



REVENUE IN REVIEW

An Overview of New Hampshire's Tax System and Major Revenue Sources

May 2017



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Published May 2017

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This publication is available online at www.nhfpi.org.

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Founded in 2009, the New Hampshire Fiscal Policy Institute (NHFPI) is an independent nonprofit organization dedicated to exploring, developing, and promoting public policies that foster economic opportunity and prosperity for all New Hampshire residents, with an emphasis on low- and moderate-income families and individuals. Based in Concord, NHFPI produces regular reports on the fiscal and economic challenges facing New Hampshire and strives to serve as a resource to anyone interested in meeting those challenges. Work on this report was supported by a grant from the "You Have Our Trust" fund of the New Hampshire Charitable Foundation.

Table of Contents

Executive Summary.....	1
Introduction	2
Governmental Fund Revenue	2
Tax Revenue Sources	4
Business Profits Tax.....	6
Business Enterprise Tax	8
The Business Taxes: Comparisons and Interactions.....	9
Statewide Education Property Tax.....	12
The Local Property Tax	13
Meals and Rentals Tax	14
Tobacco Tax	16
Real Estate Transfer Tax.....	18
Insurance Premium Tax	20
Interest and Dividends Tax	21
Motor Fuels Tax	22
Medicaid Enhancement Tax.....	23
Communications Services Tax	23
Utility Property Tax.....	23
Enterprise Revenue Sources.....	24
Liquor Commission	24
Lottery Commission.....	25
Turnpike System	25
State Revenue Overall	26
Conclusion.....	28
Additional Resources	29
Appendix.....	30
Endnotes.....	31

Executive Summary

New Hampshire's revenue system is relatively unique in the United States, as it lacks broad-based income and sales taxes and instead relies on a diversity of more narrowly-based taxes, fees, and other revenue sources to fund public services. This system presents both advantages and disadvantages to stable, adequate, and sustainable revenue generation.

New Hampshire's State revenue system draws primarily from federal transfers, State taxation, enterprise funds, and fees for services. Federal transfers account for just over 30 percent of the State Budget, and remain similarly important when considering the broader universe of revenues beyond State Budget funding. Revenue streams have varying levels of limitation on their uses. Federal fund use is often dictated by the program through which the funds were transferred to the State. Fees often have dedicated purposes, and certain taxes are set aside in whole or part for specific purposes, such as education funding or transportation.

The State levies two key business taxes. The Business Profits Tax is a modified corporate income tax, and the Business Enterprise Tax requires most organizations to pay a small percentage of compensation, interest, and dividends paid or accrued. The two business taxes are designed to complement and interact with one another, as the Business Enterprise Tax has a much lower rate but draws from a much broader and less volatile base than the Business Profits Tax. Also, the Interest and Dividends Tax requires individuals and businesses to pay a portion of certain types of income to the State.

The State requires municipalities levy the Statewide Education Property Tax to support education funding at the local level. This State tax has, in recent years, accounted for about 10 percent of the entire property tax

levy in New Hampshire. The Statewide Education Property Tax is a declining source of real resources for the State, as it is designed to raise a specific amount of money; this amount was set in 2005 and has not been adjusted for inflation. The State also directly taxes utility property at a fixed rate and through a separate mechanism.

Certain sales also face taxes. The Meals and Rentals Tax draws from transactions for prepared foods, hotel room rentals, and automobile rentals. The Tobacco Tax charges for each pack of cigarettes based on a set rate, and taxes a percentage of the wholesale price for other tobacco products. The Real Estate Transfer Tax requires both the buyer and seller of property to pay a certain portion of the sale price to the State. Motor vehicle and aviation fuels are taxed at a fixed per-gallon rate. Insurance premiums, certain communications services, and charges made by certain hospitals face varying levels of taxation.

Enterprise operations are business-like activities that the State collects money from, such as Turnpike tolls and State sales of lottery tickets and liquor. Fees for services levied by many different State agencies also provide funding, including license and application fees for various types of businesses and other regulated activities.

This wide variety of funding streams, and the limitations on the uses of some sources, strengthens New Hampshire's State revenue system through diversification and a lack of overreliance on a few large sources. However, the system also may limit policymaker flexibility when faced with substantial revenue shortfalls, such as from recessions or changes to federal grant programs. As New Hampshire's economy and demographics change, a lack of flexibility may also present long-term challenges, as declining funding sources may erode future revenue without policy changes.

Introduction

New Hampshire's revenue system is unique and complex, with substantial strengths and weaknesses that defy certain conventional assessments of state revenue systems. This Overview seeks to provide insight to the existing revenue system. For the purposes of this document, revenue is not limited to State tax collections; it includes income received from any source that is used to fund State services and operations, including federal grants and sources with dedicated purposes. By providing information about a broad scope of revenues, this Overview seeks to offer a window into the complexities of funding State government operations. This Overview also seeks to provide greater detail on the key tax and revenue sources New Hampshire policymakers rely upon to fund public services and policy priorities, to access federal revenues, and to aid municipal governments. As an informational resource, this Overview seeks to inform public discussion about recent performance trends for certain major State taxes and revenue sources, examine potential future strengths and weaknesses, and provide the context of the broader revenue picture.

New Hampshire collects revenue from a wide variety of sources. While most other states rely on a few large, broad-based revenue sources, New Hampshire's State revenue system draws from a diverse and disparate set of bases and does not employ broad-based income or sales taxes.¹ Many of New Hampshire's revenue sources are dedicated to specific purposes; most transferred funds from the federal government may only be used for specific programs or policy areas, and the State government, through the State Constitution or law, has also limited the use of certain revenues. In contrast, some of the State government's high-profile revenue sources, such as the Business Profits Tax and the Meals and Rentals Tax, primarily provide unrestricted revenues for the

New Hampshire Legislature to allocate at its discretion, usually through the biennial State Budget process. New Hampshire's revenue diversity provides both strengths, by decreasing the impact of fluctuations in individual revenue base performance, and weaknesses, by increasing reliance on the growth of specific industries and tax bases that do not necessarily grow with the economy or population.

This Overview provides summary information on New Hampshire's revenue structure. First, specific large State taxes contributing to the State's governmental funds are reviewed, with particular attention paid to business taxes and a discussion of the local property tax. Second, this Overview summarizes key enterprise funds, which are business-like activities operated by the State with the intent to contribute to governmental fund revenue, such as the State's liquor stores and lottery. Finally, this Overview provides a general discussion of the State's total revenue picture, including the importance of federal transfers to New Hampshire's ability to meet public needs.

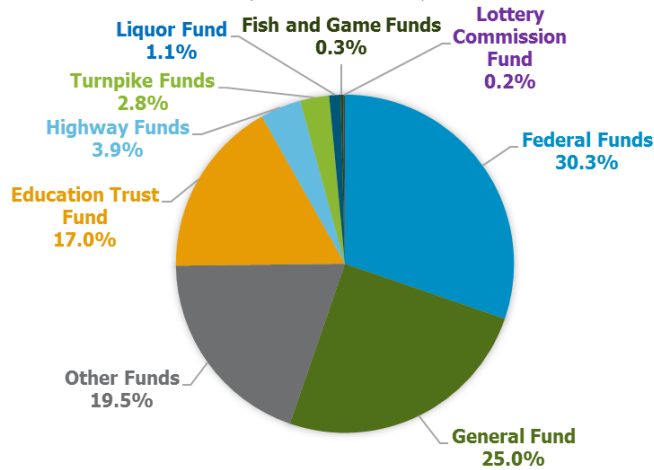
Governmental Fund Revenue

Focusing on the State's main governmental funds provides insight into most of the key decisions made by New Hampshire's elected policymakers regarding revenues. The State Budget organizes different collections of revenue into funds, and legislators draw from these funds to finance different portions of the State Budget. The three main governmental funds are the General, Education Trust, and Highway Funds.

The General Fund is the State's least restricted fund; legislators have more direct and unfettered control over the use of the funding streams that contribute to the General Fund and use of dollars collected there than in any other fund. As Figure 1 shows, the General Fund constitutes about a

Figure 1: Budget-Identified Funds by Magnitude

SFY 2017; Source: 2015 Session, HB 1



many of the same revenue sources.

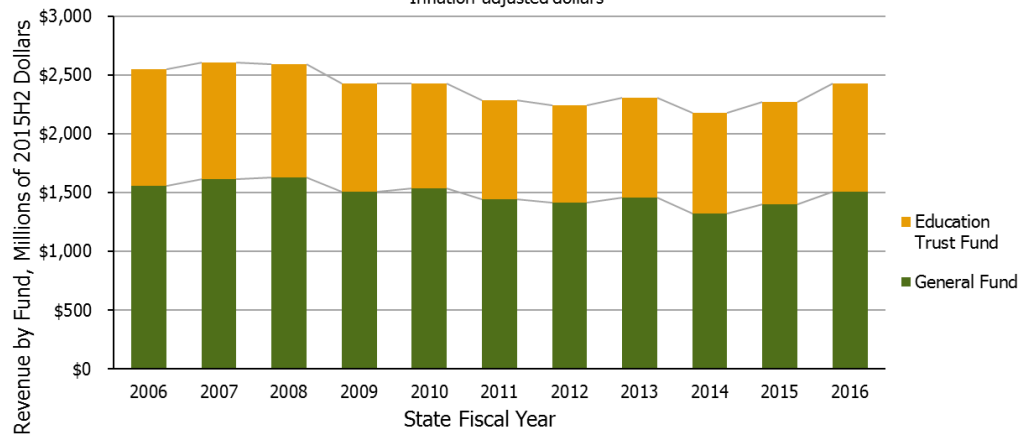
The Highway Fund is solely for the construction and maintenance of highways and the supervision of traffic on those highways. Several other funds shown in Figure 1 are enterprise or smaller trust funds. Federal Funds is comprised of a wide variety of transfers from federal programs. For more on the funds of the State Budget, see NHPFI's *Building the Budget* resource.³

quarter of the State Budget overall. The Education Trust Fund is specifically purposed to fund the State's required adequate education grants to municipalities to support local school districts. Providing money for the Education Trust Fund spurred the creation of new revenue sources and changes to existing ones in the late 1990s and early 2000s. In eight of the last ten State fiscal years (SFY), which begin July 1 and conclude June 30, the State transferred General Fund unrestricted revenue to the Education Trust Fund to ensure obligations for adequate education grants were fulfilled.² These two funds are the primary recipients of most general State tax dollars, and both benefit from the surplus transfers from various enterprise funds. They are often analyzed together, as they interact most years through the year-end fund transfers and draw on

Figure 2 shows the revenue flowing to the General and Education Trust Funds, adjusted for inflation. The inflation adjustment used is for consumers in the northeastern United States and pegs the dollar to its value in the second half of calendar year 2015 (designated "2015H2," which is the first half of SFY 2016).⁴ The overall decline in real revenues between SFYs 2008 and 2014 were the result of a combination of economic, policy, and revenue fund categorization changes. While many factors influence this trend, it does indicate legislators have fewer unrestricted resources to allocate than they did prior to the 2007 to 2009 Recession.⁵

Figure 2: General and Education Trust Fund Revenue

Inflation-adjusted dollars



Sources: New Hampshire Comprehensive Annual Financial Reports, SFYs 2016, 2015, 2014; U.S. Bureau of Labor Statistics Consumer Price Index

Tax Revenue Sources

Figure 3 shows the proportional contribution of the various State revenue sources to the General and Education Trust Funds. In SFY 2016, the Business Profits Tax surpassed the Statewide Education Property Tax as the largest single source of revenue for the General and Education Trust Funds. Although they draw from different pieces of business operations, the two business taxes (the Business Profits Tax and the Business Enterprise Tax) are often analyzed together, as many of the same filers pay both taxes and the two taxes interact with each other mechanically. Together, they constituted 28.4 percent of all revenue for the General and Education Trust Funds, the equivalent of 12.3 percent of all SFY 2016 State Budget planned expenditures. Other than the business taxes and the Statewide Education Property Tax, the Meals and Rentals Tax was the only source that provided over 10 percent of State revenue generated for these two funds. While fluctuations in State business taxes can substantially affect the State's revenue picture, the State's finances overall do not rise or fall with a handful of revenue sources, partially insulating the State's tax system from either changes in a single tax policy or a single sector of the economy.

Revenue from the second largest source in Figure 3, the Statewide Education Property Tax, remains at the municipal level, although the State requires municipalities levy the tax to pay for a portion of the State's adequate education grants.⁶

The Miscellaneous category in Figure 3 includes a wide array of smaller revenue sources, such as the Beer Tax, the Electricity Consumption Tax, court fines and fees, transfers from racing and charitable gaming revenue outside of the State lottery, securities revenue from a variety of fees, and residual revenue from reconciliations of repealed taxes and recoveries.

A key drawback associated with relying on diverse revenue sources is one revenue source may be dependent on the health of a particular industry, and reductions in that industry's vibrancy erode revenue and prompt lawmakers to reduce or alter spending or seek additional revenue from one or more of the other narrow-based revenue streams. For example, the current Communications Services Tax is a declining revenue source. If legislators wanted to offset a projected revenue decline by raising revenue elsewhere, such as the Real Estate Transfer Tax, those changes may increase pressure on the Real Estate Transfer Tax base and change industry behavior.

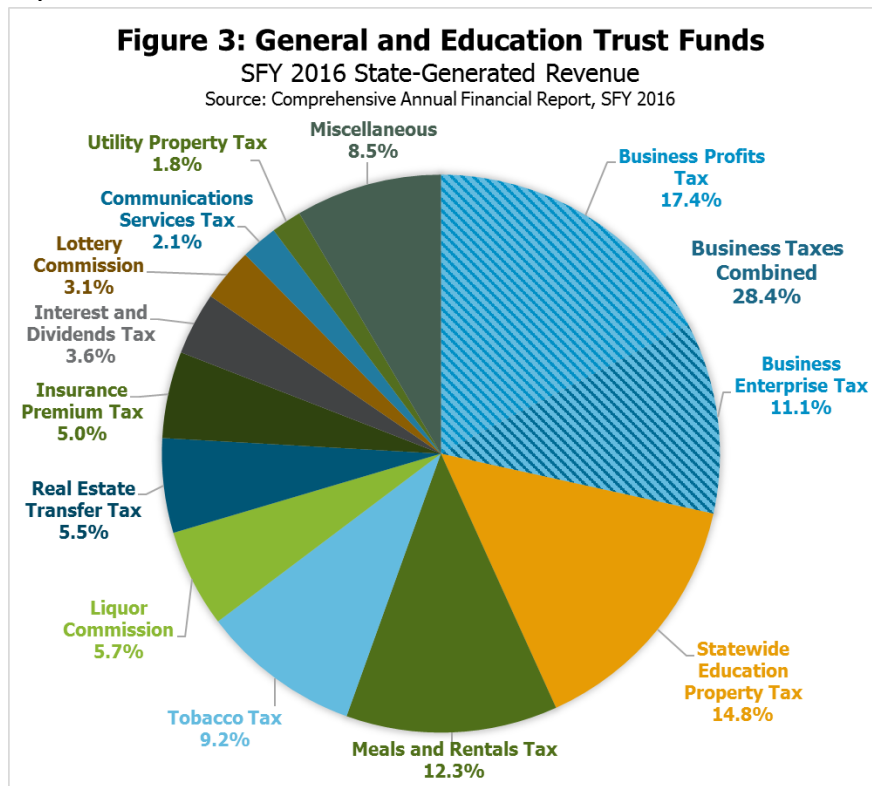


Table 1 provides a summary of key revenue sources for the General, Education Trust, and Highway Funds, with rates of specific contributing taxes divided between them as appropriate. All the major revenue sources listed are discussed in greater detail in the

following pages except for motor vehicle fees. These revenues result from a schedule of State registration and other fees, typically following acquisition of a municipal permit, levied on motorcycles, cars, trucks, trailers, and other vehicles, with certain exemptions.⁷

