

# An Overview of New Hampshire's Tax System

**Presentation to the House  
Ways & Means Committee**  
*January 9, 2013*

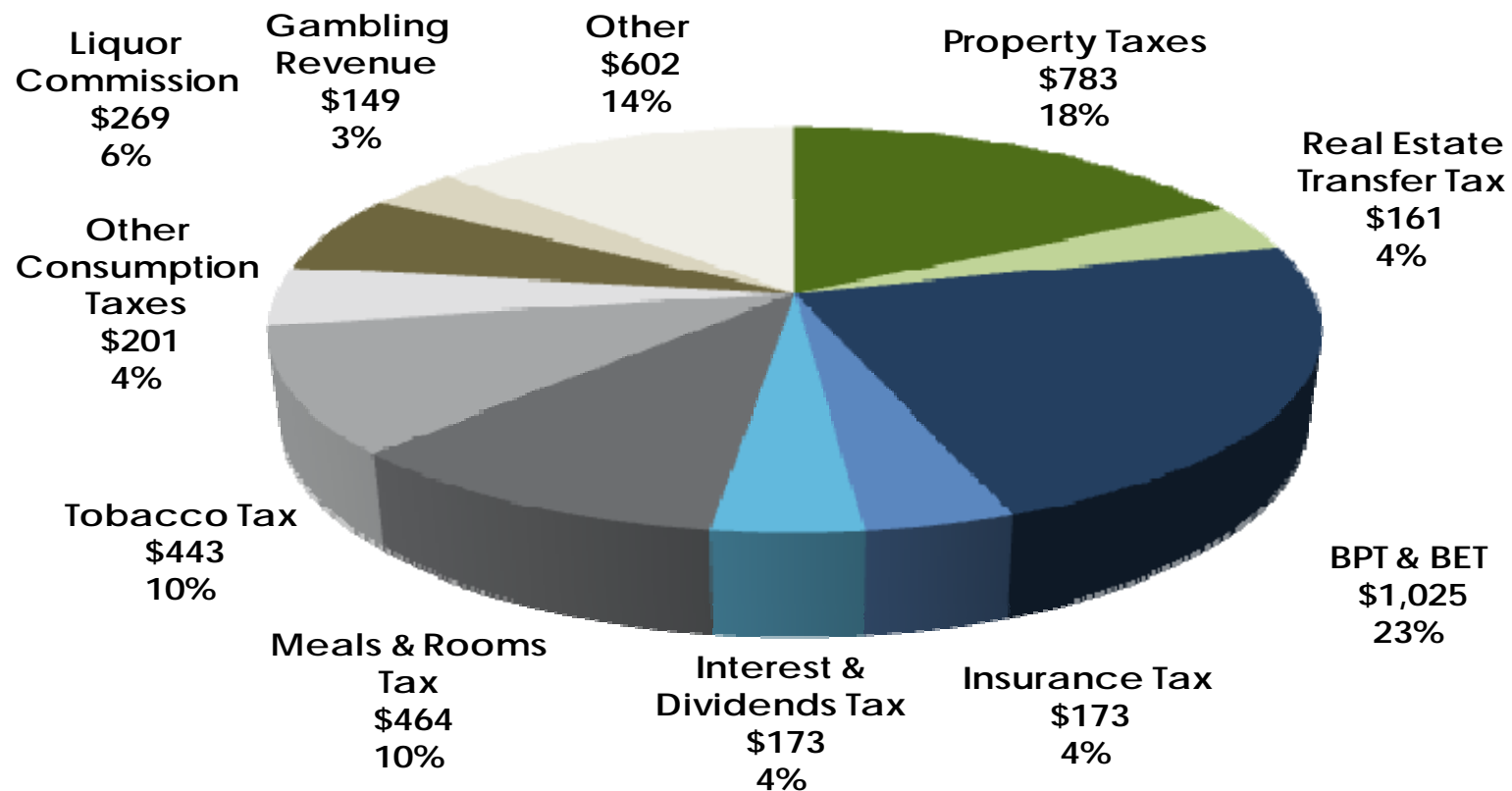
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# An Overview of New Hampshire's Tax System

- *What are the key elements of New Hampshire's tax system?*
- What are some of the distinguishing features of New Hampshire's tax system?
- What are some of the revenue challenges that are likely to be before the Legislature in the coming year?

# How Does New Hampshire Generate Revenue?

*Projected FY12-13 General & Education Fund Revenue: \$4.44 billion*  
*individual sources of revenue in millions of dollars*



Source: NHFPI calculations based on Chapter 223 of the Acts of 2011

# How Does New Hampshire Generate Revenue?

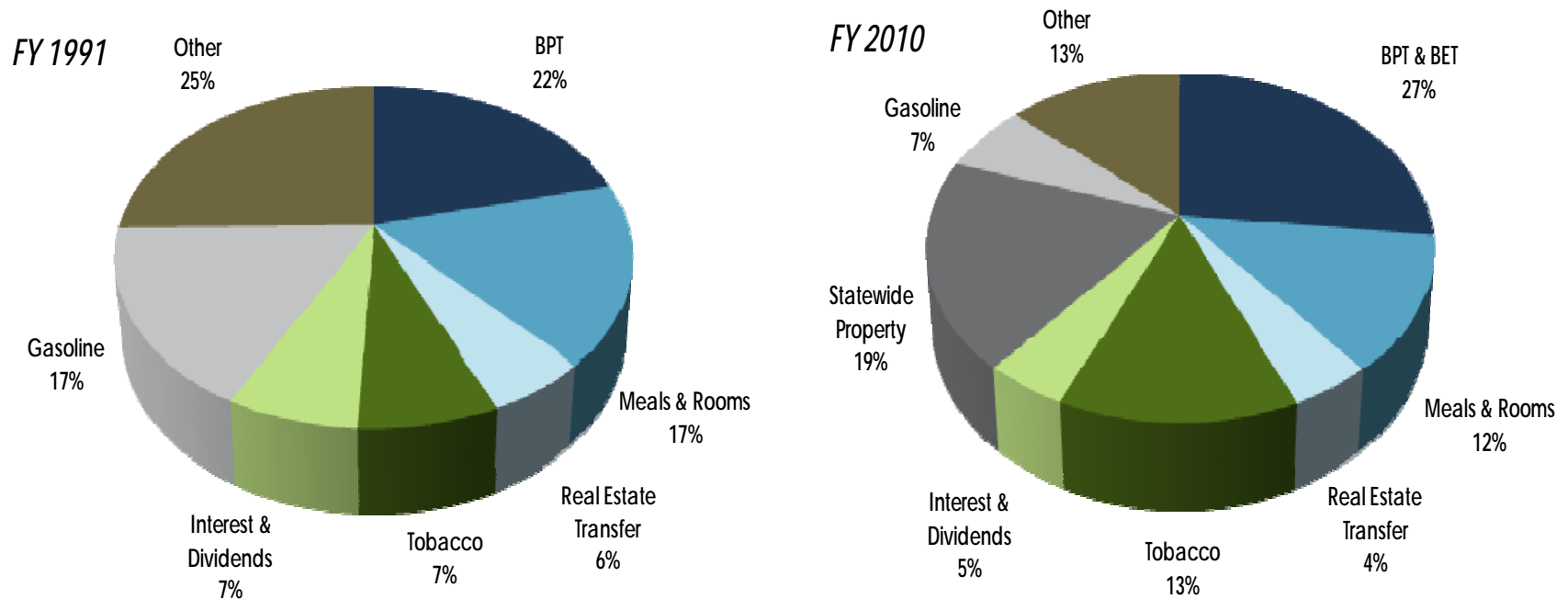
## *Principal Sources of Tax Revenue, FY 2012*

	<u>FY 2012 Revenue</u>	<u>Rate</u>
<i><b>General &amp; Education Funds</b></i>		
Business Profits Tax	\$310 M	8.50%
Business Enterprise Tax	\$202 M	0.75%
Meals & Rooms Tax	\$239 M	9.00%
Real Estate Transfer Tax	\$83 M	\$0.75 / \$100 value
Tobacco Tax	\$215 M	\$1.68 / pack
<i><b>General Fund only</b></i>		
Interest & Dividends Tax	\$83 M	5.00%
<i><b>Education Fund only</b></i>		
State Property Tax	\$363 M	Varies (\$2.39 / \$1000 value)
<i><b>Highway Fund only</b></i>		
Motor Fuel	\$123 M	\$0.18 / gallon

Source: Department of Administrative Services; Department of Revenue Administration

