



MISSION

The mission of the Department of Revenue Administration is to collect the proper amount of taxes due, incurring the least cost to the taxpayers, and in a manner that merits the highest degree of public confidence in our integrity, efficiency and fairness. Further, it must provide prompt and constructive assistance to the municipal units of government in matters of budget, finance, and the appraisal of real estate.

This report is dedicated to Governor Craig Benson and Members of the Executive Council:

1st District – Raymond S. Burton

2nd District – Peter J. Spaulding

3rd District – Ruth L. Griffin

4th District – Raymond J. Wiezcorek

5th District – David K. Wheeler

October 24, 2003

Letter from the Commissioner

The ensuing year occasioned great change for the Department of Revenue Administration. Commissioner Stanley R. Arnold, who served for nearly fourteen years, retired at the end of September 2002. He accomplished much during his long tenure, too much in fact to begin listing the accomplishments in this brief message, but one cardinal accomplishment deserves mention: Commissioner Arnold set a standard for looking forward that guided the Department during his term and will continue to shape the Department in years to come. Commissioner Arnold's retirement initiated an interim period during which the Department was ably led by Assistant Commissioner Barbara Reid. Acting Commissioner Reid's hard work and thoughtfulness brought the Department through the recent difficult budget cycle poised for rededication to the work and well being of this state. It is therefore not an inconsiderable honor to have been handed the reins from these two accomplished persons, to build upon the foundation that they have bequeathed to the citizens of New Hampshire.

This past year the Legislature redefined the mission of the Department with respect to the New Hampshire's property tax system and laid the groundwork for shaping a new system that will meet all the needs of the citizens — and do so with a level of comfort that all parties can share. In this redefined mission, the Assessing Standards Board and Equalization Standards Board are full partners, and will contribute substantially toward advancing the goal of a rational and fair property tax system. The Department is now embarked on a path to gather and analyze information so that informed judgment may be made on how and what to implement. This coming year we will focus on making this a cooperative effort with municipal governments because it is clear that the Legislature intends this process to be much more than just a simple review of the property tax system.

Electronic tax filing has become a reality. It is more than just technology, it is a real system designed to allow the Department to more efficiently, economically and quickly serve the citizens. Now that the actual system is accomplished, the goal is to assure that the maximum benefit is being offered to the taxpayers and to persuade everyone that utilizing the electronic filing is a winner for all.

The Department's overall mission remains as it has been: collecting the proper amount of taxes due, with the least cost to the taxpayers, in a manner that engenders the highest degree of public confidence in the integrity, efficiency and fairness of the tax system. The Department now consists of over two hundred talented and hard working employees dedicated to the accomplishment of this mission. We pledge our best efforts to provide effective administration to our citizens and to uphold the motto of the Department's seal "Equity for All."


G. Philip Blatsos
Commissioner

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ORGANIZATIONAL CHART

DIVISION PRIMARY FUNCTIONS

Administration Division – Performs administrative functions necessary to support department operations including accounting, purchasing, human resources, fleet and facility maintenance, adjudicative and administrative hearings, and taxpayer advocacy.

Audit Division – Conducts audits of individuals, partnerships, estates, trusts, corporations, tax returns and documents filed with the Department to ensure compliance with New Hampshire tax laws and rules.

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

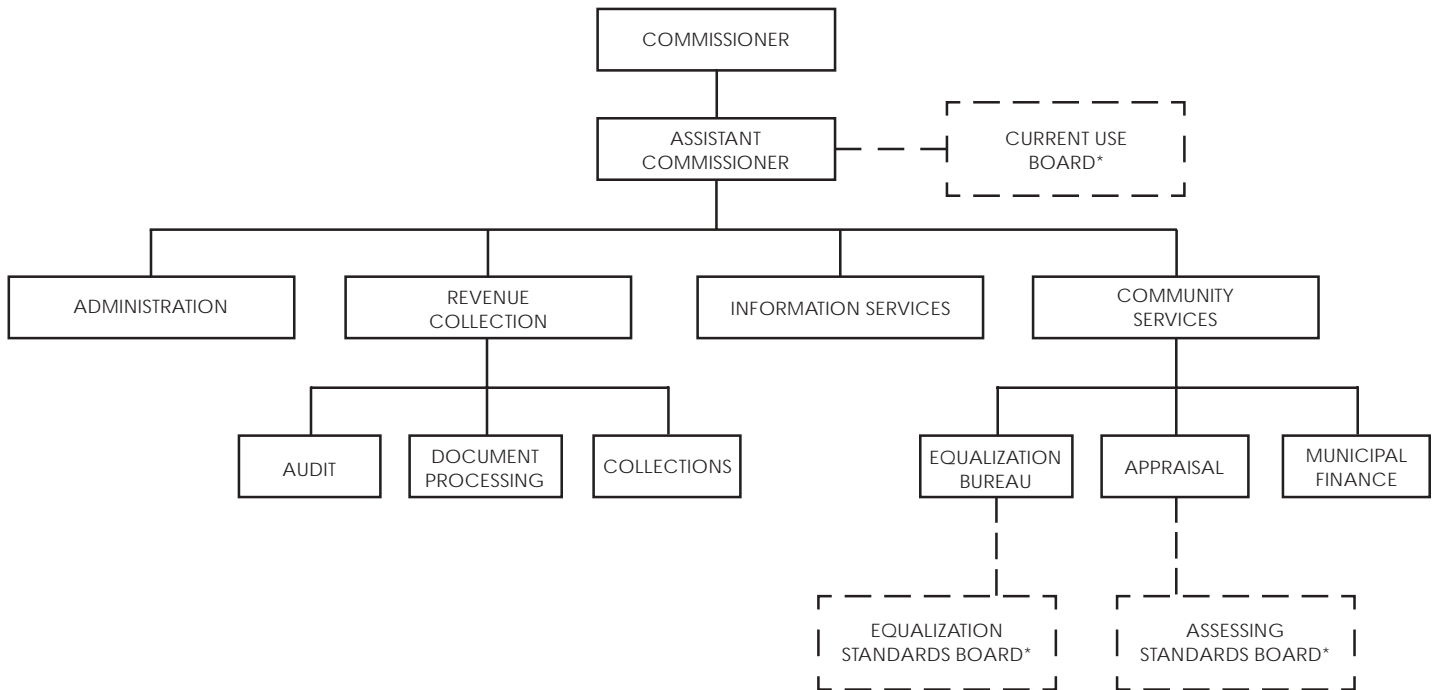
Collections Division – Initiates collection activities in pursuit of delinquent tax returns and payments for all taxes administered by the Department.

