

Budget Deficits and Business Taxes in New Hampshire

**Presentation of Study Results
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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?

Background

Problem:

- Increased education funding

- Increased likelihood of budget deficit

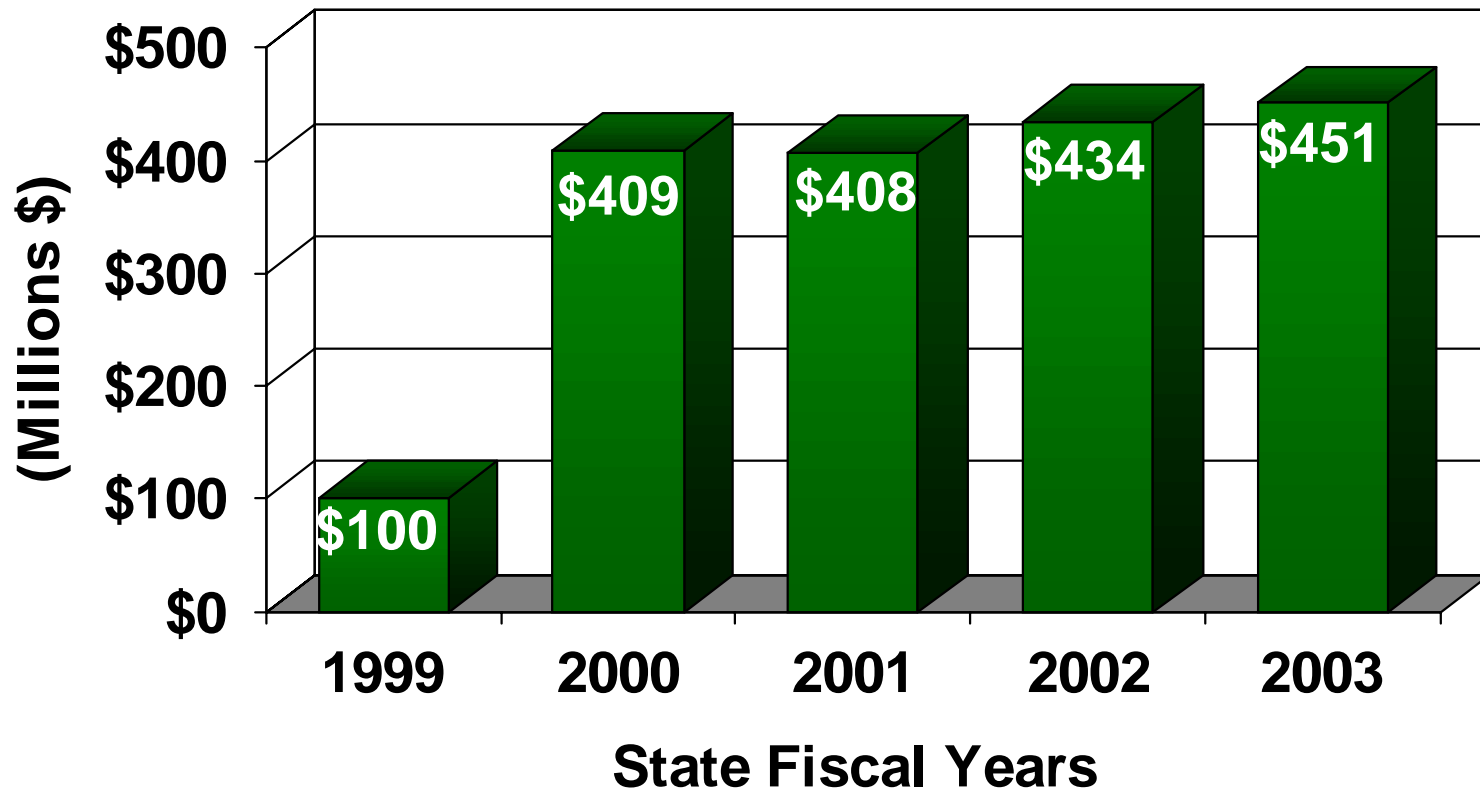
Response to date has included:

- Increased business taxation

- Doubled business share of education funding

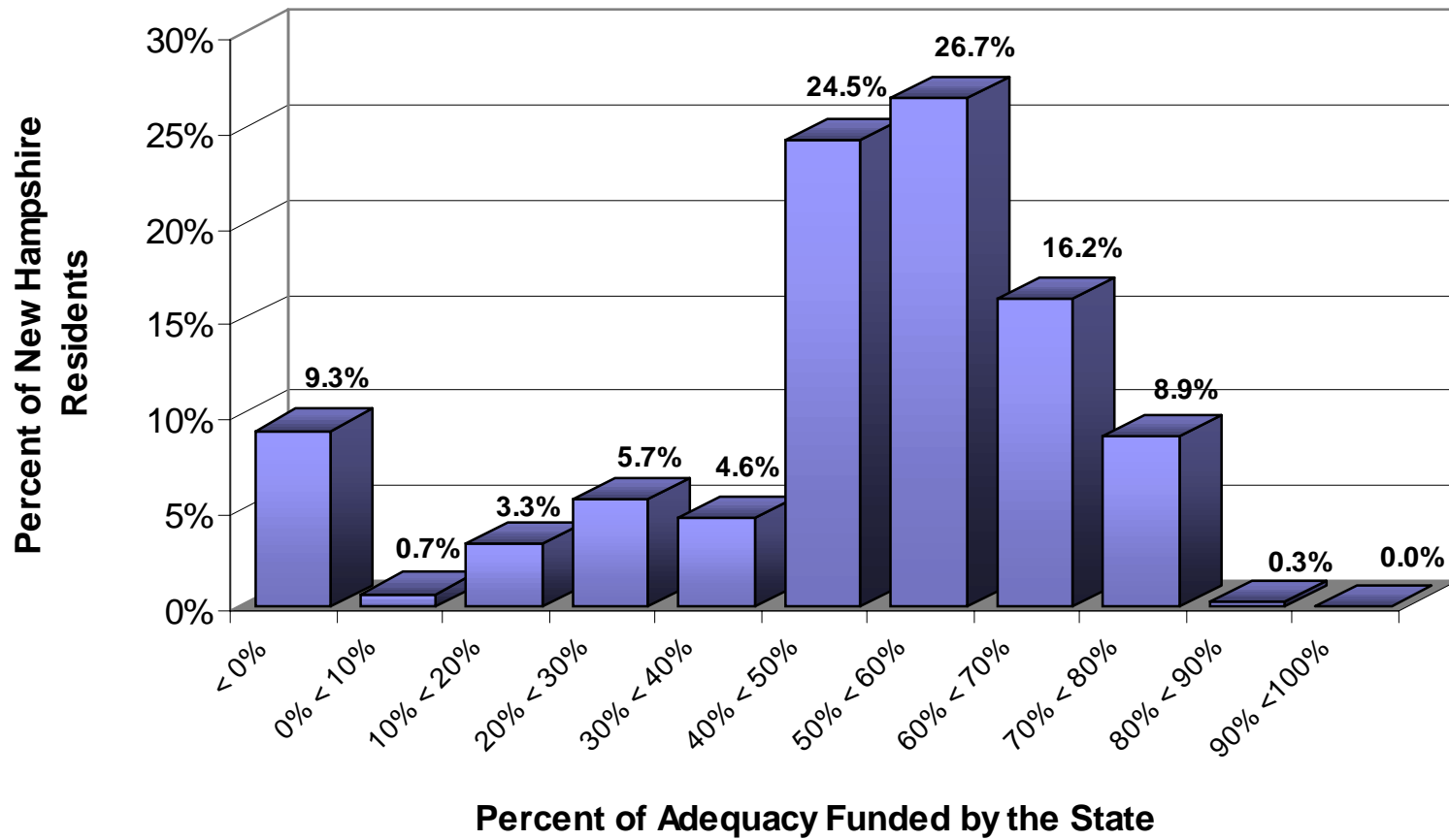
Background

State Grants for Education Aid to New Hampshire Communities



Background

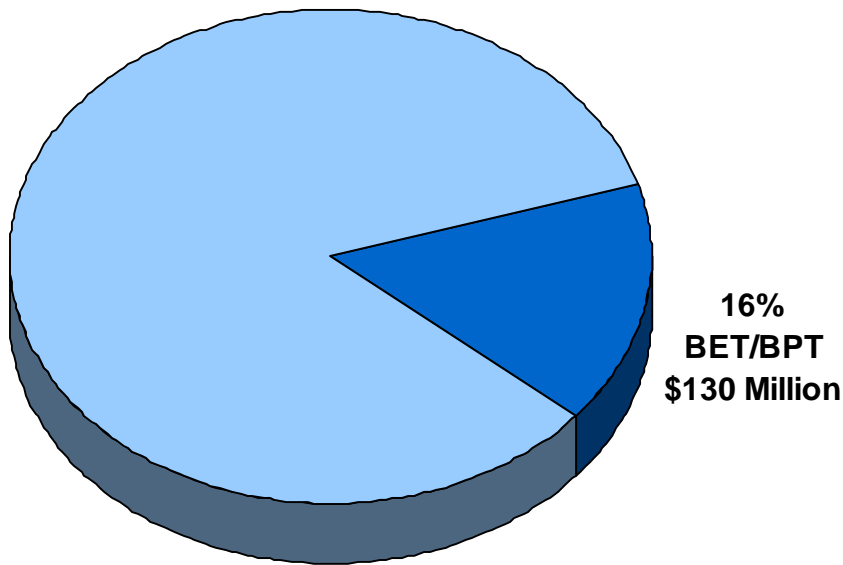
State's Grants' Share of an Adequate Education



