LEGISLATIVE COMMITTEE MINUTES

SB1

Bill as Introduced

SB 1-FN-A - AS INTRODUCED

2015 SESSION

15-0189
09/03

SENATE BILL *1-FN-A*

AN ACT reducing the rate of the business profits tax.

SPONSORS: Sen. Bradley, Dist 3; Sen. Boutin, Dist 16; Sen. Forrester, Dist 2; Sen. Cataldo, Dist 6; Sen. Reagan, Dist 17; Sen. Little, Dist 8; Sen. Birdsell, Dist 19; Sen. Sanborn, Dist 9; Sen. Avard, Dist 12; Sen. Stiles, Dist 24; Sen. Daniels, Dist 11; Sen. Morse, Dist 22; Sen. Carson, Dist 14; Sen. Watters, Dist 4; Rep. Chandler, Carr 1; Rep. Major, Rock 14; Rep. Kurk, Hills 2; Rep. Flanagan, Hills 26

COMMITTEE: Ways and Means

ANALYSIS

This bill reduces the rate of the business profits tax.

Explanation: Matter added to current law appears in ***bold italics.***
Matter removed from current law appears [~~in brackets and struckthrough.~~]
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

15-0189
09/03

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Fifteen

AN ACT reducing the rate of the business profits tax.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 Business Profits Tax; Imposition of Tax. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.5~~] ***8.25*** percent upon the taxable business profits of every business organization.

2 Business Profits Tax; Imposition of Tax. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.25~~] *8* percent upon the taxable business profits of every business organization.

3 Applicability.

I. Section 1 of this act shall apply to returns and taxes due under RSA 77-A on account of taxable periods ending on or after January 1, 2016.

II. Section 2 of this act shall apply to returns and taxes due under RSA 77-A on account of taxable periods ending on or after January 1, 2018.

4 Effective Date.

I. Section 2 of this act shall take effect January 1, 2018.

II. The remainder of this act shall take effect January 1, 2016.

LBAO
15-0189
12/23/14

SB 1-FN-A FISCAL NOTE

AN ACT reducing the rate of the business profits tax.

FISCAL IMPACT:

The Department of Revenue Administration states this bill, **as introduced**, will reduce state general and education trust fund revenue by $10,014,706 in FY 2016 and FY 2017, and by $20,029,412 in FY 2018 and FY 2019. There will be no fiscal impact on state, county, and local expenditures, or county and local revenue.

METHODOLOGY:

The Department of Revenue Administration states this bill reduces the Business Profits Tax (BPT) rate from the current rate of 8.5% to 8.25% effective January 1, 2016, and from 8.25% to 8.00% effective January 1, 2018. The Department states the estimated BPT revenue for FY 2015 is $340,500,000. Divided by the current BPT rate of 8.5%, DRA estimates the taxable base at $4,055,882,353. Applying the taxable base to the proposed BPT rate of 8.25% would result in total revenue of approximately $330,485,294, a reduction of $10,014,706 in FY 2016 and FY 2017. Applying the taxable base to the proposed BPT rate of 8.00% would result in total revenue of approximately $320,470,588, a reduction of $20,029,412 in FY 2018 and FY 2019.

LBAO
15-0189
Revised 01/15/15

SB 1-FN-A FISCAL NOTE

AN ACT reducing the rate of the business enterprise tax.

FISCAL IMPACT:

The Department of Revenue Administration states this bill, **as introduced**, will decrease state general and education trust fund revenue by an indeterminable amount in FY 2016, by $10,014,706 in FY 2017, $20,029,412 in FY 2018, and $20,029,412 in FY 2019. This bill may also increase state expenditures by an indeterminable amount in FY 2016 and each year thereafter. There will be no fiscal impact on county and local revenue or expenditures.

METHODOLOGY:

The Department of Revenue Administration states this bill would: reduce the Business Profits Tax (BPT) rate from 8.50% to 8.25% effective January 1, 2016, and reduce the BPT rate from 8.25% to 8% effective January 1, 2018. The Department states this bill would reduce state general and education trust fund revenue by indeterminable amount FY 2016 due to first quarter tax year 2017 estimate payments, and any fiscal year filers with a due date between March 16, 2016 and June 30, 2016. Assuming revenue at the FY 2015 estimate of $340,500,000 and a current BPT rate of 8.50%, the Department calculates a BPT tax base of $4,005,882,353. The Department estimates a decrease in state general and education trust fund revenue in FY 2017 and thereafter as follows –

Fiscal Year	Proposed BPT Rate	Revenue Impact
FY 2017	8.25%	$(10,014,706)
FY 2018	8.00%	$(20,029,412)
FY 2019	8.00%	$(20,029,412)

The Department states this bill would result in additional administrative costs in FY 2016 and each year thereafter. The Department states the change would require the Department of Information Technology (DoIT) to update systems to accept two separate tax rates for the same tax year. In addition, instructions and new forms with separate tax rates for the same year would need to be created to reflect the reduction in the BPT rates for calendar year filers and fiscal year filers. The Department is unable to estimate the exact fiscal impact at this time.

SB 1-FN-A - AS AMENDED BY THE SENATE

03/05/2015 0495s

2015 SESSION

15-0189
09/03

SENATE BILL *1-FN-A*

AN ACT reducing the rate of the business profits tax.

SPONSORS: Sen. Bradley, Dist 3; Sen. Boutin, Dist 16; Sen. Forrester, Dist 2; Sen. Cataldo, Dist 6; Sen. Reagan, Dist 17; Sen. Little, Dist 8; Sen. Birdsell, Dist 19; Sen. Sanborn, Dist 9; Sen. Avard, Dist 12; Sen. Stiles, Dist 24; Sen. Daniels, Dist 11; Sen. Morse, Dist 22; Sen. Carson, Dist 14; Sen. Watters, Dist 4; Rep. Chandler, Carr 1; Rep. Major, Rock 14; Rep. Kurk, Hills 2; Rep. Flanagan, Hills 26

COMMITTEE: Ways and Means

ANALYSIS

This bill reduces the rate of the business profits tax.

Explanation: Matter added to current law appears in ***bold italics.***
Matter removed from current law appears [~~in brackets and struckthrough.~~]
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

SB 1-FN-A - AS AMENDED BY THE SENATE

15-0189

03/05/2015 0495s

09/03

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Fifteen

AN ACT reducing the rate of the business profits tax.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 Business Profits Tax; Imposition of Tax; 2015. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.5~~] ***8.3*** percent upon the taxable business profits of every business organization.

2 Business Profits Tax; Imposition of Tax; 2017. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.3~~] ***8.1*** percent upon the taxable business profits of every business organization.

3 Business Profits Tax; Imposition of Tax; 2019. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.1~~] ***7.9*** percent upon the taxable business profits of every business organization.

4 Applicability.

I. Section 1 of this act shall apply to taxable periods ending on or after December 31, 2015.

II. Section 2 of this act shall apply to taxable periods ending on or after December 31, 2017.

III. Section 3 of this act shall apply to taxable period ending on or after December 31, 2019.

5 Effective Date. This act shall take effect July 1, 2015.

LBAO
15-0189
Amended 03/24/15

SB 1-FN-A FISCAL NOTE

AN ACT reducing the rate of the business profits tax.

FISCAL IMPACT:

The Department of Revenue Administration states this bill, **as amended by the Senate (Amendment #2015-0495s)**, will reduce state general and education trust fund revenue by $8,011,765 in FY 2016 and FY 2017, and by $16,023,529 in FY 2018 and FY 2019. There will be no fiscal impact on state, county, and local expenditures, or county and local revenue.

METHODOLOGY:

The Department of Revenue Administration states this bill reduces the Business Profits Tax (BPT) rate from the current rate of 8.5% to 8.3% effective July 1, 2015 and applicable to tax periods ending on or after December 31, 2015; from 8.3% to 8.1% effective July 1, 2015 and applicable to tax periods ending on or after December 31, 2017; and from 8.1% to 7.9% effective July 1, 2015 and applicable to tax periods ending on or after December 31, 2019. The Department states the estimated BPT revenue for FY 2015 is $340,500,000. Divided by the current BPT rate of 8.5%, DRA estimates the taxable base at $4,005,882,353. Applying the taxable base to the proposed BPT rate of 8.3% would result in total revenue of approximately $332,488,235, a reduction of $8,011,765 in FY 2016 and FY 2017. Applying the taxable base to the proposed BPT rate of 8.1% would result in total revenue of approximately $324,476,471, a reduction of $16,023,529 in FY 2018 and FY 2019. Applying the taxable base to the proposed BPT rate of 7.9% would result in total revenue of approximately $316,464,706, a reduction of $24,035,294 in FY 2020 and each year thereafter.

Amendments

Sen. Sanborn, Dist. 9
Sen. Bradley, Dist. 3
February 17, 2015
2015-0403s
01/09

Amendment to SB 1-FN-A

Amend the bill by replacing all after the enacting clause with the following:

1 Business Profits Tax; Imposition of Tax; 2015. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.5~~] *8.3* percent upon the taxable business profits of every business organization.

2 Business Profits Tax; Imposition of Tax; 2017. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.3~~] *8.1* percent upon the taxable business profits of every business organization.

3 Business Profits Tax; Imposition of Tax; 2019. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.1~~] *7.9* percent upon the taxable business profits of every business organization.

4 Applicability.

I. Section 1 of this act shall apply to taxable periods ending on or after December 31, 2015.

II. Section 2 of this act shall apply to taxable periods ending on or after December 31, 2017.

III. Section 3 of this act shall apply to taxable period ending on or after December 31, 2019.

5 Effective Date. This act shall take effect July 1, 2015.

Senate Ways and Means
February 19, 2015
2015-0495s
06/09

Amendment to SB 1-FN-A

Amend the bill by replacing all after the enacting clause with the following:

1 Business Profits Tax; Imposition of Tax; 2015. Amend RSA 77-A:2 to read as follows:

77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.5~~] *8.3* percent upon the taxable business profits of every business organization.

2 Business Profits Tax; Imposition of Tax; 2017. Amend RSA 77-A:2 to read as follows:

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77-A:2 Imposition of Tax. A tax is imposed at the rate of [~~8.1~~] *7.9* percent upon the taxable business profits of every business organization.

4 Applicability.

I. Section 1 of this act shall apply to taxable periods ending on or after December 31, 2015.

II. Section 2 of this act shall apply to taxable periods ending on or after December 31, 2017.

III. Section 3 of this act shall apply to taxable period ending on or after December 31, 2019.

~~5 Effective Date. This act shall take effect July 1, 2015.~~

Committee Minutes

Printed: 01/15/2015 at 10:01 am

SENATE CALENDAR NOTICE
WAYS AND MEANS

Senator David Boutin Chairman
Senator Lou D'Allesandro V Chairman
Senator Andy Sanborn
Senator Chuck Morse
Senator Dan Feltes

For Use by Senate Clerk's Office ONLY
☐ Bill Status
☐ Docket
☐ Calendar
Proof: ☐ Calendar ☐ Bill Status

Date: January 15, 2015

HEARINGS

Tuesday **1/20/2015**

(Name of Committee)	(Place)	(Time)
WAYS AND MEANS	SH 103	9:00 AM

EXECUTIVE SESSION MAY FOLLOW

9:00 AM	SB1-FN-A	reducing the rate of the business profits tax.
9:30 AM	SB2-FN-A	reducing the rate of the business enterprise tax.
10:00 AM	SB154	authorizing the department of safety to set fees for motorcycle rider education programs.

Sponsors:

SB1-FN-A

Sen. Jeb Bradley	Sen. David Boutin	Sen. Jeanie Forrester	Sen. Sam Cataldo
Sen. John Reagan	Sen. Gerald Little	Sen. Regina Birdsell	Sen. Andy Sanborn
Sen. Kevin Avard	Sen. Nancy Stiles	Sen. Gary Daniels	Sen. Chuck Morse
Sen. Sharon Carson	Sen. David Watters	Rep. Gene Chandler	Rep. Norman Major
Rep. Neal Kurk	Rep. Jack Flanagan		

SB2-FN-A

Sen. Andy Sanborn	Sen. Gary Daniels	Sen. Jeb Bradley	Sen. Regina Birdsell

SB154

Sen. David Boutin	Sen. Kevin Avard	Sen. Sharon Carson	Sen. Sam Cataldo
Sen. Lou D'Allesandro	Sen. Martha Fuller Clark	Sen. Andrew Hosmer	Sen. Gerald Little
Sen. John Reagan	Sen. David Watters		

Sonja Caldwell 271-2117

Sen. David Boutin
Chairman

Ways and Means Committee

Sonja Caldwell, Legislative Aide

SB1-FN-A-reducing the rate of the business profits tax.

