



The Retail Industry in New Hampshire: Myths, Realities And The Impacts of New Hampshire's Sales Tax Advantage

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Executive Summary

The purpose of this study is to help the public and policymakers in NH develop a more complete and accurate understanding of the retail industry in NH and the issues that must be considered when evaluating policies with the potential to affect the industry and the overall economic and fiscal health of the state. Fiscal pressures and an electorate demanding more austerity from government are forcing many states to reconsider fiscal policies that have contributed to slower economic and population growth in states. The prospect of some states becoming more competitive with New Hampshire makes developing a more complete understanding of the impacts of New Hampshire's lack of a general sales tax an important task, even as New Hampshire policymakers renew their commitment to fiscal restraint.

Prior analyses of retail sales tax proposals in NH have largely been limited to revenue estimates and employment impacts, while providing little insight into the dynamics of the retail industry in NH that might also inform fiscal policy debates regarding sales taxes. This study looks to increase public and policymaker understanding of the broader range of impacts that the retail industry and the lack of a general sales tax have on New Hampshire. One way to place a value on the impacts of the absence of a sales tax is to consider how the state's economy would be different if NH chose to adopt a retail sales tax, similar to all other states in the region. This report uses publicly available data from state and federal agencies to document the large but often mischaracterized role that the retail trade industry plays in the NH economy, on NH's labor market, and the impact of the retail industry on key state and local revenue sources and on the overall fiscal health of the state.

The study introduces a new economic indicator for the state by developing a method to estimate NH retail sales on a quarterly and annual basis. The study highlights evidence of the unique impact that an absence of a general sales tax (instead of just a lower rate than neighboring states), has on retail sales in states. Our analysis examines the labor market impacts of the retail industry on key demographic subgroups of NH's population based on factors such as age, educational attainment, school enrollment, and full or part-time labor force participation status, and compares the wages and salaries of retail employees with those of other industries for individuals with the same characteristics, to develop a more accurate assessment of the relative wages in the retail industry. The study improves upon prior estimates of sales tax revenue by using more detailed industry sales data by product lines within each retail sector and by type of customer (business, household, government). It estimates the impact that a general sales tax would have on major sources of state and local revenue, allowing for a more accurate assessment of the "net revenue" from a general sales tax.

Similar to prior studies of broad-based retail sales taxes in NH, the report forecasts the employment and income impacts of adoption of a retail sales tax. Finally, the report highlights the implications that a general sales tax in NH would have on the demand for commercial real estate and its impact on the property tax base and property tax payments of communities in the state.

Major Findings Include:

- States without a general sales tax attract cross border sales to a much greater degree than do states that simply have a lower-rate sales tax than neighboring states. There appears to be a special competitive advantage that “sales tax-free” states enjoy.
- NH has the highest concentration of retail employment of any state in the nation but NH’s retail employment does not supplant or replace jobs in other industries. NH’s concentration of retail employment is an indicator of economic strength and the growth rates of retail and overall private sector employment are similar in NH over the past 20 years.
- Retail sales in NH did not fall as far as did retail sales nationally during the recession, as cross-border shoppers increasingly sought to stretch their dollars by taking advantage of NH’s tax free shopping.
- NH’s retail sales advantage over Massachusetts has been increasing over time.
- The retail industry in NH is employing an increasing number of college-educated workers. More than one-third of adult workers in retail have a college degree and only four other industries employ more college-educated workers in NH.
- When full-time workers of the same age and educational attainment in NH are compared, the earnings of workers in retail equal or exceed the earnings of workers in many other industries, and are comparable to the average of all industries in the state.
- For younger workers in NH without a college degree, retail now provides more and higher paying job opportunities than does manufacturing and most other industries
- The percentage of *adult workers* in retail in NH that work full-time hours is higher than the overall percentage of full-time workers in other industries in NH. Retail has a high percentage of part-time workers because it employs large numbers of individuals enrolled in school or college who cannot work full-time.
- Even a low-rate general sales tax (2.5%) will result in a loss of 46 percent of taxable, cross border sales, or about \$1.6 billion of taxable retail sales.
- Although a 2.5% retail sales tax would yield approximately \$322 million dollars for the state, declines in other state revenues and visitors to NH would reduce the net tax yield for the state to about \$269.7 million.

- With a 2.5% sales tax local governments could lose about \$80 million in revenue from property taxes and another \$4 million from, meals and rooms and other visitor-related revenues.
- A 2.5% sales tax would reduce retail sales enough to increase retail vacancies by about 3.8 million square feet in Southern NH communities, more than double the amount of vacant retail space that existed in Southern NH during the first-half of 2010. The result would be declines in commercial property values, the local property tax base, and an increasing shift in the property tax base to residential property.
- Even a low rate sales tax of 2.5% would result in the loss of over 13,000 jobs in NH, almost half as many as were lost during the recent recession, and over \$530 million in wage and salary income.
- Combined with expected job losses of 13,105, *the \$269.7 million net increase in revenue that a 2.5% sales tax would yield implies that NH will sacrifice each job lost as a result of the general sales tax for a price of just \$20, 579 in additional state revenue.*

I. Introduction and Overview

The fiscal restraint, limited taxation, and smaller government philosophy that characterized NH for much of its history has served the state well, providing residents with more economic and employment opportunities than are available to residents in most other states. Over the past several decades New Hampshire has grown and prospered at rates exceeding those of neighboring states. As significantly, NH has prospered in a region of the country that is largely identified by tepid population and economic growth, higher levels of taxation and more expansive government relative to much of the country,

The fiscal austerity that is shaping the political agenda across the country is an important development for the nation and states looking to address budget shortfalls, deficits, and long-term imbalances between revenues and expenditures. Results from the 2010 election indicate that New Hampshire is poised to renew its traditions of limited spending and taxation, but the election also showed that the political climate in NH can change swiftly and dramatically.

New Hampshire has benefitted from choosing a different fiscal and economic path than other states in the Northeast region. However, fiscal pressures and an electorate demanding more austerity from government are forcing many states to reconsider policies that have long contributed to slower economic and population growth relative to NH and fast growing states in the south and southwest. Both Massachusetts and Maine recently have had vigorous policy debates over proposals to lower their levels of taxation and spending, and states like New York and New Jersey are following suit in 2011. It is possible then, that states could become more competitive with New Hampshire, even as New Hampshire renews its commitment to fiscal conservatism.

At some point, the mood of the NH electorate will shift and calls for the state to adopt a different, less austere, fiscal approach will again be heard. The recent past shows that when that occurs, a general sales tax is likely to be advocated as being among the less objectionable among many unpopular possible changes to NH's fiscal structure. In part, this occurs because of misperceptions and inaccuracies about the nature of the retail industry and its employment in New Hampshire. Prior studies of a general sales tax in NH have largely limited their analyses to revenue and potential job losses in response to NH's adoption of a general sales tax.¹ However, those studies did not examine the full range of impacts on NH of a general sales tax or address the overall role the retail industry plays in the larger NH economy and the state's labor market. More recently, incomplete (at best) or inaccurate information about the retail industry and the impacts that a retail sales tax would have on NH have been offered during legislative discussions by some when suggesting that adoption of a low rate (lower than neighboring states) general sales tax would have minimal impacts on the New Hampshire economy and its labor market.

The purpose of this study is to help the public and policymakers in NH develop a more complete understanding of the retail industry in NH and the issues that must be considered when evaluating policies with the potential to affect the retail industry and the overall economic and fiscal health of the state.

II. The Value of the Retail Industry to New Hampshire

The full range of impacts of retail are rarely noted in discussions of New Hampshire's economy. First and foremost, New Hampshire residents enjoy the benefits of tax-free savings on purchases of most goods in the state, allowing families to stretch their dollars by an additional 4-7 percent compared to residents in nearby states in the Northeast. Always an important benefit for residents, but especially so in recent years as income growth stagnated or declined for many New Hampshire families. NH residents also benefit from proximity to an expanded choice of retailers, in nearly all regions of the state, drawn to the NH because of the absence of a general sales tax.

“The retail industry is not replacing or substituting for job growth in other industries in NH, but it does provide the largest number of opportunities to the broadest range of individuals...”

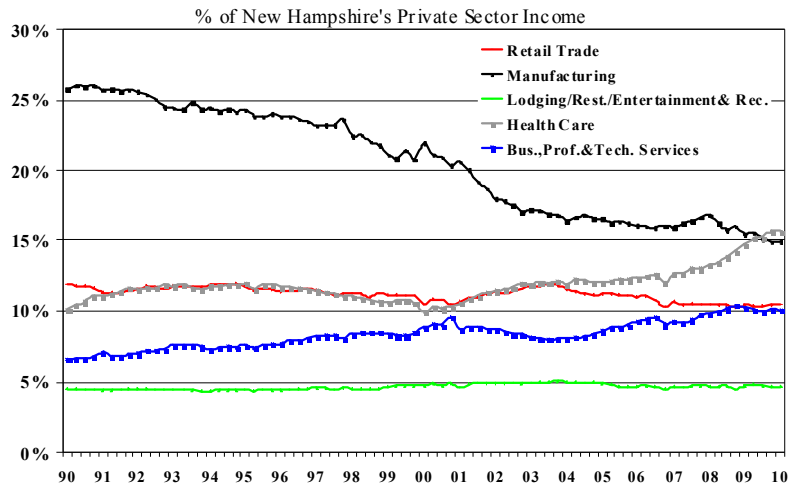
Retailers employ almost 100,000 workers in New Hampshire, more than any other industry in the state and retail businesses provide more employment opportunities to a broader cross section of New Hampshire residents than does any other sector of the New Hampshire economy. Despite fundamental changes in the structure of the economy, industries, and employment in New Hampshire over the past several decades, the retail industry has continued to provide about the same percentage of income and employment to NH residents as it did 20 years ago. The retail industry is not replacing or substituting for job growth in other industries in NH, but it does provide the largest number of opportunities to the broadest range of individuals with a variety of

¹ “Report of the New Hampshire Commission on Education Funding”, 2001, and two studies by the Beacon Hill Institute, one in 2001, and one in 2007.

skills and backgrounds and in ways that can accommodate the individual needs and circumstances of workers in NH's labor market. A detailed analysis of the myths and realities of retail employment and the labor market impacts of NH's retail industry is presented in Section III of this report.