Community Services Division – Provides oversight, support, education and technical assistance regarding property assessment and taxation to the political subdivisions of the state.

Document Processing Division – Receives, sends, processes, stores, and retrieves all tax documents and electronic transactions filed with the Department.

Organizational Chart

June 30, 2003



* Administratively Attached Board

PROPERTY TAX DEVELOPMENTS

Low and Moderate Income Homeowners Property Tax Relief

Effective July 1, 2002, Chapter 158 of the Laws of 2002, repealed the Education Property Tax Hardship Relief and enacted Low and Moderate Income Homeowners Property Tax Relief. The new law expanded the eligibility criteria to include all property owners in the State, provided they own a "homestead", or an interest in a "homestead", are subject to the education property tax, have resided in such homestead on April 1 of the year for which the claim is made; and had total "household income" of \$20,000 or less if a single person, \$40,000 or less if married or head of a New Hampshire household.

The Department received approximately 24,000 claims from May 1, 2003 through June 30, 2003 from New Hampshire property owners. As of August 21, 2003, the Department has processed over 8,000 relief checks totaling over \$2.7 million claims received through June 19th. The filing period was changed so that claimants have their federal income tax returns completed before filing for property tax relief. Claimants must include a copy of their property tax bill and federal income tax return for the claim year and any additional documentation required, in accordance with the claim instructions.

Assessing Standards Board and Equalization Standards Board

There were three significant pieces of legislation passed during the 2003 New Hampshire legislative session. The first was Senate Bill 54, which modified the duties of the Assessing Standards Board and the Commissioner of the Department of Revenue Administration as they related to the certification of the municipal assessment process. These modifications include the following:

- a. The Commissioner will no longer certify that the assessments of a municipality are valued in accordance with RSA 75:1, but instead will only review and report the degree to which assessments achieve substantial compliance with applicable statutes and rules.
- b. The Commissioner will issue a report, after his review, to the municipalities and the Assessing Standards Board. Such report shall be a public document.

- c. The Commissioner is no longer required to order corrective action when assessments do not comply with the provisions of RSA 75:1.
- d. The Commissioner can no longer adopt rules under RSA 541-A relative to acceptable ranges of level of assessments and uniformity of assessments, procedures for review of assessment practices, or procedures and forms for the Commissioner's certification of assessments.
- e. The Assessing Standards Board will recommend guidelines for the Department's review of municipal assessments.

Senate Bill 45 made multiple changes in the RSA's relating to exemptions and credits as follows:

- a. Establishes a uniform procedure for the adoption, modification, or rescission of the veteran's property tax credit, the surviving spouse credit, the tax credit for service-connected total disability, the exemption for the disabled, the blind exemption, the exemption for the deaf, the elderly exemption, and the solar wind and wood power exemption. Allows the adoption, modification, or rescission to be done by a voice vote as opposed to a ballot vote.
- b. Allows towns and cities to vote to increase the amount of the optional veteran's property tax credit to any amount from \$51 to \$500.
- c. Effective April 1, 2005, changes the filing date for applications for all exemptions or tax credits to April 15th preceding the setting of the tax rate and repeals the optional August 1st filing date for the elderly exemptions.
- d. Allows towns and cities to vote to increase the optional property tax credit for service-connected total disability to any amount from \$701 to \$2,000.
- e. Allows municipalities to vote to extend the tax exemption for disabled persons to disabled persons who are 65 years of age or older.
- f. Reduces from five years to one year the residency requirement for a disabled person applying for a deferral pursuant to the RSA 72:38-a tax deferral for the elderly and disabled.
- g. Allows municipalities to vote to establish a separate married persons' combined net asset limitation for the purpose of the elderly exemption,

which shall apply to a surviving spouse until the sale or transfer of the property, or until the remarriage of the surviving spouse.

- h. Clarifies references to consecutive years of residence and married persons in certain property tax exemption status.

House Bill 608 dealt with changes to the statewide property tax and the calculation of adequate education grants. Specifically, it:

- a. Reduces the education property tax rate from \$5.80 to \$4.92 for the 2004 fiscal year, from \$4.92 to \$3.24 for the 2005 fiscal year, and establishes a formula for calculating the tax rate for the 2006 fiscal year and thereafter.
- b. Provides that the calculation of the statewide cost of an adequate education be indexed to the northeast regional consumer price index.
- c. Changes the payment for transportation costs for the 2004 fiscal year to include 100% of the total cost of transporting pupils in kindergarten through grade 8 to and from school.
- d. Changes the definition of average daily membership in residence for the purpose of calculating state aid for education adequacy.
- e. Provides \$10,000,000 on targeted education grants be made to municipalities in the 2004 fiscal year.
- f. Beginning July 1, 2005, replaces the statewide education property tax with a statewide-enhanced education tax.
- g. Beginning July 1, 2005, establishes a new procedure for determining the statewide cost of an adequate education.
- h. Beginning July 1, 2005, establishes a new education funding formula for municipalities and sets forth criteria whereby municipalities may receive local equalized aid, targeted per pupil aid, and state enhanced aid for pupils in public schools.

Assessment Reviews

As a result of the legislative changes enacted by the passage of SB54, the new certification program being implemented by the Community Services Division is now being revamped to carry out an assessment review for all New Hampshire municipalities over the next four years. The schedule for the review will follow the same schedule as for the old certifi-

cation program. Under the new assessment review program, the commissioner will no longer certify that the assessments of a municipality are valued in accordance with RSA 75:1, but instead will review and report the degree to which assessments of a municipality achieve substantial compliance with applicable statutes and rules.