Hearing date: January 20, 2015

Members present: Sen. Boutin, Sen. D'Allesandro, Sen. Morse, Sen. Sanborn, Sen. Feltes

Members absent: No one

Sponsor(s): Sen. Bradley, Dist 3; Sen. Boutin, Dist 16; Sen. Forrester, Dist 2; Sen. Cataldo, Dist 6; Sen. Reagan, Dist 17; Sen. Little, Dist 8; Sen. Birdsell, Dist 19; Sen. Sanborn, Dist 9; Sen. Avard, Dist 12; Sen. Stiles, Dist 24; Sen. Daniels, Dist 11; Sen. Morse, Dist 22; Sen. Carson, Dist 14; Sen. Watters, Dist 4; Rep. Chandler, Carr 1; Rep. Major, Rock 14; Rep. Kurk, Hills 2; Rep. Flanagan, Hills 26

What the bill does: This bill reduces the rate of the business profits tax.

Who supports the bill: Greg Moore (Americans for Prosperity), Sen. Forrester, Rep. Major, Sen. Carson, David Juvet (Business & Industry Assoc.), Henry Veilleux (NH Lodging & Restaurant Assoc.), Bruce Berke (Nat. Federation of Independent Businesses), Sen. Stiles, Sen. Daniels, Sen. Reagan, Rep. Jack Flanagan, Rep. Gene Chandler, Sen. Cataldo, Sen. Little, Sen. Birdsell, Sen. Avard, Sen. Morse, Sen. Watters, Duncan Taylor, Dan McGuire

Who opposes the bill: Jeff McLynch (NH Fiscal Policy Institute), Brian Hawkins (State Employees Assoc.), Laura Hainey (AFT-NH), Rep. Christy Bartlett, Jeff Dickinson (Granite State Independent Living), Lisa DiMartino

Neutral: Mindy Cyr and Kate Scouteris (Dept. of Revenue Administration)

Summary of testimony received:

Sen. Bradley - SB1 and SB2 are not competing with each other. They are both necessary. SB1 calls for modest reduction in the BPT over the next two budget cycles. 2.9% reduction this time and another quarter percent reduction in one after that. NH is 48th in terms of corporate taxes and has the highest rate in New England. Some argue the bill should go farther, some think it should not go anywhere at all. There is a cost. The first 2 year cost is $10 million per year and then as the second reduction kicks in it's $20 million per year. Revenue is not static though as historically there is growth in business taxes. The growth will keep the state at about the same rate in terms of revenue raised. This doesn't take dynamic scoring into account. This is a big issue for businesses. We need to make an accommodation in the budget for this modest reduction in scope.

Sen. Feltes- said that the Tax Foundation already ranks NH the 7th best tax climate in the nation.

Sen. Bradley –responded that NH is 8th not 7th and the reason we're there is because of the lack of a sales tax and income tax except for the Interest and Dividends tax. He believes NH's tax ranking will improve if we pass this legislation. We must balance the needs of the state against the need to become more competitive. He'd like to see NH in the 7% range but there is a need to be responsible.
Sen. Feltes asked how we offset the impact in the budget.
Sen. Bradley responded that this isn't the place for that conversation. In 2012, BPT raised $312 million; in FY13 it raised $324 million - that's about a 3% rate of growth. He noted that from FY13 to FY14, the increase was less, (about $6 million) but there will be growth in business tax revenue. We should be careful not to overestimate that. He believes we'll be fairly close to revenue neutral with growth factored in.
Sen. Boutin – said that DRA is concerned that this bill splits the tax year with the current effective date and asked Sen. Bradley if he would be alright with changing it to December 31, 2015.
Sen. Bradley said that's fine.
Sen. Sanborn asked about putting the rate at 7.9 instead of 8.0.
Sen. Bradley said we could have a second look at that in the next budget.

Greg Moore - Americans for Prosperity
They support this bill as well as SB2. The NH economy has been stagnant for 15 years. He talks to a lot of business owners and they are concerned about the high state business taxes, high energy costs and high health care costs. They combine to make NH far less competitive. He said NH is ranked 48th by the Tax Foundation. NH was a regional leader in the 1990's and was the fastest growing state in the northeast; that stopped. The state increased business taxes in 2001 and 2002. Our economy has flat lined since. Our revenue has flat lined also. AFP believes this legislation will get NH back on track. This is just one piece of what businesses are facing. They believe lost revenue from lack of economic growth far exceeds revenue that would be lost as a result of this bill.
Duncan Taylor - Americans for Prosperity Foundation.
He submitted a paper he wrote - Making NH Competitive Again. As tax rates have increased, revenue has been stagnant.
Sen D'Allesandro asked if he recognized that we had a recession and money coming from any taxes was reduced. He also asked if he realized that when NH raised the business tax rates it was done in order to fund education and businesses agreed to it at the time. He asked if it is also correct that a very small percentage of businesses pay the BPT, therefore if the tax was spread out over a number of businesses, regardless of the rate, you'd get more revenue. He added that he sat on the business tax study commission, and there wasn't a great deal of push back from businesses about the rates.
Mr. Taylor said that businesses were doing better in 2001 when the rate was increased.

Sen Morse said the Live Free or Die Alliance asked the legislature to lower the rate to 7.9%. He asked if they have done any analysis on where that would rank NH.
Mr. Moore said he could call the Tax Foundation and ask them what a specific rate would get NH to. He added that it's hard to do an accurate comparison because of the tax credits.
Sen. Morse asked what percentage of the NH workforce is employed by BPT payers.

Jeff McLynch - NHFPI
He is concerned about SB1 and SB2 and is opposed to them both. NH will face daunting budget challenges. These bills will make it nearly impossible to meet these challenges, forcing deep cuts. This would pursue an ineffective economic development strategy. The NH revenue system still has not fully recovered from the recession. These two bills will add to the revenue problems. A $78 million hole will be created by both of these bills once fully implemented. He cited the business tax study commissions finding that they found no basis for concluding that any effect of attracting new businesses or business expansion as a result of a rate reduction would generate additional tax revenue sufficient to compensate for the revenue loss that would result from the rate reduction. Business taxes have a modest impact on a company's decision to locate. Tax cuts of this magnitude will endanger the public services on which NH residents rely.

Sen. Sanborn says the impact of the revenue loss in terms of the budget is 6/10 of 1 percent.
Mr. McLynch responded that there is very little room for error. The state faces hole of $30 million in the current biennium and has to make up for losses from the Medicaid Enhancement Tax and the mental health settlement, therefore it's very difficult to cut any taxes without having a real impact on the budget.
Sen. Sanborn asked why 27 states have cut taxes in the last 2 years to make the economy better.
Mr. McLynch responded that while MA has lowered their business tax rate, they also broadened the base of the tax.

David Juvet - BIA
Businesses are in strong support of the bill. These two taxes interact with each other in ways that affect the fiscal impact and the current fiscal notes don't reflect that because they had to be considered separately. However, lowering the BET will reduce the amount of credit and therefore increase the amount of revenue the state receives from the BPT.
Business tax rate might not rise to the top of a business's list of concerns but it's still important. These bills will have an immediate impact.

Sen. Feltes asked if the BIA had suggestions for a proposal to offset cuts in the state budget as result of this legislation.
Mr. Juvet responded that they do not as the budget process hasn't even begun.
Sen. Feltes asked if the BIA would be open to closing loopholes in existing tax code as well as what's more important to economic development: the top marginal rate or workforce development.
Mr. Juvet said many things impact a business's decision about growing or expanding in the state. We have reached a point where businesses have stopped expanding in NH; choosing instead to expand in cheaper states. With regard to the BPT payers being a small percentage, those are the same businesses that would find it easiest to pack up and move to another state.

Brian Hawkins - SEA - He is opposed to the legislation and concerned about the impact of the revenue loss on the budget. The state has eliminated over 1100 positions since 2011. State employees continue to meet needs with less. This would only exacerbate this challenge. Additionally, it would make it more difficult to upkeep roads, take care of the most vulnerable and keep community college affordable. An educated workforce is what NH needs most to grow the economy according to the economists who spoke to the joint House committees last week.

Rep Dan McGuire –He is in favor of the bill but thinks it doesn't go far enough in terms of the amount and timing of the tax cut. NH is in competition with Massachusetts for jobs so he thinks we should have a lower rate than them; specifically he suggests 7.5%. With regard to timing, he thinks the change ought to be in the current budget.

Lisa Dimartino
She is opposed to the bill. She is the parent of child with developmental disabilities and is concerned about potential budget cuts and what would happen to services as a result of this bill.

Kate Scouteris - DRA
The department has no position on the legislation however they do have a technical suggestion regarding the applicability dates in section 3. As currently written, the on or after January 1 start dates cause a processing problem for the department since 90% of NH businesses filers are calendar year filers. The department suggests a December 31st start date. The way the bill is drafted now, you wouldn't capture 90% of the reduction until the next fiscal or calendar year. To be able to recognize the full impact of this change, you want the applicability date to be December 31st. She did point out that this fiscal note doesn't take into account a BET reduction. Had the two tax reductions been in the same bill, they would have done that. They can still run that calculation for the committee showing how the two bills would work together.
She added that the effective date and applicability dates are two different things and they would recommend the effective date be upon passage.
Sen. D'Allesandro asked how many tax credits there are that can be taken against the BPT.
Ms. Scouteris listed the following: BET, insurance premium tax credit, research and development tax credit, education tax credit, coos county job creation tax credit, ERZ credit.

Speakers

SENATE WAYS & MEANS COMMITTEE

Date 1/20/15 Time 9:00 a.m. Public Hearing on **SB1-FN-A**

(reducing the rate of the business profits tax.)

Please check box(es) that apply.

SPEAKING	FAVOR	OPPOSED	NAME (Please print)	REPRESENTING
☑	☐	☑	Laura Hainey	AFT-NH
☐	☐	☑	Rep. Christy D Bartlett	Merrimack 19
☐	☑	☐	Sen. Jerry Little	Dist. 8
☐	☑	☐	Sen. Regina Birdsell	SD #19
☐	☑	☐	Sen. Kevin Avard	SD #12
☐	☑	☐	Sen. Morse	SD # 22
☐	☑	☐	Sen. Watters	SD 4
☑	☑	☐	Jim Taft	Self
☒	☒	☐	Dan McGuire	Merrimack 21
☑	☐	☑	Lisa Dimartino	former Rep
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SENATE WAYS & MEANS COMMITTEE

Date 1/20/15 Time 9:00 a.m. Public Hearing on SB1-FN-A

(reducing the rate of the business profits tax.)

Please check box(es) that apply.

SPEAKING	FAVOR	OPPOSED	NAME (Please print)	REPRESENTING
☒	☒	☐	GREG MOORE	AFP-NH
☐	☑	☐	SENATOR JEANIE FORRESTER	DISTRICT #2
☐	☑	☐	REP. NORMAN MAJOR	ROCK # 14
☐	☑	☐	SENATOR SHARON CARSON	SD #14
☒	☒	☐	David Juvet	BIA
☐	☒	☐	Henry Veilleux	NH Lodging & Restaurant Assoc
☐	☒	☐	Bruce Berke	National Federation of Ind. Busin
☐	☑	☐	Senator Nancy Stiles	SD #24
☐	☑	☐	Senator Gary Daniels	SD #11
☐	☒	☐	Senator John Reagan	SD #17
☑	☐	☑	JEFF MCLYNCH	NHFPI
☐	☑	☐	Rep. Jack Flanagan	House Majority office
☐	☑	☐	Rep Gene Chandler	Carroll 1
☒	☐	☐	NO POSITION — TECHNICAL MINOR OR ILLEGITIMATE SCRIVENERS	NHDRA
☐	☐	☐		
☐	☒	☐	Senator Sam Cataldo	SD 6
☒	☐	☒	Brian Hawkins	State Employees Association
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SENATE WAYS & MEANS COMMITTEE

Date 1/20/15 Time 9:00 a.m. Public Hearing on SB1-FN-A

(reducing the rate of the business profits tax.)

