Governor's Consensus Revenue Estimating Panel Minutes
State House
Concord, NH
July 6, 2016

Members Present:

Meredith Telus, Governor's Budget Director (Chair)
Lindsey Stepp, Department of Revenue
Melissa Rollins, Department of Revenue
Gerard Murphy, State Comptroller, Department of Administrative Services
Greg Bird, New Hampshire Fiscal Policy Institute
Ross Gittell, Chancellor of the Community College System of New Hampshire
Russ Thibeault, President, Applied Economic Research
Dick Samuels, McLane Law

9:10am Chair opened the meeting.

The panel engaged in a discussion of business taxes. In 2016 the subtotal for revenue from the business tax was $641,000 – exactly the amount projected by the panel for FY 2016 back in May. This represented a 14.1% growth in revenue from 2015. DRA explained the rate reduction should impact estimated payments for this January and June (end of SFY 2016) and estimated payments at the beginning of SFY 2017, to be trued up with returns filed next April. DRA reported estimated payments in June were actually the highest they have ever been, and 11% more than last year. In theory, businesses would have lowered tax payments in anticipation of the rate reduction, which lead the panel to question whether all businesses were *aware* of the rate reduction. However, the DRA reported estimates were also up for the 10 largest taxpayers, who should be aware of and incorporating the coming rate reduction. Ross suggested that with the rate reduction that increased revenue could be coming from firms who have not reported before. With a 14.1% growth rate in 2016, a 3.5% growth rate estimate may be too low.

The panel also discussed that the amount of outstanding Net Operating Losses has increased from $228.2 Million in 2014, to $240.4 Million in 2015, and $306.9 Million in 2016 (after apportionment) due to the change in allowable carryforwards from $1 million to $10 million and from one year to 10 years. The number of filers has also increased from 71,401 in FY 2014 to 75,052 in FY 2016 – a 5.1 percent increase. Ross speculated that the increases could be a result of start-up businesses.

The growth seen in SFY 2016 could be businesses finally expanding after being constrained in the prior years of coming out of the recession. Over time the average growth rate for business tax revenue has been 5.6%. Ross and Russ felt the growth rate in SFY 2017 maybe the same as the 5.6% average or higher, while Greg and Dick felt it may be lower. Greg stated that based on the measured of wages that growth could be between 4.5-5% for the upcoming year, and that 5% for 2017 could be a middle ground to work with from 5.6%. The 5% growth rate was agreed upon for the upcoming fiscal year. Additionally, tax changes must factor into the growth anticipation for the coming years. First is the change in the State's allowance of expensing deductions for equipment (IRC 179) from $25,000 to $100,000, which is anticipated to decrease revenue by $7.6 million in the first year. The R&D tax credit will increase from $2

Million to $7 Million in 2018. These tax changes, as well as the phantom tax change, and the rate reduction should be considered in the SFY 2018-2019 forecast.

The panel decided it would not make any assumptions of lost revenue based on the change to taxation of a step-up in basis, because the impact was too volatile.

Greg stated that the calculation of decreased revenue does not account for an increase in the tax base, and we are seeing a big tax base increase. Ross also stated that locking in tax reductions can have a negative effect on the economy and growth. The rate reduction is anticipated to be felt partially in 2018 and fully realized in 2019. DRA estimated losses of $27 million in SFY 2018 and $46 million in SFY 2019 from the 2015 plan, but those do not represent the incremental increase over SFY 2017 revenue.

Telus asked whether this indicated that the future rate reduction from 8.2% to 7.9% for Business Profits Tax, and from .72% to .695% for the Business Enterprise Tax, would also be "overcome" by expanded business activity. Greg suggested, and the panel agreed, that there is still forgone revenue due to the rate reduction, but it has so far been overcome by the increased activity. The panel agreed that DRA would put together a spreadsheet showing business tax GROWTH at 2.5% in SFY 2018 and 1.8% in SFY 2019, which would then be reduced by an updated estimate of the impact of the rate reductions, by $7.6 million each year for the expensing deductions, and by $5 million in the first year due to the reduction in the R&D tax credit. The second year, the $5 million credit is incorporated into the 1.8% tax growth rate.

The panel discussed the volatility of Interest and Dividends (I&D) - down 9.3% from 2015. It has had an unstable growth rate as it grew 21.4% from 2014 to 2015, but the historical average is 3.7%. Russ anticipates a 1.5% growth rate, whereas Ross said he sees a growth rate between 1.5-3%, based on I&D's tie to inflation. The committee agreed on keeping a flat growth rate for 2017, and 2% for 2018 and 2019 based on the Fed's goal of 2% inflation.

The Communications Tax has averaged -6.4% since 2011. The committee agreed on the goal to keep it around -5-5.5% for the upcoming year.

Related to the Real Estate Transfer Tax (RET) the historical average has been 10.4% growth year over year. The committee agreed upon 10% growth in 2017, and 5% in both 2018 and 2019. It was further stated that HB 1656 of the prior year could spur further business activity, but would have minimal revenue impact.

The committee agreed to hold the projection for revenue from Utilities Tax at $6 Million. Related to the Utilities Property Tax it was agreed that a projected growth rate of 6% for 2017 would be consistent with historical averages. It is anticipated that with the changes taking place at Merrimack and Schiller there will be very little effect on state revenue.

Gerard stated "Other" revenue projection might go down depending upon whether the Laconia property is sold in SFY 2017. Abandon property revenue was under budgeted in both SFY 2015 and 2016 and should probably be increased. Meredith mentioned that some of federal recoveries will have to go up due to the increase in retiree health. Gerard also noted that for the first time the State has a dedicated position for Indirect Cost recoveries, and that could increase compliance. Volkswagen will also be paying $35 million to the state, but much of this amount will be going to programs, and $4.6 Million will be going into the General Fund. This limits the potential for this category to reach the $75 Million benchmark.

The committee believes that the revenue from the Tobacco Tax is going to stay flat for the next three years. The historical average is growth of .3%. How the DOJ acts related to decisions about premium cigars, and the Connecticut rate increase could have an influence on revenue for the state.

Related to Liquor Commission revenues the committee has agreed upon a flat growth rate for 2017 – removed for the sale of the Salem store in SFY 2016, and 1.5% for both 2018 and 2019 respectively.

The meeting adjourned at 11:00am. The panel will meet next at the call of the chair.