

New Hampshire Department of Revenue Administration

Kevin Clougherty, Commissioner

How Does New Hampshire Do It?

- Demographic advantage
 - Less poverty; better educated; younger
- Strategic funding decisions regarding education and social service thresholds
- Greater reliance on corporate and property taxes

Source: Federal Reserve Bank of Boston

Robert Tannenwald – Senior Fellow at the Center on Budget and Policy Priorities, and former Vice President of the Boston Federal Reserve Bank.

Statement from testimony before the New Hampshire Business Tax Commission:

"Business taxes are a small percentage of total business costs. Nationwide, state and local taxes account for about 2 percent of business costs. By comparison, compensation of employees accounts for 18 percent of business costs in manufacturing and between 18 percent and 60 percent of costs in retail, services, information, and financial intermediation... New Hampshire has some of the most expensive labor in the nation...Energy costs are among the highest as well."

Per Capita Revenues for State & Local Governments Combined for New England States, FY 2007

	CT	ME	MA	NH	RI	VT	NE average	NH \$ gap	NH % gap	NH rank
Property	2,314	1,565	1,703	2,215	1,857	1,994	1,911	304	15.9	2
General Sales	869	801	629	-	828	548	657	(657)	(100.0)	6
Selective sales	656	483	323	559	467	832	474	85	18.0	3
Individual income	1,817	1,116	1,758	82	1,026	937	1,469	(1,388)	(94.4)	6
Corporate income	256	140	325	453	169	134	283	170	60.0	1
Motor vehicle license	58	65	46	65	50	122	56	9	16.0	2
Other taxes	199	193	170	234	128	163	182	52	28.6	1
Current charges	728	871	946	861	826	998	872	(11)	(1.2)	4
Misc. own-source	616	721	962	754	974	795	830	(76)	(9.2)	4
Intergovernmental	1,308	1,917	1,643	1,281	1,988	2,310	1,608	(327)	(20.3)	6
Total	8,823	7,873	8,507	6,504	8,315	8,834	8,341	(1,837)	(22.0)	6

Source: "How Does New Hampshire Do It? An Analysis of Spending and Revenues in the Absence of a Broad-Based Income or Sales Tax" by Jennifer Weiner, Senior Policy Analyst at the New England Public Policy Center, Federal Reserve Bank of Boston

Corporate Income Tax Rates

- NH – 8.5%
- Eight (8) states with a flat rate higher than NH
 - California, Delaware, Illinois, Minnesota, New Jersey, Pennsylvania, Rhode Island and District of Columbia
- Two (2) states with a flat rate equal to NH
 - Indiana and West Virginia
- Four (4) states with variable rates that have a high end bracket equal to or above NH
 - Alaska, Iowa, Maine, Vermont

RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2011 -- as of January 1, 2011)

