

Bartlett Brief



Dispelling Myths About Business Tax Increases in the 2020-2021 Conference Committee Budget

Summary: Some supporters of the Legislature’s 2020-2021 budget are making inaccurate claims about its business tax provisions. 1. They claim that the budget’s tax increases apply only to rate reductions that are scheduled to take place in the future, and not to current-year tax rates. 2. They claim that the existing business tax rates and the lower rates scheduled to take effect in 2021 are tax cuts for “out-of-state corporations.” This brief shows how those claims are incorrect.

The Budget’s Retroactive Tax Increase

The legislative budget raises business taxes immediately — not in the future — and exposes most New Hampshire businesses to a retroactive tax increase.

Current business tax rates for 2019:

Business Profits Tax: 7.7%;

Business Enterprise Tax: 0.6%.

These rates are set in existing state law, RSA 77-A:2. That law states that these rates are “effective January 1, 2019 until January 1, 2021.”

The budget’s tax rates for 2019:

Business Profits Tax: 7.9 p%;

Business Enterprise Tax: 0.675%.

The budget raises the business tax rates that are in effect for 2019 and 2020, restoring the higher rates that were in effect in 2018. This is a tax increase of 2.6% in the BPT and 12.5% in the BET.

Why this is a retroactive tax increase for most N.H. businesses

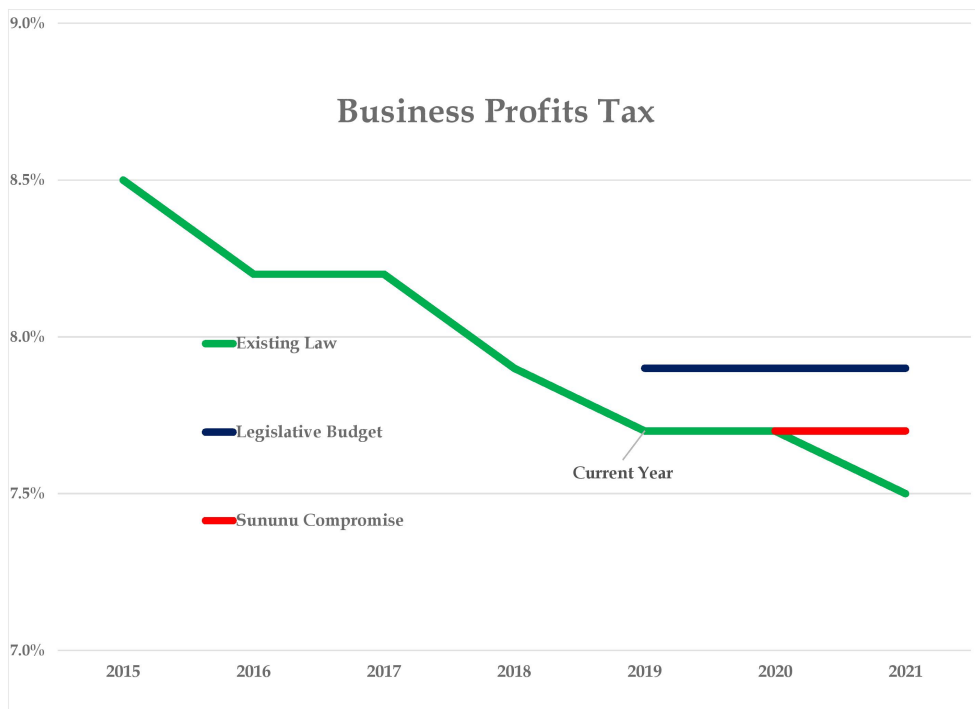
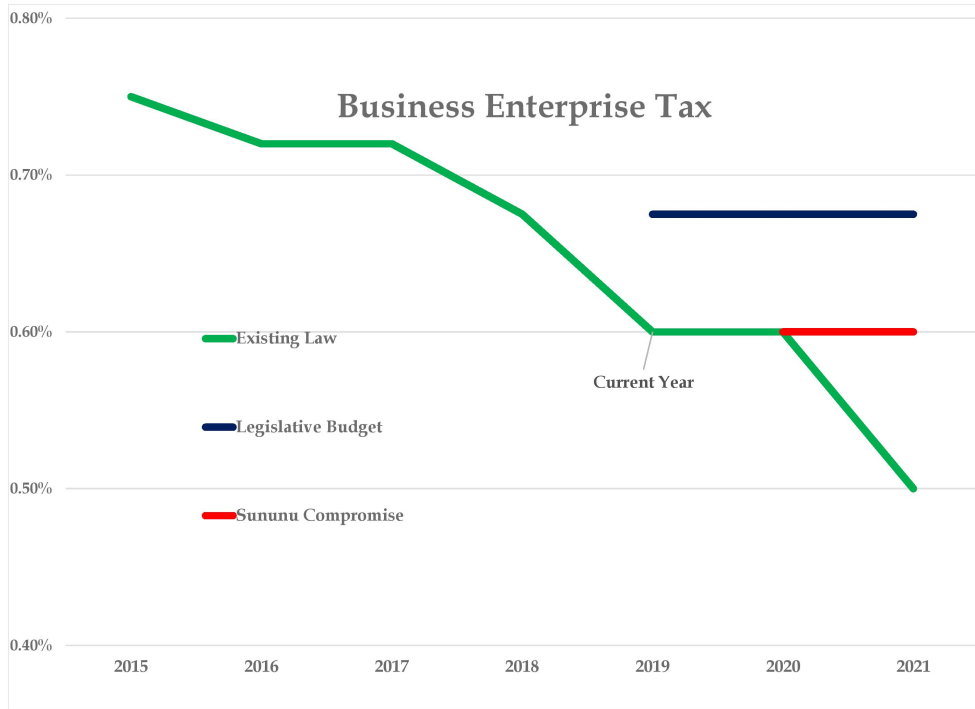
Ninety percent of New Hampshire businesses are “calendar year filers,” which means that their fiscal year is the calendar year.

