Questions Studied

What is the likelihood of a budget deficit in the next fiscal biennium?

What is the economic impact of a response that further increases the tax burden on New Hampshire businesses?
Problem:
  Increased education funding
  Increased likelihood of budget deficit

Response to date has included:
  Increased business taxation
  Doubled business share of education funding
Background

State Grants for Education Aid to New Hampshire Communities

(Millions $)

State Fiscal Years

1999 2000 2001 2002 2003

$100 $409 $408 $434 $451
State's Grants' Share of an Adequate Education

Percent of Adequacy Funded by the State

Percent of New Hampshire Residents
State Grants Disbursed to Cities and Towns
Business Tax Share Doubled this Biennium

2000-2001

Total
$817 Million

16%
BET/BPT
$130 Million

2002-2003

Total
$885 Million

33%
BET/BPT
$292 Million

Background
State Grants Disbursed to Cities and Towns
Business Tax Share Doubled this Biennium
Background

Business Tax Collections
(BET and BPT)

Fiscal Years

(Millions $)


$239 $258 $317 $354 $444 $430
BET has risen 300% in four years

At 8.5%, BPT among highest in nation

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPT (with BET credit)</td>
<td>7.0%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>BET</td>
<td>.25%</td>
<td>.25%</td>
<td>.50%</td>
<td>.75%</td>
</tr>
</tbody>
</table>
Problem:
Deficit continues to grow

Response:
Will business taxation be increased again?
What is the economic impact of that increase?
Annual Deficits Continue to Grow

Background

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions ($)</td>
<td>-$23</td>
<td>-$60</td>
<td>-$91</td>
<td>-$95</td>
</tr>
</tbody>
</table>
What is the economic impact of increasing business taxation by $100 million?

Business Taxes Defined:

1. Business Profits Tax -- BPT
2. Business Enterprise Tax -- BET
3. BET Credit against BPT
Repeal of the BET Credit

= 

BPT Increase to 12%
Approach

Business Taxes $

$ Return on Investment
Approach

- Econometric Model of New Hampshire Economy (REMI)
  
  - Simulate three different CY 2003 $100 million increases in business taxation that remain in effect for 10 years

  - Results reported as differences from a 10-year control forecast

- Sensitivity analysis to different control forecasts and to alternative models and methodologies
$100 Million New Revenue in 2003
Estimated Rate Increases on Business Taxes

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Rate Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>A    BPT Rate Increase only</td>
<td>Increase from 8.5% to 12%</td>
</tr>
<tr>
<td>Repeal of BET Credit only</td>
<td>Equivalent to Repeal of the Credit</td>
</tr>
<tr>
<td>B    BET Rate Increase only</td>
<td>Increase from .75% to 1.2%</td>
</tr>
<tr>
<td>C    Rate Increase on BPT, Partial Repeal of</td>
<td>BPT: 8.5% to 10.3% • BET: .75% to 1%</td>
</tr>
<tr>
<td>Credit, Rate Increase on BET</td>
<td></td>
</tr>
</tbody>
</table>
## Modeling $100 Million Business Tax Increase

<table>
<thead>
<tr>
<th>Business Tax Increase Scenario</th>
<th>Capital Cost Increase (Basis Points)</th>
<th>Labor Cost Increase (Basis Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A BPT Tax Increase/ Repeal of the Credit</td>
<td>48</td>
<td>0</td>
</tr>
<tr>
<td>B BET Tax Increase</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>C BPT/Repeal/BET</td>
<td>29</td>
<td>15</td>
</tr>
</tbody>
</table>
Variation Across Scenarios

- BPT increase/Repeal of Credit (Scenario A) more negative impact in first couple of years as compared to BET increase only

- Negative Impacts from BET (Scenario B) accelerate more rapidly

- Reductions in Investment and in Construction Jobs larger over forecast period for Scenario A as compared to Scenario B
SELECT GRAPHICS

