



## MISSION

The mission of the Department of Revenue Administration is to collect the proper amount of taxes due, incurring the least cost to the taxpayers, and in a manner that merits the highest degree of public confidence in our integrity, efficiency and fairness. Further, it must provide prompt and constructive assistance to the municipal units of government in matters of budget, finance, and the appraisal of real estate.

This report is dedicated to Governor Craig Benson and Members of the Executive Council:

1<sup>st</sup> District – Raymond S. Burton

2<sup>nd</sup> District – Peter J. Spaulding

3<sup>rd</sup> District – Ruth L. Griffin

4<sup>th</sup> District – Raymond J. Wiecek

5<sup>th</sup> District – Deborah B. Pignatelli



September 30, 2005

Letter from the Commissioner

Fiscal Year 2005, the budget year, set the stage for fiscal year 2006 and 2007. The department has been given adequate funding to insure that our tax compliance initiatives will be continued. Our oversight of the property tax is fully staffed and we have the positions needed to serve our citizens, cities and towns.

This past year low and moderate taxpayer relief claims were processed 4 weeks ahead of the statutory requirement. When the program began several years ago, we were barely able to make the statutory deadline. Now we complete the processing with a month to spare. Allowing the people doing the job to design the process was the key element to making the low and moderate tax relief claims process more efficient. Documents processing division, our new central tax services unit, and the property appraisal division are to be commended for their cooperative spirit, can do attitude, and pride in a job well done.

In our tax return filing season, more money was put into the bank faster than ever before. Documents processing set up a worker friendly environment that made everyone who participated feel appreciated. Every division within the department contributed people and the result was not just quicker, more efficient depositing of money but the spirit of cooperation that continues today.

More examinations and compliance work were conducted providing the state with more revenue than ever before. It's not the number of people doing the work that counts the most, but rather it's the effort and energy they put into their work. There is so much enthusiasm in the audit division that it is contagious throughout the building. Making sure everyone pays their fair share according to the law of the state makes the tax burden lighter on all. When somebody pays too much it is being refunded with equal zeal.

Tax collections are proceeding faster than ever before. When someone has a debt to the state they are being contacted sooner and we are working with them to resolve the issue. This is not an easy job, but it is being performed in the dignified professional manner that the citizens should expect. The departments overall cost to the citizens of the State of New Hampshire is less than 1.5% of the money we put into the state treasury and collections division is a major factor in this low cost/high yield system.

The department's Municipal Services Division continues to work with the municipalities one on one. We don't just set tax rates, we also provide a host of support services for our municipalities. Many of the services we provide are given right at the local government locations we support. Helping our local government officials 'do it right' is our mission and service is our middle name.

We have increased our ability to monitor property taxes. The property tax system from assessment through equalization has not just vastly improved; it is well on the way to being the national model. The assessing standards and the equalization standards boards are giving clear guidance on how the system should work. The monitors, reviewers, and the equalization staff are out working with the municipalities creating a system that will set the bar of excellence very high. The outside expert who evaluated the property tax system for the state a number of years ago recently publicly stated, "I would be hard pressed to find a state that has done more to improve the property tax system than New Hampshire." The simple fact is the property appraisal staff is mastering the art of working with our municipalities because it is only through a government wide effort and inclusion of the private assessing industry that that our goals can be met.

We count on our partners at the county the Registry of Deeds, who we work with to make the real estate transfer tax flow smoothly. We must not forget the people who make it possible for us to do our job efficiently. The County registrars and the department, with the help of Representative Betsey Patten, have brought forward bills that have become law to increase the effectiveness of both of our operations. Government must work together and the County registrars are proving themselves to be model partners.

No year goes by without having people and events that need to be marked. This agency consists of 200 dedicated souls on a mission to fairly administer the taxes put into law. In this year, we marked the passing of Debbie Vachon, a tireless auditor who also was a friend to all. She is greatly missed.



G. Philip Blatsos  
Commissioner



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# ORGANIZATIONAL CHART

## DIVISION PRIMARY FUNCTIONS

**Audit Division** – Conducts audits of individuals, partnerships, estates, trusts, corporations, tax returns and documents filed with the Department to ensure compliance with New Hampshire tax laws and rules.

**Collections Division** – Initiates collection activities in pursuit of delinquent tax returns and payments for all taxes administered by the Department.

**Document Processing Division** – Receives, sends, processes, stores, and retrieves all tax documents, return payments and electronic transactions filed with the Department.

**Municipal Services Division** – Established and approves municipal, school, county and village district tax rates. Provides technical assistance, relative to taxation and finance, to the political subdivisions of the state. Prescribes a uniform chart of accounts for all municipalities, schools, counties and village districts.

**Property Appraisal Division** – Assists and educates municipalities with the methods of appraisal and assessment of real property. Provides appraisal revaluation services statewide to municipalities. Equalizes the local assessed valuation of each municipality to bring such valuations to the full and true market value of the property. Advises and assists municipalities and taxpayers in full and true appraisals and timely collection of timber yield tax. Appraises public utility and railroad property for equalization, as well as local tax purposes. Assists local municipalities with the administration of the current use law (RSA 79-A).