STATE	TAX RATE (percent)	TAX BRACKETS		NUMBER OF BRACKETS	TAX RATE (a) (percent) FINANCIAL INST.	FEDERAL INCOME TAX DEDUCTIBLE
		LOWEST	HIGHEST			
ALABAMA	6.5	---	Flat Rate---	1	6.5	Yes
ALASKA	1.0 - 9.4	9,999	90,000	10	1.0 - 9.4	
ARIZONA	6.968 (b)	---	Flat Rate---	1	6.968 (b)	
ARKANSAS	1.0 - 6.5	3,000	100,001	6	1.0 - 6.5	
CALIFORNIA	8.84 (c)	---	Flat Rate---	1	10.84 (c)	
COLORADO	4.63	---	Flat Rate---	1	4.63	
CONNECTICUT	7.5 (d)	---	Flat Rate---	1	7.5 (d)	
DELAWARE	8.7	---	Flat Rate---	1	8.7-1.7 (e)	
FLORIDA	5.5 (f)	---	Flat Rate---	1	5.5 (f)	
GEORGIA	6.0	---	Flat Rate---	1	6.0	
HAWAII	4.4 - 6.4 (g)	25,000	100,001	3	7.92 (g)	
IDAHO	7.6 (h)	---	Flat Rate---	1	7.6 (h)	
ILLINOIS	9.5 (i)	---	Flat Rate---	1	9.5 (i)	
INDIANA	8.5	---	Flat Rate---	1	8.5	
IOWA	6.0 - 12.0	25,000	250,001	4	5.0	Yes (j)
KANSAS	4.0 (k)	---	Flat Rate---	1	2.25 (k)	
KENTUCKY	4.0 - 6.0	50,000	100,001	3	--- (a)	
LOUISIANA	4.0 - 8.0	25,000	200,001	5	4.0 - 8.0	Yes
MAINE	3.5 - 8.93	25,000	250,000	4	1.0 (l)	
MARYLAND	8.25	---	Flat Rate---	1	8.25	
MASSACHUSETTS	8.25 (m)	---	Flat Rate---	1	9.5 (m)	
MICHIGAN	4.95 (n)	---	Flat Rate---	1	--- (a)	
MINNESOTA	9.8 (o)	---	Flat Rate---	1	9.8 (o)	
MISSISSIPPI	3.0 - 5.0	5,000	10,001	3	3.0 - 5.0	
MISSOURI	6.25	---	Flat Rate---	1	7.0	Yes (j)
MONTANA	6.75 (p)	---	Flat Rate---	1	6.75 (p)	
NEBRASKA	5.58 - 7.81		100,000	2	--- (a)	
NEVADA		No corporate income tax				
NEW HAMPSHIRE	8.5 (q)	---	Flat Rate---	1	8.5 (q)	
NEW JERSEY	9.0 (r)	---	Flat Rate---	1	9.0 (r)	
NEW MEXICO	4.8 - 7.6	500,000	1 million	3	4.8 - 7.6	
NEW YORK	7.1 (s)	---	Flat Rate---	1	7.1 (s)	
NORTH CAROLINA	6.9	---	Flat Rate---	1	6.9 (t)	
NORTH DAKOTA	2.1-6.4	25,000	50,001	3	7 (b)	Yes
OHIO	(u)	---	Flat Rate---		--- (u)	
OKLAHOMA	6.0	---	Flat Rate---	1	6.0	
OREGON	6.6 - 7.6 (v)		250,001	2	6.6 - 7.6 (v)	
PENNSYLVANIA	9.99	---	Flat Rate---	1	--- (a)	
RHODE ISLAND	9.0 (w)	---	Flat Rate---	1	9.0 (w)	
SOUTH CAROLINA	5.0	---	Flat Rate---	1	4.5 (x)	
SOUTH DAKOTA		No corporate income tax			6.0-0.25% (b)	
TENNESSEE	6.5	---	Flat Rate---	1	6.5	
TEXAS	(y)	---	Flat Rate---		(y)	
UTAH	5.0 (b)	---	Flat Rate---		5.0 (b)	
VERMONT	6.0 - 8.5 (b)	10,000	250,000	3	--- (a)	
VIRGINIA	6.0	---	Flat Rate---	1	6.0	
WASHINGTON		No corporate income tax				
WEST VIRGINIA	8.5 (z)	---	Flat Rate---	1	8.5 (z)	
WISCONSIN	7.9	---	Flat Rate---	1	7.9	
WYOMING		No corporate income tax				
DIST. OF COLUMBIA	9.975 (b)	---	Flat Rate---	1	9.975 (b)	

Source: Compiled by FTA from state sources.

Footnotes on next page.

TABLE 17
STATE CORPORATION INCOME TAX RATES
(Maximum Rates)
DISTRICT OF COLUMBIA: 9.975%

LOWER THAN THE DISTRICT 43 STATES			
Kansas 1/	4.00%	Idaho	7.60%
Colorado	4.63%	New Mexico	7.60%
Michigan	4.95%	Nebraska 4/	7.81%
Mississippi	5.00%	Wisconsin	7.90%
South Carolina	5.00%	Oregon	7.99%
Utah	5.00%	Louisiana	8.00%
Florida	5.50%	Connecticut 5/	8.25%
Georgia	6.00%	Maryland	8.25%
Kentucky	6.00%	New Hampshire	8.50%
Oklahoma	6.00%	Indiana	8.50%
Virginia	6.00%	Ohio	8.50%
Missouri	6.25%	Vermont	8.50%
Hawaii	6.40%	West Virginia	8.50%
Alabama	6.50%	Delaware	8.70%
Arkansas	6.50%	California	8.84%
North Dakota	6.40%	Maine	8.93%
Tennessee	6.50%	New Jersey	9.00%
Montana 2/	6.75%	Rhode Island	9.00%
North Carolina	6.90%	Alaska	9.40%
Arizona	6.968%	Massachusetts	9.50%
New York 3/	7.10%	Minnesota	9.80%
Illinois	7.30%		
HIGHER THAN THE DISTRICT 2 STATES			
Pennsylvania	9.99%	Iowa	12.00%
NO TAX 5 STATES			
Nevada		Washington (Gross Receipts Tax)	
South Dakota		Wyoming	
Texas			

1/ Rate does not include a 3.05% surtax on taxable income in excess of \$50,000.

2/ The rate is 7% for corporations making a "water's edge" election.

3/ Lower rates apply to qualified small businesses and manufacturers.

4/ < \$100k = 5.58%.

5/ Includes a 10% surtax. Corporations whose gross income is less than \$100 million are exempt from surtax unless they file as part of a combined or unitary return.