Figure # 1 shows that even with the rapid growth of health care and business and professional services, as well as the decline of manufacturing employment in NH over the past two decades, retail trade continues to provide about the same percentage (over 10%) of all of the income earned in the private sector in NH.

Figure 1
As the State's Economy Grows and Changes, Retail Grows With it, Contributing About the Same Percentage of Private Sector Income

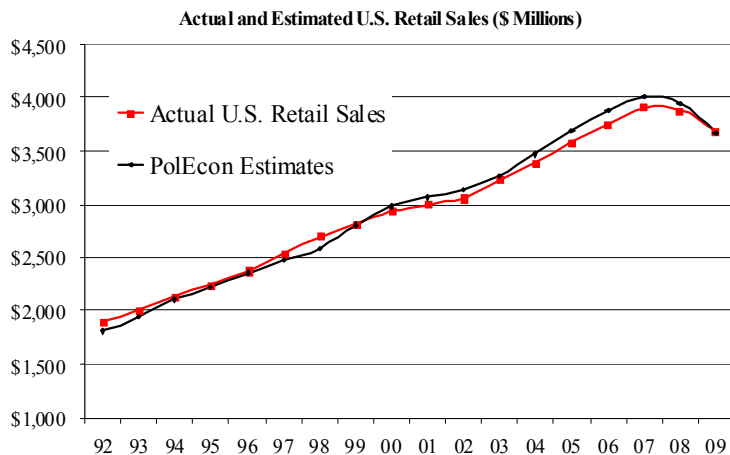


Estimating Annual and Quarterly Retail Sales in NH

Official estimates of retail sales in each state are produced only every five years by the U.S.

Census Bureau in its “Census of Retail Trade” series. Sales tax collections allow many states to estimate the level and changes in the volume of retail sales but no regularly reported estimates of retail sales are available for NH. This study introduces a method that can be used to produce accurate quarterly and annual estimates of retail sales in NH with a lag of about six months.² Detailed annual and quarterly data on the earnings (wages, salaries, proprietor's income, etc.) of NH industries produced by the U.S. Bureau of Economic Analysis along with retail sales data from the Census

Figure 2
Annual Retail Sales Can Accurately Be Estimated Using Publicly Available Data



²The six month lag occurs because data on the earnings (wages, salaries, proprietors income etc.) of the retail industry in NH are needed to produce our estimates of retail sales in the state and the U.S. Bureau of Economic Analysis reports quarterly earnings by industry data for states about six months (two quarters) after the end of each quarter.

of Retail Trade are used to develop a historical trend of the relationship between industry earnings and retail sales in New Hampshire, neighboring states, and the nation. This methodology shows that industry earnings can be used to produce relatively accurate estimates of the level of retail sales in the state over time. Annual (as well as monthly and quarterly) data on retail sales for the U.S. are available and applying our state level retail sales estimation techniques to the U.S. economy as well as actual U.S. retail sales data shows that our method produces retail sales estimates that are accurate within plus or minus 2.4 percent (Figure 2). State level estimates may contain somewhat larger estimation errors but the direction of change in state level retail sales will be accurate even if estimates produce somewhat greater variation from actual sales than occur with national estimates. Every five years, state level estimates produced by this method can be evaluated against actual data from the Census of Retail of Trade.

The ability to accurately estimate retail sales in NH over time gives analysts, policymakers, and the retail industry, an important indicator of the health of NH consumers, the retail industry, and the overall NH economy.

New Hampshire’s Retail Advantage

NH’s advantage in retail sales and economic activity relative to Vermont was recently documented in a report released in that state.³ More generally, there is a large body of research documenting the impact that sales tax differentials among neighboring geographies have on retail sales and economic activity.⁴ That NH enjoys a competitive advantage in retail sales is now readily acknowledged and not in dispute. In order to place an economic value on NH’s retail advantage, however, and to assess what is at stake if it is lost, it is important to develop an accurate estimate of the magnitude of NH’s retail advantage. One simple measure of NH’s retail advantage is evidenced by the state’s high level of retail sales per person.

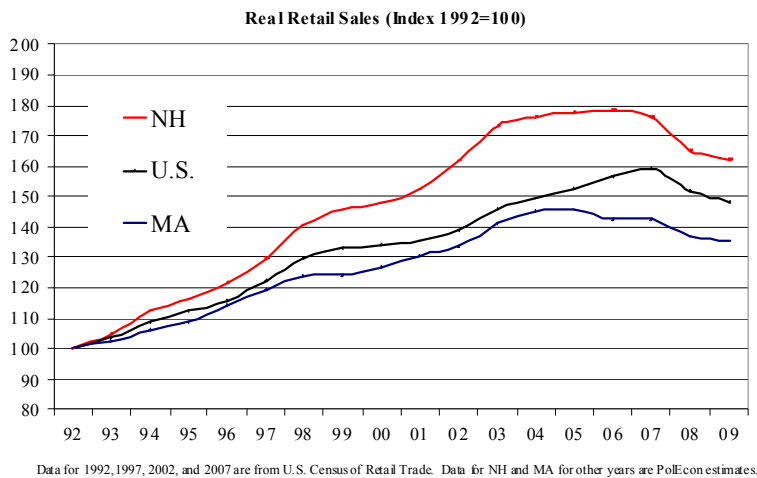
<u>State</u>	<u>Per Capita Retail Sales</u>
Connecticut	\$14,895
Maine	\$15,521
Massachusetts	\$13,657
New Hampshire	\$19,268
New Jersey	\$14,370
New York	\$11,956
Pennsylvania	\$13,420
Vermont	\$14,986
U.S. Average	\$13,036

Per capita retail sales comparisons do not take into account the relative income levels of residents which affect the volume of retail purchases but it does offer a rough approximation of the difference in the level of retail purchases between

³ Arthur Woolf, “The Unintended Consequences of Public Policy Choices: The Connecticut River Valley as a Case Study”, Westford VT., *Northern Economic Consulting*, November 2010.

⁴ For an excellent review of the literature on cross-border shopping in response to tax differentials see: Mark Skidmore and Mehmet Tosun, “Cross-Border Shopping and the Sales Tax: A Reexamination of Food purchases in West Virginia”, University of Wisconsin – Whitewater, Working Paper 05-07, 2005.

Figure 3
 NH's Retail Advantage Has Produced Real, Inflation Adjusted Retail Sales that Have Grown 27% Faster than in Mass and 14% Faster than the U.S. Since 1992



states and provides a starting point for our analysis. New Hampshire has the highest level of retail sales per capita of any state in the nation. Table 1 compares NH's level of retail sales per person with other states in the Northeast and the U.S. average for all states. The table shows that NH's retail sales per capita were almost \$6,000 (or 41%) higher than in neighboring Massachusetts in 2007 (the most recent year official estimates were produced by the Census Bureau), and more than \$6,000 (48%) higher than the U.S. average.

Retail sales are higher in New Hampshire and have also grown faster. Figure 3 shows that real retail sales have grown significantly faster in NH than in either Massachusetts or the U.S. as a whole growing 27 percent faster than Massachusetts and 14 percent faster than the U.S. as a whole since 1992. Some of the difference in retail sales growth can be attributed to faster population and income growth in New Hampshire during much of the time period analyzed, so NH's retail advantage is best measured using data that also considers factors such as population and income levels in a state. Per capita measures of retail sales are frequently used to assess the level of retail sales in a region⁵. Although per capita estimates control for the impact that the number of residents in a state may have on retail sales, it does not account for the very important issue of variation in income levels among residents in different states.

