



Financing New Hampshire

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MISSION STATEMENT

The League of Women Voters, a nonpartisan political organization, encourages the informed and active participation of citizens in government, works to increase understanding of major public policy issues and influences public policy through education and advocacy.

The League of Women Voters has prepared this booklet to help interested New Hampshire citizens understand the state's system of taxation. The report explains what taxes our citizens pay and how that money is used.

The material herein is limited to the New Hampshire state and local systems and does not include what is paid to the federal government.

It is not our intention in this publication to advocate for any particular tax or revisions of the current tax system in New Hampshire but to provide accurate information to those debating the adequacy, efficiency, and fairness of the system.

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CONTENTS

A Bit of History	3
Constitutional Requirements	4
Where Does the Money Come From?	5
Where Does the Money Go?	7
How Is the Money Spent?	9
What Is a Good Tax?	11
Is There Need for Tax Reform in NH?	11
Some Questions for you to Consider	14
Sources	15

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Financing New Hampshire



A Bit of History

Before the establishment of the Royal Province of New Hampshire in 1680, the government of Massachusetts exercised taxing authority over existing New Hampshire towns. When New Hampshire left the jurisdiction of Massachusetts, the province continued the same pattern of taxation as had been in place. The New Hampshire provincial government levied a tax on the local towns that collected enough money from their citizens to provide local services and send the required amount to the provincial government.

Two kinds of taxes were collected: polls and estates. A poll tax was levied on each adult male and an estate tax on property, both real and personal.

The purpose of the tax law, stated in its preamble was “that there may be a just and equal way of raising means for defraying the publique charge, boath in church and civil affairs...”

The property tax was levied against land, orchards, pastureland, livestock, houses, mills and other buildings, wharves and ferries. The intent was to make the property tax reflect the taxpayer’s ability to earn, and in a purely rural economy the system did so. Interestingly, a man’s dwelling from which he drew no income was not taxed.

In a primarily agricultural and commercial society this method of taxation was considered fair and adequate. However as society grew more complex, a greater proportion of New Hampshire’s citizens received their income from wages, salaries, and professional fees. Thus the concept of property as an indicator of one’s wealth had to be expanded. Recognition had to be given to additional measures of income and worth.

The definition of wealth came to include such intangibles as stocks, bonds, and currency, and new taxes were designed to tax these kinds of wealth. The property tax was left as a source of funding for local government. The power to tax remains vested in the state legislature which determines procedures for assessing local properties and methods of collection.

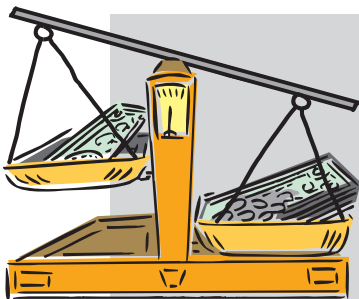
A state education property tax was enacted in 2004, assessed and collected by local municipalities and forwarded to the state Education Trust Fund.

Constitutional Requirements

The state constitution adopted in 1792 set out the relationship between the rights and responsibilities of the citizens of the state.

Part 1, Article 12 (the Bill of Rights) explains that “Every member of the community has a right to be protected by it, in the enjoyment of his life, liberty, and property; he is therefore bound to contribute his share in the expense of such protection and to yield his personal service when necessary, or an equivalent.” (Or an equivalent deleted in 1954.)

Part II, Article 5 granted to the General Court the power and authority to “impose and levy proportional and reasonable assessments, rates, and taxes upon all the inhabitants of and residents within the said state and upon all estates within the same”.



The phrase “proportional and reasonable” is currently presumed to forbid a tax that is not assessed at a constant rate. The court has ruled that tax rates may vary according to the commodity subject to the tax, but that tax rates must be uniform within the same class. This would seem to make a graduated income tax unconstitutional.

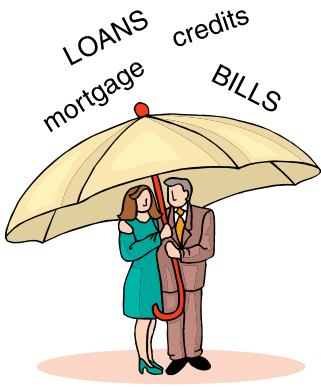
The state constitution today contains these additional provisions relating to taxation:

Part I, Article 28 – “No subsidy, charge, tax, impost, or duty shall be established, fixed, laid, or levied under any pretext whatsoever without the consent of the people, or their representatives in the legislature, or authority derived from that body.”