Please check box(es) that apply.

SPEAKING	FAVOR	OPPOSED	NAME (Please print)	REPRESENTING
☐	☐	☒	JEFF Dickinson	GSIL
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Testimony

nhfpi
New Hampshire Fiscal Policy Institute

Testimony of Jeff McLynch,
Executive Director, New Hampshire Fiscal Policy Institute,
Before the Senate Ways and Means Committee
Regarding SB 1 and SB 2, Reducing BPT and BET Rates
January 20, 2015

Chairman Boutin, Members of the Committee, thank you for the opportunity to appear before you today.

For the record, my name is Jeff McLynch and I am the Executive Director of 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.

I am here this morning to express NHFPI's concerns about both SB 1, reducing the business profits tax (BPT) rate, and SB 2, reducing the business enterprise tax (BET) rate, and to urge you to recommend the pair of measures inexpedient to legislate.

As the Members of the Committee know well, New Hampshire will face a number of daunting challenges as it crafts its budget for the FY 2016-2017 biennium, challenges that could jeopardize the public services vital to New Hampshire's high quality of life and on which residents and businesses alike depend. SB 1, and its companion measure, SB 2, would make it nearly impossible for New Hampshire to meet those challenges, forcing deep and permanent spending cuts and severely impairing the state's ability to invest in education and other areas critical to our shared economic future. Worse still, SB 1 and SB 2 would yield such results in order to pursue an ineffective economic development strategy; as a general matter, business tax cuts have proven to have little impact on companies' decisions to locate or expand in a given state.

In the time I have remaining before you this morning, I'd like to expand on each of these points in turn.

New Hampshire Has a Revenue Problem

Chief among the challenges before you and your colleagues as you assemble the state budget for the next two years is the fact that New Hampshire's revenue system has yet to fully recover from the national recession of 2007 through 2009. At the close of FY 2014, General and Education Fund revenue amounted to $2.17 billion. After adjusting for inflation, that sum is approximately 12 percent or roughly $290 million less

than what the state collected from the same sources in FY 2008. New Hampshire's twin business taxes – the business profits tax and the business enterprise tax – follow the same trend, albeit to a greater degree. Between FY 2008 and FY 2014, the combination of those two taxes, after adjusting for inflation, has dropped almost 20 percent or just over $136 million.

SB 1 – and SB 2 – would simply add to the revenue problems now before New Hampshire. According to the fiscal notes accompanying the two bills, SB 1 would reduce BPT revenue by $20 million over the course of the FY 2016-2017 biennium and by $40 million in the FY 2018-2019 period. Similarly, SB 2 would reduce BET revenue by at least $7.6 million in the coming budget cycle and by $38 million in future biennia. In other words, these two bills, once fully implemented, would drain roughly $78 million in BPT and BET revenue out of every future budget.

SB 1 and SB 2 Would Force Deep Cuts in Spending

To put the magnitude of the revenue losses that SB 1 and SB 2 would produce into perspective, it is worth considering the level of the General and Education Fund support provided to key departments in the current FY 2014-2015 budget. For example, the FY2014-2015 budget appropriates roughly $18 million in General Funds for the Department of Justice – that is, an amount slightly less than the revenue loss that SB1 alone would produce in FY2016-2017, before it is fully implemented.

As noted earlier, should both SB 1 and SB 2 be enacted, they would reduce state revenue by roughly $78 million per biennium once they completely take effect. By comparison, in the FY14-15 budget, the Departments of Resources and Economic Development and Environmental Services combined received $67 million from the General Fund. Alternatively, $78 million is nearly the entire amount of General Fund support provided to the state's Community College System in the current budget; it is just over half the amount provided to the University System.

This is not to suggest that passage of SB 1 or SB 2 would result in the direct elimination of a particular department, but rather to underscore the very real tradeoffs that business tax reductions would entail. Given the fiscal challenges now before New Hampshire – and the exceedingly dim prospects for a budget surplus in the coming biennium – passage of SB 1 or SB 2 would almost certainly force substantial reductions upon key parts of state government and diminish the quality of life for the people they serve.

Importantly, New Hampshire's Business Tax Study Commission, which just completed its work this fall after four years of deliberation, recognized this reality in offering its recommendations for changes to that system. While NHFPI maintains that the Commission's final report suffers from a number of shortcomings, the report nevertheless acknowledges that New Hampshire could not reduce business taxes without significant consequences for the state budget. It finds that:

> Any reduction in the BPT rate would result in a loss of revenue to the State which would make such a reduction impractical for the foreseeable future.[i]

What's more, the report notes that:

> The Commission had no basis for concluding that any effect of attracting new businesses or business expansion as a result of a rate reduction would generate additional tax revenue sufficient to compensate for the revenue loss that would result from the rate reduction.[ii]

Cutting Business Taxes Will Not Spur Stronger Economic Growth

Finally, the Commission's report provides another important context for the Committee's consideration of SB 1 and SB 2, as it calls into question the effectiveness of business tax cuts as a means of improving New Hampshire's overall economic performance.

For instance, the report states:

> In view of the positive and highly competitive overall business tax climate with which New Hampshire is credited, our view is that the current 8.5% rate does not materially affect New Hampshire's competitiveness in terms of attracting and retaining businesses. The testimony heard by the Commission suggests that business tax rates are typically a secondary and not a primary consideration for businesses making expansion or location decisions.[iii]

It goes on to add that:

> Additionally, testimony received both from the New Hampshire Department of Economic Development and other business groups indicated that the hierarchy of priorities for businesses focused more on energy, educated work force, transportation, and the overall cost of doing business. The predictability of the tax rate and a stable tax policy was more of a focus than was New Hampshire's current BPT and BET rates.[iv]

These conclusions are in keeping with extensive economic research on the relationship between business taxation and economic growth. Such research suggests that business taxes have, at most, a relatively modest impact on companies' location, investment, or expansion decisions, an impact that is likely outweighed by other factors and influences. As one summary of the literature, conducted by Stephen Mark, Therese McGuire, and Leslie Papke, puts it:

> ...while most researchers find taxes to be a statistically significant factor in business location and expansion decisions, the economic effect of taxes tends to be both small and less important than other factors. Labor force availability and quality, for example, appear to be more important for explaining differences across locations in economic activity.[v]

Therefore, they conclude, economic research on this subject:

> ...make[s] clear that a policy of cutting taxes to induce economic growth is not likely to be efficient or cost-effective in the general case.[vi]

Timothy Bartik, Senior Economist at the Upjohn Institute, puts the relationship between taxes and economic growth even more succinctly, concluding that:

> If ...state and local tax cuts are financed by cutting public services, the result may be lower business activity.[vii]

Indeed, it's easy to see how Bartik could arrive at such a finding. Over the course of the last 15 years, New Hampshire has reduced aid to cities, towns, and school districts by roughly $270 million, after adjusting for inflation. Should passage of SB 1 or SB 2 lead to further reductions in assistance to municipalities, the likely result would be still greater pressure on local property taxes. Local property taxes, in turn, constitute the single largest tax paid by New Hampshire businesses, comprising 45 cents out of every tax dollar paid by businesses in the aggregate in FY 2013, according to research by the Council on State Taxation.

In conclusion, SB 1, taken in combination with its companion measure, SB 2, would ultimately and permanently reduce state revenue by $78 million on a biennial basis. Given the fiscal challenges now before New Hampshire, tax cuts of this magnitude would endanger the public services on which Granite State residents and business rely and curtail the sorts of investments critical to a brighter economic future for all. Consequently, I ask the Committee once more to recommend both bills inexpedient to legislate.

Again, I thank you for the opportunity to testify this morning and would be happy to try to answer any questions you may have.

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[i] State of New Hampshire, Commission to Study Business Taxes, Final Report, October 30, 2014, p. 19
[ii] Ibid.
[iii] Ibid, p. 15-16
[iv] Ibid.
[v] Mark, Stephen T., et. al. "The Effect of Taxes on Economic Development," *District of Columbia Tax Revision Commission: Taxing Simply, Taxing Fairly,* September 1998, p. 45-46.
[vi] Ibid., p. 46.
[vii] Bartik, Timothy J., "Solving the Problems of Economic Development Incentives," *Growth and Change,* Spring 2005, p. 142.

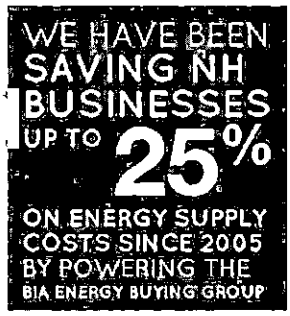
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Home > Legislative and Regulatory Agenda > Public Policy Priorities

Public Policy Priorities

In 2015 and 2016, BIA is addressing the following public policy issues and pursuing related action steps to achieve progress in these areas:

ENERGY AND TELECOMMUNICATIONS

PRIORITY: The BIA will advocate for policies that ensure reliability and lower the long- and short-term costs of energy. Positions include:

- To alleviate the current regional energy crisis, advocate for state and regional policies and initiatives that enable the development of low cost, reliable sources of energy, e.g. expanded natural gas pipeline capacity and increased electrical transmission into the region.
- Support clear, consistent and balanced state siting policies that allows for the development of energy infrastructure projects that diversify fuel supply, bring new energy sources to market, stimulate economic growth and reduce costs to consumers.
- Oppose weakening the existing consumer protection provisions in New Hampshire's RGGI program
- Support the disbursement of energy efficiency and sustainable energy funds based upon customer class usage
- Oppose diversions of dedicated funds that are aimed at energy efficiency, conservation and sustainable energy resources
- Oppose policies that lead to cost-shifting, and result in one customer class subsidizing programs that benefit other customer classes.
- Support stable policies that allow for the development of affordable, cost effective renewable energy to meet the state's requirements under the Renewable Portfolio Standard and oppose efforts to increase the current level of public subsidization of these projects
- Support state policies that enable small, medium and large businesses to continue to access competitive supply options

PRIORITY: The BIA will support efforts to expand privately-owned telecommunications infrastructure throughout the state to improve access quality and reliability. Positions include:

- Support efforts to ensure the state's telecommunications policies are fair and promote equal competition among all service providers

HUMAN RESOURCES, HEALTH CARE, WORKFORCE DEVELOPMENT

PRIORITY: The BIA supports efforts to develop New Hampshire's future workforce. Positions include:

- Increase awareness about careers in advanced manufacturing, high technology and health care
- Support curriculum standards, such as Common Core State Standards, that better prepare young people with the core skills and professional behaviors necessary to succeed in post-secondary education and/or in the workforce upon graduation from high school.
- Advocate for restored and increased funding for need-based scholarships
- Support programs and initiatives to build the talent pipeline of NH's workforce by identifying specific skills needed by businesses, aligning education and training with those needs, and identifying and measuring outcomes

PRIORITY: The BIA supports efforts that enhance outcomes and slow the growth of total healthcare costs for employers and the state. Positions include:

QUICKLINKS

Policy Development Process
Roundtables

- Support implementation of New Hampshire's expanded Medicaid program while ensuring that BIA's principles for expansion are observed
- Support development of a clinically integrated delivery system that supports all aspects of individual and community health, which includes payment reforms built on evidence-based practices
- Support healthcare reforms and regulatory frameworks that allow healthcare providers to collaborate, integrate and engage in collective discussions and that will support lower costs, higher quality outcomes and better access to care.
- Support adequate funding to healthcare providers for Medicaid and other publicly supported healthcare programs and ensure equitable tax treatment of healthcare providers to reduce cost-shifting to the business community
- Review and evaluate cost-effective ways to provide health care to the uninsured and underinsured to reduce cost-shifting to the business community from uncompensated care
- Educate business leaders about the value and economic impact of prevention, support policy initiatives that improve health in the workplace and education programs that focus on workplace wellness, mental health, substance use disorders and chronic disease management
- Oppose new or expanded health insurance benefit mandates
- Support tort reforms that reduce costs associated with medical malpractice and result in more affordable and available medical malpractice insurance