# Sources of NH Tax Revenue Have Changed in Last Two Decades

*Composition of Total Tax Revenue by Source, FY 1991 & FY 2010*



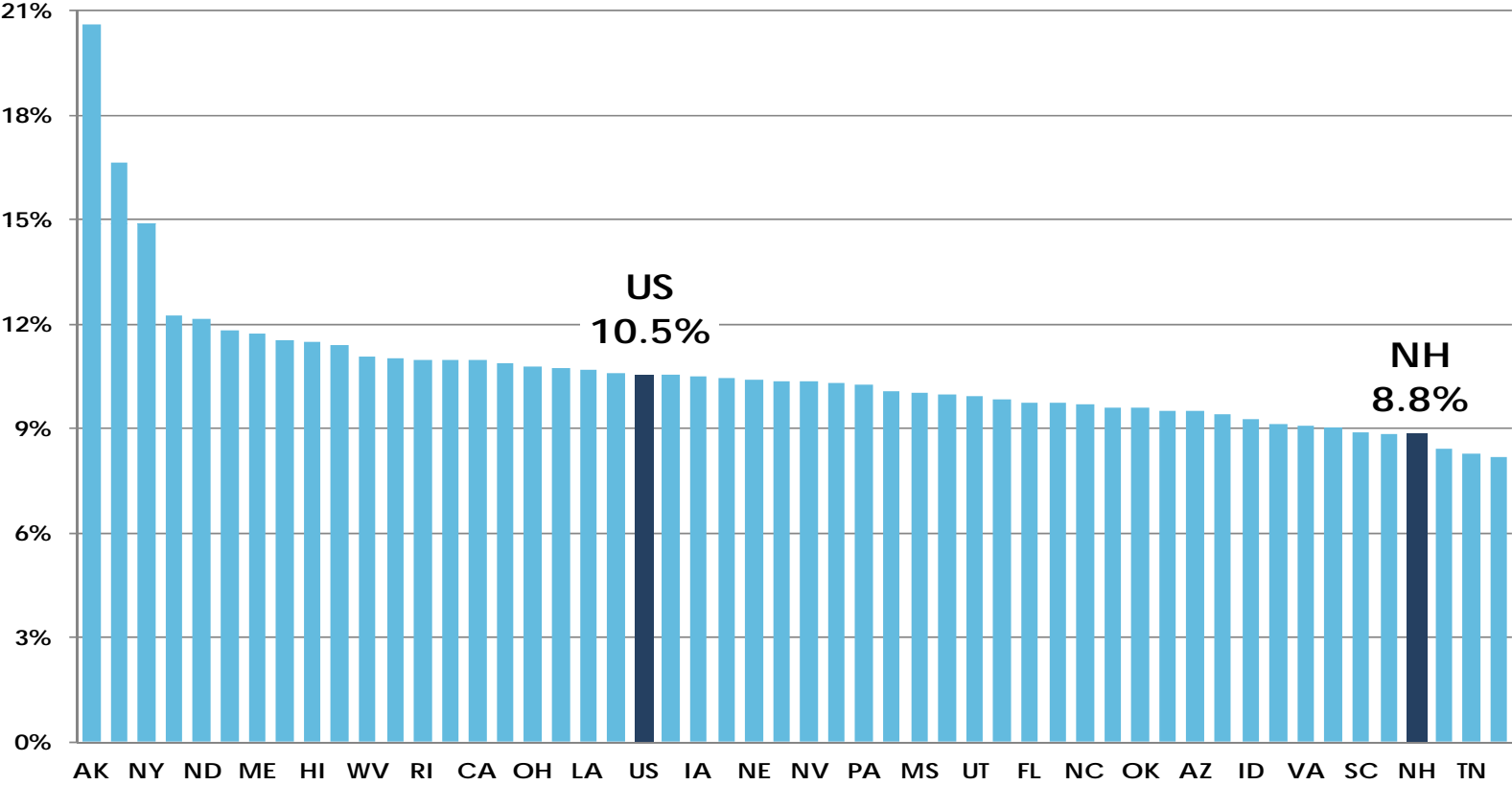
Source: NHFPI calculations based on Comprehensive Annual Financial Report data

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# Taxes in NH Very Low Relative to Aggregate Ability to Pay

*Total State and Local Taxes as a Share of Personal Income, FY 2010*

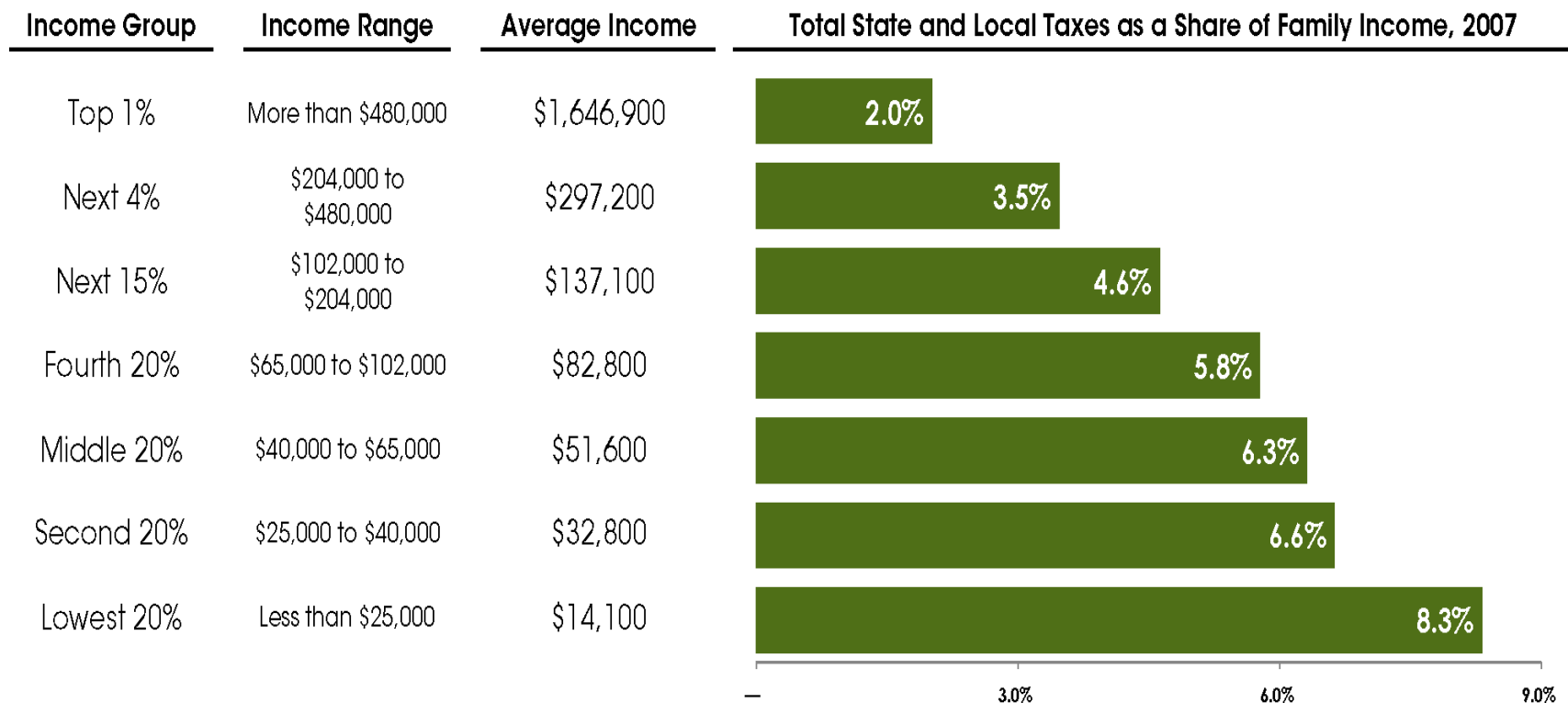


Source: NHFPI calculations based on US Census Bureau, US Bureau of Economic Analysis data

# New Hampshire's Tax System is Regressive

*Low-income Granite Staters have an effective tax rate that is four times that of the most well-off.*