Table 1: Major Revenue Sources and Destinations, SFY 2016

Fund ¹	Major Sources and Fund Totals	Revenue (Millions)	Rate by Fund ²	Percent of Fund Revenue
General Fund	Business Profits Tax	\$353	6.70%	23.1%
	Meals and Rentals Tax	\$293	9.00%	19.2%
	Liquor Commission	\$140	n/a	9.1%
	Tobacco Tax	\$132	\$1.00/pack	8.7%
	Insurance Premium Tax	\$123	Varies – Two Rates, Cross-Border Changes	8.1%
	Business Enterprise Tax	\$91	0.22%	6.0%
	Real Estate Transfer Tax	\$90	\$0.50/\$100	5.9%
	Interest and Dividends Tax	\$89	5.00%	5.8%
	Communications Services Tax	\$52	7.00%	3.4%
	General Fund Total³	\$1,529	n/a	100.0%
Education Trust Fund	Statewide Property Tax	\$363	Varies – Fixed Target	39.1%
	Business Enterprise Tax	\$181	0.50%	19.5%
	Tobacco Tax	\$95	\$0.78/pack	10.2%
	Lottery Commission	\$79	n/a	8.5%
	Business Profits Tax	\$74	1.50%	8.0%
	Real Estate Transfer Tax	\$45	\$0.25/\$100	4.8%
	Utility Property Tax	\$43	\$6.60/\$1,000	4.7%
	Meals and Rentals Tax	\$9	9.00%	0.9%
	Education Trust Fund Total³	\$929	n/a	100.0%
Highway Fund	Motor Fuels Tax	\$183	\$0.222/gal.	37.7%
	Motor Vehicle Fees	\$108	Varies – By Vehicle Type	22.2%
	Highway Fund Total³	\$484	n/a	100.0%
Turnpike	Toll Operations Revenue	\$131	n/a	96.3%
Medicaid ⁴	Medicaid Enhancement Tax	\$212	n/a	Varies – Federal Match
Federal ⁵	Transfers to State governmental, enterprise funds	\$2,184	n/a	n/a

¹ The names of certain funds, such as the Turnpike System Enterprise Fund and the Uncompensated Care and Medicaid Fund, have been shortened for convenience.

² Rates are additive across funds for the business taxes, the Real Estate Transfer Tax, and the Tobacco Tax. The Real Estate Transfer Tax rate of \$0.75 per \$100 applies to the both buyer and seller, for a total collected of \$1.50 per \$100 sold.

³ Only major revenue sources are included on this table, so fund totals do not represent the total of the sources listed here. Other sources contribute to each fund. Totals are only listed for the three main governmental funds. Totals listed are amounts of actual revenue collected in SFY 2016, not budgeted amounts, so percentages may vary from the SFY 2017 budgeted percentages in Figure 1. The Highway Fund also includes dedicated, restricted revenues not included in the State Budget.

⁴ The Uncompensated Care and Medicaid Fund does not include all Medicaid funds. It only includes Medicaid Enhancement Tax revenue, interest earned on that revenue, and the federal Medicaid matching dollars.

⁵ Federal funds include transfers accounted for both inside and outside of the State Budget.

Sources: New Hampshire Comprehensive Annual Financial Report, SFY 2016; relevant RSAs; New Hampshire Departments of Safety and Transportation

Business Profits Tax

The largest single source of tax revenue for the General Fund in SFY 2016, the Business Profits Tax (BPT) is New Hampshire's version of a corporate income tax. Businesses must file if they have over \$50,000 of gross business income, which is a metric used for federal tax purposes that includes proceeds from sales, compensation for services, trading in stocks or bonds, asset sales, and other sources. Businesses also must file when they gain or lose money associated with the sale or exchange of interest (or ownership status) in their organizations, regardless of their gross business income.

Legislation passed in 2015 reduced the BPT rate, which had remained at an 8.5 percent rate since 2001, to 8.2 percent for tax periods ending on or before December 31, 2016. Approximately 90 percent of businesses have tax years that coincide with the calendar year, so this effectively reduced the tax rate on the BPT base to 8.2 percent for the 2016 tax year, which ends in SFY 2017. The 2015 legislation also requires the BPT rate to be reduced again to 7.9 percent if combined unrestricted revenues for the General and Education Trust Funds in SFYs 2016 and 2017 are at or above \$4.64 billion.⁸ Revenues are widely expected to meet this threshold.

A multi-state business's New Hampshire BPT liability is determined through a process called "apportionment." Apportionment calculates the portion of profits attributable to in-state business activity by determining the percentage of the business's total real and tangible property rented or owned in the state, the percentage of the business's total compensation paid for services rendered within the state, and the percentage of total sales and service charges made within the state. These three factors are then weighted, with the total sales percentage given twice the weight of the other two, to calculate

BPT Basics

Statute: RSA 77-A

Established: 1970

Revenue: \$427.0 million (SFY 2016)

Rate: 8.2 percent (2017)

Collects From: Gross business profits adjusted for credits and deductions, apportioned for in-state operations

Threshold: Gross business income over \$50,000, or businesses with gain or loss from sale or exchange of interest in the business

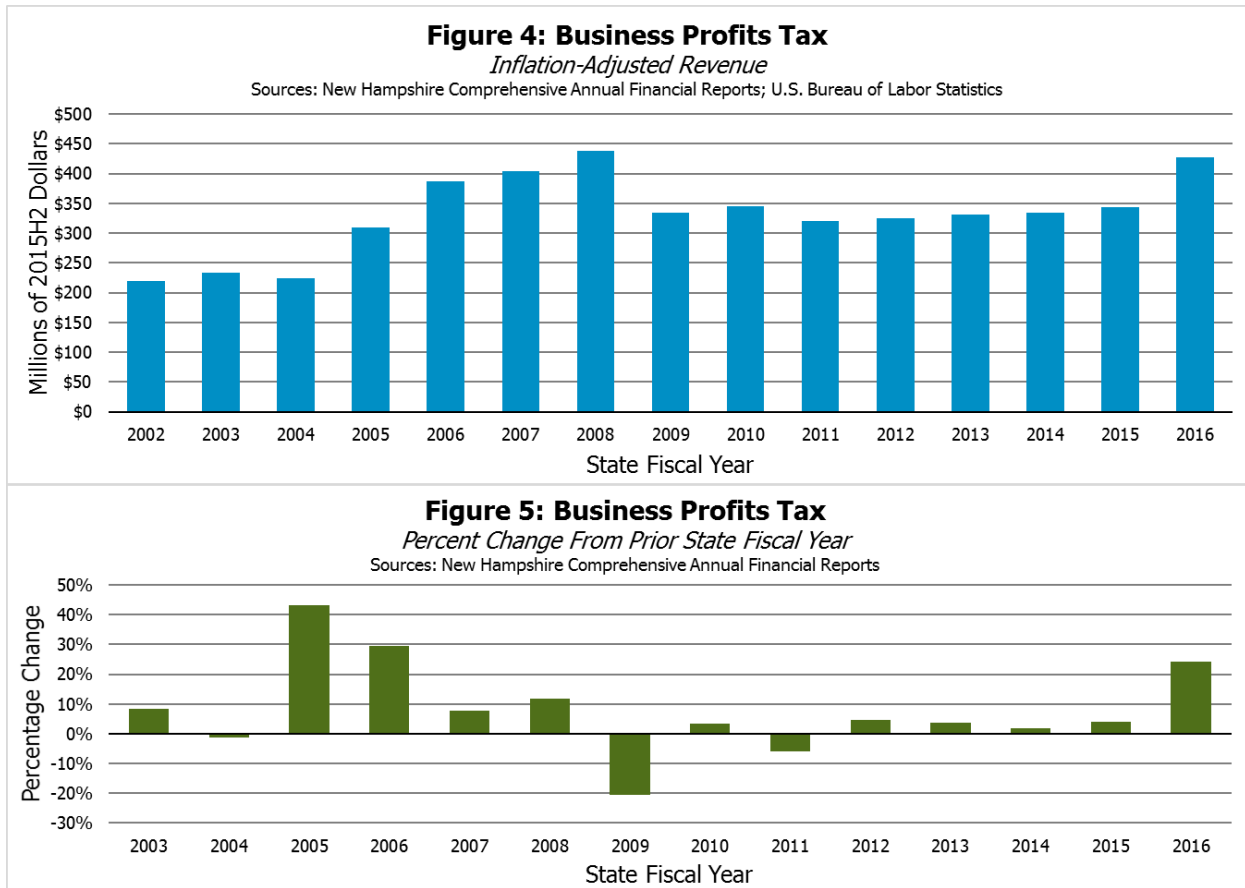
Highest Former Rate: 9.56 percent (1983)

Lowest Former Rate: 6.0 percent (1970)

Goes To: General and Education Trust Funds

apportionment. Individual businesses may petition for modifications to the apportionment if the in-state activities of those businesses are not fairly represented.

The BPT statute includes a substantial list of deductions and credits, including key adjustments that have recently been added or modified. In SFY 2016, the dollar-for-dollar credit from Business Enterprise Tax (BET) payments, which is designed to work in concert with the BPT, led to businesses paying approximately \$151.1 million less (from 18,434 tax returns) in BPT. As of SFY 2015, BET credits may be carried forward for ten years.⁹ Credits from Insurance Premium Taxes paid resulted in about \$36.7 million less in BPT revenue (from 244 tax returns). The Investment Tax Credit, which provides 75 percent of contributions to the State's Community Development Finance Authority in BPT and BET credits, resulted in about \$3.2 million less overall revenue. The BPT also has credits for research and development (with a cap, increasing from \$2 million to \$7 million in total payments for SFY 2018, and up from \$1 million in SFY 2013), donations for education scholarships, economic revitalization zone job creation, and job creation in Coos County.¹⁰



Businesses paying BPT may also deduct the income base taxed under the Interest and Dividend Tax from the BPT base, income from U.S. bond interest, certain wage adjustments, qualified charitable contributions to research organizations, and, for certain businesses, either \$75,000 in record-keeping safe harbor (increased from \$50,000 in SFY 2014¹¹) or the “fair and reasonable compensation” for the services of a proprietor, partner, or member. Businesses may also use a net operating loss carryforward provision, which was increased from \$1 million to \$10 million per year in SFY 2012, to reduce their tax liabilities for up to ten years after the loss was incurred.¹² Other recent changes include the increase in certain allowable business property deductions from \$25,000 to \$100,000 for 2017, and in 2016 removing the requirement that interest in business organizations exchanged be counted as increased profits

for BPT purposes as long as depreciation resulting from that “step-up in basis” is not later counted against the BPT.¹³

These aggregated recent changes and technical adjustments complicate the ability of experts and policymakers to understand and project BPT revenue. However, economic cycles that lift business profits increase the tax base. Recessions and other economic downturns may make the BPT particularly volatile, as businesses that are still operating during a recession may be profitless or carry forward net operating losses to deduct from future BPT liabilities. The BPT draws most of its revenue from relatively few large businesses (see “The Business Taxes” box starting on page 9), which minimizes its relative impact on small businesses while leaving overall revenue somewhat vulnerable to the decisions of some larger corporations.

Business Enterprise Tax

The Business Enterprise Tax (BET) is a relatively unique form of business tax designed to complement the BPT. Created in 1993 following a lawsuit from a large company alleging unfair taxation through the BPT, the BET collects revenue based on the “enterprise value tax base” of a broad swath of organizations, including both for-profit and non-profit enterprises except those considered to be income tax exempt under section 501(c)(3) in federal tax law.¹⁴ The enterprise value tax base includes all compensation, interest, or dividends paid or accrued. Compensation includes wages, salaries, fees, bonuses, commissions, or other paid or accrued payments for employees, with adjustments for federal withholding exemptions and certain tips.

A business must file a BET return if it meets one of two thresholds: for 2017, if the business has either gross business receipts in excess of \$208,000, or if the enterprise value tax base is greater than \$104,000. Unlike the BPT, and as of 2015, these thresholds are adjusted every two years and rounded to the nearest \$1,000 based on an inflation measure for consumers in the Northeast.¹⁵

As with the BPT, the BET’s rate was recently reduced and may be reduced again for 2018. Legislation passed in 2015 reduced the BET rate from 0.75 percent of the taxable enterprise value tax base to 0.72 percent for the 2016 calendar year and all subsequent tax periods. Additionally, the BET rate would drop to 0.675 percent for 2018 should the General and Education Trust Funds in SFYs 2016 and 2017 come in above \$4.64 billion.

Also similar to the BPT, a business’s BET liability is adjusted for economic activity attributable to New Hampshire using apportionment. Compensation is divided between in-state and out-of-state service provision, as is real and tangible property

BET Basics

Statute: RSA 77-E

Established: 1993

Revenue: \$272.3 million (SFY 2016)

Rate: 0.72 percent (2017)

Collects From: Business compensation to employees, adjusted for credits, deductions, and apportionment for in-state operations

Threshold: Gross business receipts of \$208,000 or enterprise value tax base of \$104,000, adjusting for inflation biennially

Highest Former Rate: 0.75 percent (2001)

Lowest Former Rate: 0.25 percent (1993)

Goes To: Education Trust and General Funds

owned and employed by the business, and dividends, which are calculated in part using sales distribution.

The BET provides for fewer credits and deductions than the BPT, but includes certain credits that mirror BPT credits and interact with both business taxes. For example, contributions made to the Community Development Finance Authority produce “cascading” credits that may be used against the BET, BPT, or Insurance Premium Tax for 75 percent of the contribution’s value.¹⁶ The BET also incorporates components of the Coos County Job Creation Tax Credit, unused BPT Research and Development Tax Credit, the Economic Revitalization Zone Tax Credit, and donations to scholarship programs under the Education Tax Credit.

BET revenue is affected more directly by employment and economic cycles than the BPT. BET revenues improve with higher employment in the State, increases in average compensation for each worker, or both. Economic cycles affecting employment substantially may impact the BET more than other revenue streams. A tighter labor market that spurs both hiring and wage growth may result in increased BET revenue.

