

# UNDERSTANDING THE NEW HAMPSHIRE STATE BUDGET

July 2009

## *A Rising Tide of Taxes and Fees*

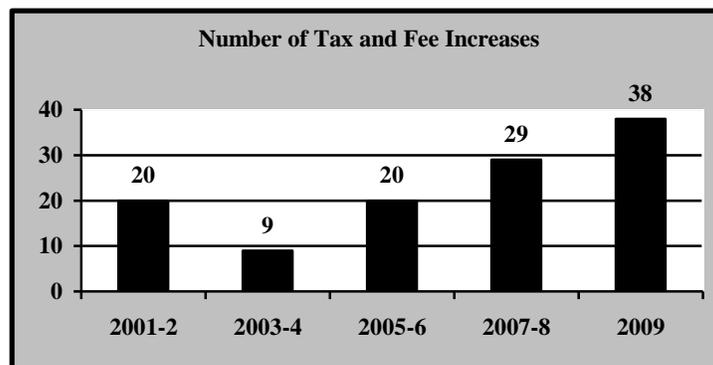
*Tax and fee increases rose from a low of 9 in 2003-4 to 38 so far this year*

By  
Charles M. Arlinghaus

Summary: So far this year, the legislature has passed 38 new or increased taxes and fees that are budgeted to raise \$318.6 million over two years. For historical comparisons, there were 29 new taxes and fees passed in the previous two years. In previous legislative sessions, the low has been 9 in 2003-4 with 20 in both 2001-2 and 2005-6. The majority of tax and fee increases have been passed separately from the budget itself.

The budget for fiscal years 2010 and 2011 passed in June of 2009 and additional legislation passed this year include 38 new or increased taxes and fees that are projected to raise an additional \$318 million over the two years of the budget.

A study of the total number of tax and fee increases over the last decade shows a consistently high number with the exception of the 2003-2004 legislature. However, the current total for this legislature at 38 is nearly double the 19.5 average of the last four budgets.



More troubling is that the total number has risen each of the last three budget cycles and is now four times the number from 2003-4.

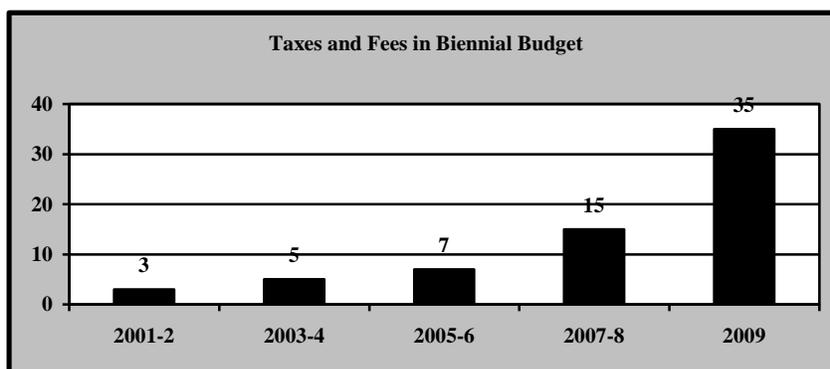
Tax and fee increases can include major tax changes like increasing the Room and Meals Tax from 8% to 9% which is projected to raise an additional \$27.2 million each year. On the other hand increased fees for land and condominium sales will probably raise about \$70,000 each year more than would have been raised at the old fee level.

Using just the number of increases is an imperfect measure. Obviously increasing the business profits tax has a much more significant impact both economically and on the budget than increasing the rarely used fee for a special commission to perform marriage from \$5 to \$25. One has a significant effect on economic activity while the other might not even be noticed.

For example, the changes made this year total \$318 million but the ten tax changes and three largest registration fees account for 88% of that total.

### **Taxes and Fees Used to Balance the Budget**

The largest taxes and the fees that are being used to raise money for new spending tend to be part of the budget process. Many more fees are added on after the budget or in stand alone bills. In the previous four budget cycles, 30 taxes and fees were added as part of the budget and an additional 48 occurred as stand alone bills, many of them in the second year of the legislature. So far this year, 35 have been part of the budget and 3 as stand alone bills. History suggests more fees will be enacted in the next 12 months.