In order to meet the requirements of the new assessment review program, the Community Services division has re-structured responsibilities of the existing staff, primarily the appraisal staff, and has dedicated a core of personnel to perform this task. The development of more concise procedural guidelines and review and better utilization of existing resources are aimed at continuing an effective assessment monitoring and review programs.

The positive effect of the Assessment Review program is already evident, even though the first year's reviews are not yet complete. Prior to implementation of this program, only 25 to 30 municipalities conducted some type of reappraisal each year, many being mandated through order of the Board of Tax and Land Appeals. In 2002, that number more than doubled, and in 2003, 111 jurisdictions conducted some type of reappraisal. This trend means that more and more municipalities are achieving better equity and fairness in their application of the property tax. Confirmation of this lies in the fact, that of the 20 municipalities that conducted full revaluations in 2002, all met the Assessing Standards Board's guidelines for their level and uniformity of assessments.

Changes in procedures and increased use of computerization, both by municipalities in submitting their sales and assessment information, and internally by the Certification Bureau, have resulted in the timely completion of the 2002 Equalization Ratio Study for all municipalities, without the need for assistance from staff outside the bureau. At the same time, the Municipal Finance Bureau has also implemented further automated procedures, such as shared files, to streamline and make more efficient the tax rate setting process.

Revolving Fund, RSA 21-J:24-a, VIII, for the period 7/1/02 through 6/30/03:

Beginning Fund Balance 7/1/02	\$3,546.22
Expenditure	\$0
Revenues	\$1,138.30
Ending Fund Balance	\$4,684.52

VOLUNTARY COMPLIANCE - CUSTOMER SERVICE & EDUCATION

During the fiscal year ending June, 2003 the Department participated in numerous educational programs designed to increase public awareness as well as guide municipal officials in developing and implementing accurate local tax administrative procedures. Programs were designed to address recent tax developments and changes made by the Legislature as well as to introduce our new electronic internet filing feature to the public. Numerous public forums were held in town offices throughout the state designed to educate town officials and property taxpayers about the new Low and Moderate Income Homeowners Property Tax Relief program.

Information on the Department's web site continues to serve as a valuable educational tool for the public to use in accessing the latest up-to-date state tax information and resources. Taxpayers utilize the Department's web site daily to access forms, publications, laws, administrative rules, property tax rates,

and other useful state tax information. The layout is designed with the customer in mind and will be reviewed in the coming year to incorporate the state's new uniform look as well as to make improvements geared toward providing easy access to the state's most useful tax resources.

Customer service requests for assistance continued to increase during 2003 as the public looks for guidance and education on filing their taxes accurately. Telephone communication continues to be the most popular resource that the public utilizes to access customer service from the Department followed by written correspondence and walk-ins, respectively. In the coming year the Department will be looking for ways to improve customer service and will be focusing on a review of the existing telecommunications practices to identify needed improvements in direct response to public feedback in this area.

Declaratory Rulings FYE 6/30/03

No Declaratory Rulings issued. Technical

Information Releases Issued FYE 6/30/03

TIR Number	Description
2002-006	Contract Approval for Assessing Contracts
2002-007	2002 Statutory Changes For Business Profits, Communications Services, Electricity Consumption, Estate, Interest & Dividends and Meals & Rentals Taxes and Appeal Procedures
2002-008	Sourcing of Calls For Mobile Telecommunication Services
2002-009	Changes To Net Operating Loss Deduction
2002-010	Meals & Rentals Operator's Tax Responsibilities
2002-011	New Interest Rates Set
2002-012	Low and Moderate Income Homeowners Property Tax Relief

ENFORCEMENT COMPLIANCE – AUDITS & COLLECTIONS

When voluntary compliance efforts fail to produce the desired results, enforcement through audit and collection efforts must be pursued. The Department's Audit Division and Collections Division worked diligently to ascertain and pursue those with a tax obligation who failed to file or pay as required by law. While most taxpayers voluntarily file and pay the proper amount of taxes when due, those who do not create an unfair burden on the public, resulting in inequities that must be remedied.

To address these inequities, enforcement was expanded by pursuing civil and criminal charges through the NH Department of Justice, Attorney General's Office. Six indictments were awarded in the last quarter of the fiscal year against taxpayers who failed to file returns with the Department. Five out of six of these cases pleaded guilty to the criminal charges and received monetary fines. An agreement was reached with the sixth business. During the fiscal year, the department commenced 6 criminal investigations that are currently on going. The Department has been exploring other states' Departments of Revenue structure and statutory language in order to expand the enforcement of criminal statutes.

IRS Co-Audit Project

The IRS and NH DRA continue to conduct joint audits of taxes. The project is intended to produce the most efficient and least burdensome audit by combining the review of federal and state tax issues rather than both agencies separately reviewing this information as part of their normal audit process. In addition, both the IRS and the NH DRA learn new audit techniques by working with each other. The project's intent is beneficial to both the taxpayer and the respective governmental agencies as it provides the taxpayer with the least amount of disruption by having the audits conducted concurrently. Practitioners have indicated support for the concept. This program has assessed in excess of \$400,000 for the state.

This project currently has 9 on-going joint audits and will likely add new audits during the next fiscal year

Non-Filer Project

During FYE June 2003, the Nexus Group of the Audit Division continued the non-filing project initiated twelve years ago. Since its inception in 1990, this non-filer project has generated initial filing revenue exceeding \$19 million. This fiscal year alone, efforts to locate non-

filers generated over \$2.7 million in additional revenue from 260 new taxpayers, who will now continue to file returns and pay taxes in subsequent years.

With a staff of two auditors and a clerk, the Nexus Group has conducted significant non-compliance activities through the use of computer tape cross-matches with the Department of Employment Security. In recent years, the Nexus Group has also utilized the Internet for obtaining an array of information on out-of-state companies that conduct business activities in New Hampshire.

During the next fiscal year, the Nexus Group will explore the use of computer technology with other state agencies and survey the use of technology from municipal departments across the state. The Audit Division will also continue to participate in a national "nexus" program with numerous other states, which pursue non-filers in multiple jurisdictions.