Figure 6: Business Enterprise Tax

Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics

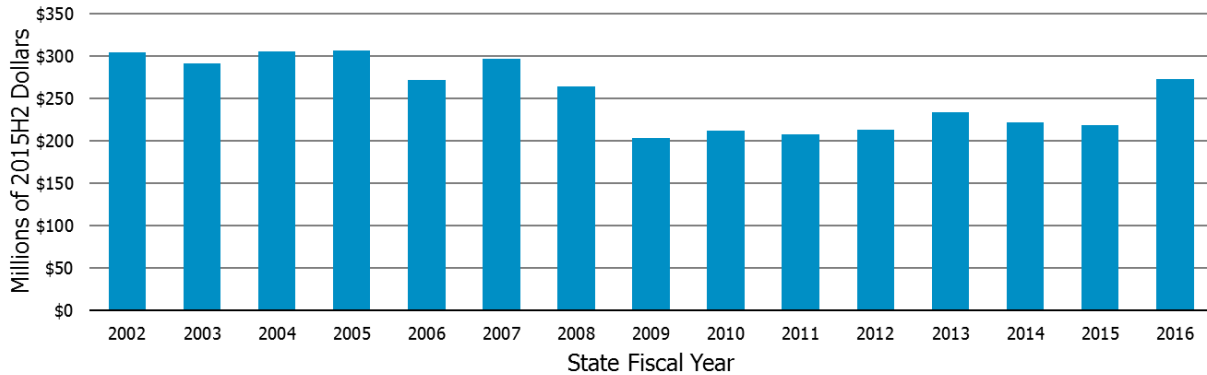
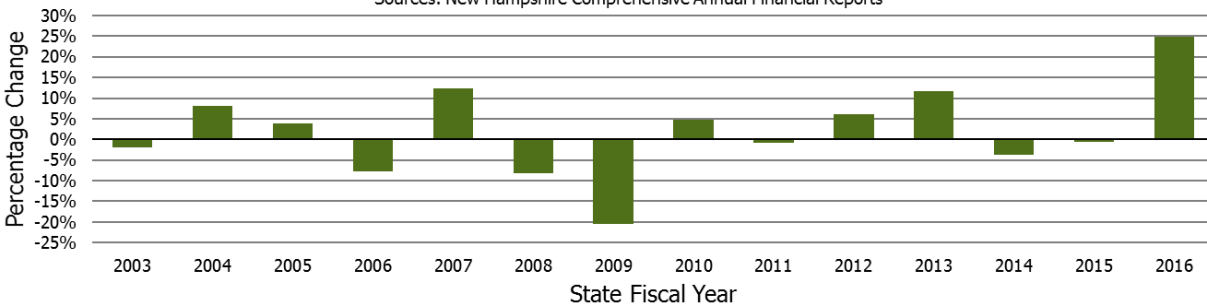


Figure 7: Business Enterprise Tax

Percent Change From Prior State Fiscal Year

Sources: New Hampshire Comprehensive Annual Financial Reports



The Business Taxes: Comparisons and Interactions

New Hampshire's two business taxes were designed to complement and support one another. Many of the same tax credits can be applied against either liability, and the BET can be used as a credit against the BPT. Additionally, both the record-keeping safe harbor and the "fair and reasonable compensation" amount set aside under the BPT are taxed as compensation under the BET. Both require most businesses file estimates four times yearly (March or April, June, September, and December). However, the rationales for these two taxes are also rooted in economic theory.

Theory and data suggest the BPT may be more volatile than the BET because it has a narrower tax base consisting of larger corporations. Both total revenue and aggregated tax return data show the BPT draws from a much smaller pool of businesses and revenue than the BET. The SFY 2015 BPT tax base was approximately \$4 billion, while the BET tax base was approximately \$29 billion.

Tables 2 and 3 show the businesses filing for the BPT and BET based on the amount of money they paid under each tax in tax year 2014. Overall, 68,876 returns were filed for these two taxes, with most overlapping. The New Hampshire Secretary of State's office reported about 140,000 businesses registered as "Active" or in "Good Standing" in the state. If that figure was the true number of businesses in the state, then approximately 49 percent did not file. Non-filing businesses could be below filing thresholds, erroneously not filing, or evading payment.

Continued on pages 10 and 11.

The Business Taxes: Comparisons and Interactions (continued)

As Tables 2 and 3 depict, the distributions of businesses that file and pay certain amounts of BET and BPT are substantially different, although both are dominated by the number of businesses with no liability. Of the businesses filing, 74.3 percent did not owe any BPT, and 48.7 percent did not owe any BET, as shown in the third column in both tables showing the percent of businesses paying different amounts of tax. The fifth column, the cumulative percent of businesses column in both tables, shows 14.5 percent of filing businesses owed more than \$1,000 in BPT, and about 27.5 percent of filing businesses owed more than \$1,000 in BET. Filing businesses owing over \$50,000 in BPT and BET accounted for 1.2 percent (793 filers) and 0.8 percent (525 filers), respectively.

Table 2: Business Profits Tax

Tax Year 2014 - Filing Businesses

Tax Paid	Number of Businesses by Tax Paid	Percent of Businesses by Tax Paid	Cumulative Number of Businesses by Tax Paid	Cumulative Percent of Business by Tax Paid	Revenue by Amount of Tax Paid	Percent of Revenue by Tax Paid	Cumulative Percent of Revenue by Tax Paid
\$0	51,164	74.3%	68,870	100.0%	\$0	0.0%	100.0%
\$1-\$500	5,663	8.2%	17,706	25.7%	\$957,510	0.3%	100.0%
\$500-\$1K	2,057	3.0%	12,043	17.5%	\$1,488,873	0.5%	99.7%
\$1K-\$10K	7,205	10.5%	9,986	14.5%	\$25,458,841	8.2%	99.2%
\$10K-\$50K	1,988	2.9%	2,781	4.0%	\$42,467,589	13.6%	91.0%
\$50K-\$100K	314	0.5%	793	1.2%	\$22,328,066	7.2%	77.4%
\$100K-\$1M	434	0.6%	479	0.7%	\$122,354,130	39.3%	70.2%
>\$1M	45	0.1%	45	0.1%	\$96,352,501	30.9%	30.9%
Totals	68,870	100%			\$311,407,510		

Source: New Hampshire Department of Revenue Administration 2016 Annual Report - Draft Data

Tables 2 and 3 also list the amount paid by the businesses falling within each tax paid bracket and the percentage of total tax revenue in the third and second columns from the right, respectively. The rightmost column of both tables illustrate how reliant total tax revenue was on businesses with differing amounts of tax liability in tax year 2014. The BET again shows a greater distribution across smaller and larger taxpayers, but a slight majority of the money collected through the broader BET was still paid by a small number of businesses; 0.8 percent, or 525 filers in total, paid 50.1 percent of all BET dollars in 2014, and 11 businesses paid 11.8 percent. The BPT was even more reliant on the largest taxpayers in tax year 2014, with 4.0 percent of filing businesses (2,781 filers) paying 91.0 percent of BPT revenue, narrowing to 1.2 percent (793 filers) paying 77.4 percent of all BPT revenue and 0.07 percent (45 filers) paying 30.9 percent of all BPT dollars.

Table 3: Business Enterprise Tax

Tax Year 2014 - Filing Businesses

Tax Paid	Number of Businesses by Tax Paid	Percent of Businesses by Tax Paid	Cumulative Number of Businesses by Tax Paid	Cumulative Percent of Business by Tax Paid	Revenue by Amount of Tax Paid	Percent of Revenue by Tax Paid	Cumulative Percent of Revenue by Tax Paid
\$0	33,526	48.7%	68,875	100.0%	\$0	0.0%	100.0%
\$1-\$500	9,374	13.6%	35,349	51.3%	\$1,860,716	0.9%	100.0%
\$500-\$1K	7,047	10.2%	25,975	37.7%	\$5,280,700	2.6%	99.1%
\$1K-\$10K	16,079	23.3%	18,928	27.5%	\$46,909,871	23.2%	96.5%
\$10K-\$50K	2,324	3.4%	2,849	4.1%	\$46,811,766	23.2%	73.3%
\$50K-\$100K	274	0.4%	525	0.8%	\$18,961,490	9.4%	50.1%
\$100K-\$1M	240	0.3%	251	0.4%	\$58,329,747	28.9%	40.7%
>\$1M	11	0.0%	11	0.0%	\$23,867,759	11.8%	11.8%
Totals	68,875	100.0%			\$202,022,049	100.0%	

Source: New Hampshire Department of Revenue Administration 2016 Annual Report - Draft Data

Continued on page 11.

The Business Taxes: Comparisons and Interactions (continued)

Relative to the total number of businesses estimated to be registered in New Hampshire or, more narrowly, the number of businesses filing returns, many do not pay either BPT or BET. If there were 140,000 businesses operating in the state in 2014, then approximately 70 percent either did not file or filed but owed no tax. Of those that did file, 1,248 paid \$359.8 million of the \$513.4 million in BPT and BET collected that year; in percentage terms, 1.8 percent of filing businesses and 3.0 percent of paying businesses paid 70.1 percent of the combined revenue from the BPT and BET. (For the original data and more information, see the New Hampshire Department of Revenue Administration's *2016 Annual Report*.)

Of the businesses that do file, however, the BET has a much broader base. As BET liability is based on compensation (regardless of profit), it should theoretically be subject to fewer swings with changes in the economy than the BPT, as profits are more likely to change quickly than employment.

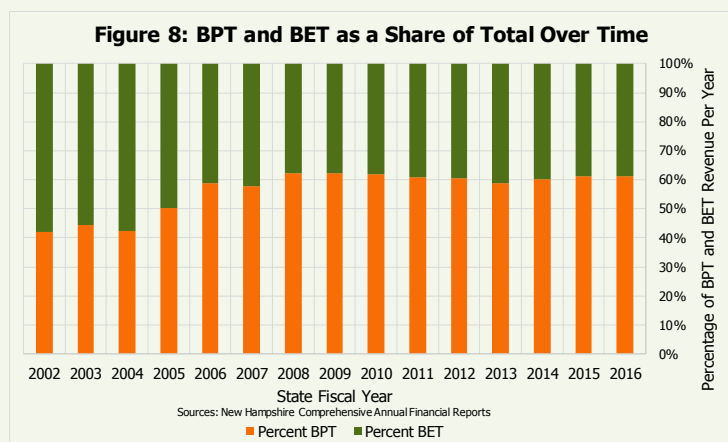
Certain measurements of volatility appear to support this theory. As shown in Table 4, the two business taxes have both grown on average each year since SFY 2003, with BPT average annual growth faster than the BET in the long run (since SFY 2003) and slower since the Recession ended (SFY 2010). However, the average absolute magnitude (positive or negative) of the difference between the SFYs 2003-2016 average growth rate and the growth rate during any particular year is higher for the BPT (10.9 percent) than the BET (8.2 percent) over this period, suggesting both revenue streams may be subject to large swings, but the BPT deviates more from the average.

Tax	Annual Average Growth Rate, SFYs 2003-2016	Annual Average Growth Rate, SFYs 2010-2016	Average Absolute Growth Percentage Deviation from SFYs 2003-2016 Average
BPT	8.2%	5.2%	10.9%
BET	2.0%	6.0%	8.2%

Sources: New Hampshire Comprehensive Annual Financial Reports

As both of these taxes are levied on businesses, receipts from both grow or shrink together in a majority of the years in SFYs 2003-2016. For example, in SFY 2009, when the effects of the Recession were being felt most acutely, revenue fell by just over 20 percent from both taxes relative to SFY 2008, while in SFY 2016 revenue from both taxes rose a little over 24 percent compared to SFY 2015. However, in six of the 14 years, one tax grew relative to the year before while the other shrank. Although some of these splits were small in magnitude, others were noteworthy, such as in SFY 2006 when the BPT grew by 29.6 percent and the BET shrank by 7.8 percent.

If the BET serves as a stabilizer for larger swings in BPT revenue, however, the overall picture of the two business taxes has not indicated such in recent years. Despite large variations in overall revenue surrounding the Recession, the BPT's share of the revenue from these two sources has remained very close to 60 percent. With the exception of the second half of SFY 2016, both rates remained the same throughout this period (although certain credits and deductions changed).



Statewide Education Property Tax

The Statewide Education Property Tax, often abbreviated as SWEPT, was established in 1999 to help fund the newly created Education Trust Fund and the required adequate education grants to municipalities; all revenue from the SWEPT supports the Education Trust Fund. The Department of Revenue Administration determines the appropriate statewide tax rate to raise \$363 million on all property not otherwise taxed as railroad or utility property and not including properties exempt from taxation, such as certain charitable, government, educational, religious, and veterans' group properties.¹⁷

The Department of Revenue Administration informs each municipality of the amount that it must raise to sum to the \$363 million set in statute based on the statewide rate, but the final rates in each city, town, and township vary after municipal assessments are completed and other adjustments are made to the tax base. As such, municipal governments levy different rates to meet their required dollar contributions through the SWEPT.¹⁸ Additionally, the \$363 million requirement was set in statute in SFY 2006 and is not adjusted for inflation. If this figure had been adjusted for inflation, it would have grown to \$437.4 million in SFY 2016.¹⁹ Prior to SFY 2006, the Legislature set and periodically adjusted a fixed tax rate.

SWEPT Basics

Statute: RSA 76

Established: 1999

Revenue: \$363.1 million

Collects From: Property tax payers statewide

Rate: Varies annually, set in statute (in SFY 2006) to produce \$363 million, \$2.260 per \$1,000 for tax year beginning April 1, 2017

Goes To: Education Trust Fund

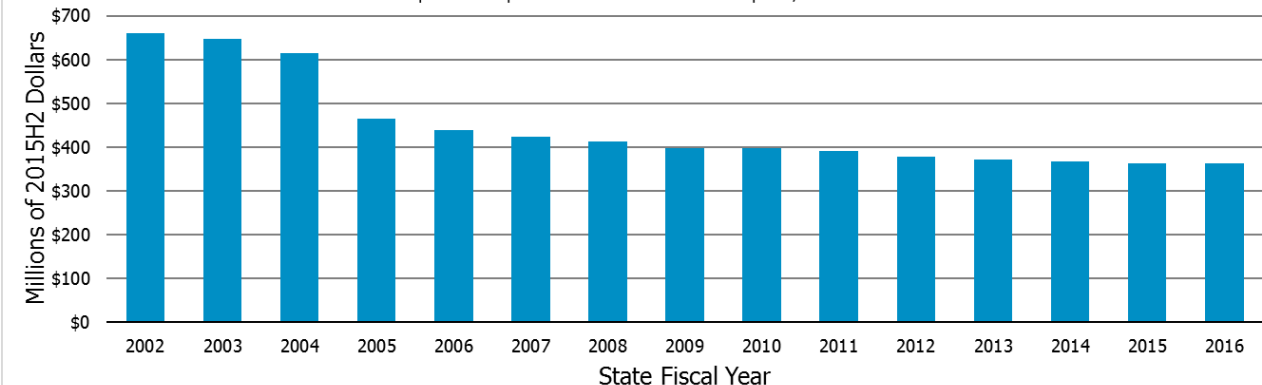
The New Hampshire Constitution requires a reassessment of property within the state at least every five years. Municipalities may either conduct their assessments at one time or on a rolling basis as long as all properties are reassessed at least once every five years. To compute estimates of property value changes over the course of the five-year period, the Department of Revenue Administration conducts an equalization survey, comparing sales prices for real estate with the prior assessed values and calculating ratios to adjust on a municipality-wide basis.²⁰

However, while the SWEPT dollars are collected by municipal governments through their property tax bills, no money is actually sent to the State by municipalities under current law. Cities and towns use the dollars they are required to collect through the SWEPT to support the adequate education

Figure 9: Statewide Education Property Tax

Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics



grants provided by the State; the remainder of those grants are provided by the State from the Education Trust Fund's other funding sources. The SWEPT is usually not enough to pay for all the required adequate education grant payments from the State to municipalities. In very limited cases, such as towns with high property values and low student populations, municipalities may generate funds through the SWEPT in excess of required adequate education grant payments. These towns are, under current law, not required to give these dollars to the State for distribution to other municipalities or for other purposes.²¹

The Low and Moderate Income Homeowners Property Tax Relief program provides a partial SWEPT rebate on an income-based sliding-scale. Individuals must make \$20,000 or less, or \$40,000 or less for married couples or heads of households, to qualify. Rebate funds draw from the Education Trust Fund's other funding sources, such as portions of other taxes or General Fund transfers.²² State law grants municipalities the option of adopting certain property tax exemptions, credits, or deferrals, including those for the elderly, veterans, and those with disabilities.²³

The Local Property Tax

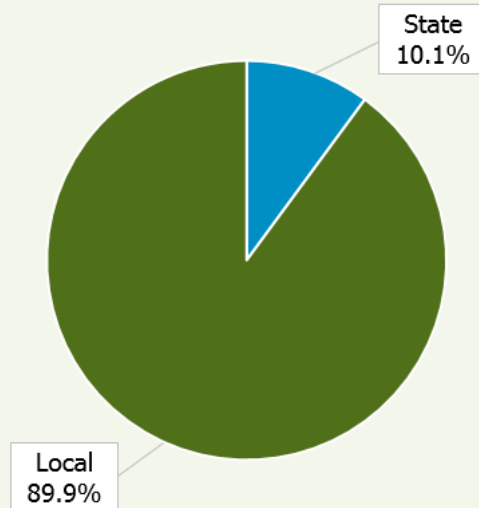
New Hampshire law permits municipalities to levy a property tax at the local level (see RSAs 72, 75, and 78). Local governments, including cities, towns, counties, and school districts, do not have diverse revenue streams and rely on the property tax as the primary source of revenue to fund local services; according the U.S. Census Bureau, in SFY 2014, 98.7 percent of the approximately \$3.4 billion in general revenue collected through New Hampshire local government taxation (not including non-tax sources, such as fees and grants) was derived from property taxes. The Department of Revenue Administration's tax year 2016 data show the SWEPT accounted for approximately 10 percent of the \$3.5 billion municipalities levied in taxes.

