

Senate Ways and Means Committee

Sonja Caldwell 271-2117

SB 77-FN-A, relative to expense deductions under the business profits tax.

Hearing Date: February 22, 2017

Members of the Committee Present: Senators Sanborn, Daniels, D'Allesandro and Feltes

Members of the Committee Absent: Senator Giuda

Bill Analysis: This bill removes the state limits on expense deductions under the business profits tax.

Sponsors:

Sen. Sanborn	Sen. Avar	Sen. Carson
Sen. French	Sen. Fuller Clark	Sen. Gannon
Sen. Innis	Sen. Morse	Sen. Reagan
Rep. Pearl	Rep. Cordelli	

Who supports the bill: Sen. Carson, Sen. Gannon, Sen. Fuller Clark, Bruce Berke (NFIB), Sen. Innis, Sen. Morse, Will Anderson, Dave Juvet (BIA), Greg Moore (AFP-NH), Teresa Rosenberger, Sen. Avar

Who opposes the bill: Sen. Feltes

Who is neutral on the bill: Carollynn Ward/Melissa Rollins (DRA)

Summary of testimony presented:

Sen. Sanborn – this is a continuation of a tax policy we initiated two years ago because we recognized that NH was lagging behind neighboring states. He thinks this is an important tax policy. There are 3 specific taxes where NH doesn't follow the federal code. The 179 deduction is a non-cash event. It is solely about how companies recognize, for purposes of expense versus depreciation, their ability to buy an asset. This bill pays for itself. One has to buy something from someone else. This is a small business tax credit. Large companies are exempt from this policy. NH's limit was at \$25,000 two years ago but was raised to \$100,000 last year. 40 states follow federal level. He expressed disappointment in the fiscal note.

Sen. Feltes asked why we are unraveling an agreement that was reached last year.

Sen. Sanborn said it's not unraveling; it is trying to make NH pro-business

Sen. Feltes said NH has the 7th best overall business climate as ranked by the tax foundation. He asked when we stop all these tax cuts for corporations.

Sen. Sanborn said this is not a tax cut. It's a recognition of taxes. He'll stop when we're number 1.

Sen. D'Allesandro said we made a change last year and thinks it would be prudent to see what happens before we make further changes. There are major discussions at the federal level about tax policy, and asked if we should see what happens there first, because it impacts us.

Sen. Sanborn said a significant block of policy makers think we should be at this level. Anything we can do to spur economic growth is good prudent policy.

Sen. Feltes asked if it isn't more prudent to pass the working families tax credit.

Sen. Sanborn said this is a recognition of when the business pays taxes; not a cut. This will increase business activity which will increase revenue to the state.

Carolynn Ward and Melissa Rollins – DRA

How they administer the 179 deduction: when a taxpayer makes a capital expenditure, the IRC requires they deduct the cost of it over several years in accordance with the useful life of the item. 179 is an exception to that general principle and allows them to deduct up to \$500,000 in the year the item is put in service. The maximum deduction was recently made permanent at the federal level. That's why states have decoupled from the federal code. Because NH uses the federal gross starting point, a taxpayer has to add back a number to the extent that the federal deduction exceeds the \$100,000 NH maximum deduction. That helped them determine the fiscal analysis. For many this is a timing issue; you either deduct it in year 1 or over a longer period. They can't track that foregone depreciation deduction in later years. They can only look at single year to measure the impact. When businesses move, go out of business, or change their NH apportionment percentage, it's difficult to say NH would always recoup 100% of the foregone deduction. They will look at the fiscal analysis again.

Ms. Rollins said this is just a line item on the return and doesn't take into account timing or depreciation.

Sen. D'Allesandro asked from a collection standpoint, when the DRA can analyze the effect of all the changes we've made.

Ms. Ward said for the change to the 179 deduction, they won't be able to analyze it until taxpayers file their 2017 return which isn't until 2018 or fiscal 2019.

Sen. D'Allesandro said we're talking about making another change without knowing the effect of the first change.

Sen. Feltes asked if this is revenue neutral.

Ms. Ward said over time it approaches revenue neutrality but we never get to revenue neutrality because of the factors they pointed out.

Sen. Sanborn read an email he received from Joe Shean of RP Abrasives and Machine Inc. in Rochester in support of the legislation.

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Date Hearing Report completed: February 24, 2017