It would be nearly impossible to break down the fees each year into just major and minor changes, leaving out the relatively small increases. In reality, the changes aren't easily divided into just major and minor. They represent a spectrum of impact. Obviously a change in the Business Profits Tax, the state's largest tax, is big. Other taxes

have a somewhat lesser impact but are still significant. Still others are very noticeable to the industry affected but invisible to many of the rest of us.

The lists of taxes and fees that follow don't distinguish between major and minor changes. However, the introduction to each grouping makes some effort to single out the most significant changes of that two-year cycle.

One additional caution: The totals and the lists that follow compile the tax and fee increases. There have not been many moves in the opposite direction but there have been a few. Notably, the 2001 budget while imposing serious increases in the Business Profits and Business Enterprise Taxes also repealed the Legacies and Succession Tax (the state death tax). The 2005 legislature passed a progressive reduction in the insurance premium tax.

### **Are taxes and fees always bad?**

The exact difference between a tax and fee is something of a judgment call. In general a tax is an assessment designed to raise unrestricted revenue to fund the general operations of government. Because most taxes are essentially a price tag on economic activity, raising them tends to discourage activities and create a negative impact. This creates a natural and healthy wish to limit tax increases and occasionally propose decreases.

Fees are often small assessments designed to pay for the cost of regulation of that specific activity. Statute often limits the charge to the actual cost of regulation or dedicates the revenue to a specific regulatory fund. Vehicle registration fees, for example, are placed in the highway fund. The new increase in sewage system plan review fees is being dedicated to a "Subsurface Systems Fund."

Many fee amounts are set in statute and have to be changed to keep up with costs. However, there is an increasing trend to use fees as a less objectionable source of revenue and increase them largely to fund the operations of the state. For example, auto registration fees have been raised in three of the last five budgets not because the costs associated with registration and licensing have increased but rather as an alternative to increasing the gas tax which is politically more challenging.

The lists that follow delineate each tax and fee increase with a brief commentary before each legislature's list. The list does not include fines for illegal activity. Fines are not charges designed to generate revenue for services but rather a punitive device. Each individual fee is listed but not every charge is listed as a separate fee. For example, although Health Facility Licensure Fees were increased on 23 different types of facilities, it is most reasonably described as one fee.

The popular vehicle registration categories are not broken by each subsection of the law because some are similar. Although quite a few more subparagraphs were affected by the registration changes this year than two years ago, it seemed most reasonable to group them into three categories instead of counting each subparagraph separately.

### Specific Taxes and Fees Listed By Two-year Cycle

The 38 tax and fee increases so far in 2009 are categorized into the ten tax increases and 28 fees although the distinction between a tax, a fee, and a charge is blurry and probably of little importance to the one paying. For this year's totals, each includes the amount of money the Legislative Budget Assistant reports as the budgeted impact of the change. Detailed language for most changes is listed in HB2 (2009).

2009 Legislative Session through June 30: 38 taxes and fees.				
	Tax or Fee	FY2010	FY2011	Description
1	LLC Tax Change	\$15,000,000	\$15,000,000	A new tax applying the Interest and Dividends tax to LLC distributions. Regulatory language is still to be written
2	Tobacco Tax	\$35,200,000	\$24,000,000	Increase the rate from \$1.33 to \$1.78/twenty. 2 <sup>nd</sup> year decrease is from loss of cross border sales
3	Meals and Rooms Increase	\$27,200,000	\$27,200,000	Increase the tax on meals, rooms, and rental cars from 8% to 9%
4	M&R Campsite tax	\$4,000,000	\$4,000,000	Adding campsites to the list of items covered under the rooms portion of the tax
5	Gambling Winnings Tax	\$5,900,000	\$7,900,000	New tax on gambling winnings from any source in or out of state for NH residents and NH sources for non-residents.
6	Increase Wine Charge	\$3,100,000	\$3,100,000	Increases Wine Charge to Retailers ("reduces the wine discount")
7	Extend Real Estate Transfer Tax	\$1,500,000	\$1,500,000	Extension of RETT by changing definition of holding company
8	Business Profits Tax extension	\$5,000,000	\$6,000,000	require companies below filing threshold to pay BPT on certain transactions
9	Meals and Rooms Operator Bond	\$3,000,000	\$3,000,000	Require every M&R licensee to file a \$5,000 bond to secure payments
10	Tax on Other Tobacco products	\$3,000,000	\$3,000,000	Increase the tax on other tobacco products from 19% to 48.59%
	subtotal	\$102,900,000	\$94,700,000	
11	Raise Motor Vehicle Registration Fee	\$40,900,000	\$44,600,000	Temporary surcharge for FY10 and FY11 in car and truck registrations of \$30-\$75
12	Raise Semi-Trailer and Utility Trailer Fee			Temporary Increase for semi-trailers and auto utility trailers of \$5 - \$10
13	Raise Motor Vehicle Registration Transfer Fee			Temporary Increase in the fee to transfer registration from \$10 to \$25
14	Raise Vanity Plate Fee	\$2,500,000	\$2,500,000	Raise vanity plate fee by \$15
15	Raise Inspection Sticker Fee	\$1,050,000	\$1,050,000	Increases the inspection sticker fee from

