

# New Hampshire Department of Revenue Administration House Finance Committee

January 16, 2019



Lindsey M. Stepp, Commissioner  
Carolynn J. Lear, Assistant Commissioner

109 Pleasant Street, Concord, NH 03301

603-230-5000



# MISSION

The mission of the Department of Revenue Administration is to fairly and efficiently administer the tax laws of the State of New Hampshire, collecting the proper amount of taxes due, incurring the least cost to the taxpayers, in a manner that merits the highest degree of public confidence in our integrity. Further, we will provide prompt and constructive assistance to the municipal units of government in matters of budget, finance, and the appraisal of real estate.



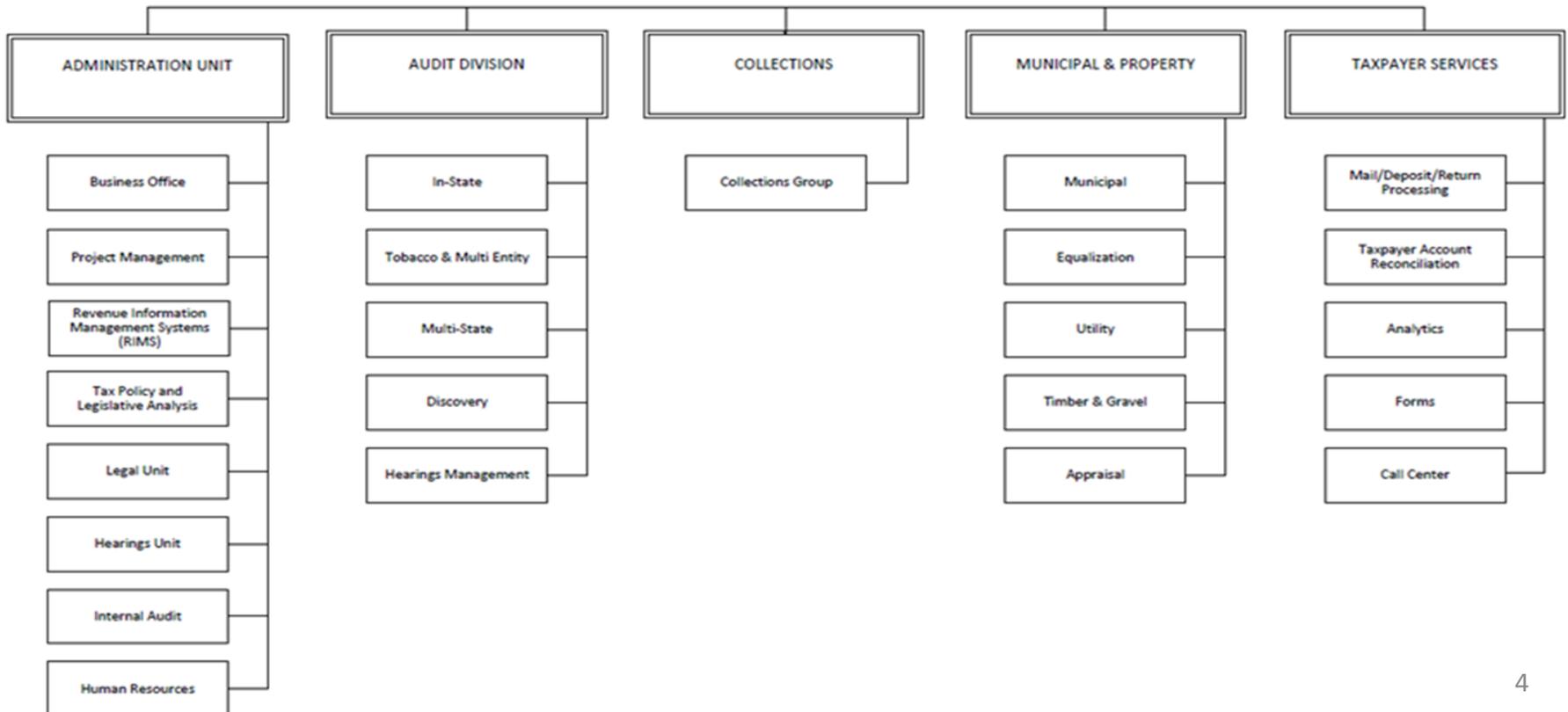
# TAXPAYER INTERACTION

It is the policy of the Department of Revenue Administration to administer the tax laws of the State in a manner that demonstrates efficiency, fairness, and courtesy towards every taxpayer.