Collection Activity

The Collections Division is charged with the responsibility of initiating collection activity in pursuit of delinquent tax returns and assessments for all taxes administered by the Department. This division worked to obtain payment of outstanding assessments or overdue tax liabilities. The division continued training initiative to develop innovative ways to improve overall tax compliance by improving taxpayer education.

Collection Division continued to work with Audit Division representatives at the fairs and additional annual events. Informational tax packets that outlined all New Hampshire taxes were distributed by the compliance officers to all vendors at major events such as motorcycle week, NHIS races and fairs.

The Collection Division established new procedures to prevent duplicate efforts and automated processes were developed for tracking applicable collection cases. Procedures within the division for establishing and tracking payment plans and agreements were revised to insure that all taxpayers' requests are treated fair and all agreements are completed timely.

A thorough review of Meals and Rentals licenses was initiated to insure that all information provided is current and correct. Compliance officer contact and office contact insured that the operator understands the Department of Revenue's rules for collecting and remitting the Meal and Rentals tax.

Tobacco tax procedures and policies were revised. Compliance visits were increased and several non-compliance issues were resolved.

LEGAL DEVELOPMENTS

Revenue Counsel

The Revenue Counsel serves as general legal counsel for the Department and provides legal advice and representation to the Department and its Divisions. Revenue Counsel also coordinates the representation provided to the Department by the Department of Justice, provides assistance, and acts as co-counsel in certain cases.

Civil cases filed in state courts and administrative appeal tribunals appealing tax assessments and challenging state taxing statutes required a significant portion of the Department's attorneys' time. During the fiscal year, the Department's attorneys worked on four cases pending before the New Hampshire Supreme Court, twelve cases before Superior Courts, twenty cases pending before the Board of Tax and Land Appeals (BTLA), and twenty-four cases before the Probate Courts.

Interest and Dividends Tax Lawsuit

Department attorneys provided assistance to Department of Justice attorneys as they continued to defend the State's financial interests in Smith v. Department of Revenue. This case, a class action filed in 1995, challenged the constitutionality of the New Hampshire statute that exempted interest and dividends from the tax imposed by former RSA 77:4. In 1996, the New Hampshire Supreme Court held that this exemption discriminated against interstate commerce in violation of Article I, § 9, cl. 3 of the United States Constitution. The matter was remanded to the trial court to provide the Plaintiffs with the opportunity to prove whether they were entitled to a refund of interest and dividends tax paid by them between 1991 and 1994. A six-day trial was held beginning on May 22, 2000. On August 15, 2000, the Superior Court concluded that the Plaintiffs met their burden of proof only as to out-of-state banks, and awarded them a tax refund of "all interest and dividend taxes paid for the years 1991-1994 on interest on any deposits in out-of-state banks: and dividends from stock in out-of-state banks."

The Plaintiffs appealed to the New Hampshire Supreme Court claiming a much broader range of financial entities were negatively affected by the discrimination. On November 25, 2002, the Supreme Court issued its decision affirming the Superior Court's

ruling that refunds will not be issued for taxes paid on income from sources other than interest on any deposits in out-of-state banks and dividends from stock in out-of-state banks paid for the years 1991-1994. The Plaintiffs petitioned the United States Supreme Court to accept an appeal of the New Hampshire Supreme Court's decision; but on May 5, 2003, the United States Supreme Court ruled that it would not accept the Plaintiffs' appeal.

It is anticipated that the Department will issue refunds during the 2004 Fiscal Year. The Department attorneys have been involved, and will continue to be involved, in developing the refund process. Because the matter is before the Superior Court, Court approval of the refund process is required. Additionally, it is anticipated that the Plaintiffs' counsel will seek approval of payment of attorneys' fees. After Court approval is obtained, the Department will issue refunds pursuant to the Court's decision.

Increase in Property Tax Cases

Since the implementation of the state education property tax in 1999, the office of Revenue Counsel has experienced a steady increase in the amount of time devoted to cases relating to property taxes. During the fiscal year, eight Utility Property Tax cases were pending before either the Superior Court or the Board of Tax and Land Appeals. Additionally, five appeals of municipalities' equalization were pending before the Board of Tax and Land Appeals. Finally, fourteen petitions for reassessment of municipalities' property tax valuations were pending before the Board of Tax and Land Appeals.

Hearings Bureau

The Hearings Bureau is an agency within the Department under the authority of the Commissioner that provides a forum for appeals by taxpayers dissatisfied with a decision of the Department. It provides the final opportunity for a taxpayer to confidentially present reasons why the Department's actions are improper and for the Department to impartially evaluate those reasons and change its decision. The Hearings Officer conducted 33 hearings during FY 03 and made decisions in appeals of state taxes administered by the Department, Meals and Rentals license revocations, and appeals of municipalities' tax rates set by the Department.

Summary of Adjudicative Proceedings

During FY 2003, the Hearings Bureau experienced an increase in the number of open cases, no significant change in the time required to process a case, but a reduction in the number of cases requiring a *Final Order*. The time required to produce a *Final Order* after the close of the record was reduced in FY '03 to an average of 21.7 days. The Bureau's goal for FY 2004 is to try to maintain an optimum level of performance as the caseload and schedules fluctuate throughout the year.

