

STATE OF NEW HAMPSHIRE  
DEPARTMENT OF REVENUE ADMINISTRATION  
45 Chenell Drive  
Concord NH 03301



# 2007 ANNUAL REPORT





### **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 John Lynch and Members of the Executive Council:

- 1<sup>st</sup> District – Raymond S. Burton
- 2<sup>nd</sup> District – John D. Shea
- 3<sup>rd</sup> District – Beverly A. Hollingworth
- 4<sup>th</sup> District – Raymond J. Wiczorek
- 5<sup>th</sup> District – Debora B. Pignatelli



Letter from the Commissioner

October 25, 2007

When the time comes to draft the next Annual Report for the Department, it is always hard to believe that another year has passed so quickly. Reflecting upon the past year allows us to realize just how much the DRA team has accomplished.

The final year of property tax review for all of the cities, towns and places in our great state is complete. By every measure, the state tax system is providing citizens unbiased and fair values upon which to base a tax. The International Association of Assessing Officers (IAAO) acknowledged this by awarding the chairperson of the Assessing Standards Board, the Honorable Betsey Patten, with its achievement award. Equally important, the Supreme Court upheld the concept that the State's property tax is equitable and constitutional.

The Department continued to improve its ability to provide timely refunds. We now process many refunds within prescribed limits, saving the state \$750,000 per year in interest cost. Additionally, this year we decreased the time it takes to bill a delinquent taxpayer. Thus, the State receives its revenue faster and the taxpayers pay less interest. Again, an ideal outcome for all.

Sustaining a \$50 million audit and compliance program was key to the State's fiscal health. The Department advanced from an average \$18 million audit compliance program to a \$50 million program with no increase in its number of employees. At first, our robust audit and compliance numbers were deemed an anomaly but now that those numbers have been sustained for three full years, our program has received national recognition. The Department's consistent performance is the result of constant adaptation; the audit program is very responsive to the changing business climate. Our employees have proven they excel in an area where government is not normally known for doing well: PRODUCTIVE CHANGE.

These accomplishments were achieved in a nearly litigation-free environment. The Department does not make laws - we enforce them. The lack of litigation is a boon to enforcement. It demonstrates that taxpayers understand the law is being enforced and they will abide by the correct filing methodology. Taxpayers and the State benefit from a cooperative environment.

To the Governor and Executive Counsel, we proudly present our Annual Report. To the citizens of the State, we proudly present our best efforts.

G. Philip Blatsos  
Commissioner

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## II. ORGANIZATIONAL CHART

### DIVISION PRIMARY FUNCTIONS

**Administration Unit** – Performs administrative functions necessary to support Department operations including accounting, adjudicative and administrative hearings, fleet and facility maintenance, human resources, project management, purchasing and taxpayer advocacy.

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

**Central Tax Services Unit** – Provides general assistance to the public for all taxes administered by the Department and acts within the Department as an advocate for taxpayers.

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

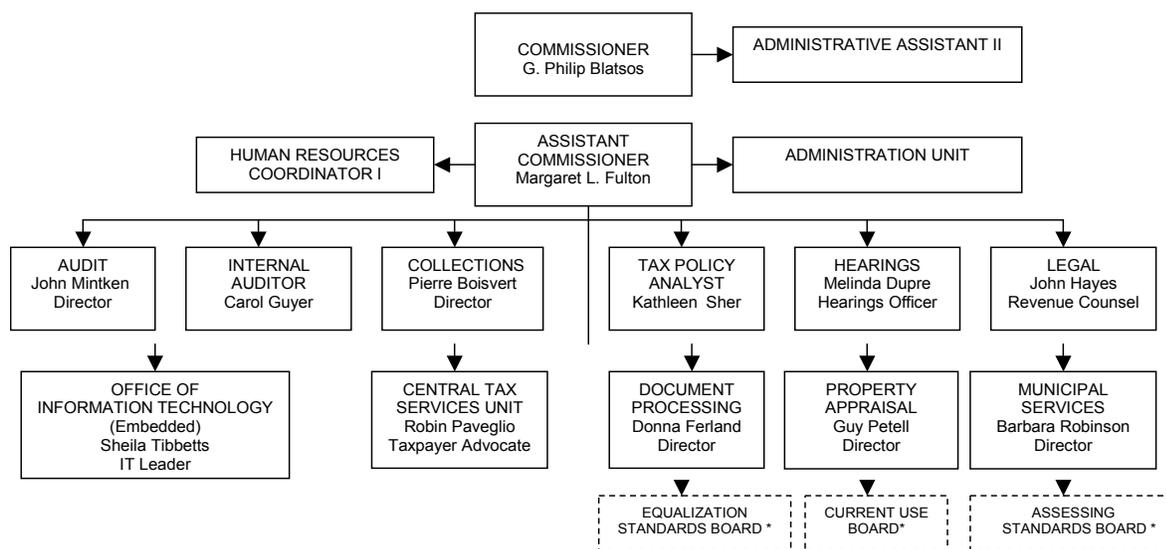
**Document Processing Division** – Receives, sends, processes, stores, and retrieves all tax documents, return payments and electronic transactions filed with the Department.