PRIORITY: The BIA supports pro-business labor rules and regulations that consider the rights and responsibilities of workers and management. Positions include:

- Support private sector right-to-work legislation in New Hampshire
- Oppose National Labor Relations Board rulemaking or congressional proposals that favor organized labor interests over those of business

FISCAL POLICY

PRIORITY: The BIA supports business tax policies that foster economic growth. Positions include:

- Protect the BET credit against the BPT
- Increase overall state investment in and streamline access to NH's research and development tax credit
- Sync limits and carry-forward periods of New Hampshire's net operating loss provisions to the federal tax code

PRIORITY: The BIA believes fiscally conservative state budgets with a business-friendly regulatory and tax structure are an important part of the New Hampshire Advantage. Positions include:

- Support a reduction in the business enterprise tax and business profits tax
- Oppose an income or sales tax
- Support passage of a constitutional amendment to allow the state to target education aid
- Support efforts to reform New Hampshire's public employee retirement system that address and reduce the significant unfunded liability of the fund
- Support efforts to reform and improve New Hampshire's business regulatory environment
- Identify opportunities for improving efficiencies in state government
- Consider revenue sources that do not include new taxes
- Strengthen initiatives that improve and expedite business interaction with the state

ECONOMIC DEVELOPMENT

PRIORITY: The BIA supports infrastructure development. Positions include:
Transportation

- Advocate for investment in multi-modal transportation systems as well as New Hampshire's road and bridge network
- Oppose diversion of constitutionally protected highway fund revenue for non-highway, non-bridge-related programs
- Support efforts to increase federal transportation aid to the state
- Encourage public/private partnerships to improve or replace NH's aging transportation infrastructure

Water/Sewer

- Educate policy leaders and the public about water and wastewater treatment systems that are at the end of their design life and/or exceeding capacity
- Support efforts to secure federal funding for water/sewer infrastructure improvement

PRIORITY: The BIA supports efforts that increase the availability and affordability

of housing for working people. Position:

- Oppose any efforts to roll back or repeal core principles of 2008 workforce housing legislation, which defined workforce housing, codified case law relating to reasonable opportunities for workforce housing development and established an expedited appeals process for developers

ENVIRONMENTAL

PRIORITY: The BIA will support environmental policies, legislation and administrative rules that balance economic development with the long-term viability of the state's natural resources. Positions include:

- Oppose efforts to make New Hampshire's environmental regulations and statutes more burdensome than federal environmental regulations, unless there is a clear and reasonable justification for doing so
- Advocate for initiatives to streamline and expedite permitting and regulatory processes
- Advocate for creative approaches to simplify and reduce the business community's regulatory burden, while protecting public health and the environment
- Foster discussions about how the Department of Environmental Services (DES) is funded, focusing on the appropriate allocation of the state's fees and taxes
- Advocate for increased transparency and the effective use of state environmental fees and cost recovery policies
- Support policies that promote private sector environmental stewardship and sustainability

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Reclaiming the Promise

AFT-NH.

"UNION OF PROFESSIONALS"

"AFT-NH, dedicated professionals serving NH individuals and families through collaboration with others, striving to advance NH communities and improve the workplace with integrity and commitment."

January 20, 2015

Dear Senate Ways and Means Committee:

I am here today to ask that you defeat SB 1 reducing the rate of the business profits tax.

AFT-NH represents 4,000 employees in NH, mostly public employees who work in your cities, towns and school districts. The members of AFT-NH are teachers and other school workers, like librarians and even cafeteria workers. Some of us are police officers who work to ensure safe and orderly communities. Our members work in higher education preparing new generations of citizens and leaders. And our members provide vital public services in towns all over New Hampshire. In short, AFT New Hampshire members ensure the safety and well-being of our fellow citizens and help build stronger communities throughout our state.

We have heard over and over that there is a $30 million short fall in this current budget. With a hole of $30 million why would you cut roughly another $30 million in this biennium budget? How will this amount be made up or where in the budget will cuts be made?

Keep in mind that the state of New Hampshire already underfunds catastrophic special education aide to district by capping it at 72%. With this cap of 72% the state has downshifted roughly $8 million to communities. There has been a moratorium on Building aid which has hindered many districts from complete upgrades, making repairs to buildings or building new schools. Keep in mind 50% of our school buildings are over 60 years old and many need infrastructure upgrades necessary for a 21st century learning environment.

In closing, I would also ask, what are the insurances that by reducing the business profits tax would create jobs? I only see this as having to reduce public services that all citizens of New Hampshire relay on.

In closing AFT-NH ask that you defeat SB 1.

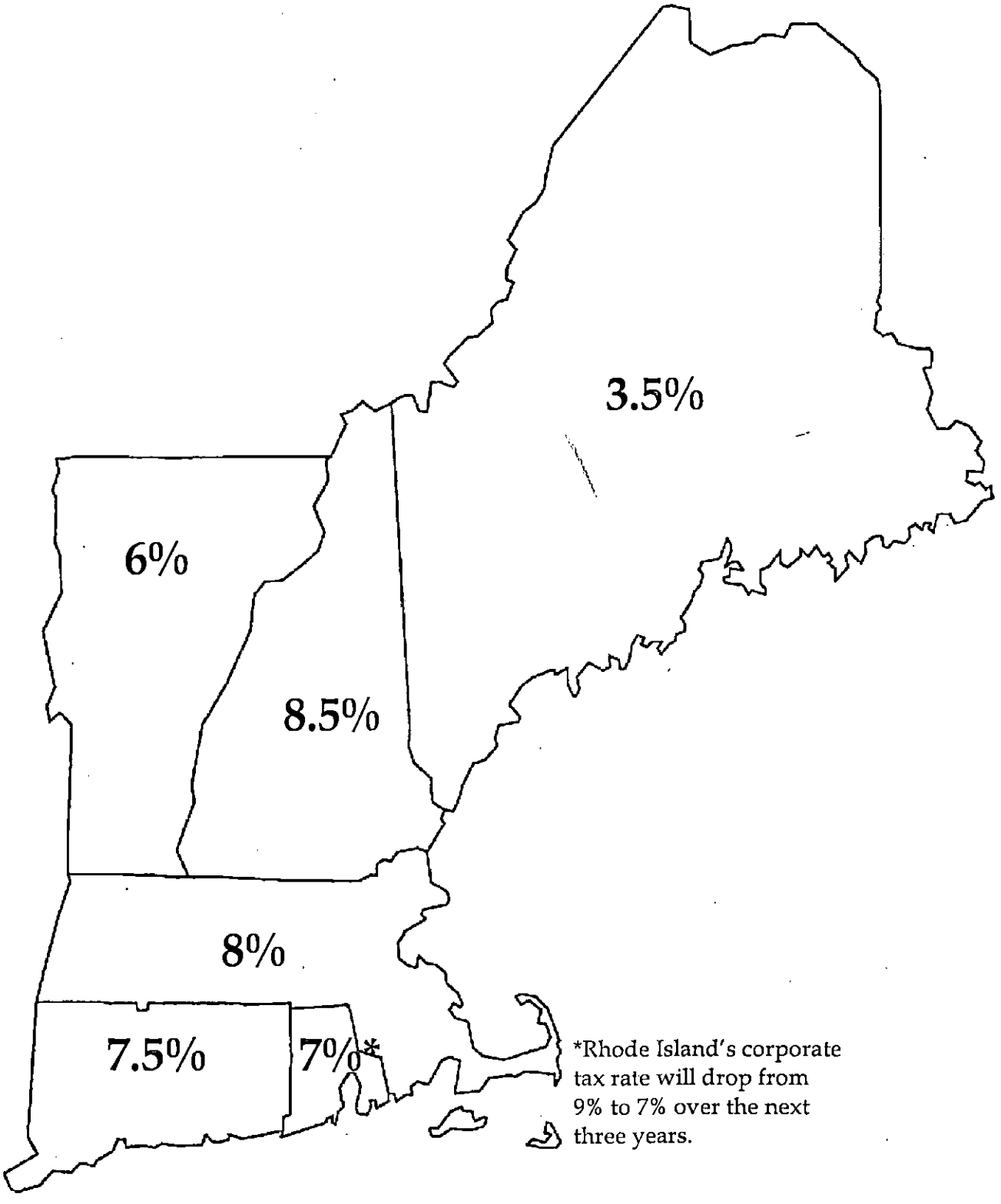
Thank you for your consideration.

If you have any questions I can be reached at 603-661-7293 or at lhainey@aft-nh.org.

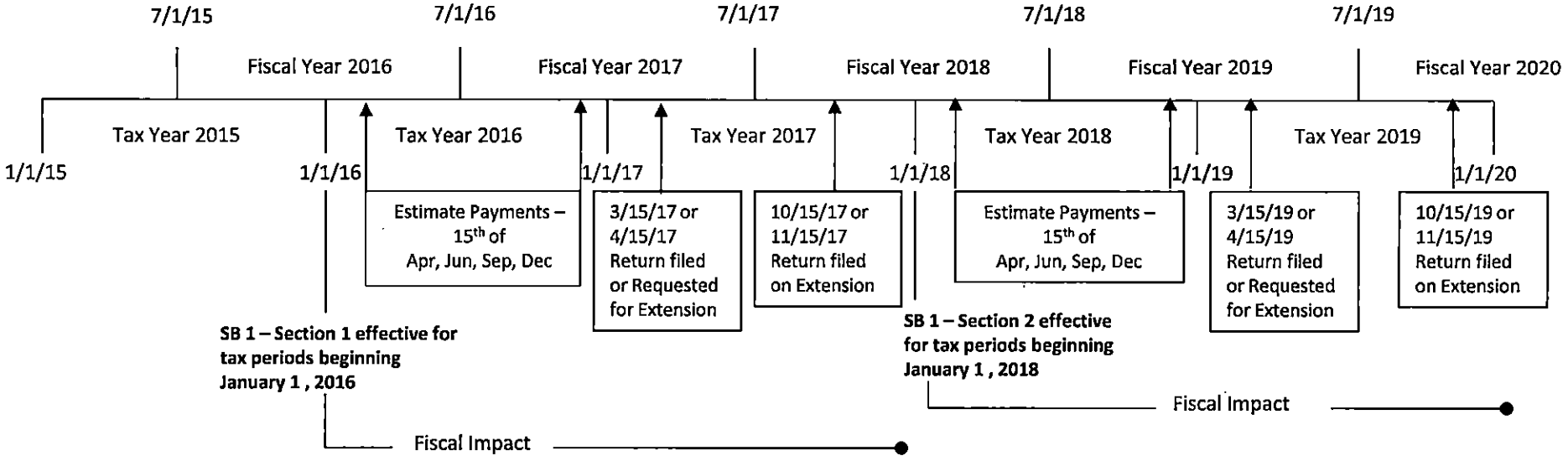
In Solidarity,
Laura Hainey Laura
AFT-NH President

New England Corporate Tax Rates

Rate on Lowest Bracket
Source: Federation of Tax Administrators



Senate Bill 1 BPT Rate Reduction – Fiscal Impact Possible: FY16 Forward



Fiscal Impact:

- Quarterly estimate payments may be adjusted to reflect a reduced tax liability for Tax Year 2016 , although statutory requirement to avoid penalty is to make estimate payments equal to at least 90% of Tax Year 2015's tax liability.
- If quarterly estimates are adjusted then the fiscal impact will be split between Fiscal Year 2016 (two estimate payments) and Fiscal Year 2017 (two estimate payments).
- If quarterly estimates are not adjusted for a reduced tax liability for Tax Year 2016, refunds or credit carryovers will be requested when returns are filed, thus extending the fiscal impact out to 11/15/17 at the latest for refunds and into subsequent Tax Years for credit carryovers.
- If refunds are requested when returns are filed then the fiscal impact will be split between Fiscal Year 2017 for returns filed timely in March or April, 2017 and Fiscal Year 2018 for returns filed on extension in October or November, 2018.
- With reduced estimate payments and refunds requested on returns, the fiscal impact would be spread between Fiscal Years 2016, 2017 and 2018.
- The reduced tax liability in Tax Year 2016 from the rate reduction will serve as the new tax base for Tax Year 2017 and therefore there will be no fiscal impact beyond Fiscal Year 2018.