## **Total State and Local Taxes in New Hampshire, Non-Elderly Taxpayers**

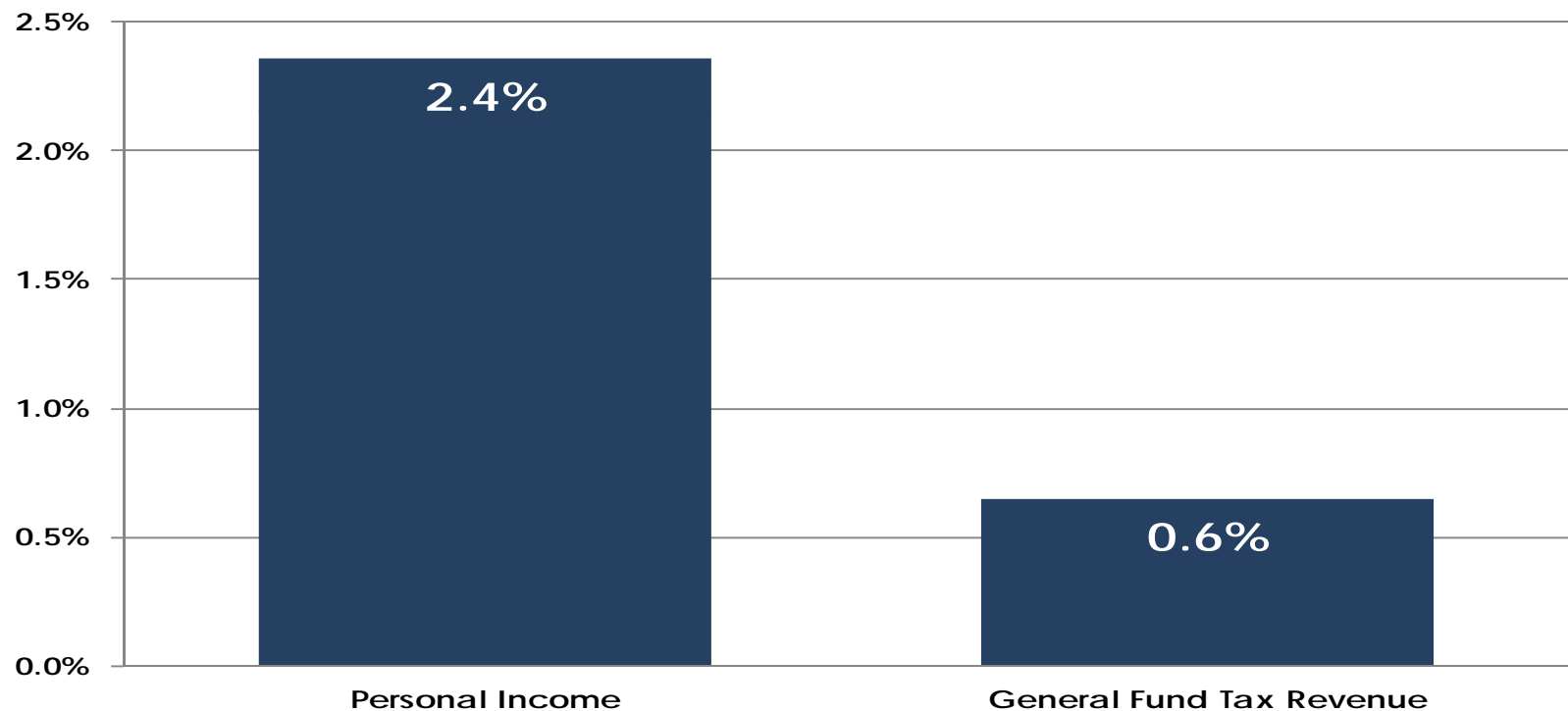


Source: Institute on Taxation and Economic Policy



# New Hampshire's Tax System Contributes to Perpetual Budget Woes

*Average Annual Change in Personal Income and in General Fund Tax Revenue, Adjusted for Inflation and Rate Changes, 1994-2011*



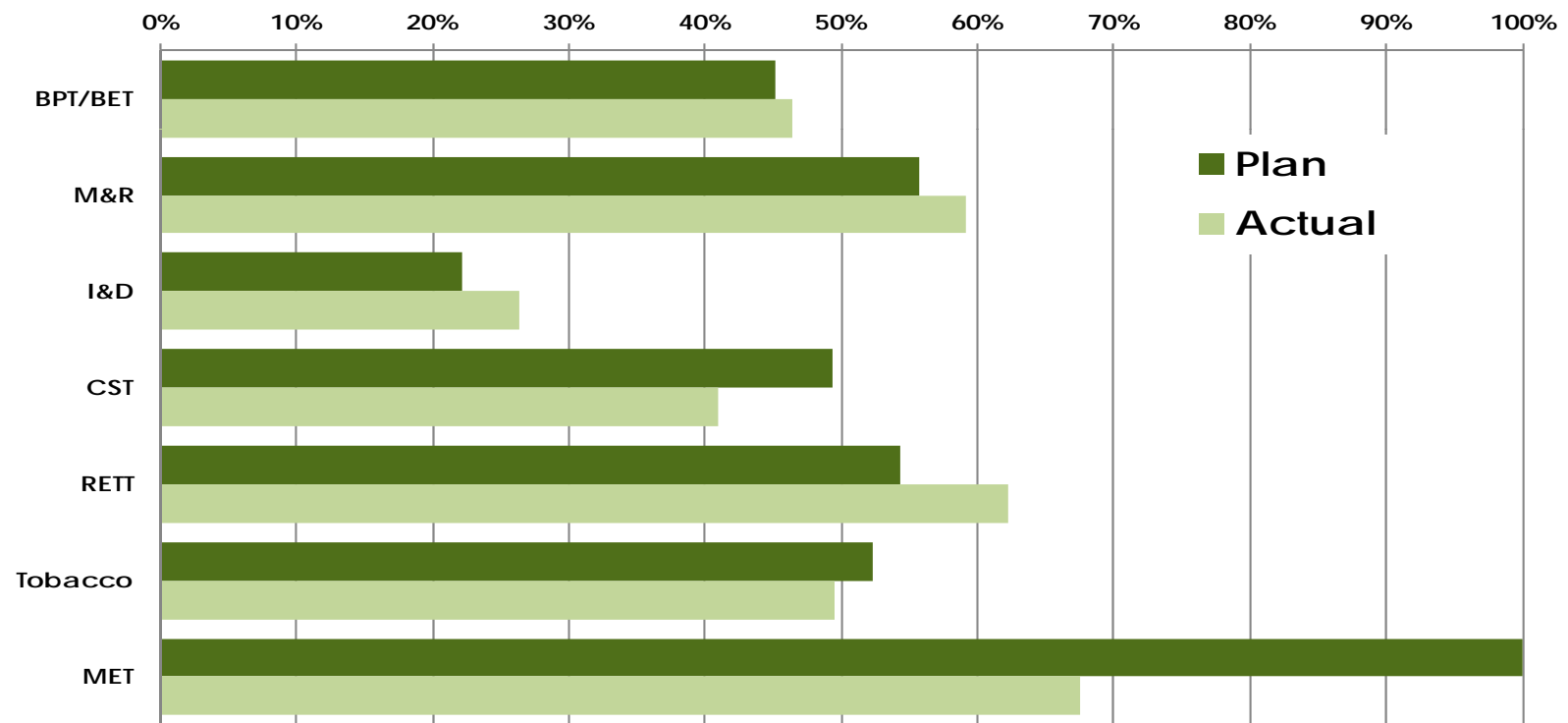
Source: NHFPI calculations based on LBA, US BEA data

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# Several Key Revenue Sources Outperforming Expectations