TABLE 18

Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison

Table E-1. Top-10 and Bottom-10 states ranked by Ernst & Young LLP/COST business tax competitiveness, 2009

States with the lowest ETR on new investment			States with the highest ETR on new investment		
State	Effective tax rate	Rank	State	Effective tax rate	Rank
Maine	3.0%	1	West Virginia	9.7%	42
Oregon	3.8%	2	Alabama	9.7%	43
Ohio	4.4%	3	Mississippi	10.2%	44
Wisconsin	4.5%	4	Tennessee	10.3%	45
Illinois	4.6%	5	Hawaii	10.8%	46
Virginia	5.4%	6	Louisiana	11.1%	47
New Hampshire	5.4%	7	Kansas	11.2%	48
Delaware	5.7%	8	Rhode Island	11.5%	49
Wyoming	5.8%	9	District of Columbia	16.6%	50
Minnesota	6.0%	10	New Mexico	16.6%	51

Estimated Burden of Major Taxes for a Hypothetical Family of Three, 2009

\$50,000								
Rank	City	State	Taxes				Burden	
			Income	Property	Sales	Auto	Amount	Percent
1	Bridgeport	CT	349	8,688	801	510	10,348	20.7%
11	Portland	ME	1,295	3,031	560	350	5,235	10.6%
15	Boston	MA	1,714	2,630	428	259	5,031	10.1%
17	Providence	RI	913	2,471	898	667	4,949	9.9%
18	Burlington	VT	943	2,872	745	179	4,739	9.5%
33	Manchester	NH	-	3,629	-	231	3,861	7.7%

\$75,000								
Rank	City	State	Taxes				Burden	
			Income	Property	Sales	Auto	Amount	Percent
1	Bridgeport	CT	2,514	9,568	1,186	995	14,263	19.0%
6	Portland	ME	2,990	3,682	824	586	8,082	10.8%
19	Boston	MA	2,998	2,844	640	465	6,947	9.3%
22	Providence	RI	1,714	2,759	1,261	966	6,700	8.9%
25	Burlington	VT	1,692	3,480	1,083	279	6,534	8.7%
43	Manchester	NH	-	4,075	-	410	4,485	6.0%

\$100,000								
Rank	City	State	Taxes				Burden	
			Income	Property	Sales	Auto	Amount	Percent
1	Bridgeport	CT	4,007	10,766	1,825	1,362	17,960	18.0%
5	Portland	ME	4,966	4,029	1,390	1,044	11,430	11.4%
17	Providence	RI	2,828	2,967	1,891	2,248	9,934	9.9%
22	Boston	MA	4,296	2,935	1,046	857	9,135	9.1%
23	Burlington	VT	2,906	3,967	1,840	331	9,044	9.0%
47	Manchester	NH	-	4,453	-	679	5,131	5.1%

Source: "Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison"

Who is Paying NH Corporate Taxes?

“A large portion of businesses in the State are very small (< 10 employees) and include a large portion of self employed individuals ...”

“Self employed individuals and small firms (< 10 employees) make up about 85 percent of the businesses in the State, but account for approximately one-third of the employed population. Large firms on the other hand, make up roughly 15 percent of the businesses in the State, but account for two-thirds of the employed population.”

Source: 2010 RKM Research and Communication, Inc.
RKM/BIA 2011 NH Business Outlook Survey
NH Business and Industry Association

Business Tax Stats by Tax Year and Amount of Tax Liability

All BET and BPT Entity Types

This Population includes all Corporations, Partnerships, Proprietorships, and any other Entity that Files BET and/or BPT

DRAFT as of 6/20/11

Tax Year 2009 Range in Tax Paid	COUNT	Sum TAX	% of POP	% of Tax Liability by POP
\$0	23,206	-	36.2%	0.0%
\$1 - \$500	10,887	2,346,395	17.0%	0.5%
\$500 - \$1K	8,520	6,193,639	13.3%	1.4%
\$1K - \$10K	17,439	54,759,431	27.2%	12.6%
\$10K - \$50K	3,121	63,748,011	4.9%	14.7%
\$50K - \$100K	432	29,373,704	0.7%	6.8%
\$100K - \$MIL	432	116,930,836	0.7%	26.9%
>\$1MIL	43	161,608,785	0.1%	37.2%
Totals:	64,080	<u>\$434,960,801</u>		

2009	COUNT	Sum TAX	% of Total POP	% of Total Tax Liability by POP
Corporations	24,058	\$129,966,041	37.5%	29.9%
Water's Edge	2,540	\$236,750,186	4.0%	54.4%
Partnerships	10,439	\$45,326,457	16.3%	10.4%
Proprietors	26,753	\$21,618,792	41.7%	5.0%
Fiduciaries	290	\$1,299,326	0.5%	0.3%
Totals:	64,080	<u>\$434,960,801</u>		

Summary of 2009 Business Taxes*

- 130,000 to 150,000 Business Entities operating in NH

- 64,080 Business Entities filed business tax returns

- 23,206 Business Entities filing business tax returns paid no (\$0) BET or BPT

- 40,874 Business Entities filed business tax returns with payments totaling \$435.0m, of which

- 907 (2.2%) of those paid 70.8% of BET/BPT (\$307.9m out of \$435.0m)