Background

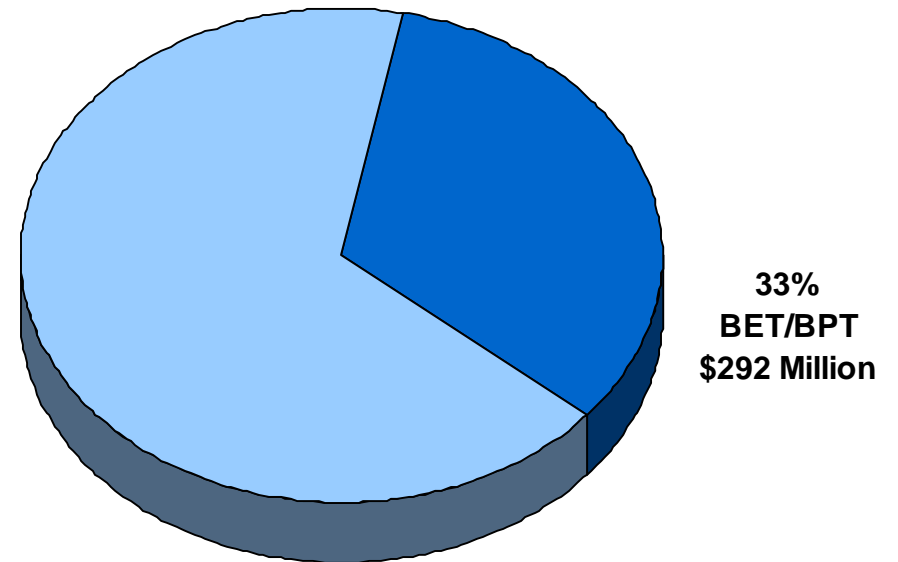
State Grants Disbursed to Cities and Towns Business Tax Share Doubled this Biennium

2000-2001



Total
\$817 Million

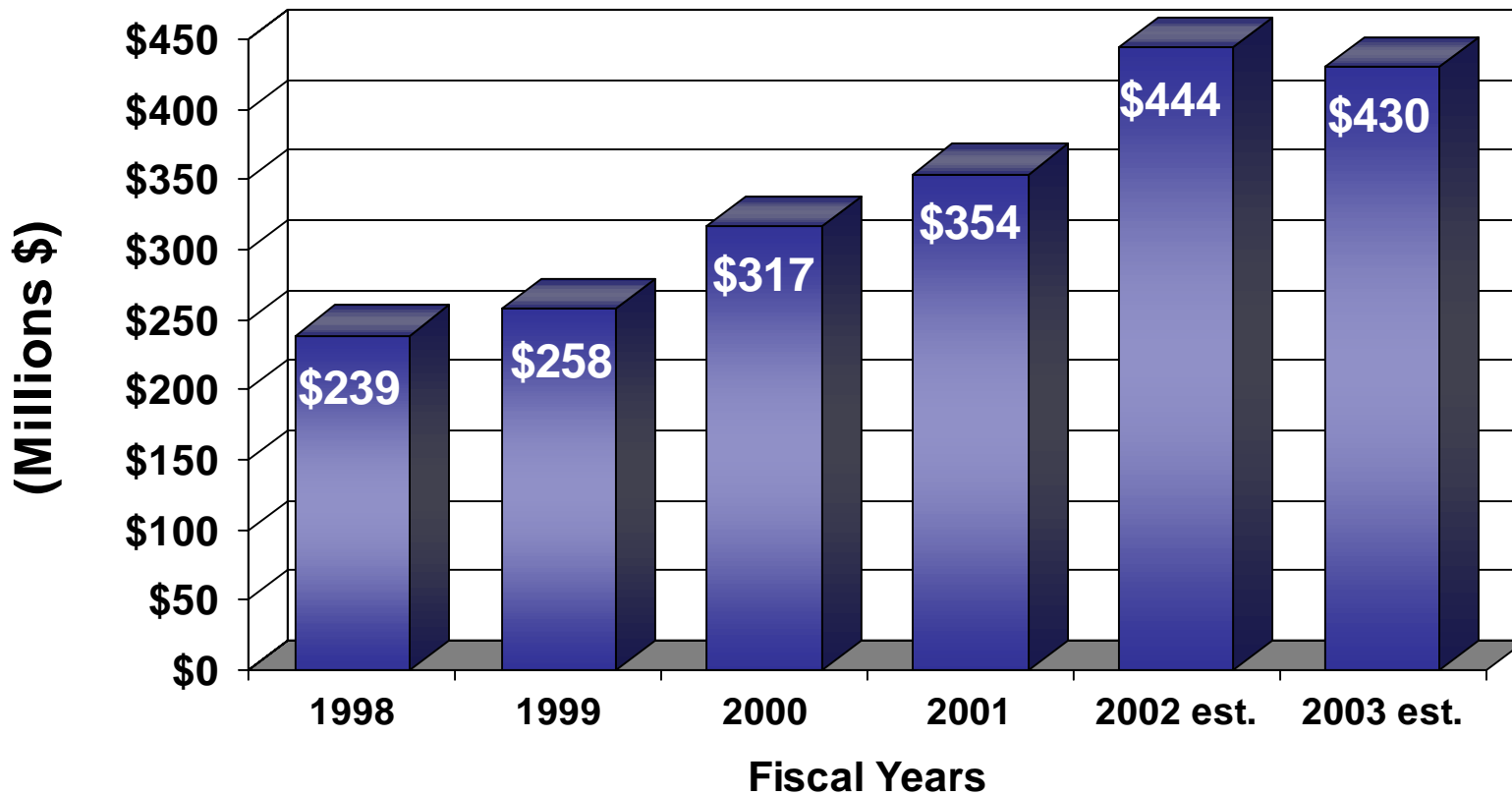
2002-2003



Total
\$885 Million

Background

Business Tax Collections (BET and BPT)



Background

BET has risen 300% in four years

At 8.5%, BPT among highest in nation

New Hampshire Business Tax Rates

Fiscal Year

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
BPT (with BET credit)	7.0%	8.0%	8.0%	8.5%
BET	.25%	.25%	.50%	.75%

Background

Problem:

Deficit continues to grow

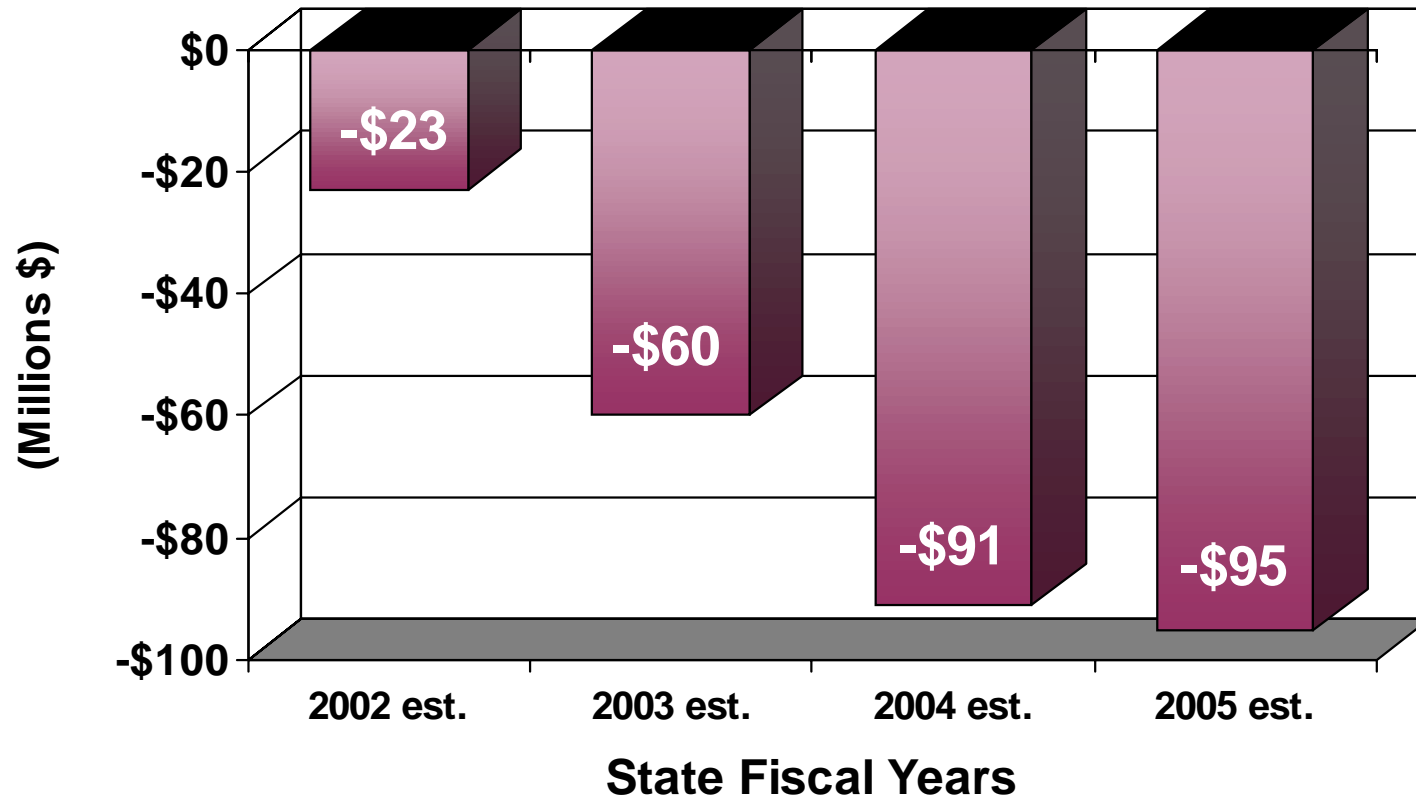
Response:

Will business taxation be increased again?