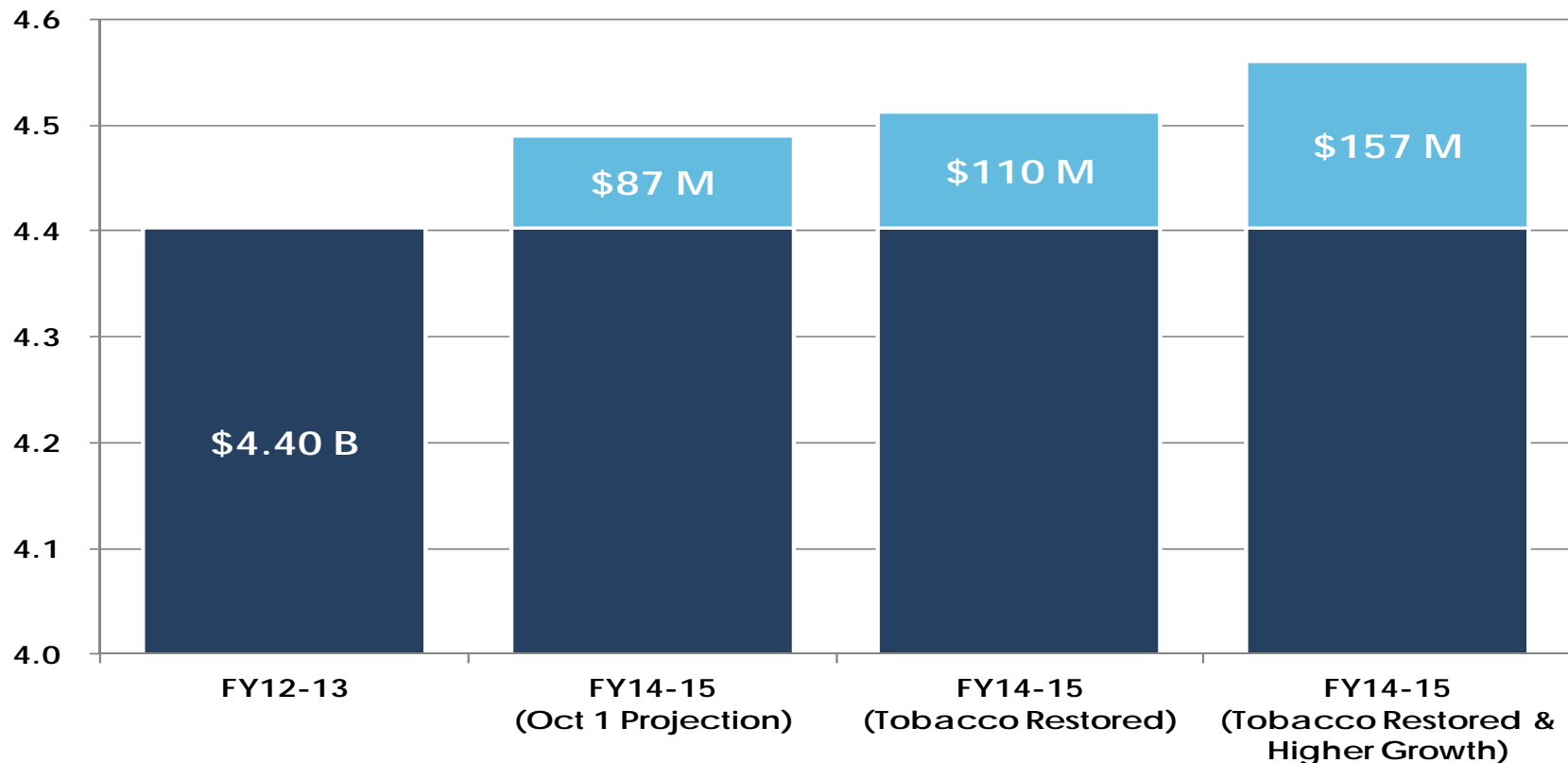
*FY 2013 YTD General & Education Fund projected & actual revenue collections, by source, as share of projected FY 2013 total*



Source: NHFPI calculations based on data from NH Department of Administrative Services

# Slow Revenue Growth Will Constrain Budget Choices in the Coming Biennium

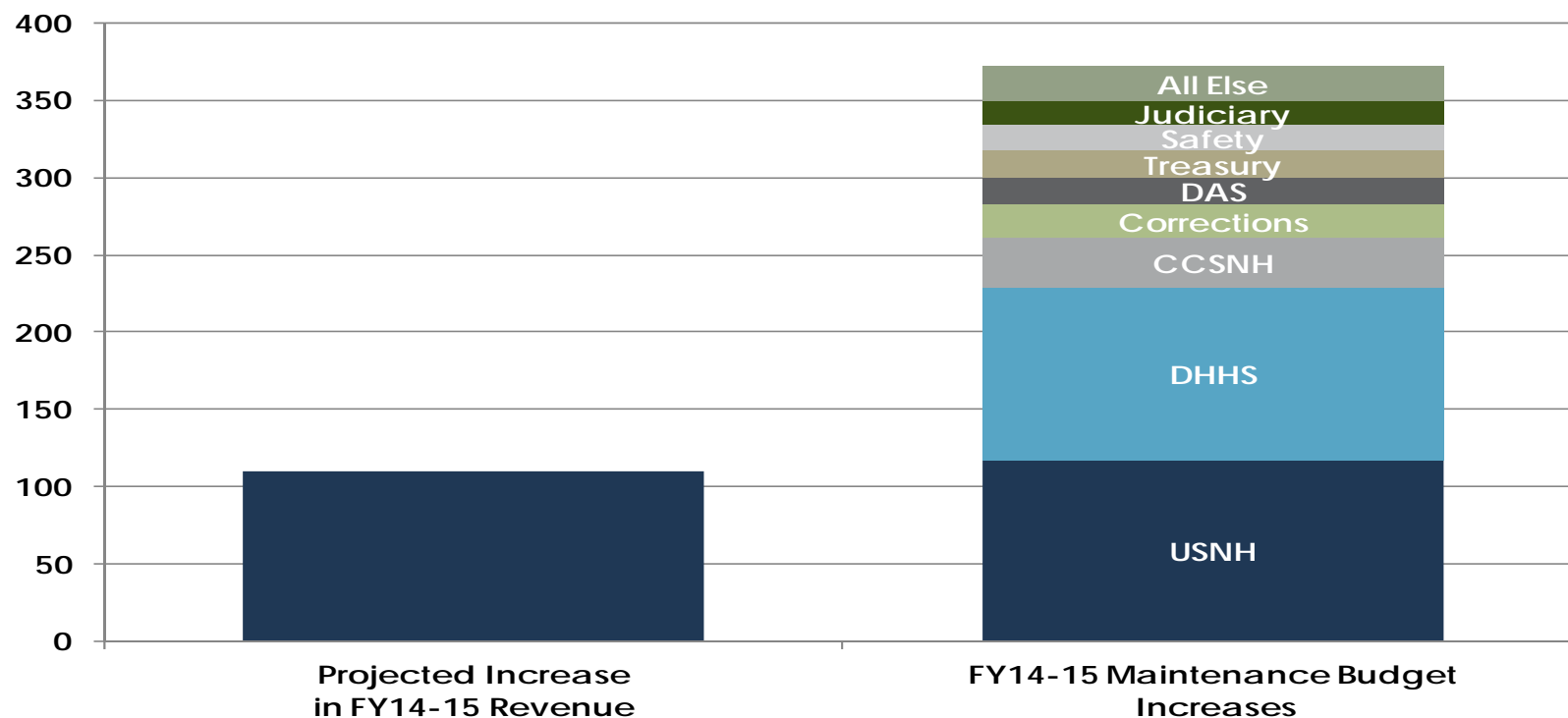
*Projected FY 2014-15 General & Education Fund Revenue Under Select Scenarios*



Source: NHFPI calculations based on data from NH Department of Administrative Services

# Slow Revenue Growth Will Constrain Budget Choices in the Coming Biennium

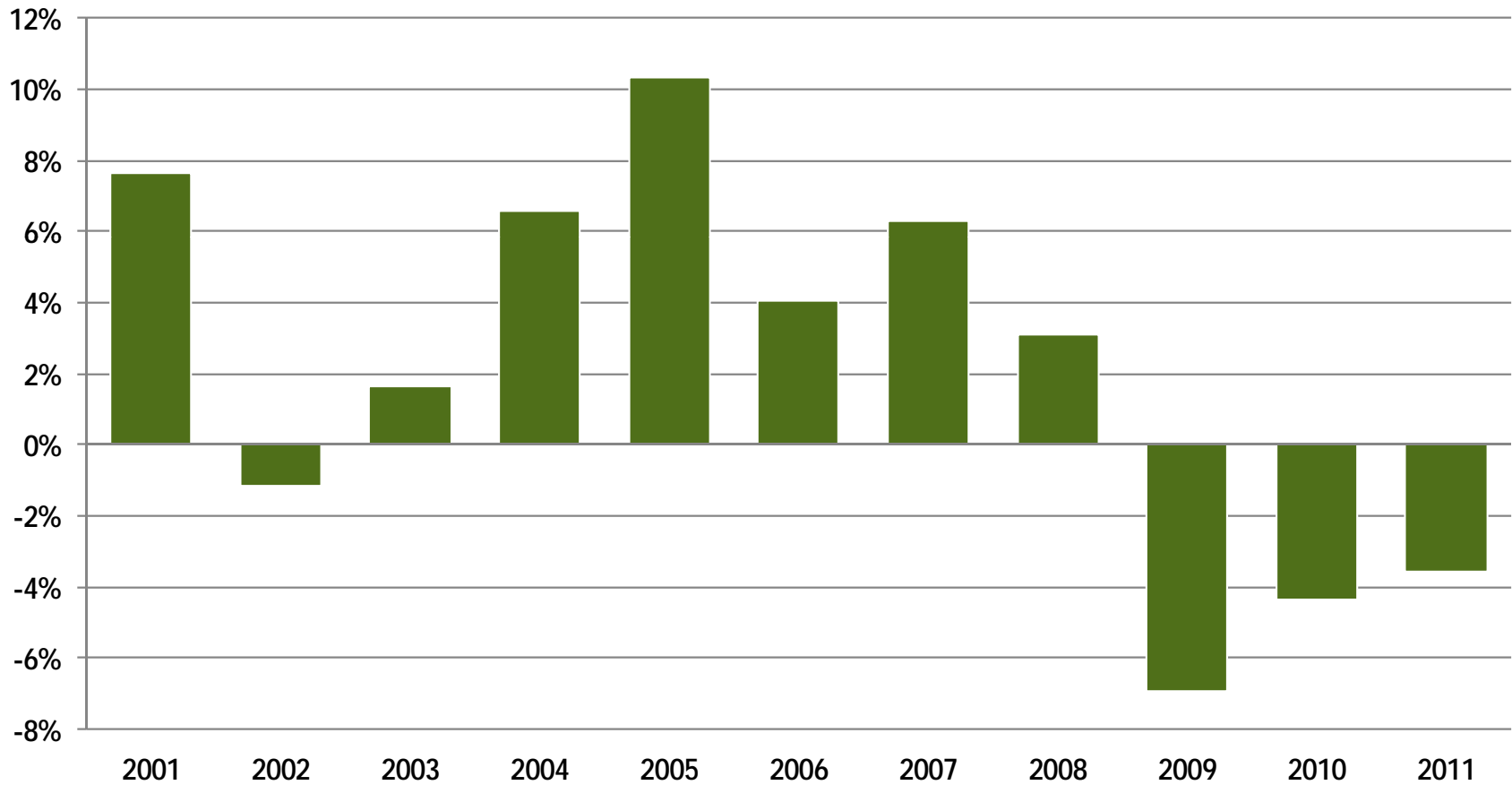
*Projected FY14-15 General Fund Revenue v.  
FY14-15 General Fund Maintenance Budget Increases, \$M*



