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## **RECOMMENDATIONS TO PROMOTE SMART MANUFACTURING/HIGH TECHNOLOGY GROWTH IN NEW HAMPSHIRE**

The mission of the Business and Industry Association of New Hampshire is to promote and preserve a business friendly environment and healthy economy for New Hampshire.

The New Hampshire High Technology Council's mission is to establish and maintain financial, technical, management, legislative and educational support programs that encourage innovative research and technology-based industrial development in New Hampshire.

As New Hampshire's statewide chamber of commerce, the BIA engages in rigorous processes each year to ensure the concerns of our members and the broader business community are well understood. A sound understanding of business concerns is important to accurately articulate them to policy makers. These processes include:

- A four-step, four-month process that includes policy development discussions with business leaders throughout the state, a BIA member survey, policy committee review, and board review and agenda setting; and
- A business outlook survey that measures top business concerns among a stratified random sample of New Hampshire businesses.

In addition, in September of last year, the BIA, NHHTC and New Hampshire Center for Public Policy Studies conducted an online

survey of manufacturing/high technology companies to gauge the competitive pressures facing them, as well as tax and public policy initiatives to benefit them.

These formal processes are supplemented with informal conversations and interactions with members throughout the year. The BIA and NHHTC therefore feel confident that the following recommendations will enhance and promote New Hampshire's economic engine—smart manufacturing/high technology (SMHT). A healthy, vibrant and growing SMHT sector will invigorate the rest of New Hampshire's economic sectors.

### **Healthcare policy**

Year after year our members tell us their top concern, after economic uncertainty, is the rising cost of healthcare and health insurance. With some of the country's highest health insurance premiums, businesses of all sizes are struggling to find relief. While federal healthcare reform legislation will likely ensure coverage for most Americans and dozens of pilot projects around the country should spur quality improvements, it appears unlikely that the legislation will alleviate rising costs for businesses.

No state, particularly a small state like New Hampshire, can prevent rising healthcare costs and health insurance premium increases. Healthcare does not respond to market principles of supply and demand. In fact, the reverse appears to be true—supply increases demand. Nevertheless, state policy makers can do their part to help mitigate rising healthcare costs by following these recommendations:

- Oppose new or expanded healthcare benefit mandates
- Support adequate Medicaid reimbursements to healthcare providers to reduce cost-shifting to the business community

- Support cost-effective ways to provide healthcare to the uninsured and underinsured to reduce cost-shifting to the business community from uncompensated care
- Support healthcare reform that lowers costs, improves access and results in better outcomes

## **Tax policy**

Our fundamental belief is that business taxes should be established at a level that is as low as possible. High corporate tax rates are an obvious negative for companies seeking to grow or expand in New Hampshire. There are several components within our existing tax structure that should be modified in ways that would be beneficial to our SMHT community. These include:

- **Lower BPT & BET**

New Hampshire has two distinct business taxes, the Business Profits Tax (BPT), which taxes corporate profits (known as a corporate income tax in many other states), and the Business Enterprise Tax (BET), which taxes the enterprise value tax base and 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.

The BPT was enacted in 1970 to replace New Hampshire's Stock in Trade tax. The original tax rate was set at 6%, but almost immediately raised to 7% to ensure revenue neutrality. Over the years the tax rate has fluctuated up and down (mostly up) with large increases in 1999 and 2001 to raise revenue to meet Claremont education funding obligations. The current 8.5% rate, in place since 2001, while not the highest in the country, is certainly on the high end of the spectrum.

The BET was established in 1993 in response to a lawsuit brought by former Governor Craig Benson, then CEO for Cabletron. The intent was to tax business revenue that was declared as compensation rather than profit. The original tax rate was .25%, which over the years, again due to Claremont education funding obligations, has been raised to .75%. To preserve tax neutrality, corporations paying the BET receive a dollar-for-dollar credit against the BPT with a five-year carry forward provision. The BET is unique to New Hampshire.

Lowering the BPT and the BET will make New Hampshire far more competitive and attractive to existing SMHT businesses and foster new SMHT business growth and development.