- 764 (84.2%) are corporations paying a total of \$286,006,391

- 125 (13.8%) are partnerships paying a total of \$19,619,133

- 18 (2.0%) are proprietors and fiduciaries paying a total of \$2,287,801

- The remaining 42,737 (97.6%) paid 33.7% of BET/BPT (\$140.8m out of \$435.0m)

- Of the 39,967 Business Entities that filed and paid 29.2% of BPT/BET:

- 10,887 (27.2%) paid under \$500 = \$2,346,395 (1.8%)

- 8,520 (21.3%) paid \$500 - \$1,000 = \$6,193,639 (4.9%)

- 17,439 (43.6%) paid \$1,000 - \$10,000 = \$54,759,431(43.1%)

- 3,121 (7.8%) paid \$10,000 - \$50,000 = \$63,748,011 (50.2%)

	BET	BPT	Combined	
Corporations	\$138,908,128	\$227,808,099	\$366,716,227	84.3%
Partnerships	\$16,139,438	\$29,187,018	\$45,326,457	10.4%
Proprietors	\$11,942,072	\$9,676,721	\$21,618,792	5.0%
Fiduciaries	\$88,479	\$1,210,846	\$1,299,326	0.3%
	\$167,078,117	\$267,882,685	\$434,960,801	

- If there are 150,000 business entities operating in the state of NH then 109,100 or 72.7% of them pay no business taxes (neither BET nor BPT)

- If there are 130,000 business entities operating in the state of NH then 89,100 or 68.5% of them pay no business taxes (neither BET nor BPT)

- When BET and BPT are split out:

- 410 (1.1%) are paying 46.9% of BET

- 384 (93.7%) are corporations paying a total of \$75,781,386

- 26 (6.3%) are partnerships, proprietors and fiduciaries paying a total of \$2,576,203

- 542 (0.8%) are paying 80.9% of BPT

- 431 (79.5%) are corporations paying a total of \$199,465,342

- 97 (17.9%) are partnerships paying a total of \$15,461,895

- 14 (2.6%) are proprietors and fiduciaries paying a total of \$1,828,550

- Per returns received as of June 20, 2010

All facts and figures are unaudited and should be considered draft

Perceptions

Tax forms are...

- complicated (Independent Third Party Vendors)
- tough to understand and lack adequate instructions (CPA Society White Paper)

Revenue forecasting...

- is questionable (PEW Center on the States and the Nelson A. Rockefeller Institute of Government)

Tax remittance is...

- difficult
- outdated

Agency Functions and Responsibilities

Administers 14 Taxes ~ \$1.4B Revenue

•Business Enterprise Tax	RSA 77-E
•Business Profits Tax	RSA 77-A
•Communications Services Tax	RSA 82-A
•Electricity Consumption Tax	RSA 83-E
•Interest and Dividends Tax	RSA 77
•Gambling Tax	RSA 77
•Meals and Rooms Tax	RSA 78-A

•Medicaid Enhancement Tax	RSA 84-A
•Tobacco Tax	RSA 78
•Taxation of Railroads	RSA 78
•Utility Property Tax	RSA 83-F
•Excavation Tax	RSA 72-B
•Real Estate Transfer Tax	RSA 78-B
•Timber Tax	RSA 79

Oversees Property Tax ~ \$3.5B Revenue

Municipal Services Division

- Oversee and assists all of the communities in the collection of taxes for local and state taxation
- Provide technical assistance in municipal budget process
- Calculate surety bonds RSA 41
- Assist in assuring regular municipal audits
- Review Municipal Charters RSA 49-B
- Prepare state tax warrants RSA 76:8