Source: NHFPI calculations based on data from NH Department of Administrative Services

# How Will Baseline Revenue Growth Stack Up?

*Year to Year Change in General Fund Tax Revenue Adjusted for Changes in Policy, 2001-2011*



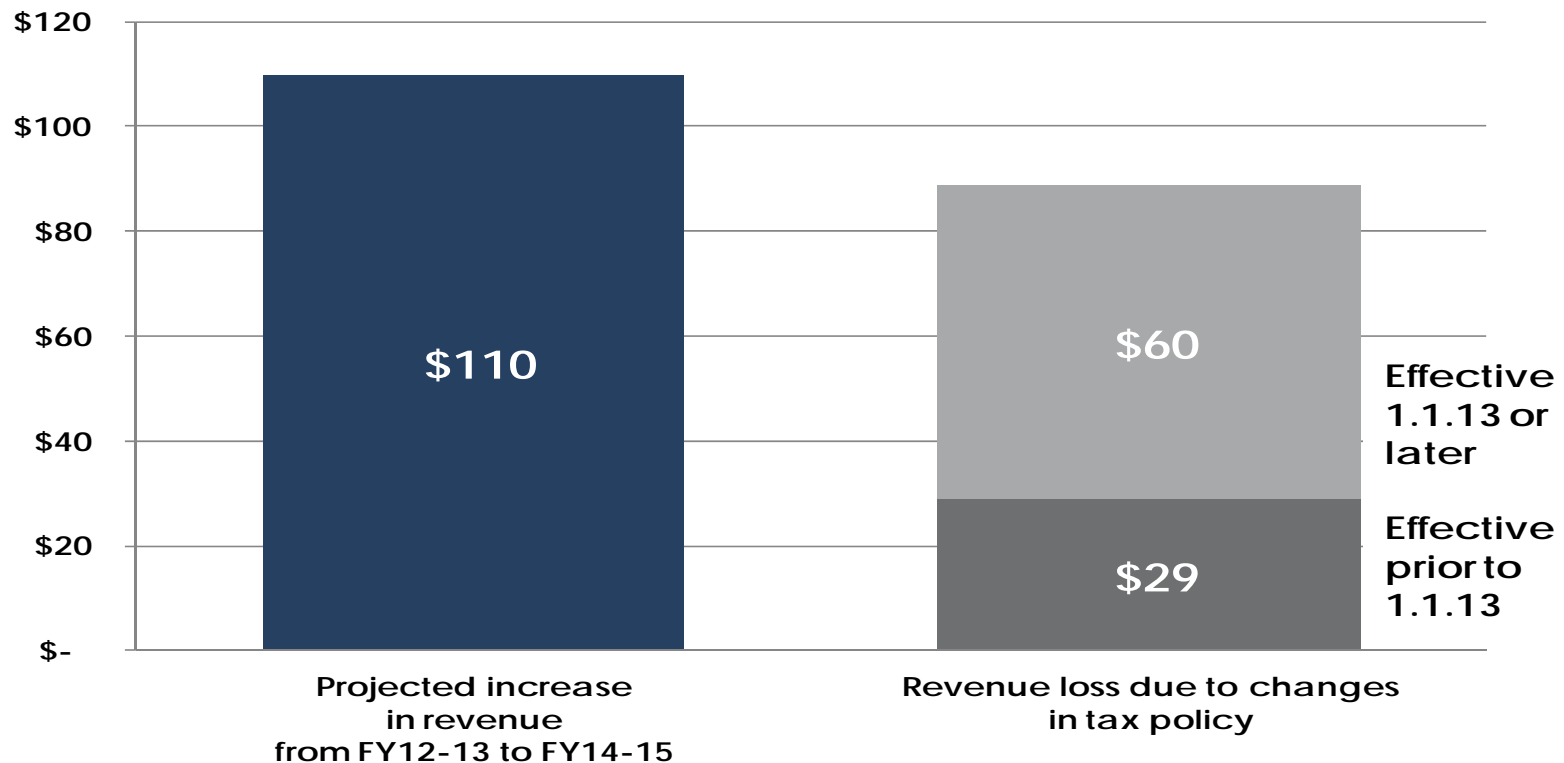
Source: NHFPI calculations based on data from the Office of the Legislative Budget Assistant

# Tax Cuts Enacted in 2011 and 2012 Will Yield Permanent Revenue Losses

BILL#	DESCRIPTION	EFF. DATE
SB125	BPT: REASONABLE COMPENSATION DEDUCTION	1-Jan-11
HB229	REPEAL GAMBLING WINNINGS TAX	23-May-11
HB2	REDUCE CIGARETTE TAX RATE	1-Jul-11
	REDUCE OTHER TOBACCO TAXES	1-Jul-11
HB 1418	BPT: SEC 179 EXPENSING	1-Jan-12
	CST: BAN TAX ON INTERNET ACCESS	21-Jun-12
HB 518	BPT: DELAY R&D CREDIT REPEAL	4-Aug-12
HB 1607	BPT: EDUCATION TAX CREDITS	1-Jan-13
HB 242	BPT: INCREASE NOL LIMIT	1-Jan-13
HB 1418	BET: INCREASE THRESHOLDS	31-Dec-13
HB187	BPT: EXTEND BET CARRYFORWARD	1-Jul-14

# Tax Cuts Enacted in 2011 and 2012 Will Yield Permanent Revenue Losses

*All figures in millions of dollars and are for General & Education Funds combined*