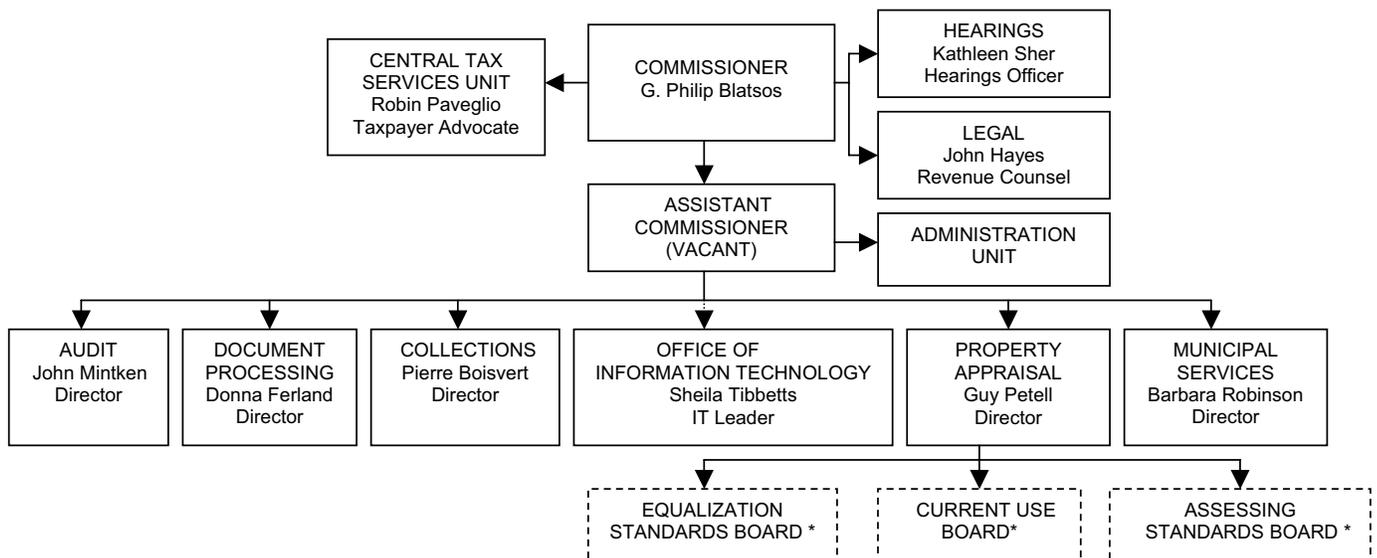
**Administration Unit** – Performs administrative functions necessary to support department operations including accounting, purchasing, human resources, fleet and facility maintenance, legal, adjudicative and administrative hearings, customer service, and taxpayer advocacy.

**Central Tax Services Unit** – Providing general assistance to the public for all taxes administered by the department. Internal Control of all tax receivables for the department and acts within the department as an advocate for taxpayers.

**Office of Information Technology (Embedded Personnel)** – Designs, develops and maintains computerized systems to support the administration of taxes and to automate labor-intensive functions.

### Organizational Chart

June 30, 2005



\*Administratively Attached Board

# PROPERTY TAX DEVELOPMENTS

## Low and Moderate Income Homeowners Property Tax Relief

Effective July 1, 2002, Chapter 158 of the Laws of 2002 repealed the Education Property Tax Hardship Relief and enacted Low and Moderate Income Homeowners Property Tax Relief. The Education Property Tax Hardship Relief provisions were designed to lessen the economic burden of the education property tax on certain at-risk taxpayers. The new law expanded the eligibility criteria to include all property owners in New Hampshire, provided they own a "homestead", or an interest in a "homestead", subject to the education property tax and have resided in the homestead on April 1 of the year for which the claim is made. Eligible claimants also must have had total "household income" of \$20,000 or less if a single person; \$40,000 or less if married or "head of a New Hampshire household".

Eligible claimants apply for relief to the Department using Form DP-8. Claimants must include a copy of their final property tax bill and federal income tax return for the claim year and any additional documentation as required. Completed Forms DP-8 must be postmarked no earlier than May 1, and no later than June 30 following the due date of the final property tax bill.

In an effort to improve the processing of claims, the Department implemented a new software application and an on-line claim status check. The new software application allows the claims to be processed faster by implementation of several automated features such as pre-filled data entry fields for previous filers and the ability to generate request letters within the application, using the pre-filled information. The on-line claim status check allows applicants to login and view the status of their claims.

For claim year 2002, 23,606 relief checks were issued totaling over \$7.7 million. All claims were processed within the time prescribed by the Legislature. For the 2003 claim year, the department received over 27,000 claims from New Hampshire property owners and issued relief checks totaling over \$7.4 million. For the 2004 claim year, the department received over 25,000 claims from New Hampshire property owners and the anticipated total amount of relief to be issued will be approximately \$5 million.

## Property Appraisal and Municipal Services

Property Appraisal and Municipal Services Divisions are responsible for providing technical support and assistance to municipalities in the area of state and local property tax. These Divisions have four broad areas of responsibility: monitoring of the appraisal and valuation of properties, conducting annual ratio studies for determining the total equalized valuation of properties within municipalities, conducting an assessment review of specific municipalities each year, and setting municipal tax rates.

For the 2004 tax year, the Property Appraisal Division monitored 38 full revaluations, 47 partial revaluations, 68 cyclical review programs, and 155 annual maintenance contracts. In addition, the staff responsible for this monitoring also provided technical assistance and information as requested from virtually every town or city. Property Appraisal was also responsible for the valuation of railroads and utility properties for the state-wide education tax, including a nuclear power plant, 13 electric companies, 9 gas companies, 3 bio-electric companies, 32 hydro-electric companies, 35 water and sewer companies, and 12 railroads, with a combined valuation of over \$3 billion. Further, the staff also processed 4,007 "Intent to Cut" forms for timber harvesting, and 793 "Intent to Excavate" forms for gravel extraction.

The assessment review process was initiated for the 2003 tax year, following adoption of guidelines by the Assessing Standards Board. Informational workshops were held for all municipalities being reviewed, the review was conducted by the Property Appraisal staff. A total of 59 municipalities were reviewed for the 2004 tax year, with preliminary reports for distribution to those municipalities. Assessment reviews of 62 additional towns began for the 2005 tax year.

The equalization staff of the Property Appraisal Division produced ratios for the 2004 tax year for 234 towns and cities, and 24 unincorporated jurisdictions. The work was performed in accordance with an equalization manual that was reviewed, revised, and approved by the Equalization Standards Board. Only one appeal was filed challenging the calculated ratio. Effort has been ongoing to encourage municipalities to submit data for these ratio studies electronically. Electronic

filings by municipalities mean less data entry, fewer errors, and faster results. For 2004 tax year, 55% of the municipalities, with 76% of the sales, filed electronically. In addition to the ratio study, the equalization staff also assisted in reviewing and processing the low and moderate property tax requests.

Computerized templates and spreadsheets were utilized to streamline the tax rate setting process. With the help of these innovations and a dedicated staff, processing time was minimized, resulting in quicker turnover of the certified tax rates issued to the municipalities. In addition, the Municipal Services Division conducted and participated in training workshops for collectors, village district officials, school officials, town and city officials, the GFOA, and the municipal section of the New Hampshire Bar Association. In addition, the staff also conducted numerous on-sight technical assistance visits to municipalities, including specific visits to collectors.

The Property Appraisal Division annually certifies and recertifies individuals who are permitted to perform assessing work in the state. Currently, there are 408 certified personnel comprised of 150 measurer and listers, 31 trainees, 88 appraisers and 139 appraiser supervisors. Of this number certified, 101 are due for recertification in 2005, 71 in 2006, 76 in 2007, 60 in 2008 and 100 in 2009.