What is the economic impact of that increase?

Background

Annual Deficits Continue to Grow



What is the economic impact of increasing business taxation by \$100 million?

Business Taxes Defined:

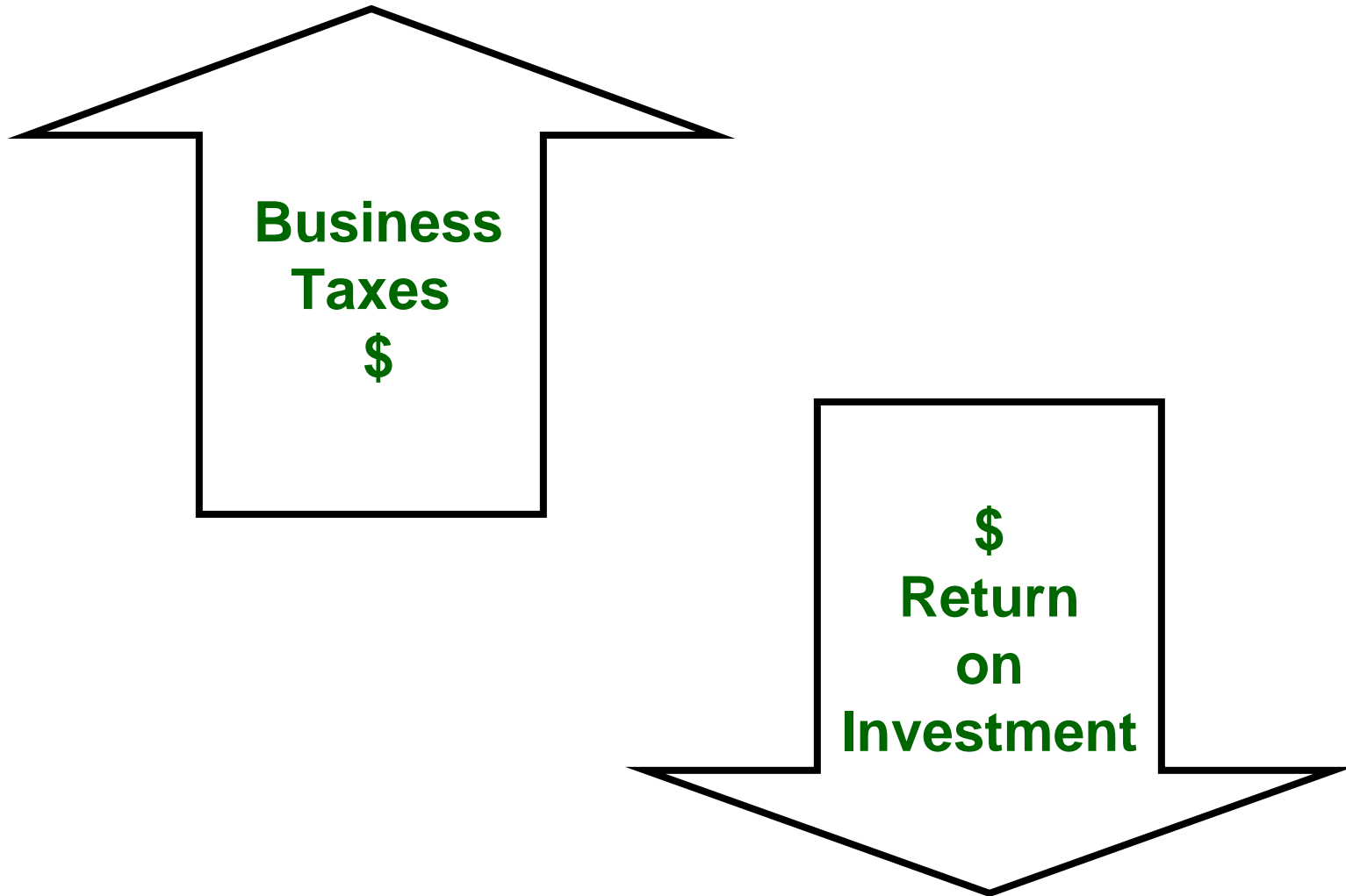
1. Business Profits Tax -- BPT
2. Business Enterprise Tax -- BET
3. BET Credit against BPT

Repeal of the BET Credit

=

BPT Increase to 12%

Approach



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

Approach

\$100 Million New Revenue in 2003 Estimated Rate Increases on Business Taxes

<u>Scenarios</u>	<u>Rate Increases</u>
A BPT Rate Increase only Repeal of BET Credit only	Increase from 8.5% to 12% Equivalent to Repeal of the Credit
B BET Rate Increase only	Increase from .75% to 1.2%
C Rate Increase on BPT, Partial Repeal of Credit, Rate Increase on BET	BPT: 8.5% to 10.3% • BET: .75% to 1%

Approach

Modeling \$100 Million Business Tax Increase

		<u>Model Inputs</u>	
<u>Business Tax Increase Scenario</u>		<u>Capital Cost Increase (Basis Points)</u>	<u>Labor Cost Increase (Basis Points)</u>
A	BPT Tax Increase/ Repeal of the Credit	48	0
B	BET Tax Increase	10	30
C	BPT/Repeal/BET	29	15

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

Key Findings

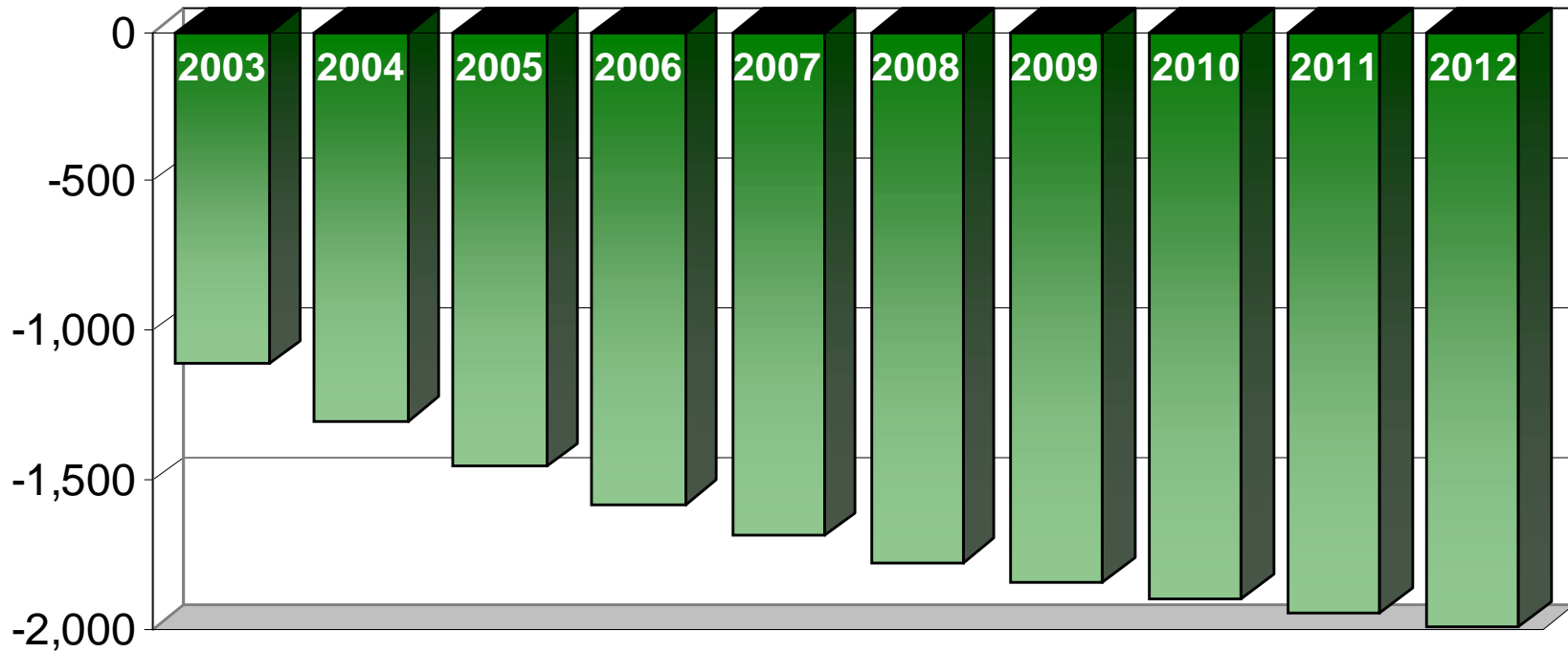
\$100 Million Business Tax Increase Economic Impacts