# Department of Revenue Administration Organizational Chart

COMMISSIONER

ASSISTANT  
COMMISSIONER



# Administration Unit

- Performs administrative functions necessary to support Department of Revenue Administration (DRA) operations, and includes:
  - Commissioner's Office
  - Business Office
  - Project Management
  - RIMS Management
  - Tax Policy & Legislative Analysis
  - Legal Bureau
  - Hearings Bureau
  - Internal Audit
  - Human Resources

# Audit Division

- Conducts audits of tax returns of individuals, partnerships, estates, trusts, corporations, and documents filed with the DRA to ensure compliance with New Hampshire tax laws and rules.
- Discovery /Nexus Unit researches federal and state filings to identify non-filers who may have a duty to file and pay New Hampshire taxes.

# Collections Division

- Initiates collection activities in pursuit of delinquent tax returns and outstanding payments for all taxes administered by DRA.
- Monitors monthly filing of meals and rentals tax returns.
- Issues wholesale tobacco tax licenses and meals and rentals tax licenses.
- Sells tobacco tax stamps.

# Municipal and Property Division

- Establishes and approves municipal, school, county and village district tax rates.
- Provides technical assistance and training in all aspects of municipal finance and budgeting.
- Monitors reappraisals and certifies tax assessors.
- Equalizes local assessed values of municipalities to full value.
- Appraises public utility and railroad property for the administration of corresponding taxes.
- Administers timber and gravel taxes.
- Provides support for statutorily attached boards (Assessing Standards Board and Current Use Board).

# Taxpayer Services Division

- Receives, processes, and stores all tax documents, return payments and electronic transactions filed with DRA.
- Manages forms development for all forms filed with DRA.
- Provides general assistance to the public for all taxes administered by the DRA and maintains taxpayer accounts.

## Department of Information Technology (Embedded Personnel)

- Designs, develops and maintains computerized systems to support the administration of taxes and to automate labor intensive functions.

## **FY 2019 / FY 2020 Agency Budget – The Big Picture**

- Governor Sununu’s **general fund** target for DRA was a 0.5% increase over the FY19 base for FY20 and a 0.5% increase over FY20 for FY21:
  - Current FY19 budget: **\$18,976,350**
  - 0.5% increase: **\$94,882**
  - Target for FY20: **\$19,071,232**
  
  - Target for FY20: **\$19,071,232**
  - 0.5% increase: **\$95,356**
  - Target for FY21: **\$19,166,588**
  
- DRA general fund efficiency budget as submitted:
  - FY20: **\$19,071,232**
  - FY21: **\$19,166,588**
  
- DRA total funds budget (includes Flood Control and L&M Property Tax Relief Program):
  - Current FY19 budget: **\$21,450,365**
  - FY20 target (0.5% increase for all funds): **\$21,557,617**
  - FY20 efficiency budget as submitted: **\$21,448,367**
  - FY21 target (0.5% increase for all funds): **\$21,665,405**
  - FY21 efficiency budget as submitted: **\$21,546,859**

## **FY 2020 / FY 2021 Agency Budget Highlights**

- Current position count is static – 156 full time classified and unclassified positions.
  - Our general fund operating budget is 70% salary and benefits; we're a department of people, not things or programs.
- DoIT services and positions are maintained.
  - DoIT efficiency budget costs held steady at approximately \$2.8 million per year.
- Funding for critical vendors included (e.g., web-file, equalization & tax rate setting, temp. services, etc.).
- Maintains operational capabilities as we anticipate adjusting resources for Revenue Information Management System (RIMS) project.
- No new major costly initiatives to drive the other 30% (non-salary and benefits).
- Division Directors, Business Office, and other managers worked hard to budget conservatively and accurately, requesting funds for needs not wants.