To assist municipalities, the Property Appraisal Division continues to make available a Timber and Gravel

Certification worksheet for their use. It provides an easier and more accurate method to calculate the timber and gravel taxes due. Currently, approximately 80% of New Hampshire municipalities are now taking advantage of this program.

The Property Appraisal Division also makes use of a timber and gravel tax database to monitor the timber and gravel activities in each municipality. The database provides timber species and excavated material totals that are initially planned for removal, and the actual final totals when each operation is completed. Reports can be generated to give totals by municipality, county, and/or statewide totals. In addition, the information is provided to the Department of Resources and Economic Development in summarizing the total volumes cut by municipality and statewide.

The utilization of a utility tax database continues to provide a means to coordinate work among the Utility section, the ratio study staff, and the Municipal Services staff during the tax rate setting process. This database assists the Utility section with its annual utility analysis and tax billing by retaining assessed taxpayer and value "history", and capturing total assessed valuation by municipalities and statewide. It is also used by the ratio staff in verifying information on the MS-1 forms that are submitted, and by the Municipal Services staff in finalizing the correct tax rates.

# VOLUNTARY COMPLIANCE - CUSTOMER SERVICE & EDUCATION

The Department's centralized customer service and education program has been operational since February of 2004. Since that time, we have responded to 51,562 requests for assistance. Callers and visitors to the Department benefit from the assistance of four experienced representatives trained in all areas of New Hampshire state tax laws, rules and administration.

Education is used as a tool to promote voluntary compliance through increased awareness and understanding of state tax laws and obligations facing New Hampshire residents and businesses with activity in New Hampshire. In June, two of our representatives assisted the City of Concord with a Low and

Moderate Homeowners Property Tax Relief program held at the Centennial Senior Center. This and other educational programs are always welcome and well received by the public. Lesson plans are currently being developed to address the state tax challenges facing new business owners, especially those in New Hampshire's vast restaurant and hotel industry.

Our Central Tax Services Unit Representatives will continue to take part in various state tax educational initiatives throughout the next year while continuing to assist taxpayers in all manners of tax administration. Anyone seeking assistance should not hesitate to contact us at (603) 271-2191.

## Declaratory Rulings and Administrative Rules FYE 6/30/05

DOC NUMBER	RULE NUMBER AND CONTENT	EFFECTIVE DATE	EXPIRATION DATE
8305	Cub 304.03 Forest Land Ranges	4/1/05	4/1/13
8137	Rev 900 Interest and Dividends	8/20/04	8/20/12
8178	Rev 1600 Communications Services	9/24/04	9/24/12
8179	Rev 1700 Financial Accounting For Cities and Towns	9/24/04	9/24/12
8251	Rev 604.16,604.17 Discretionary Easements Rev 604.19-604.20 Discretionary Preservation Easements	1/8/05	1/8/13
8258	Rev 2800 Equalization	1/15/05	1/15/13
8266	Rev 2700 Nursing Facility Quality Assessment (Interim rules)	12/10/04	6/8/05
8306	Rev 1100 Financial Source Coding for Local Education Agencies	3/22/05	3/22/13
8371	Rev 2700 Nursing Facility Quality Assessment	6/8/05	6/8/13
8373	DCR Meals and Rooms – Requesting exempt status from license	RSA 78-A	6/16/05

## Technical Information Releases Issued FYE 6/30/05

TIR NUMBER	DESCRIPTION
2004-004	House Bill 426 – Annual Appraisals
2004-005	Amendment to Communication Service Tax (CST) Laws
2004-006	New Interest Rates Set
2004-007	Property Tax Relief Claims

# ENFORCEMENT COMPLIANCE – AUDITS & COLLECTIONS

When voluntary compliance efforts fail to produce the desired results, enforcement through audit and collection efforts must be pursued. The Department's Audit Division and Collections Division worked diligently to ascertain and pursue those with a tax obligation who failed to file or pay as required by law. While most taxpayers voluntarily file and pay the proper amount of taxes when due, those who do not create an unfair burden on the public, resulting in inequities, which must be remedied.

## Non-Filer Project Discovery/ Nexus Program

During FYE June 2004, the Discovery/Nexus Bureau of the Audit Division identified 2,838 non-filed or improperly filed returns. This effort produced tax collections of \$4,184,386. Since its inception in 1990, this non-filer project has generated initial filing revenue exceeding \$25 million.

The Nexus Group has conducted significant non-compliance activities through the use of computer tape cross-matches with the Department of Employment Security. In recent years, the Nexus Group has also utilized the Internet for obtaining an array of information on out-of-state companies that conduct business activities in New Hampshire.

During the next fiscal year, the Nexus Group will continue to explore the use of computer technology with other state agencies and survey the use of technology from municipal departments across the state. The Audit Division will continue to participate in a national nexus program with numerous other states, which pursue non-filers who operate in multiple jurisdictions.

The Revenue Discovery/Nexus Bureau works to identify non-filers of Interest and Dividends tax by utilizing information provided by the IRS. The Revenue Discovery Bureau then compares this information to returns filed with the Department. For FYE June 2004, 2,553 letters were sent causing 2,553 returns to be filed. The tax collected from this program is included in the \$4,184,386 reported above.

## Real Estate Transfer Tax

The Audit Division began a compliance review in the fall of 2003 of individuals and businesses that appeared

to have profited from the favorable real estate market conditions. This review identified 1,000 commercial transfers that were reported as tax-exempt gifts or a value significantly below actual considerations. Also identified were transfers of interests in real estate not reflected on the county filed CD-5.

## Collection Activity

As an integral part of the New Hampshire Department of Revenue Administration, the Collection Division is committed to making sure that all taxpayers, both businesses and individuals, timely submit and fully pay their New Hampshire state tax liabilities as required by law. Our front line enforcement compliance officers help accomplish this mission.

The Collection Division is specifically charged with the responsibility of initiating collection activity in pursuit of delinquent tax returns and assessments of all taxes administered by the Department of Revenue Administration. This division works on a case-by-case basis to obtain payment of outstanding assessments on overdue tax liabilities. Working with delinquent taxpayers helps assure tax compliance and secures debts due the State.

Compliance officers provide assistance to the Meals and Rentals operators to insure proper understanding of the Department of Revenue's rules and State regulations. Compliance officers provide taxpayers the opportunity to have questions answered promptly and in a professional manner.