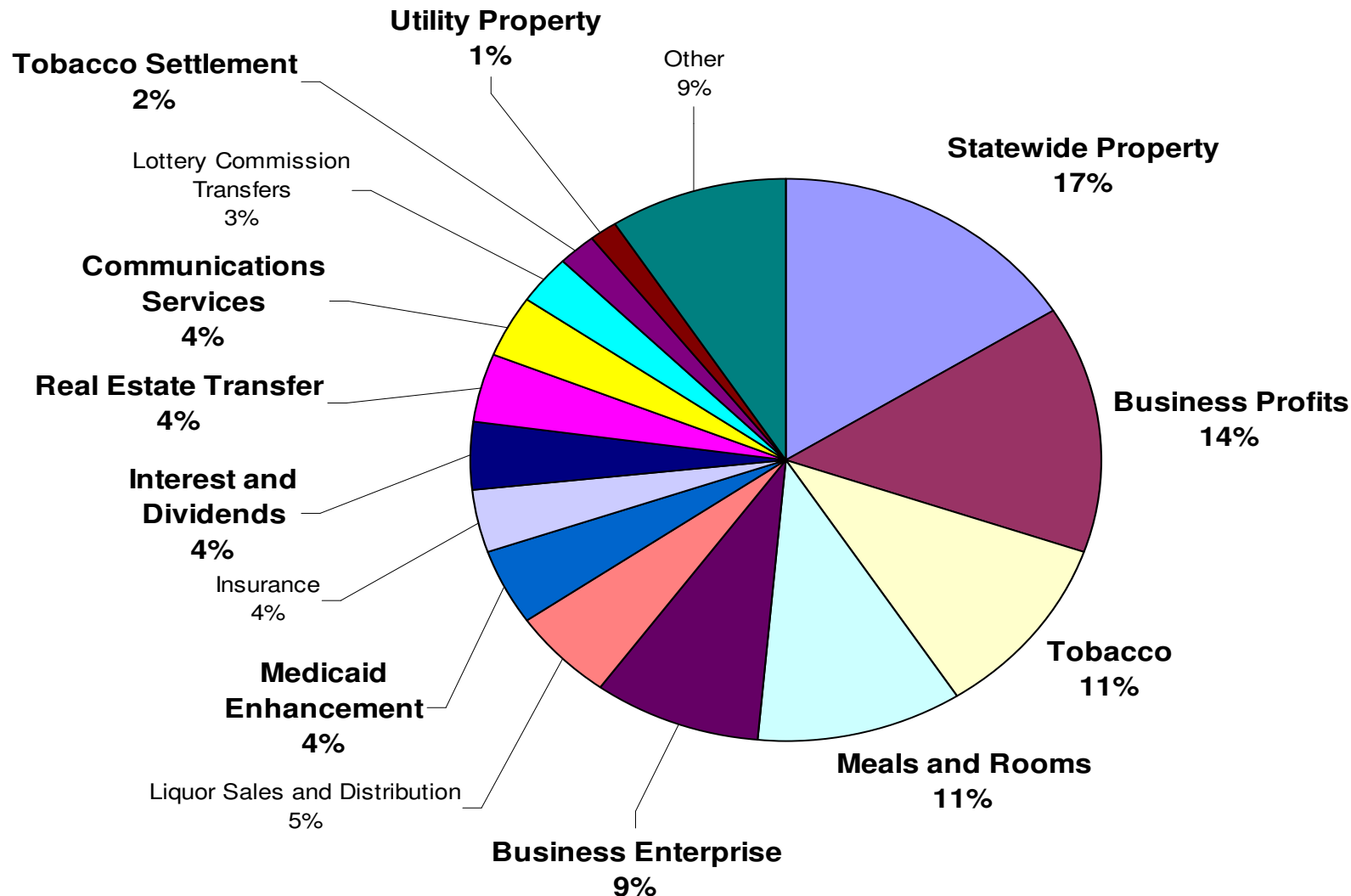
Property Appraisal Division

- Supervise property tax assessments
- Certify assessing personnel
- Conduct Assessment Review in every community
- Monitor all reappraisals for tax purposes
- Equalize all property values in state to market value
- Estimate value of all utility property RSA 83-F
- Provide administrative support to Timber and Gravel Tax RSA 79 and RSA 72-B
- Administratively support Current Use, Equalization and Assessing Standards Boards

Share of Unrestricted Revenues

General and Education Funds – Source FY2010 CAFR

Note: DRA's Statutory Responsibilities represent approximately 79% of NH State Revenue



Inbound Processing FY2010

	Documents		Payments	
Type	Quantity	Percent	Quantity	Percent
Paper	527,976	87%	237,655	78%
Electronic File	60,028	10%	52,314	17%
Tele File	17,584	3%	15,551	5%
Total	605,588		305,520	

M&R returns account for 81% of electronically filed payments totaling \$161M.

Document and Data Processing

PAPER PROCESSING COSTS*				
Type	Quantity	Item Cost	Item Fees	Total
Documents	527,976	\$11.13		\$5.9M
Checks	237,655	\$2.10	\$.07	\$516K
NSF	438	\$80		\$35K
Armored Car				\$18K
Total Direct Operating Expense				\$6.5M