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

*In Millions 2002\$

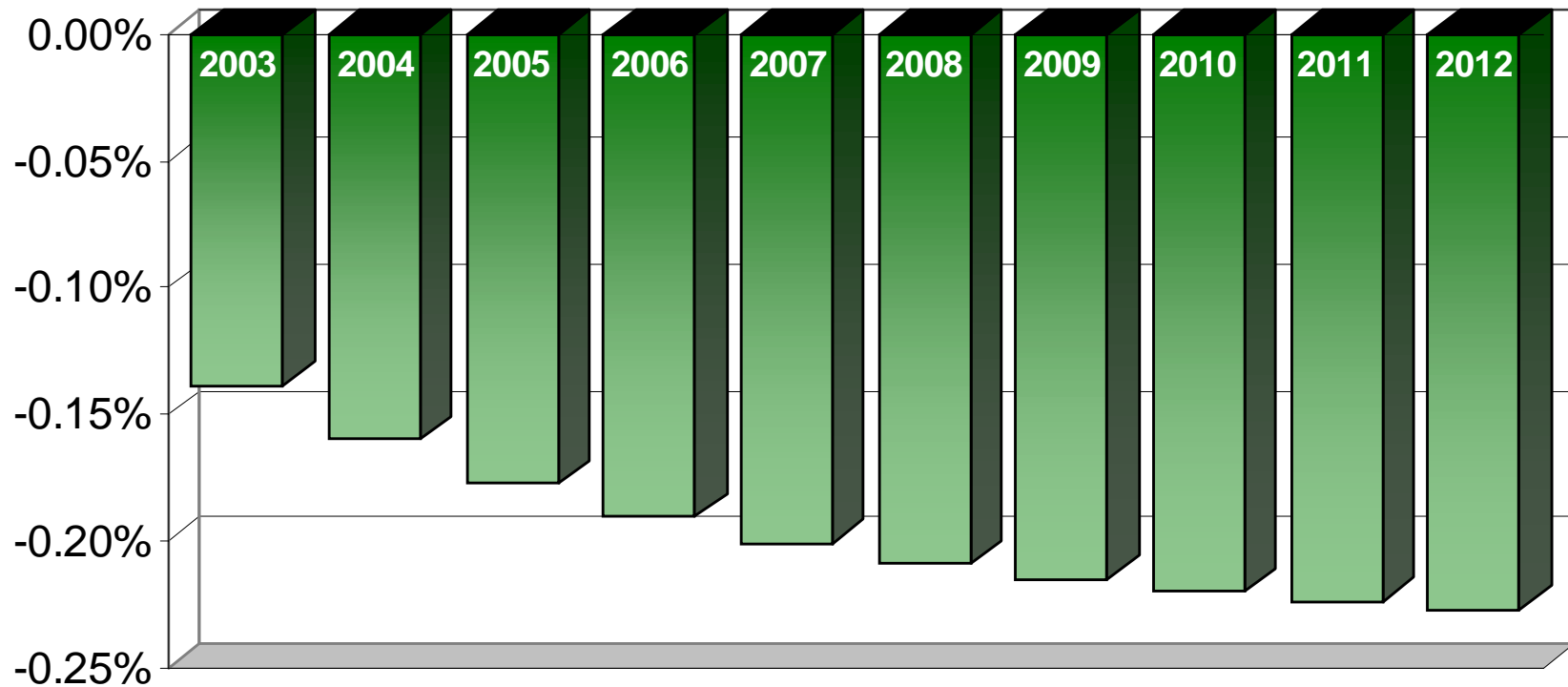
Key Findings

\$100 Million Business Tax Increase Annual Job Losses



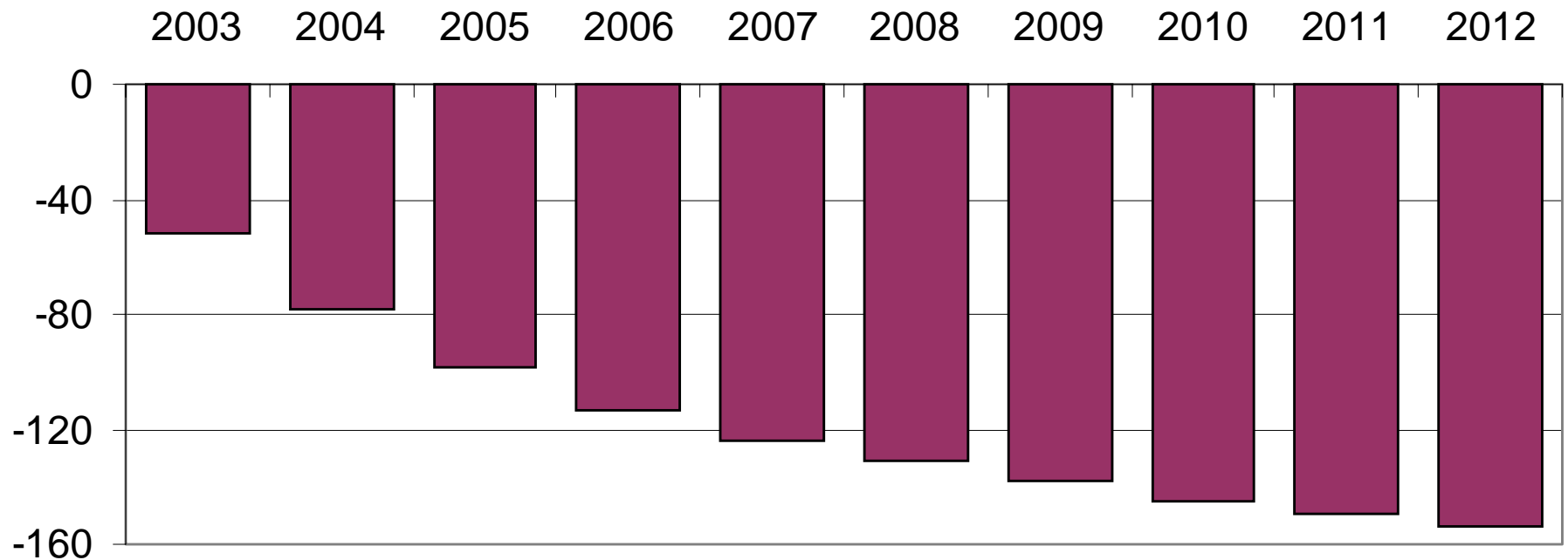
Key Findings

\$100 Million Business Tax Increase Annual Percentage Job Losses



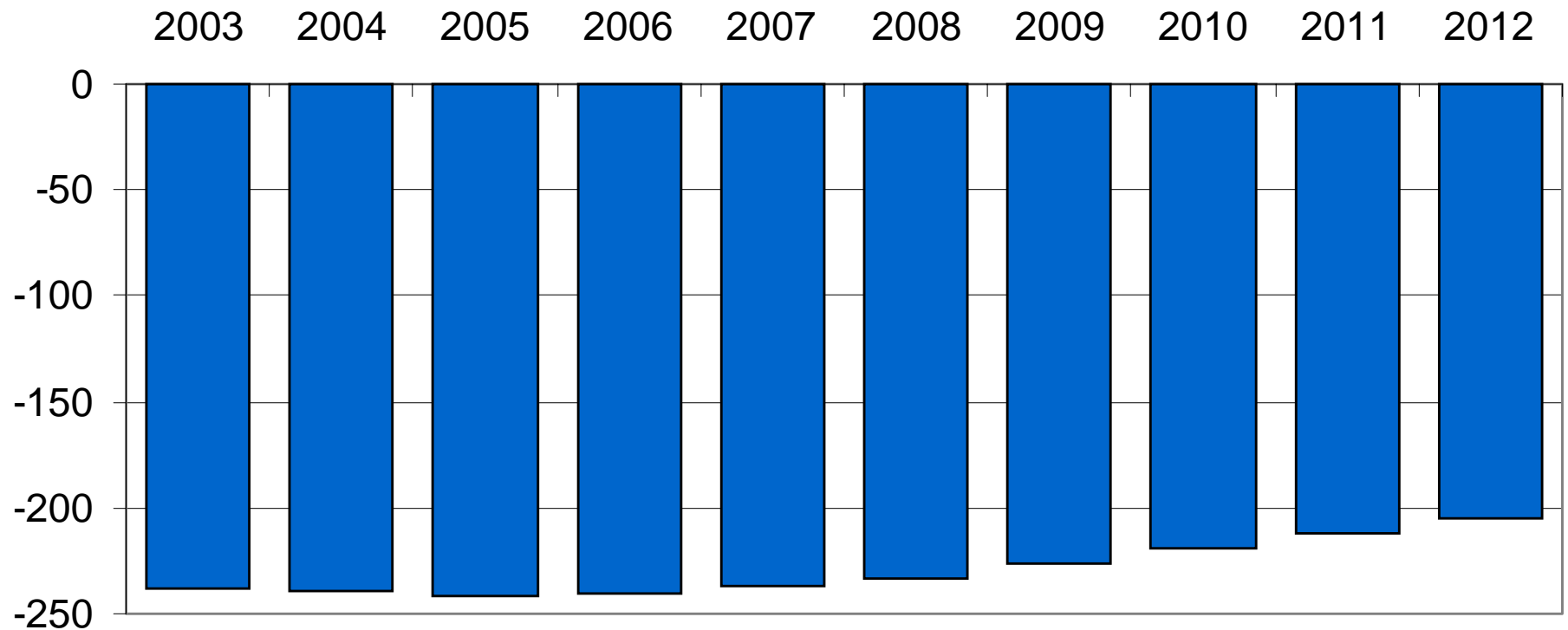
Key Findings

\$100 Million Business Tax Increase Additional Annual Job Losses in Manufacturing (10-year cumulative = -1,183)