The magnitude of the local property tax dwarfs many other revenue sources discussed in this document. The General Fund collected about \$1.5 billion in SFY 2016; the Education Trust Fund collected \$0.9 billion from its sources. The local property tax (not including the SWEPT) collected about \$3.1 billion in tax year 2016. For context, the State Budget's planned expenditures totaled about \$5.7 billion in SFY 2016.

Municipal property tax bills must include separate rates calculated for the municipal, local education, SWEPT, and county taxes. All municipal tax rates must be calculated and established by the Department of Revenue Administration based on informational reports filed by the municipalities to the State, which incorporates anticipated expenditures due to State, county, school district, and local obligations. Disparities in assessed and taxable property values between municipalities often result in substantially different property tax rates across municipal borders.

Figure 10: General Revenue from Property Taxes

New Hampshire, SFY 2014
Source: U.S. Census Bureau



Meals and Rentals Tax

Commonly called the “meals and rooms tax,” the Meals and Rentals Tax (M&R) is levied on purchases of food or beverages from restaurants, served on or off premises and including catered and “to go” meals while excluding certain meals from non-profit and educational institutions and foods or beverages unopened and packaged wholly off-site. Grocery and convenience stores must levy the tax on prepared meals and beverages from opened containers, but not unopened products. The 9 percent tax is also levied on the rental of hotel rooms and automobiles for less than 180 days. Hotels are broadly defined to include ski and tourist lodges, inns, motels, cottages, private clubs, tourist homes and cabins, and other businesses, but exclude educational, medical, and elderly-focused institutions. Additional caveats, including those for government institutions, gratuities, and single-serving beverage machines, also affect the tax base.

The M&R was increased from 8 percent, where it had been since 1990, to 9 percent in SFY 2010, boosting revenue during the Recession while other revenue sources were contracting (see Figure 12). The M&R was also expanded to include rental cars in SFY 2000 to help finance the newly-created Education Trust Fund; the remainder of the M&R provides revenue to the General Fund and certain priorities specified in statute. Table 1 shows the large majority of M&R revenue goes to the General Fund, with about \$8.5 million (2.8 percent of General and Education Trust Fund M&R revenue) generated by the 9 percent tax on automobile rentals. Of the remaining portion, statute requires M&R revenue pay for the cost of administering the tax, certain school building bonds, 3.15 percent to the State’s travel and tourism development agency, and 40 percent to municipalities based on population. However, the 3.15 percent

M&R Basics

Statute: RSA 78-A

Established: 1967

Revenue: \$301.3 million (SFY 2016)

Rate: 9.0 percent

Collects From: Certain meals purchased from restaurants or caterers, hotel or lodging rentals, and automobile rentals

Threshold: Meals costing more than \$0.36, with no minimum for hotel or auto rentals

Highest Former Rate: 9.0 percent (2009)

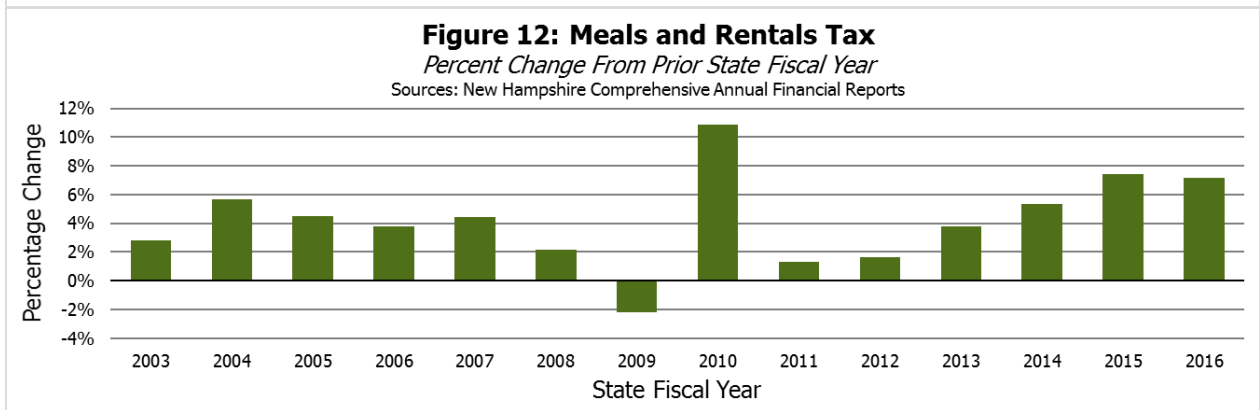
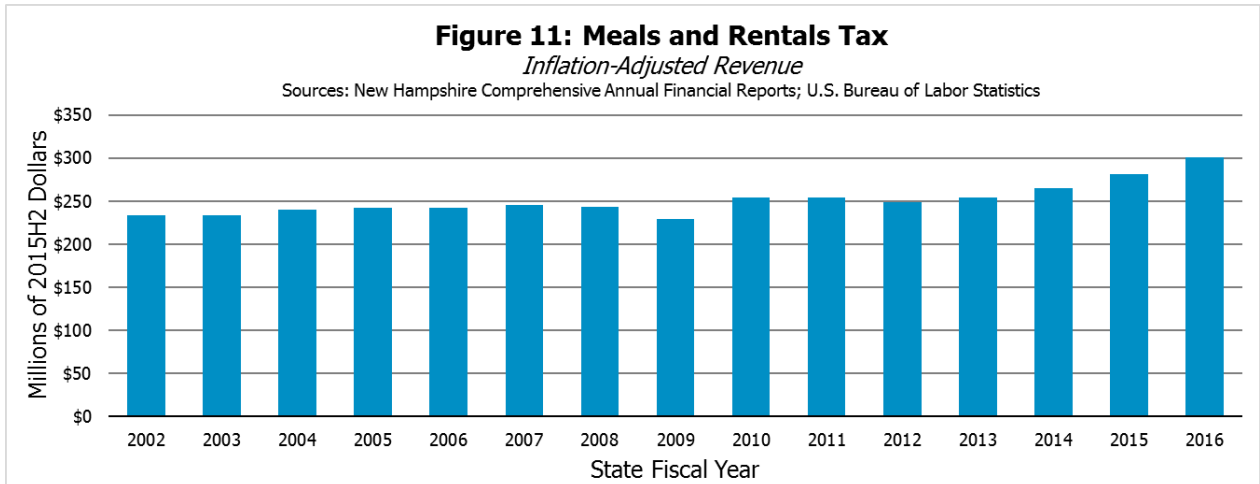
Lowest Former Rate: 5.0 percent (1967)

Goes To: General and Education Trust Funds

contribution has been suspended in two of the last three State Budgets, and revenue sharing with municipalities was held at SFY 2009 levels until SFY 2014, allowed to rise for SFY 2015, held constant through SFY 2016, and then allowed to rise again in SFY 2017.²⁴ The New Hampshire Municipal Association reported these suspensions resulted in about \$58 million less for municipalities from 2010 to 2017.²⁵

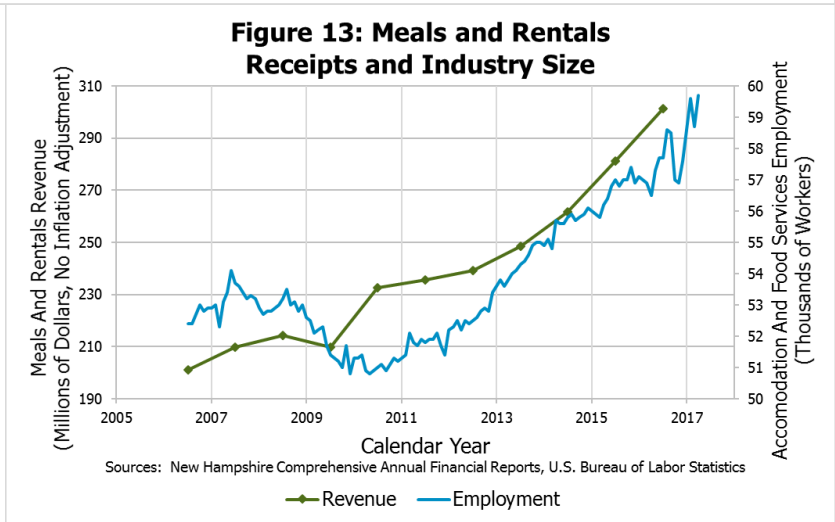
Businesses selling goods and services liable for M&R payments must obtain a license from the State and collect M&R on each applicable purchase. These businesses then must provide all revenues collected by the fifteenth day of the month for transactions from the prior month, and may keep 3 percent of all taxes collected as compensation for proper handling. When the M&R was first established in 1967, this retention was 1 percent, but was raised to 3 percent for the timeliest filers two years later.

In recent years, the hotels portion of M&R revenue has constituted between 15 percent and 20 percent of the total, leaving the M&R largely dependent on meals served at restaurants.²⁶ Overall, M&R revenue has kept pace with inflation since SFY 2002, aided by



the SFY 2010 rate boost. Yearly growth has accelerated following the Recession, as overall employment and employment in the industry have both climbed; the accommodations and food services portion of the state's economy grew at twice the rate of the whole economy from 2011 to 2015.

Growth in food and accommodation services employment and M&R receipts appear to correlate (see Figure 13), and both have been on an upswing since the Recession, providing a boost to this relatively stable revenue source. Other variables influence growth in M&R receipts, including the weather, which may affect both tourism (pleasant summers, colorful foliage, and



snow-covered ski slopes and snowmobile trails may help revenues) and spending decisions of New Hampshire residents.

M&R Average Revenue Growth Rates	
SFYs 2003-2016	4.2%
SFYs 2010-2016	5.4%
Sources: New Hampshire Comprehensive Annual Financial Reports	

Tobacco Tax

As with all other states, New Hampshire imposes a tax on certain tobacco products. Two different rates in statute apply to particular sets of products: a 20-cigarette package has a fixed rate of \$1.78 per pack, with packs of different amounts of cigarettes adjusted proportionally, and a 65.03 percent tax rate of the wholesale sales price on all other tobacco products except premium cigars, which are exempt from taxation.

The tax is levied on the retail consumer, but the payment to the State is often made by the licensed wholesalers. Proof of tax payment is shown through affixing stamps to the packages of tobacco products. The wholesaler can buy the stamps ahead of time, affix them to products, and sell the stamped cigarette package to the customer. Cigarette pack stamp sales made up 95.9 percent of all Tobacco Tax revenue for SFYs 2011 through 2016.²⁷

Sales of cigarettes in New Hampshire are often attributed to out-of-state visitors who cross the border to buy less expensive cigarettes, as the New Hampshire cigarette tax rate is lower than those of neighboring states. Delaware is the closest state with a lower tax rate, at \$1.60 per pack (see Table 3 for the rates in the New England states and New York).²⁸ The boost in sales associated with cross-border commerce provides some incentive to keep the cigarette tax rate low. A recent change in statute tested the theory that lowering rates would bring in additional revenue, and did not produce support for that theory. In the 2011 State Budget, the Tobacco Tax rates were lowered from \$1.78 to \$1.68 for a pack of cigarettes and from 65.03 percent to 48 percent for all other tobacco products starting in SFY 2012. However, the law contained a contingency provision that if the revenue from SFYs 2012-2013 was less than the revenue from SFYs 2010-2011, the rates would revert to the

Tobacco Tax Basics

Statute: RSA 78

Established: 1939

Revenue: \$227.1 million (SFY 2016)

Rate: \$1.78 per pack of 20 cigarettes, proportional adjustments for other pack sizes, and 65.03 percent of wholesale sales price on other tobacco products

Collects From: Purchasing consumers

Highest Former Rate: \$1.78/pack (2013)

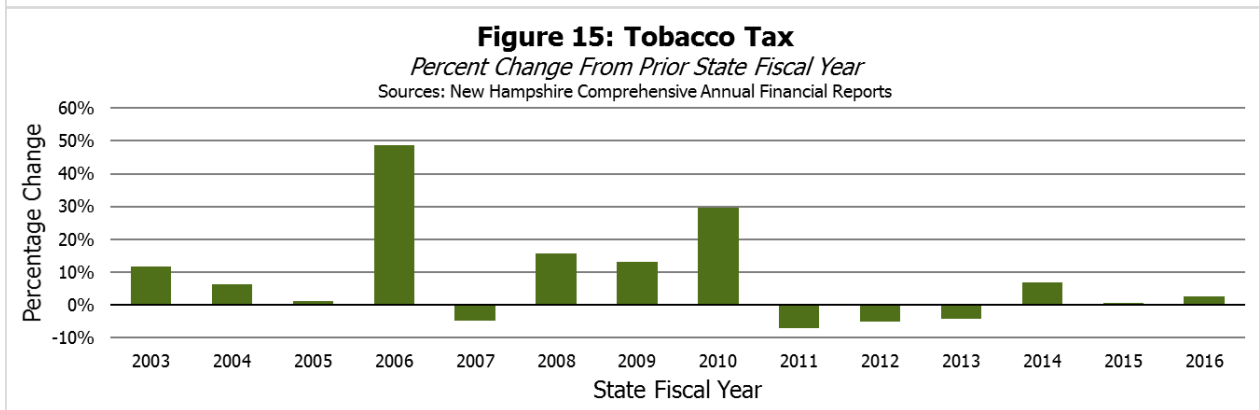
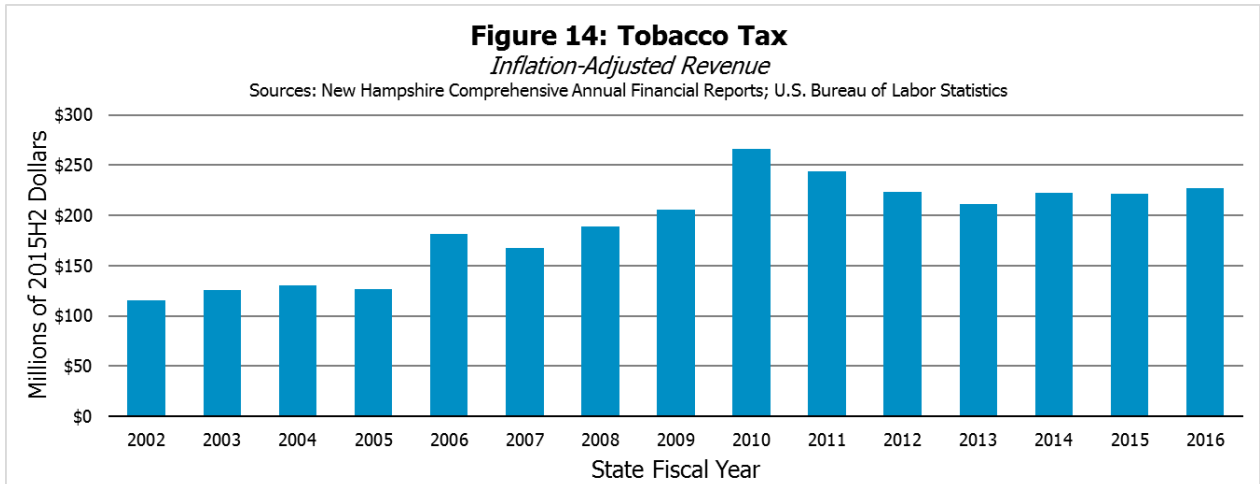
Lowest Former Rate: \$0.12/pack (1975), initially a percentage of selling price

Goes To: General and Education Trust Funds

former, higher levels.²⁹ Revenue was less in SFYs 2012-2013 than during SFYs 2010-2011, suggesting that the lower rates did not spur sufficient purchases to offset the forgone revenue from the rate reduction.

