



# Common Cents

New Hampshire Fiscal Policy Institute Blog

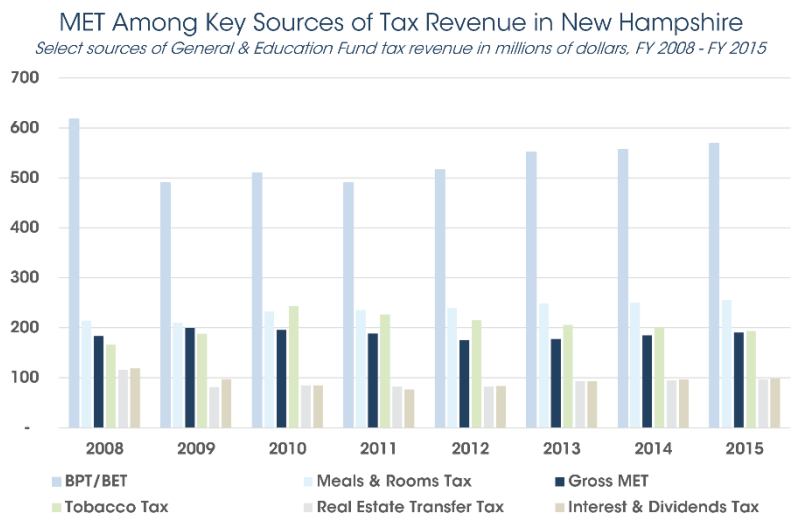
## Medicaid Enhancement Tax Viewed in Context of the Broader State Budget

May 1, 2014

Earlier this week, the Senate Ways and Means Committee met to consider legislation related to the state's Medicaid Enhancement Tax (MET) and to weigh possible responses to a pair of recent Superior Court cases that found the MET, as it now exists, to be unconstitutional.

In [remarks](#) before the Committee, Senate President Chuck Morse expressed his desire to eliminate the MET over the long run. To be sure, the New Hampshire Supreme Court, which will hear the state's appeal of the earlier decisions, may not allow the MET to continue in its present form. Nevertheless, attempting to repeal the tax, which generates nearly \$400 million in General Fund revenue each biennium, without a replacement source of revenue would have major consequences for the individuals, families, institutions, and businesses throughout New Hampshire that look to state government to provide critical services, even if done over a period of years.

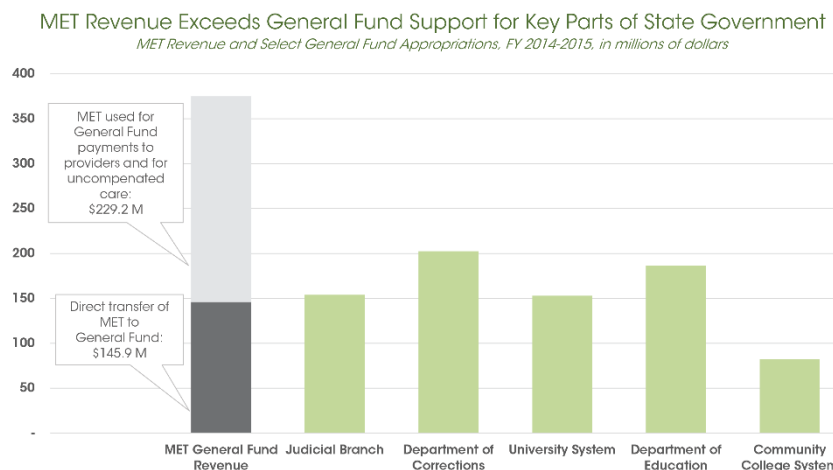
Two graphs help to illustrate how important the revenue the MET now yields is to the state's budget. Indeed, as the first graph indicates, the MET is among the largest sources of tax revenue for the General and Education Fund budget. Since the start of the national recession, the single largest source of tax revenue for the General and Education Funds has been the combination of the business profits and business enterprise taxes (BPT/BET),



Sources: Office of the Legislative Budget Assistant; FY 2013 Comprehensive Annual Financial Report  
Note: Amounts for FY 2008 through FY 2013 are actuals; amounts for FY 2014 and FY 2015 are projected

which has jointly generated more than \$490 million per year. The meals and rooms tax has been second by order of magnitude – at \$200 to \$250 million annually. The MET, meanwhile, produced between \$185 and \$200 million annually over the same span. In some years, this exceeded the level of revenue associated with the tobacco tax and, in every year, was above the amount yielded by the real estate transfer tax or the interest and dividends tax. Yet, few would contemplate phasing out the tobacco tax or the interest and dividends tax without identifying a viable and reliable means of replacing, in full, the revenue they now generate.

As the second graph suggests, failure to replace the revenue the MET now generates would entail wrenching and far-reaching changes for the public services state government provides. For instance, in the FY 2014-2015 budget, the MET is expected to provide \$375.1 million in General Fund revenue (as a direct transfer to the General Fund, for uncompensated care, and for provider payments). If the MET were eliminated but no replacement instituted, New Hampshire would be left to make up nearly \$400 million in cuts to the General Fund budget.



Source: Office of the Legislative Budget Assistant; Chapter 143 of the Laws of 2013

To put that sum in perspective, most government agencies now receive far less than that in General Fund appropriations. For instance, General Fund support for the Department of Corrections will total \$202.5 million in the current budget, while the University System of New Hampshire will receive \$153 million. Further, General Fund appropriations for six key departments *combined* (Agriculture, Justice, Safety, Revenue Administration, Environmental Services, and Resources and Economic Development) will equal \$128.6 million over the FY14-15 biennium. In other words, MET revenue represents funding for these six departments *nearly three times over*. Significant spending cuts in the current biennium may not be in the offing, but these figures should underscore how difficult it would be to proceed in the future without the revenue the MET now generates.

Ultimately, the debate about the future of the MET should call greater attention to the entire system by which New Hampshire generates the revenue needed to support the programs and services residents need and want. As NHFPI has detailed [elsewhere](#), that system suffers from a variety of long-standing flaws, as it helps to perpetuate budget shortfalls and imposes disproportionate responsibilities on those individuals and families least able to meet them. As policymakers work to craft a version of the MET that can pass constitutional muster or to formulate a replacement, they should remain mindful of those larger shortcomings.