**Municipal Services Division** – Establishes and approves municipal, school, county and village district tax rates. Provides technical assistance, relative to taxation and finance, to the political subdivisions of the state; and prescribes a uniform chart of accounts for all municipalities, schools, counties and village districts.

**Office of Information Technology (Embedded Personnel)** – Designs, develops and maintains computerized systems to support the administration of taxes and to automate labor-intensive functions.

**Property Appraisal Division** – Assists and educates municipalities with the methods of appraisal and assessment of real property. Provides appraisal revaluation services statewide to municipalities. Equalizes the local assessed valuation of each municipality to bring such valuations to the full and true market value of the property. Advises and assists municipalities and taxpayers in full and true appraisals and timely collection of timber yield tax. Appraises public utility and railroad property for equalization, as well as local tax purposes. Assists local municipalities with the administration of the Current Use law (RSA 79-A).

**Organizational Chart**  
July 31, 2007



### **III PROPERTY TAX DEVELOPMENTS**

#### **Low and Moderate Income Homeowners Property Tax**

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 Education Property Tax Hardship Relief provisions were designed to lessen the economic burden of the education property tax on certain at-risk taxpayers. The new law expanded the eligibility criteria to include all property owners in New Hampshire, provided they own a "homestead", or an interest in a "homestead", subject to the education property tax and have resided in the homestead on April 1 of the year for which the claim is made. Eligible claimants also must have 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".

Eligible claimants apply for relief to the Department using Form DP-8. Claimants must include a copy of their final property tax bill and federal income tax return for the claim year and any additional documentation as required. Completed Forms DP-8 must be postmarked no earlier than May 1, and no later than June 30 following the due date of the final property tax bill. In 2004, the provisions of RSA 198:57 was amended to allow the Department to only accept completed applications filed after the June 30<sup>th</sup> closing date if they are filed on or before November 1<sup>st</sup> and the claimant can show that the failure to timely file was due to "accident, mistake, or misfortune."

In an effort to improve the processing of claims, the Department implemented a software application and an on-line claim status check. The software application allows the claims to be processed faster by implementation of several automated features such as pre-filled data entry fields for previous filers and the ability to generate request letters within the application, using the pre-filled information. The on-line claim status check allows applicants to log-in and view the status of their claims at any time.

The Department strives to process all claims within the time prescribed by the Legislature. Claims processing may be delayed as a result of incomplete claims. The amount of claims filed and relief granted is directly tied to the state education property tax rate. As the state education property tax rate drops, so do the number of claims filed and the amount of relief granted. The high number of claims filed for claim year 2003 was the direct result of aggressive marketing by the Department through education seminars and advertising to ensure that eligible residents were aware of the program. Prior eligible claimants have been mailed a copy of the current forms to ease the burden on the residents of the State. The Department also continues to make forms available at municipal offices and on our web site at [revenue.nh.gov](http://revenue.nh.gov).

Claim Year 2002	23,666 claims granted	\$7.7 million total relief
Claim Year 2003	27,208 claims granted	\$7.5 million total relief
Claim Year 2004	25,059 claims granted	\$4.9 million total relief
Claim Year 2005	21,381 claims granted	\$3.9 million total relief
Claim Year 2006	20,000 claims estimated	\$3.4 million estimated relief

## Property Appraisal and Municipal Services

The Property Appraisal and Municipal Services Divisions are responsible for providing technical support and assistance to municipalities in the area of state and local property taxation. These Divisions have four broad areas of responsibility: monitoring of the appraisal and valuation of properties; conducting annual ratio studies for determining the total equalized valuation of properties within municipalities; conducting an assessment review of specific municipalities each year; and setting municipal tax rates.

In addition, the Property Appraisal Division supports three legislatively created boards that are administratively attached to the Department of Revenue Administration. These boards are the Current Use Board, the Assessing Standards Board, and the Equalization Standards Board. For all three boards, personnel from the Property Appraisal Division provide administrative support in terms of providing procedural manuals, preparing agendas, providing meeting room space, providing public posting of meeting dates, taking and transcribing minutes, providing various clerical services, and providing day-to-day answers to inquiries about the various board's functions and duties. For the 2006 tax year, the Property Appraisal Division monitored 14 full revaluations, 3 partial revaluations, 104 cyclical review programs, 64 statistical updates, and approximately 171 annual maintenance contracts. In addition, the staff responsible for this monitoring provided technical assistance and information as requested from virtually every town or city. Property Appraisal is also responsible for the valuation of railroads and utility properties for the statewide education tax. The entities reviewed are a nuclear power plant, 10 electric companies, 8 gas companies, 9 bio-electric companies, 31 hydro-electric companies, 26 water and sewer companies, and 12 railroads. They had a combined valuation of over \$3.3 billion. The staff also processed 3,594 "Intent to Cut" forms for timber harvesting, and 784 "Intent to Excavate" forms for gravel extraction.