As the Tobacco Tax on cigarettes is an excise tax of a fixed value and does not increase automatically with the price of cigarettes or inflation, retaining the real (inflation-adjusted) value of the revenue requires periodic adjustments to the rate. For this and other reasons, the Tobacco Tax's cigarette rate has been boosted substantially since it was set at \$0.12 per pack in 1975, with the most notable increases occurring in the years since the \$0.25 per-pack rate was boosted to \$0.37 in 1997. As a net result of several incremental changes (including increases in SFYs 2006, 2008, and 2010), the rate was increased to \$1.78 per pack by SFY 2009, with changes in the inclusion of and tax rates for non-cigarette tobacco products during that time. Revenue stemming from the \$1.00 per-pack portion of the cigarette tax goes to the General Fund, while revenue from the remainder of the per-pack tax goes to the Education Trust Fund.

The Tobacco Tax has been a relatively stable source of revenue, with changes to statutory

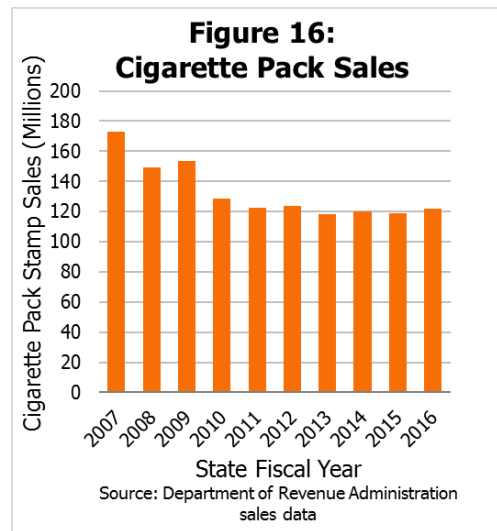


rates and the tax base appearing to be the biggest factors in short-term fluctuations. However, long-term trends may render the Tobacco Tax a declining source of revenue over time. Cigarette sales have been on an overall downward trend in New Hampshire (see Figure 16). Substitute products, such as e-cigarettes, and changes in consumer habits may contribute to a further erosion of this revenue source without policy change.³⁰

Table 5: State Cigarette Pack Taxes

State	Tax Rate	U.S. Rank
NH	\$1.78	20
MA	\$3.51	4
ME	\$2.00	13
VT	\$3.08	6
RI	\$3.75	3
CT	\$3.90	2
NY	\$4.35	1

Source: Federation of Tax Administrators, *Excise Tax Rates on Cigarettes*, January 2017.



Tobacco Tax Average Annual Revenue Growth Rates

SFYs 2003-2016	8.2%
SFYs 2010-2016	3.3%
SFYs 2015-2016*	1.6%

*No rate change during this period.
Sources: New Hampshire Comprehensive Annual Financial Reports

Real Estate Transfer Tax

New Hampshire collects revenue from the sale of any real estate, or any interest in real estate, through the Real Estate Transfer Tax (RETT). The RETT requires both the purchaser and seller to buy a tax stamp whose price adjusts with the value of the transaction, with exemptions for certain transfers, including divorce- or death-related title transfers, purchases by governments, transfers of cemeteries, transfers from an owner of an entity to the same entity when ownership is identical, and leases less than 99 years in duration. Stamps are sold at the county Registry of Deeds office, and the county is paid 4 percent of the face value of the stamps for administrative expenses.

The tax rate, set in 1999, is \$0.75 per \$100 in property transferred for each party, with a minimum tax of \$20 for a transfer of \$4,000 or less. For example, a house sold for \$200,000 would require \$1,500 from the seller and \$1,500 from the buyer, for a total tax revenue of \$3,000. Of the \$0.75 per \$100 levied, \$0.25 is allocated to the Education Trust Fund. The rest is transferred to the General Fund as unrestricted revenue. While there have been some changes to the RETT's mechanisms since 1999, the rate has remained constant; prior 1999, the rate was increased to \$0.525 per \$100 in SFY 1990 and lowered to \$0.50 per \$100 in SFY 1993.

RETT revenue tends to fluctuate more dramatically with the economy than other major sources of revenue. RETT receipts correlate positively with both housing sales and property prices. A robust economy is more likely to produce higher property values and more commercial and residential purchases. RETT revenues may also be more directly related to economic cycles than the business taxes, as both the bases and credit or deduction mechanisms of the business taxes alter how cyclical changes affect revenue in manners that do not affect the

RETT Basics

Statute: RSA 78-B

Established: 1967

Revenue: \$134.5 million (SFY 2016)

Rate: \$0.75 per \$100 of sale, grant, or transfer price levied independently on each party, for a total collected of \$1.50 per \$100

Collects From: Property sales, both buyer and seller

Minimum Payment: \$20, from both buyer and seller, for transfers of \$4,000 or less

Highest Former Rate: \$0.75/\$100 (1999)

Lowest Former Rate: \$0.10/\$100 (1967)

Goes To: General and Education Trust Funds

RETT. Real estate transfer activity is also affected by changes in interest rates, which impact mortgages and purchasing decisions, and the accessibility of loans for purchasers.

In SFY 2005, around the peak of the housing market in New Hampshire, the RETT contributed \$159.8 million to the General and Education Trust Funds combined (unadjusted for inflation). After the housing market crash and during the Recession in SFY 2009, the RETT brought in only \$81.2 million, a 49.1 percent drop. RETT revenues did not rise beyond \$85 million until SFY 2013; adjusting for inflation, substantial growth only resumed in SFY 2014, and SFY 2016 RETT revenues had not quite yet reached SFY 2002 levels.

As of early 2017, New Hampshire housing prices appear to be rising, nearly approaching their pre-Recession values (unadjusted for inflation, see Figure 19). Sales also appear to be approaching pre-Recession volume, although the growth in sales may be slowing (see Figure 20).

RETT Average Revenue Growth Rates	
SFYs 2003-2016	3.3%
SFYs 2010-2016	7.7%

Sources: New Hampshire Comprehensive Annual Financial Reports

Figure 17: Real Estate Transfer Tax

Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics

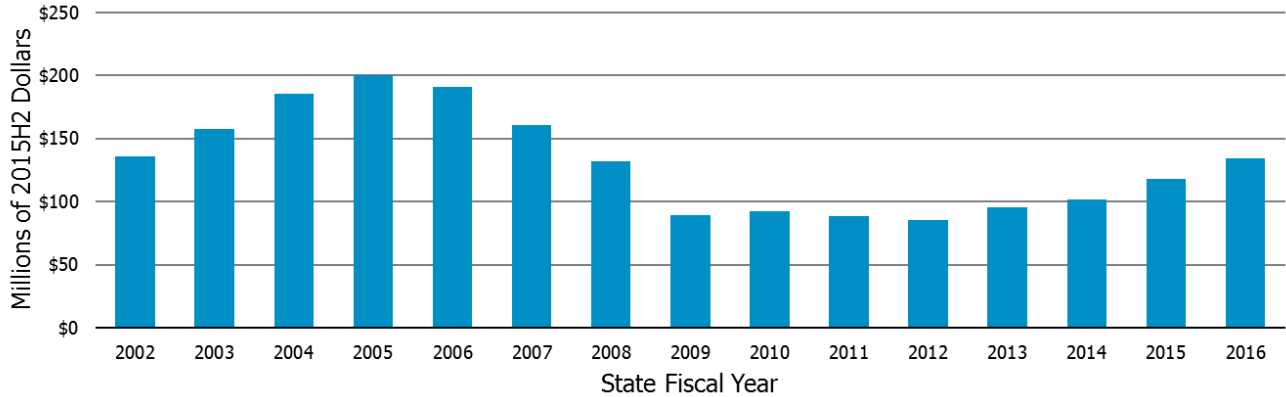


Figure 18: Real Estate Transfer Tax

Percent Change From Prior State Fiscal Year

Sources: New Hampshire Comprehensive Annual Financial Reports

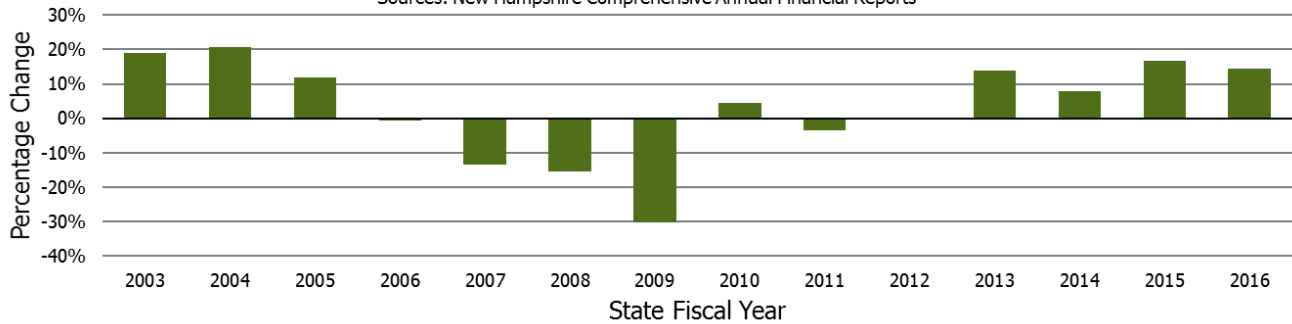
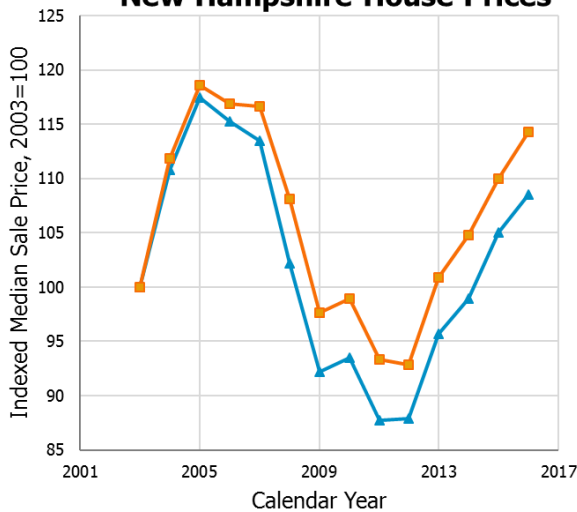


Figure 19:

New Hampshire House Prices

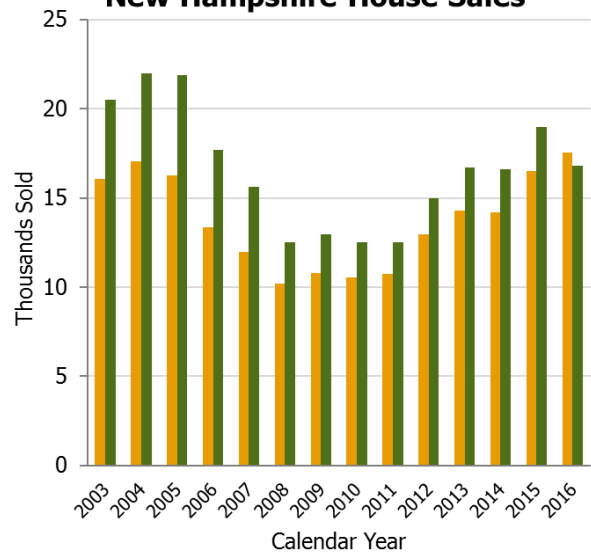


Sources: New Hampshire Association of Realtors, New Hampshire Housing Finance Authority

- ▲— New Hampshire Association of Realtors Indexed Prices
- Northern New England Real Estate Network Indexed Prices

Figure 20:

New Hampshire House Sales



Sources: New Hampshire Association of Realtors, New Hampshire Housing Finance Authority

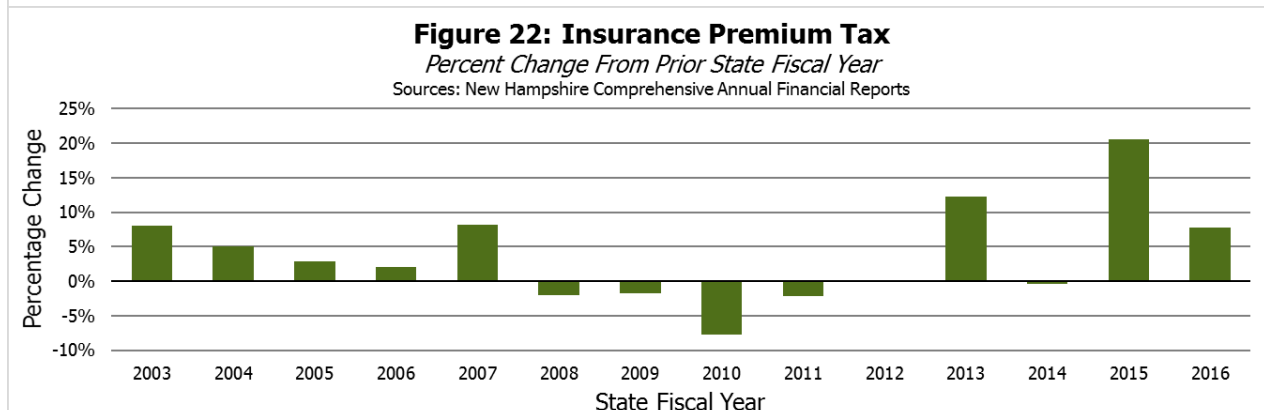
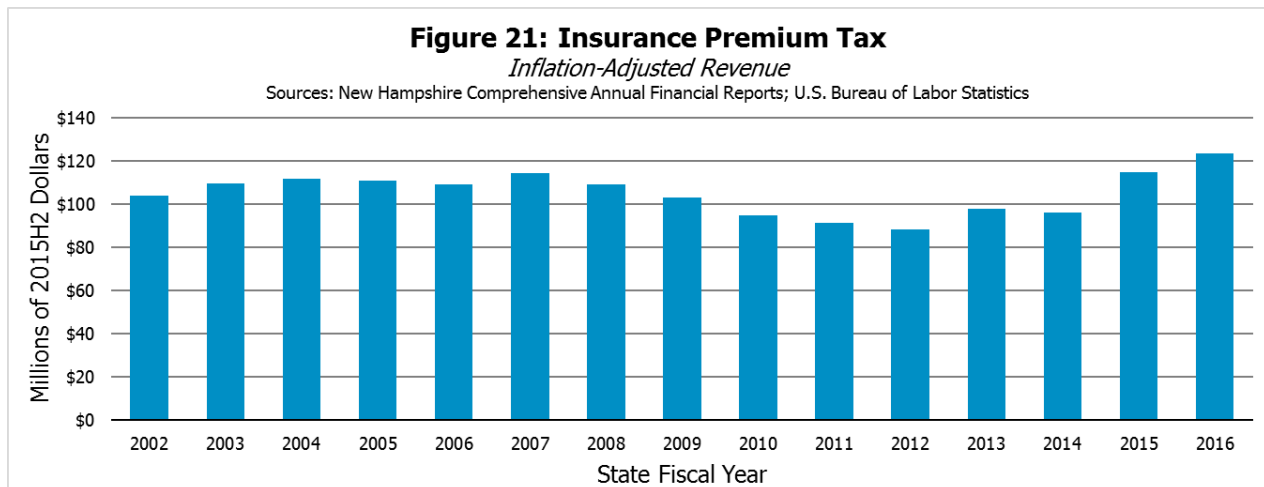
- Single Family Sales
- Multiple Listing Service Sales