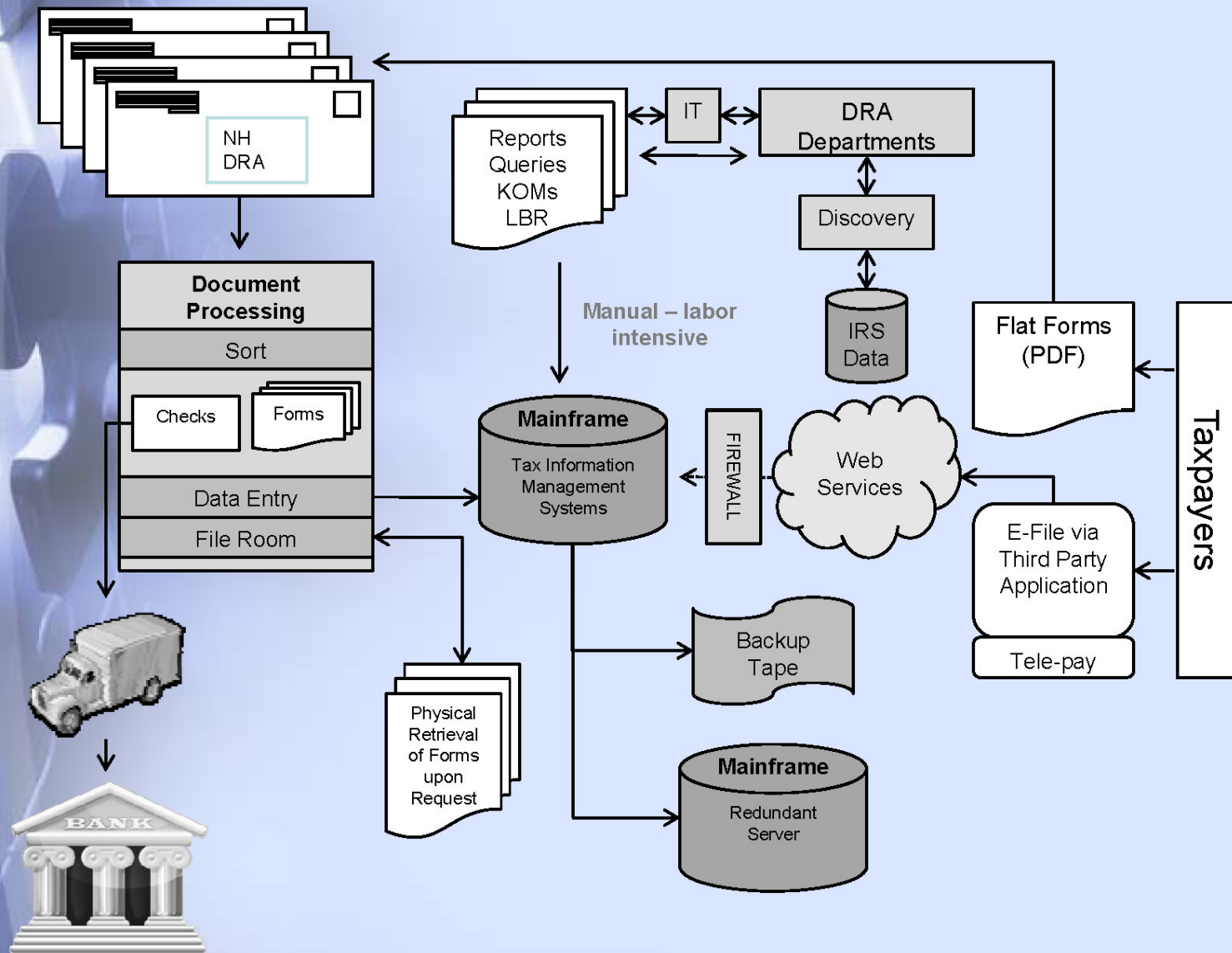
Data Availability

- ~ 50% of data received is data entered or scanned into DRA tax systems
- The aforementioned data is entered within 90 days of receipt