				\$2.50 to \$3.25
16	Raise Motor Vehicle Records Fee	\$2,400,000	\$2,400,000	Raise fee charged to insurance companies from \$8 to \$15
17	Raise Driving Records Fee	\$120,000	\$120,000	Raise fee for certified copy of driving records, etc. from \$10 to \$15
18	New Saltwater Fishing License	\$0	\$780,000	Saltwater fishing license \$15/person, \$75/charter boat, \$150/party boat
19	Raise Boat Registration Fees	\$1,500,000	\$1,500,000	raises boat registration fees from \$12-\$46 changed to \$24-\$92
20	Raise Lake Restoration and Preservation Fee	\$250,000	\$250,000	Raises the Lake Preservation surcharge from \$5 to \$7.50
21	Raise Registration Agent Fee	\$0	\$0	Raise fee paid to the registering agent from 1.50 to 5.00 - fee kept by agent
22	Raise Vessel Transfer Fee	\$0	\$0	Increases fee to transfer registration to another vessel from \$3 to \$5
23	Raise License Examination Fees	\$4,251	\$4,251	Increases examination fee from \$4 to \$15 for captains, masters, pilots, etc.
24	Increases Subsurface Fees and create new Subsurface Systems Fund	\$590,700	\$588,700	Raise fees to review plans for subdivision and for sewage systems, money moved from GF to new Subsurface Systems Fund resulting in a decrease of \$1.2M from the general fund each year. The net new dollars projected to be \$590K/yr
25	DES State Revolving Loan Fund Administrative Fee	\$2,525,000	\$2,525,000	Doubles fee from 1% to 2%,
26	New Real Estate Commission Fee	not determined		allows commission to charge an additional 2% for electronic collections
27	Criminal Records Annulment Fee	\$300,000	\$300,000	adds an additional \$100 fee for annulment of criminal records
28	Reduced Ignition Propensity Cigarettes Fee	\$275,000	\$275,000	a \$250 fee to certify reduced ignition propensity cigarettes
29	Raise Non-resident Pistol License to Carry Fee	\$854,000	\$854,000	Increases permit fee from \$20 to \$100
30	Raise Food Protection Fees	\$300,000	\$300,000	Eliminates statutory fee and allows DHHS to set higher fees by rule
31	Raise Health Facility Licensure Fees	\$450,090	\$450,090	Changes fees on 23 different types of facilities
32	Raise Application Fee for Condo and Land Sales	\$70,000	\$70,000	Fees increased from \$300-\$2000 to \$600-\$5000
33	Judicial Branch Fine Extension	\$300,000	\$300,000	establishes a fee of \$25 for extension of fine payment terms
34	Court System Fee Increases	\$2,000,000	\$2,000,000	Judicial Branch discretion
35	Penalty assessment for judicial IT fund	\$1,892,558	\$1,892,558	Increases penalty assessment from 20% to 24% and creates a Judicial IT Fund
	Total Budget Impact	\$161,181,599	\$157,459,599	<b>\$318,641,198</b>
36	Nonresident commercial saltwater license fee	RSA 211:49-A	HB407	fee increased from \$300 to \$500
37	New lobster and crab landing license	RSA 211:49-C	HB407	RSA 211:49-C new license \$50 for residents, \$500 for non-residents.
38	Small claim mediation fee	RSA 503:4	HB281	New fee for small claim mediation

The 2007 and 2008 session had a second round of significant increases to solve a

growing budget deficit. The most significant changes are two tobacco tax increases, registration fees, and reducing the wine discount.