An updated accounting system has been implemented for the Tobacco tax system to help reduce the manual processes and provide the taxpayer with more efficient service.

During fiscal year 2005 over 333 liens have been recorded. The following is the summary of delinquent taxes, interest and penalties collected: Meals and Rentals, \$4,580,174; Business Tax, \$3,145,615; Interest and Dividends, \$252,500; and Miscellaneous Tax, \$1,339,512. Tobacco Stamp Tax collected was \$143,775,600. Concentrated collection efforts were expended to reduce \$3.1 million in out-of-state accounts that resulted in the collection of \$2.7 million. This initiative reduced the number of delinquent cases from 622 to a more manageable number of 283.

# LEGAL DEVELOPMENTS

## Office of Revenue Counsel

Revenue Counsel serves as general legal counsel for the Department and provides legal advice and representation to the Department. Civil cases filed in state courts and administrative appeal tribunals appealing tax assessments and challenging state taxing statutes required a significant portion of the Department's attorneys' time. During the fiscal year the Department's attorneys worked on four cases pending before the N.H. Supreme Court, twenty-seven cases before the Superior Courts, forty-five cases pending before the Board of Tax and Land Appeals, ten cases before the Probate Courts, and four cases before federal bankruptcy courts. The Department's attorneys also drafted and analyzed legislation affecting the Department and coordinated the promulgation of administrative rules.

## Interest and Dividends Tax Lawsuit

Department attorneys provided assistance to Department of Justice attorneys as they continued to defend the State's financial interests in Smith v. Department of Revenue. This case, a class action filed in 1995, challenged the constitutionality of the New Hampshire statute that exempted interest and dividends from the tax imposed by former RSA 77:4. After protracted litigation, and in accordance with an earlier Supreme Court decision, the Superior Court held that this exemption discriminated against interstate commerce in violation of Article I, § 9, cl. 3 of the United States Constitution but only with respect to out-of-state banks, and awarded them a tax refund of "all interest and dividend taxes paid for the years 1991-1994 on interest on any deposits in out-of-state banks: and dividends from stock in out-of-state banks." After the Plaintiffs unsuccessfully appealed to the New Hampshire Supreme Court and the United States Supreme Court, Department attorneys worked with Department of Justice and Plaintiffs' attorneys to obtain Court approval of the refund process and approval of payment of the Class Counsel's attorneys' fees. Department attorneys coordinated the issuance of refunds with an inter-divisional task force assigned to issue the refunds.

As a result, a project ensued to design and implement procedures for the issuance of these refunds. During this fiscal year, the project was successfully completed resulting in the issuance of 4,640 refund

checks worth \$1,416,003 to those taxpayers involved in the decision. \$693,934 in attorney fees, based on a percentage of the gross refunds due, has also been paid. 340 checks were returned to the Department and have been forwarded to the Abandoned Property Division of the N.H. Department of Treasury. Determinations that no refund was due have been sent out to 11,942 taxpayers.

## Property Tax Cases

During the fiscal year, twenty Utility Property Tax cases were pending before the Supreme Court, Superior Court or the Board of Tax and Land Appeals. Four appeals of municipalities' equalization were pending before the Board of Tax and Land Appeals or Supreme Court. Department attorneys have also provided advice and representation with respect to the Low and Moderate Income Property Tax Relief program administered by the D.R.A. Attorneys represented the Department in fourteen Low and Moderate appeals to the Board of Tax and Land Appeals. Seventeen petitions for reassessment of municipalities' property tax valuations were pending before the Board of Tax and Land Appeals. Department attorneys also worked with the Department of Justice representing the interests of the State in a group of consolidated cases in which the Plaintiffs challenged the state education property tax.

## Summary of Adjudicative Proceedings

During FY 2005, the Hearings Bureau underwent significant changes. The Hearing Officer went on medical leave at the beginning of FY 2005. As a result, no hearings were held during the first quarter of the fiscal year. A Designated Hearing Officer filled the role part-time from October 2005 until February 2005, when the Hearing Officer resigned and a new one was appointed. At the beginning of FY 2005, the Bureau's Legal Aide resigned. A new Legal Aide came on board in October 2005.

The Hearings Bureau experienced a decrease in the number of appeals filed in FY 2005 as compared with FY 2004. The time required to produce a Final Order after the close of the record was decreased to an average of 40.3 days, as compared to 43.3 in FY 04. This number is expected to decrease further as the staffing shortage experienced during FY 2005 has been

alleviated. Of the 32 Final Orders issued in FY 2005, 5 were issued after the 30-60 day scheduled production criteria timeframe. Three of those were beyond 70 days.

The Bureau's goal for FY 2006 is to continue to maintain a high level of timely performance, as the caseload and schedule fluctuate throughout the year. This includes refining the hearings process by instituting quarterly updates to the Divisions regarding cases in suspension in an effort to move those cases toward closure. It also includes increased efforts to prepare Final Orders within 30-60 days of the close of the record in each case.

The following statistics summarize the activity of the Hearings Bureau during the past year as compared to the prior fiscal year:

	<b>FY'04</b>	<b>FY'05</b>	<b>% Chg</b>
Appeals filed	139	93	(33%)
Cases closed	124	128	3%
Cases on appeal to Superior Court, BTLA, or Supreme Court	8	9	11%
Final Orders Issued	46	32	(30%)
Cases Open as of 6/30	163	168	3%
<b>Final Orders Issued for the Period 7/1/04 through 6/30/05</b>			
Business Taxes	17	21	24%
Meals & Rentals Tax	3	5	67%
Interest & Dividends Tax	9	2	(78%)
Legacy & Succession Tax	15	3	(80%)
Tax Rate	1	0	(100%)
Utility Property Taxes	1	0	(100%)
Real Estate Transfer Tax	0	1	100%
<b>TOTAL ORDERS ISSUED</b>	<b>46</b>	<b>32</b>	<b>(30%)</b>

# TECHNOLOGICAL DEVELOPMENTS

## Internet and Telefile (eFileNH) enhancements

The Department continues with its commitment to bringing faster more efficient services to taxpayers in the form of more Internet and Telefile enhancements.