Senate Bill 1 and Senate Bill 2 DRA INFORMAL ANALYSIS

For Tax Year 2012, the total taxes paid by all taxpayers was $495,558,000
The BPT rate was 8.5% and the BET rate was .75%.

IF the BPT rate had been 8.25% and IF the BET rate had been .725%,
the state would have lost $15,000,000 rounded.

IF the BPT rate had been 8.25% and IF the BET rate had been .7%,
the state would have lost $19,000,000 rounded.

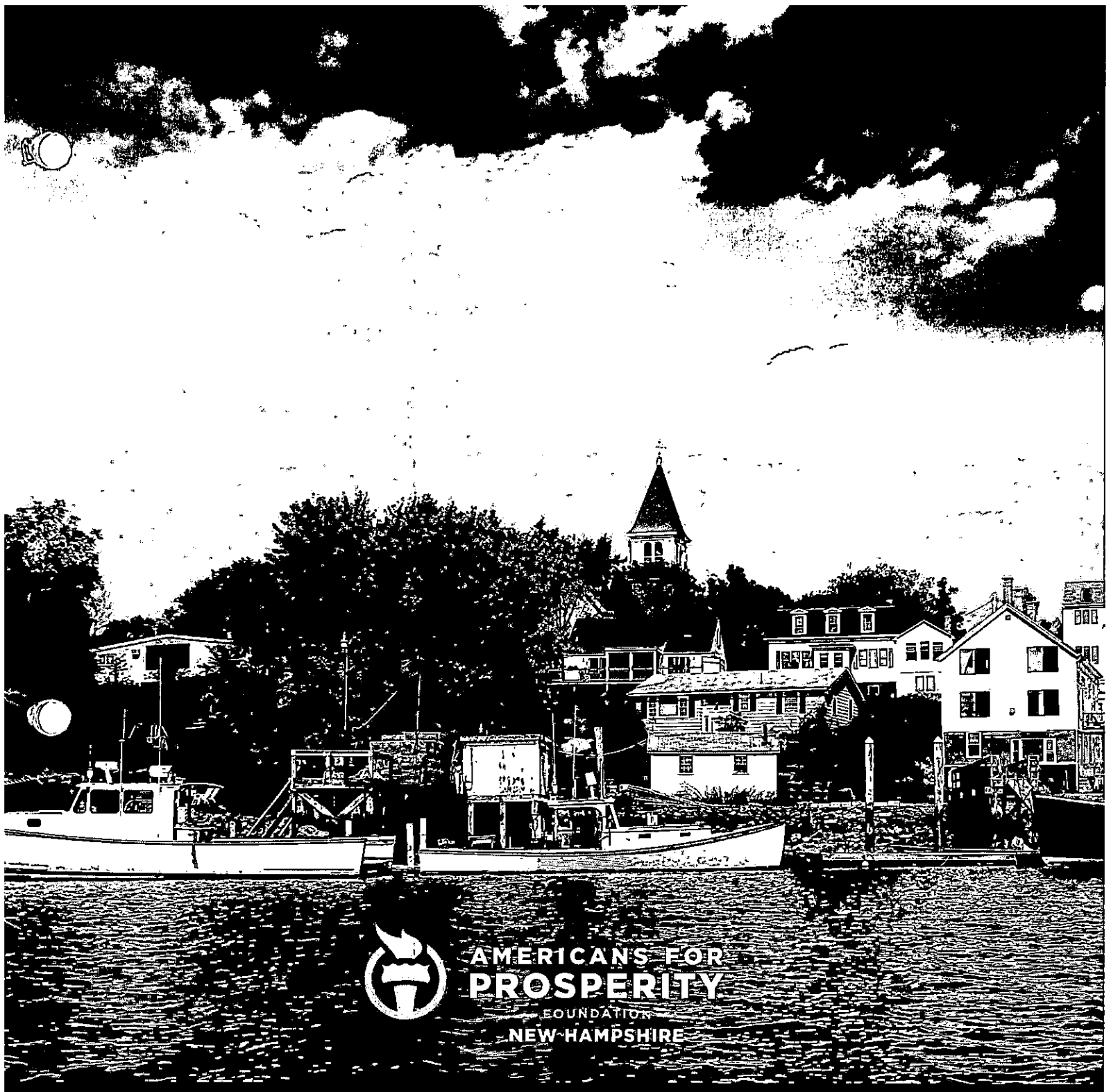
IF the BPT rate had been 8% and IF the BET rate had been .675%,
the state would have lost $34,000,000 rounded.

New Hampshire Department of Revenue Administration
FY13 Plan numbers used

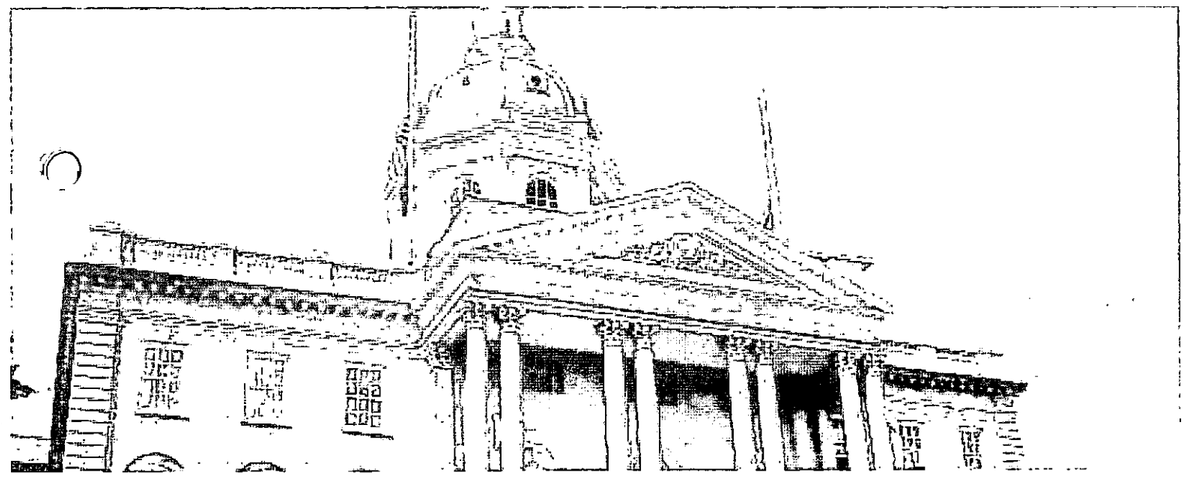
BPT	Rate	Change
$416,705,882	11.00%	$94,705,882
$407,235,294	10.75%	$85,235,294
$397,764,706	10.50%	$75,764,706
$388,294,118	10.25%	$66,294,118
$378,823,529	10.00%	$56,823,529
$369,352,941	9.75%	$47,352,941
$359,882,353	9.50%	$37,882,353
$350,411,765	9.25%	$28,411,765
$340,941,176	9.00%	$18,941,176
$331,470,588	8.75%	$9,470,588
$322,000,000	**8.50%**	
$312,529,412	8.25%	-$9,470,588
$303,058,824	8.00%	-$18,941,176
$293,588,235	7.75%	-$28,411,765
$284,117,647	7.50%	-$37,882,353
$274,647,059	7.25%	-$47,352,941
$265,176,471	7.00%	-$56,823,529
$255,705,882	6.75%	-$66,294,118
$246,235,294	6.50%	-$75,764,706
$236,764,706	6.25%	-$85,235,294
$227,294,118	6.00%	-$94,705,882

BET	Rate	Change
$261,466,667	1.000%	$65,366,667
$254,930,000	0.975%	$58,830,000
$248,393,333	0.950%	$52,293,333
$241,856,667	0.925%	$45,756,667
$235,320,000	0.900%	$39,220,000
$228,783,333	0.875%	$32,683,333
$222,246,667	0.850%	$26,146,667
$215,710,000	0.825%	$19,610,000
$209,173,333	0.800%	$13,073,333
$202,636,667	0.775%	$6,536,667
$196,100,000	**0.750%**	
$189,563,333	0.725%	-$6,536,667
$183,026,667	0.700%	-$13,073,333
$176,490,000	0.675%	-$19,610,000
$169,953,333	0.650%	-$26,146,667
$163,416,667	0.625%	-$32,683,333
$156,880,000	0.600%	-$39,220,000
$150,343,333	0.575%	-$45,756,667
$143,806,667	0.550%	-$52,293,333
$137,270,000	0.525%	-$58,830,000
$130,733,333	0.500%	-$65,366,667
$124,196,667	0.475%	-$71,903,333
$117,660,000	0.450%	-$78,440,000
$111,123,333	0.425%	-$84,976,667
$104,586,667	0.400%	-$91,513,333
$98,050,000	0.375%	-$98,050,000
$91,513,333	0.350%	-$104,586,667
$84,976,667	0.325%	-$111,123,333
$78,440,000	0.300%	-$117,660,000

[redacted]	$71,903,333	0.275%	-$124,196,667
	$65,366,667	0.250%	-$130,733,333



MAKING NEW HAMPSHIRE COMPETITIVE AGAIN



I - Purpose

Given the ease with which businesses, resources and people are able to move around and relocate, making a state an attractive and easy place to do business is absolutely vital to ensuring the long term viability of a state. To become a more desirable place to do business, New Hampshire needs to make certain changes to its taxation regime. While many aspects of the Granite State's tax code are favorable, there remain improvements that could be made to provide greater economic growth and well-being.

The purpose of this paper is twofold. First this paper will discuss the current state of affairs in New Hampshire as it relates to business climate, and will include discussions about historical trends in taxation, population growth and economic growth. Secondly, this paper will make broad recommendations on how to make New Hampshire a better and more competitive state to do business.

II - Overview of New Hampshire's Taxation Structure

The Structure of New Hampshire's Tax System

To properly understand the changes necessary to New Hampshire's tax system, it is important to explore the current state of affairs. New Hampshire is renowned for its lack of both a state sales and a state income tax. It currently boasts the 8th best overall state business tax climate rating in the country according to The Tax Foundation. That being said, the money for state functions must come from somewhere, and in New Hampshire, that money comes from taxes that are broad-based and equitably levied across the state. Some of the items that are taxed by the state of New Hampshire include a meals and rooms tax, an interest and dividends tax, an insurance tax, a tobacco tax, a tax on communications, and a tax on real estate transfers. Additionally, New Hampshire levies taxes on business (both enterprise and profits), as well as on property, for the purpose of funding public education.

New Hampshire currently imposes two taxes on businesses that operate within the state. The first is the Business Profits Tax, or BPT. This tax was put in place in 1970, and despite a different name, can broadly be considered to function in much the same way that other states' corporate income taxes work. Businesses are required to figure out the amount of income earned that is attributable to its facilities in the state of New Hampshire. For example, if a grocery store chain had 2 stores, one in Massachusetts and one in New Hampshire, they would be required to evaluate how much income, after exemptions and deductions, was due to the grocery store that was located in New Hampshire. This hypothetical grocery store would then be required to pay the current BPT of 8.5% on that income. Companies that have total sales receipts in excess of $50,000 are subject to the BPT. [1]

The second business tax that the state of New Hampshire levies is the Business Enterprise Tax, or BET. This tax was implemented in 1993 as a way to ensure that all businesses with over $200,000 in taxable activity operating in New Hampshire pay some form of taxation into the state's coffers. The BET operates similar to a value added tax, in that the BET is assessed against the additional value that is created when a service or a good is produced in New Hampshire.