Part 2, Article 6 – “The public charges of government, or any part thereof, may be raised by taxation upon polls, estates, and other classes of property, including franchises and property when passing by will or inheritance, and there shall be a valuation of the estates within the state taken anew once in every five years, at least, and as much oftener as the general court shall order.”

Part 2, Article 6-a – requires that all revenues from registration fees, operators’ licenses, gasoline road tolls or any other special charges of taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels shall be appropriated and used exclusively for public highways.

Part 2, Article 6-b – restricts the use of revenues from the state lottery to educational purposes.



Where Does The Money Come From?

Today, as in the early days of the state, taxes on various kinds of property are the primary source of revenue for state and local governments. As the definition of wealth has expanded the state has added a variety of taxes leaving the local property tax as the main source of income for the towns and cities

New Hampshire is one of two states with neither a broad-based income tax nor a general sales tax. State services are funded through a collection of taxes, fees and licenses. Local services, including the bulk of the costs of education, are funded from local property taxes. Approximately 30% of the state revenues come from the federal government.

The remainder of the budget is funded from a bundle of specific taxes and fees including:

Interest and Dividends Tax – This tax was first passed in 1923 at a rate of 4.5% and levied only on out-of-state money deposits and dividends. The tax rate is now 5% assessed on all interest and dividend income for individuals with non-transferable shares earning interest and dividend income of more than \$2,400 annually.

Inheritance and Estate Tax – an 18% tax assessed upon property passing at death on both probate and non-probate assets including assets passing through trusts. No tax is assessed on any amount passing to a spouse, children and grandchildren and their spouses or charities. *This tax has been repealed for deaths occurring on or after January 1, 2003.*

Business Profits Tax – This tax on income realized from conducting business activity within the state was enacted in 1970 and set at 6% of profits. The tax is now set at 8.5%. (Organizations with \$50,000 or less of gross business income from all their activities are not required to file a return.)

Business Enterprise Tax – a .75% tax on the enterprise value tax base, which is the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise. The tax is paid by all enterprises with more than \$150,000 of gross receipts from all their activities or with an enterprise tax base more than \$75,000.

Communication Service Tax – a 7% tax on all two-way communication services. The tax is paid

by the consumer and collected by two-way service providers.

Electricity Consumption Tax – a tax levied on consumers of electricity in the amount of \$.00055 per kilowatt-hour of electricity consumed. The tax is paid by the consumer, collected and submitted by distribution companies except in the case of consumers who generate their own power. These self-generating companies or individuals must submit tax returns on their own behalf.

Meals and Rentals Tax – a tax first enacted in 1967 at a rate of 5% on sales of hotel/motel rooms and restaurant/ready-to-eat meals. The rate is now 8%, assessed upon patrons of hotels and restaurants on rooms and meals costing \$.36 or more. An 8% tax is also assessed on motor vehicle rental.

Tobacco Tax – a tax of \$.80 is added to the cost of each pack of 20 cigarettes, and a tax of \$1.00 is added to each pack of 25 cigarettes. A comparable tax rate for smokeless tobacco and loose tobacco products is also established.

Real Estate Transfer Tax – a tax on the transfer, sale or granting of real property amounting to \$.75 per \$100 of the price or consideration. The tax is assessed on both the buyer and seller.

Timber Tax – Timber on all landownership is taxable at 10% of the stumpage value at the time of cutting.

Gravel Tax – Excavation that removes more than 1000 cubic yards is taxable.

State Education Property Tax - a state education property tax rate of \$3.33 per \$1,000 of total equalized valuation is assessed on all New Hampshire property owners (as of April 1, 2005). The local municipalities issue tax bills.