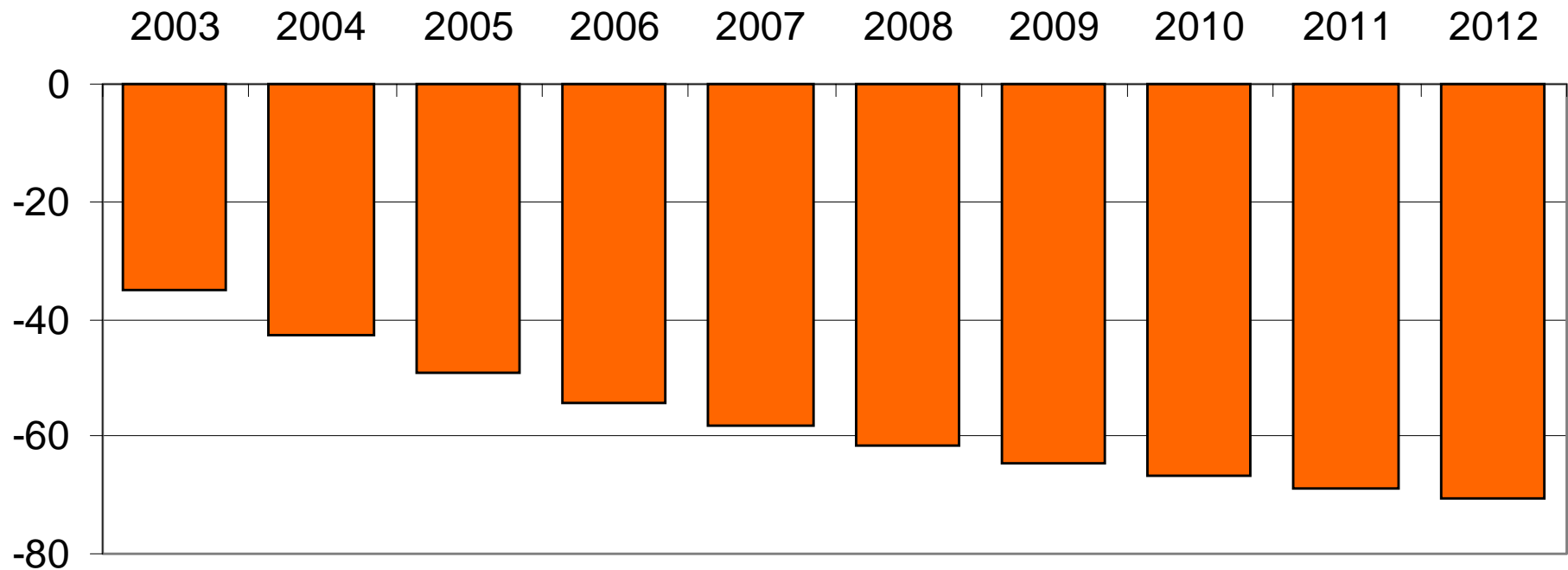
Key Findings

\$100 Million Business Tax Increase Additional Annual Job Losses in Construction (10-year cumulative = -2,294)



