 unaudited over FY2023
 - FY2025 actual revenue for the first 6 months of the fiscal year is 46% above FY2025 plan and 14.6% below FY2024 unaudited revenue year to date.
- Factors that can affect I&D:
 - Economy & Stock market performance
 - Changing makeup of how I&D is paid. Ex: Distributions
 - Money in the bank
 - Interest rates

I&D Tax Revenue 10-Year Trend

Audited Revenue*



*FY2024 revenue is preliminary and unaudited.

FY2025 Tax Revenues

through December 2024

Unaudited

Taxes	1st 6 Months Actual	1st 6 Months Plan	Actual Revenue vs Plan Revenue	Last 6 months Plan as a % of Total Plan
Business	\$ 456,800,000	\$ 540,500,000	-15.5%	57.1%
M&R	\$ 187,800,000	\$ 181,900,000	3.2%	44.0%
Tobacco	\$ 97,300,000	\$ 114,000,000	-14.6%	46.3%
RETT	\$ 111,100,000	\$ 119,200,000	-6.8%	43.2%
I&D	\$ 36,800,000	\$ 25,200,000	46.0%	69.3%
UPT	\$ 21,900,000	\$ 19,800,000	10.6%	54.0%
CST	\$ 14,900,000	\$ 15,200,000	-2.0%	49.3%
	\$ 926,600,000	\$ 1,015,800,000	-8.8%	53.0%

Other Taxes DRA Administers

- Medicaid Enhancement Tax
- Nursing Facility Quality Assessment
- Railroad Tax / Private Railroad Car Tax
- Excavation Tax
- Timber Tax
- State Education Property Tax