## FY 2020 / FY 2021 Agency Budget – The Big Picture

- The DRA's efficiency budget as submitted covers all current operations, increases in shared services costs, increases in salaries and benefits provided for in the collective bargaining agreement and maintains the current number of authorized positions.
- The DRA's additional prioritized needs include:
  - \$340,000 in FY20 and FY21 for services to assist DRA with Periodic Project Health Assessments for the Revenue Information Management System (RIMS).
    - Health assessments will gauge the vendor's performance on the project, the project timeline, and also DRA's progress in adapting to the new system.
    - One year contract not to exceed \$339,000 was approved by G&C on October 31, 2018 for FY19, with the option of up to three additional one year renewals.

## FY 2020 / FY 2021 Agency Budget – The Big Picture

- DoIT direct and shared additional prioritized needs include:
  - \$86,900 in FY20 and \$90,300 in FY21 for hardware maintenance for a second document imaging scanner that was budgeted for, and will be purchased, in FY19.
  - \$45,000 in FY20 for upgrade of Modernized eFile SQL server database. Extended support ends 7/9/19 on current version. Benefits include enhancements, fixes and security updates.
  - \$20,000 in FY20 and FY21 for annual maintenance and support of a US postal database for cleansing to ensure correct addresses that will be used in the migration to the new RIMS system.
  - \$5,000 in FY20 and FY21 for annual maintenance and support of a geographic information system license (ESRI) that will provide Municipal and Property field employees enhanced tools after implementation in FY18 and FY19.
  - \$13,482 in FY20 and \$261 in FY21 for shared software and consultant services with DoIT.
  - \$850 in FY20 and \$450 in FY21 for Skype software in order to increase staff productivity and improve collaboration.

## **FY 2020 / FY 2021 Agency Budget Highlights**

- Flood Control – RSA 122:4
  - \$887,000 (\$259,865 general fund and \$627,135 other funds) in FY20 and \$887,000 (\$256,729 general fund and \$630,271 other funds) in FY21.
  - The Department reimburses cities and towns for lost property taxes resulting from property acquired in the Acquisition of Land by the United States for Navigations and Flood Control.
  - The FY20 and FY21 budget assumes Massachusetts will reimburse their share of 70% of Merrimack River Valley compact as well as 50% of the Connecticut River Valley compact and Connecticut will reimburse their share of 40% of the Connecticut River Valley compact.
  - There is a long history of Massachusetts not paying its obligation timely or sufficiently for the Merrimack River Valley compact, with \$1,992,884 currently outstanding for FY15, FY16, FY17 and FY18 (payments through FY14 have been settled).
  - Governor is authorized to draw a warrant for the payment of such reimbursements out of money in the treasury not otherwise appropriated.
    - Department estimates requesting a warrant be issued for FY19 for \$613,494.

## FY 2020 / FY 2021 Agency Budget Highlights

- Low and Moderate Property Tax Relief – RSA 198:57-61
  - Property tax relief program related to the Statewide Education Property Tax, supported by an appropriation from the Education Trust Fund.
  - \$1,750,000 in both FY20 and FY21.
  - Funding is consistent with total program cost for recent years (\$1,434,931 in FY18).
  - Decrease of \$100,000 for FY 2019 Adjusted Authorized.
  - Below FY20 Target of \$1,859,250 and FY21 Target of \$1,868,546.

## **Update on FY 2018 / FY 2019 Budget Priorities**

- Revenue Information Management System (RIMS)
  - DRA received a \$30,160,000 capital appropriation through general funds and other funds to replace the DRA's Tax Information Management System.
  - A comprehensive RIMS request for proposal (RFP) was developed, two proposals were received, reviewed and scored, a vendor was selected and the contract was negotiated. DRA contracted with BerryDunn for assistance with this multi-year process (\$270,000).
  - A contract with Fast Enterprises, LLC was approved by G&C on October 31, 2018 and the vendor has already begun work implementing its commercial off-the-shelf software, GenTax, for tax collection and administration.
  - Implementation will consist of three phases, each taking about a year, and the contract will also include support and maintenance of the system for four years after implementation.
  - Total cost for the seven year contract is \$29,550,000.
  - DRA has also entered into a contract with BerryDunn to provide periodic health assessments that will gauge the vendor's performance on the project, the project timeline, and also DRA's progress in adapting to the new system.

