

Proposed Business Tax Cuts: An Unaffordable and Ineffective Growth Strategy for NH

The budget plan approved by Committee of Conference on June 18 includes multiple changes to New Hampshire’s business tax structure, changes that would drain more than \$20 million out of the FY 2016-2017 budget and more than \$100 million out of each future budget, once fully implemented. In particular, the plan backed by the conference committee would:

❖ **Reduce the rate of the business profits tax (BPT) in three steps:**

- from 8.5 to 8.3 percent effective December 31, 2016.
- from 8.3 to 8.1 percent effective December 31, 2017.
- from 8.1 to 7.9 percent effective December 31, 2019.

❖ **Reduce the rate of the business enterprise tax (BET) in three steps:**

- from 0.750 to 0.725 percent effective December 31, 2016.
- from 0.725 to 0.700 percent effective December 31, 2017.
- from 0.700 to 0.675 percent effective December 31, 2019.

❖ **Increase the cap on the research and development (R&D) tax credit**

At present, businesses may receive a credit against the BPT they owe based on the amount of R&D expenses they incur. However, the Department of Revenue Administration (DRA) cannot pay out more than \$2 million in total credits in any given year; the committee would increase that limit to \$7 million, effective July 1, 2017.

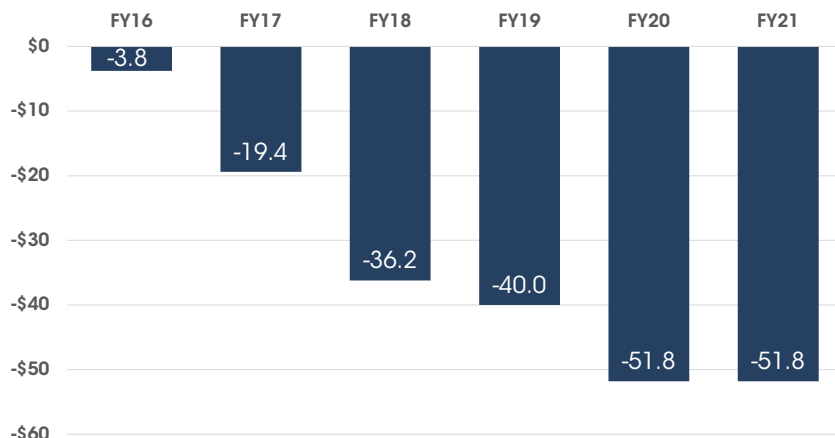
❖ **Balloon in cost over time and leave a sizable budget gap for future legislatures to fill**

According to a June 2014 analysis, DRA projects that, taken together, the proposed business tax rate reductions would shrink state tax collections by \$3.8 million in FY 2016 (due to reductions in estimated tax payments that would fall during that year) and by \$19.4 million in FY 2017. Looking to future budgets, DRA anticipates that the combined BPT and BET rate reductions would

lose \$66.2 million in revenue during the FY 2018-2019 biennium and \$93.6 million over the course of the FY 2020-2021. Adding in the impact of the R&D tax credit changes brings the ultimate revenue loss to more than \$100 million on a biennial basis.

Impact of Backloaded Business Tax Cuts Balloons in Future Years

Estimated revenue loss from proposed BPT & BET rate reductions and increased R&D credit, by fiscal year, in \$M

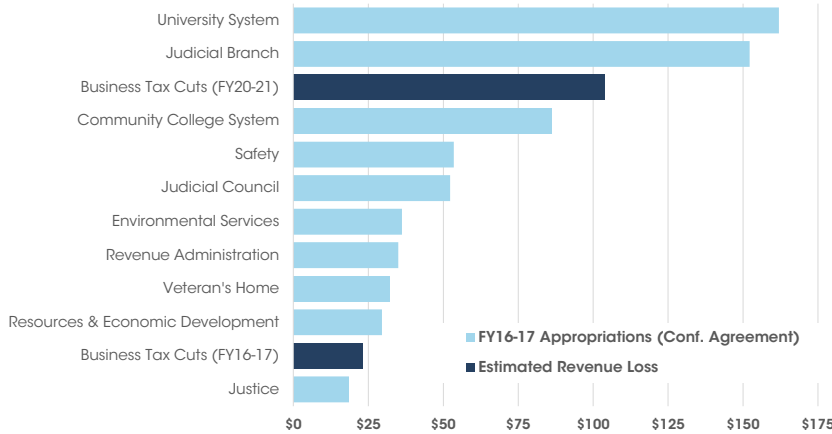


Source: NHFPI calculations based on data from the Department of Revenue Administration

❖ **Jeopardize funding for public services vital to economic growth**

Proposed Tax Cuts Would Imperil Public Services

Estimated revenue loss from Conference Committee's proposed business tax cuts relative to proposed FY 2016-2017 General Fund appropriations for select departments and entities (in millions of dollars)



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

conference committee, General Fund appropriations for the Community College System of New Hampshire would amount to \$86 million in FY 2016-2017. That sum is less than what New Hampshire stands to lose in revenue once such changes in tax policy have taken full effect in FY 2020-2021.

Proponents of these tax reductions portray them as modest and attempt to diminish their fiscal impact. Yet, the amount of revenue that would be lost from such changes in future budgets dwarfs appropriations for any number of state agencies. For instance, as proposed by the

❖ **Deliver most of its benefits to a very select set of businesses**

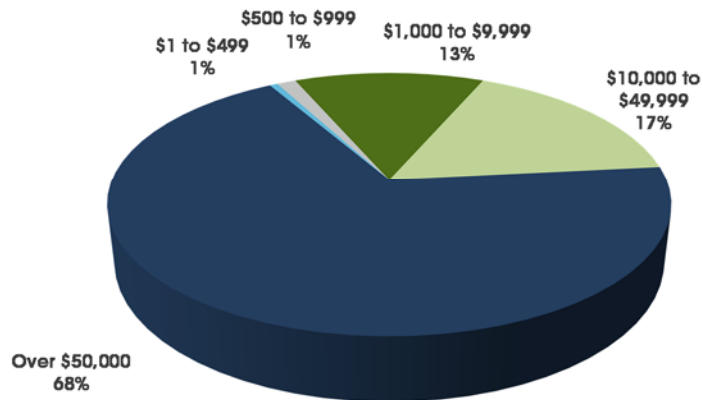
As DRA data make quite clear, at present, a relatively small number of businesses pay the lion's share of the BPT and BET. Of the \$462 million in combined BPT and BET paid in tax year 2012, 68 percent was paid by businesses with tax liabilities in excess of \$50,000.

Furthermore, DRA data indicate that just 1,097 businesses – or about 2 percent of businesses filing tax returns that year – fall in this range of liability. Not surprisingly, then, in a June 2014 analysis, DRA finds that 76 percent of the proposed BPT rate

reduction would benefit to just 718 businesses, while just under 50 percent of the proposed BET rate reduction would accrue to just 440 businesses.

Large Businesses Would Gain the Most from Business Tax Reductions

Share of Combined BPT & BET Liability, by Range of Combined Liability, TY 2012



Source: NHFPI calculations based on data from the Department of Revenue Administration