

Tax Reform in New Hampshire

State Senator Gary Daniels

Senate Finance Chair

GST New Hampshire Advantage Summit – July 13, 2022

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Where we were:

- COVID-19
- Businesses labeled as “Essential” or “Non-essential”
- Some businesses closed, while others cut back
- Many people started working from home
- Numerous employees lost their jobs
- Unemployment was rising rapidly
- Economic gains of the past were at risk of being lost

Building the Budget

1. What is the role of government?
2. What are the essential services government must provide to fulfill its purpose?
3. How will we know if government is doing a good job?

SMART Goals

The **SMART** acronym stands for:

- **Specific:** Increases the chances that you are able to accomplish the goals by making sure they're well-defined. Determine the who, what, where, when and why
- **Measurable:** Develop criteria for measuring progress toward your goals. Detail the key indicators that help you decide if and when you reach your goal by quantifying them
- **Achievable:** Create goals that are attainable and achievable by ensuring that the skills and resources exist to reach the goal
- **Relevant:** Align your goals with the overall objectives and the realities of the market and economy
- **Time-bound:** Set a deadline for reaching your goal to provide a sense of urgency and the opportunity to schedule the steps you plan to take to achieve the goal

Building the Budget

1. What is the role of government?
2. What are the essential services government must provide to fulfill its purpose?
3. How will we know if government is doing a good job?
4. What should all of this cost?
5. When cuts must be made, how will they be properly prioritized?

Tax Achievements

Business Profits Tax (BPT)

- Lowered the Business Profits Tax (BPT) to 7.6%
- The BPT was further lowered this year to 7.5%, fulfilling a goal first initiated in 2014
- BPT has been reduced by nearly 24% since 2015
- Increased the filing threshold for the BPT from \$50,000 to \$92,000

Tax Achievements

Business Enterprise Tax (BET)

- Lowered the Business Enterprise Tax (BET) to 0.55%
- BET has been reduced by nearly 9% since 2015
- Increased the filing threshold for the BET from \$200,000 to \$250,000

Tax Achievements

Interest & Dividends Tax

- Start phasing out this 5% tax on investment income over five years
- Cutting it to 4% this year
- Lowering it 1% each year through 2026

Tax Achievements

Room & Meals Tax

- This tax had risen from 5% in 1967 to 9% since 2009
- Reduced this tax to 8.5%
- Increased local revenue sharing to 30%. Setting this aside in a dedicated fund to prevent future legislatures from taking a larger piece
- Produced \$31 million for property tax relief for cities and towns

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Tax Achievements

Property Taxes

- Passed bills in 2021 and 2022 that would lower state, county, and municipal property taxes by more than \$500 million
- Much of the local use of these disbursements was left to local governing bodies

Tax Achievements

Government Reduction

- Eliminated \$100 million in unfilled positions within DHHS and put limitations on the number of positions in the department
- Eliminated all classified full-time positions that were vacant on July 1, 2021 that had also been vacant on or before July 1, 2018

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Results

- Thriving economy that has produced \$430 million more in surplus than what was budgeted
- Increased the Rainy Day fund to about \$250 million
- Current budget is \$172 million less than the previous budget
- According to Wikipedia, NH has the lowest poverty rate in the nation and ranks 8th highest for median household income
- NH's unemployment rate is 3rd lowest nationally at 2.3%
- The Cato Institute ranks NH as #1 overall, #2 in Personal Freedom, #3 in Fiscal Freedom, and #3 in Economic Freedom
- The Tax Foundation rates our business climate as 6th best nationally, and our state and local tax burden as #16. The next closest state in New England is Rhode Island at #36
- WalletHub ranks the NH's economy as the 5th best nationally

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Challenges

- With Washington's inaction in combating inflation, food, gas and heating oil prices spiking, and on-going out-of-control spending, an economic downturn seems inevitable
- With our surplus and Rainy Day fund, NH is well poised to weather a recession
- Still need to do everything we can at the state level to minimize the impact on our citizens
- Demonstrate frugality
- One-time money needs to continue to be spent on one-time expenses, not on-going operating costs

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Challenges

- NH's economy needs state and federal leaders to address road-blocks that come up as the world economy moves past COVID
- As it stands, we have many economic advantages that position the state well as it seeks to address the challenges of wages, education, healthcare, workforce shortages, housing affordability and infrastructure
- We have a strong and diverse base from which to grow, and our workforce is well educated
- Finally, we must remember that the economic freedom that comes with lower regulation, lower taxes and lower spending not only minimizes downturns associated with events like pandemics, but it also accelerates recovery
- **We just need to be prepared to face these challenges**

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