The assessment review process began in the 2003 tax year, following adoption of guidelines by the Assessing Standards Board. Informational workshops were held for all municipalities being reviewed, with the Property Appraisal staff conducting the reviews themselves. With the last 59 municipalities having been reviewed in 2006, all of New Hampshire's municipalities have now been reviewed.

The Equalization staff of the Property Appraisal Division computed ratios for the 2006 tax year for 234 towns and cities, and 25 unincorporated jurisdictions. The work was performed in accordance with an equalization manual that was reviewed, revised, and approved by the Equalization Standards Board. No appeals were filed challenging the calculated ratio. Effort has been ongoing to encourage municipalities to submit data for these ratio studies electronically. Electronic filings by municipalities mean less data entry, fewer errors, and faster results. For the 2006 tax year, 64% of the municipalities, with 98% of the sales, filed electronically. This represented an increase from 55% of the municipalities and 84% of the sales filing electronically for 2005. In addition to the ratio study, the Equalization staff also assisted in reviewing and processing the Low and Moderate Income Homeowner's Property Tax Relief.

The Property Appraisal Division annually certifies and recertifies individuals who are permitted to perform assessing work in the state. Currently, there are 399 that are certified, comprised of 142 building measurer and listers, 35 property assessor assistants, 75 property assessors and 147 property assessor supervisors. Of this number certified, 56 are due for recertification in 2007, 54 in 2008, 99 in 2009, 93 in 2010 and 76 in 2011.

To assist municipalities, the Property Appraisal Division continues to make available a Timber and Gravel Certification worksheet for their use. It provides an easy and accurate method to calculate the timber and gravel taxes due. Currently, approximately 80% of New Hampshire municipalities are taking advantage of this program.

The Property Appraisal Division also makes use of a timber and gravel tax database to monitor the timber and gravel activities in each municipality. The database provides timber species and excavated material totals that are initially planned for removal, and the actual final totals when each operation is completed. Reports can be generated to give totals by municipality, county, and/or statewide totals. The information is provided to the Department of Resources and Economic Development in summarizing the total volumes cut by municipality and statewide.

This fiscal year the Property Appraisal Division began creating a number of workshops for municipalities. The topics for these workshops are derived from input received from the monitoring staff as well as from municipal employees, and are then presented on a regional basis. In the last nine months of the fiscal year, twelve regional workshops were held, covering six different topics. A total of 456 municipal and contract employees, representing 177 jurisdictions, attended these workshops. An estimated 12-16 workshops are planned for this next fiscal year. In addition, Property Appraisal also created a 3-day set of instructions that comprises the second half of the new State Statutes course being co-sponsored with the New Hampshire Assessor's Association. This portion of the course will be presented for the first time in October of 2008.

To establish tax rates in accordance with RSA 21-J:35, the Municipal Services Division reviewed the appropriations and revenues, financial reports, and budget documents for the State's 234 towns and cities, 25 unincorporated places, 200 school districts, 10 counties, and 92 village districts. This required analyzing 5,292 warrant articles or resolutions that resulted in only 48 disallowances and 73 technical assistance letters. The reduction in corrections is due to continuous technical assistance offered by the Division relative to finance and taxation under RSA 21-J:24.

In the course of providing this technical assistance to the various municipalities, the Municipal Services Division responded to approximately 7,500 phone calls, 800 faxes, and 6,500 emails in 2006.

The Municipal Services Division presented and participated in training workshops for tax collectors, village district officials, school officials, town and city officials, the GFOA, and the municipal section of the New Hampshire Bar Association. In addition, the staff also conducted numerous on-sight technical assistance visits to municipalities, including specific visits to collectors.

#### **IV VOLUNTARY COMPLIANCE - CENTRAL TAX SERVICES**

The mission of Central Tax Services is to provide useful education, explain the function of the department, and give help, tools and service to promote understanding and voluntary compliance with New Hampshire tax laws to all taxpayers, tax officials, and practitioners.

Using a statistical tracking system to log the tax issues and requests for assistance, the Department is able to identify systemic issues that may be causing taxpayers difficulty with filing on time and calculating their tax liability accurately. Having a centralized call center within this unit enables us to deliver consistent information, reduce taxpayer errors, and maintain accurate taxpayer records through the use of our accounts receivable system.

Central Tax Services will continue to work pro-actively over the next year to identify and provide the quality service and tax resources necessary to enable any taxpayer in need of assistance to become voluntarily compliant with our state tax laws and obligations.

The Accounts Receivable Unit, within Central Tax Services has identified 2,697 unpaid taxpayer accounts for a total of \$5,826,645.36 owed to the state and has mailed 2,697 reminder letters this fiscal year.

On May 22, 2007 a new proposed tax notice program was implemented for BPT/BET, Interest and Dividends and Meals and Rentals. A proposed notice is sent to the taxpayer prior to a tax notice being issued. These proposed notices give the taxpayer a chance to respond to the department for further information regarding monies due. From 05/22/2007 to 06/30/2007 a total of 1,701 proposed tax notices have been sent totaling \$2,883,222.32 due to the state.