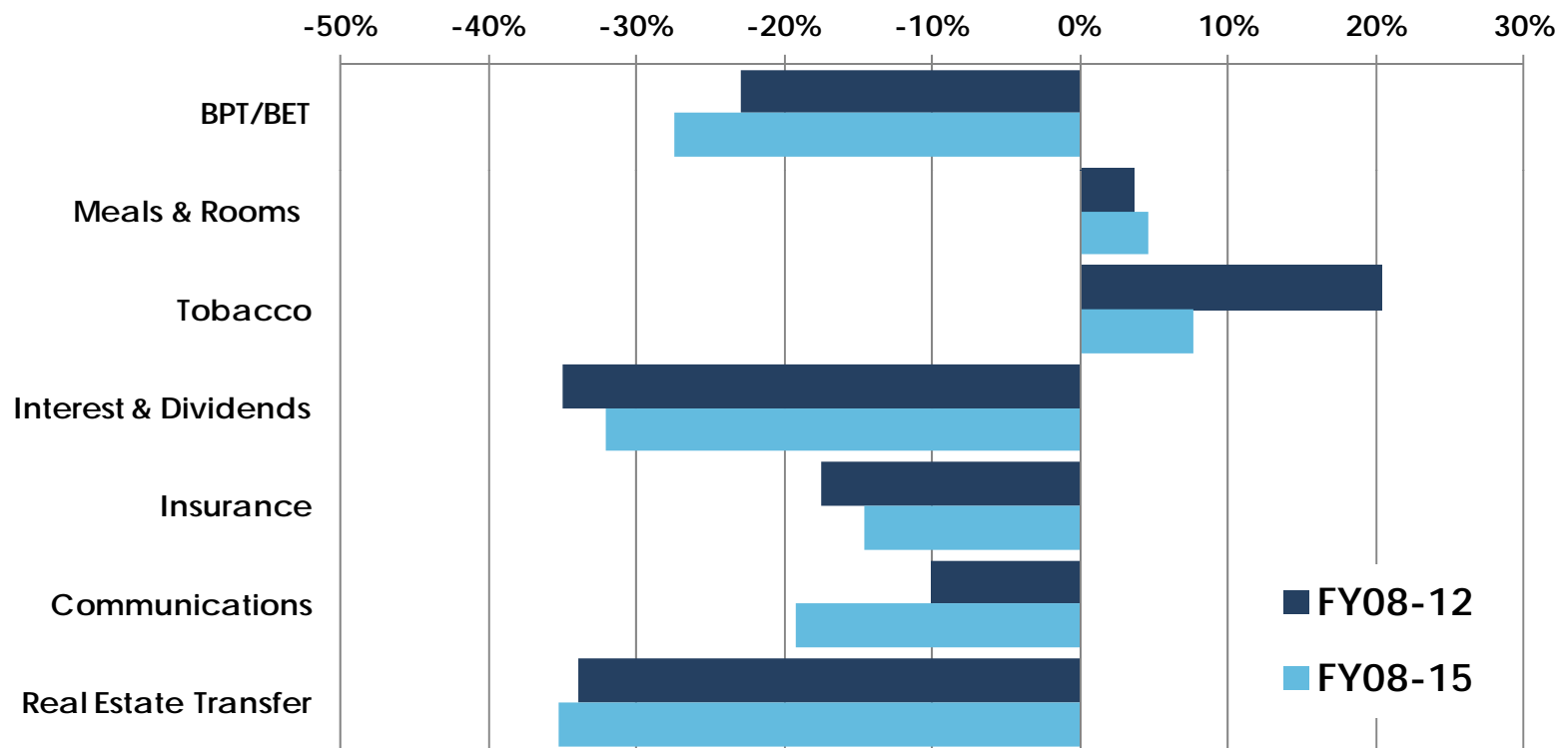


Source: NHFPI calculations based on data from NH DAS, NH DRA



# Most Major Sources of Tax Revenue in NH Have Declined Since Start of Recession

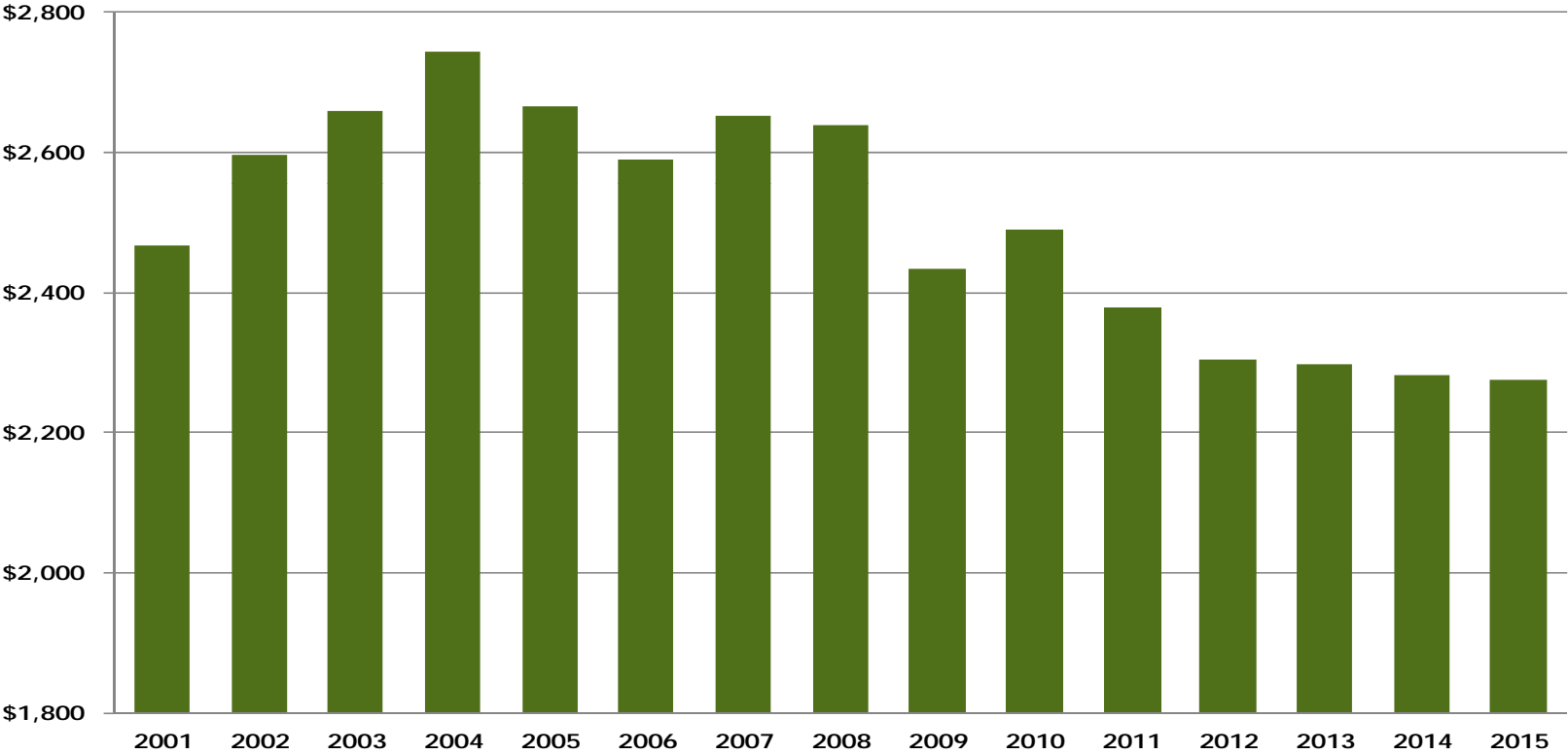
*Projected Real Aggregate Change in Select NH Taxes, FY 2008 – FY 2015*



Source: NHFPI calculations based on NH DAS & US Bureau of Labor Statistics data

# Revenue Still Well Below Prior Levels

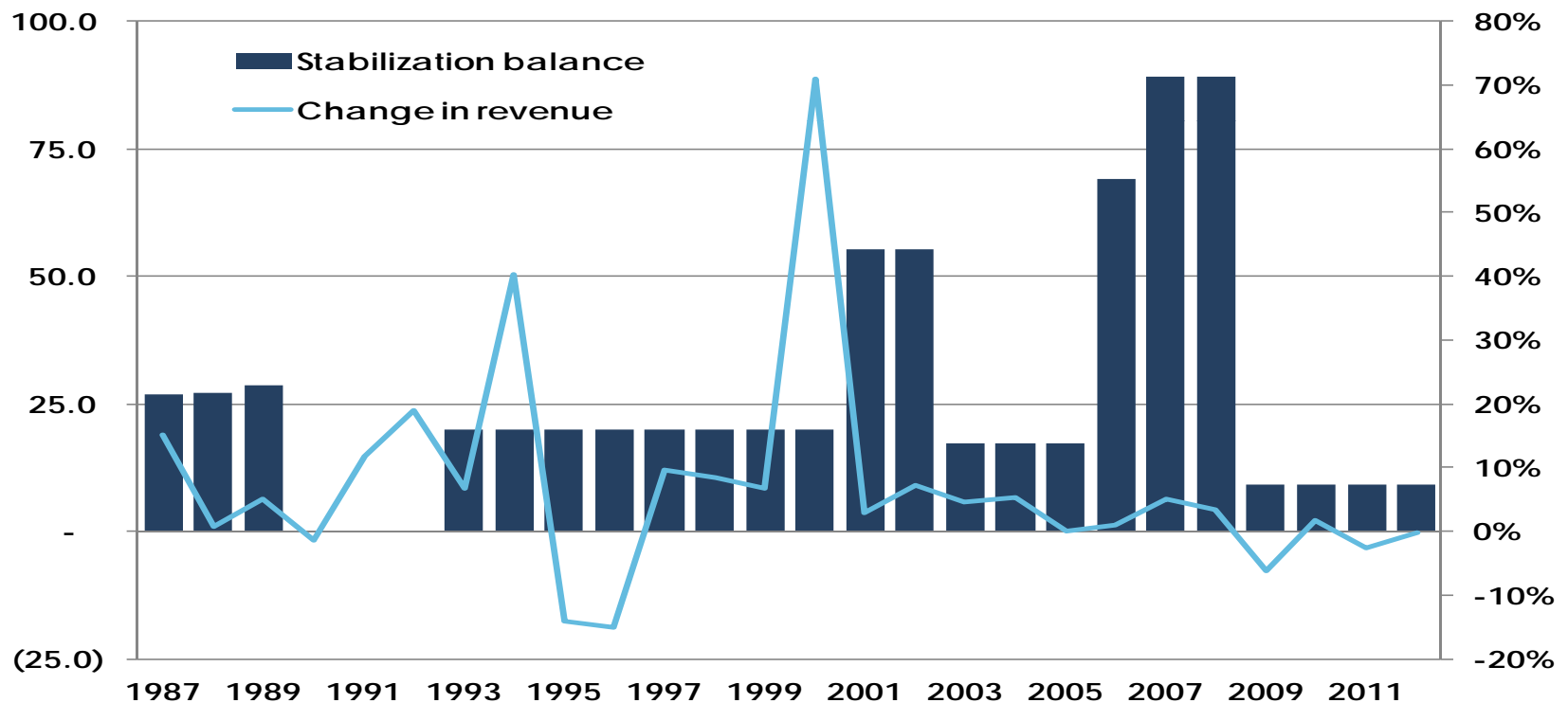
*General & Education Fund Collections in Millions of FY 15 Dollars,  
FY 2001-2015*