Internet and Telefile filing benefits the taxpayers by reducing the amount of time Department employees are required to devote to processing paper transactions. For example, it takes an average of ten separate employees to handle the estimate/extension form. This includes but is not limited to mail openers, cashiers, data entry, and file clerks. Approximately 14 hours are committed to processing 500 extension and estimate payments. The Department processes approximately 175,000 paper estimates/extensions each year. Internet filing just these two forms has the potential to allow employees to devote approximately 5,000 hours annually to other tasks. These other tasks will have a direct benefit to the taxpayers and residents of New Hampshire in that it will allow greater concentration on expediting abatement requests, refund requests, and more timely issuance of tax notices. The Internet & Telefile application is hosted at an off-site data center, which provides 24 hour 7 days a week maintenance services. The Department hopes that offering alternative methods of filing which are convenient and easy will help increase voluntary compliance.

From July 2004 through June 2005, the Department has processed over 28,000 Internet and 30,000 Telefile transactions totaling more than \$204 million.

## Automated Refund Approval

The Department has instituted an automated refund approval process to expedite the refund process for tax returns that meet certain criteria. This has resulted in a timesaving for DRA employees processing and reviewing refunds and a quicker turn around on refunds to the taxpayer. Over the last fiscal year, 6,701 refunds with a total of \$7,260,124.97 went through the auto-approval process.

## 2D Barcode

The Department continues to work with the National Association of Computerized Tax Processors to supply software vendors with record layouts in order to process Interest & Dividends Tax Returns and

estimated payments with 2 dimensional bar codes, called 2D. A 2D barcode is essentially a barcode that has been flipped on its side and contains multiple rows of data.

Documents are batched and scanned into a PC application and uploaded to the Department's overnight system and posted to the taxpayer's account nightly. It saves the Department 90% of the usual manual processing time. In addition, keying errors are reduced and re-work and suspense transaction volume are significantly decreased. Refund transactions are generated in a more timely fashion, and taxpayer accounts are up-to-date faster.

From July 2004 through June 2005, the Department has processed over 34,000 2D bar-coded payment transactions totaling more than \$17 million as well as over 5,000 refund transactions for more than \$2.5 million.

This year the scanning system was enhanced to increase the number of edit checks to the scanned information before submitting to overnight processing, which decreased the number of documents that error suspended. The scan time for a batch of 25 returns is approximately 2 minutes and 5 minutes for a batch of 50 estimates, resulting in a savings of over 770 hours of data entry time annually. The error rate remains at less than 2%.

## Accounts Receivable

The Department has been working on an automated Accounts Receivable System to centralize outstanding tax liabilities. The main impetus to this project is the retrieval of a taxpayer's entire tax liability regardless of the tax type. Release 1 was implemented in the last fiscal year.

Release 2 of the Accounts Receivable System, was completed in June of 2005. The project included two main enhancements; the PC application which improved DRA employees access to receivable data and the processing of manual tax notice payments to TIMS. The PC application automated the tracking of manual accounts receivables, which different DRA divisions had previously maintained in various formats throughout the Department. An automated lien-tracking component was also installed on the PC application.

Release 2 also facilitated processing of manual tax notice payments via TIMS thereby providing distributed access across the Department from a centralized storage area. All tax notice payments are now processed by the same method, which has decreased the work effort required to reconcile tax notice payment batches. Also, tax notices that are in an arrears status are automatically assigned to the Collections Division

From July 2004 to June 2005, the Department has collected over \$7.5 million through the Accounts Receivable system.

## Low & Moderate PC Application

The Department utilizes a PC application to administer the Low & Moderate (L&M) Homeowners Property Tax Relief program. Approximately 27,000 L&M applicants file a claim with the Department each year. The PC application provides facilities to data enter, validate and create payment vouchers for approved claimants, as well as track correspondence between the Department and the claimants. PC application security is integrated with the Tax Information Management System (TIMS). Payment voucher information transfer to the State's Integrated Financial System (IFS) is automated through the File Transfer Protocol (FTP) on the State's wide area network (WAN).

## Tobacco tax Stamp Information System

The Department utilizes a PC application to track Tobacco Tax Stamp sales and inventory. The application records purchase and payment information for tobacco tax stamps by State licensed tobacco wholesalers and is integrated with the Taxpayer Information Management System (TIMS). Additionally, the application provides stamp tracking based on stamp

roll numbers, stamp returns for damaged or un-sellable stamps and contact management for wholesalers and manufacturers. Existing TIMS usernames and passwords are utilized by the application to provide security.

## Technology Goals for the Future

The Department has developed an Information Technology (IT) plan to guide the short and long term establishment of well-planned and designed information systems to support program mandates. The IT plan establishes priorities based on the Department's business goals and objectives utilizing an integrated tax philosophy and incorporating, where feasible, new technology trends. The Department's strategy will also address public concerns about the digital age: privacy and confidentiality and universal access.

The Department has embraced the goals outlined in the Governor's report of Information Technology Strategic Planning Commission. Specifically, that information technology is used to more effectively serve the people of New Hampshire. The Department will focus on the following IT strategy for Internet use as defined in the commission report:

1. To improve the access and convenience of state government services, information, and political processes.
2. To accelerate the activities and services of state government, making them more responsive and timely.
3. To lower the cost of state government.
4. To capitalize on our investment in data processing tools and training and help in developing methods to fully utilize all data available to the Department.

# SUMMARY OF TAXES & GENERAL INFORMATION

## SUMMARY OF TAXES BUSINESS PROFITS TAX - RSA 77-A

The Business Profits Tax (BPT) has historically been one of the largest sources of general fund revenue. Enacted in 1970 as a replacement for the municipal property tax on stock-in-trade, farm livestock, poultry, fuel pumps, mills and machinery, the initial rate was established at 6%. The rate steadily increased to a high of 9.56% in FY 1983. The rate then decreased to 7% beginning FY 1995, then increased to 8% for tax years ending on or after 7/1/99. The current rate of 8.5% was effective for all returns and taxes due on account of taxable periods ending on or after July 1, 2001. This tax is assessed on income from conducting business activity within the state. For multi-state businesses, income is apportioned using a weighted sales factor of 2 and the standard payroll and property factors. Organizations operating a unitary business must use combined reporting in filing their NH return. Four annual estimate payments are required on liabilities greater than \$200, paid at 25% each. Proprietorship, partnership and fiduciary returns are due on April 15<sup>th</sup> or the 15<sup>th</sup> day of the 4<sup>th</sup> month following the end of the taxable year. Corporate returns are due on March 15<sup>th</sup> or the 15<sup>th</sup> day of the 3<sup>rd</sup> month following the end of the taxable year. Organizations with \$50,000 or less of gross receipts from all their activities are not required to file a return.

