

# Department of Revenue Administration

## Revenue Estimates

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The Department of Revenue Administration (DRA) has developed FY2023 through FY2025 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 FY2023 based on currently available data through January, expected monthly revenues, and considering the impacts of tax law changes. Lastly, these estimates are subject to change.

<b>Estimate Scenarios</b>	<b>Description</b>
<b>Plan</b>	State of NH FY2023 Revenue Plan for the General & Education Trust Funds combined
<b>Actual with Plan</b>	Actual revenue from the first seven months of FY2023 with Plan revenue for the last five months of FY2023
<b>Sustaining % versus Plan</b>	Actual revenue from the first seven months of FY2023 plus sustaining % vs Plan for the last five months of FY2023
<b>Year-Over-Year Growth</b>	Actual revenue from the first seven months of FY2023 plus sustaining % vs prior year for the last five months of FY2023
<b>Actual with Prior Year</b>	Actual revenue from the first seven months of FY2023 with actual prior year revenue for the last five months of FY2023

## House Ways & Means Committee February 16, 2023

### Adjustments

The following adjustments should be applied to FY2023 – FY2025 to account for various tax law changes that are not fully reflected in current revenues:

<b>Tax Law Changes Impacting Estimated Revenues (in millions)</b>				
	<b>Tax Law Change</b>	<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>
<b>Business Taxes</b>	2021 HB2 BPT and BET Rate Changes	- <sup>1</sup>	(\$4.0)	-
	2021 HB2 Credit Carryover Cap	(\$11.0)	(\$13.5)	(\$3.8)
	2022 HB1221 Rate Change	- <sup>2</sup>	(\$5.4)	- <sup>2</sup>
	2022 SB435 NOL Apportionment	(\$8.6)	(\$2.1)	-
<b>Interest and Dividends Tax</b>	2022 HB2 Rate Change/Phase Out	(\$6.3)	(\$22.2)	(\$23.4)

<sup>1</sup>(\$16.9m) not applicable as impact is already included in FY2023 YTD

<sup>2</sup>Immaterial impact in FY2023 and FY2025

### FY2023 Revenues

Considering the various scenarios and adjusting for various tax law changes, the DRA determined the following ranges for FY2023 revenues:

<b>FY2023 Estimate Range</b>							
	<b>Plan</b>	<b>DRA Low</b>	<b>DRA High</b>	<b>DRA Low Compared to Plan</b>		<b>DRA High Compared to Plan</b>	
<b>Business Taxes</b>	\$957.8	\$1,219.5	\$1,257.1	\$261.7	27%	\$299.3	31%
<b>Meals and Rentals Tax</b>	\$245.3	\$295.9	\$327.5	\$50.6	21%	\$82.2	34%
<b>Tobacco Tax</b>	\$240.0	\$217.0	\$222.8	-\$23.0	-10%	-\$17.2	-7%
<b>Interest and Dividends Tax</b>	\$135.8	\$126.9	\$141.3	-\$8.9	-7%	\$5.5	4%
<b>Communications Services Tax</b>	\$39.1	\$28.8	\$29.9	-\$10.3	-26%	-\$9.2	-24%
<b>Real Estate Transfer Tax</b>	\$181.9	\$225.0	\$232.0	\$43.1	24%	\$50.1	28%
<b>Utility Property Tax</b>	\$40.6	\$40.7	\$44.9	\$0.1	0%	\$4.3	11%

**Business Taxes BPT & BET:** Split 70% BPT 30% BET

**Factors to consider:**

- FYTD we are \$146.5m or 33.3% ahead of Plan
- FYTD we are \$26.1m or 4.7% ahead of prior year
- Effects of tax law changes
- Impact of inflation
- Potential economic slowdown

**DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges**

Business Taxes	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$1,239.1	\$1,276.7		0%	2%		0%	2%
Tax Law Changes	-\$19.6	-\$19.6		-\$25.0	-\$25.0		-\$3.8	-\$3.8
Net Tax Law Changes	\$1,219.5	\$1,257.1						

**DRA Revised FY2023 Estimate Range:**

- Low: \$261.7m or 27% ahead of Plan
  - Actual revenue from the first seven months of FY2023 with actual prior year revenue for the last five months of FY2023.
- High: \$299.3m or 31% ahead of Plan
  - Assumes FYTD percentage over plan of 33.3% is maintained through the end of the year, minus impact of tax law changes.