## **V 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, which must be remedied.

### **Non-Filer Project Discovery/Nexus Program**

The Revenue Discovery Bureau contacts potential non-filers and under-reporters of the Interest and Dividends Tax and the Business Profits/Business Enterprise Taxes. These projects are created based upon information received from the Internal Revenue Service. During FY 2007 the Bureau sent out 5,301 letters. These mailings generated 5,228 new returns to be filed and they increased state revenue by \$3,472,000.

The Bureau also discloses confidential federal tax information to the Audit Division that is needed in some of the multi-state tax audits. Further, the Bureau provides technical assistance for a variety of database driven projects throughout the Department and State. We have on-going projects with the Departments of Safety, Health and Human Services and Employment Security.

While continuing to manage its normal projects, the Bureau is currently taking a proactive approach in order to assist future taxpayers. Utilizing data from the Secretary of State, we are spearheading a project to send notices about potential tax obligations to the newest businesses to register with the State. We are optimistic that this outreach program will reduce our future delinquency mailings and increase voluntary compliance for all of the business taxes.

### **Nexus**

The Nexus Unit of the Audit Division identifies and contacts potential non-filers through research of the Department of Employment Security records, city and county contracts, visits with industrial sites, and through research of public documents. The Department also has a contract with the Multistate Tax Commission concerning a national nexus program designed to offer voluntary disclosure of non-filing by out of state taxpayers.

Nexus assessed \$3,861,713 in FY 2007 and collected \$2,886,555, adding 193 new taxpayers to the roll of taxpayers required to file Business Profits Tax returns and Business Enterprise Tax returns.

### **General Audit Program**

The Audit Division collected \$52,000,000 from assessed amounts of \$62,877,962. The Audit Division audited over 5,000 taxpayers in FY 2007.

## Collection Activity

The mission of the New Hampshire Department of Revenue Administration is to collect taxes in a proper and professional manner. After the Document Processing Division has processed the initial billing cycle, delinquent tax cases are assigned to the Collection Division. Eleven Compliance Officers attempt to resolve their assignments via telephone, targeted mailings, and in-person visits. They can request liens and levies be filed and can negotiate installment payment plans. Compliance Officers are assigned a territory and are responsible for all types of tax cases. Much of their work is accomplished face-to-face at the taxpayer's place of business and/or residence.

The Collection Division is committed to assuring that all taxpayers timely submit and fully pay their New Hampshire tax liabilities as prescribed by law. Accordingly, the Compliance Officers' responsibilities involve collecting delinquent tax debts, obtaining overdue tax returns, and educating taxpayers on their tax responsibilities. In this effort, the Collection Division is specifically charged with the responsibility of initiating collection activity in pursuit of delinquent tax returns and assessments of all taxes administered by the Department of Revenue Administration.

Compliance Officers are experienced in tax law and collection techniques necessary for the collection of delinquent taxes and delinquent tax returns. Duties include conducting research, interviews, investigations and analysis of financial information for assigned cases. Compliance Officers counsel taxpayers on their tax obligations and determine how they can best resolve their delinquencies, while ensuring that their rights are protected. In addition, Compliance Officers provide assistance to the meals and rentals operators to ensure proper understanding of Department rules and State regulations.

A considerable focus is centered on the Meals & Rentals (M&R) Tax and the Tobacco Tax. The M&R tax evolves around three distinct forms of business that includes restaurants, room rentals and motor vehicle rentals. Proper licensing and reporting holds a high level of scrutiny in our enforcement efforts.

During FY 2007 we prepared and recorded over 317 State tax liens in an effort to secure debts due the State.

The Collection Division secured and collected \$4,420,744.51 in Meals and Rentals Tax (M&R); \$3,820,887.26 in Business Tax; \$236,090.59 in Interest and Dividends Tax; and \$268,438.74 in Miscellaneous Taxes. Late M&R returns accounted for \$3,071,741.00.

Tobacco tax sales generated \$138,580,800. We anticipate adding an additional Compliance Officer to help improve our effectiveness in tobacco tax issues.

Compliance Officers conducted some 596 retail tobacco checks. There are 159 active bankruptcy cases pending adjudication for a total court claim in excess of \$2,565,185.21.

To enhance the efficiency of our collection efforts we have out-stationed a Compliance Officer in the Gorham office. This initiative has provided taxpayer awareness in the North Country and has enabled our staff to work more efficiently in meeting our taxpayers' needs. In support of creating awareness, our Compliance Officers have actively participated in monitoring the State fairs and other special events.