The following statistics summarize the activity of the Hearings Bureau during the past year:

	<u>FY'02</u>	<u>FY'03</u>	<u>% Chg</u>
Appeals filed	114	133	15%
Cases closed	112	109	(3%)
Cases on appeal to Superior Court, BTLA, or Supreme Court.	22	13	(41%)
Final Orders Issued	35	24	(32%)
Cases Open as of 6/30	113	137	18%

Final Orders Issued for the Period 7/1/02 through 6/30/03

Business Taxes	15	10	(33%)
Meals & Rooms Tax	3	2	(33%)
Interest & Dividends Tax	4	5	20%
Legacy & Succession Tax	13	6	(54%)
Tax Rate	0	1	100%
Communication Services Taxes	0	0	0%
TOTAL ORDERS ISSUED	35	24	(32%)

TECHNOLOGICAL DEVELOPMENTS

Internet Filing (eFileNH)

The Department continues with its commitment to bringing faster more efficient services to taxpayers in the form of Internet solutions. Phase I was successfully implemented on March 5, 2003, and allows taxpayers to file Business Enterprise and Profits Tax, Interest & Dividends Tax estimates, extensions and return payments via the web. Taxpayers set up their own passwords and hints and may view their payments and change their bank information when needed. The payment method uses an Automated Clearing House (ACH) debit transactions to a taxpayer's authorized bank account. Payments may be warehoused up to 12 months and canceled and re-entered up until the extraction date on the system. These options provide taxpayers with more control over their accounts and payments. It also increases accuracy and timeliness. To date, the Department has received over 500 internet-filed transactions totaling more than \$2.5 million. An important feature available to tax processors or those who make multiple payments for clients is the web import. A debit transaction can be made to individual bank accounts authorized each time a file of client payments is imported. The web importer must set up the record layout the first time and then after just import the file to us. The Department validates the information on-line and identifies any records that need correcting.

Internet filing will benefit the taxpayers by reducing the amount of time Department employees are required to devote to processing paper transactions. For example, the average estimate/extension is handled by ten separate employees including but not limited to mail openers, cashiers, data entry, and file clerks. Approximately 14 hours are committed to processing 500 extension and estimate payments. The Department processes approximately 175,000 paper estimates/extensions each year. This new program has the potential to allow these employees to devote approximately 5000 hours annually to other tasks. These other tasks will have a direct benefit to the taxpayers in that it will allow greater concentration on expediting abatement requests, refund requests, and more timely issuance of tax notices.

Phase II will be implemented in the fall of 2003. In this phase, Meals & Rental Tax return payments, tax notice payments for all tax types and Interest & Dividend returns with payments will be accepted. The application will be hosted at an off-site data center, which provides 24 hour 7 days a week maintenance ser-

vices. All a taxpayer needs is a computer with Internet access and a bank account. There is no fee charged for this service, no new software needed and no third parties involved. The Department hopes that offering alternative methods of filing which are convenient and easy will help increase voluntary compliance.

Technology Goals for the Future

The Department has developed an Information Technology (IT) plan to guide the short and long term establishment of well-planned and designed information systems to support program mandates. The IT plan establishes priorities based on the Department's business goals and objectives utilizing an integrated tax philosophy and incorporating, where feasible, new technology trends. The Department has embraced the goals outlined in the Governors' report of Information Technology Strategic Planning Commission. Specifically, that information technology is used to more effectively serve the people of New Hampshire. The Department will focus on the following IT strategy for Internet use as defined in the commission report:

1. To improve the access and convenience of state government services, information, and political processes.
2. To accelerate the activities and services of state government, making them more responsive and timely.
3. To lower the cost of state government. The Department strategy will also address public concerns about the digital age: privacy and confidentiality and universal access.

2D Barcode

The Department continues to work with the National Association of Automatic Tax Processors to supply software vendors with record layouts in order to process Interest & Dividends Tax Returns and estimated payments with 2 dimensional bar codes, called 2D. A 2D barcode is essentially a barcode that has been flipped on its side and contains many multiple rows of data.

Documents are batched and scanned into a PC application and uploaded to the Department's overnight system and posted to the taxpayer's account the next day. It saves the Department 90% of the usual manual processing time. In addition, keying errors are reduced and re-work and suspense transaction vol-

ume are significantly decreased. Refund transactions are generated in a more timely fashion, and taxpayer accounts are up-to-date faster.

In its third year processing 2D documents, the Department scanned 16,624 Interest & Dividends tax returns and 20,549 estimates, for a total of 37,173 documents that were successfully processed. This year the scanning system was enhanced to add edit checks to the scanned information before submitting to overnight processing, which decreased the number of documents that error suspended. The scan time for a batch of 25 returns is approximately 2 minutes and 5 minutes for a batch of 50 estimates, resulting in a savings of over 770 hours of data entry time. The unscannable rate remains at less than 2%.

Technical Support

With the emergence of the Windows 2000 and Windows XP platforms, the Department's Technical Support Staff have been moving staff to more robust systems with higher pc security. Most notably were the purchase and deployment of Windows XP professional on new laptops for members of the Audit, Property Appraisal and Certification areas.

To accommodate space issues, the Division underwent a major move initiative to relocate staff and areas into new office space. The Technical Support group assisted with the planning, data connectivity and system delivery issues and handled all aspects of the equipment moves for staff. This was an on-going project for several months.

Two major tasks for the group were to upgrade the data network at 45 Chenell Drive to meet the de-

mands of technology delivery to staff. A new Cisco network was installed in January 2003, which increased the speed of data delivery 100 times faster. Again in January 2003, the group installed and migrated the Tax Information Management System (TIMS) to a new IBM Iseries 820, replacing the older IBM AS400. This new system has increased reliability, efficiencies in processes and storage capacity for future development of TIMS.

The Technical Support staff have been working to standardize processes and train staff on desktop and LAN procedures. The group developed a LAN User Guide to provide a helpful reference to processes and systems used in the Department.

Department Web Site

During 2003, the Department's web site continued to be updated and maintained by the Department's Taxpayer Advocate with a goal toward providing timely and accurate tax information for the public's benefit. It proves to be a valuable resource to many visitors seeking tax forms, laws, and tax rates as well as municipal information and business registration links.

The Taxpayer Advocate continues to facilitate improvements to the web site by consulting with other related state and federal agencies to identify appropriate tax resources to publish to the site. In the coming year, the Taxpayer Advocate will be working closely with the state's new Office of Information Technology, and in particular, the leader of Web Content Management, to design and adopt the state's new uniform web standards.