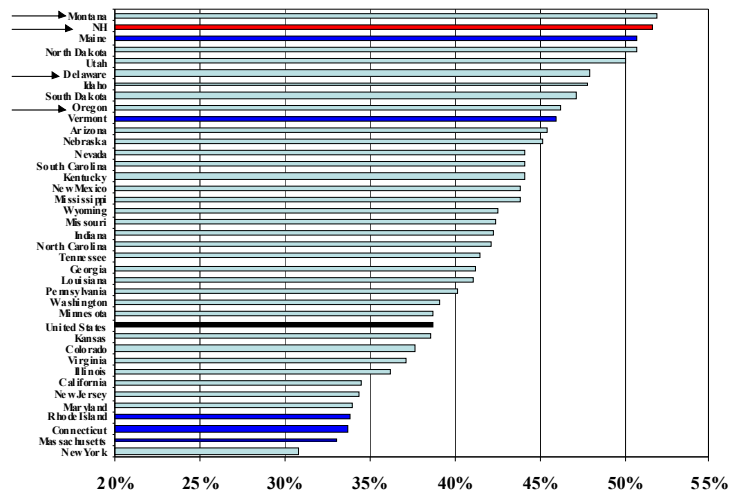
“NH is second only to Montana (another state without a general sales tax) in the ratio of retail sales in the state to disposable personal income.”

Income determines the amount of money consumers will have to purchase goods and services. Given two states with an identical number of residents, the state with a higher income level among its residents can be expected to have a higher level of retail sales, all else equal. Similarly, when income levels in a state rise, retail sales can be expected to increase unless other factors affect the buying habits of residents. It is important then, to account for the level of income in a state when assessing trends in retail sales. In general, with only minor differences, people with similar income levels will spend a similar percentage of their income on goods and services, regardless of where in the country they live. Thus it is expected that the percentage of disposable income in a state that is spent on retail sales should be approximately equal across the country. If retail sales in a state are significantly lower in relation to disposable income than occurs in most states, then this suggests that state residents are purchasing goods outside the state. If sales as a percentage of disposable income are much higher than in most

⁵ Woolf op. cit., uses per capita sales in his analysis of Vermont and NH retail trends.

states, than this suggests that a significant percentage of sales in the state are to residents from outside the state. Many states with a large tourism economy, especially more rural states with smaller populations, have high overall ratios of retail sales to disposable income because of spending by visitors, even if the retail industry does not enjoy a sales tax advantage relative to nearby states. But higher levels of retail sales in these states are not spread across all types of retailers and are more limited to the goods purchased by vacationers and tourists. Both Vermont and Maine suffer a significant retail disadvantage to NH in most retail categories but still have high ratios of retail sales to disposable income because of the importance of visitors and the tourism industry to their states.

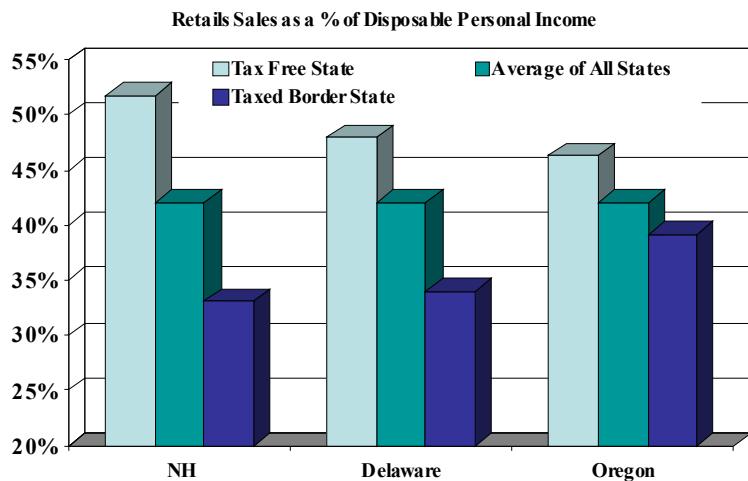
Figure 4
States Without a General Sales Tax Have High Ratios of Sales to Disposable Income – Rural and Tourism States Also Have High Ratios



NH is second only to Montana (another state without a general sales tax) in the ratio of retail sales in the state to disposable personal income. NH has a large tourism industry, and as we document later in this report, much of it depends on NH’s retail advantage, but as Figure 4 indicates, states without a retail sales tax (indicated by arrows) generally have the highest ratios of retail sales to disposable income regardless of whether they have a large tourism economy or not. The lone exception is Alaska where the state’s absence of land borders with other U.S. states limit opportunities for cross border shopping and customs laws and fluctuations in the value of the Canadian dollar may limit tax advantaged savings to neighboring Canadian residents.

Figure 5
NH’s Retail Advantage Brings New Money into the State at Among the Highest Rates in the Nation – Even Among Sales Tax Free States

Figure 4 suggests that the retail sales advantage for sales-tax-free states is real. This also implies that that states with a sales tax that border tax-free states are at a retail sales disadvantage. Figure 5 presents the ratio of retail sales in a state to the amount of disposable personal income in tax-free states compared to the same ratio in bordering states with which they share a



populous border. The chart shows that each of the tax free states has a retail sales ratio well above the national average, while neighboring states with a retail sales tax all have ratios well below the national average, suggesting that shoppers in the states with a retail sales tax are opting to make purchases in untaxed states. Neither Montana nor Alaska shares a border with a state with a significant population along their shared borders and they are not included in the chart.

Figure 6
Tax Free States That Share a Highly Populated Border Have Retail Sales Ratios Above the National Average While Taxed Border States Have Retail Sales Ratios Below the National Average

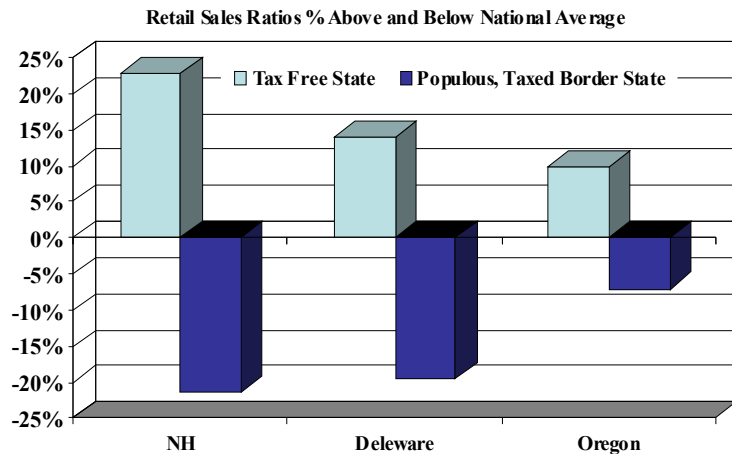


Figure 6 shows, on a percentage basis, how much higher and lower are the retail sales ratios in taxed and no retail sales tax states compared to the U.S. average. The chart shows that NH’s retail advantage is large even compared to other sales tax-free states. In 2007, retail sales in New Hampshire were about 52 percent of total disposable personal income in the state, or about 24 percent higher than the average ratio of retail sales to disposable income in the U.S.. Figure 6 also shows that retail sales in Massachusetts were just 33 percent of disposable income in that state, or about 22 percent less than the U.S. average ratio of 42 percent. Each of the states without a sales tax had significantly higher retail sales ratios than did neighboring states with who they share a populated border, but NH’s advantage appears especially large.

Several plausible explanations exist for why the retail sales tax advantage in NH is larger than the advantage enjoyed by other tax-free states:

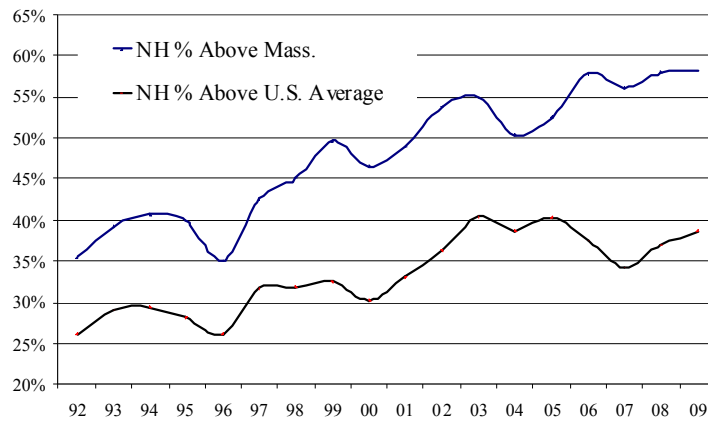
- NH is small geographically, with many nearby and border states with sales taxes. Relative to NH’s population, there is a large number of out-of-state residents in taxed states in close enough proximity to NH to regularly shop in the Granite State.
- Several of the states from which NH attracts retail shoppers have high levels of disposable income and thus higher levels of retail purchases.
- Neighboring New England states and much of the Northeast region have among the highest sales tax rates in the nation, providing stronger incentives for shoppers to make purchases in NH.

New Hampshire's Retail Advantage Has Grown Over Time

NH's retail advantage is most apparent in comparison to the heavily populated border it shares with Massachusetts. Figure 7 shows how much higher in NH are retail sales as a percent of disposable income (not the actual ratio which is presented in Figure 4) compared to both Massachusetts and the weighted average of all U.S. States. The chart highlights three important factors about NH's retail advantage:

- The ratio of retail sales in NH to disposable personal income in NH is almost 60 percent above the ratio in Massachusetts (retail sales in New Hampshire were consistently at or above 50% of disposable income until the recent recession, while the Massachusetts ratio of sales to disposable income declined from 37 to 29 percent between 1992 and 2009).