Insurance Premium Tax

The New Hampshire Insurance Department administers the Insurance Premium Tax (IPT), which is levied on all gross direct premiums from insurers. Gross direct premiums include policy, membership, and other fees covering property, subjects, or risks located in the state, but dividends returned to policy holders and certain title-related services may be deducted. Most types of insurance companies face a 1.25 percent tax rate, which follows an incremental, multi-year reduction from 2.0 percent starting in SFY 2007. However, health, accident, and certain life insurance businesses pay 2.0 percent, and certain mutual insurance companies are exempt. When other states tax New Hampshire-based insurers in excess of IPT for operating there, New Hampshire requires insurers from those states operating locally to pay that same higher rate.³¹

IPT Basics
Statute: RSA 400-A
Revenue: \$123.4 million (SFY 2016)
Rate: 2.0 percent of premiums for health and accident insurance, 1.25 percent for others, higher for certain out-of-state companies
Collects From: Insurance companies
Minimum Payment: \$200 annually
Goes To: General and New Hampshire Health Protection Trust Funds

The BET can be used as a credit against the IPT, and any IPT paid can be used as a credit against the BPT. IPT revenues go to the General Fund, with the exception of revenues from those newly insured by the New Hampshire Health Protection Program; those revenues go to the Program's trust fund. Health insurance coverage changes associated with the federal Affordable Care Act boosted IPT revenues.



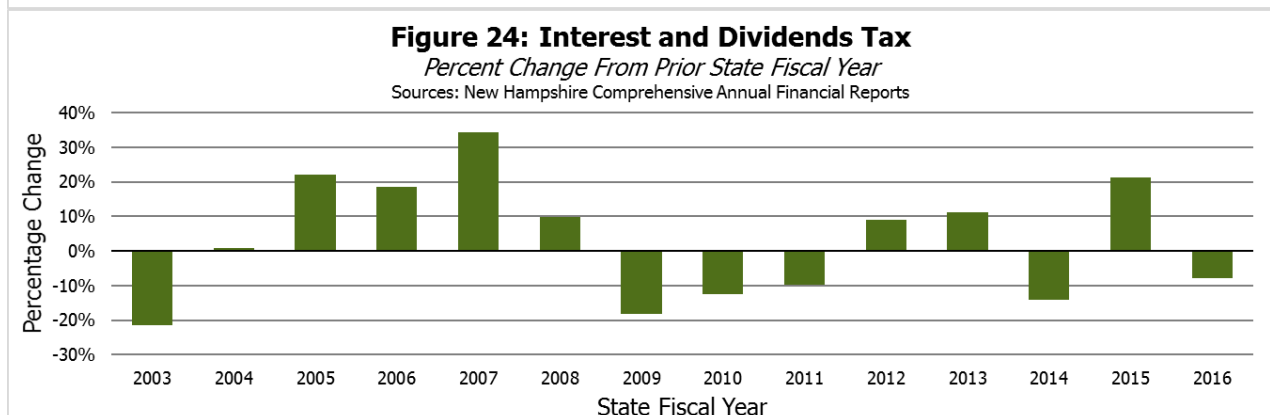
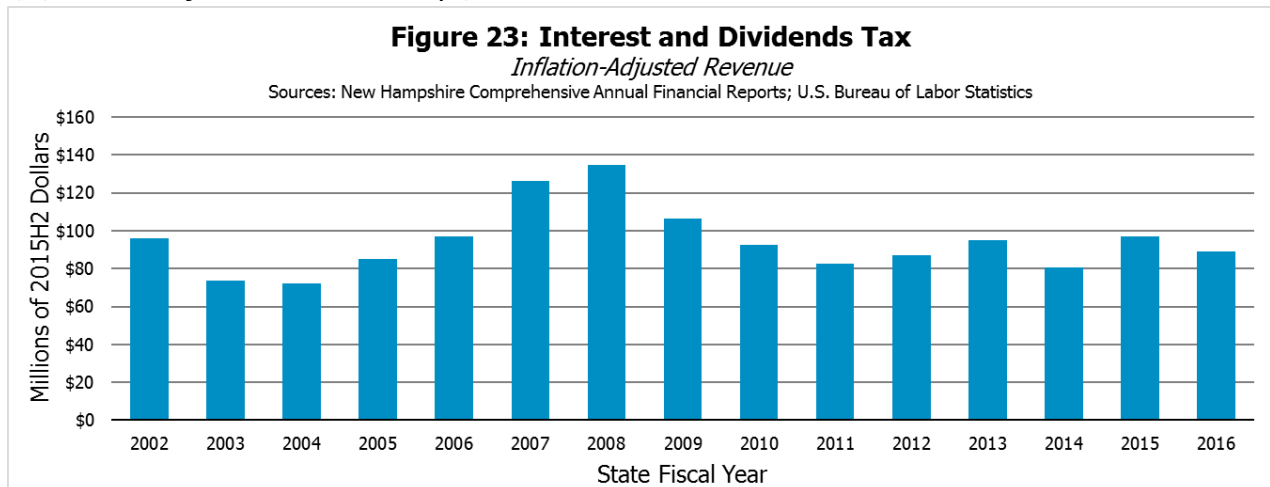
Interest and Dividends Tax

Although New Hampshire does not levy a broad-based individual income tax, the State does tax certain passive income, or income collected from benefits accrued through existing assets. The Interest and Dividends Tax (I&D), established in 1923, collects five percent of an individual's income from interest earned from bonds, bank accounts, debt payments, or other investments. I&D also collects 5 percent of dividends from certain company stock ownership. There are exemptions, including for certain returns on capital or sales and exchanges of company shares, employee benefit plans, government bonds, college savings plans, and trusts.³²

The I&D rate has remained the same since SFY 1978, but the income and filing exemption has been increased periodically. Currently, the first \$2,400 from individuals or \$4,800 from joint filers is exempt, with an

I&D Basics
Statute: RSA 77
Revenue: \$89.3 million (SFY 2016)
Rate: 5.0 percent
Collects From: Individuals and certain pass-through companies
Threshold: \$2,400 per individual, additional \$1,200 for elderly, blind, or unable to work
Goes To: General Fund

additional \$1,200 to that exemption if either or both taxpayers are elderly, blind, or non-elderly but have a disability and are unable to work. For example, if a married couple filing jointly includes one 65-year-old member and a spouse who is blind, the first \$7,200 of interest and dividend income they earn would not be taxed. I&D revenues can change quickly with corporate markets and interest rate adjustments.



Motor Fuels Tax

The Road Toll is the formal name for the \$0.222 per gallon tax levied on motor fuels sales in New Hampshire. Administered by the Department of Safety, motor fuels tax revenues are, dating to 1938, protected by the State Constitution as to be used only for highway-related purposes.³³ They are used for interest on highway bonds and notes, deposited in the Highway Fund, and divided into restricted and unrestricted revenue. The restricted portion includes 2.64 cents of the per-gallon tax diverted to the Highway and Bridge Betterment Program and 4.2 cents per gallon diverted to State resurfacing and bridge rehabilitation work, municipal bridge and grant aid, and debt service for the Interstate 93 expansion project. The 4.2 cent per gallon portion is a temporary increase, which took effect in SFY 2015 and ends upon completion of bonding for the Interstate 93 expansion project. Certain operations,

Motor Fuels Tax Basics

Statute: RSA 260

Revenue: \$182.6 million total, \$123.6 million unrestricted Highway Fund (SFY 2016)

Rate: \$0.222 per gallon of motor fuel

Goes To: Highway Fund, with set-asides for certain transportation-related obligations

including government use and use of fuel for non-highway purposes, are exempt. Aviation fuels are also taxed at different rates.³⁴

As with the tax on cigarettes, the motor fuels tax is an excise tax that would require periodic adjustment to maintain its real value relative to inflation. Prior to SFY 2015, the last increases in the motor fuels tax were in 1991 (from \$0.16 to \$0.18) and 1990 (from \$0.14 to \$0.16).³⁵ Long-term motor fuels tax revenues depend on driving habits, tourism, vehicle efficiency, and alternative fuel use.

Figure 25: Unrestricted Motor Fuels Tax Revenues

Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics

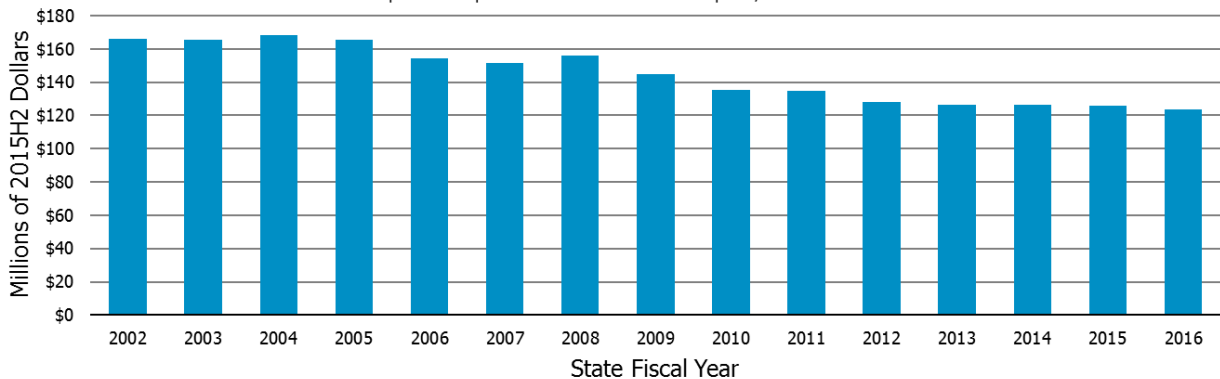
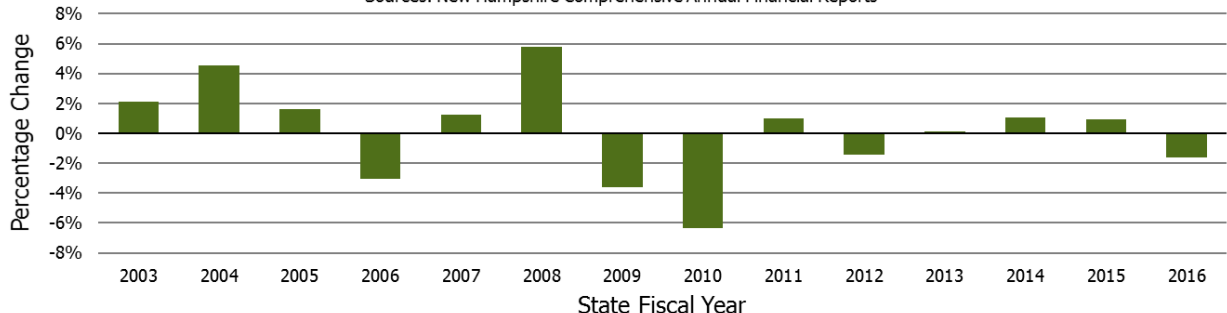


Figure 26: Unrestricted Motor Fuels Tax Revenues

Percent Change From Prior State Fiscal Year

Sources: New Hampshire Comprehensive Annual Financial Reports



Medicaid Enhancement Tax

First established in 1991, the Medicaid Enhancement Tax (MET) is a 5.4 percent tax for SFY 2017 on charges inpatient and outpatient hospitals make for services minus bad debts, charity care, or certain discounts. MET revenues are deposited in the Uncompensated Care and Medicaid Fund and used to pay hospitals for uncompensated care, particularly losses related to care provided to the uninsured and those insured under the Medicaid program. MET revenues are collected from hospitals, and a portion is used to leverage federal matching dollars; MET revenues are matched with federal funds and deposited in an uncompensated care and Medicaid fund used to reimburse hospitals, at varying rates depending on the hospital type, for uncompensated care. MET revenues formerly contributed to the General Fund, but a series of lawsuits and negotiated agreements between the hospitals and the State resulted in reforms to MET payments. MET revenues are significant, generating approximately \$212.5 million in SFY 2016 without including the federal matching dollars. The MET rate was lowered from 5.5 percent in SFY 2015 to 5.45 percent in SFY 2016. The rate is expected to be lowered again to 5.25 percent in SFY 2018 through a provision triggering the reduction if uncompensated care costs at hospitals are below a certain threshold.³⁶

Communications Services Tax

Created in SFY 1990 and contributing to the General Fund, this tax on two-way electromagnetic communications services levied on communications services retailers was increased from 5.5 percent to its current rate of 7.0 percent in SFY 2002. Primarily targeted at telephone, paging, and specialized radio services, the tax specifically exempts services for health, safety, and welfare and one-way broadcast services. In SFY 2012, this tax was changed to explicitly

not include any Internet services in its base. The tax has subsequently underperformed, falling from a high of \$81.0 million in SFY 2010 (unadjusted for inflation) and \$76.6 million the following year to \$57.4 million in SFY 2013 and \$52.5 million in SFY 2016. Declining use of landline phones and more communications services shifting to Internet-based technologies suggest this revenue source may continue to decline.³⁷

Utility Property Tax

Created in 1999 to help support the newly-created Education Trust Fund, the Utility Property Tax is administered statewide by the Department of Revenue Administration, which determines the assessed value of the taxable property under its own authority, rather than that of a municipality. A tax rate of \$6.60 per each \$1,000 is levied on real estate, buildings, structures, machinery, poles, and pipelines associated with the generation or transmission of electric power, natural gas, or petroleum owned by regulated utilities. Certain types of water and sewer operations are also included, and other types of properties, such as those not subject to the local property tax, are exempt. The Utility Property Tax is a stable and growing (inflation-adjusted) revenue source, contributing \$43.3 million for the Education Trust Fund in SFY 2016.³⁸

Other Key Taxes

- Nursing Facility Quality Assessment: 5.5 percent of net patient services revenue, deposited into the Nursing Facility Trust Fund, \$39.2 million in SFY 2016³⁹
- Beer Tax: administered by the Liquor Commission, a 30-cent fee for each gallon of beverage sold, deposited in the General Fund, \$12.9 million in SFY 2016⁴⁰
- Electricity Consumption Tax: rate of \$0.00055 per kilowatt hour charged to consumers, paid through providers to the General Fund, \$6.0 million in SFY 2016⁴¹

Enterprise Revenue Sources

New Hampshire's government operates several key enterprises, which are business-like activities, with the express purpose of raising revenue and optimizing profit to pay for other State services. This permits the State to collect revenue from individuals opting to make certain purchases or use certain products from the State, rather than general taxation.