Consider the Portsmouth Widget Exchange, a hypothetical company that makes widgets in Portsmouth, New Hampshire. If the Portsmouth Widget Exchange sells a widget for 100 dollars and paid 80 dollars for the materials, salaries and wages required to produce this widget, the Portsmouth Widget Exchange would be subject to paying taxes on the 20 dollars of additional value that was created when the widget was sold. Once a business adds up all of the additional value created, it derives what is known as the "enterprise value base" which is the amount of taxable value that the business has created. The enterprise value base is then multiplied by .75 percent to derive the amount of taxes due for the BET. Companies with gross sales receipts of in excess of $200,000 dollars, or an enterprise value base higher than $100,000 are subject to the BET. [2]

New Hampshire's two business taxes co-exist with one another, and companies are allowed to use any liabilities that they owe for the BET and apply that amount towards their liability under the BPT. Reconsider the Portsmouth Widget Exchange (or PWE). If the PWE has a BET liability of $5,000 and a BPT liability of $12,000, the PWE would be able to apply its BET payment of $5,000 towards its BPT liability of $12,000. The BET functionally serves to ensure that all businesses that operate in New Hampshire contribute to the funding of the state's day to day operations.

New Hampshire's education fund is a relatively recent creation, the result of a series of New Hampshire Supreme Court decisions that dealt with the adequate provision of education in the state. These decisions are collectively known as the Claremont court decisions. As a result, the state of New Hampshire implemented a separate Education Fund in order to meet and support the obligations set forth in the New Hampshire Constitution. The effects of introducing this additional revenue can be seen in charts 4 and 5 in the first appendix. The effect of levying and implementing this tax can also be seen in tables 3 and 5 in the second appendix. Between fiscal year 1999 and fiscal year 2000, total revenue (the sum of the general fund, highway fund and education fund) experienced a one year spike of $885.17 million. Since then, the education fund has raised, on average, between $820 million and $960 million per year. [3]

1 The information regarding the BPT rate and its function comes from the New Hampshire Department of Revenue Administration

2 Information regarding the BET's structure and implementation also comes from the New Hampshire Department of Revenue Administration.

3 All revenue figures are from the Bureau of Labor Statistics and the New Hampshire Department of Administrative Services and are presented in 2009 dollars.

Property taxes in New Hampshire, among the highest in the nation, are levied and administered at the local level. [4]Additionally, BPT and BET funds go into the general fund in the New Hampshire state budget.

General Trends in Taxation and Revenue Makeup

The current BPT rate is 8.5 percent. This is an increase from the BPT rate in 2000, which amounted to 7.0 percent. Even in 2000, New Hampshire's business income tax rate was on the high end in the United States. The BPT was raised in both 2001 and 2002, to 8.0 and 8.5 percent respectively. Additionally, the BET in 2000 was assessed at .25 percent. The BET currently sits at .75 percent, as noted previously.

Despite these rate hikes, after the initial spike in revenue collected by the implementation and collection of the education fund, the total amount of revenue collected has, for all intents and purposes, stagnated. This trend can be seen in several data points. In Chart 3 in the first appendix, the total amount of taxable income coming into the general fund in 1990 was $950.38 million. Over the 1990s, the amount of money being collected by the general fund gradually grew, with outlying years in 1995 and 1996, to $1.355 billion in 1999. From 2000 through 2014, revenue collected for the general fund went from $1.326 billion to $1.389 billion in 2014, a net increase of only $63.14 million over the course of a decade and half. In simpler terms, revenue growth increased by a scant 4.76 percent from 2000 to 2014, in comparison to the 42.67 percent growth from 1990 through 1999. [5]

Additional evidence of this stagnation can be seen broadly in Chart 5 in the first appendix, and in more detail in Chart 6. In 2000, the state of New Hampshire collected $2.497 billion in total revenue (general fund + education fund + highway fund). Fast forwarding to 2009, the state collected $2.465 billion, meaning that the state collected almost 32 billion fewer dollars in revenue than it did a decade earlier. Allowing for the economic and budgetary impacts of the recession that struck the country in 2008-9, 2014 would constitute a better baseline. In 2014, the state collected $2.619 billion, which means that the state collected $122.11 million more than in 2000. From 2000 through 2014, total revenue collected fluctuated from approximately $2.5 billion to close to $2.75 billion, with little variance from those two peak values.

An additional intriguing data point regarding tax revenue in New Hampshire is the composition of the general fund. In 1990, the BPT made up 22 percent of tax revenue in New Hampshire. By 2009, and with the addition of the BET, this number had risen to 27 percent of revenue collected by the state, with the statewide property tax contributing 20 percent of tax revenue. In 2014, the BPT and BET combined to account for 25 percent of tax revenue for New Hampshire. This appears to suggest that there exists not only a rough ceiling in terms of the amount of wealth that can be taxed, but also that there exists an equilibrium point in taxation as well.

Now that the overall structure and trends of taxes in New Hampshire have been discussed, a broader examination into the implications of these taxes can begin, as well as a discussion of the incentives that are created by having a competitive business environment.

4 From the Tax Foundation's 2014 State Business Tax Climate Index

5 As stated previously, these figures are in 2009 dollars.

III - An Inquiry into Incentives

It is a truism in economics that incentives matter and that people respond to them. This section will examine the incentives that are present for people and businesses to move to New Hampshire, as well as illustrate the effects that having non-competitive business environments have on economic growth and demographics.

The Importance of Being Competitive

One of the most fascinating things about the federalist structure of the United States is the degree to which competition is encouraged between the fifty states. After all, states are the laboratories of democracy. The presence of having fifty smaller states, each with their own laws and regulatory structures designed to attract residents and businesses, means that for states to continue to be economically successful, they must create environments that are appealing. At the heart of being a competitive state directly involves the issue of taxation and how taxes affect people and businesses.

New Hampshire's motto of "Live Free or Die" is a broadly accurate statement when it comes to personal taxation issues. New Hampshire is famous for not having a state income tax or a state sales tax. Any attempt to implement any such tax is met with vocal opposition by residents of the state.

Indeed, outside of the onerous burden of having high property and unemployment insurance taxes, New Hampshire residents enjoy some of the lowest tax burdens in the country. Anecdotally, there are many shopping centers that are located right across the border of the other states in New England, and these New Hampshire parking lots are often filled with shoppers from Maine, Vermont, and Massachusetts. New Hampshire's personal and consumer tax climate is very favorable. However, when business taxation is considered, the New Hampshire Advantage largely becomes illusory.

The Tax Foundation, a nonprofit, nonpartisan organization that examines the impact that taxes have on states, publishes an annual ranking index of the business environments in the fifty states. The 2014 index shows that New Hampshire has the eighth best overall business environment in the United States. While this would appear to be a ringing endorsement of the idea that the New Hampshire Advantage is still alive and well, as in all things, the devil is in the details. When looking further into the criteria that make up the overall index, several important points of interest appear. Most striking is that New Hampshire has the third highest rate of business taxation in the country, being ranked as 48 out of 50. [6]Massachusetts, Vermont, Rhode Island and Connecticut all have lower rates of business taxation than New Hampshire. Additionally, the Tax Foundation ranks New Hampshire as having the second highest business taxation burden per capita, with a per capita business tax burden of $443. This is nearly $100 more than the third highest state, Delaware. This high burden could very easily be the product of having high overall business taxes coupled with a small population. New Hampshire's overall competitiveness ranking can broadly be considered to be a product of its otherwise low tax burden on individuals.

The rapidity with which businesses and people are able to move, coupled with the instantaneous nature of communication in the age of the Internet, means that making a state an accommodating environment in which to live and do business is more important than ever. One need only to look at the dynamism exhibited by many of the states in the American South, particularly Texas, to see the power of making an effort to reduce the burdens on doing business, and the ensuing economic prosperity. Attracting businesses into a state is the most sure-fire way to maintain economic growth and ensure prosperity.

6 From the Tax Foundation's study on state corporate income tax collections per capita.

The gradual increase in the burden of business taxes in New Hampshire, coupled with the impacts of the recession, have and will continue to have drastic impacts on New Hampshire's economic and demographic outlooks.

A Brief History of Demographics and Gross State Product

Charts 1 and 2 in the first appendix (as well as tables 1 and 2 in the second appendix) chart the growth in population and Gross State Product in New Hampshire from 1960 through the present day. The trends regarding population growth and demographics will be discussed first, followed by an exploration of trends in GSP.

In both population growth and the growth in the state's GSP, two general trends are evident. The first is that from roughly 1960 through 2000, both the population of New Hampshire and the Gross State Product increased at a relatively constant pace, with population increasing at close to 2 percent per year until 1990, when it began to level off. GSP was slower to increase, but after 1980, GSP skyrocketed before leveling off in 2010. This trend can be seen in further detail in Table 1. Since the 1990s, population growth in New Hampshire has become tepid at best. Of particular interest is that from 1990 through 2013, the population of New Hampshire grew by 214,207, while from 1980 through 1990, New Hampshire's population grew by 188,642 people. It can reasonably be assumed that the gradual removal of incentives for businesses (and by extension, people) to move to New Hampshire has played a role in the decline of population growth in New Hampshire. If there are more and better opportunities elsewhere, there is no reason for people to move to New Hampshire.

The New Hampshire Public Policy Center released a study in 2012 that, among other insights, illustrated several disturbing demographic trends in New Hampshire. [7]Foremost among these is that since the start of the new millennium, steadily fewer people are moving in to New Hampshire. But the best way for states to ensure a stable and functioning workforce is to have climates that encourage people to move in to a state. This is of particular importance when the other major demographic finding of the NHPCC's study is considered.

The United States as a whole is getting older on average, a consequence of the baby boomer generation reaching the age of retirement, but in New Hampshire, the overall population is getting older at a faster rate than the rest of the country. From 2000 to 2010, the age segment that grew the fastest was between 45 and 64 years old. The NHPCC's chart (reproduced in Chart 7 in the first appendix) regarding the change in population is sobering for New Hampshire's economic future. The population of New Hampshire grew by roughly 80,000people during this time, but of the 161,000 people that moved into New Hampshire, 87.58 percent of them were over the age of 45. While 20,000 people between the ages of 18-24 moved to New Hampshire in this time frame, much of this growth can be attributed to students who attend college at the University of New Hampshire, and then leave the state for greener pastures elsewhere. Of note is that 57,000people between the ages of 25 and 44 left the state in this time frame. Over 90 percent of the growth in New Hampshire over the first decade of the new millennium was people who were at or near the age of retirement.

New Hampshire's demographics are becoming unsustainably skewed towards the older segments of society as the younger segments of the population leave the state to find employment elsewhere. By changing the state's business tax structure to make New Hampshire more attractive to younger start-up entrepreneurs like the kind that are flocking to states like Texas and Florida, New Hampshire can embark on a path towards sustainable demographics.

7 "From Tailwind to Headwind: New Hampshire's Shifting Economic Trends", by Daniel Barrick and Dennis Delay

New Hampshire's Gross State Product has also grown remarkably since 1960, with rapid total growth in the state's economy in the years coming after 1975. However, much like the trends evident in the population growth in the state, GSP growth began to level off after the 1990s and into the new millennium. The GSP of New Hampshire is still growing, yet at a much slower rate than it has for the last third of a century. Making New Hampshire a more attractive state in which to do business would do much to ensure that economic growth remains on an upward trend.

IV - Potential Policy Considerations

The general trends in taxation, revenue collection, demographics and overall economic growth in New Hampshire have all been discussed, as well as the importance of a state maintaining a competitive and attractive climate for businesses to set up shop. Therefore, a broad policy consideration will be presented with the hope that it will help reinforce the necessity of New Hampshire recreating the business friendly environment that it had under governors like Mel Thomson.

