New Hampshire levies two separate taxes on companies doing business in the Granite State. The first, the business profits tax (BPT), has been in place since 1970 and functions much in the same way that corporate income taxes in other states do. That is, any company engaged in a sufficient level of economic activity in New Hampshire – a concept often referred to as nexus – is subject to the business profits tax. To determine the business profits tax owed to New Hampshire, a company, after accounting for relevant exemptions and deductions, uses a formula specified by law to calculate the amount of the income it and all of its affiliates have earned nationwide that is attributable to its New Hampshire operations. (This formula, like those employed in other states, uses the share of a company’s property located in New Hampshire, the share of its total sales that occur in New Hampshire, and the share of its total payroll paid to its New Hampshire workforce to apportion income to New Hampshire for tax purposes. Like most states, New Hampshire gives greater weight to the share of sales that occur in New Hampshire in its particular apportionment formula.) The income apportioned to New Hampshire is then taxed at the current BPT rate of 8.5 percent. Several credits, including the Community Development Finance Authority (CDFA) investment tax credit and the research and development tax credit, can then be used to reduce a company’s final tax bill. Any company with gross receipts in excess of $50,000 is required to file a BPT return.

The second business tax, the business enterprise tax (BET), was instituted in 1993 and, in the view of many observers, operates in a fashion similar to a value-added tax (VAT). In simple terms, a VAT is imposed on the value added to a particular good or service throughout the production process. For example, if a company sells an item for $100, but paid $90 for the materials that went into creating that item, it would pay a tax on the $10 difference under a VAT. In the case of New Hampshire’s BET, that difference – or value added – is known as the “enterprise value base” and is defined in law as the total amount of wages and salaries, interest, and dividends paid by a given company. To determine the BET it owes, a company performs a series of calculations – similar to those outlined above for the BPT – to establish the amount of its enterprise value base subject to taxation. It then multiplies that amount by 0.75 percent, the current tax rate for the BET. In 2014, any company with either gross receipts of more than $200,000 or an enterprise value base above $100,000 is required to file a BET return; those thresholds will be adjusted for inflation in future years.

Importantly, the business profits tax and the business enterprise tax are designed to work in concert, as companies can use whatever they may owe in business enterprise tax as a credit against their business profits tax liability. For instance, if a company owes $15,000 in BET and $25,000 in BPT, its total tax liability is $25,000, as its BPT bill is reduced to $10,000 by its $15,000 credit for BET paid. However, if the same company did not owe any BPT, it would still owe its full BET liability of $15,000. Consequently, the BET serves as a supplement or a backstop to the BPT, ensuring that all businesses conducting operations in New Hampshire make some contribution to the public services – such as the state’s schools, courts, or roads – from which they benefit in any given year.
According to data from the New Hampshire Department of Revenue Administration (DRA), in tax year 2010, nearly 64,600 businesses filed either a BPT return, a BET return, or both, resulting in total tax collections under the two levies of approximately $425 million. Of the total number of combined BPT and BET returns filed in 2010, corporations and proprietorships accounted for roughly equal shares – about 41 to 42 percent of returns each – with partnerships comprising almost all of the remaining 17 percent of returns. Despite this rough parity in the number of returns between corporations and proprietorships, corporations paid a much larger share of total BPT/BET collections in 2008, furnishing eighty-two out of every one hundred dollars arising under those two sources of revenue.

Still, as the figure at right makes clear, many businesses owe either very little or nothing at all under the BPT or BET. In particular, close to 23,000 BPT/BET returns – or about 35 percent of total returns – showed no business profits or business enterprise tax owed in 2010. Another 11,100 returns – or 17 percent of the total – had combined liabilities of less than $500 that year; returns in this latter category owed an average of $216 between the two taxes. While there are a variety of reasons why a company may not owe tax in a given year – such as the use of various deductions, exemptions, or credits – it is also worth noting that as many as 130,000 to 150,000 companies are doing business in New Hampshire at any one time, suggesting that some companies that may be required to file a BPT or BET return – and that may face some liability under one or both of those taxes – are not now doing so.

Revenue arising from business profits and business enterprise taxes flows into both the General Fund and the Education Fund. More specifically, each year, the DRA Commissioner is required to calculate how much revenue was generated, in that year, by the 1.5 percentage point increase in the business profits tax rate from the 7.0 percent rate that was in place prior to 1999 to the 8.5 percent rate that obtains today. The Commissioner is also required to calculate the amount of revenue produced, in that year, by the 0.5 percentage point increase in the business enterprise tax rate from its pre-1999 level of 0.25 percent to its present level of 0.75 percent. Those amounts, in turn, are deposited into the Education Fund, with all remaining revenue from these two sources flowing into the General Fund.
taxes accruing to the General Fund. As a result, between 35 and 40 percent of the revenue collected from these two levies has gone to the Education Fund in recent years.