## **VI LEGAL DEVELOPMENTS**

### **Office of Revenue Counsel**

The Office of Revenue Counsel serves as general legal counsel for the Department and provides legal advice and representation to the Department. 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. Revenue Counsel performs a wide range of other services which include: rendering advice and written legal opinions to Department personnel and other government officials, as well as taxpayers; analyzing tax laws and assisting with their implementation and administration; reviewing and drafting proposed statutes; drafting and coordinating the adoption of administrative rules by the Commissioner and administratively attached boards; assisting with the preparation of Department informational publications; handling Right-to-Know Law requests; representing the Department in employment matters; and providing assistance and advice in connection with audits, hearings before the Department's Hearings Bureau, and other stages of the enforcement and administration of tax laws.

The Department's attorneys spent a significant portion of their time defending civil cases filed in courts and administrative appeal tribunals appealing tax assessments and challenging state taxing statutes. During the fiscal year, the Department's attorneys continued to handle a substantial caseload presenting a variety of legal issues affecting the Department, requiring work at all levels of the court system and administrative appeals process. The cases Revenue Counsel handles frequently have a substantial potential fiscal impact or significant precedential value. A few of these cases are discussed below.

### **Significant Cases**

In *Gail C. Nadeau 1994 Trust v. City of Portsmouth*, Docket No. 2005-934, \_\_\_ N.H. \_\_\_ (August 17, 2007), the New Hampshire Supreme Court reversed the decision of the Superior Court finding the education property tax, RSA 76:3, for the tax years 2002, 2003, and 2004 assessed with respect to various Portsmouth and Rye taxpayers who filed consolidated abatement petitions were unconstitutionally disproportionate. The Supreme Court held that the trial court erred as a matter of law in ruling that the petitioners met their burden of proof without offering any evidence that they are paying more than their proportional share of taxes. A Department attorney worked closely with the Department of Justice in defending this challenge to the state property tax. This decision is final.

In *General Electric v. Commissioner*, 154 N.H. 457 (December 5, 2006), the New Hampshire Supreme Court ruled that a business profits tax deduction for dividends received under RSA 77-A:4, IV did not violate the U.S. Constitution. General Electric Company brought suit alleging a deduction for dividends received from an affiliate that had already been subject to tax violated the Commerce Clause. The Superior Court dismissed the case for lack of standing and ruled that the deduction did not violate the Commerce Clause. On appeal, the New Hampshire Supreme Court reversed the lower court's ruling regarding standing and upheld its ruling that the deduction did not violate the Commerce Clause. General Electric Company has appealed to the U.S. Supreme Court for a review of the case. Department of Revenue Administration and Department of Justice attorneys have worked together in defense of this case. On October 29, 2007, the U.S. Supreme Court denied General Electric Company's petition to review this case. Consequently, the N.H. Supreme Court's ruling that the deduction did not violate the Commerce Clause stands.

**Declaratory Rulings FYE 6/30/07**

<b>DCR Number</b>	<b>Content</b>	<b>RSA</b>	<b>Effective Date</b>
8724	RETT - Application to Mass trust statutory conversion	RSA 78-B	9/06/06
8761	CST – Internet Tax Nondiscrimination Act	RSA 82-A	11/17/06
8771	RETT – From Mass LLC to NH LLC	RSA 78-B	12/06/06
8885	RETT – Trust Consolidation	RSA 78-B	5/17/07

**Administrative Rulings FYE 6/30/07**

<b>DOC Number</b>	<b>Rule Number and Content</b>	<b>Effective Date</b>	<b>Expiration Date</b>
8686	Rev 2000 – Financial Accounting for Village Districts	7/21/06	7/21/14
8687	Rev 2200 – Financial Accounting for Counties	7/21/06	7/21/14
8709	Rev 300 – Business Profits Tax	8/25/06	8/25/14
8816	Rev 2801.03 – Definition of "manual" in Equalization	2/06/07	2/06/15
8825	Cub 300 – Criteria for Current Use	2/23/07	2/23/15
8907	PART Rev 604 – Property Appraisal Forms	6/19/07	6/19/15

**Technical Information Releases Issued FYE 6/30/07**

<b>TIR Number</b>	<b>Description</b>	<b>Date Issued</b>
2006-006	New Interest Rates Set	10/02/06
2007-001	View Factor Adjustments	2/22/07
2007-002	Tobacco Tax Increase	6/29/07

## Summary of Adjudicative Proceedings

During FY 2007, the Hearings Bureau, once again, underwent some additional changes. During the last quarter of FY 2006, and the first quarter of FY 2007, the Hearings Bureau implemented a number of changes to the hearing process, which have resulted in a more streamlined and user-friendly process. For example, an appeal form was created (Form A-101), to better assist the taxpayer in filing a proper appeal with the Hearings Bureau. Also, in order to ensure that the increase in the number of appeals being filed with the Hearings Bureau did not impede the hearing process, the Hearing Officer began scheduling adjudicative hearings three days a week, instead of two days a week.

The Hearings Bureau experienced an increase in the number of appeals filed in FY 2007 as compared with FY 2006. The time required to produce a Final Order after the close of the record increased to an average of 52.1 days, as compared to 48.2 in FY 06. The increase in the average number of days to produce a Final Order was largely due to a single, complex case in which the Final Order was issued one year after the close of the record.<sup>1</sup> Of the 36 Final Orders issued in FY 2007, 10 were issued after the 60-day scheduled production criteria time frame.