Figure 7
NH's Retail Advantage Has Increased Relative to Other States. The Ratio of Retail Sales to Disposable Personal Income in NH is Now 58% Higher than is the Ratio in Mass., and 39% Higher than the U.S. Avg. Ratio

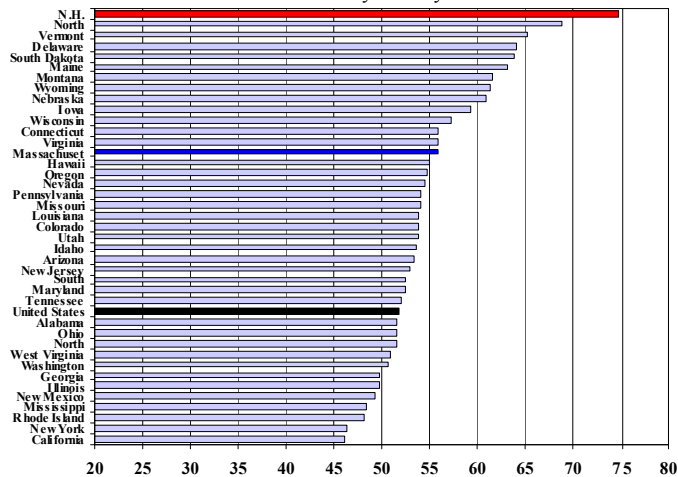


Sources: U.S. Bureau of Economic Analysis, U.S. Census Bureau, PolEcon Research

- NH's retail advantage can increase (even if sales do not) during a recession. This occurs when NH captures a larger share of the region's declining retail sales during the recession. Families looking to stretch their retail dollars have an even stronger motivation to shop in NH during a recession as they look to maximize their purchases with limited dollars.

- Despite some fluctuation, NH's retail advantage has grown over time as more states, including Massachusetts, have increased sales tax rates. This is demonstrated by the fact that the ratio of retail sales in NH to disposable income in the

Figure 8
NH Leads in Retail Emp. Per 1000 Residents. Tax Differentials, Population Density and Tourism Activity all Play a Role



state has grown to 58 percent above the Massachusetts ratio, and 39 percent above the U.S. average ratio of retail sales to disposable personal income.

Employment Impacts of NH's Retail Sales Advantage

A higher ratio of retail sales to disposable income, tourism activity, and a lower population density all contribute to New Hampshire having the highest concentration of retail employment of any state in the nation, based on a ratio of retail employment to population (Figure 8).

Growth in Retail Employment is Not Supplanting Growth in Other NH Industries

Retail employment is more concentrated in NH and it has grown faster over time than has retail employment across the country and in neighboring states such as Massachusetts (Figure 9). For some, this impact of NH's retail advantage is seen as a sign of economic weakness, indicating NH is unable to create a diversified economy capable of providing job opportunities for individuals with a variety of educational backgrounds and skills. But even a cursory examination of the data reveals that this is not the case in New Hampshire. As Figure 10 shows, NH's retail employment has not replaced or come at the expense of growth in other industries in the state. Figure 10 compares the growth rate in retail employment with the growth rate for all other private sector industries in NH combined. The chart clearly shows that increases in retail employment are not correlated with a decline in employment growth in other industries in the state. In fact, the opposite is true, increases in retail employment correlate with increases in employment in other

Figure 9
NH's Retail Advantage Means Employment in the Industry Has Grown Faster in NH

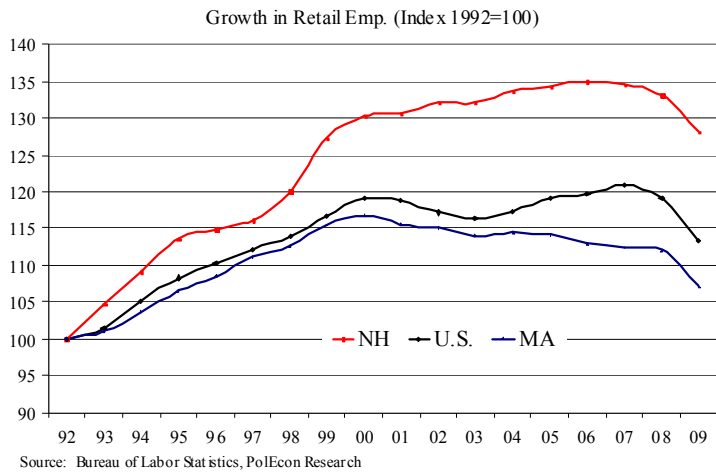
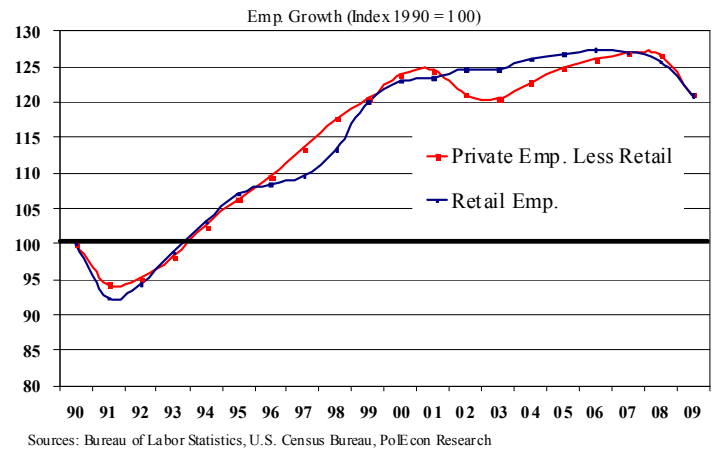


Figure 10
Retail Emp. Growth Is Not Substituting or Replacing Other Private Sector Employment – Both Have Grown at Similar Rates



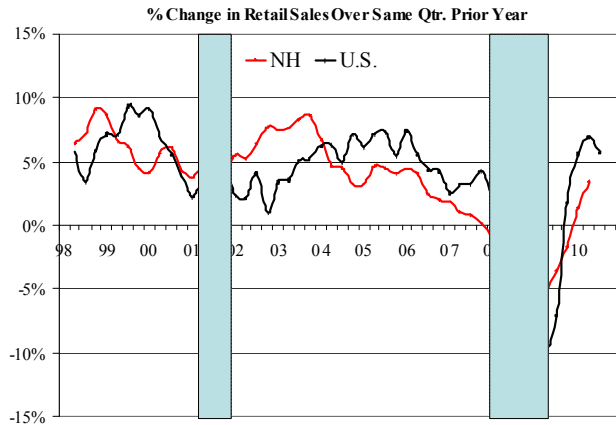
industries. A strong state economy, growth in employment and income in many industries, along with NH's retail sales tax advantage all create an environment for retail to flourish in the state.

NH's Retail Advantage Cushions Recession's Impact on Sales

The elevated level of unemployment and the decline in wages that marked the recent recession resulted in dramatic declines in retail sales across the nation. The NH retail advantage, however, kept retail sales from falling as dramatically in NH as they did in most other states.

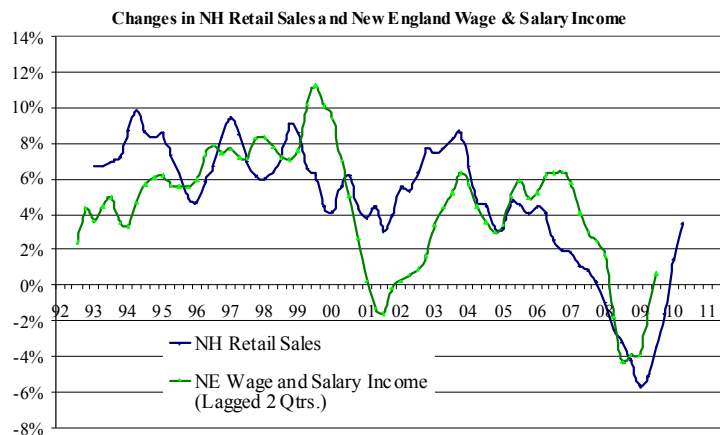
Figure 11 shows that U.S. retail sales fell at nearly twice the rate as did sales in NH during the recent recession. NH's smaller drop in retail sales has also meant that as the state's and the region's economy begin recovery, retail sales will not have as far to rebound and sales increases over prior years will be less dramatic.

Figure 11
Retail Sales Did Not Fall as Far in NH as Shoppers in the Region Looked to Stretch Their Dollars During the Recession



Changes in the aggregate wage and salary income earned in New England is a good predictor of changes in retail sales in NH. Figure 12 shows how changes in aggregate wage and salary income in New England are related to changes in retail sales in NH six months later. Quarterly changes in wage and salary income are lagged by two quarters (6 months) because it takes some time before changes in income result in changes in the buying habits of individuals and households. The chart shows that recent declines in

Figure 12
Changes in Aggregate Wage and Salary Income in New England are a Strong Predictor of Changes in Retail Sales in NH 6 Months Later



the rate of retail sales growth were more dramatic than expected based on the decline in aggregate wage and salary income in the region. There are at least three factors that likely contributed to the large drop in NH's retail sales compared to the decline in regional wage and salary income:

- Especially low consumer confidence resulting from high levels of unemployment and stagnant wages during the recession that had consumers avoiding or delaying many purchases.
- High gasoline prices (reaching \$4.00 gallon briefly) in 2008 that reduced the cost savings in NH for cross border shoppers.
- Reductions in access to consumer credit that followed the financial crises in the Fall of 2008 and lasted throughout 2009.