Utility Property Tax – a tax paid by utility property owners of \$6.00 per \$1,000 of value of utility property is placed on all real estate, buildings and structures, machinery, dynamics, apparatus, poles, wires, and pipelines located within NH employed in the generation, production, supply, distribution, transmission, or transportation of electric power, natural gas, crude petroleum, refined petroleum products, water or sewage.



Other Income Sources For The State Include:

Income from Liquor Sales

NH owns and manages liquor stores and realizes the profit from their sales.
There is no NH state tax on alcohol in New Hampshire.

Beer Tax

Collected from wholesale distributors and beverage manufacturers

Dog racing and horse racing

Fees levied on dog, horse, and harness racing operations

Medicaid Reimbursements and Recoveries

Board and Care

Charges for institutional patients

Sweepstakes Income

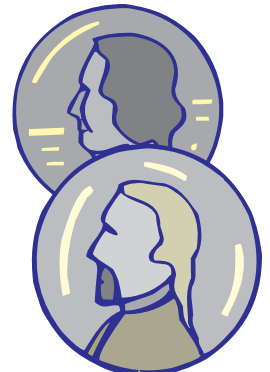
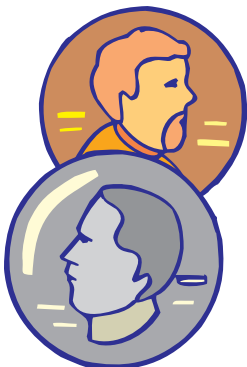
Restricted to education

Fish and Game Income

Earmarked for the Fish and Game Fund

Gasoline Tax

Earmarked for the Highway Fund



Where Does The Money Go?

The major portion of unrestricted state revenues is deposited into the General Fund, that portion of the state budget that supports most state activities.

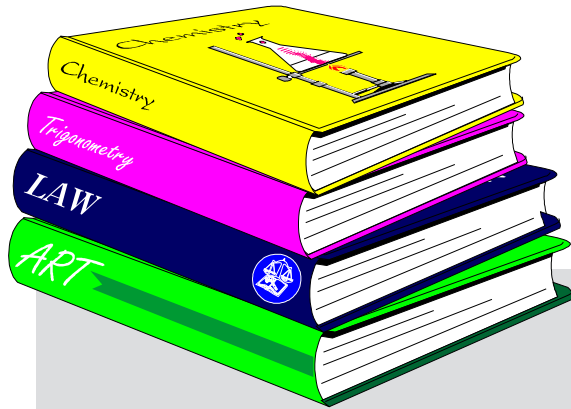
Other monies received by the state are deposited into three restricted funds.



The Highway Trust Fund — Vehicle registration fees, drivers' license fees, inspection fees, and other miscellaneous vehicle-related fees, and gasoline taxes shall be used exclusively for public highways and supervision of traffic on them.



The Fish and Game Fund — All revenues from fish and game licenses and fines are earmarked for the Fish and Game Department.



The Education Trust Fund — Established in 1999. These monies are to be used exclusively for distribution of equitable educational grants to public schools and to provide property tax relief to low and moderate income homeowners. RSA198:39 lists sources of these monies.



Revenue Estimates From Taxes And Fees

Source: *The Governor's Operating Budget for fiscal Years 2006-2007*

Deposited into the General Fund

Source	Projected Revenue 2006
Beer Tax	\$12,500,000
Board and Care Review	\$13,500,000
Business Profits Tax	\$230,700,000
Business Enterprise Tax	\$70,500,000
Estate and Legacy Tax	\$6,800,000
Insurance Tax	\$92,600,000
Securities Revenue	\$30,000,000
Interest and Dividends Tax	\$70,300,000
Liquor Sales and Distribution	\$122,500,000
Meals and Rooms Tax	\$198,700,000
Dog Racing	\$1,400,000
Horse Racing	\$2,000,000
Real Estate Transfer Tax	\$114,400,000
Communications Tax	\$71,300,000
Tobacco Tax	\$71,800,000
Utility Tax	\$6,400,000
Court Fines and Fees	\$30,000,000
Other	\$58,500,000
TOTAL	\$1,204,300,000

Also deposited to the General Fund are:

Medicaid Enhancement Revenue \$73,000,000 a tax imposed upon the gross patient services revenue of every hospital
 Medicaid Recoveries \$17,600,000