## BUSINESS ENTERPRISE TAX - RSA 77-E

In 1993, a 0.25% (.0025) tax was enacted on taxable 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 after special adjustments and apportionment. Chapter 17, Laws of 1999 increased the rate from 0.25% to 0.5%. The rate was increased to 0.75% in 2001. Also, the filing threshold increased to \$150,000 of gross business receipts or \$75,000 of the enterprise value tax base. Four annual estimate payments are required on liabilities greater than \$200, paid at 25% each on the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, 9<sup>th</sup> and 12<sup>th</sup> months of the taxable year. The tax return is due at the same time the Business Profits Tax return is due.

## COMMUNICATION SERVICE TAX - RSA 82-A

First enacted in 1990 at 5.5% this tax was assessed upon two-way communications services. Chapter 158, Laws of 2001, increased the permanent portion of the tax to 4.5% and continued the surtax of 2.5%, resulting in an overall tax rate of 7% for the period beginning July 1, 2001 and ending June 30, 2003. A permanent rate of 7% was passed effective July 1, 2003. Retailers must register with the department and are required to collect and remit the tax. Returns must be filed on the 15<sup>th</sup> day of the month for the preceding calendar month unless the average monthly liability is less than \$100. Any retailer who can reasonably estimate their average monthly liability to be in excess of \$10,000 is required to make an estimated payment equal to 90% of the actual tax collected. This payment is due on or before the 15<sup>th</sup> day of the month during which the liability is incurred.

## INTEREST & DIVIDENDS TAX - RSA 77

The Interest & Dividends (I&D) tax, which was first enacted in 1923, applied a tax based on the "average rate of property taxation" upon the I&D income received by NH residents from sources other than NH and Vermont banks. The tax was changed significantly in FY 1995 to eliminate the exemption on income from NH and Vermont banks. In conjunction with this change, the personal exemption was increased from \$1,200 to \$2,400. The exemption for joint filers increased from \$2,400 to \$4,800. Estimated tax payments are due 4/15, 6/15, 9/15 & 1/15 on tax liabilities greater than \$500. The tax return is due on April 15<sup>th</sup>. Additional \$1,200 exemptions are available for residents who are 65 years of age, who are blind, and who are handicapped and unable to work, provided they have not reached their 65<sup>th</sup> birthday. The current tax rate of 5% has remained the same since FY 1977.

## **LEGACY & SUCCESSION TAX - RSA 86 Legacy & Succession RSA 87 Estate Taxes RSA 89 Transfer Tax on Personal Property of a Non-Resident Decedent**

The Legacy & Succession Tax was first enacted in 1905. Chapter 158, Laws of 2001 repealed the Legacy and Succession Tax for property passing as a result of deaths occurring on or after January 1, 2003. The tax rate at the time of repeal, 18%, is assessed upon property passing to collaterals or "strangers of the blood". Chapter 232, Laws of 2002, repealed the Transfer tax on Personal Property of a Non-resident Decedent for property passing as a result of deaths occurring on or after January 1, 2003. There is a 2% tax on all personal property within the jurisdiction of the state, which belonged to non-residents. No tax is assessed on any amount passing to a spouse, lineal ascendants and descendants (including children & grandchildren by adoption, step-children & step-grandchildren) and their spouses, or charities. An Estate Tax is provided to absorb the difference between state taxes and the credit allowable against the federal estate tax. The administrator or executor of the estate has total compliance responsibility for timely filing the return and paying taxes owed.

## **MEALS & RENTALS TAX - RSA 78-A**

The M&R tax was enacted in 1967 at a rate of 5%. Currently at 8%, the tax is assessed upon patrons of hotels and restaurants, on rents and upon meals costing \$.36 or more. Chapter 17, Laws of 1999, amended the language to include an 8% tax on the "gross rental receipts" from the rental of motor vehicles, effective 7/1/99. The tax is paid by the consumer to an authorized M&R operator. An M&R Tax Operator's License is required. The operator maintains books and records showing the amount of tax collected and remits the tax monthly to the state, less a 3% commission. The tax is required to be remitted to the State on the 15<sup>th</sup> day of the month following the collection of tax.

## **REAL ESTATE TRANSFER TAX - RSA 78-B**

The Real Estate Transfer tax was first enacted in 1967. Chapter 17, Laws of 1999, increased the permanent tax rate assessed on the sale, granting, and transfer of real estate and any interest in real estate to \$.75 per \$100, or fractional part thereof, of the price or

consideration. This rate is assessed on both the buyer and seller for a combined tax rate of \$1.50 per \$100. Where the price or consideration is \$4,000 or less, there is a minimum tax of \$20 assessed on both the buyer and seller. Chapter 158, Laws of 2001, removed the exception from the tax on transfer of real property for transfers of title pursuant to a merger, consolidation or other reorganization qualifying as a tax-free reorganization. It also removed the exception of the transfer of title from one business entity to another, the ownership interest of which may be the same. These changes were effective for transfers occurring on or after July 1, 2001. The tax is paid at the Registry of Deeds office in the county where the property is located. A Declaration of Consideration (Form CD-57) must be filed with the Department of Revenue Administration.

## **STATE EDUCATION PROPERTY TAX - RSA 76:3**

Under Chapter 17, Laws of 1999, the state education property tax was established. The tax is assessed and collected by municipalities. The rate was originally \$6.60 per thousand of equalized valuation. It appears on the same bill with the other property taxes administered at the local level. The effective date of this tax was April 1, 1999. Chapter 158, Laws of 2001 reduced the rate from \$6.60 per \$1,000 of value to \$4.92 per \$1,000 of value beginning with the April 1, 2003 tax year (school year 7/1/03-6/30/04). The sunset provision of the state education property tax was repealed, making the tax a permanent revenue source dedicated to funding education. As of April 1, 2005, rate is \$3.33 per \$1,000.

## **UTILITY PROPERTY TAX - RSA 83-F**

Utility property is defined as "all real estate, buildings, and structures, machinery, dynamos, apparatus, poles, wires, fixtures of all kinds and descriptions, and pipe lines located within New Hampshire employed in the generation, production, supply, distribution, transmission, or transportation of electric powered or natural gas, crude petroleum and refined petroleum products or combination thereof, water, or sewage." The tax rate is \$6.60 per \$1,000 of value of utility property. On December 1 of each year the department determines the value of utility property as of the previous April 1. The effective date was April 1, 1999.