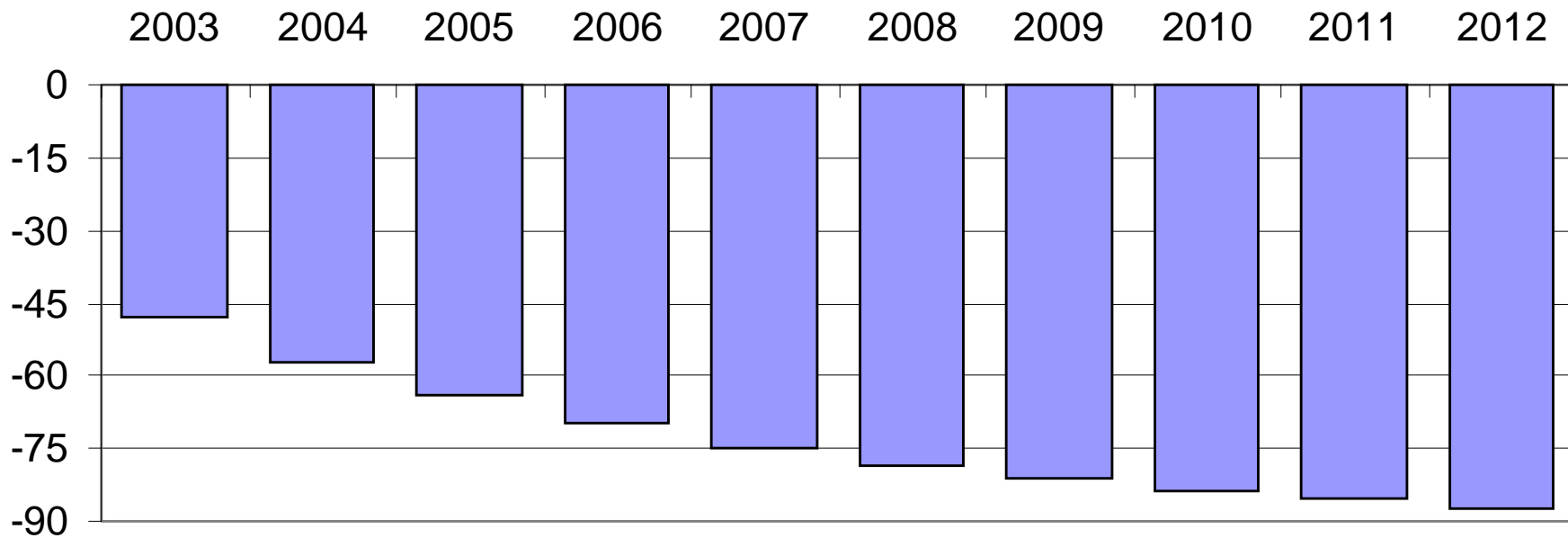
Key Findings

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



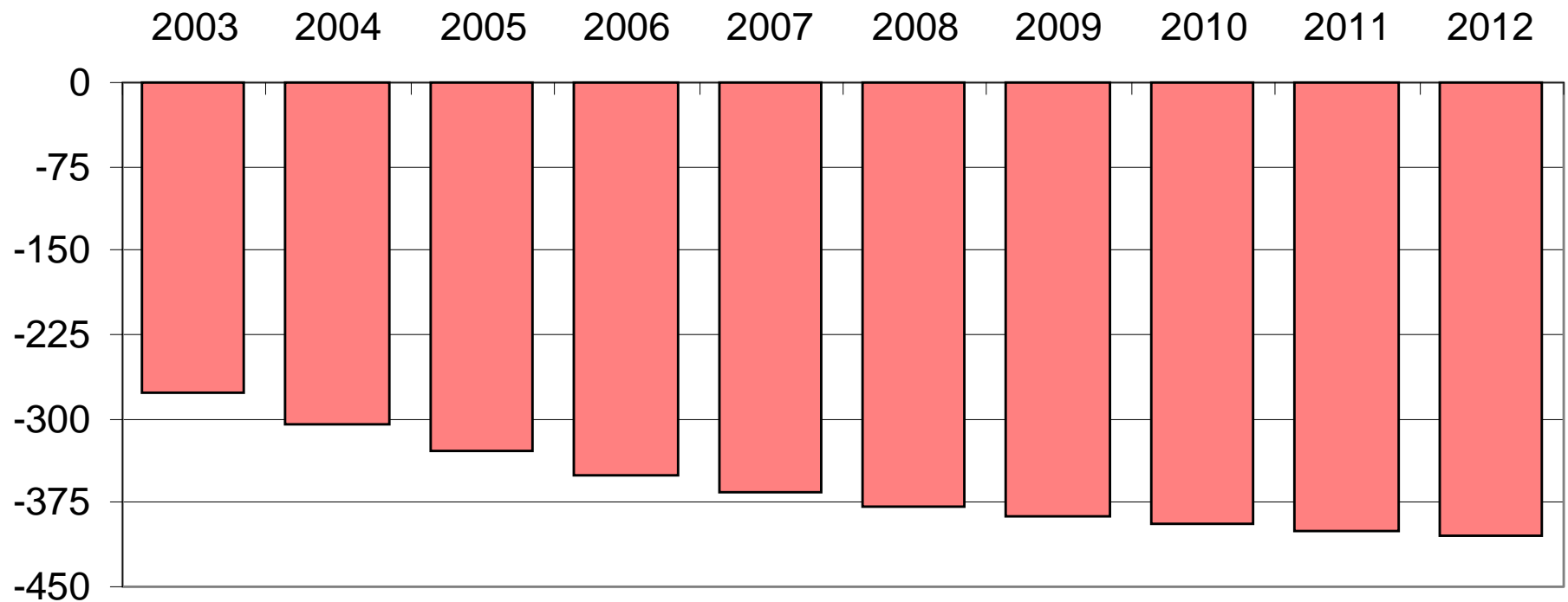
Key Findings

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



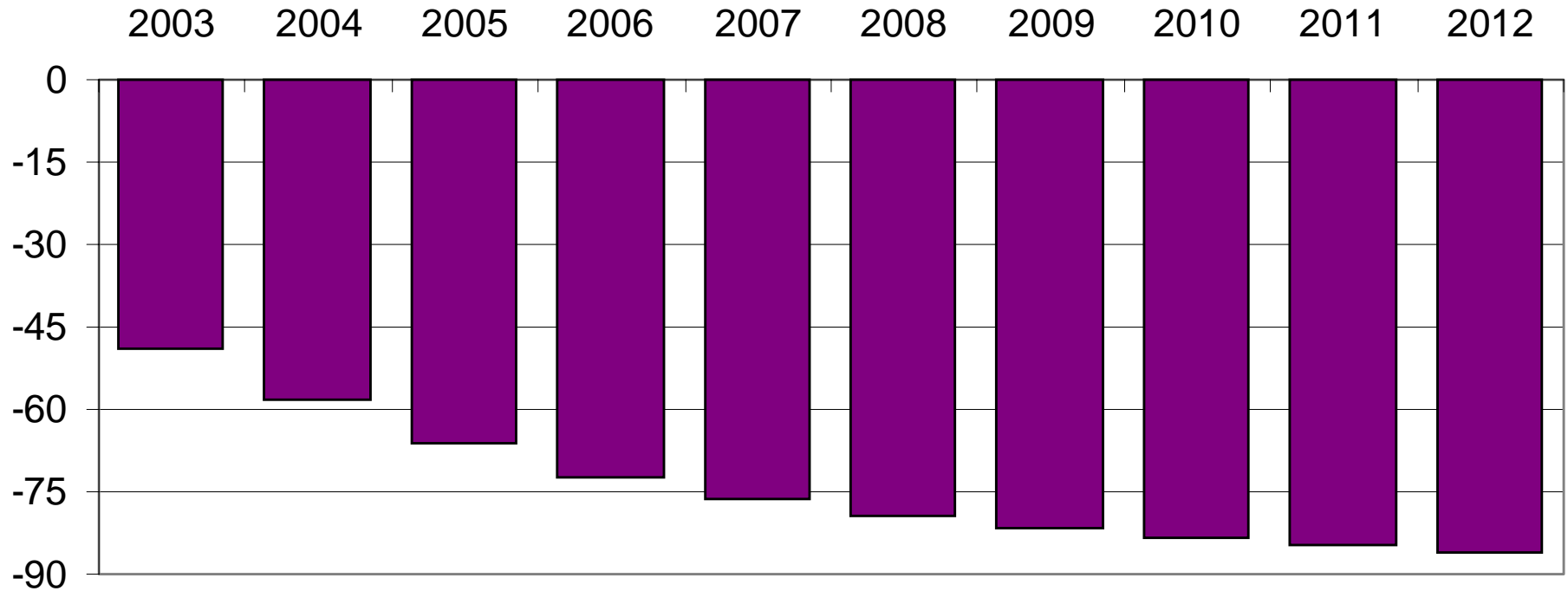
Key Findings

\$100 Million Business Tax Increase Additional Annual Job Losses in Retail Trade (10-year cumulative = -3,592)



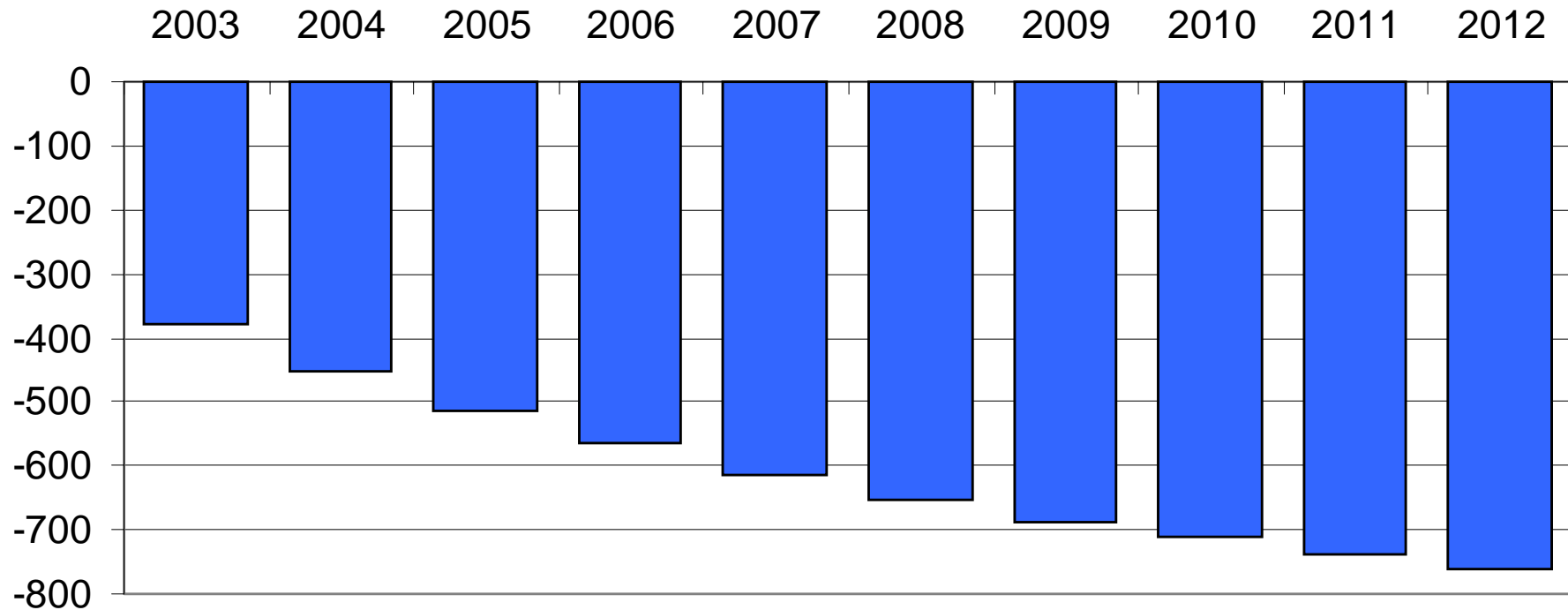
Key Findings

\$100 Million Business Tax Increase Additional Annual Job Losses in Wholesale Trade (10-year cumulative = -738)



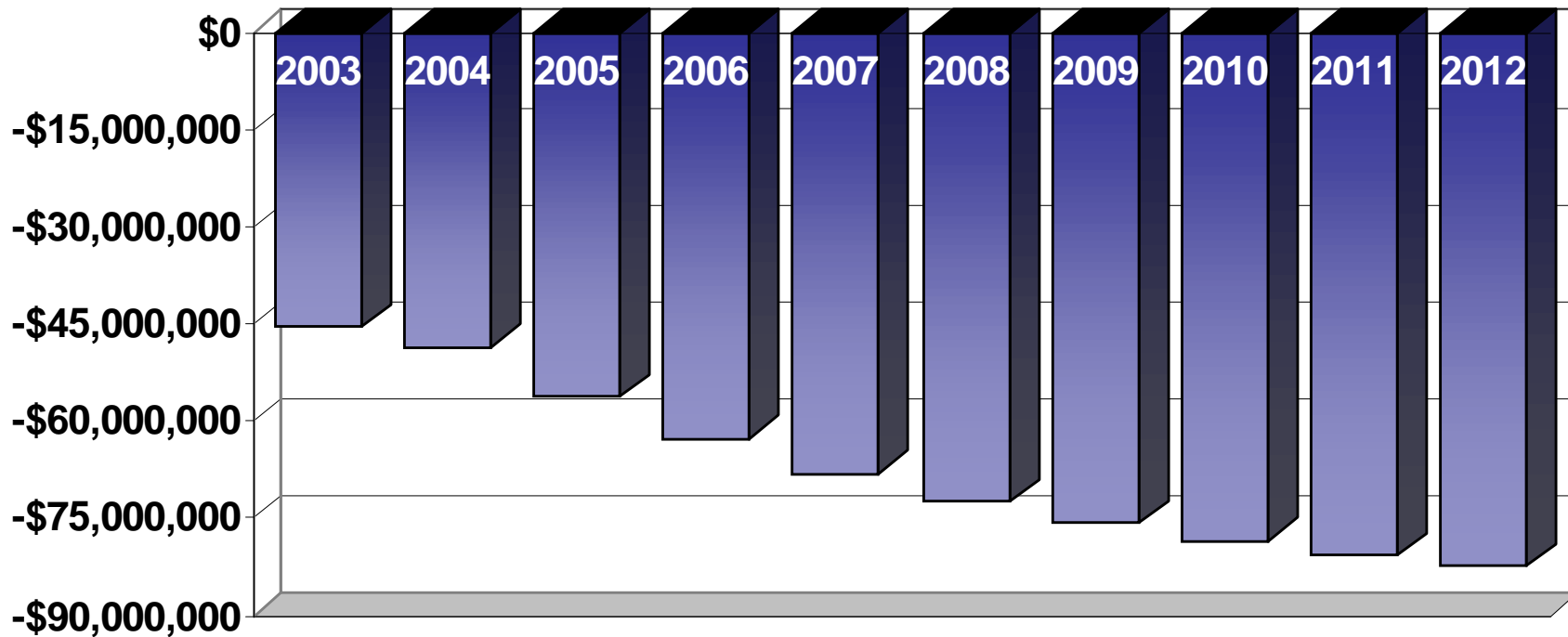
Key Findings

\$100 Million Business Tax Increase Additional Annual Job Losses in Services (10-year cumulative = -6,072)