Deposited into the Education Trust Fund 2006

Source	Projected Revenue
Business Profits Tax	\$49,500,000
Business Enterprise Tax	\$140,900,000
Meals and Rooms Tax	\$7,600,000
Real Estate Transfer Tax	\$57,200,000
Tobacco Tax	\$72,700,000
Tobacco Settlement	\$43,000,000
Utility Property Tax	\$22,800,000
Transfer from Sweepstakes	\$75,000,000
State Property Tax	\$363,000,000
TOTAL	\$831,700,000

Deposited into the Highway Trust Fund

Source	Projected Revenue
Gasoline Road Toll	\$132,000,000
Motor Vehicle Fees	\$87,200,000
Miscellaneous	\$10,400,000
TOTAL	\$229,600,000


Deposited into the Fish and Game Fund


Source	Projected Revenue
Fish and Game Licenses	\$8,300,000
Fines and Penalties	\$170,000
Miscellaneous Sales	\$375,000
Indirect Costs	\$675,000
TOTAL	\$9,500,000




How Is The Money Spent?


State expenditures are divided into six major categories:


 **General Government** – Includes funding for the Legislative Branch, the Executive Office, the Departments of Administrative Services, State, Cultural Resources (including the State Library), Revenue Administration and Treasury, LCHIP, the NH Retirement System, and various boards and commissions.


 **Administration of Justice and Public Protection** – Includes funding for the Judicial Branch, the Adjutant General Department, the Departments of Agriculture, Justice, Labor, Safety, Corrections, Insurance and Employment Security; Regulatory Boards and Commissions, the Highway Safety Agency, the Pari-Mutuel, Liquor, Public Utilities, and Human Rights Commissions, The Consumer Advocate, the Electricians' Board, and the Marital Mediator Board.

 **Resource Protection & Development** – Includes funding for the Fish and Game Department, the Community Development Finance Authority, the Department of Resources and Economic Development, the Department of Environmental Services,

the Plumbers Board, the Pease Development Authority and the Division of Ports and Harbors.