Liquor Commission

New Hampshire collects revenue from the sale of liquor in State stores operated by the Liquor Commission. With the exception of beer (which is taxed separately under Liquor Commission authority at \$0.30 per gallon) and certain wine shipments or sales from businesses holding licenses, sales of liquor, spirits, and wine in New Hampshire are made

through Liquor Commission stores. Retail sales may be made by individual consumers and licensed restaurants and hotels (who then may resell the products if licensed to do so), and the Liquor Commission has the authority to advertise and regulate certain advertising of liquor in the State. The Liquor Commission is required, among other duties, to optimize the profitability of the Commission. Revenues from liquor store sales, license fees, and interest on those dollars are deposited into the Liquor Commission Fund, and the Commission uses those funds to pay for expenses. However, after those expenses are paid, any remaining balance must be deposited into the General Fund on a daily basis.

Per current statute, 1.7 percent of the prior SFY's gross profits derived from the sale of liquor shall be deposited into the State's Alcohol Abuse Prevention and Treatment Fund (AAPTF). When the AAPTF was

Figure 27: Liquor Commission Revenue to General Fund
Inflation-Adjusted Revenue

Sources: New Hampshire Comprehensive Annual Financial Reports; U.S. Bureau of Labor Statistics

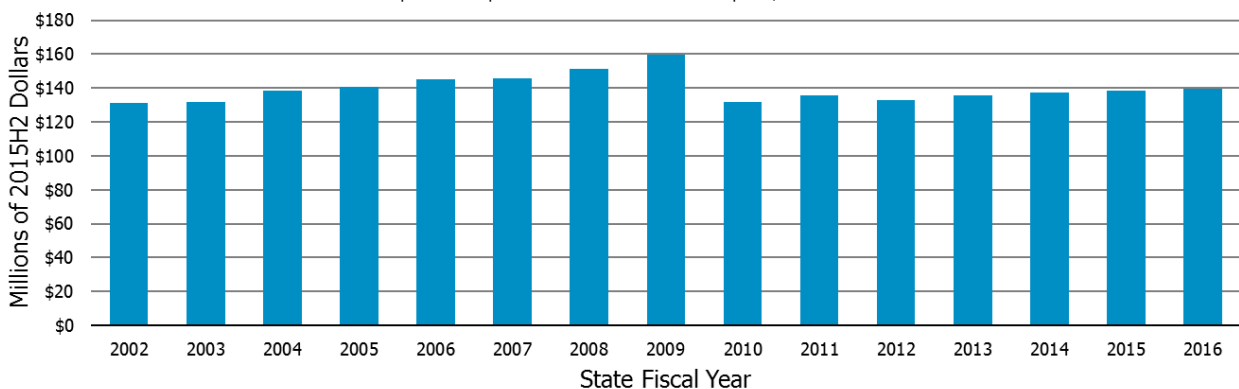
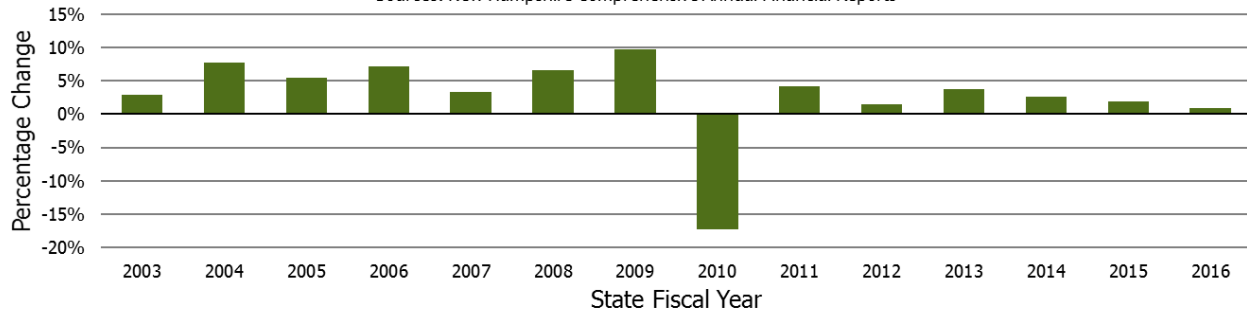


Figure 28: Liquor Commission Revenue to General Fund
Percent Change From Prior State Fiscal Year

Sources: New Hampshire Comprehensive Annual Financial Reports



established in SFY 2002, statute required 50 percent of profits in excess over the prior year's gross profits, but not more than 5 percent of total gross profits, be deposited into the APTF. However, in the subsequent six State Budgets, covering twelve State fiscal years, the formula was suspended, diverting those dollars back to the General Fund once available. The seventh State Budget, covering SFYs 2016 and 2017, changed the formula to 1.7 percent and removed the 50 percent of excess profits provision.⁴²

The Liquor Commission generated \$665.7 million from charges for sales and services in SFY 2016, and an additional \$4.5 million from charges for licenses. Commission revenue transferred to the General Fund, not including Beer Tax revenue, was \$139.9 million in SFY 2016. (Beer Tax revenue to the General Fund was \$12.9 million.)⁴³

Overall, Liquor Commission revenues are relatively stable. Although the General Fund only receives the profits from this enterprise, revenues have continued to hold and grow slowly relative to inflation since the Recession. A large percentage drop in SFY 2010 General Fund contributions (see Figure 28) resulted from moving the Liquor Commission's administrative expenses from the General Fund to the Liquor Commission Fund.⁴⁴ A significant portion of New Hampshire liquor sales likely result from out-of-state purchasers crossing state borders.⁴⁵

Lottery Commission

In 1964, New Hampshire became the first state to establish a modern state lottery.⁴⁶ The Lottery Commission collects revenue from the sale of lottery tickets and the oversight of taxed racing and charitable gaming activities, including bingo, games of chance, and simulcasts of both horse and greyhound racing. These activities have taxes and fees levied against them at varying

rates, depending on the activity. Tickets for State lotteries and games are sold through Liquor Commission stores and at licensed racetracks, and statute permits sales from certain other State locations and through licensed retailers, such as convenience stores. Retailers are paid a 5 percent commission for their services, and 10 percent for any sales above the amount made in the prior SFY. The Lottery Commission also participates in multi-state Powerball lottery pools and through a lottery pool including Maine and Vermont. Voters may approve or disapprove of the Lottery Commission selling tickets in their municipality. The State Constitution requires lottery revenues, after administrative costs, be used exclusively for State aid to education. As such, Lottery Commission expenses are paid with money deposited in the Lottery Commission Fund, and revenue after expenses is transferred to the Education Trust Fund. The Lottery Commission recorded \$308.6 million in revenue in SFY 2016, and transferred \$79.2 million to the Education Trust Fund.⁴⁷

Turnpike System

New Hampshire gives the Department of Transportation the authority to place and operate tolls on the three New Hampshire Turnpikes identified in statute: the Blue Star Turnpike (which includes Interstate 95), the Spaulding Turnpike (the limited access portion of Route 16), and the F.E. Everett Turnpike (the limited access highway from Nashua to Concord). Collectively, the Blue Star and Spaulding Turnpikes are called the Eastern Turnpike, and the F.E. Everett is called the Central Turnpike. Toll rates must be approved by the Governor and the Executive Council. Toll revenues are kept in a separate account to be exclusively used for the operating expenses, construction, and maintenance of the limited-access Turnpike highways. In SFY 2016, the Turnpike System collected \$130.7 million from tolling operations.⁴⁸

State Revenue Overall

While this Overview discusses tax revenue sources at length, about 65 percent of New Hampshire's State revenue is generated through specific programs, including charges for goods and services and federal and local grants, according to the State's Comprehensive Annual Financial Report for SFY 2016.⁴⁹ Charges for goods and services include the State's enterprise funds, such as the Liquor Commission, as well as other agency income, such as fees for business inspections, licenses, and registrations to perform regulated activities.

State taxes collect the least restricted sources of revenue, which lawmakers can opt to use for any priority they can legislate. However, funds coming from federal transfers or grants, transportation-related sources, fees and fines, and other sources outside of general State taxation typically have restrictions associated with them. Legislators have less flexibility with these revenues under existing legal structures to varying degrees; some revenue streams may be reassigned through changes in State law for a single budget cycle, while others are protected by the New Hampshire State Constitution or are only accessible through fulfilling federal program requirements.⁵⁰

Some revenue streams are documented in government publications and may be collected or expended by agencies established in State law, but are not generally considered State revenue. Certain revenue streams are outside of the State Budget; the reasons for deciding to have revenue streams outside of the budget vary, ranging from a lack of certainty regarding future federal transfers to the reclassifications of State entities. For example, the Community College System of New Hampshire, prior to SFY 2012, included its entire operating budget within the State Budget document. The Legislature reviewed

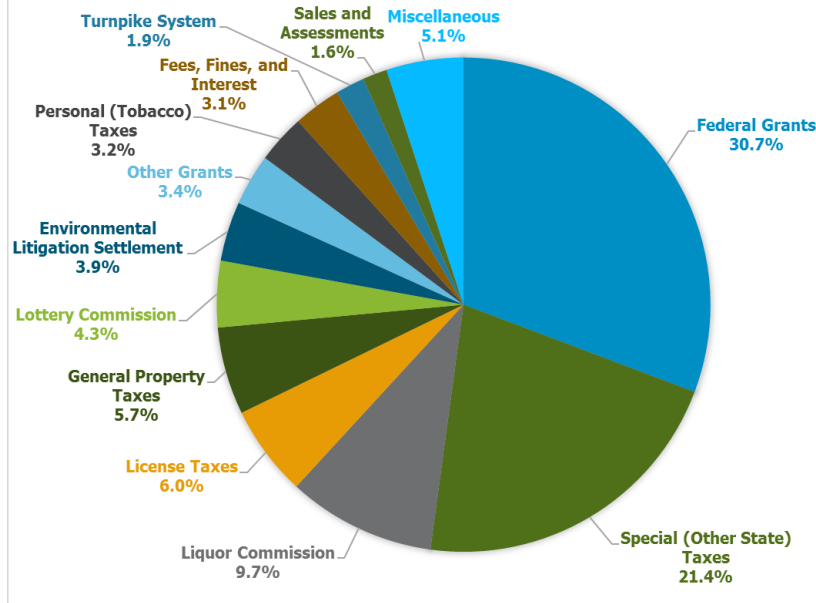
the Community College System's budget as it did with other State agencies, including revenue from College-level sources, such as tuition. When the Community College System transitioned to being a more independent entity (as the University System is structured), only the State's General Fund transfer to the Community College System, rather than all revenues and expenditures, were counted in the State Budget. Another example of a State-related program outside of the State Budget is the New Hampshire Health Protection Program, which is the State's version of the federal Medicaid expansion. The Program received \$406.3 million in federal funds in SFY 2016, but those funds were not included in the State Budget, as the program passed through separate legislation. Most other Medicaid expenditures are included in the State Budget.⁵¹

Figure 29 provides information on about \$7.10 billion in revenue to State governmental and enterprise funds, as described in the State's Comprehensive Annual Financial Report.⁵² These funds do not encompass all revenue that could be attributed to State-operated or -enabled activities, but expands beyond the revenue used to pay for the \$5.65 billion State operating budget for SFY 2016. Generally speaking, no law exists which requires all State expenditures to be included in the State Budget. Certain dedicated funds are included while others are not, and legislation incorporating new spending may sometimes arise and pass during the second year of a biennium, when the State Budget is not being debated.

The labels used in Figure 29 are from the State's Comprehensive Annual Financial Report. While these categories of revenue are labeled differently than in the Governmental Funds section of this report, the broader picture provided here measures revenue for all governmental and enterprise

Figure 29: Governmental and Enterprise Funds Revenues

Source: Comprehensive Annual Financial Report, State Fiscal Year 2016
 Note: Certain Categories Combined, Summary Titles Provided Here



dollar provided by the State for the program. However, that 50 percent federal match increases in various subsets of the program, rising to a 95 percent match for the New Hampshire Health Protection Program in 2017.⁵³

Other significant federal transfers include grants for transportation aid, education assistance for teacher training and students with special needs, programs targeted at assistance

funds, and thus does not factor in certain costs or expenditures, particularly those from enterprise funds. For example, Liquor Commission revenue in Figure 29 includes all \$665.7 million in operating revenue collected, and not only the \$139.9 million profit transferred to the General Fund. Although considering revenue collection costs provides key information for policymakers, the magnitude of the revenue stream itself provides important perspective on the scope of State operations, recognizing that collection costs are also a component of State activity.

The largest single source of the governmental and enterprise funds are federal transfers, which accounted for 35.5 percent of revenue for governmental funds alone (not counting enterprise funds, which are included in Figure 29) in SFY 2016. The largest single portion of these transfers is through the federal Medicaid program; all expenditures (federal- or State-funded) through the Medicaid program in New Hampshire totaled \$2.0 billion in SFY 2016. The base federal matching rate for Medicaid is one dollar of federal contribution per each

for low-income individuals (such as the Supplemental Nutrition Assistance Program, called the Food Stamp Program in New Hampshire, and the Fuel Assistance Program), public funds for water systems and wastewater treatment facilities, provision of school lunches for low-income pupils, and infectious disease control and emergency preparedness.

In Figure 29, Special Taxes represent many of the key State taxes discussed in detail in previous pages. Liquor Commission and Turnpike System revenue show all the money, not only profit after costs, collected by those two enterprise funds. All Lottery Commission revenue is shown here as well, rather than the revenue after winnings and other expenses. License taxes include both business and non-business license taxes, including the motor fuels tax revenues and motor vehicle fees. General property taxes include the SWEPT and the Utility Property Tax, as well as other minor property-related revenue. The environmental litigation settlement revenue resulted from a water contamination case and produced a one-time payment to the State of \$307 million.⁵⁴

Conclusion

New Hampshire's revenue system lacks broad-based income and sales taxes, relying instead on taxes with narrower bases, fees, federal grants, and other revenue sources to fund public services. New Hampshire's diverse set of revenue streams provide a unique and fragmented basis, with strengths and weaknesses relative to economic and demographic impacts. New Hampshire's use of certain enterprise funds, such as the Liquor and Lottery Commissions, and narrow-based revenue streams, such as the Real Estate Transfer Tax and the Tobacco Tax, suggests a creativity and willingness to diversify, adding or modifying revenue sources when needed, as well as a desire to avoid common forms of broad-based taxation employed by other states.

Overall, this arrangement of revenue sources could limit policymaker flexibility. Although this revenue diversity insulates New Hampshire from overdependence on a few large sources, the reliance on multiple narrow bases means policymakers may have to make multiple adjustments to revenue sources to counterbalance declining tax bases or compensate for economic recessions. As with most states, New Hampshire leans heavily on the federal government to help fund important infrastructure, environmental, health, and anti-poverty programs. Changes to federal grants would require the State to either reconsider program funding mechanisms or reduce service provision. The federal government boosted transfers during and following the 2007-2009 Recession for key programs and initiatives, which aided the State in balancing the State Budget. Without increases in federal grants or dramatic changes to services, State lawmakers would have needed to make more changes to the State's revenue sources than the adjustments made during that time.

The lack of flexibility in response to short-term economic or federal policy changes may be compounded by a lack of durability. Certain revenue streams, such as the Communication Services Tax and the Tobacco Tax, may be subject to erosion over time if revenue growth does not keep pace with the broader economy or demands for government services. Long-term changes in New Hampshire's demographics, mix of major industries, or consumer behavior may exacerbate existing, or create additional, challenges for the revenue system.