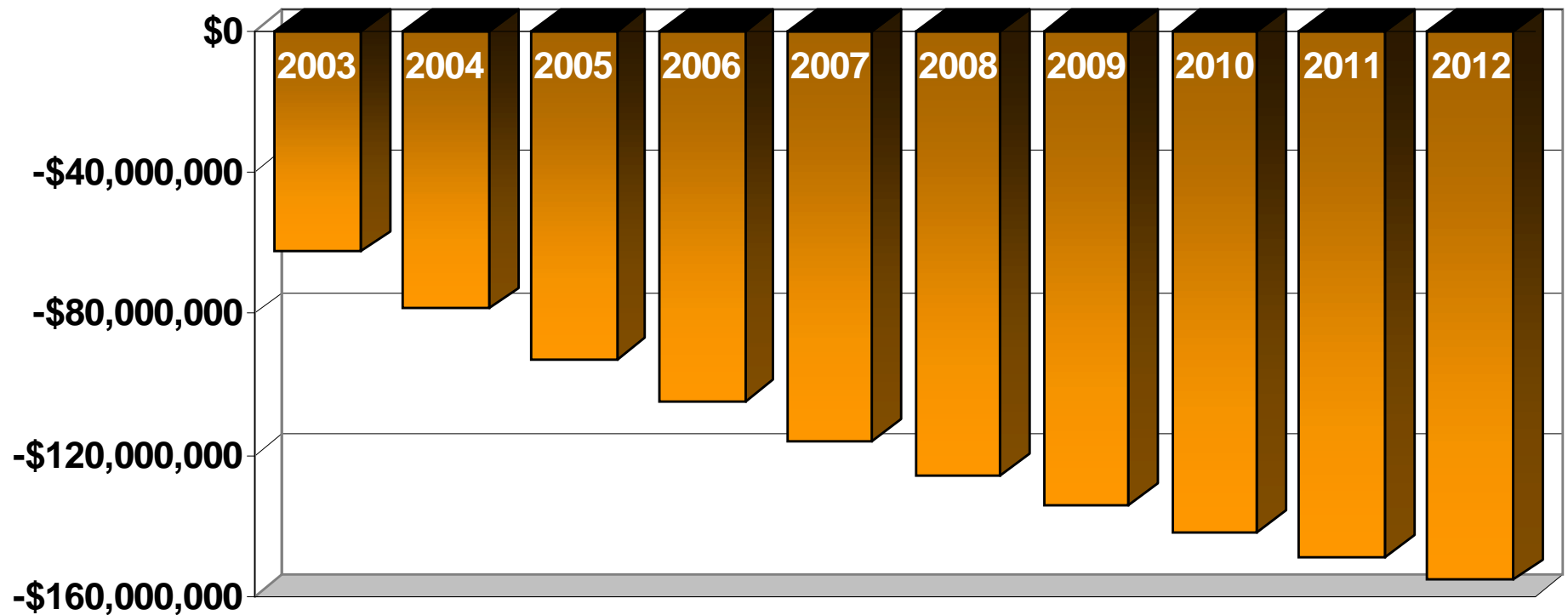
Key Findings

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



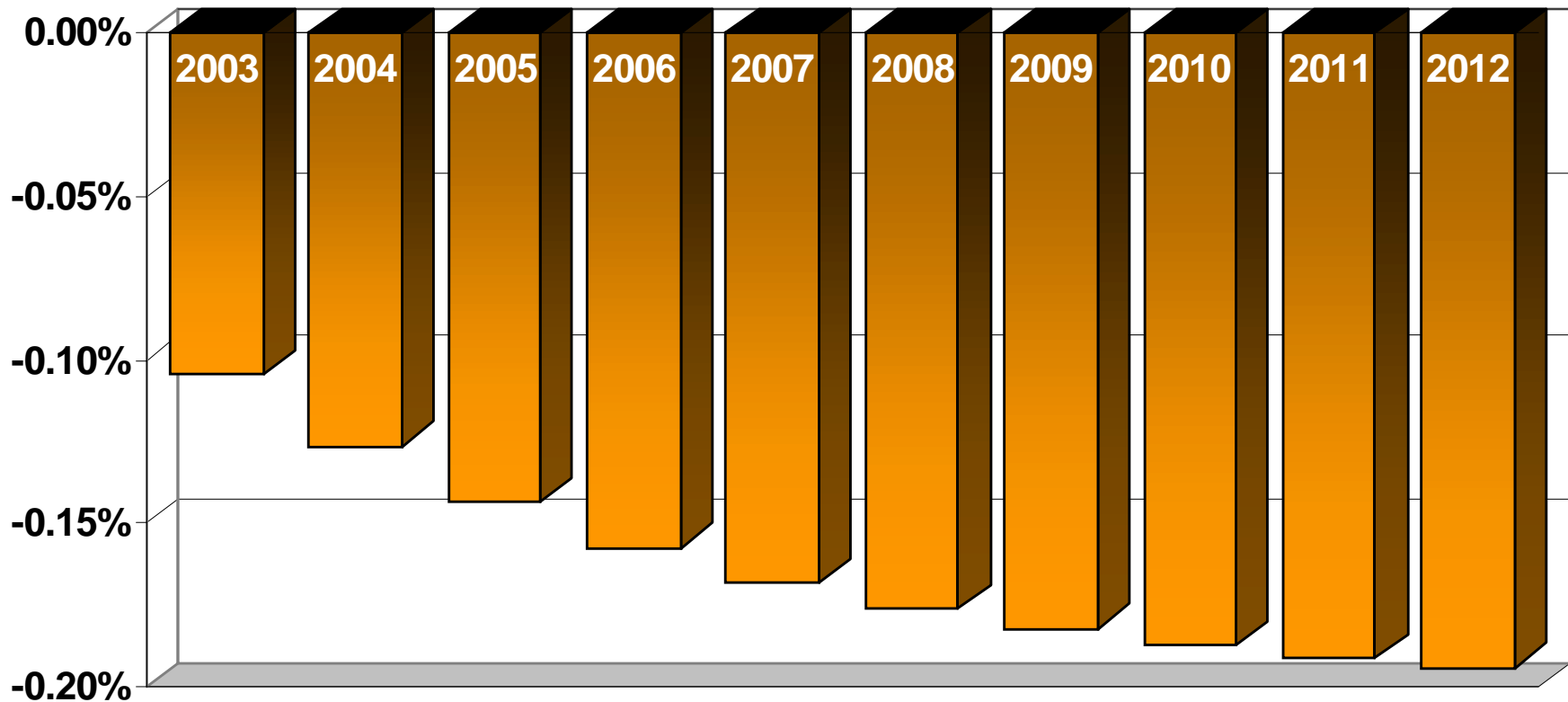
Key Findings

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



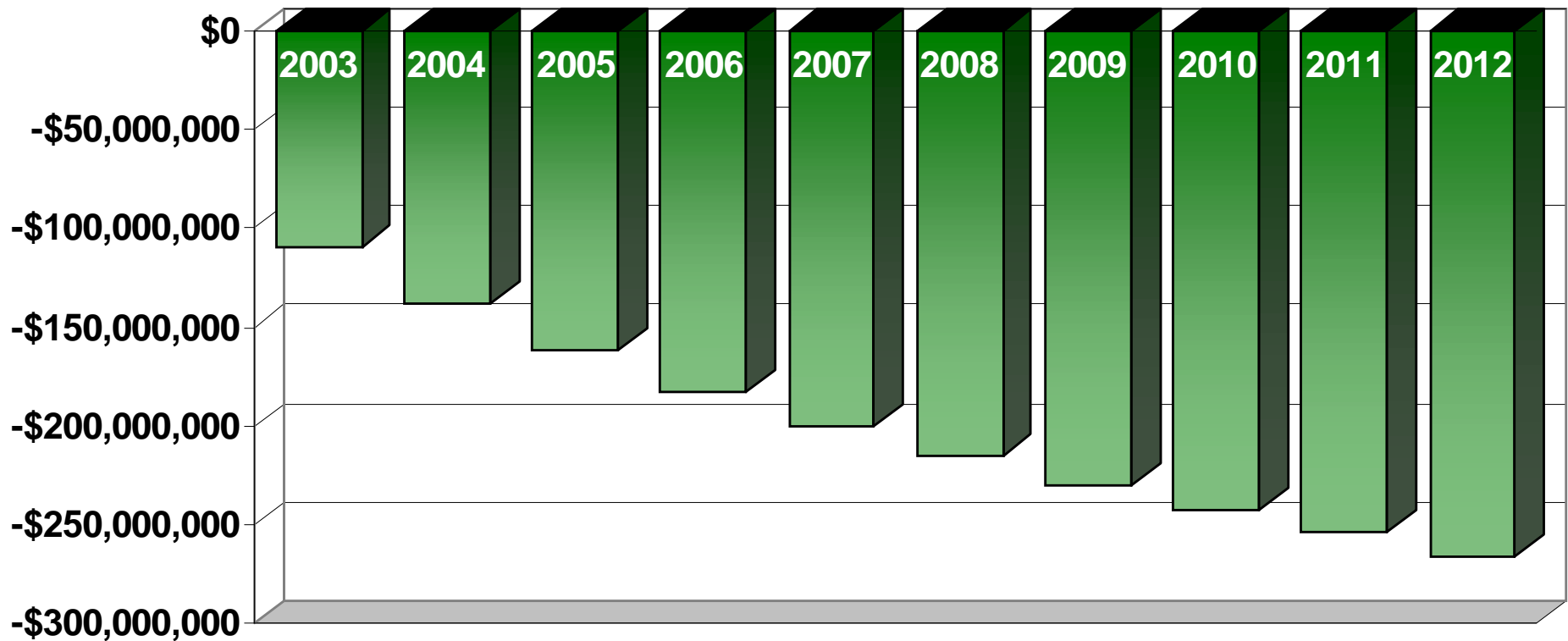
Key Findings

\$100 Million Business Tax Increase Annual Percentage Loss of Gross State Product



Key Findings

\$100 Million Business Tax Increase Annual Sales Losses (2002\$)



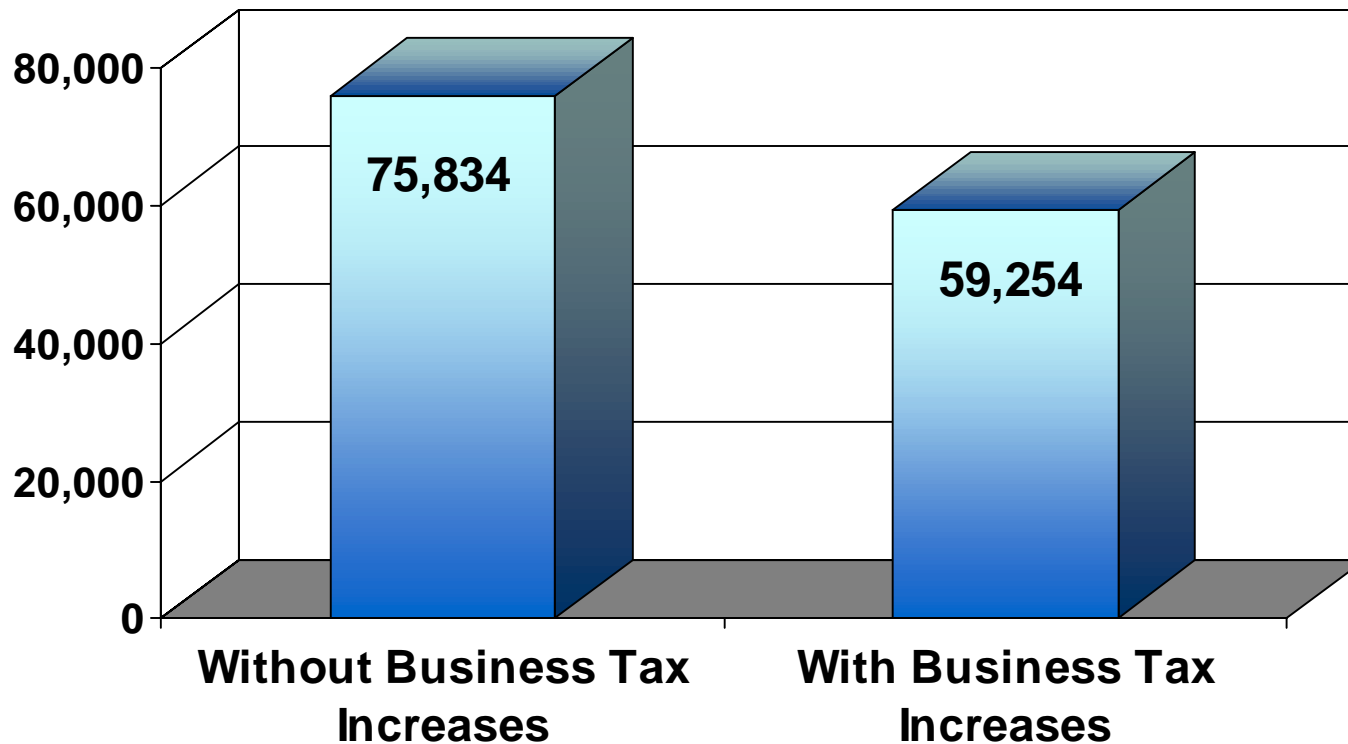
Key Findings

\$100 Million Business Tax Increase Fiscal Impacts (\$2002 Millions)

Economic Indicator	2003	10-year Cumulative 2003-2012	Average Annual