<b>2007 and 2008 Legislative Sessions: 29 taxes and fees</b>			
(15 changes in budget, 14 stand alone)			
1	B	RSA 78:7	Raise tobacco tax (80 cents to \$1.08 per twenty)
2	B	RSA 261:141g	Raise auto registration fees
3	B	RSA 261:141h	Raise tractor trailer registration fees
4	B	RSA 261:141o	Raise motorcycle fees
5	B	RSA 485-A:17	Raise terrain alteration plan review fee
6	B	RSA 482-A:3a	Raise shoreline structure impact fee
7	B	RSA 482-A:3b	Raise dredge and fill application fee
8	B	RSA 478:17g	New register of deeds surcharge for LCHIP
9	B	RSA 208:1	Raise moose permit fee
10	B	RSA 214:9	Raise wild turkey hunting permit fee
11	B	RSA 490:26A-II	New court civil filing fee surcharge
12	B	RSA 490:26A-III	New court credit card payment processing fee
13	B	RSA 281A:59	End insurance premium tax credit for contributions to the workers compensation administrative fund
14	B	RSA 82-A:5	End CST credit for basic telephone service
15	B	RSA 131:3	raise certain water testing fees
16	s	RSA 174A:4 II	Raise hazardous waste operator permit fee (5000 to 7500)
17	s	RSA 147-F:9	Raise brownfields program application fee (500 to 750)
18	s	RSA 147-F:14	Raise hazardous waste work review fee (3000 to 4500)
19	s	RSA 78-A:4	Add renewal fee to meals and rooms license fee
20	s	RSA 482:8-A	Raise the annual dam registration fee
21	s	RSA 597:20	Raise fee for bail commissioners
22	s	RSA 21-L:4a	Create new DOT fees for public documents
23	s	RSA 291:2	Create new assessment on charity gambling
24	s	RSA 261:74d	Raise motor vehicle fee registration agent fee
25	s	RSA 261:8 III	New moped registration fee
26	s	RSA 397-B:4	Raise mortgage registration and renewal fee
27	s	RSA 78:7	Raise Tobacco Tax (1.08 to 1.33)
28	s	RSA 490-D:12 III	New court entry fee surcharge in family courts
29	s	RSA 178:28	Raise wine price for off premise licensees (reduce discount)

Most of the changes included in 2005 and 2006 were smaller changes like the commercial feed registration fee. The largest were the tobacco tax increase and the reduction of the toll discount. The 2005 session also saw a significant reduction in the insurance premium tax to be phased in over four years.

<b>2005 and 2006 Legislative Sessions: 20 taxes and fees</b>			
(7 changes in budget, 13 stand alone)			
1	B	RSA 78:7	Raise tobacco tax (from 52 to 80 cents/twenty)
2	B	RSA 78:1	Add loose tobacco to tobacco tax

3	B	RSA 157-A:3	Raise boiler inspection fee
4	B	RSA 157-A:9	Raise elevator inspection fee
5	B	RSA 157-B:5	New elevator plan approval fee
6	B	RSA 208:24	Bear license fee increased
7	B	RSA 237:11-V	Reduce toll discount from 50% to 30%
8	s	RSA 215:1	Raise pesticide registration fee
9	s	RSA 215:2	Raise commercial feed registration fee
10	s	RSA 503:4	New court mediation fund entry fee surcharge
11	s	RSA 437-A:3	Increase animal population control co-payment
12	s	RSA 124	Changes the fee for certain bank incorporations
13	s	RSA 270:62	Raise mooring fees
14	s	RSA 140:1	Raise commercial lobster license fee
15	s	RSA 293-A:1.22	Increased business late filing fees
16	s	RSA 270-D:17	raise safe boater education temporary certification fee
17	s	RSA 236:122	Raise licensing fee for motor vehicle recycling yards
18	s	RSA 143-A:12	New Homestead food license fee
19	s	RSA 153:27	New Fuel gas fitter license fees
20	s	RSA 292:8	Raise special corporation powers extended fee

The 2003 and 2004 legislative sessions included almost no tax or fee changes of significant impact. The exception is the tax stamp law with a moderate impact.

