

## Department of Revenue Administration's Follow up Answers on Questions Received during the November 23, 2020 Revenue Estimate Presentation

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1. M&R September Activity (reported in October) by Category referenced during the presentation:
  - Taxable meals were down 4.6% compared to prior year
    - Fast Food up 9.6% compared to prior Year
    - Full Service Restaurants down 6.4% compared to prior year
  - Taxable Rooms were down 18.7% compared to prior year:
    - Rental Agents up 86.7% compared to prior year
    - Full Service Hotels down 29.6% compared to prior year
2. How much of the Education Tax Credit (ETC) was awarded to individuals and will it affect FY 2021 Interest and Dividends (I&D) Tax revenue?
  - When looking at the data for the last completed ETC Program Year, which ran from 7/1/2019 to 6/30/2020, and will be reported on returns received in FY 2021 for I&D Tax, 34 of the donations were from individuals while the remaining 60 were from businesses. The total amount of credit awarded to these 34 individuals was \$214,000. Comparing this \$214,000 to the entire 2019-2020 program year, where \$1.3m in credits were awarded, this equates to about 17% of the credits being awarded to individuals and 83% being awarded to businesses. Lastly, it is important to note that when a taxpayer request and receives an ETC it can be used against the I&D Tax as well as Business Taxes. There is no way for us to identify, until the return is filed, which tax the credit will be applied to. Because the amount of credits issued to individuals was only \$214,000 there was no need to adjust the revenue estimates for the I&D Tax to take this amount into consideration.
3. Are tobacco wholesalers seeing an increase in menthol products in NH?
  - According to the NH wholesalers that responded to our inquiry, they are seeing a significant increase in the sale of mentholated products. In some areas the mentholated product sales have doubled and are selling as much as non-mentholated products.
4. Are tobacco retailers seeing increased sales along the border?
  - According to the Liquor Commission, they have heard from a lot of retail store owners about the increased sales in mentholated cigarettes due to Massachusetts flavor ban, indicating that cross border sales have increased. Tobacco retailers have also confirmed that their border stores have seen significant increases in mentholated sales since the ban went into effect.
5. How is Communications Services Tax (CST) applied or paid for in terms of online video conferencing platforms?
  - The CST applies to online video conferencing platforms. The tax is imposed based on the "place of primary use" of the taxpayer which would be the residential street address of the taxpayer, or for

businesses, the primary business street address. Some businesses may charge the taxpayer directly while some may include it in the total price paid.

- As is often the case with emerging technologies (such as on-line rental platforms and the M&R Tax) some of on-line video conferencing platforms appear to take the position that their products are not subject to the CST. As a result, the full value of video conferencing transactions attributable to NH is not reflected in current revenue. Through ongoing compliance efforts, such as future audits, the CST revenue attributable to video conferencing platforms should increase. However, we are unable to estimate at this point by how much or when.
6. What is the Impact of Payroll Protection Program (PPP) on revenues?
- According to the US Small Business Association (SBA), 24,741 loans were issued in NH, totaling \$2,563,295,034 as of August 8, 2020. Recipients of the loans are encouraged to follow eligibility criteria for loan forgiveness, which allows them to use the loans for costs beyond payroll, such as mortgage interest payments, rent and utilities. Although the names and other characteristics of PPP recipients are published by the SBA, it has not been released how much of the PPP loans are used for payroll (either nationally or by state). Although the injection of federally backed low interest (1%) or otherwise forgivable loans is going to help both our economy and revenue picture for FY2021 and beyond when applied to expenses such as payroll; we are unable to estimate at this time what effect this will ultimately have on revenue.
7. What is the reason for Utility Property Tax decreases in valuation?
- The decline in total utility property values in 2020 is almost entirely due to dramatic changes in the wholesale energy market in New England over the last two years. This has negatively impacted the value of power generating plants in New Hampshire. The value of these plants is driven by the income they can produce. The two primary sources of revenue for all of these plants is energy and capacity. Renewable energy power plants can also receive revenue from the sale of environmental attributes (Renewable Energy Certificates aka RECs). The wholesale price of energy paid to merchant power plants has declined by about 50% since 2018. The price they are paid for capacity has declined by over 50% during that same time frame. REC prices paid to our renewable energy plants are also down but to a lesser extent depending on the class of RECs.
  - The change in these prices is attributable to a few things. First, the wholesale price of energy paid to power producers in New England is strongly influenced by the cost of natural gas. The price of natural gas has plummeted, which has impacted wholesale energy prices. Second, there has been a lot of new capacity entering the power generation market in the last few years from the construction of new plants (both roof-top solar and utility-scale plants). This has increased the supply and therefore pushed down the prices of capacity and energy. Third, demand is down due to the growth of distributed energy (roof-top solar) and energy efficiency gains.
  - The good news is that the values of the electric distribution and transmission plants as well as the gas distribution plants in the state have continued to grow. Unfortunately, that growth is not enough to offset the total decline in value of the power generation segment of utility property in New Hampshire.