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: 0% to 2%
  - Predicted GDP growth to remain minimal in FY2024
- FY2025: 0% to 2%
  - Predicted GDP growth to remain minimal in FY2025

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

**Factors to consider:**

- FYTD \$50.6 or 33.5% ahead of Plan
- FYTD \$6.4m or 3.3% ahead of prior year
- Post pandemic activity as consumers release pent up demand for dining out and vacations
- Transfers to the Municipal Revenue Fund (MF) in accordance with RSA 78-A:26 and School Building Aid Debt Service (SBA) in accordance with RSA 78-A:26,1 (a)

**DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges**

Meals and Rentals Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$423.9	\$455.5		0%	5%		0%	5%
Transfers to MF & SBA	-\$128.0	-\$128.0		-\$129.8	-\$139.0		-\$129.6	-\$145.5
Net	\$295.9	\$327.5						

**DRA Revised FY2023 Estimate Range:**

- Low: \$50.6m or 21% ahead of Plan
  - Assumes M&R performs at plan for the last five months of FY2023.
- High: \$82.2m or 34% ahead of Plan
  - Assumes FYTD percentage over plan of 33.5% is maintained through the end of the year.

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: 0% to 5%
  - Low assumes that the impact of inflation and/or slowing economy keeps M&R flat
  - High assumes continued increases in demand and/or prices
- FY2025: 0% to 5%
  - Historical growth rates for M&R

Tobacco Tax (FY2022 Revenue Breakdown: 91% Cigarette Stamps and 9% Other Tobacco Products)

**Factors to consider:**

- FYTD we are -\$12.8m or -8.9% below Plan
- FYTD we are -\$8.9m or -6.3% below prior year
- Stamps sales are declining while Other Tobacco Products (OTP) sales are growing
- Bans on mentholated tobacco and other flavored tobacco (OTP) products

**DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges**

Tobacco Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$217.0	\$222.8		-5%	0%		-3%	0%

**DRA Revised FY2023 Estimate Range:**

- Low: -\$23.0m or -10% below Plan
  - Assumes FYTD percentage over prior year of -6.3% is maintained through the end of the year.
- High: -\$17.2m or -7% below Plan
  - Assumes the remainder of FY2023 is the same as FY2022.

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: -5% to 0%
  - Historic year-over-year reductions in cigarette stamp sales due to cessation efforts slightly offset by an increase in OTP
- FY2025: -3% to 0%
  - Growth consistent with historic trends

## Interest & Dividends Tax

*TY 2020 Breakdown: 41.5% Taxable Annuities or Actual Cash & Property Distributions, 39.0% Dividend Income, 12.2% Interest Income and 7.3% Federal tax exempt interest income*

### Factors to consider:

- FYTD we are  $-\$0.3\text{m}$  or  $-0.6\%$  below Plan
- FYTD we are  $-\$8.8\text{m}$  or  $-14.9\%$  below prior year
- Historical year-over-year swings
- Stock Market performance, interest rates and distribution of business profits
- Effects of tax law changes

DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges								
Interest and Dividends Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$133.2	\$147.6		0%	2%		0%	2%
Tax Law Changes	$-\$6.3$	$-\$6.3$		$-\$22.2$	$-\$22.2$		$-\$23.4$	$-\$23.4$
Net Tax Law Changes	\$126.9	\$141.3						

### DRA Revised FY2023 Estimate:

- Low:  $-\$8.9\text{m}$  or  $-7\%$  below Plan
  - Assumes FYTD percentage over prior year of  $-14.9\%$  is maintained through the end of the year, minus impact of the rate reduction.
- High:  $\$5.5\text{m}$  or  $4\%$  ahead of Plan
  - Assumes the remainder of FY2023 is the same as FY2022, minus the impact of the rate reduction.

### DRA Revised FY2024 and FY2025 Growth Estimate Range:

- FY2024:  $0\%$  to  $2\%$ 
  - Based on past performance of the tax coupled with potential slowing of the economy.
- FY2025:  $0\%$  to  $2\%$ 
  - Based on past performance of the tax coupled with potential slowing of the economy.