## Update on FY 2018 / FY 2019 Budget Priorities

- Staffing
  - Final budget included additional assumed general fund revenue resulting from the establishment of three new positions – Multi-State Auditor, Multi-Entity Auditor, Compliance Officer II.
  - Final budget assumed \$0.4m in additional revenue in FY 2018 and \$3.1m in FY 2019 attributable to the establishment of these new position.
  - Currently, 30 of 32 field audit positions are filled and all eight compliance officer positions are filled.
- Tax Policy
  - DRA and DoIT staff worked diligently to implement and advertise significant tax policy changes during the current biennium, including: Business Profits Tax (BPT) and Business Enterprise Tax (BET) rate reductions, BPT and BET exemptions for regenerative manufacturing companies, BT synchronization to the Internal Revenue Code (IRC) and increasing the IRC section 179 deduction, allowance of the education tax credit against the Interest and Dividends Tax, and several others.
  - DRA staff also actively participated in numerous discussions and presentations regarding the Tax Cuts and Jobs Act of 2017, and various legislative study commissions on topics including legalization of marijuana, the *Wayfair* decision, apportionment of business profits tax and utility property valuation.



# Taxes Administered by DRA ~ \$2.3B Revenue

<u>Tax Type</u>	<u>Tax Rate</u>	<u>Statute</u>
Business Enterprise Tax	0.6%*	RSA 77-E
Business Profits Tax	7.7%*	RSA 77-A
Communications Services Tax	7.0%	RSA 82-A
Electricity Consumption Tax (Repealed 1/1/19)	\$0.00055/kilowatt hour	RSA 83-E
Interest and Dividends Tax	5.0%	RSA 77
Meals and Rooms Tax	9.0%	RSA 78-A
Medicaid Enhancement Tax	5.4%	RSA 84-A
NFQA/ICFQA	5.5%	RSA 84-C/84-D
Tobacco Tax	\$1.78 per pack/65.03% wholesale price	RSA 78
Taxation of Railroads	Average rate of taxation of other property	RSA 82
Utility Property Tax	\$6.60 per \$1,000 of utility property value	RSA 83-F
Excavation Tax	\$.02 per cubic yard (Local revenue)	RSA 72-B
Real Estate Transfer Tax	\$0.75 per \$100	RSA 78-B
Timber Tax	10% of stumpage value (Local revenue)	RSA 79
Property Tax (Includes SWEPT)	Varies (Local revenue)	RSA 76

## Taxes DRA Does Not Collect

<u>Tax Type</u>	<u>Statute</u>
Insurance Premium Tax	RSA 400-A
Beer Tax	RSA 178
Road Toll (Gas Tax)	RSA 260

\*BET rate reduced to 0.60% and BPT rate reduced to 7.70% for taxable periods ending on or after 12/31/19.

# Tax Revenue - Fiscal Year 2018 (Audited)

<u>Tax Type</u>	<u>Unaudited Revenue</u>
Business Profits Tax	\$482.3M
Business Enterprise Tax	\$298.8M
Subtotal Business Tax	<u>\$781.1M</u>
Communications Services Tax	\$43.4M
Electricity Consumption Tax	\$5.9M
Interest and Dividends Tax	\$105.8M
Meals and Rooms Tax	\$331.7M
Medicaid Enhancement Tax	*\$243.0M
NFQA/ICFQA	**\$37.9M
Tobacco Tax	\$211.6M
Taxation of Railroads	**\$0.4M
Utility Property Tax	\$45.2M
Real Estate Transfer Tax	\$149.2M
State Wide Education Property Tax	\$363.1M
<b>TOTAL</b>	<b>\$2.3B</b>

\* FY2018 MET Revenue is Cash Basis, net of Refunds

\*\* FY2018 NFQA & Taxation of Railroads is Unaudited Cash

# Share of Unrestricted Revenues

General and Education Funds – Source FY2018 (Audited)

*Note: DRA's statutory responsibilities represent nearly 80% of NH State General and Education Trust Fund Revenue (\$2.0B out of \$2.6B)*