The Hearings Bureau's goal for FY 2008 is to continue to maintain a high level of timely performance as the caseload steadily increases throughout the year. This includes tracking cases in the hearing process and requesting status reports on those cases where the parties have indefinitely suspended the hearing in order to negotiate. It also includes increased efforts to prepare Final Orders within 30 to 60 days after the close of the record in each case.

The following statistics summarize the activity of the Hearings Bureau during the past fiscal year as compared to the prior fiscal year:

	FY '06	FY '07	%Change
Appeals filed	195	242	24%
Cases closed	226	257	14%
Cases on appeal to Superior Court, BTLA, or Supreme Court	14	6	(57%)
Final Orders issued	23	36	57%
Cases open as of 6/30/07	149	146	(2%)
<b>Final Orders Issued for the period 7/1/06 through 6/30/07</b>			
Business Tax	13	24	85%
Meals & Rentals Tax	5	3	(40%)
Interest & Dividends Tax	2	3	50%
Real Estate Transfer Tax	2	6	200%
Communication Service Tax	1	0	(100%)
<b>TOTAL ORDERS ISSUED</b>	<b>23</b>	<b>36</b>	<b>57%</b>

<sup>1</sup> Removing that case from the equation, the average number of days to produce a Final Order after the close of the record was 39.6 days.

## **VII TECHNOLOGICAL DEVELOPMENTS**

### **Internet and Telefile (eFileNH) enhancements**

The Department continues with its commitment to implementing faster and more efficient services to taxpayers in the form of more Internet and Telefile enhancements. This year, the Department completed changes to the bulk filing option of e-File to facilitate the submittal and processing of multiple transactions from one fiduciary such as tax preparers, with only one submittal. From July 2006 through June 2007, the Department processed over 41,000 Internet and 25,000 Telefile transactions totaling more than \$255 million. This is an increase of more than 4,000 transactions and more than \$10 million greater than the previous year.

### **Automated Refund Approval**

The Department has instituted an automated refund approval process to expedite the refund process for tax returns that meet certain criteria. This has resulted in a timesaving for DRA employees processing and reviewing refunds and a quicker turn around on refunds to the taxpayer. Over the last fiscal year, over 4,000 refunds with a total of over \$6.5 million went through the auto-approval process.

### **2D Barcode**

The Department continues to work with the National Association of Computerized 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 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 nightly. It saves the Department 90% of the usual manual processing time. In addition, keying errors are reduced and re-work and suspense transaction volume are significantly decreased. Refund transactions are generated in a more timely fashion, and taxpayer accounts are up-to-date faster.

From July 2006 through June 2007, the Department has processed over 55,000 2D bar-coded payment transactions totaling more than \$35 million including over 7,000 refund transactions for approximately \$8 million.

### **Low & Moderate PC Application**

The Department utilizes a PC application to administer the Low & Moderate (L&M) Homeowners Property Tax Relief program. Approximately 22,000 L&M applicants file a claim with the Department each year. The PC application provides facilities to data enter, validate and create payment vouchers for approved claimants, as well as track correspondence between the Department and the claimants. PC application security is integrated with the Tax Information Management System (TIMS). Payment voucher information transfer to the State's Integrated Financial System (IFS) is automated through the File Transfer Protocol (FTP) on the State's wide area network (WAN).

### **Document Management**

The Department continues to implement a variety of document management applications to facilitate DRA's compliance investigations and audits and to reduce manual data entry efforts as much as possible.

### **Real Estate Transfer**

The Department implemented an electronic document management system for Real Estate Transfer Tax documents. The process of electronically scanning the documents along with capturing identifying data has facilitated the review of Real Estate Transfer activity by DRA audit staff. From July 2006 through July 2007, over 33,000 documents were scanned and readily available to auditors.

### **Communications Service Tax**

Document scanning of the Communications Service Tax forms provides DRA staff easy access to the tax return without requesting it from the file room. This saves both the requestors and the file clerk time and effort.

This is the first DRA scanning application, which uses an auto-recognition technology to reduce the amount of data entry needed per form. If the application recognizes the data correctly, the operator simply tabs past the field to accept it, eliminating the need for manual data entry.

### **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 applicable, new technology trends. The Department's strategy will also address public concerns about the digital age: privacy and confidentiality and universal access.

The Department has embraced the goals outlined in the Governor's 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.
4. To capitalize on our investment in data processing tools and training and help in developing methods to fully utilize all data available to the Department.

## **VIII SUMMARY OF TAXES**

### **BUSINESS PROFITS TAX - RSA 77-A 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.

### **MEALS & RENTALS TAX - RSA 78-A**

The Meals and Rentals (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 required to be remitted to the State on the 15th day of the month following the collection of tax.

### **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 \$500. 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.

### **COMMUNICATIONS SERVICES 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 and remit 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 its 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.