## Communications Services Tax

**Factors to consider:**

- FYTD we are -\$5.5m or -24.1% below Plan
- FYTD we are -\$0.6m or -3.4% below prior year
- Increased use of video conferencing
- Decreased use of VoIP and traditional telephone
- Shift in allocation of billing of wireless plans from voice to data

DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges								
Communications Services Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$28.8	\$29.9		-3%	0%		-3%	0%

**DRA Revised FY2023 Estimate:**

- Low: -\$10.3 or -26% below Plan
  - Assumes \$2.3m per month for the remainder of the fiscal year.
- High: -\$9.2 or -24% below Plan
  - Assumes FYTD percentage over prior year of -3.4% is maintained through the end of the year.

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: -3% to 0%
- FY2025: -3% to 0%

## Real Estate Transfer Tax

**Factors to consider:**

- FYTD we are \$28.6m or 23.8% ahead of Plan
- FYTD we are -\$2.8m or -1.8% below prior year
- FYTD amounts are net of the \$5m transfer to the Affordable Housing Fund (AHF) as provided in RSA 78-B:13, III
- Mortgage interest rates have increased
- Median sales price remains at a high level
- Inventory shortage, cost of building supplies, and a lower affordability factor
- Real estate market peak likely seen in early FY2023

DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges								
Real Estate Transfer Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$230.0	\$237.0		-5%	0%		-2%	2%
Transfers to AHF	-\$5.0	-\$5.0		-\$5.0	-\$5.0		-\$5.0	-\$5.0
Net Transfers	\$225.0	\$232.0						

**DRA Revised FY2023 Estimate Range:**

- Low: \$43.1m or 24% ahead of Plan
  - Assumes preliminary February FYTD percentage over prior year of -3.4% is maintained through the end of the year.
- High: \$50.1m or 28% ahead of Plan
  - Assumes December FYTD percentage over prior year of 5.4% is maintained through the end of the year.

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: -5% to 0%
  - Assumes continued decline from the most recent real estate market peak
- FY2025: -2% to 2%
  - Assumes historical trends are maintained



## Utility Property Tax

**Factors to consider:**

- FYTD \$0.1m or 0.5% ahead of Plan
- FYTD -\$0.2m or -0.9% below prior year
- Fluctuations in property value
- New taxable property may be constructed
- Taxpayers using credits on account

DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges								
Utility Property Tax	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
\$ in Millions	\$40.7	\$44.9		0%	3%		0%	3%

**DRA Revised FY2023 Estimate:**

- Low: \$0.1m or 0% ahead of Plan
  - Assumes UPT performs at plan for the last five months of FY2023.
- High: \$4.3m or 11% ahead of Plan
  - Assumes December FYTD percentage over prior year of 9.0% is maintained through the end of the year

**DRA Revised FY2024 and FY2025 Growth Estimate Range:**

- FY2024: 0% to 3%
- FY2025: 0% to 3%

## DRA Estimated Revenues

### Summary of Taxes

The table below summarizes the DRA’s estimated revenue ranges for FY2023 as well as growth ranges for FY2024 thru FY2025. Growth rates are not net of tax law changes and transfers.

DRA Taxes - FY2023 thru FY2025 Revenue Estimate Ranges								
\$ in Millions	FY2023 DRA Low	FY2023 DRA High		DRA FY2024 Low Range	DRA FY2024 High Range		DRA FY2025 Low Range	DRA FY2025 High Range
<b>Business Taxes</b>	\$1,219.5	\$1,257.1		0%	2%		0%	2%
<b>Meals and Rentals Tax</b>	\$295.9	\$327.5		0%	5%		0%	5%
<b>Tobacco Tax</b>	\$217.0	\$222.8		-5%	0%		-3%	0%
<b>Interest and Dividends Tax</b>	\$126.9	\$141.3		0%	2%		0%	2%
<b>Communications Services Tax</b>	\$28.8	\$29.9		-3%	0%		-3%	0%
<b>Real Estate Transfer Tax</b>	\$225.0	\$232.0		-5%	0%		-2%	2%
<b>Utility Property Tax</b>	\$40.7	\$44.9		0%	3%		0%	3%