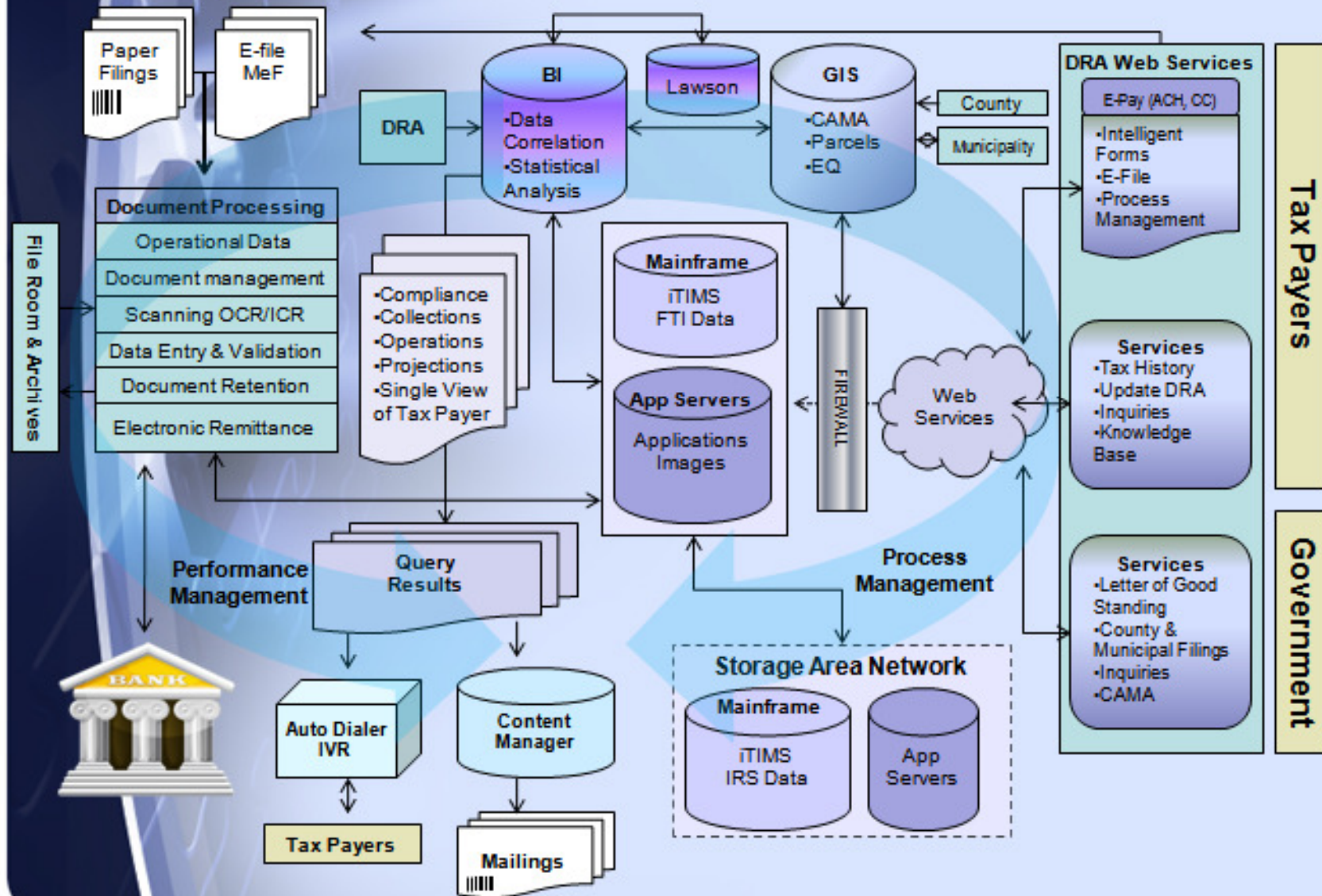
MANUAL PROCESS

* Does not include overhead or indirect costs

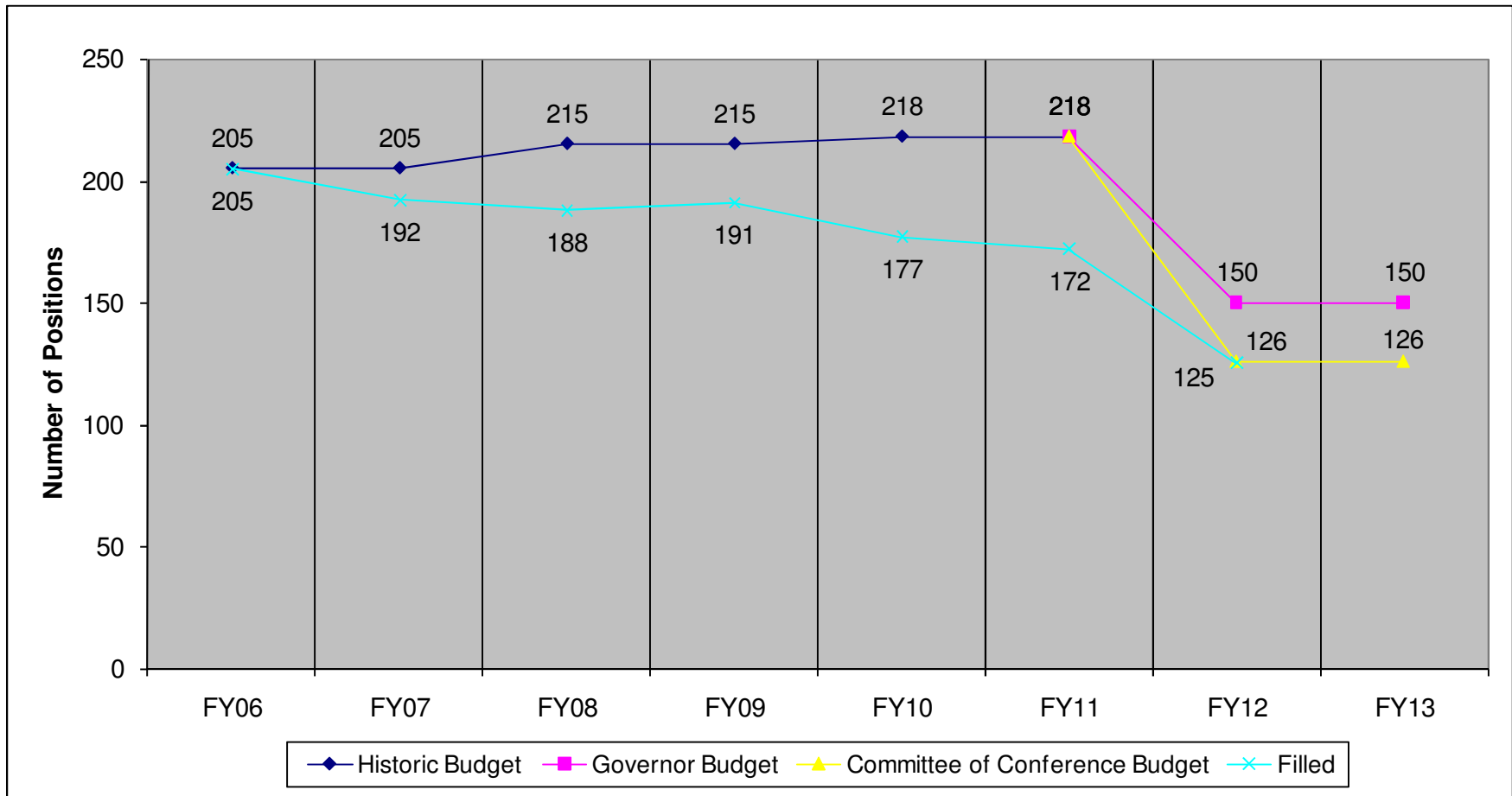
2010 Architecture



DRA Modernization



DRA Personnel



Solutions

- Clearer laws and reporting standards
- Clearer forms with clearer instructions that are “smart” and “electronic” (help from CPA Society and NH Bar Association)
- More efficient processing – produces better information faster
- Better case law (Supreme Court decisions)

Where Are We Now with Revenues?

FY10

	Original FY10 Budget	FY10 Actual - CAFR	Change from Original Budget	
			\$	%
BS	\$ 502.8	\$ 510.1	\$ 7.3	1.5%
M&R	\$ 251.1	\$ 232.5	\$ (18.6)	-7.4%
I&D	\$ 117.0	\$ 84.9	\$ (32.1)	-27.4%
Tobacco	\$ 217.2	\$ 243.5	\$ 26.3	12.1%
RETT	\$ 84.7	\$ 84.8	\$ 0.1	0.1%
Gambling	\$ 5.9	\$ 2.9	\$ (3.0)	-50.8%
CST	\$ 82.0	\$ 81.0	\$ (1.0)	-1.2%
UP	\$ 28.0	\$ 29.9	\$ 1.9	6.8%
ECT	\$ 6.0	\$ 6.0	\$ -	0.0%
TOTAL	\$ 1,294.7	\$ 1,275.6	\$ (19.1)	-1.5%

FY11

	FY11 Plan (Special Session 7/30/10)	FY11 Actual - Cash	Change from Plan	