<b>2003 and 2004 Legislative Sessions: 9 taxes and fees</b>			
(5 changes in budget, 4 stand alone)			
1	B	RSA 490:24	Supreme Court entry fee surcharge
2	B	RSA 5:10	Increase Dept. of State credential fee
3	B	RSA 457:32	Raise fee for special commission to perform marriage
4	B	RSA 78:9-a	Repeal tobacco tax stamp discount
5	B	RSA 266:2	Raise vehicle inspection sticker fee
6	s	RSA 135	Raise charitable trust fundraiser fee
7	s	RSA 224	Raise dredging and terrain alteration permit fee
8	s	RSA 248:2	Raise vehicle records fee for insurance companies
9	s	RSA 246:2	Raise fee for subdivision and waste disposal system review

The 2001 and 2002 sessions followed the adoption of significant changes in 1999-2000. The biggest changes were part of the budget and included a significant increase in the Business Profits tax (from 8% to 8.5%) and the Business Enterprise Tax (from 50 basis points to 75). These significant changes were partially offset by the repeal of the Legacies and Succession Tax, the state version of the death tax or estate tax.

<b>2001 and 2002 Legislative Sessions: 20 taxes and fees</b>			
(3 in the budget, 17 stand alone)			
1	B	RSA 77A:2	Increase Business Profits tax from 8% to 8.5%
2	B	RSA 77E:2	Increase Business Enterprise tax from .50 to .75
3	B	RSA 78B:2	Extend tax on transfer of real property (end exemptions)

4	s	RSA 261:141	Raise auto registration fees
5	s	RSA 263:42	Raise drivers license fees
6	s	RSA 235:104:31	Increase Sheriff service fees (8 related fees)
7	s	RSA 208:5, 5a, 5b	Increase permit fees for archery, muzzleloader, special deer
8	s	RSA 211:62a	Raise license to take oysters fee
9	s	RSA 211:64b	Raise license for recreational taking of clams fee
10	s	RSA 214:9	Raise a series of hunting and fishing fees
11	s	RSA 270E:5	Raise boat registration fee
12	s	RSA 215A:23	Raise OHRV Registration fee
13	s	RSA 358-I:2	New health club registration fee
14	s	RSA 126-Q	New assessment of fees for vaccine costs
15	s	RSA 159:9c	raise a series of fees for explosive substances
16	s	RSA 490:27	New probate court entry fee surcharge
17	s	RSA 262:3	New fee for special motorcycle license
18	s	RSA 261:20	Raise vehicle title and registration fees
19	s	RSA 261:20h	New salvage vehicle decal fee
20	s	RSA 261:147	Raise number plate manufacturing fee

Over the last five budgets spanning a decade, there have been 116 tax and fee increases in New Hampshire, some with a very significant impact and others with a considerably lesser impact. The 38 changes in the most recent legislative session includes some significant and some less so. But the changes made in this budget are numerically greater, qualitatively greater, and with the greatest likely revenue impact at \$318 million.

This current level of increase is larger than average but it also part of a trend. The total number of increases has grown each budget over the last six years from 9 to 20 to 29 to 38. More important, the impact of these increases has grown more significant each year from the relatively minor changes in 2003 and 2004 to the very broad changes of the budget just passed.

*Charles Arlinghaus is president of the Josiah Bartlett Center for Public Policy. Feel free to contact us at 7 South State Street, Post Office Box 897 Concord, New Hampshire 03302-0897, 603-224-4450, Arlinghaus@jbartlett.org or visit our website at [www.jbartlett.org](http://www.jbartlett.org).*