Source: NHFPI calculations based on NH DAS and US Bureau of Labor Statistics data

# Stabilization Deposits Generally Made Near End of Economic Cycles

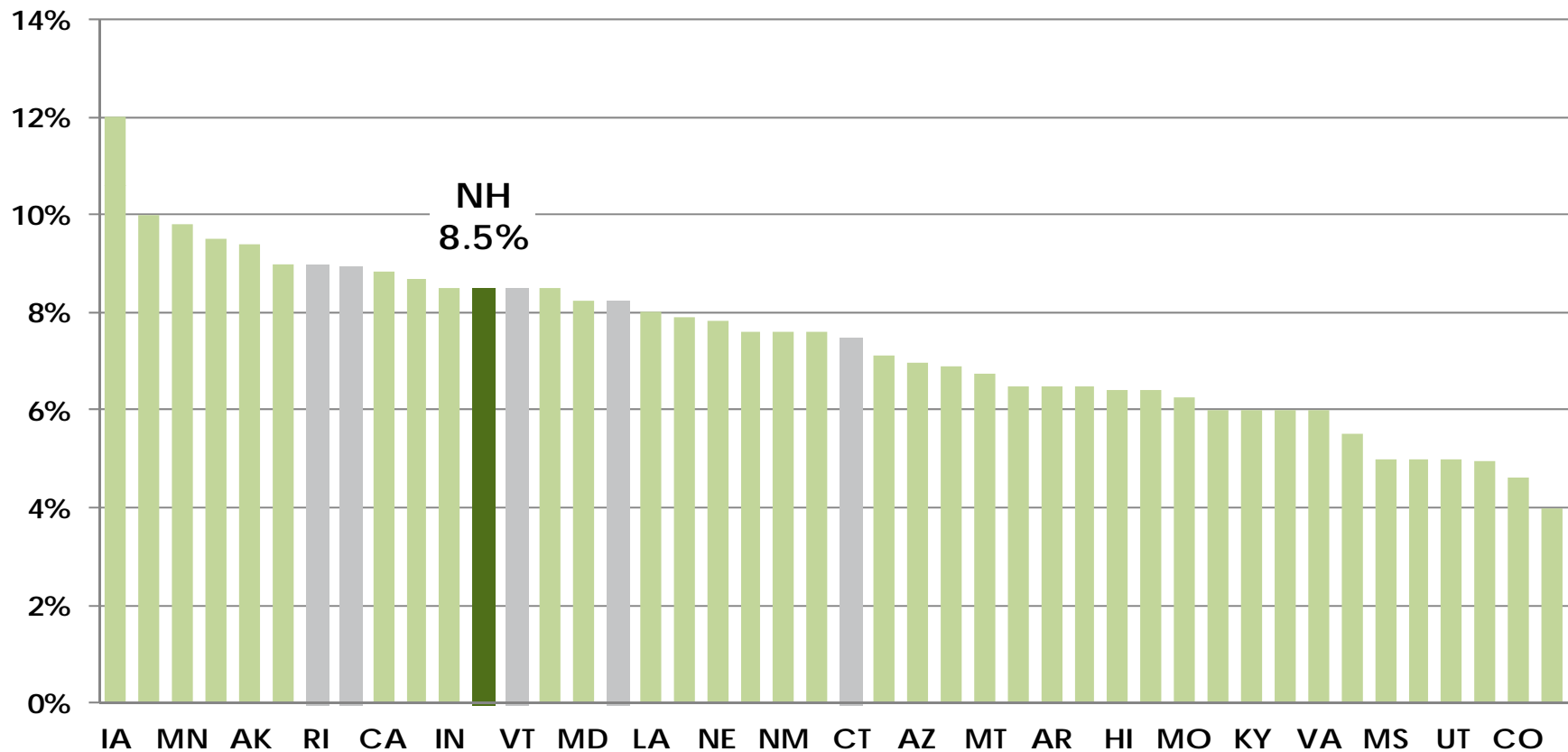
*Stabilization fund balances (in millions; left axis);  
General & Education Fund nominal revenue growth over prior year (right axis)*



Source: NHFPI calculations based on NH DAS data

# New Hampshire Employs a Higher Statutory Rate than Many States...

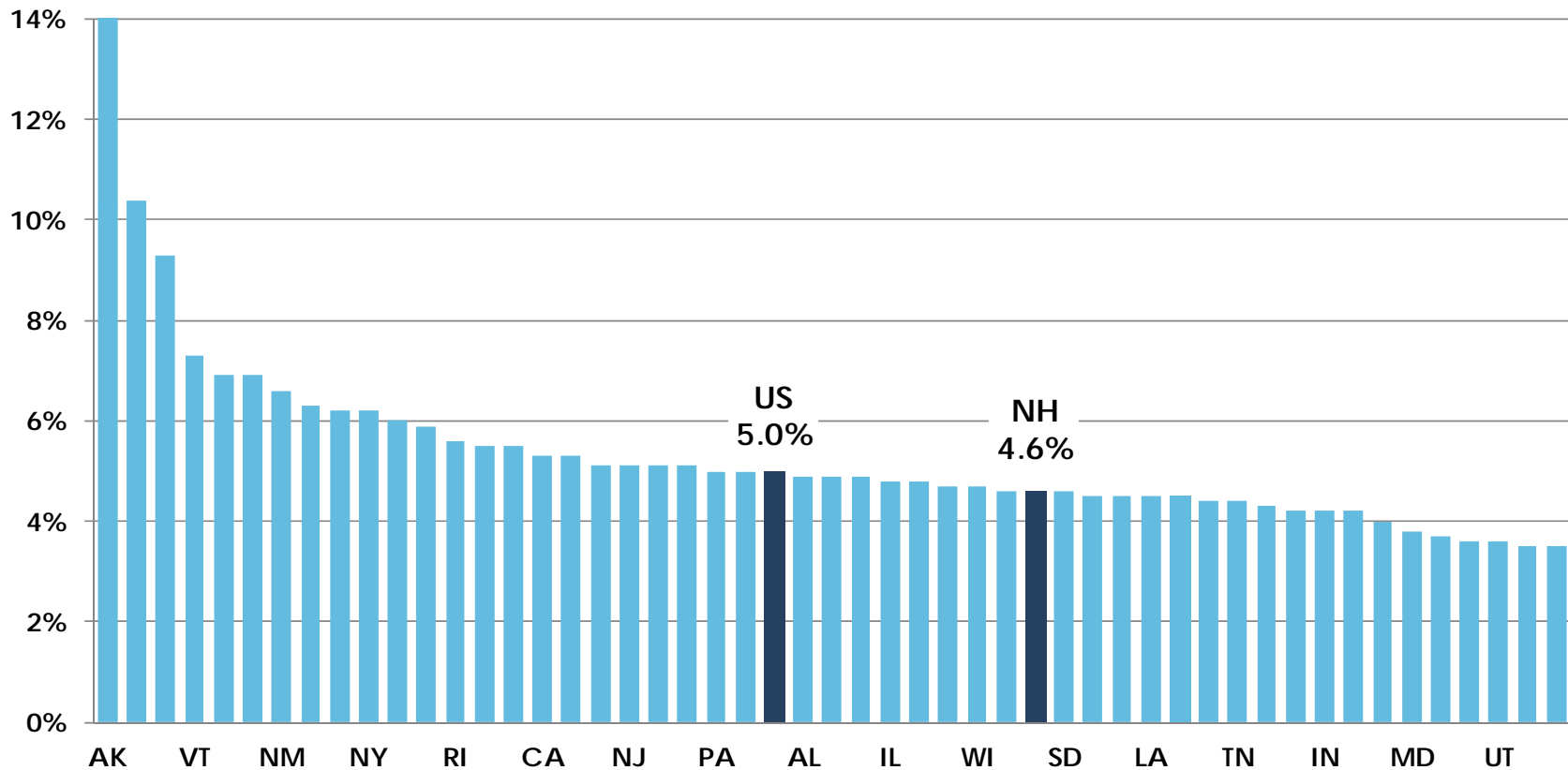
*Highest Statutory Corporate Income Tax Rate, by State, 2011*