State Revenue Changes Due to Reduction in Economic Activity	-\$9	-\$136	-\$14
Local Revenue Changes Due to Reduction in Economic Activity	-\$2	-\$65	-\$6

Key Findings

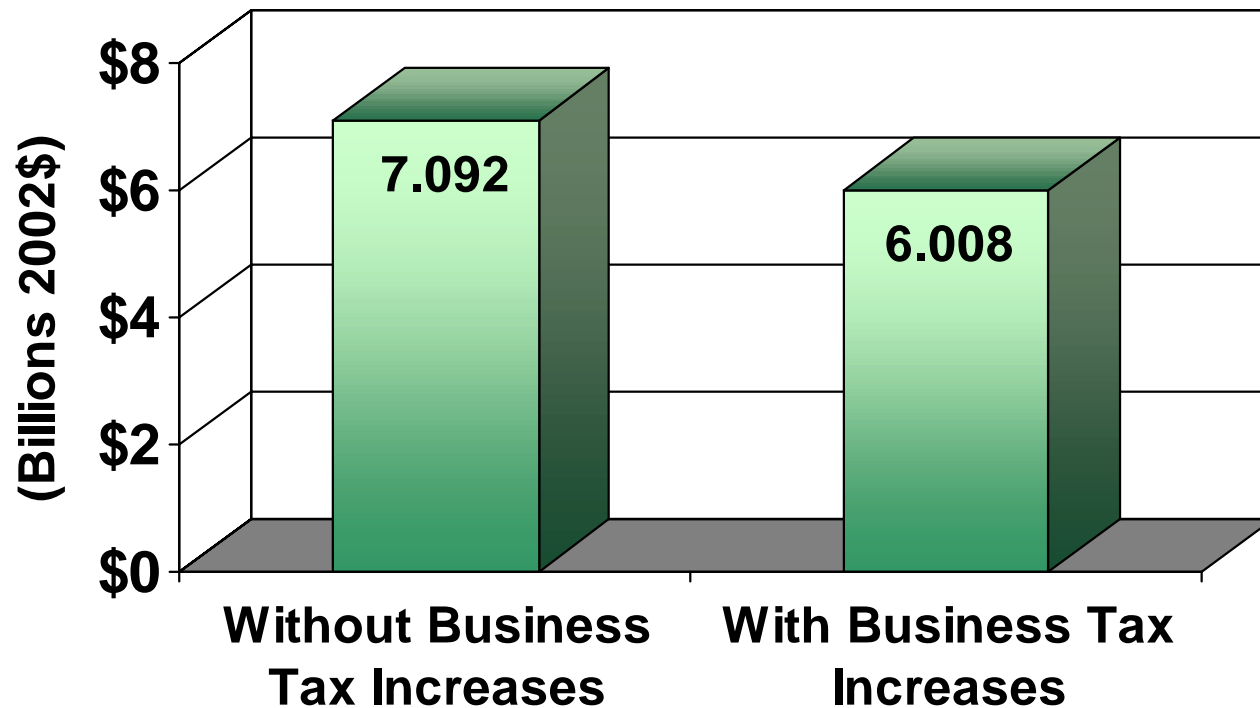
Changes in Employment (10-year Forecast Period)



\$100 million increase in business taxation reduces job growth over the next 10 years by 16,580, or 22%.

Key Findings

Changes in Investment (10-year Forecast Period)



\$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:

Berlin/Gorham Mills	850
General Electric	137
Flextronics	324
Hitchner	344
Teradyne	350