All of those filers are being taxed right now at the 2019 rates, as are businesses with fiscal years that started between January 2nd and today.

So far this year, 15,500 businesses have already filed quarterly tax payments, according to the DRA. Those businesses are being taxed at the 7.7 percent BPT and 0.6 percent BET rates.

If the Committee of Conference budget becomes law, the 15,500 employers who have already filed estimated taxes would be subject to a rate increase on taxes they have already paid. They would have to increase their upcoming 2019 quarterly filings to make up the difference.

The following charts show the tax rates in current law vs. the Legislature's budget vs. the compromise the governor offered (to keep current rates but erase the 2021 cuts).



Who pays N.H. business taxes?

The false claim that the rates written into current law are giveaways to out-of-state corporations originates in a misrepresentation of business tax data. More than half of the state's business tax revenue is collected from corporations with headquarters located outside New Hampshire. But those companies comprise a tiny fraction of the state's tax-paying businesses.

The two charts below were taken directly from the Department of Revenue Administration's 2018 Annual Report. A "water's edge" corporation is one based outside New Hampshire. Those corporations paid 56.9% of BPT collections and 50.9% of BET collections in 2016, the latest year for which full data are available.

But foreign corporations make up only 5.3% of the businesses that paid taxes in 2016. The remaining 94.7 percent of employers that paid New Hampshire business taxes were local companies.

The state does not tax out-of-state corporations at a different rate. The state's business tax rates apply to all companies, large or small, in-state or out-of-state. The suggestion that any tax rate or cut is targeted to out-of-state corporations is false. Nearly 95% of the companies that pay New Hampshire's business tax rates are local businesses.

Business Profits Tax 2016:

Type of Business	Number	BP Tax	% of Businesses	% of Taxes
Corporations	25,403	\$83,227,734	35.1%	23.4%
Water's Edge	3,846	\$202,038,756	5.3%	56.9%
Partnerships	12,647	\$51,468,288	17.5%	14.5%
Proprietors	29,931	\$15,010,578	41.3%	4.2%
Fiduciaries	573	\$3,326,833	0.8%	0.9%
Totals:	72,400	\$355,072,189	100.0%	100.0%

Business Enterprise Tax 2016:

Type of Business	Number	BE Tax	% of Businesses	% of Taxes
Corporations	25,403	\$70,415,621	35.1%	32.1%
Water's Edge	3,846	\$11,598,815	5.3%	50.9%
Partnerships	12,647	\$22,493,000	17.5%	10.3%
Proprietors	29,931	\$14,524,593	41.3%	6.6%
Fiduciaries	573	\$68,513	0.8%	0.0%

Furthermore, large businesses provide most New Hampshire jobs. The chart below comes from the U.S. Census Bureau.

N.H. employers by size and payroll (2016)

<u>Firm Size</u>	<u>No. of Firms</u>	<u>Employment</u>	<u>Payroll (in thousands)</u>
01: Total	30,627	594,243	29,193,307
02: 0-4	16,732	28,527	1,324,245
03: 5-9	5,382	35,662	1,433,587
04: 10-19	3,331	44,174	1,880,188
05: <20	25,445	108,363	4,638,020
06: 20-99	3,038	108,656	5,014,990
07: 100-499	774	78,876	3,866,723
08: <500	29,257	295,895	13,519,733
09: 500+	1,370	298,348	15,673,574

This chart reveals the following important points:

- Employers with 500 or more employees account for 50.2% of employment and 53.6% of payroll.
- Employers with 100 or more employees account for 63% of employment and 67% of payroll.

Legislators who attack large corporations that do business in New Hampshire are attacking the companies that employ a majority of working Granite Staters.