

Department of Revenue Administration

Revised Revenue Estimates

The Department of Revenue Administration (DRA) has developed revised FY2021 through FY2023 revenue estimate ranges for the following taxes: Business Profits Tax (BPT), Business Enterprise Tax (BET), Meals and Rentals Tax, Tobacco Tax, Interest and Dividends Tax, Communications Services Tax, Real Estate Transfer Tax, and Utility Property Tax. The DRA estimates were calculated by adjusting FY2021 Plan based on currently available data through March, as well as expected revenues on a monthly basis taking into account the possible changing and recovery effects of the COVID-19 pandemic over time. Lastly, these estimates are subject to change.

FY2021 Estimate Range with Anomalous Receivable Removed								
	Plan	Anomalous Receivable	DRA Low	DRA High	DRA Low Compared to Plan		DRA High Compared to Plan	
Business Taxes	\$786.0	\$18.3	TBD	TBD	-	-	-	-
Meals and Rentals Tax	\$386.9	\$1.6	\$315.4	\$320.4	-\$71.5	-18%	-\$66.5	-17%
Tobacco Tax	\$201.2	\$1.3	\$240.2	\$245.1	\$39.0	19%	\$43.9	22%
Interest and Dividends Tax	\$116.9	\$9.2	TBD	TBD	-	-	-	-
Communications Services Tax	\$39.8	\$0.2	\$39.1	\$39.1	-\$0.7	-2%	-\$0.7	-2%
Real Estate Transfer Tax	\$158.4	\$0.2	\$201.5	\$205.7	\$43.1	27%	\$47.3	30%
Utility Property Tax	\$44.2	\$0.0	\$42.8	\$42.8	-\$1.4	-3%	-\$1.4	-3%

Business Taxes BPT & BET: Split 60% BPT 40% BET

Factors to consider:

- FYTD we are \$100.7m or 21.0% ahead of Plan, \$18.3m of this is the anomalous receivable.
- FYTD we are \$113.1m or 24.2% ahead of prior year, \$18.3m of this is the anomalous receivable.
- Effects of the COVID-19 pandemic on business activity due on returns received in March and April.
- Largest stimulus packages the federal government has ever infused into the economy.
- Unemployment rates and economy.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Business Taxes	FYTD with Anomalous Receivable <u>Included</u>	FYTD with Anomalous Receivable <u>Removed</u>		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$579.9 / 21.0% ahead of Plan	\$561.6 / 17.2% ahead of Plan		2%	6%		3%	5%

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: 2% to 6%
 - Predicted GDP to increase in FY2022 to 5%.
- FY2023: 3% to 5%
 - Predicted GDP to slow in FY2023 to 4%.

Meals & Rentals Tax (Historical Breakdown: 80% meals, 17% rooms and 3% motor vehicles)

Factors to consider:

- FYTD -\$61.7m or -20.8% below Plan, \$1.6m of this is the anomalous receivable.
- FYTD -\$45.9m or -16.3% below prior year, \$1.6m of this is the anomalous receivable.
- COVID-19 vaccine distribution and consumer confidence.
- Lifted travel restrictions.
- Recovery rate as we come out of the pandemic.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Meals and Rentals Tax	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$315.4	\$320.4		5%	10%		4%	6%

DRA Revised FY2021 Estimate Range: *\$1.6m anomalous receivable removed*

- Low: -\$71.5m or -18% below Plan
 - Assumes a gradual improvement during the last three months of the fiscal year. The gradual improvement is based on growing consumer confidence and outdoor dining options.
- High: -\$66.5m or -17% below Plan
 - Assumes a faster improvement during the last three months of the fiscal year. The faster improvement assumes growing consumer confidence coupled with travel restriction being lifted and consumers trying to return to normal.

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: 5% to 10%
 - Low is equal to FY2018 M&R revenue and high is equal to FY2019 M&R revenue.
- FY2023: 4% to 6%
 - Historical growth rates for M&R back to normal.

Tobacco Tax (FY2020 Revenue Breakdown: 92% Cigarette Stamps and 8% Other Tobacco Products)

Factors to consider:

- FYTD we are \$32.7m or 21.8% ahead of Plan, \$1.3m of this is the anomalous receivable.
- FYTD we are \$31.6m or 20.9% ahead of prior year, \$1.3m of this is the anomalous receivable.
- Massachusetts ban on mentholated tobacco and other flavored tobacco (OTP) products has continued to drive an increase in revenues. Other surrounding states have also seen this trend.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Tobacco Tax	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$240.2	\$245.1		-3%	0%		-4%	-1%

DRA Revised FY2021 Estimate Range: *\$1.3m anomalous receivable removed*

- Low: \$39.0m or 19% ahead of Plan
 - Assumes the increase due to Massachusetts flavor ban continues at a consistent rate.
- High: \$43.9m or 22% ahead of Plan
 - Assumes the increase due to Massachusetts ban continues, as well as increased cross border sales due to increased consumer confidence and travel restrictions lifted.