Continued increases in aggregate wage and salary payments in the region suggest NH's retail sales and employment will continue to grow in 2011.

III. Retail Jobs: Separating Myth from Reality

Misconceptions regarding the characteristics of retail jobs and employees may contribute to the willingness of state policymakers to offer a general sales tax as a preferred solution during state budget crises. Although no serious debate over a sales tax is likely to occur in NH's current political climate, it remains important to correct the misconceptions about retail employment that diminish the contributions of the retail industry and its employees to the NH economy, and which may again help advocates of a general sales tax justify the introduction of their proposals in New Hampshire.

“The most important and defining impact of NH's retail sales advantage is that it makes increasingly good employment opportunities available to a broad segment of NH's population.”

Our analysis has demonstrated that NH's high concentration of retail employment is an important indicator of the health of the New Hampshire economy rather than a sign of its weakness. NH has a diversified economy that employs a high percentage of skilled, well educated individuals, a population with a broad middle class, and a relatively low percentage of households with very low incomes. Along with its retail sales tax advantage and its vibrant tourism economy, NH's economic and demographic successes account for the high level of retail sales and employment in the state. Employment in service industries was once derided as being inferior to goods producing jobs before business and professional services, information industries, health care and education services became identified with service sector jobs. Employment in retail industries is still mischaracterized by some with a limited knowledge of the characteristics of the retail industry and its employees, and the retail industry's broader impact on NH's labor market. The most important and defining impact of NH's retail sales advantage is that it makes increasingly good employment opportunities available to a broad segment of NH's population.

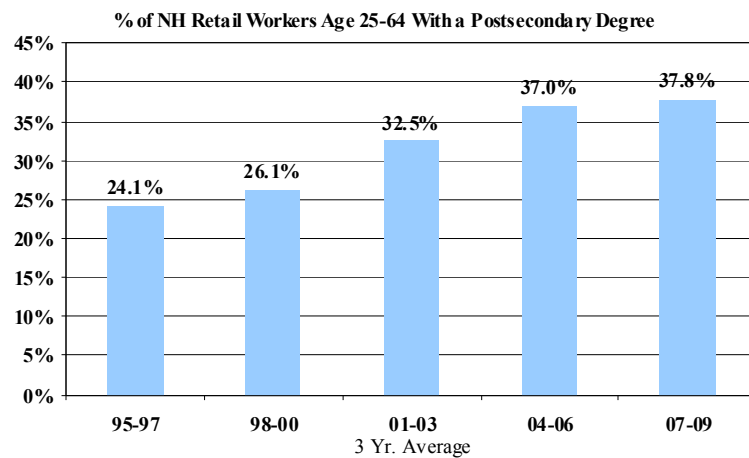
“The percentage of adult workers in the retail industry in NH that are employed full-time is above the NH average.”

Most assessments of the quality or value of employment in an industry are made on the basis of average annual earnings of its workers. This is an important criterion of job quality but without

additional information about the nature of the individuals employed in an industry, it can lead to inappropriate comparisons and inaccurate characterizations of job quality among industries. That appears to be the case with the retail industry based on an analysis of more than a decade of NH data from the U.S. Bureau of Labor Statistics’ monthly “Current Population Survey” (CPS). The CPS is the primary source of information about state and local employment, unemployment, and the characteristics of the labor force. It is used by researchers in government, universities, and business. This report uses NH micro-data, from the CPS, to profile the characteristics of individuals and jobs in the retail and other sectors of the New Hampshire economy. Our analysis of publicly available data about retail employment suggests that much of the conventional wisdom regarding retail jobs is far more convenient than it is wise. Among the more important findings of our analysis are:

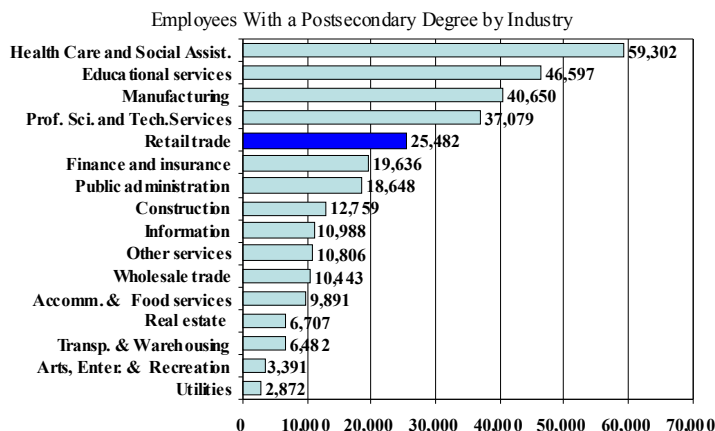
- NH’s retail industry is increasing its concentration of employment of college educated workers. Over the past 15 years, the percentage of workers in retail in NH age 25-64 that possess some level of postsecondary degree (associates degree or higher), has increased from 24% to 38% (Figure 13). More sophisticated inventory and management, greater use of research and analysis in retail management, and increasing use of digital media to target and sell are just some of the reasons for the increase. Because the retail industry employs a high percentage of very young workers (teenagers and young adults enrolled but not graduated from college), the fact that a significant percentage of its *adult workers* have a postsecondary degree is overlooked.

Figure 13
The Retail Industry is Employing a Higher Percentage of Workers With a Postsecondary Degree (AA Degree or Higher)



- Retail trade provides employment for more individuals with a college degree than all but four industries in NH (Figure 14).

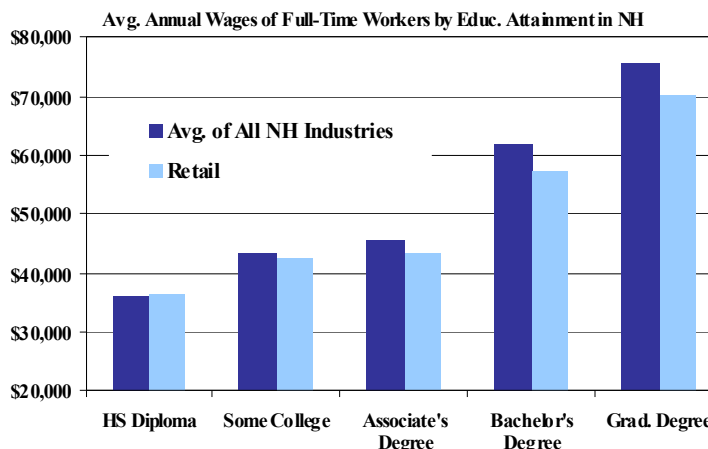
Figure 14
Only Four Industries in NH Employ More Workers With a Postsecondary Degree than Does Retail



- A high percentage of workers in some industries such as health care, professional, scientific and technical industries, and others are required to have a post-secondary degree, but well-paying opportunities for individuals with a college degree exist in most industries in NH and the retail industry in NH employs over 25,000 individuals with some level of college degree.

- The average annual earnings of full-time workers in retail in NH is comparable to many other industries. Figure 15

Figure 15
The Average Annual Earnings of Full-Time Workers in Retail in NH is Comparable to Other Industries Except at the Highest Levels of Educational Attainment



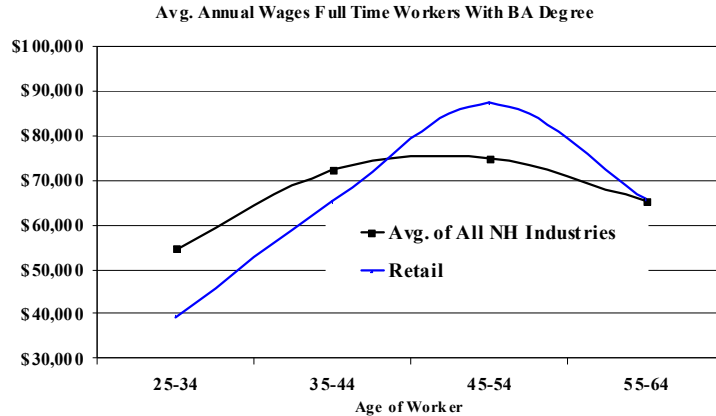
Source: BLS, Current Population Survey, March Supplements 2005-2009, PolEcon Research

Some of the difference in earnings between workers in retail and other industries disappears when workers of the same age as well as educational attainment compared.

- Workers in retail are younger, on average, than most industries. Workers in almost all industries earn more as they reach the middle of their working lives - until earnings begin to decline on average after age 55 as many workers begin working less. Because of these facts, it important to compare workers of the same age as well as workers with the same

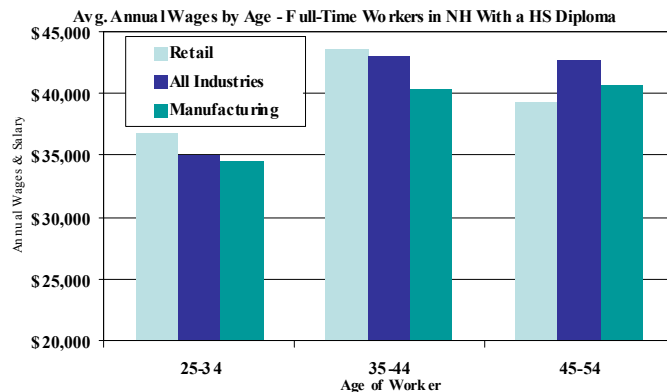
educational attainment when assessing the wages in the retail industry, Full-time workers with a bachelor's degree working in retail in NH earn less early in the careers than do workers with a bachelor's degree in many other industries, but their earnings equal or exceed those of college-educated workers in other NH industries later in their careers. Figure 16 shows that earnings start lower but increase faster for individuals with a bachelor's degree working in retail in NH, until their wages exceed the average for all individuals with a BA degree as workers enter mid-career (age 45-54).