### **ELECTRICITY CONSUMPTION TAX - RSA 83-E**

Effective May 1, 2001, the Electricity Consumption Tax is imposed at a rate of \$ .00055 per kilowatt hour on persons, including government units, distributing, redistributing or transmitting electrical energy for consumption in this state.

### **REAL ESTATE TRANSFER TAX - RSA 78-B**

The Real Estate Transfer tax (RETT) was first enacted in 1967. Chapter 17, 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 combined 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 Registry 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.

### **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.

### **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 \$4.92 per \$1,000 of value beginning with the April 1, 2003 tax year (school year 7/1/03-6/30/04). The sunset provision of the state education property tax was repealed, making the tax a permanent revenue source dedicated to funding education. As of April 1, 2005, rate is \$3.33 per \$1,000.

### **LOCAL PROPERTY TAX - RSA 76**

Property taxes, based upon assessed valuation, are assessed, levied and collected by cities and towns.

## TAX EXEMPTION, CREDIT AND DEFERRAL AGAINST PROPERTY TAXES

Current Use assessment (RSA Chapter 79-A) is available for land qualifying in the following categories: Farm Land, Forest Land, and Unproductive Land. Applications for Current Use must be filed with the local assessing officials on or before April 15<sup>th</sup>.

**Application Date:** The permanent application (Form PA-29) for tax exemption, credit and deferral is available from the local assessing officials. Annually, the application must be filed with the local assessing officials by March 1<sup>st</sup> of the year following the tax period, 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 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.

**IX REVENUE AND STATISTICS**

<b>RECEIPTS AND EXPENDITURES AS OF JUNE 30, 2007</b>			
<b>RECEIPTS</b>	<b>FY 06</b>	<b>FY 07</b>	<b>% of Change</b>
Tax Collections	1,243,345,494	1,281,011,867	3.03%
<b>TOTAL</b>	<b>1,243,345,494</b>	<b>1,281,011,867</b>	<b>3.03%</b>
<b>EXPENDITURES</b>	<b>FY 06</b>	<b>FY 07</b>	<b>% of Change</b>
CLASSIFIED	5,580,882	6,052,899	8.46%
UNCLASSIFIED	1,326,277	1,515,825	14.29%
BENEFITS	3,492,124	3,728,587	6.77%
OTHER	20,867	0	(100.00%)
SUBTOTAL	10,420,150	11,297,311	8.42%
Current Expense	2,582,160	2,649,319	2.60%
Equipment	50,992	51,022	0.06%
SUBTOTAL	2,633,152	2,700,341	2.55%
In-State	72,123	52,504	(27.20%)
Out-of-State	127,516	122,504	(3.93%)
Miscellaneous	239,755	269,544	12.42%
SUBTOTAL	439,394	444,553	1.17%
<b>TOTAL</b>	<b>13,492,696</b>	<b>14,442,204</b>	<b>7.04%</b>
<b>DISBURSEMENT/TOWNS</b>	<b>FY 06</b>	<b>FY 07</b>	<b>% of Change</b>
Flood Control	729,712	729,712	0.00%
Forest Land	153,663	159,453	3.77%
Recreational	3,872	6,962	79.81%
Concord	81,380	81,380	0.00%
<b>TOTAL</b>	<b>968,627</b>	<b>977,507</b>	<b>0.92%</b>

**REVENUE BREAKDOWN BY SOURCE**

	<b>FY 06</b>	<b>FY 07</b>	<b>Change</b>
Business Profits Tax	341,351,280	332,902,093	(8,449,187)
Business Enterprise Tax	212,115,406	252,499,583	40,384,177
Meals & Rental Tax	204,907,639	207,287,472	2,379,833
Tobacco Tax	145,022,895	139,510,631	(5,512,264)
Interest & Dividends Tax	80,256,331	106,017,526	25,761,195
Estate & Legacy Tax	3,925,281	445,818	(3,479,463)
Communications Svs Tax	70,330,594	73,369,315	3,038,721
Real Estate Transfer Tax	157,941,376	140,630,984	(17,310,392)
Utility Property Tax	20,789,572	21,801,715	1,012,143
Electricity Consumption Tax	6,344,187	6,258,150	(86,037)
Other	360,933	288,579	(72,354)
<b>TOTAL</b>	<b>1,243,345,494</b>	<b>1,281,011,866</b>	<b>37,666,372</b>

No excess state education property tax due to law change on RSA 198:41 effective 1/06

**OF THE REVENUES COLLECTED IN THE TABLE ABOVE, THE FOLLOWING TRANSFERS WERE MADE TO THE EDUCATION TRUST FUND RESULTING IN THE GENERAL FUND AMOUNTS LISTED BELOW.**