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: -3% to 0%
 - Historic year-over-year reductions tempered to account for any residual offset by e-cigarettes and the ban on flavored OTP and mentholated cigarettes in Massachusetts.
- FY2023: -4% to -1%
 - Loss consistent with the historic trends.

Interest & Dividends Tax

TY 2018 Breakdown: 38.8% Taxable Annuities or Actual Cash & Property Distributions, 40.3% Dividend Income, 13.2% Interest Income and 7.7% Federal tax exempt interest income

Factors to consider:

- FYTD we are \$19.1m or 35.9% ahead of Plan, \$9.2m of this is the anomalous receivable.
- FYTD we are \$21.3m or 41.8% ahead of prior year, \$9.2m of this is the anomalous receivable.
- Historical year-over-year swings.
- Stock Market continues to perform well.
- People have more money in the bank.
- This tax appears to be unaffected by COVID-19, to date.
- IRS extended due date to file and pay individual returns to May 17, 2021, NH due date remained April 15, 2021.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges

Interest and Dividends Tax	FYTD with Anomalous Receivable <u>Included</u>	FYTD with Anomalous Receivable <u>Removed</u>	DRA FY2022 Low Range	DRA FY2022 High Range	DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$72.3 / 35.9% ahead of Plan	\$63.1 / 18.6% ahead of Plan	4%	6%	2%	4%

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: 4% to 6%
 - Based on past performance of the tax coupled with anticipated GDP.
- FY2023: 2% to 4%
 - Slowing of growth based on past performance and anticipated reduction of GDP.

Communications Services Tax

Factors to consider:

- FYTD we are -\$0.3m or -1.0% below Plan, \$0.2m of this is the anomalous receivable.
- FYTD we are \$0.4m or 1.4% ahead of prior year, \$0.2m of this is the anomalous receivable.
- NH unemployment rate.
- Taxability of video conferencing and the increased use of product.
- Decreased use of VoIP.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Communications Services Tax	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$39.1	\$39.1		0%	0%		0%	0%

DRA Revised FY2021 Estimate: *\$0.2m anomalous receivable removed*

- DRA Estimate: -\$0.7m or -2% below Plan
 - Loss of -2% for the remaining months of the year.

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: 0%
- FY2023: 0%

Real Estate Transfer Tax

Factors to consider:

- FYTD we are \$32.8m or 27.0% ahead of Plan, \$0.2m of this is the anomalous receivable.
- FYTD we are \$27.3m or 21.5% ahead of prior year, \$0.2m of this is the anomalous receivable.
- FYTD amounts are net of the \$5m transfer to the Affordable Housing Fund as provided in RSA 78-B:13, III.
- Mortgage interest rates are historically low and stable.
- Virtual home sales, available housing and property values.
- Inventory shortage, cost of building supplies and a lower affordability factor.
- Overall recovery of the economy, unemployment rates and consumer confidence.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Real Estate Transfer Tax	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$201.5	\$205.7		-7%	-2%		-10%	-8%

DRA Revised FY2021 Estimate Range: \$0.2m anomalous receivable removed

- Low: \$43.1m or 27% ahead of Plan
 - Assumes FYTD percentage over plan of 27% is maintained through the end of the year.
- High: \$47.3m or 30% ahead of Plan
 - Assumes FYTD percentage over plan increases to 30%.

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: -7% to -2%
 - Assumes the fiscal year starts with continued strong performance with a gradual shift toward performance that is less than that of FY2021.
- FY2023: -10% to -8%
 - Assumes historical trends were maintained for FY2020 through FY2022 and does not build upon the spike in the housing market. Falls in line with economists’ predictions.

Utility Property Tax

Factors to consider:

- FYTD \$0.5m or 2.1% ahead of Plan.
- FYTD \$0.4m or 1.7% ahead of prior year.
- Some property may decline in value due to changes in economic conditions.
- New taxable property may be constructed.
- UPT does not appear to be impacted by the COVID-19 economic crisis.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
Utility Property Tax	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions	\$42.8	\$42.8		0%	0%		0%	0%

DRA Revised FY2021 Estimate:

- DRA Estimate: -\$1.4m or -3% below Plan
 - Reduction for remaining months based on reduced utility property values from prior year.