 **Transportation** – Includes funding for the Department of Transportation and the maintenance of the Turnpike System.

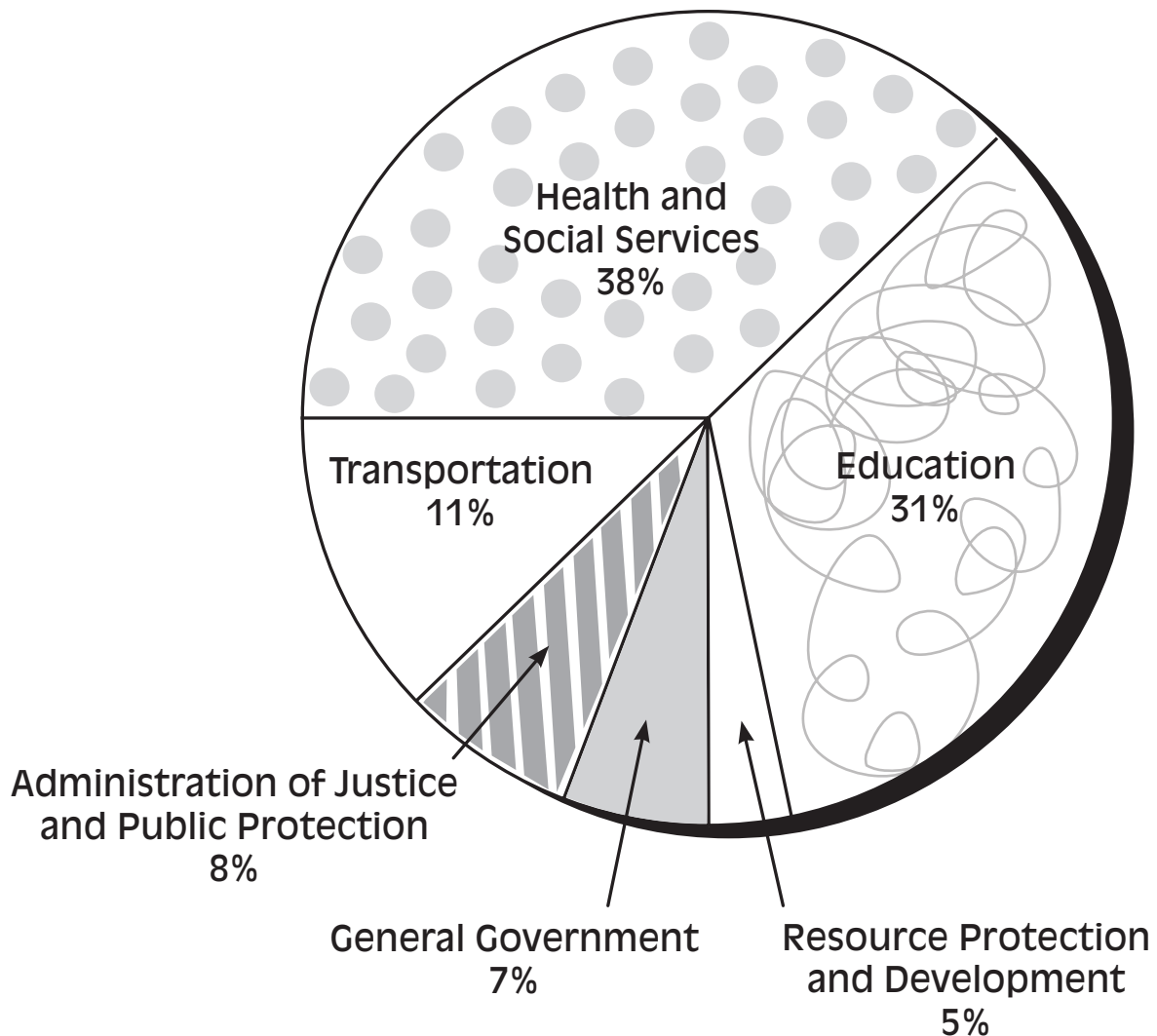
 **Health and Human Services** – Includes funding for the Office of the Commissioner and Office of Medicaid Business and Policy, the Divisions of Child Support Services, Public Health Services, Children, Youth and Families, Family Assistance, and Juvenile Justice System, the Bureaus of Elderly and Adult Services, Behavioral Health and Development Services, and the Veterans Home and Council.

 **Education** – Includes funding for the Department of Education, Postsecondary Education Commission, the NH Technical College System, the Public Standards and Training Council, the Christa McAuliffe Planetarium, the NH Sweepstakes Commission and the University system.

Expenditures (Total Funds)

Expenditures by Categories from all funds	Actual 04	Budget 06
General Government	\$306,904	\$403,004
Resource Protection and Development	\$207,946	\$222,979
Administration of Justice and Public Protection	\$353,583	\$420,003
Transportation	\$455,894	\$537,037
Health and Social Services	\$1,625,417	\$1,689,327
Education	\$1,299,438	\$1,368,188

Percentage of expenditures by categories. 2004

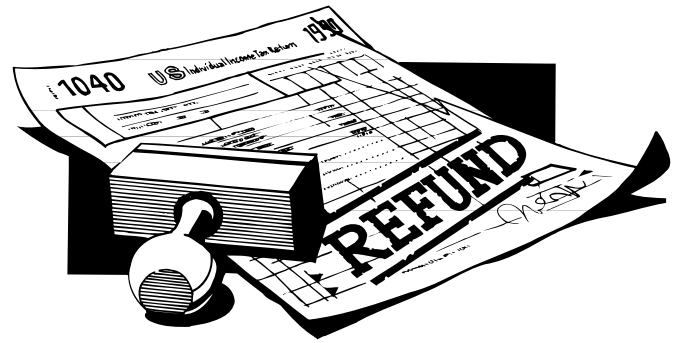


What is a Good Tax?

While no one admits to liking taxes, most people agree that citizens have a responsibility to fund the services and procedures necessary to create a healthy and stable society. The state Constitution assures citizens that they, through their representatives to the General Court, must approve any tax imposed by the state. In the debate about existing and proposed tax laws, there is general agreement on the following characteristics of a “good tax.”

1. The tax should raise adequate funds to fund the services required by the citizens of the state.
2. The tax should be fair and equitable.
3. The tax should not impede economic growth.
4. The tax should be easy to administer.