Source: Urban-Brookings Tax Policy Center

## ...Yet, Business Taxation in NH is Lower than in Most States

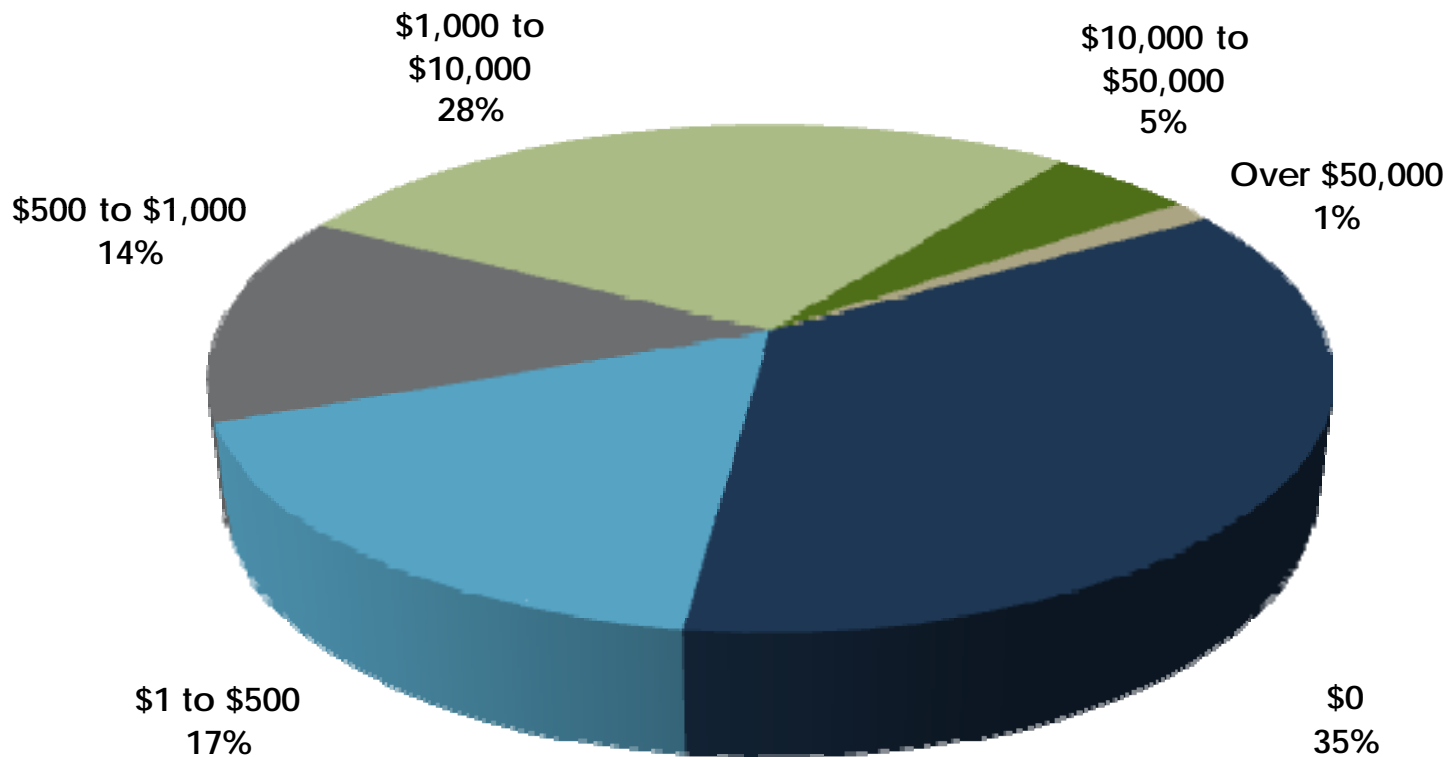
*Total State & Local Taxes Paid by Business  
as a Share of Private Sector Gross State Product, FY 2011*



Source: Council on State Taxation

# Most Businesses Owe Little or No BPT or BET

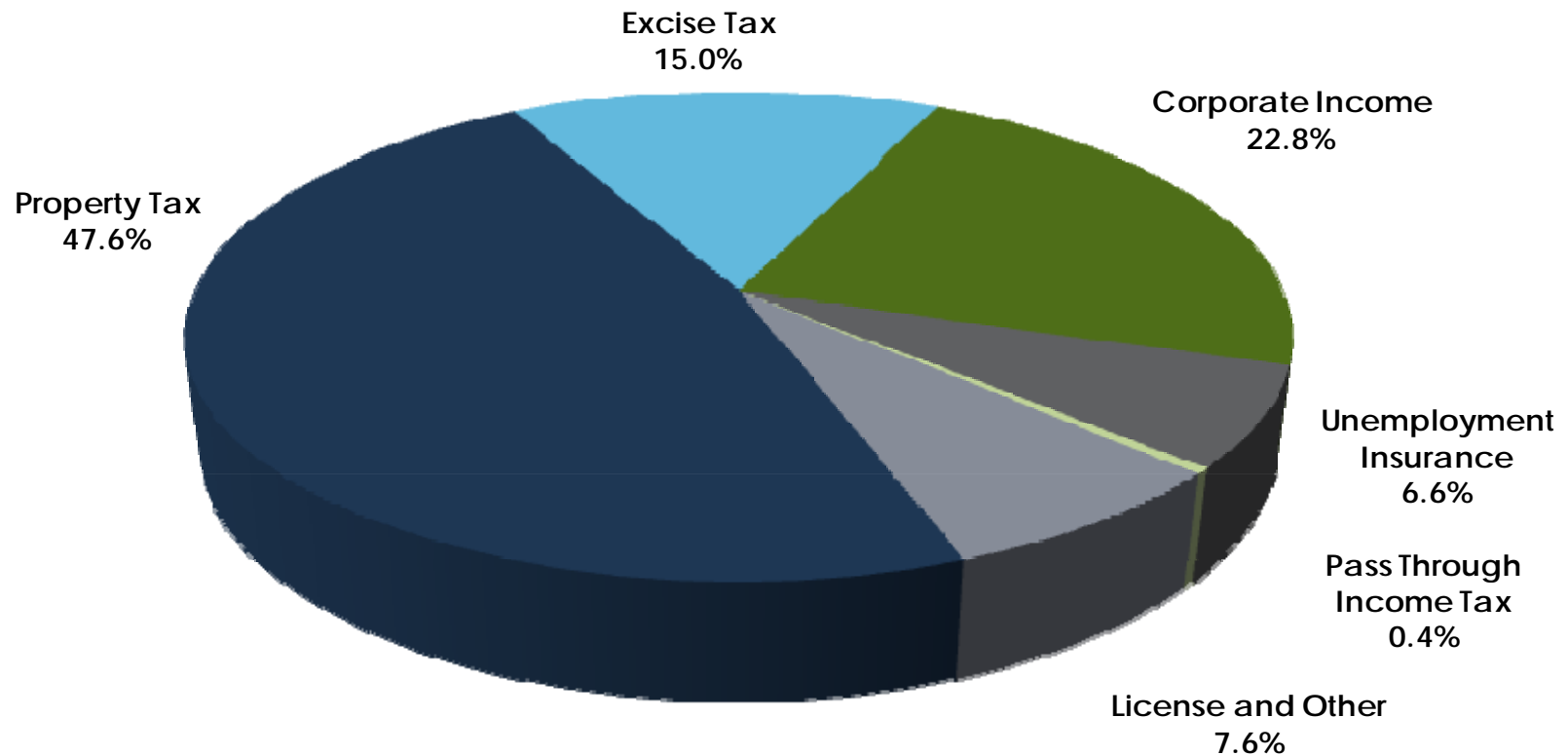
*Share of Combined BPT & BET Returns, by Range of Combined Liability, TY 2010*



Source: NHFPI calculations based on NH DRA data

# State Business Taxes Are a Relatively Small Share of the Taxes Businesses Pay

*Composition of State and Local Taxes Paid by New Hampshire Businesses, FY 2011*



Source: Council on State Taxation



*economic opportunity, prosperity, and security for all New Hampshire residents*

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