			\$	%
BS	\$ 503.0	\$ 487.6	\$ (15.4)	-3.1%
M&R	\$ 245.0	\$ 235.2	\$ (9.8)	-4.0%
I&D	\$ 90.1	\$ 77.0	\$ (13.1)	-14.5%
Tobacco	\$ 220.6	\$ 232.1	\$ 11.5	5.2%
RETT	\$ 89.2	\$ 82.2	\$ (7.0)	-7.8%
Gambling	\$ 3.4	\$ 3.2	\$ (0.2)	-5.9%
CST	\$ 75.0	\$ 78.2	\$ 3.2	4.3%
UP	\$ 28.0	\$ 32.3	\$ 4.3	15.4%
ECT	\$ 6.0	\$ 6.1	\$ 0.1	1.7%
TOTAL	\$ 1,260.3	\$ 1,233.9	(26.4)	-2.1%

FY12

	FY11 Actual - Cash	FY12 - Plan	Change from FY11 Actual		FY12 - Through 10/14/11	Change from FY11 - Through 10/14/11	
			\$	%		\$	%
BS	\$ 487.6	\$ 503.0	\$ 15.4	3.2%	\$ 126.7	\$ 21.8	17.2%
M&R	\$ 235.2	\$ 229.2	\$ (6.0)	-2.6%	\$ 81.8	\$ 4.5	5.8%
I&D	\$ 77.0	\$ 85.4	\$ 8.4	10.9%	\$ 14.7	\$ (0.3)	-2.0%
Tobacco	\$ 232.1	\$ 223.5	\$ (8.6)	-3.7%	\$ 69.8	\$ (4.2)	-5.7%
RETT	\$ 82.2	\$ 79.6	\$ (2.6)	-3.2%	\$ 32.3	\$ 1.7	5.6%
CST	\$ 78.2	\$ 80.2	\$ 2.0	2.6%	\$ 20.5	\$ (1.3)	-6.0%
UP	\$ 32.3	\$ 28.2	\$ (4.1)	-12.7%	\$ 7.5	\$ 0.7	10.3%
ECT	\$ 6.1	\$ 6.0	\$ (0.1)	-1.6%	\$ 1.9	\$ 0.3	18.8%
TOTAL	\$ 1,230.7	\$ 1,235.1	\$ 4.4	0.4%	\$ 355.2	\$ 23.2	6.6%