	<b>FY 06</b>	<b>FY 07</b>	<b>Change</b>
Business Profits Tax	55,800,000	60,599,258	4,799,258
Business Enterprise Tax	148,200,000	171,349,080	23,149,080
Meals & Rentals Tax	7,150,418	7,162,226	11,808
Real Estate Transfer Tax	52,604,468	46,869,993	(5,734,475)
Tobacco Tax	76,231,396	75,999,287	(232,109)
Utility Property Tax	20,789,572	21,801,715	1,012,143
<b>EDUCATION TRUST FUND</b>	<b>360,775,854</b>	<b>383,781,559</b>	<b>23,005,705</b>
<b>NET GENERAL FUND</b>	<b>882,569,640</b>	<b>897,230,307</b>	<b>14,660,667</b>

**NET INCOME ON A CASH BASIS FOR 2000 – 2003**

TYPE OF REVENUE	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	166,180,915	197,642,774	159,237,248	178,180,669
BET	147,557,955	154,828,834	223,636,411	215,200,349
M & R Tax	153,311,197	163,049,648	169,703,721	175,114,686
Tobacco Tax	92,570,165	87,959,255	84,976,512	93,267,036
I & D Tax	54,203,307	76,842,273	71,470,243	56,417,343
Estate & Legacy Tax	60,635,156	57,064,323	57,088,030	68,193,847
CST Tax	47,416,610	49,256,789	62,508,517	63,452,424
Real Estate Transfer Tax	82,864,095	90,350,287	97,371,970	117,003,621
Utilities Franchise Tax	9,974,424	8,731,743	298,743	n/a
Utilities Property Tax	31,167,539	15,625,403	18,192,984	18,833,596
Excess Education Property Tax	24,149,942	24,528,663	28,963,331	32,666,031
Electric Consumption Tax	n/a	n/a	5,735,676	6,024,844
Other Revenue	1,027,627	1,210,757	1,226,191	815,634
<b>TOTAL</b>	<b>882,058,932</b>	<b>927,090,749</b>	<b>980,409,577</b>	<b>1,025,170,080</b>

**NET INCOME ON A CASH BASIS FOR 2004 – 2007**

TYPE OF REVENUE	Fiscal Year Ending 6/30/04	Fiscal Year Ending 6/30/05	Fiscal Year Ending 6/30/06	Fiscal Year Ending 6/30/07
BPT	171,568,053	209,747,332	341,351,280	332,902,093
BET	236,627,334	236,162,258	212,115,406	252,499,583
M & R Tax	184,259,685	192,196,642	204,907,939	207,287,472
Tobacco Tax	100,040,497	99,307,075	145,022,895	139,510,631
I & D Tax	53,769,043	66,929,900	80,256,331	106,017,526
Estate & Legacy Tax	35,050,805	11,909,724	3,925,281	445,818
CST Tax	65,595,263	69,557,473	70,330,594	73,369,315
Real Estate Transfer Tax	137,018,703	160,430,527	157,941,376	140,630,984
Utilities Property Tax	20,159,763	20,087,776	20,789,572	21,801,715
Excess Education Property Tax	29,843,911	20,934,231	n/a	n/a
Electric Consumption Tax	6,217,227	6,229,864	6,344,187	6,258,150
Other Revenue	923,468	871,900	360,933	288,579
<b>TOTAL</b>	<b>1,041,073,752</b>	<b>1,094,364,702</b>	<b>1,243,345,494</b>	<b>1,281,011,866</b>

**PERSONNEL & REVENUE ADMINISTRATION STATISTICS**

<b>Personnel Expenditure FY 2007</b>	<b>Revenue Collected FY 2007</b>	<b>Estimated Cost of Collection FY 2007</b>
\$11,297,311	\$1,281,011,867	0.88%

<b>PERSONNEL DATA</b>	<b>CURRENT # OF EMPLOYEES AS OF JUNE 30, 2007</b>
Unclassified Employees	23
Classified Employees	169
Full Time Temporary Employees	0
Temporary Employees	0
Total Number of Employees	192

<b>PHYSICAL PLANT AND PROPERTY VALUE AS OF JUNE 30, 2007</b>	
Equipment	\$2,386,039
Motor Vehicles	\$392,660
Physical Plant	0
Farm	0
Highways	0
Total Property Value	\$2,778,699

<b>REVOLVING FUND, RSA 21-J:24a,VII, FOR PERIOD JULY 1, 2006 THROUGH JUNE 30, 2007</b>	
Beginning Fund Balance 7/1/06	\$6,107.04
Expenditure	\$500.00
Revenues	\$500.00
Ending Fund Balance 6/30/07	\$6,107.04

**X. APPENDIX OF PROPERTY TAX EQUALIZATION  
TABLES AND  
ASSESSMENT REVIEW REPORT**



## **APPENDIX 1**

### 2006 PROPERTY TAX TABLES BY COUNTY



## **APPENDIX 2**

### **2006 EQUALIZATION SURVEY**

Part I - Summary of Property Tax System

Part II - 2006 Equalization Survey Including Utility & Railroad

Part III - 2006 Equalization Survey Not Including  
Utility & Railroad

Part IV - Base Valuation for Debt Limits

Part V - 2006 Comparison of Full Value Tax Rates



## **APPENDIX 3**

### **2003 – 2005 ASSESSMENT REVIEW REPORTS**