The State's revenue system deserves careful attention not only because of its unique structure and the strengths and weaknesses it displays, but because public revenue collection serves an important purpose and impacts the public's economic well-being. Although the specific uses of State revenue are not discussed in detail in this Overview, State revenues contribute to the operations, in whole or in part, of key public services. Revenue collection is an important consideration when deciding which services the State should support, and how they should be funded. For example, the last major changes to the State's revenue system came in the late 1990s and early 2000s following several high-profile court cases surrounding State public education aid. Several taxes were added, and many others altered, to pay for the newly-required annual adequate education grants, which subsequently have provided funding for cities and towns to pay for educating resident children.

The direct connections between revenues and services extends beyond the Education Trust Fund. Certain revenues are directed to improve public highways and bridges, while others are to provide access to health services to vulnerable populations. Restricted and unrestricted revenue sources are used to fund community and environmental projects, economic development, food aid for

low-income people, public health efforts, and public safety services. Revenues are collected and received from a wide variety of sources to fund these and other operations.

These services should not be considered in an isolated fashion at the State level. Services considered necessary by policymakers and not paid for through federal or other State revenue sources may be provided at the local level; this puts upward pressure on local property taxes, as municipal governments do not have a diversity of tax revenue sources to adjust.

Whatever decisions regarding the State tax system and major revenue sources are made in the future, State policymakers should be aware of the tradeoffs for local governments, the importance of federal funding transfers, and strengths and vulnerabilities of New Hampshire's unique revenue system.

Additional Resources

This Overview relied on information in State statutes and key documents that provide additional detail about State finances.

- [Office of Legislative Budget Assistant, *Introduction to State Taxes*, January 2017.](#)
- [New Hampshire Department of Revenue Administration, *2016 Annual Report*, December 2016.](#)
- [State of New Hampshire \(Treasury Department\), *Information Statement*, March 2017.](#)
- [New Hampshire Department of Administrative Services, *Comprehensive Annual Financial Report for Fiscal Year 2016*, January 2017.](#)
- [New England Public Policy Center, *How Does New Hampshire Do It? An Analysis of Spending and Revenues in the Absence of a Broad-based Income or Sales Tax*, April 2011.](#)
- [State of New Hampshire Commission to Study Business Taxes, *Final Report*, October 2014.](#)
- [New Hampshire Fiscal Policy Institute, *Building the Budget: New Hampshire's State Budget Process and Recent Funding Trends*, February 2017.](#)

Appendix

Revenue and Tax Rates Summary Table				
Source Name	Tax Base	Tax Rate	State Fiscal Year 2016 Revenue (millions)	Where the Funds Go
Business Profits Tax	Adjusted gross business profits	8.2%	\$427	General and Education Trust Funds
Business Enterprise Tax	Adjusted employee compensation	0.72%	\$272	Education Trust and General Funds
Statewide Education Property Tax	Property not including railroads and utilities	Varies, set to collect \$363 million	\$363	Education Trust Fund
Meals and Rentals Tax	Certain meals, hotel lodging, automobile rentals	9.0%	\$301	General and Education Trust Funds
Tobacco Tax	Cigarette sales, sales of other tobacco products	\$1.78 per pack of 20 cigarettes, 65.03% other products	\$227	General and Education Trust Funds
Real Estate Transfer Tax	Buyer and seller of real estate sale, grant, or transfer	\$0.75/\$100 each on buyer and seller (\$1.50/\$100 of sale price total)	\$135	General and Education Trust Funds
Insurance Premium Tax	Insurance company premiums	1.25% and 2.0%, depending on industry, varies for out-of-state firms	\$123	General Fund
Interest and Dividends Tax	Interest earned and stock dividends collected by individuals	5.0%	\$89	General Fund
Motor Fuels Tax	Excise tax per gallon of motor fuel	\$0.222/gallon (different for aviation fuel)	\$183	Highway Fund
Medicaid Enhancement Tax	Hospital service charges minus bad debts, charity care, or certain discounts	5.4%	\$213	Uncompensated Care and Medicaid Fund
Communications Services Tax	Certain telephone, paging, and radio services	7.0%	\$53	General Fund
Utility Property Tax	Land, buildings, structures, and machinery owned by certain energy and other utilities	\$6.60/\$1,000 of property value	\$43	Education Trust Fund
Liquor Commission	Sales from State liquor stores	n/a	\$666 (\$140 transferred)	General Fund
Lottery Commission	Sales of lottery tickets	n/a	\$309 (\$79 transferred)	Education Trust Fund
Turnpike System	Highway tolls	n/a	\$136	Turnpike System Enterprise Fund
Federal grants (various)	Federal revenue sources	n/a	\$2,184	Various

Endnotes

¹ [Weiner, Jennifer, *How Does New Hampshire Do It? An Analysis of Spending and Revenues in the Absence of a Broad-based Income or Sales Tax*, New England Public Policy Center, Federal Reserve Bank of Boston, April 2011; Tax Policy Center, *Briefing Book, "State and Local Revenues," 2016*, accessed April 2017; The Urban Institute, *State and Local Revenues*, accessed April 2017; United States Census Bureau, *State Government Tax Collections 2016 Annual Survey*, accessed April 2017. For more information, see also Casselman, Ben and Allison McCann, "Where Your State Gets Its Money," *FiveThirtyEight*, April 16, 2015.](#)

² [New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 136. For more on the State Budget funds generally, please see New Hampshire Fiscal Policy Institute's *Building the Budget* resource.](#)

³ [New Hampshire Fiscal Policy Institute, *Building the Budget: New Hampshire's State Budget Process and Recent Funding Trends*, February 9, 2017.](#)

⁴ Inflation adjustments were computed using the Consumer Price Index – Urban (CPI-U), Northeast Region, which is a regional variant on a common measure designed to reflect changes in the nominal costs of a collection of consumer goods, but not necessarily changes in costs to the government, in a [region which includes](#) the six New England states, New Jersey, New York, and Pennsylvania. To align with the SFY and to provide data for SFY 2016, the second half of each calendar year preceding the SFY was used to calculate inflation; for example, to estimate real dollar value for SFY 2014, the inflation calculated for July-December 2013 was used. Various indices for inflation adjustments, including indices aiming to represent state and local government and specific industry cost changes, also [exist](#) but are not as commonly used and do not seek to represent changes in an individual's cost of living. All real dollars are expressed in CPI-U, Northeast-adjusted dollars for the second half of calendar year 2015, or the first half of SFY 2016, unless otherwise noted. Retrieve more information and CPI-U, Northeast data from [United States Department of Labor Bureau of Labor Statistics, *Consumer Price*](#)

[*Index, Northeast Region – December 2016*, January 18, 2017.](#)

⁵ The Recession formally lasted from December 2007 to June 2009. After June 2009, the economy was in recovery, as it was no longer contracting, but economic growth remained uneven and slow in many sectors. For more on the specific dates for the Recession, see [National Bureau of Economic Research, *Business Cycle Dating Committee*, September 20, 2010.](#)

⁶ [Chapter 258, Laws of 2011.](#)

⁷ [RSA 261.](#)

⁸ [Chapter 274, Laws of 2015 \(SB 9\).](#)

⁹ [New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2014-004*, September 8, 2014, page 1.](#)

¹⁰ [New Hampshire Department of Revenue Administration, *Tax Expenditure and Potential Liability Report, Fiscal Year 2016*, December 15, 2016; New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2015-005*, October 14, 2015.](#)

¹¹ [New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2013-004*, July 30, 2013, page 2.](#)

¹² [New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2012-002*, July 10, 2012, page 2.](#)

¹³ [New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2016-003*, June 23, 2016.](#)

¹⁴ [State of New Hampshire Commission to Study Business Taxes, *Final Report*, October 30, 2014, page 17.](#)

¹⁵ [New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2015-005*, October 14, 2015; New Hampshire Department of Revenue Administration, *Technical Information Release TIR 2016-010*, December 9, 2016.](#)

¹⁶ [RSA 162-L:10.](#)

¹⁷ [RSA 72.](#)

¹⁸ [New Hampshire Department of Revenue Administration, *2016 Education Tax Warrants*, December 7, 2015; New Hampshire Department of Revenue Administration, *Completed Public Tax Rates 2016, December 21, 2016; New Hampshire Department of Revenue Administration, *Warrants for Tax Year April 1, 2017*, December 14, 2016.*](#)

¹⁹ This inflation adjustment is, as with others in this document, based on the 2015H2 dollars from the Consumer Price Index-Urban, Northeast Region adjustments. The base inflation period used was 2005H2.

²⁰ [New Hampshire State Constitution, Part Second, Art. 6](#); [RSA 75:8-a](#); [New Hampshire Department of Revenue Administration, 2016 Annual Report, December 5, 2016, page 140.](#)

²¹ [Chapter 258, Laws of 2011](#); [New Hampshire Department of Administrative Services, State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016, page 136.](#); [RSA 76](#); [RSA 72](#); [RSA 21-J](#).

²² [RSA 198:57](#); [RSA 198:39](#); [Chapter 158, Laws of 2001](#); [New Hampshire Department of Revenue Administration, Taxpayer Assistance – Low and Moderate Income Homeowners Property Tax Relief, accessed April 2014.](#)

²³ State law grants municipalities the option of adopting certain exemptions, credits, or deferrals to their property taxes. A standard tax credit of \$50 against local property taxes is available to all veterans and certain surviving spouses, and municipalities may opt to increase that credit to up to \$500. Surviving spouses of those who died while on active duty and those with permanent service-connected disabilities receive a \$700 tax credit, and may receive up to a \$2,000 tax credit based on municipal choice. Certain disabled veterans are also exempt from all taxation. Certain legally blind inhabitants must have \$15,000 reduced from their assessed residential property value for tax purposes, and municipalities may opt to increase the exemption. Under certain circumstances, those who are elderly or have disabilities may defer a certain portion of their payments, but must pay a 5 percent annual interest. Elderly residents meeting certain income and residency requirements must have \$5,000 exempted from their property values, and municipalities may increase the exemption. Municipalities may opt to provide tax exemptions for certain solar, wind-energy, wood-heating, and aviation facilities; deaf or hearing-impaired residents; and for residents with disabilities who are eligible for certain federal programs and within municipally-set income parameters. For more information, see [RSA 72](#), [RSA 75](#), and [RSA 76](#).

²⁴ [Chapter 144, Laws of 2009](#); [Chapter 244, Laws of 2011](#); [Chapter 144, Laws of 2013](#); [Chapter 276, Laws of 2015](#).

²⁵ [New Hampshire Municipal Association, State Aid to Municipalities: History & Trends, August 2016, page 3.](#)

²⁶ [New Hampshire Department of Revenue Administration, 2016 Annual Report, December 5, 2016, page 35.](#)

²⁷ [New Hampshire Department of Revenue Administration, Joint Economic and Fiscal Orientation, January 9, 2017, page 8.](#)

²⁸ [Federation of Tax Administrators, State Excise Tax Rates on Cigarettes, January 2017.](#)

²⁹ [Chapter 224, Laws of 2011 \(pages 115-117\).](#)

³⁰ [New Hampshire Fiscal Policy Institute, Economic and Fiscal Orientation, January 9, 2017, page 14](#); [New Hampshire Department of Revenue Administration, Joint Economic and Fiscal Orientation, January 9, 2017, page 8.](#)

³¹ [State of New Hampshire \(Treasury Department\), Information Statement, March 24, 2017, page 21.](#)

³² For more information on recent changes and proposed changes to the I&D base, see [State of New Hampshire \(Treasury Department\), Information Statement, March 24, 2017, page 22](#). I&D is a small portion (an estimated 0.4 percent) of overall taxes paid by businesses in New Hampshire (see [Council on State Taxation, Total State and Local Business Taxes, December 2016, page 23](#)).

³³ [New Hampshire State Constitution, Part Second, Art. 6-a.](#)

³⁴ For more information, see [RSA 259](#); [RSA 260](#); [RSA 235:23-a](#); [Chapter 17, Laws of 2014](#); [RSA 422:34](#); [New Hampshire Department of Safety, Annual Report 2016, page 13](#); and [State of New Hampshire \(Treasury Department\), Information Statement, March 24, 2017, page 24.](#)

³⁵ [Chapter 10, Laws of 1990](#); [Chapter 249, Laws of 1991.](#)

³⁶ [RSA 84-A](#); [RSA 167:64](#); [New Hampshire Department of Health and Human Services, Medicaid in New Hampshire, February 3, 2017](#); [New Hampshire Fiscal Policy Institute, "What the Heck is the Medicaid Enhancement Tax?", April 10, 2013.](#)

³⁷ [RSA 82-A](#); [State of New Hampshire \(Treasury Department\), Information Statement, March 24, 2017, page 22.](#)

³⁸ [RSA 83-F](#); [State of New Hampshire \(Treasury Department\), Information Statement, March 24, 2017, page 23.](#)

³⁹ [RSA 84-C; New Hampshire Department of Revenue Administration, *2016 Annual Report*, December 5, 2016, page 40.](#)

⁴⁰ [RSA 178; New Hampshire Liquor Commission, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016*, January 27, 2017, page 9.](#)

⁴¹ [RSA 84-E; New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 134.](#)

⁴² [Chapter 328, Laws of 2000; HB 2, 2003 Session, Part 35; Chapter 177, Laws of 2005 \(177:5\); Chapter 263, Laws of 2007 \(263:11\); Chapter 144, Laws of 2009 \(144:23\); Chapter 224, Laws of 2011 \(224:93\); Chapter 144, Laws of 2013 \(144:16\); Chapter 276, Laws of 2015 \(276:138\).](#)

⁴³ [New Hampshire Liquor Commission, *Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016*, January 27, 2017, page 24.](#)

⁴⁴ [Chapter 144, Laws of 2009 \(144:122\).](#)

⁴⁵ [U.S. Department of Health and Human Services National Institutes of Health, National Institute on Alcohol Abuse and Alcoholism, *Surveillance Report #98, Apparent Per Capita Alcohol Consumption: National, State, and Regional Trends, 1977-2012*, April 2014.](#)

⁴⁶ [Gribbin, Donald W. and Jonathan J. Bean, *The Independent Review*, Vol. 10, No. 3 \(Winter 2006\), pages 351-364.](#)

⁴⁷ [RSA 284; RSA 287-D; RSA 287-E; RSA 663; New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 41; New Hampshire State Constitution, Part Second, Art. 6-b.](#)

⁴⁸ [RSA 237; New Hampshire Department of Transportation, *Turnpike System Annual Financial Report for the Fiscal Year Ended June 30, 2016*, pages 13 and 19; New Hampshire](#)

[Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 32; New Hampshire Department of Transportation, *Turnpike System*, accessed April 2017.](#)

⁴⁹ [New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 25.](#)

⁵⁰ For example, the New Hampshire State Constitution dedicates revenue collected through registrations, vehicle operator licenses, the motor fuels tax, or other revenues collected related to motor vehicle operations be used exclusively for public highway purposes. Also, lottery revenues are restricted for State education aid purposes. See the [New Hampshire State Constitution](#) for more details.

⁵¹ [New Hampshire Fiscal Policy Institute, *Building the Budget*, February 9, 2017, page 23; State of New Hampshire \(Treasury Department\), *Information Statement*, March 24, 2017, page 50.](#)

⁵² [New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, pages 37 and 41, where Governmental Funds include the General, Highway, Education Trust, Fish and Game, Capital Projects, and Permanent Funds, while Enterprise Funds include the Liquor and Lottery Commissions and Turnpike System accounts and the State Revolving and Unemployment Compensation Trust Funds.](#)

⁵³ [State of New Hampshire \(Treasury Department\), *Information Statement*, March 24, 2017, page 46.](#)

⁵⁴ [New Hampshire Department of Administrative Services, *State of New Hampshire Comprehensive Annual Financial Report for Fiscal Year 2016*, page 88.](#)