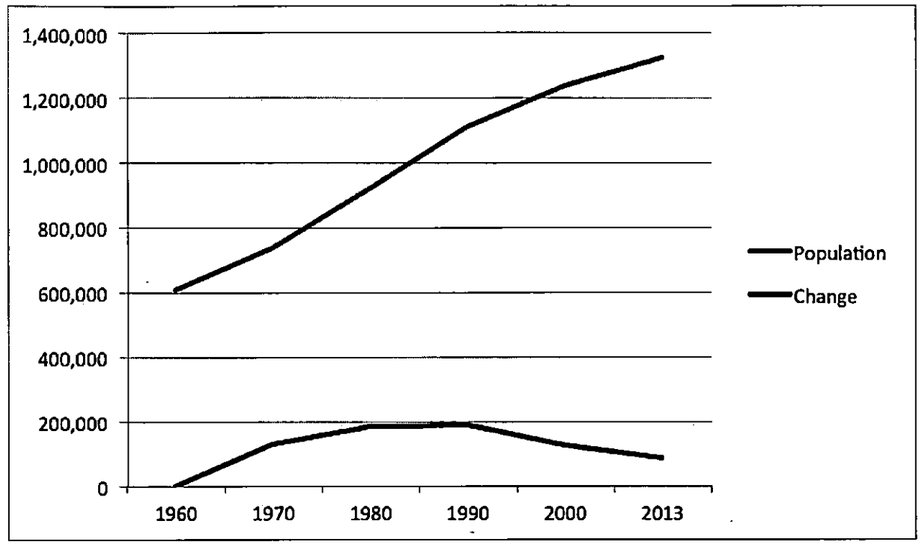
This consideration would be to simply lower the BPT and BET rates to where they were in 1993. This approach has many of the same benefits of the previous consideration, such as making New Hampshire a more attractive business environment. This would have the benefit of being simple to legislate.

V - Conclusion and Closing Thoughts

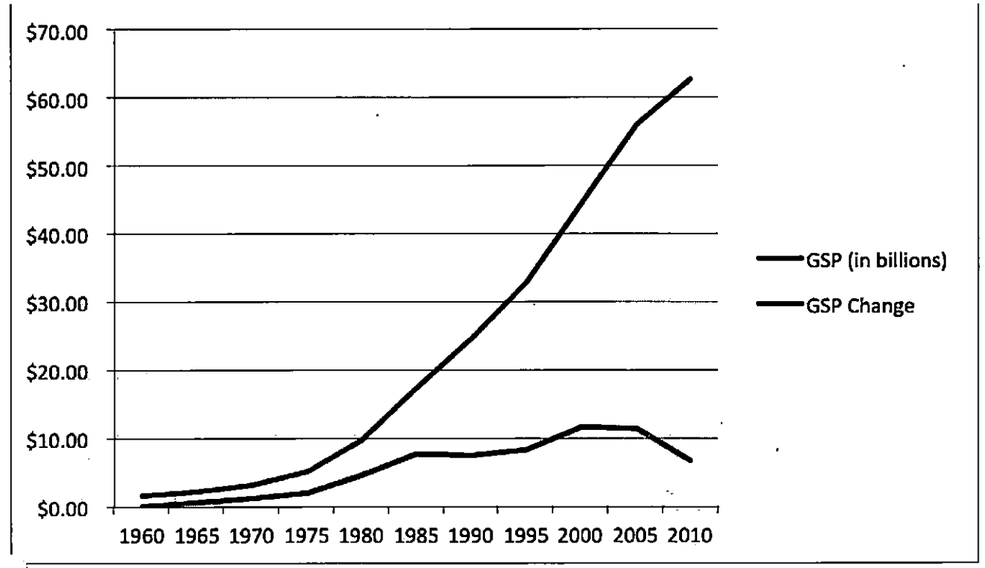
Being competitive and attractive for businesses and people is the key to a state's long term success. States that are competitive for businesses and attractive for potential in-migration are more prosperous, dynamic and vibrant than states that have stifling and confiscatory tax burdens. If New Hampshire were to make changes to its business tax structure and lower business taxes to make the state more competitive, the New Hampshire Advantage would once more be real. The Granite State would draw new business and talent into the state and stem the hemorrhaging of young productive people from the state. New Hampshire already ranks highly in almost all indexes of livability in the United States. By making changes to the current generally onerous business taxes in the state, New Hampshire could very easily become the best place in America to live and work.

Appendix 1 - Charts

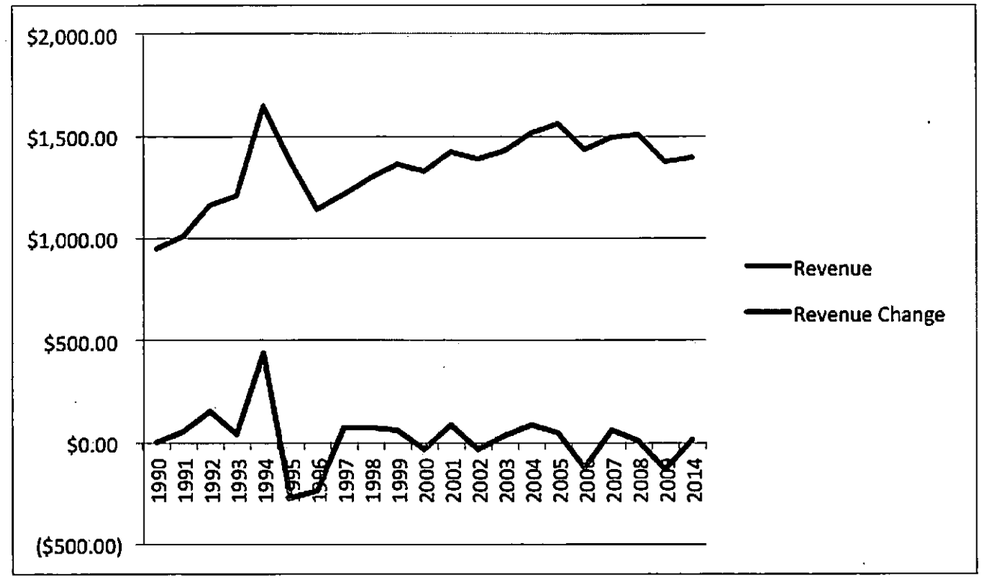
1 – Population Growth



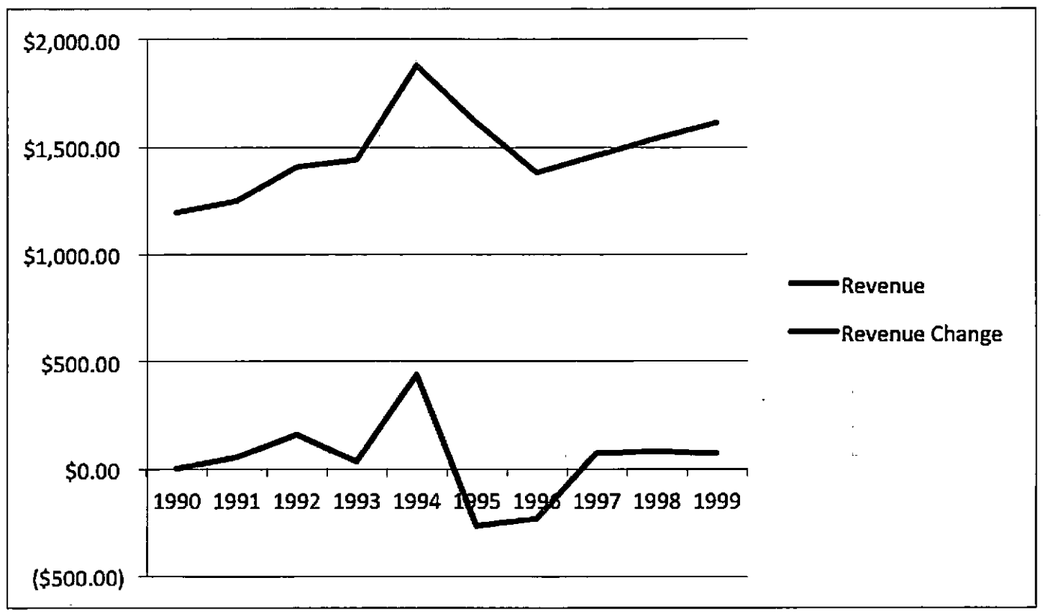
2 – Gross State Product (in billions)



3 – Total Tax Revenue (General Funds, in millions of dollars)



4 – Revenue Prior to Creation of Education Fund (in millions of dollars)



5 – Total Revenue (General Fund + Education + Highway Fund, in millions)