SUMMARY OF TAXES & GENERAL INFORMATION

SUMMARY OF TAXES

Business Profits Tax – RSA 77-A

The Business Profits Tax (BPT) has historically been one of the largest sources of general fund revenue. Enacted in 1970 as a replacement for the municipal property tax on stock-in-trade, farm livestock, poultry, fuel pumps, mills and machinery, the initial rate was established at 6%. The rate steadily increased to a high of 9.56% in FY 1983. The rate then decreased to 7% beginning FY 1995, then increased to 8% for tax years ending on or after 7/1/99. The current rate of 8.5% was effective for all returns and taxes due on account of taxable periods ending on or after July 1, 2001. This tax is assessed on income from conducting business activity within the state. For multi-state businesses, income is apportioned using a weighted sales factor of 2 and the standard payroll and property factors. Organizations operating a unitary business must use combined reporting in filing their NH return. Four annual estimate payments are required on liabilities greater than \$200, paid at 25% each. Proprietorship, partnership and fiduciary returns are due on April 15th or the 15th day of the 4th month following the end of the taxable year. Corporate returns are due on March 15th or the 15th day of the 3rd month following the end of the taxable year. Organizations with \$50,000 or less of gross receipts from all their activities are not required to file a return.

Business Enterprise Tax – RSA 77-E

In 1993, a 0.25% (.0025) tax was enacted on taxable enterprise value tax base, which is the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise after special adjustments and apportionment. Chapter 17, Laws of 1999 increased the rate from 0.25% to 0.5%. The rate was increased to 0.75% in 2001. Also, the filing threshold increased to \$150,000 of gross business receipts or \$75,000 of the enterprise value tax base. Four annual estimate payments are required on liabilities greater than \$200, paid at 25% each on the 15th day of the 4th, 6th, 9th and 12th months of the taxable year. The tax return is due at the same time the Business Profits Tax return is due.

Communication Service Tax – RSA 82-A

First enacted in 1990 at 5.5% this tax was assessed upon two-way communications services. Chapter 158, Laws of 2001, increased the permanent portion of the tax to 4.5% and continued the surtax of 2.5%, resulting in an overall tax rate of 7% for the period beginning July 1, 2001 and ending June 30, 2003. A permanent rate of 7% was passed effective July 1, 2003. Retailers must register with the department and are required to collect the tax. Returns must be filed on the 15th day of the month for the preceding calendar month unless the average monthly liability is less than \$100. Any retailer who can reasonably estimate their average monthly liability to be in excess of \$10,000 is required to make an estimated payment equal to 90% of the actual tax collected. This payment is due on or before the 15th day of the month during which the liability is incurred.

Interest & Dividends Tax – RSA 77

The Interest & Dividends (I&D) tax, which was first enacted in 1923, applied a tax based on the "average rate of property taxation" upon the I&D income received by NH residents from sources other than NH and Vermont banks. The tax was changed significantly in FY 1995 to eliminate the exemption on income from NH and Vermont banks. In conjunction with this change, the personal exemption was increased from \$1,200 to \$2,400. The exemption for joint filers increased from \$2,400 to \$4,800. Estimated tax payments are due 4/15, 6/15, 9/15 & 1/15 on tax liabilities greater than \$200. The tax return is due on April 15th. Additional \$1,200 exemptions are available for residents who are 65 years of age, who are blind, and who are handicapped and unable to work, provided they have not reached their 65th birthday. The current tax rate of 5% has remained the same since FY 1977.

LEGACY & SUCCESSION TAX

RSA 86 Legacy & Succession

RSA 87 Estate Taxes

RSA 89 Transfer Tax on Personal Property of a Non-Resident Decedent

The Legacy & Succession Tax was first enacted in 1905. The current tax rate of 18% is assessed upon property passing to collaterals or "strangers of the blood". There is a 2% tax on all personal property within the jurisdiction of the state, which belonged to non-residents. No tax is assessed on any amount passing to a spouse, lineal ascendants and descendants (including children & grandchildren by adoption, step-children & step-grandchildren) and their spouses, or charities. An Estate Tax is provided to absorb the difference between state taxes and the credit allowable against the federal estate tax. The administrator or executor of the estate has total compliance responsibility for timely filing the return and paying taxes owed. Chapter 158, Laws of 2001 repealed the Legacy and Succession Tax for property passing as a result of deaths occurring on or after January 1, 2003. Chapter 232, Laws of 2002, repealed the Transfer tax on Personal Property of a Non-resident Decedent for property passing as a result of deaths occurring on or after January 1, 2003.

Meals & Rentals Tax – RSA 78-A

The M&R tax was enacted in 1967 at a rate of 5%. Currently at 8%, the tax is assessed upon patrons of hotels and restaurants, on rents and upon meals costing \$.36 or more. Chapter 17, Laws of 1999, amended the language to include an 8% tax on the "gross rental receipts" from the rental of motor vehicles, effective 7/1/99. The tax is paid by the consumer to an authorized M&R operator. An M&R Tax Operator's License is required. The operator maintains books and records showing the amount of tax collected and remits the tax monthly to the state, less a 3% commission. The tax is due to the State on the 15th day of the month following the collection of tax.

Real Estate Transfer Tax – RSA 78-B

The Real Estate Transfer tax was first enacted in 1967. Chapter 17 of the Laws of 1999 increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate to \$.75 per \$100, or fractional part thereof, of the price

or consideration. This rate is assessed on both the buyer and seller for a total tax rate of \$1.50 per \$100. Where the price or consideration is \$4,000 or less, there is a minimum tax of \$20 assessed on both the buyer and seller. Chapter 158, Laws of 2001, removed the exception from the tax on transfer of real property for transfers of title pursuant to a merger, consolidation or other reorganization qualifying as a tax-free reorganization. It also removed the exception of the transfer of title from one business entity to another, the ownership interest of which may be the same. These changes were effective for transfers occurring on or after July 1, 2001. The tax is paid at the Register of Deeds office in the county where the property is located. A Declaration of Consideration (Form CD-57) must be filed with the Department of Revenue Administration.