Of course, agreement on the criteria for a “good tax” doesn’t guarantee agreement on the desirability of any specific tax.



Is There Need For Tax Reform In NH?

There are many differing opinions about this issue with many differing statistics offered to back up those opinions.

The Tax Foundation, a non-partisan, educational organization based in Washington, DC, ranks New Hampshire’s state and local tax burden as consistently among the nation’s lowest, citing an average figure of 7.3% of income. However, they note that the state is heavily dependent on the property tax. New Hampshire’s local governments collected \$1,508 per capita in property taxes in 2004. Adding the state property tax the total per capita reaches \$1,940, the 3rd highest per capita property tax in the nation.

The Retirement Living Information Center, established to assist seniors in their retirement years, has published figures, which rank New Hampshire as one of most desirable states for retirees.

They rank New Hampshire 49th in total tax burden*, second only to Alaska which benefits from high oil income. Estimates from various sources of New Hampshire’s per capita tax burden vary from 7.3 to 8.8% of income. (Massachusetts takes 10.3% of income; Maine 13.5%, and Vermont 11.1%.)

**Tax burden is defined as total taxes divided by total income as reported by the Bureau of Economic Affairs.*

However, *Kiplinger's Magazine* in an article "Which states give retirees the best deal?" says of the city of Concord, "Although New Hampshire has no sales tax and imposes income tax only on interest and dividends, a whopping \$5,279 property tax bill on a \$193,090 house makes Concord almost the least desirable among state capitals."

A report from the *Institution on Taxation and Economic Policy (ITEP)* in 2003 claimed that New Hampshire taxes hit poor and middle class citizens harder than the wealthy. The report cited statistics indicating that the average tax on middle-income families is 5.4% and the rate on poor families (those earning less than \$20,000) is 8.1%, compared with a rate of 1.9 – 2.4% on those with higher income (\$474,000 and above). Indications are that these disparities have been growing since 1989. Lacking a broad-based tax, the state relies heavily on regressive property taxes.

Writing in *Tax Fairness Fundamentals* ITEP defines a fair tax system as one that asks citizens to contribute to the cost of government services based on their ability to pay. They divide taxes into three categories:



A regressive tax makes middle- and low-income families pay a larger share of their incomes in taxes than the rich.



A proportional tax takes the same percentage of income from everyone, regardless of how much or how little they own.



A progressive tax is one in which upper income families pay a larger share of their incomes to tax than do those with lower incomes.

Regressive taxes reduce the standard of living of middle- and low-income families but have a much smaller impact on the wealthy. The sales tax is considered a regressive tax, although some sales tax systems eliminate taxes on essentials such as food and clothing. While proportional taxes take the same share of income from all families, low-income families must spend more of their income just to

maintain a decent quality of life. Progressive taxes, such as a graduated income tax, take from the poorest taxpayers the smallest share of their income.

Governing.com, a monthly magazine directed toward state and local government officials, said of New Hampshire in their Governmental Performance Project Report Card 2003: "Unlike politicians in most states, those in New Hampshire love to talk about their state motto, 'Live Free or Die.' What they really mean is 'live tax-free' or as close to it as can possibly be arranged."

The report raises questions about the state's long-term ability to maintain its status quo. "Will the high property and business taxes necessitated by the Supreme Court school decision stifle economic growth? Will the meager array of public services be a disincentive to continued in-migration of the well-educated citizens the state's economy needs? Will short-changing the public universities (New Hampshire has the nation's lowest level of student aid.) eventually damage the quality of the labor force?"

A report entitled, "The NH Economy and the State Budget (2001)" by Douglas Hall, Executive Director of the Center for Public Policy Studies explored the relationship between the state budget and the economy. The report describes a "structural gap" in New Hampshire's tax system caused by "the fact that spending on state sources will naturally increase faster than state revenues...this structural deficit will require a constant search for new taxes and tax increases or force reductions in state services." The report indicated the long-term decline in the portion of the state's economy tapped for public spending by the general fund functions of the state. In 1972 general fund taxes were 3.08% of the Gross State Product; in 2000, they were about 2.1%. "Maintaining services of the General Fund requires the regular addition of new taxes or increases in rates of existing taxes. Since the state's selected tax bases do not by nature grow as fast as service costs or the economy, the Governor and legislature must deal with a resulting potential deficit every year or so."

