

New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

22-2056

HB 1204-FN-A-LOCAL, *reducing the rate of the meals and rooms tax and increasing the revenue sharing of meals and rooms tax revenue with municipalities.*

House Ways & Means

Meals & Rentals Tax Rate Decrease

Section 1-3 of the proposed legislation reduces the Meals & Rentals (M&R) Tax rate under RSA 78-A from 8.5% to 7.9% for taxable periods beginning on or after July 1, 2023.

The DRA is unable to estimate the exact future impact of the proposed legislation because the DRA cannot predict what the total revenues from the M&R Tax will be in future years. However, using M&R cash basis revenue data, the DRA can calculate the fiscal impact had the legislation been in place during FY 2021.

M&R Tax collected on a cash basis during FY 2021 was \$328,146,248, including the anomalous receivable amount from FY 2021 and the School Building Aid transfers. Operators retained commissions of \$9,354,132 (2.8% of the total tax collected based on data reported by Operators in FY 2021). Thus, the total tax collected by operators for FY 2021 was \$337,500,380. The FY 2021 M&R Tax base was the total tax collected (\$337,500,380) divided by the tax rate of 9%, or \$3,750,004,222.

The FY 2021 M&R Tax base is then multiplied by the 8.5% tax rate from the recently passed HB 2, yielding a new estimated amount of tax collected by operators of \$318,750,359. Using the same rate of commissions from FY2021, the commission retained under the new rate is \$8,834,458, which is subtracted from the new liability amount. Thus, the revenue which would have been generated in FY 2021 had the 8.5% rate been in place is \$309,915,901.

The FY 2021 M&R Tax base is then multiplied by the 7.9% tax rate under this proposed legislation, yielding a new estimated amount of tax collected by operators of \$296,250,334. Using the same rate of commissions from FY 2021, the commission retained under the new rate is \$8,210,849, which is subtracted from the new liability amount. Thus, the revenue which would have been generated in FY 2021 had the 7.9% rate been in place is \$288,039,484. From this \$288,039,484 we subtract the estimated \$309,915,901 revenue collected under the 8.5% above, yielding (\$21,876,417). This would be an estimated full fiscal year reduction in revenue to the General and Education Trust Funds of (\$21,876,417) at the 7.9% rate, compared to the 8.5% rate.

The applicability date of the proposed legislation is for taxable periods beginning on or after July 1, 2023. M&R revenue is due by the 15th day of the month following the taxable period. This proposed legislation therefore would not begin to impact revenue until August 2023. Using historical timing

of M&R revenue from FY 2019 – FY 2021, an average of 90.9% of M&R revenue is received from August to June of each fiscal year. 90.9% of the estimated full fiscal year impact of \$21,876,417 results in (\$19,885,663) being the estimated fiscal impact for FY 2024. From FY 2025 going forward, the estimated impact per fiscal year is (\$21,876,417).

The following chart provides the estimated impact per fiscal year going forward;

Meals & Rentals Tax - Static Analysis using FY 2021 Revenues & 8.5% Tax Rate			
Fiscal Year	Estimate Revenue with FY 2021 tax base and 8.5% rate from HB 2 (Chapter 91, Section 103-105)	Estimated FY Revenue under the proposed rate	Cumulative Fiscal Impact (Proposed Legislation Compared to Current Law)
2024	\$309,915,901	\$290,030,238	(\$19,885,663)
2025	\$309,915,901	\$288,039,484	(\$21,876,417)
2026	\$309,915,901	\$288,039,484	(\$21,876,417)

Meals & Rentals Tax Distribution Increase

Section 4 of the proposed legislation increases the percentage of the net income distributed to municipalities as determined in RSA 78-A:26 from 30% to 40%. Section 4 of the proposed legislation would take effect July 1, 2023. The DRA assumes that Section 4 of this proposed legislation would first effect the distribution NH Treasury performs in October 2023, based on FY2023 revenues, but would suggest that this be clarified in the proposed legislation.

The NH Treasury performs the actual calculation and distribution of M&R funds to municipalities. Therefore, the DRA has not analyzed the fiscal impact of increasing the M&R distribution to municipalities from 30% to 40%. DRA has also not made an assumption as to whether the NH Treasury could implement the changes of this proposed bill within its operating budget.

Additionally, although the DRA assumes that increasing the M&R distribution to municipalities will result in an indeterminable increase in municipal revenue, with the M&R rate also concurrently being reduced, the DRA has not made any assumptions as to whether the proposed legislation as a whole will result in either an increase or decrease to municipal revenue. County revenues are not impacted by the proposed legislation.