State Education Property Tax – RSA 76:3

Under Chapter 17, Laws of 1999, the state education property tax was established. The tax is assessed and collected by municipalities. The rate was originally \$6.60 per thousand of equalized valuation. It appears on the same bill with the other property taxes administered at the local level. The effective date of this tax was April 1, 1999. Chapter 158, Laws of 2001 reduced the rate from \$6.60 per \$1,000 of value to \$5.80 per \$1,000 of value beginning with the April 1, 2002 tax year (school year 7/1/02-6/30/03). The sunset provision of the state education property tax was repealed, making the tax a permanent revenue source dedicated to funding education.

Utility Property Tax – RSA 83-F

Utility property is defined as "all real estate, buildings, and structures, machinery, dynamos, apparatus, poles, wires, fixtures of all kinds and descriptions, and pipe lines located within New Hampshire employed in the generation, production, supply, distribution, transmission, or transportation of electric powered or natural gas, crude petroleum and refined petroleum products or combination thereof, water, or sewage." The tax rate is \$6.60 per \$1,000 of value of utility property. On December 1 of each year the department determines the value of utility property as of the previous April 1. The effective date was April 1, 1999.

Real Estate Tax – RSA 76

Property taxes, based upon assessed valuation, are assessed, levied and collected by cities and towns. Current Use assessment (RSA 79-A) is available for land qualifying in the following categories: Farm Land, Forest Land, Unproductive Land. Applications for Current Use must be filed with the local assessing officials on or before April 15th.

Tax Exemption, Credit and Deferral Against Property Taxes

Application Date: The permanent application (Form PA-29) for tax exemption, credit and deferral is available from the local assessing officials. For the 2002 tax year, the application must be filed with the local assessing officials by March 1st, 2003, unless granted an extension pursuant to RSA 76:16-d.

Option: Effective January 1, 1998, RSA 72:33 allowed municipalities, through town meeting or a city council, to adopt August 1st as the filing date for the Elderly Exemption. Check with the municipality to determine specific filing dates.

Elderly Exemption: Effective July 23, 1996, RSA 72:39-a replaced the Standard, Expanded, Adjusted and Optional Adjusted Elderly Exemptions. The statute sets the minimum exemptions, and the cities and towns may modify them. The statutory exemption levels for all municipalities are adopted by each individual municipality.

- Amount of exemption from value of residential real estate: Ages 65-74; 75-79; and 80+
- Net Income Limits, including Social Security Income or pension payment Net Asset Limits

Blind Exemption – RSA 72:37

The exemption for the legally blind must be adopted by the municipality. The exemption is a minimum \$15,000 reduction of the assessed value of the residential real estate (RSA 72:29) and could be higher if amended through referendum vote.

Deferral for the Elderly or Disabled – RSA 72:38-a

The assessing officials "... may annually grant a person qualified under this paragraph a tax deferral..." Property taxes are deferred and accrue interest at the rate of 5% per annum. The deferred property tax may not exceed more than 85% of the equity value of the residence. If granted by the assessing officials, the deferral is available to any resident property

owner who is 65 years or older, or eligible for benefits for the totally and permanently disabled under the federal social security act, has owned the home for at least five years, and is currently residing there.

Veterans Tax Credit – RSA 72:28

Qualifying residents shall receive the following amounts deducted from their tax bills:

- \$ 50: Basic credit available to all veterans.
- \$700: For the surviving spouse of a veteran, pursuant to RSA 72:29-a, and veterans having a total and permanent service-connected disability pursuant to RSA 72:35

Towns may adopt a local option to increase the above dollar amounts to \$100 and \$1,400.

Disability Exemption - Residents who qualify under RSA 72:36-a as totally and permanently disabled from service connection, and is paraplegic or having double amputation from military service connected disability or blind (5/200 vision or less) as a result of service connection, and owning a specially adapted home acquired with V.A. assistance are exempt from all taxation on that home.

Tax Exemption for Improvements to Assist Persons with Disabilities – RSA 72:37-A

This exemption is limited to a physically handicapped person who resides at the residential real estate, and is applicable only upon the value of any special aids required by the resident to enable them to propel themselves.

Tax Exemption for Wind-powered, Solar and Wood heating Energy System – RSA's 72:66, 72:62, 72:70

These exemptions are optional to the cities and towns, and must be voted upon locally. If further information is required, contact the assessing officials of the municipality.

Tax Exemption for the Disabled - RSA 72:37-B

Available to persons eligible under the Social Security Act for benefits to the Totally & Permanently Disabled. Applicable only on the applicant's principal place of abode. The exemption is optional and must be voted on by the municipality, which also determines the amount of the exemption and the income/asset limitations.

REVENUE AND STATISTICS

RECEIPTS AND EXPENDITURES AS OF JUNE 30, 2003

RECEIPTS	FY 02	FY 03	% of Change
Tax Collections	980,334,803	1,025,121,830	4.57%
License Fees	57,475	35,750	(37.80%)
Appraisal Fees	17,300	12,500	(27.75%)
TOTAL	980,409,578	1,025,170,080	4.57%

EXPENDITURES	FY 02	FY 03	% of Change
Classified	5,561,772	6,168,846	10.92%
Unclassified	1,369,041	1,483,333	8.35%
Benefits	2,425,825	2,858,144	17.82%
Other	8,600	10,574	22.96%
SUBTOTAL	9,365,238	10,520,897	12.34%
Current Expense	1,085,584	1,303,751	20.10%
Equipment	614,292	412,568	(32.84%)
SUBTOTAL	1,699,876	1,716,329	0.97%
In-State	70,812	71,699	1.25%
Out-of-State	173,318	117,837	(32.01%)
Miscellaneous	331,361	402,121	21.35%
SUBTOTAL	575,491	591,657	2.81%
TOTAL	11,640,605	12,828,873	10.21%

DISBURSEMENT/TOWNS	FY 02	FY 03	% of Change
Flood Control	573,273	573,273	0.00%
Forest Land	206,251	242,996	17.82%
Recreational	1,084	717	(33.82%)
Concord	81,380	81,380	0.00%
Education Reimb Munic	0	0	0.00%
TOTAL	861,988	898,366	4.22%