At various times during its history, the state has created commissions charged with considering the need for tax reform.



A New Hampshire Commission on State Finances report in 1946 determined that “No tax system in NH will ever be satisfactory until the basis of the State’s revenue is a sales tax and an income tax together. Separately they are not satisfactory because the revenue from an income tax fluctuates so greatly, depending on the prosperity of the times, and also because the income tax affects only a limited number of taxpayers. The sales tax alone puts too great a burden on the lower income group, and not enough on the higher. Working together, they spread the tax base more equitably among all classes of taxpayers.”

A 1947 Commission on Over-All Taxation reported: “This Committee is thoroughly convinced that the State is relying too heavily on its revenue from racing, liquor, and tobacco, which are fluctuating and uncertain.”

A 1970 publication, “Taxes and the New Hampshire Citizen,” published by the University of New Hampshire said, “three major shortcomings of the state’s tax system are problems of productivity, equity, and flexibility...The system is not particularly productive because it rests on a collection of narrowly based, low-yield taxes. Not everyone contributes to support the state. The bulk of the state’s General Fund revenues are supplied by only a small portion of the population.”

Responding to a petition brought by “property-poor” towns the state Supreme Court ruled in 1999 that the state’s dependence on the property tax to fund education resulted in inequities which were unconstitutional, and required the state to assume the responsibility of providing an adequate education for all its children. Repeated returns to the legislature and courts have not yet solved the

problem. In March 2006, a Superior Court judge ruled that the state’s funding law is unconstitutional. The controversy continues.

The League of Women Voters has affirmed the following criteria for evaluating state taxes:

The optimum tax is one that provides a reliable source of revenue, raises adequate revenue to justify its imposition, is based on ability to pay, and is levied on a broad segment of the population.

The League finds the following characteristics desirable in judging taxes:

- 🏆 Progressiveness
- 🏆 Low cost of administration
- 🏆 Directness
- 🏆 Ease of collection
- 🏆 Flexibility (to meet changing economic conditions)

In examining New Hampshire’s tax structure, the League found that most state taxes only partially satisfied these criteria. The League therefore supports tax reforms that would make the present system more equitable and provide a broader base.





Some Questions For Your Consideration

There are many ways you can have a say in the state's fiscal decision-making process. The first is to become informed about the issues and develop your own opinions. Consulting the sources included in this report will give you a good start. Follow legislative discussions, which are sure to occur in upcoming sessions. Let your representatives know what you think. Ask them to explain their positions. Join with other like-minded citizens in coalitions formed to affect legislation. Remember, the future of New Hampshire depends on you. You owe it to your children and your neighbor's children to join in the decision-making.

Discussions about New Hampshire's taxes should move beyond "How much do I have to pay?" and include a consideration of the impact of the tax system on the well-being of the state as a whole. Each citizen should think about questions such as these when making decisions about taxes.

- Are we raising enough money in New Hampshire to provide the services needed to maintain the quality of life we cherish for all our citizens?
- Are we providing the resources necessary to protect our special New Hampshire environment for our children and ourselves?
- Will we be able to solve the education funding controversy in a way that provides a good education to all our children and meets constitutional requirements?
- How can we be sure that a proposed tax will not adversely impact the economic climate of the state?
- How do you define fairness in taxation? Many people would say that a fair tax system is one that asks its citizens to contribute to the cost of services based on their ability to pay. Others would favor a flat tax rate. What do you think?



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The New Hampshire Constitution

State of New Hampshire, Governor’s Executive Budget, February 15, 2005



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Since 1920, the League of Women Voters has worked hard to earn their reputation as a respected citizens organization that researches issue from many points of view and educates the public and decision makers. Our organization is comprised of men and women who want to make a difference in our communities, our country and our world.

- The League is non-partisan; we do not support or oppose candidates.
- We mobilize people to vote and to have a say in the complex decisions that affect us all.
- We do support issues and legislation, after member study and agreement.
 - Membership is open to all citizens of voting age.