DRA Revised FY2022 and FY2023 Growth Estimate Range:

- FY2022: 0%
- FY2023: 0%

DRA Revised Estimated Revenues

Summary of Taxes

The table below summarizes the DRA’s estimated revenue ranges for FY2021 as well as growth ranges for FY2022 thru FY2023. The base for FY2022 growth rates will be FY2021 with the anomalous receivables removed, as we do not anticipate the anomalous receivables to reoccur in FY2022.

DRA Taxes - FY2021 thru FY2023 Revenue Estimate Ranges								
	FY2021 DRA Low	FY2021 DRA High		DRA FY2022 Low Range	DRA FY2022 High Range		DRA FY2023 Low Range	DRA FY2023 High Range
\$ in Millions								
Business Taxes	TBD	TBD		2%	6%		3%	5%
Meals and Rentals Tax	\$315.4	\$320.4		5%	10%		4%	6%
Tobacco Tax	\$240.2	\$245.1		-3%	0%		-4%	-1%
Interest and Dividends Tax	TBD	TBD		4%	6%		2%	4%
Communications Services Tax	\$39.1	\$39.1		0%	0%		0%	0%
Real Estate Transfer Tax	\$201.5	\$205.7		-7%	-2%		-10%	-8%
Utility Property Tax	\$42.8	\$42.8		0%	0%		0%	0%

FY2021 thru FY2023 Comparison of Revenues

	FY2020 Audited Revenue	FY2021 Plan	FY2021 Revised without Anomalous Receivable				FY2022 Estimates				FY2023 Estimates											
			Pre March Data		With March Data		Pre March Data		With March Data		Pre March Data		With March Data									
			Gov. Est. 3/3/21	HWM 3/18/21	DRA Low 4/19/21	DRA High 4/19/21	Gov. Est. 3/3/21	HWM 3/18/21	DRA Low 4/19/21	DRA High 4/19/21	Gov. Est. 3/3/21	HWM 3/18/21	DRA Low 4/19/21	DRA High 4/19/21								
<i>\$ in Millions</i>																						
Business Taxes	\$709.7	\$786.0	\$824.6	\$837.0			\$843.1	\$847.7			2.2%	2.5%	2.0%	6.0%	\$885.3	\$870.0			5.0%	2.6%	3.0%	5.0%
Meals & Rentals Tax	\$315.4	\$386.9	\$320.4	\$311.0	\$315.4	\$320.4	\$353.3	\$341.0	\$331.2	\$352.4	10.3%	9.6%	5.0%	10.0%	\$373.1	\$360.0	\$344.4	\$373.6	5.6%	5.6%	4.0%	6.0%
Tobacco Tax	\$214.0	\$201.2	\$250.6	\$247.8	\$240.2	\$245.1	\$246.8	\$244.8	\$233.0	\$245.1	-1.5%	-1.2%	-3.0%	0.0%	\$239.4	\$240.5	\$223.7	\$242.6	-3.0%	-1.8%	-4.0%	-1.0%
Interest & Dividends Tax	\$125.7	\$116.9	\$128.0	\$128.8			\$134.7	\$136.5			5.3%	6.0%	4.0%	6.0%	\$137.4	\$138.0			2.0%	1.1%	2.0%	4.0%
Communications Services Tax	\$39.8	\$39.8	\$39.0	\$38.8	\$39.1	\$39.1	\$39.0	\$38.8	\$39.1	\$39.1	0.1%	0.0%	0.0%	0.0%	\$39.0	\$38.8	\$39.1	\$39.1	0.0%	0.0%	0.0%	0.0%
Real Estate Transfer Tax	\$158.4	\$158.4	\$192.6	\$194.0	\$201.5	\$205.7	\$183.0	\$182.0	\$187.4	\$201.6	-5.0%	-6.2%	-7.0%	-2.0%	\$170.0	\$171.0	\$168.7	\$185.5	-7.1%	-6.0%	-10.0%	-8.0%
Utility Property Tax	\$43.3	\$44.2	\$42.3	\$42.3	\$42.8	\$42.8	\$42.3	\$42.3	\$42.8	\$42.8	0.0%	0.0%	0.0%	0.0%	\$42.3	\$42.3	\$42.8	\$42.8	0.0%	0.0%	0.0%	0.0%
Grand Total	\$1,606.3	\$1,733.4	\$1,797.5	\$1,799.7			\$1,842.2	\$1,833.1			2.5%	1.9%			\$1,886.5	\$1,860.6			2.4%	1.5%		