Scenario C
$100 Million Business Tax Increase
Economic Impacts

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>First Year</th>
<th>10th Year</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>-1,112</td>
<td>-1,989</td>
<td>-16,580</td>
</tr>
<tr>
<td>Household Earnings *</td>
<td>-$45</td>
<td>-$82</td>
<td>-$670</td>
</tr>
<tr>
<td>Sales*</td>
<td>-$110</td>
<td>-$266</td>
<td>-$2,003</td>
</tr>
<tr>
<td>Gross State Product *</td>
<td>-$63</td>
<td>-$156</td>
<td>-$1,162</td>
</tr>
<tr>
<td>Investment *</td>
<td>-$93</td>
<td>-$116</td>
<td>-$1,084</td>
</tr>
</tbody>
</table>

*In Millions 2002$
Key Findings

$100 Million Business Tax Increase
Annual Job Losses
Key Findings

$100 Million Business Tax Increase
Annual Percentage Job Losses
Key Findings

$100 Million Business Tax Increase
Additional Annual Job Losses in Manufacturing
(10-year cumulative = -1,183)
$100 Million Business Tax Increase
Additional Annual Job Losses in Construction
(10-year cumulative = -2,294)
Key Findings

$100 Million Business Tax Increase
Additional Annual Job Losses
in Transportation & Public Utilities
(10-year cumulative = -572)
Key Findings

$100 Million Business Tax Increase
Additional Annual Job Losses in
Finance & Insurance & Real Estate
(10-year cumulative = -731)
Key Findings

$100 Million Business Tax Increase
Additional Annual Job Losses in Retail Trade
(10-year cumulative = -3,592)
$100 Million Business Tax Increase
Additional Annual Job Losses in Wholesale Trade
(10-year cumulative = -738)
$100 Million Business Tax Increase
Additional Annual Job Losses in Services
(10-year cumulative = -6,072)
Key Findings

$100 Million Business Tax Increase
Annual Loss of Household Earnings
(2002$)
Key Findings

$100 Million Business Tax Increase
Annual Loss of Gross State Product
(2002$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loss (2002$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$160,000,000</td>
</tr>
<tr>
<td>2004</td>
<td>$120,000,000</td>
</tr>
<tr>
<td>2005</td>
<td>$80,000,000</td>
</tr>
<tr>
<td>2006</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>2007</td>
<td>$0</td>
</tr>
<tr>
<td>2008</td>
<td>$0</td>
</tr>
<tr>
<td>2009</td>
<td>$0</td>
</tr>
<tr>
<td>2010</td>
<td>$0</td>
</tr>
<tr>
<td>2011</td>
<td>$0</td>
</tr>
<tr>
<td>2012</td>
<td>$0</td>
</tr>
</tbody>
</table>
Key Findings

$100 Million Business Tax Increase
Annual Percentage Loss of Gross State Product
$100 Million Business Tax Increase
Annual Sales Losses
(2002$)
### Key Findings

**$100 Million Business Tax Increase**

**Fiscal Impacts**

($2002 Millions)

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>2003</th>
<th>10-year Cumulative 2003-2012</th>
<th>Average Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Revenue Changes Due to Reduction in Economic Activity</td>
<td>-$9</td>
<td>-$136</td>
<td>-$14</td>
</tr>
<tr>
<td>Local Revenue Changes Due to Reduction in Economic Activity</td>
<td>-$2</td>
<td>-$65</td>
<td>-$6</td>
</tr>
</tbody>
</table>
$100 million increase in business taxation reduces job growth over the next 10 years by 16,580, or 22%.
$100 million increase in business taxation reduces investment over the next 10 years by $1.1 billion, or 15%.
## Key Findings

### Examples of Large Job Losses:

<table>
<thead>
<tr>
<th>Company</th>
<th>Job Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlin/Gorham Mills</td>
<td>850</td>
</tr>
<tr>
<td>General Electric</td>
<td>137</td>
</tr>
<tr>
<td>Flextronics</td>
<td>324</td>
</tr>
<tr>
<td>Hitchner</td>
<td>344</td>
</tr>
<tr>
<td>Teradyne</td>
<td>350</td>
</tr>
</tbody>
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