Figure 16
Increasingly, Retail Offers Well-Paying Jobs for College Educated Workers. *Full-Time Retail Employees With a Bachelor's Degree Earn Less Early in Their Careers, but Earnings Grow Faster*



- For younger workers in NH (age 25-44) without some post-secondary education, on average, retail now provides better paying job opportunities than manufacturing and most other industries. Figure 17 shows that among NH individuals age 25-44, the average annual wage of workers without a post-secondary degree is higher for retail employees than it is for employees in manufacturing and the overall industry average

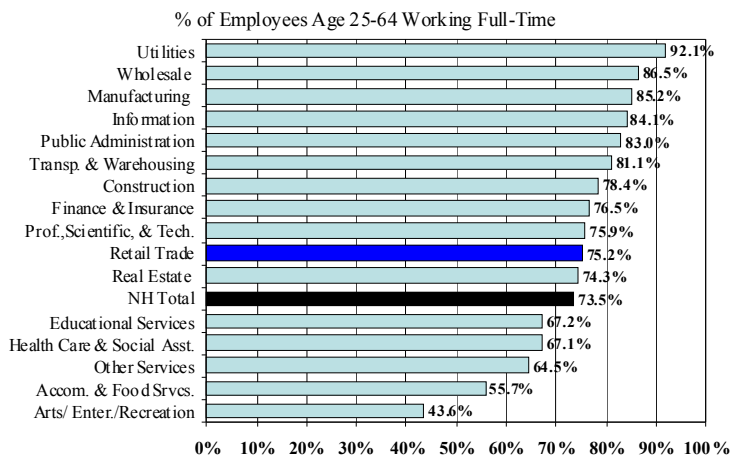
Figure 17
Retail Now Provides Better Paying Job Opportunities Than Manufacturing and Most Other Industries For Younger, Full-Time Workers in NH Without Some Post-Secondary School Education



Source: BLS, Current Population Survey, March Supplements 2005-2009, PolEcon Research

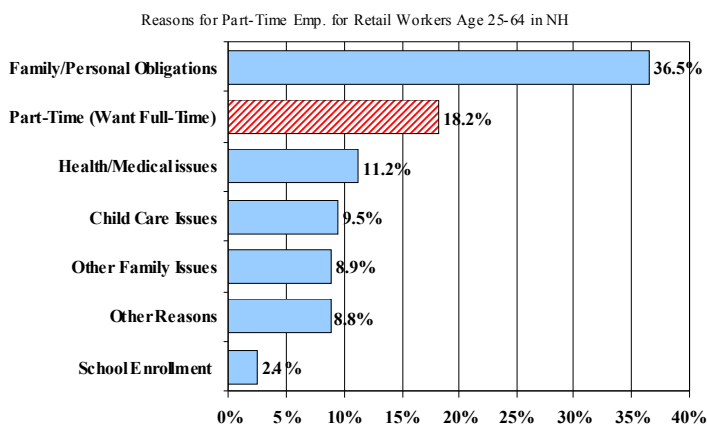
- The percentage of adult workers in the retail industry in NH that are employed full-time is above the NH average (Figure 18). The value of retail employment is sometimes underappreciated because the industry employs a large number of part time workers. But many of the industry’s part-time employees are younger and enrolled in school or college, making part-time employment a necessity.

Figure 18
The % of Adult Retail Employees Working Full Time in Retail is Above the NH Average and Higher Than Many Industries



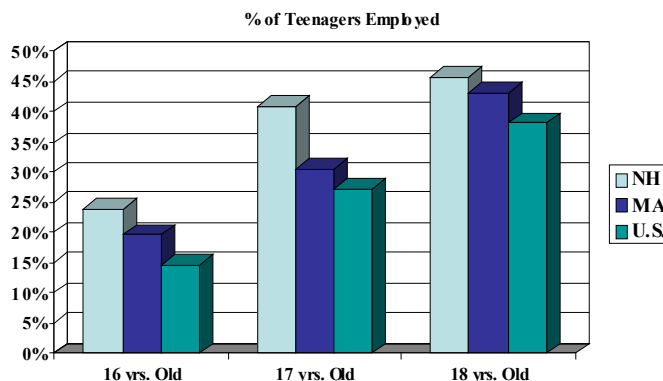
- Among adult workers in retail who work part-time, less than 20% are working part-time because they could not find a full-time job. Family and personal obligations top the list of reasons why adult workers choose part-time employment in the retail industry (Figure 19). Medical and child care issues are also significant reasons for part-time work in retail.

Figure 19
Less Than 20% of Adults Working Part-Time in Retail in NH are Doing So Because They Can't Find a Full-Time Job. Family Obligations and Health & Medical Issue are the Largest Reasons for Choosing Part-Time Employment



- The retail industry employs about 8,000 of the employed 16-18 year olds in NH, more than one-third of all working teenagers in that age group. Retail is a primary reason why the rate of teenage labor force participation and employment is higher in NH than in most other states (Figure 20). The strong work ethic in NH's labor force is built upon the early work experiences of its youth and retail employers are the largest contributors to those work experiences.

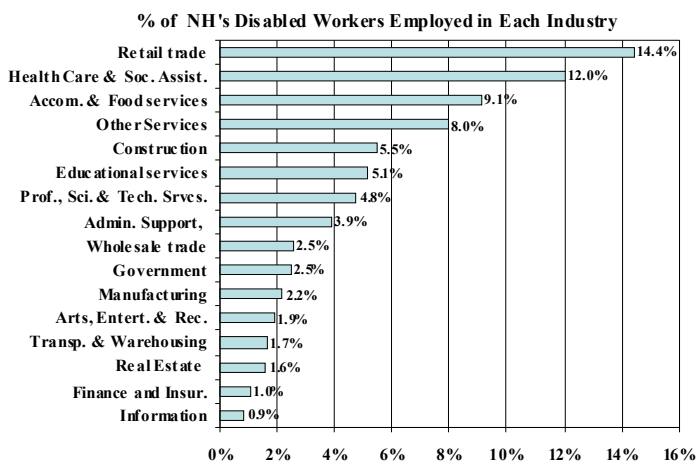
Figure 20
Early Work Experience is a Major Contributor to the Strong Work Ethic in NH's Labor Force. Retail Employs More Teenagers than any Other Industry in NH and is a Major Reason Why Employment Rates for Teens are Higher in NH



Source: BLS, Current Population Survey, March Supplements 2005-2009, PolEcon Research

- Retail employs the largest percentage of disabled workers of any industry in NH (Figure 21). In addition to providing more flexible work schedules to meet the family, personal, and schooling needs of workers, the retail industry in NH is the largest source of employment for individuals with a disability that limits the kind or amount of work that they can perform.

Figure 21
Retail Trade Provides More Employment Opportunities for Disabled Workers than any Other Industry in New Hampshire



IV. The Impact of Taxing Retail Sales in New Hampshire

Several studies provide valuable empirical evidence on the degree of cross-border shopping in response to sales tax differentials and those studies, along with analyses of prior sales tax

proposals in NH,⁶ inform the work in this report. This study improves upon prior studies of the impacts of a retail sales tax in NH by using more detailed industry sales data by product lines within each retail industry subsector and by type of customer (household, governments, to other businesses). The result is a more accurate estimate of the percentage of retail sales that would likely be subject to taxation and thus a more accurate estimate of the revenue yield from a sales tax. This study also estimates the impact of a general sales tax on several other major sources of state and local revenue (from visitors to the state, from business, and from individuals in the state), allowing for a more accurate estimate of the overall “net revenue” impact of a sales tax.

A sales tax raises the price of retail goods and differences in sales tax rates between two neighboring states will generally result in different prices for the same retail goods. If the cost in terms of time, distance, and dollars are low enough, shoppers in a higher taxed state will travel to a lower taxed state in order to enjoy savings on their retail purchases. New Hampshire retailers rely on out-of-state shoppers for a substantial portion of their business; the imposition of a sales tax in NH could be expected to cause a substantial portion of that business to shift toward retailers in other states. A sales tax would also raise the cost of goods to New Hampshire shoppers, some of whom will reduce their purchases of taxable goods in response. Both effects would erode retail sales and the retail tax base in NH.