## **LOCAL REAL ESTATE TAX - RSA 76**

Property taxes, based upon assessed valuation, are assessed, levied and collected by cities and towns.

## TAX EXEMPTION, CREDIT AND DEFERRAL AGAINST PROPERTY TAXES

Current Use assessment (RSA Chapter 79-A) is available for land qualifying in the following categories: Farm Land, Forest Land, Unproductive Land. Applications for Current Use must be filed with the local assessing officials on or before April 15<sup>th</sup>.

**Application Date:** The permanent application (Form PA-29) for tax exemption, credit and deferral is available from the local assessing officials. For the 2004 tax year, the application must be filed with the local assessing officials by March 1<sup>st</sup>, 2005, unless granted an extension pursuant to RSA 76:16-d.

**Option:** Effective January 1, 1998, RSA 72:33 allowed municipalities, through town meeting or a city council, to adopt August 1st as the filing date for the Elderly Exemption. Check with the municipality to determine specific filing dates.

**Elderly Exemption:** Effective July 23, 1996, RSA 72:39-a replaced the Standard, Expanded, Adjusted and Optional Adjusted Elderly Exemptions. The statute sets the minimum exemptions, and the cities and towns may modify them. The statutory exemption levels for all municipalities are adopted by each individual municipality.

- Amount of exemption from value of residential real estate: Ages 65-74; 75-79; and 80+
- Net Income Limits, including Social Security Income or pension payment Net Asset Limits

### Blind Exemption - RSA 72:37

The exemption for the legally blind must be adopted by the municipality. The exemption is a minimum \$15,000 reduction of the assessed value of the residential real estate (RSA 72:29) and could be higher if amended through referendum vote.

### Deferral for the Elderly or Disabled - RSA 72:38-a

The assessing officials "... may annually grant a person qualified under this paragraph a tax deferral... ." Property taxes are deferred and accrue interest at the rate of 5% per annum. The deferred property tax may not exceed more than 85% of the equity value of the residence. If granted by the assessing officials, the deferral is available to any resident property owner who is 65 years or older, or eligible for benefits for the totally and permanently disabled under the federal social security act, has owned the home for at least five years, and is currently residing there.

## Veterans Tax Credit - RSA 72:28

Qualifying residents shall receive the following amounts deducted from their tax bills:

- \$ 50: Basic credit available to all veterans.
- \$700: For the surviving spouse of a veteran, pursuant to RSA 72:29-a, and veterans having a total and permanent service-connected disability pursuant to RSA 72:35

*Towns may adopt a local option to increase the above dollar amounts to \$100 and \$1,400.*

**Disability Exemption** - Residents who qualify under RSA 72:36-a as totally and permanently disabled from service connection, and is paraplegic or having double amputation from military service connected disability or blind (5/200 vision or less) as a result of service connection, and owning a specially adapted home acquired with V.A. assistance are exempt from all taxation on that home.

## Tax Exemption for Improvements to Assist Persons with Disabilities - RSA 72:37-a

This exemption is limited to a physically handicapped person who resides at the residential real estate, and is applicable only upon the value of any special aids required by the resident to enable them to propel themselves.

## Tax Exemption for Wind-powered, Solar and Wood heating Energy System - RSA's 72:66, 72:62, 72:70

These exemptions are optional to the cities and towns, and must be voted upon locally. If further information is required, contact the assessing officials of the municipality.

## Tax Exemption for the Disabled - RSA 72:37-b

Available to persons eligible under the Social Security Act for benefits to the Totally & Permanently Disabled. Applicable only on the applicant's principal place of abode. The exemption is optional and must be voted on by the municipality, which also determines the amount of the exemption and the income/asset limitations.

# REVENUE AND STATISTICS

## RECEIPTS AND EXPENDITURES AS OF JUNE 30, 2005

RECEIPTS	FY 04	FY 05	% of Change
Tax Collections	1,041,262,944	1,094,364,703	34.37%
License Fees	60,240	36,800	(38.91%)
Appraisal Fees	10,900	0	(100.00%)
<b>TOTAL</b>	<b>1,041,334,084</b>	<b>1,094,327,903</b>	<b>34.36%</b>

EXPENDITURES	FY 04	FY 05	% of Change
Classified	5,833,051	5,128,775	(12.07%)
Unclassified	1,511,560	1,349,673	(10.71%)
Benefits	2,878,897	2,975,473	3.35%
Other	7,584	11,026	45.39%
SUBTOTAL	10,231,092	9,464,947	(7.49%)
Current Expense	1,201,881	2,234,604	85.93%
Equipment	95,533	89,427	(6.39%)
SUBTOTAL	1,297,414	2,324,031	79.13%
In-State	57,429	68,293	18.92%
Out-of-State	87,369	71,984	(17.61%)
Miscellaneous	341,268	273,410	(19.88%)
SUBTOTAL	486,065	413,687	(14.89%)
<b>TOTAL</b>	<b>12,014,572</b>	<b>12,202,665</b>	<b>1.57%</b>

DISBURSEMENT/TOWNS	FY 04	FY 05	% of Change
Flood Control	659,150	659,150	0.00%
Forest Land	196,314	156,112	(20.48%)
Recreational	199	0	(100.00%)
Concord	81,380	81,380	0.00%
Education Reimb Munic	0	0	
<b>TOTAL</b>	<b>937,043</b>	<b>896,642</b>	<b>(4.31%)</b>

**REVENUE BREAKDOWN BY SOURCE**

	<b>FY 04</b>	<b>FY 05</b>	<b>Change</b>
Business Profits Tax	171,568,053	209,747,332	38,179,279
Business Enterprise Tax	236,627,334	236,162,258	(465,076)
Meals & Rentals Tax	184,259,685	192,196,642	7,936,957
Tobacco Tax	100,040,497	99,307,075	(733,422)
Interest & Dividends Tax	53,769,043	66,929,900	13,160,857
Estate & Legacy Taxes	35,050,805	11,909,724	(23,141,081)
Communications Svs Tax	65,595,263	69,557,473	3,962,210
Real Estate Transfer Tax	137,018,703	160,430,527	23,411,824
Excess State Ed Prop Tax	29,843,911	20,934,231	(8,909,680)
Utility Property Tax	20,159,763	20,087,776	(71,987)
Electricity Consumption Tax	6,217,227	6,229,864	12,637
Other (includes RR)	923,468	871,900	(51,568)
<b>TOTAL</b>	<b>1,041,073,752</b>	<b>1,094,364,703</b>	<b>53,290,951</b>