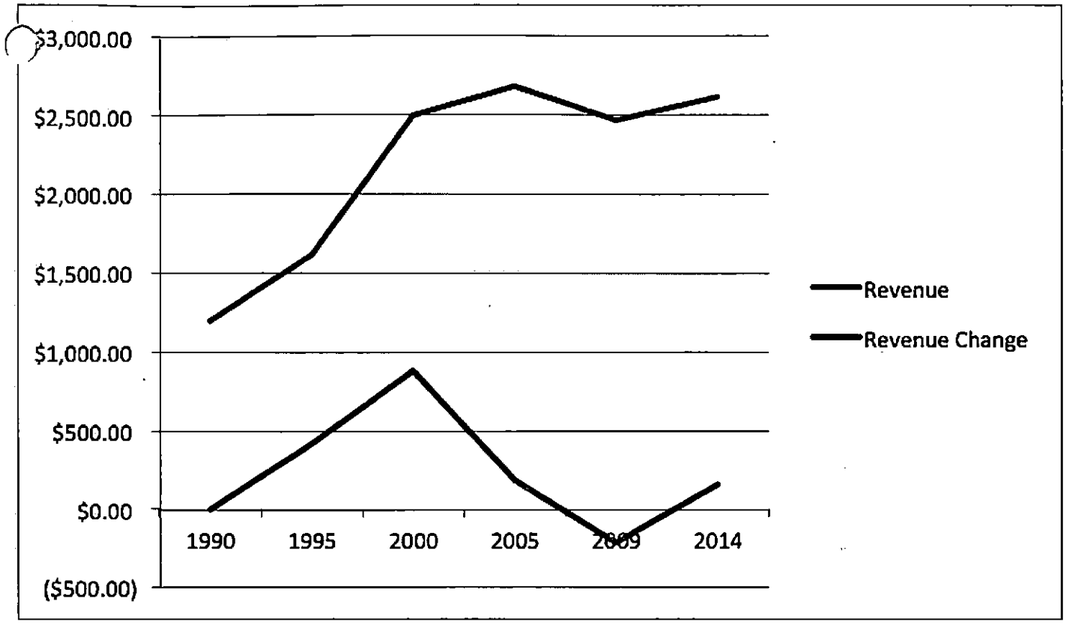


Chart 6 – Total Revenue, In Detail

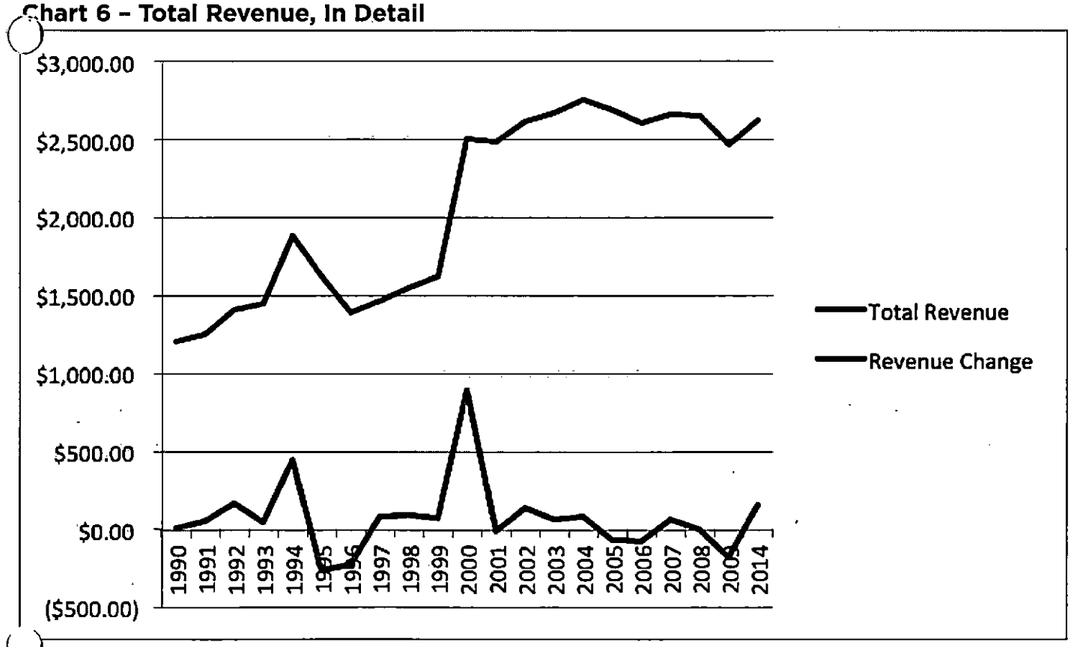
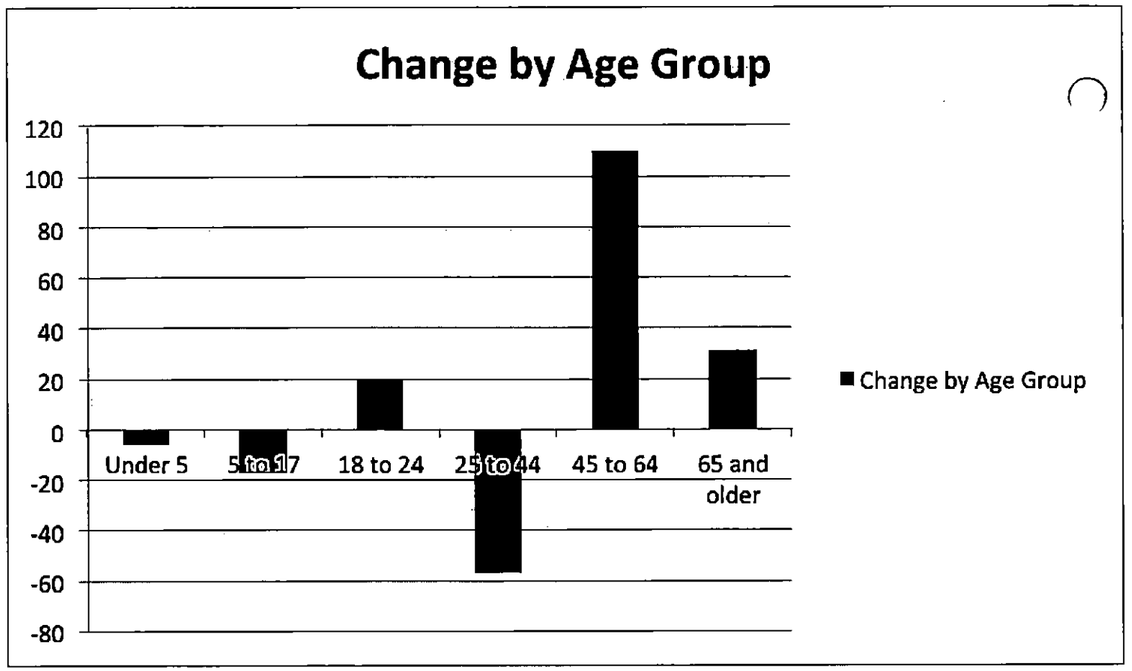


Chart 7 - Migration by Age Group



Appendix 2 - Tables

Table 1 - Population

Census year	NH Population	Pop Change	Percent change	Change per year
1960	606,921	n/a	n/a	
1970	737,681	130,760	21.5	2.2
1980	920,610	182,929	24.8	2.5
1990	1,109,252	188,642	20.5	2.0
2000	1,235,786	126,534	11.4	1.1
2013	1,323,459	87,673	7.1	0.7

Table 2 – GSP Growth

GSP Year	GSP (Billions)	GSP change	Percent change
1960	$1.40	n/a	n/a
1965	$2.00	$0.60	42.9
1970	$3.10	$1.10	55.0
1975	$5.00	$1.90	61.3
1980	$9.50	$4.50	90.0
1985	$17.10	$7.60	80.0
1990	$24.50	$7.40	43.3
1995	$32.80	$8.30	33.9
2000	$44.40	$11.60	35.4
2005	$55.90	$11.50	25.9
2010	$62.60	$6.70	12.0
2011	$64.10	$1.50	2.4

Table 3 – General Fund Revenue

Tax Revenue	Revenue	Revenue Change
1990	$950.38	n/a
1991	$1,007.73	$57.35
1992	$1,162.23	$154.50
1993	$1,203.37	$41.15
1994	$1,644.30	$440.93
1995	$1,374.12	($270.18)
1996	$1,137.63	($236.50)
1997	$1,212.30	$74.68
1998	$1,291.37	$79.07
1999	$1,355.90	$64.53
2000	$1,326.76	($29.14)
2001	$1,417.06	$90.30
2002	$1,388.10	($28.96)
2003	$1,421.96	$33.85
2004	$1,511.91	$89.96
2005	$1,558.31	$46.40
2006	$1,434.16	($124.15)
2007	$1,494.91	$60.75
2008	$1,504.65	$9.74
2009	$1,375.36	($129.30)
2014	$1,389.90	$14.54

Table 3 - Total Revenue, Abbreviated

Revenue year	Revenue	Revenue Change	Percent change
1990	$1,196.11	n/a	n/a
1995	$1,616.63	$420.52	35.2
2000	$2,497.72	$881.10	54.5
2005	$2,681.39	$183.67	7.4
2009	$2,465.99	($215.40)	-8.0
2014	$2,619.83	$153.84	6.2

Table 4 - Total Revenue by Decade

Decade Year	Total Revenue	Revenue Change	Percent change
1990	1196.11	n/a	n/a
2000	2497.72	$1,301.61	108.8
2014	2619.83	$122.11	4.9

Table 5 - Total Revenue, Expanded

Year	Total Revenue	Revenue Change	Percent change
1990	$1,196.11	n/a	n/a
1991	$1,249.18	$53.07	4.4
1992	$1,407.33	$158.15	12.7
1993	$1,442.85	$35.53	2.5
1994	$1,880.88	$438.02	30.4
1995	$1,616.63	($264.25)	-14.0
1996	$1,384.81	($231.82)	-14.3
1997	$1,460.24	$75.43	5.4
1998	$1,542.51	$82.28	5.6
1999	$1,612.55	$70.04	4.5
2000	$2,497.72	$885.18	54.9
2001	$2,484.81	($12.91)	-0.5
2002	$2,612.80	$127.99	5.2
2003	$2,670.65	$57.85	2.2
2004	$2,750.82	$80.17	3.0
2005	$2,681.39	($69.43)	-2.5
2006	$2,599.85	($81.54)	-3.0
2007	$2,660.32	$60.47	2.3
2008	$2,652.22	($8.10)	-0.3
2009	$2,465.99	($186.23)	-7.0
2014	$2,619.83	$153.84	6.2

-Dollars are in 2009 dollars, and data comes from the Bureau of Labor Statistics, the New Hampshire Department of Administrative Services, and the Tax Foundation.

Committee Report

STATE OF NEW HAMPSHIRE

SENATE

REPORT OF THE COMMITTEE

Date: February 19, 2015

THE COMMITTEE ON Ways and Means

to which was referred Senate Bill 1-FN-A

AN ACT reducing the rate of the business profits tax.

Having considered the same, the committee recommends that the Bill:

OUGHT TO PASS WITH AMENDMENT

BY A VOTE OF: 3-2

AMENDMENT # 0495s

Senator Andy Sanborn
For the Committee

Sonja Caldwell 271-2117

STATE OF NEW HAMPSHIRE

SENATE

REPORT OF THE COMMITTEE

Date: March 11, 2015

THE COMMITTEE ON Finance

to which was referred Senate Bill 1-FN-A

AN ACT reducing the rate of the business profits tax.

Having considered the same, the committee recommends that the Bill:

OUGHT TO PASS

BY A VOTE OF: 4-2

Senator Jerry Little
For the Committee

Debra Martone 271-4980

New Hampshire General Court - Bill Status System

Docket of SB1

Docket Abbreviations

Bill Title: reducing the rate of the business profits tax.

Official Docket of **SB1**:

Date	Body	Description
1/8/2015	S	**Introduced** and Referred to Ways and Means; **SJ 4**
1/15/2015	S	Hearing: 1/20/15, Room 103, SH, 9:00 a.m.; **SC6**
2/19/2015	S	Committee Report: Ought to Pass with Amendment **#2015-0495s**, 3/5/15; **SC11**
3/5/2015	S	Committee Amendment 0495s, AA, VV
3/5/2015	S	**Ought to Pass with Amendment** 0495s, **RC** 14Y-10N, MA; Refer to Finance Rule 4-5; **SJ 7**
3/11/2015	S	Committee Report: Ought to Pass, 3/19/15; **SC13**
3/19/2015	S	Ought to Pass: **RC** 14Y-10N, MA; **SJ 9**
3/19/2015	S	Pending Motion OT3rdg; **SJ 9**
3/19/2015	S	Sen. Bradley Moved Laid on Table, MA, VV; **SJ 9**

NH House	NH Senate

Other Referrals

COMMITTEE REPORT FILE INVENTORY

SB1 ORIGINAL REFERRAL ____ RE-REFERRAL

1. THIS INVENTORY IS TO BE SIGNED AND DATED BY THE COMMITTEE AIDE AND PLACED INSIDE THE FOLDER AS THE FIRST ITEM IN THE COMMITTEE FILE.
2. PLACE ALL DOCUMENTS IN THE FOLDER FOLLOWING THE INVENTORY IN THE ORDER LISTED.
3. THE DOCUMENTS WHICH HAVE AN "X" BESIDE THEM ARE CONFIRMED AS BEING IN THE FOLDER.
4. THE COMPLETED FILE IS THEN DELIVERED TO THE CALENDAR CLERK.

✓ **DOCKET (Submit only the latest docket found in Bill Status)**

✓ **COMMITTEE REPORT**

✓ **CALENDAR NOTICE**

✓ **HEARING REPORT**

✓ **PREPARED TESTIMONY AND OTHER SUBMISSIONS HANDED IN AT THE PUBLIC HEARING**

✓ **SIGN-UP SHEET(S)**

ALL AMENDMENTS (passed or not) CONSIDERED BY COMMITTEE:

✓ - AMENDMENT # 0403 ____ - AMENDMENT # ____

✓ - AMENDMENT # 0495 ____ - AMENDMENT # ____

ALL AVAILABLE VERSIONS OF THE BILL:

✓ AS INTRODUCED ____ AS AMENDED BY THE HOUSE

____ FINAL VERSION ✓ AS AMENDED BY THE SENATE

✓ **OTHER (Anything else deemed important but not listed above, such as amended fiscal notes):**

DATE DELIVERED TO SENATE CLERK: 7-28-15

BY: SLC
COMMITTEE AIDE

Referred to Finance as 2nd Committee

COMMITTEE REPORT FILE INVENTORY

SB1-FN-A ~~ORIGINAL REFERRAL~~ _____ RE-REFERRAL

1. THIS INVENTORY IS TO BE SIGNED AND DATED BY THE COMMITTEE AIDE AND PLACED INSIDE THE FOLDER AS THE FIRST ITEM IN THE COMMITTEE FILE.
2. PLACE ALL DOCUMENTS IN THE FOLDER FOLLOWING THE INVENTORY IN THE ORDER LISTED.
3. THE DOCUMENTS WHICH HAVE AN "X" BESIDE THEM ARE CONFIRMED AS BEING IN THE FOLDER.
4. THE COMPLETED FILE IS THEN DELIVERED TO THE CALENDAR CLERK.

___ DOCKET (Submit only the latest docket found in Bill Status)

X COMMITTEE REPORT

___ CALENDAR NOTICE

___ HEARING REPORT

___ HANDOUTS FROM THE PUBLIC HEARING

___ PREPARED TESTIMONY AND OTHER SUBMISSIONS

___ SIGN-UP SHEET(S)

ALL AMENDMENTS (passed or not) CONSIDERED BY COMMITTEE:

___ - AMENDMENT # _____ ___ - AMENDMENT # _____
___ - AMENDMENT # _____ ___ - AMENDMENT # _____

ALL AVAILABLE VERSIONS OF THE BILL:

___ AS INTRODUCED ___ AS AMENDED BY THE HOUSE
___ FINAL VERSION ___ AS AMENDED BY THE SENATE

___ OTHER (Anything else deemed important but not listed above, such as amended fiscal notes): _____

DATE DELIVERED TO SENATE CLERK 11/06/15 Debra A. Martone
BY COMMITTEE AIDE

Revised 2011