Data and Methods

To establish the size of the retail sales tax base in NH, data from the 2007 Census of NH Retail Trade was used and a narrow sales tax base was assumed (one similar to the proposal contained in the 2002 Governor’s Commission on Education Funding). Several data sources not employed in prior studies of retail sales taxes in NH were also used to further refine estimates of the size of the tax base:

- The U.S. Census Bureau’s “Retail Trade Industry Series: Product Lines by Kind of Business” was used to estimate the percentage of sales within each type of retail business would be subject to taxation. For example, although most food sales would be tax exempt, a significant percentage of sales in supermarkets are among products that likely would be taxed. Similarly, while gasoline sales are subject to an existing excise tax and would not be included in the retail sales base, an increasing percentage of sales at gasoline retailers/convenience stores is for items that would be subject to a sales tax.
- The U.S. Census Bureau’s “Retail Trade: Subject Series - Sales by Class of Customer” was used to estimate the percentage of sales that would go to businesses, consumers, and governments, for each type of retailer in NH. This is an important procedure because sales to government and businesses would not be taxed.
- Data on the earnings of the retail industry in NH, reported by the U.S. Bureau of Economic Analysis, was used to estimate the changes in retail sales (and the size of the tax base) that

⁶“Report of the New Hampshire Commission on Education Funding”, 2001, and two studies by the Beacon Hill Institute, one in 2001, and one in 2007.

have occurred in NH since the 2007 Census of Retail Trade data was reported. Retail sales were then inflated by 3 percent to estimate 2011 retail sales in NH.

The erosion of NH retail sales that would occur in response to the imposition of a sales tax was estimated using a variety of elasticities. Prior research shows a wide range of estimates of the magnitude of tax base erosion (reductions in retail sales) resulting from sales tax differentials between states, from just over -1.0 to as much as -7.0.⁷ The 2001 Governor's Commission on Education Funding report appears to have used an elasticity of over -3.0 when estimating the erosion of sales in response to a sales tax, while Tuerck's Beacon Hill Institute's study used an elasticity of -5.69. The results presented here use an elasticity of - 4.0 to estimate the erosion of NH's retail sales and tax base due to a sales tax. *We believe that these methods result in reasonable estimates that do not systematically overstate the potential loss of sales due to a retail sales tax.*

Surveys and analyses of spending by visitors to NH done by the Institute for NH Studies at Plymouth State University were used in calculating the impacts of a sales tax on visits to NH, visitor spending, and tourism related revenue impacts of a sales tax in NH,

The IMPLAN model of the NH economy⁸ was used to estimate employment and income impacts that would result from the loss of retail sales, taking care to margin retail sales to avoid overstating the impacts that a decline in retail sales would have on the NH economy.⁹

To estimate the decline in demand for retail properties resulting from a drop in retail sales, the decline in retail sales for each type of retailer in NH was first estimated. The declines in retail sales by type of retailer were then divided by the average sales per square foot of retail space for each type of retailer, available from the U.S. Census of Retail Trade, to determine the amount of "excess retail space" that would exist in NH after adoption of a sales tax in NH.

Key Findings: The Impact of a Sales Tax on Retail Sales in NH

- Retail sales are estimated to be \$25.1 billion in NH in 2011, with about 60 percent of that in taxable items, yielding an estimated tax base of \$15.4 billion.

⁷ Elasticity is the ratio of the percent change in one variable to the percent change in another variable. In this case, the percentage change in retail sales in NH in response to the price change in retail goods caused by the imposition of a retail sales tax.

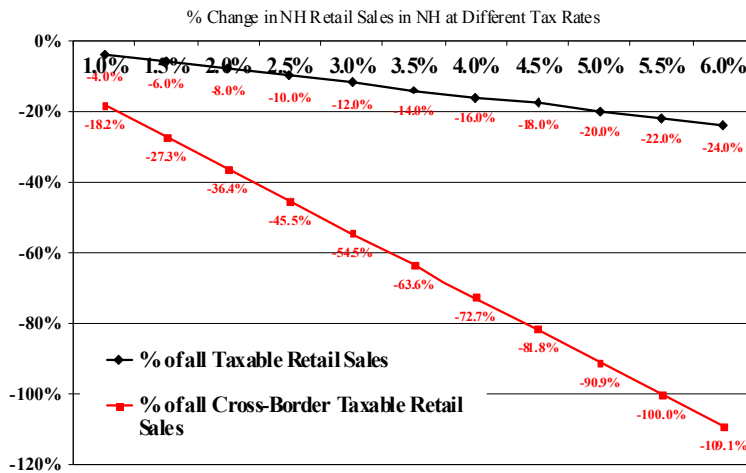
⁸ IMPLAN Professional Modeling System, Version 2.1, Minnesota IMPLAN Group Inc., Stillwater, Minn.

⁹ Margining sales refers to the fact that when retail sales are lost in a region, the true economic loss to the region is not the total value of retail sales, but only the portion of sales value that is added at the retail level by the seller. For more information on this topic see: http://implan.com/V4/index.php?option=com_content&view=article&id=178:two-situations-for-using-retail-margins&catid=110:dr-implans-blog.

- Even a low-rate general sales tax (2.5%) will result in a loss of 46 percent of taxable, cross border sales, or about \$1.6 billion of taxable retail sales. However, because cross-border sales represent about 24 percent of NH's retail sales, the overall decline in taxable retail sales in the state that will result from a 2.5% sales tax will be about 10 percent (Figure 22).

Figure 22 shows the distinction between the impact of a sales tax on overall sales and the impact of the tax on cross-border sales. Because only about 60% of retail sales will be taxable, advocates of a sales tax tend to minimize the size of the erosion in sales by citing the percentage decline in *total retail sales* – both taxable and not taxed sales, while the percentage decline is much greater on retail sales subject to taxation. The percentage decline is greatest, however, on cross-border sales.

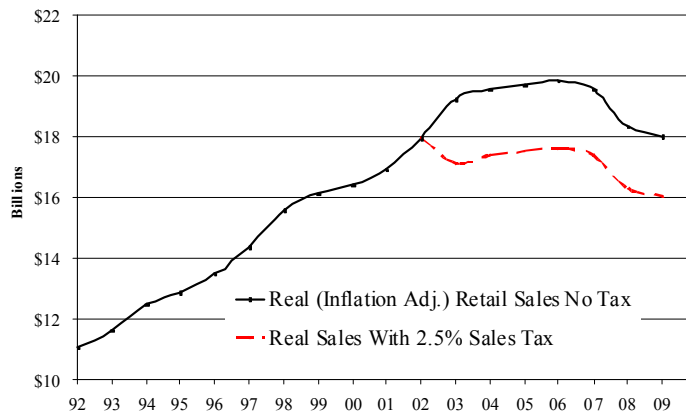
Figure 22
Cross Border Retail Sales Fall Off Dramatically Even at Low Tax Rates.



- At high sales tax rates, NH loses an amount of taxable retail sales greater than 100 percent of cross border sales (visitors to NH still make some purchases in NH but NH residents increase their purchases of retail goods in other states).

- Retail sales to out-of-state residents are especially important to increasing the overall size of the NH economy because they bring new money into the state. A general sales tax will place additional burdens on NH households, but most of the decline in retail sales will come from reductions in spending by non-residents, having a particularly harmful impact on the NH economy by

Figure 23
Had the 2002 Proposed Retail Sales Tax Taken Effect in FY2003, Retail Sales in NH Would have Been Lower in 2009 than in 1999



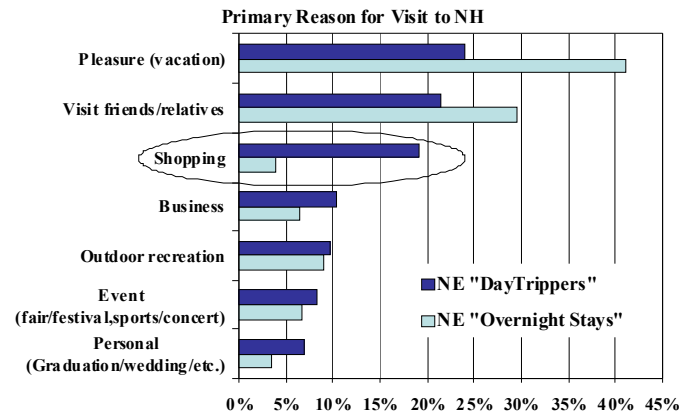
limiting dollar flows into NH.

- Had the proposed 2.5% retail sales tax been adopted in NH in 2002, real, inflation adjusted retail sales in NH would have been lower in 2009 than they were in 1999 (Figure 23). Adopting a 2.5% sales tax in 2011 would reduce nominal (not inflation adjusted) NH retail sales to levels last seen in 2003.

Key Findings: Sales Tax Impacts on Tourism Related Revenues in NH

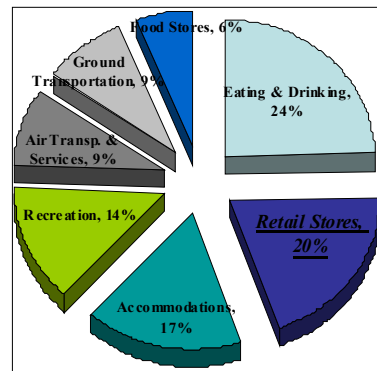
- Retail shopping is the primary reason that 20% of “day trippers” (visitors to NH who do not spend one or more nights in the state) visit NH, and the primary reason that 4% of overnight visitors come to NH. Overall, shopping is the primary reason for about 13% of tourism visits to NH (Figure 24).
- According to research by the Institute for NH Studies, spending at retail stores is the second largest category of spending by visitors to NH. Second only to spending at restaurants, spending at retail stores accounts for 20 percent of spending by visitors to NH (Figure 25).
- This analysis, using research done by the Institute for NH Studies, indicates that over 4 million annual shopping visits to NH, over \$340 million in spending, and \$40 million in state and local revenues would be at risk if NH were to adopt a sales tax.