REVENUE BREAKDOWN BY SOURCE

	FY 02	FY 03	Change
Business Profits Tax	159,237,248	178,180,669	18,943,421
Business Enterprise Tax	223,636,411	215,200,349	(8,436,062)
Meals & Rentals Tax	169,703,721	175,114,686	5,410,965
Tobacco Tax	84,976,512	93,267,036	8,290,524
Interest & Dividends Tax	71,470,243	56,417,343	(15,052,900)
Estate & Legacy Taxes	57,088,030	68,193,847	11,105,817
Communications Svs Tax	62,508,517	63,452,424	943,907
Real Estate Transfer Tax	97,371,970	117,003,621	19,631,651
Excess State Ed Prop Tax	28,963,331	32,666,031	3,702,700
Utility Property Tax	18,192,984	18,833,596	640,612
Electricity Consumption Tax	5,735,676	6,024,844	289,168
Other (includes RR)	1,524,935	815,634	(709,301)
SUBTOTAL	980,409,578	1,025,170,080	44,760,502
			* Changed from franchise tax on 5/1/01
TRANSFERS TO EDUCATION TRUST FUND FROM:			
Business Profits Tax	(32,645,000)	(37,100,000)	4,455,000
Business Enterprise Tax	(101,215,000)	(121,400,000)	20,185,000
Meals & Rentals Tax	(6,528,498)	(6,750,422)	221,924
Real Estate Transfer Tax	(32,372,475)	(38,998,817)	6,626,342
Tobacco Tax	(24,645,655)	(26,757,343)	2,111,688
Excess State Ed Prop Tax	(28,963,331)	(32,666,031)	3,702,700
Utility Property Tax	(18,169,529)	(18,822,921)	653,392
SUBTOTAL	(244,539,488)	(282,495,534)	37,956,046
TOTAL	735,870,090	742,674,546	6,804,456

Net Income on a Cash Basis for 1994-1998

TYPE OF REVENUE	Fiscal Year Ending 6/30/94	Fiscal Year Ending 6/30/95	Fiscal Year Ending 6/30/96	Fiscal Year Ending 6/30/97	Fiscal Year Ending 6/30/98
BPT	122,050,343	134,898,329	155,814,223	170,760,077	168,636,550
BET	22,352,806	29,055,510	24,300,099	39,136,516	71,693,395
M&R Tax	192,131,085	138,855,876	112,454,174	118,721,973	127,720,467
Tobacco Tax	42,859,252	44,489,670	45,420,240	49,837,126	75,244,227
I&D Tax	35,980,018	37,958,245	51,658,363	52,698,495	61,833,319
Estate & Legacy Taxes	33,219,462	30,266,348	31,707,415	41,234,484	42,774,343
CST Taxes	30,430,075	32,900,476	35,266,871	38,263,312	40,219,738
RE Transfer Tax	28,985,629	28,992,391	30,077,586	32,423,790	42,587,934
Nuclear Station Property Tax	7,361,478	7,658,332	7,492,746	7,499,999	7,492,475
Utilities Tax	12,600,384	9,415,182	9,995,600	10,061,920	10,238,216
Other Revenue (includes Railroads & savings bank taxes)	1,552,942	878,303	1,424,895	1,995,890	1,918,204
TOTAL	529,523,474	495,368,662	505,612,212	652,633,582	650,358,868

Net Income on a Cash Basis for 1999-2003

TYPE OF REVENUE	Fiscal Year Ending 6/30/99	Fiscal Year Ending 6/30/00	Fiscal Year Ending 6/30/01	Fiscal Year Ending 6/30/02	Fiscal Year Ending 6/30/03
BPT	167,632,300	166,180,915	197,642,774	159,237,248	178,180,669
BET	89,635,308	147,557,955	154,828,834	223,636,411	215,200,349
M&R Tax	136,499,008	153,311,197	163,049,648	169,703,721	175,114,686
Tobacco Tax	73,327,818	92,570,165	87,959,255	84,976,512	93,267,036
I&D Tax	62,911,196	65,203,307	76,842,273	71,470,243	56,417,343
Estate & Legacy Taxes	47,482,309	60,635,156	57,064,323	57,088,030	68,193,847
CST Taxes	45,824,952	47,416,610	49,256,789	62,508,517	63,452,424
RE Transfer Tax	51,066,185	82,864,095	90,350,287	97,371,970	117,003,621
Nuclear Station Property Tax	7,526	24,149,942	24,528,663	28,963,331	32,666,031
Utilities Tax	10,394,085	31,167,539	15,625,403	18,192,984	18,833,596
Utility Franchise Tax	n/a	9,974,424,	8,731,743	6,034,419	6,024,844
Other Revenue (includes Railroads & savings bank taxes)	1,277,630	1,027,627	1,210,757	1,226,191	815,634
TOTAL	686,058,317	882,058,932	927,090,749	980,409,577	1,025,170,080

PERSONNEL & REVENUE ADMINISTRATION STATISTICS

Personnel Expenditure FY 2003	Revenue Collected FY 2003	Estimated Cost of Collection FY 2003
\$10,520,897	\$1,025,170,080	1.03%

PERSONNEL DATA	CURRENT # OF EMPLOYEES AS of JUNE 30, 2003
Unclassified Employees	22
Classified Employees	180
Full time Temporary Employees	0
Temporary Employees	1
Total Number of Employees	203

PHYSICAL PLANT AND PROPERTY VALUE AS OF JUNE 30, 2003	
Equipment	\$2,671,378
Motor Vehicles	\$398,515
Physical Plant	0
Farm	0
Highways	0
TOTAL Property Value	\$3,069,893

APPENDIX OF PROPERTY TAX EQUALIZATION TABLES

APPENDIX 1

2002 PROPERTY TAX TABLES BY COUNTY

APPENDIX 2

2002 EQUALIZATION SURVEY

PART I - Summary of Property Tax System

**PART II - 2002 Equalization Survey
Including Utility & Railroad**

**PART III - 2002 Equalization Survey
Not Including Utility & Railroad**

PART IV - Base Valuation for Debt Limits

PART V - 2002 Comparison of Full Value Tax Rates