\* Changed from franchise tax on 5/1/01

**TRANSFERS TO EDUCATION TRUST FUND FROM:**

Business Profits Tax	(41,000,000)	(45,900,000)	(4,900,000)
Business Enterprise Tax	(116,900,000)	(130,600,000)	(13,700,000)
Meals & Rentals Tax	(6,966,180)	(6,979,754)	(13,574)
Real Estate Transfer Tax	(45,639,512)	(52,226,631)	(6,587,119)
Tobacco Tax	(28,588,918)	(28,004,521)	584,397
Excess State Ed Prop Tax	(29,843,911)	(20,934,231)	8,909,680
Utility Property Tax	(20,133,390)	(20,087,776)	45,614
<b>EDUCATION TRUST FUND</b>	<b>(289,071,911)</b>	<b>(304,732,913)</b>	<b>(15,661,002)</b>
<b>GENERAL FUND</b>	<b>752,001,841</b>	<b>789,631,790</b>	<b>37,629,949</b>

## Net Income on a Cash Basis for 1996-2000

TYPE OF REVENUE	Fiscal Year Ending 6/30/96	Fiscal Year Ending 6/30/97	Fiscal Year Ending 6/30/98	Fiscal Year Ending 6/30/99	Fiscal Year Ending 6/30/00
BPT	155,814,223	170,760,077	168,636,550	167,632,300	166,180,915
BET	24,300,099	39,136,516	71,693,395	89,635,308	147,557,955
M&R Tax	112,454,174	118,721,973	127,720,467	136,499,008	153,311,197
Tobacco Tax	45,420,240	49,837,126	75,244,227	73,327,818	92,570,165
I&D Tax	51,658,363	52,698,495	61,833,319	62,911,196	65,203,307
Estate & Legacy Taxes	31,707,415	41,234,484	42,774,343	47,482,309	60,635,156
CST Taxes	35,266,871	38,263,312	40,219,738	45,824,952	47,416,610
RE Transfer Tax	30,077,586	32,423,790	42,587,934	51,066,185	82,864,095
Nuclear Station Property Tax	7,492,746	7,499,999	7,492,475	7,526	n/a
Utilities Tax	9,995,600	10,061,920	10,238,216	10,394,085	n/a
Utilities Franchise Tax	n/a	n/a	n/a	n/a	9,974,424
Utilities Property Tax	n/a	n/a	n/a	n/a	31,167,539
Excess Education Property Tax	n/a	n/a	n/a	n/a	24,149,942
Electric Consumption Tax	n/a	n/a	n/a	n/a	n/a
Other Revenue (includes Railroads & savings bank taxes)	1,424,895	1,995,890	1,918,204	1,277,630	1,027,627
<b>TOTAL</b>	<b>505,612,212</b>	<b>562,633,582</b>	<b>650,358,868</b>	<b>686,058,317</b>	<b>882,058,932</b>

## Net Income on a Cash Basis for 2001-2005

TYPE OF REVENUE	Fiscal Year Ending 6/30/01	Fiscal Year Ending 6/30/02	Fiscal Year Ending 6/30/03	Fiscal Year Ending 6/30/04	Fiscal Year Ending 6/30/05
BPT	197,642,774	159,237,248	178,180,669	171,568,053	209,747,332
BET	154,828,834	223,636,411	215,200,349	236,627,334	236,162,258
M&R Tax	163,049,648	169,703,721	175,114,686	184,259,685	192,196,642
Tobacco Tax	87,959,255	84,976,512	93,267,036	100,040,497	99,307,075
I&D Tax	76,842,273	71,470,243	56,417,343	53,769,043	66,929,900
Estate & Legacy Taxes	57,064,323	57,088,030	68,193,847	35,050,805	11,909,724
CST Taxes	49,256,789	62,508,517	63,452,424	65,595,263	69,557,473
RE Transfer Tax	90,350,287	97,371,970	117,003,621	137,018,703	160,430,527
Utilities Franchise Tax	8,731,743	298,743	n/a	n/a	n/a
Utilities Property Tax	15,625,403	18,192,984	18,833,596	20,159,763	20,087,776
Excess Education Property tax	24,528,663	28,963,331	32,666,031	29,843,911	20,934,231
Electric Consumption Tax	n/a	5,735,676	6,024,844	6,217,227	6,229,864
Other Revenue (includes Railroads & savings bank taxes)	1,210,757	1,226,191	815,634	923,468	871,900
<b>TOTAL</b>	<b>927,090,749</b>	<b>980,409,577</b>	<b>1,025,170,080</b>	<b>1,041,073,752</b>	<b>1,094,364,703</b>

## PERSONNEL & REVENUE ADMINISTRATION STATISTICS

Personnel Expenditure FY 2005	Revenue Collected FY 2005	Estimated Cost of Collection FY 2005
\$10,231,092	\$1,094,364,703	.73%

PERSONNEL DATA	CURRENT # OF EMPLOYEES AS of JUNE 30, 2005
Unclassified Employees	22
Classified Employees	149
Full time Temporary Employees	0
Temporary Employees	0
<b>Total Number of Employees</b>	<b>171</b>

PHYSICAL PLANT AND PROPERTY VALUE AS OF JUNE 30, 2005	
Equipment	\$2,607,503
Motor Vehicles	\$398,515
Physical Plant	0
Farm	0
Highways	0
<b>TOTAL Property Value</b>	<b>\$3,006,018</b>

PREVOLVING FUND, RSA 21-J:24A, VIII, FOR PERIOD 7/1/04 THROUGH 6/30/05	
Beginning Fund Balance 7/1/04	\$5,557.04
Expenditure	\$550.00
Revenues	\$0.00
Ending Fund Balance 6/30/05	\$5,007.04

# APPENDIX OF PROPERTY TAX EQUALIZATION TABLES

# APPENDIX 1

## 2004 PROPERTY TAX TABLES BY COUNTY

## **APPENDIX 2**

### **2004 EQUALIZATION SURVEY**

**PART I - Summary of Property Tax System**

**PART II - 2004 Equalization Survey  
Including Utility & Railroad**

**PART III - 2004 Equalization Survey  
Not Including Utility & Railroad**

**PART IV - Base Valuation for Debt Limits**

**PART V - 2004 Comparison of Full Value Tax Rates**