Figure 24
In NH, “Tax Free” is a Tourist Attraction. For About 20% of “Day Trippers” Visiting NH, Shopping is the Primary Reason for Their Visit
Shopping is Responsible for about 13% of All Visits to NH



Source: Institute for NH Studies at Plymouth State University, PolEcon Research

Figure 25
Retail Spending is the Second Largest Category of Spending by Visitors to NH – With Multipliers, Retail Accounts for 30% of The Spending Impacts of Travel and Tourism



Source: Institute for NH Studies at Plymouth State University, PolEcon Research

- A retail sales tax could reduce tax revenues from tourism related visitors by almost \$40 million, significantly reducing the net revenue yield from a sales tax. Table 2 presents the calculation for the tax impacts associated with tourism visits for the purpose of retail shopping. A retail sales tax will greatly reduce or eliminate this significant portion of the tourism visits, and reduce state and local revenues in the process.

Table 2
A Retail Sales Tax Could Cut Travel-Related Government Revenues in NH by \$40 Million

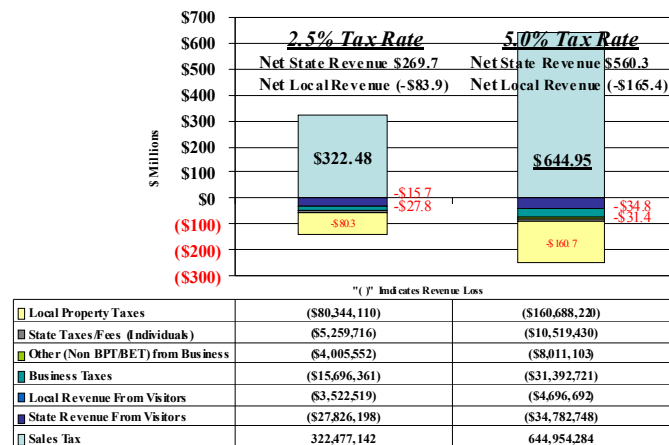
Retail Industry's Impact on Revenues from Visitors to NH	
Visits to NH	52,000,000
% Day Trippers	35%
Day Trips	18,200,000
% of Trips Primarily for Shopping	22%
Annual Shopping Visits	4,004,000
Travel Related Spending (not retail sales) per Visit	\$85.00
Shopping Visitors Travel-Related Spending	\$340,340,000
State Tax Yield as a % of Travel Spending	10.2%
Travel Related State Taxes From Retail Visitors	\$34,782,748
(Note: 60% From Rooms & Meals)	\$20,869,649
Local Taxes as a % of Travel Spending	1.4%
Local Taxes From Retail Visitors	\$4,696,692

Source: "NH Visitor Surveys", Institute for NH Studies at Plymouth State University, PolEcon Research

Key Findings: The Net Tax Yield From a Retail Sales Tax in NH

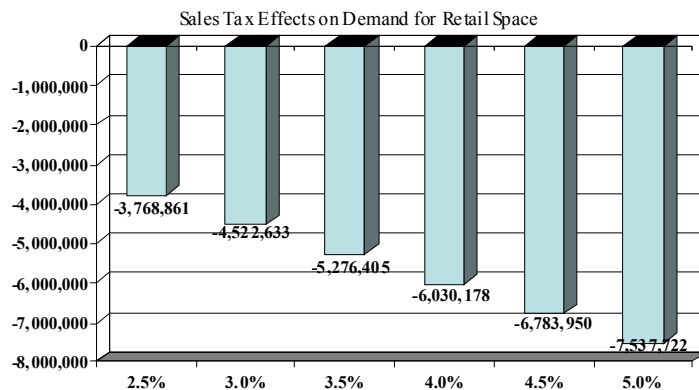
- Although a 2.5% retail sales tax would yield approximately \$322 million dollars for the state, declines in other state revenues from the loss of retail sales and visitors to NH would reduce the net tax yield for the state to about \$269 million. The largest declines in revenue among state sources would occur in visitor related spending subject to taxation, such as meals taxes, and well as business taxes (Figure 26).

Figure 26
When the Impact on all Revenue Sources are Considered, Net Revenue to the State From a Sales Tax Will be Much Lower than Forecast and Local Revenues Will be Strongly Negative



- Local governments stand to lose about \$83.5 million of revenue if NH adopts a sales tax. The decline in retail sales resulting from a retail sales tax will reduce the demand for retail space, lowering property values, reducing the commercial property tax base of communities, and reducing property tax payments by about \$80 million in the absence of higher tax rates. With a 2.5% sales tax local governments also lose about \$3.5 million in revenue from a reduction in shopping related visits to NH.
- Much of the decline in property values will occur in communities in Southern NH along the Massachusetts border. These communities will see the largest drops in retail sales and the largest declines in demand for retail space. In addition, increases in retail vacancies will lower commercial property values, property tax payments, and produce a greater shift in the property tax burden to residential properties.
- A 2.5% sales tax would reduce sales enough to increase retail vacancies by about 3.8 million square feet, more than double the amount of vacant retail space that existed in Southern NH during the first-half of 2010 (Figure 27).

Figure 27
There is Currently About 2.8 Million Sq.Ft. of Vacant Retail Space in Southern NH. A Sales Tax Will Further Reduce Demand, Doubling or Tripling Vacancies and Lowering Commercial Property Values



Source: "Southern NH Retail Report 2010", KeyPoint Partners, LLC, PolEcon Calculations

Key Findings: The Employment Impacts of a Sales Tax in NH

- Even a low rate sales tax of 2.5% will result in the loss of 13,105 jobs in NH, almost half as many as were lost during the recent recession (Figure 28). Higher tax rates result in substantially greater job losses, with a 5.0% rate reducing employment by over 26,000 jobs or more than 4 percent of total employment in the state.
- Nearly 60 percent of job losses will be in the retail industry, but 40 percent of job losses will occur in other industries.¹⁰

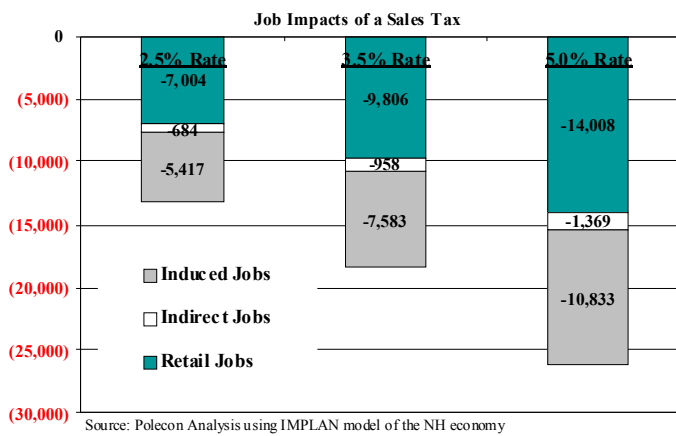
¹⁰ Indirect jobs here represent the jobs in other NH business that result from the changes in expenditures for goods and services from other NH businesses, made by NH retailers, that are related to the change in retail sales that would result from the imposition of a retail sales tax. Induced jobs are the jobs that result from changes in spending on goods and

- Over \$530 million in wage and salary and proprietor's income would be lost in NH because of the job losses associated with a 2.5% general sales tax.

- Combined with expected job losses of 13,105, the \$269.7 million net increase in revenue that a 2.5% sales tax would yield implies that NH will sacrifice each job lost as a result of the general sales tax for a price of just \$20,579 in additional state revenue

Figure 28

Even a 2.5% General Sales Tax Will Cost NH 13,100 Jobs (59% in Retail, 41% in Other Industries), About Equal to One-Half of the Total Number of Jobs Lost During The Recent Recession



V. Conclusions

The analyses in this report highlight several important impacts associated with the retail sales advantage in New Hampshire that results from the lack of a general sales tax in the state. The report demonstrates that many of the commonly held perceptions about the nature of employment in retail industries are not accurate, and that NH's retail industry is a primary provider of employment opportunities for individuals with varying characteristics and employment needs. In addition, the report shows that NH's high level of retail employment does not supplant or replace job growth in other industries but rather complements and results from the growth in other private sector industries, expanding overall employment opportunities for a broader segment of NH's population.

This report documents the unique advantage that being sales tax free offers NH, and shows that the state's retail advantage has been growing relative to other states over time. Finally, the report concludes that even a low rate sales tax, one that is well below that of neighboring states, will have large, negative employment and income impacts in the state of New Hampshire. This is our most important finding because it stands in contrast to the observations and anecdotes offered by some proponents of a sales tax who believe that enacting a sales tax at a rate well below that of other states will allow the benefits of NH's retail sales advantage to continue.

A large set of benefits associated with NH's retail advantage are at risk when undocumented assumptions are allowed to replace empirical analysis. This report is an effort to inform debates

services in NH as a result of changes in income earned by workers that would result from the imposition of a retail sales tax in NH.

on retail sales taxes and the role of the retail industry in NH by introducing more empiricism into those debates.



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