- **Protect BET Credit Against BPT**

The BET credit against the business profits tax was a critical part of the enacting statutes creating the BET in 1993. The credit preserves “tax neutrality” for Business Profits Tax payers ensuring they are not double taxed with BET and BPT. The Legislature has in the past attempted to remove or suspend the BET credit, which would unfairly penalize BPT payers. The BET credit must be wholly preserved as an essential component of business tax fairness in New Hampshire.

- **Research and Development Tax Credit**

R&D is the essential first step in the manufacturing/high technology continuum. R&D leads to new products, new techniques and new ideas. It leads to prototyping, high-margin manufacturing and commodity manufacturing. R&D leads to new jobs. New Hampshire’s R&D tax credit was established to reward companies for their R&D investments and encourage more of it.

The Congressional Office of Technology Assessment has concluded that, “for every dollar lost in tax revenue, the research & development tax credit produces a dollar increase in reported R&D spending...” Other studies, including a 2007 study authored by UNH professor Ross Gittell, have found even greater benefits. Gittell’s study showed a tax credit cost to benefit ratio of between 1.3 and 2.9, meaning that every R&D tax credit dollar generates \$1.30 to \$2.90 in additional R&D investment.

New Hampshire’s R&D tax credit, which is tied to employment growth, is capped at \$1 million per fiscal year. The NH Department of Revenue Administration indicates it receives more than three times that amount in credit requests. A low cap may protect the state’s revenue base, but it severely reduces the effectiveness of the credit and results in less R&D spending and less economic activity than would be realized with a more robust R&D tax credit. New Hampshire’s R&D tax credit should be increased to \$5 million annually.

- **Net Operating Loss Carry-forwards**

Net operating loss carry-forwards exist in all states that tax corporate profits. These laws recognize that profit-making businesses may at times suffer through bad business cycles. In the case of small business start-ups, these enterprises often struggle for several years to attain profitability. NOLs allow businesses to carry their losses forward into profitable years and to be used as deductions against profit when calculating corporate income tax payments. Two criteria are commonly used: the number of years a company is allowed to carry forward a loss and the total amount of loss allowed to be carried forward. Most states allow an unlimited amount of loss to be carried forward, commonly for 10 – 20 years. New Hampshire allows a 10-year

carry-forward and caps the amount of loss at \$1 million per year, the lowest cap of any state in the country.

New Hampshire SMHT companies would benefit from an unlimited cap (as is the case in most states) and a 20-year NOL carry-forward.

- **Single Sales Factor BPT Apportionment**

SMHT companies that have multi-state tax liabilities apportion their corporate income taxes using formulas promulgated by each state. Three criteria are used to determine the tax due—payroll, in-state property and in-state sales. New Hampshire uses a double-weighted formula for in-state sales, with payroll and property representing the other 50% of the criteria. States that want to foster a robust manufacturing and high-tech environment use what is called “single-sales factor” apportionment. This means that the corporate income tax apportioned to the state in which they reside is based entirely on in-state sales. New Hampshire should adopt this type of apportionment formula. SMHT companies would see reduced business profits tax liability. The business enterprise tax paid would remain unchanged.

- **BET Credit Carry-Forward & Thresholds**

A critical component of New Hampshire tax neutrality is the dollar-for-dollar BET credit towards the BPT. (Absent this credit, for-profit companies would be paying both taxes, which would equal a very high effective tax rate). Companies have five years in which to use accrued BET credits, but some companies are not able to take the full dollar amount of their BET credits within the five-year window, particularly during a down economy. SMHT companies would benefit from increasing the BET credit carry-

forward period. The BET credit carry-forward should be increased from the current five years to 10 years.

Under current law, enterprises with more than \$150,000 of gross receipts from all their activities or an enterprise value tax base more than \$75,000 are required to file a BET return. New Hampshire's smallest SMHT firms and startups would benefit by increasing these reporting thresholds.

### **Regulatory policy**

SMHT companies prefer to be regulated by New Hampshire regulators as opposed to federal regulators, such as those from the Environmental Protection Agency or U.S. Department of Labor. Nevertheless, SMHT companies are highly sensitive to state-imposed environmental and labor regulations. In general, state laws and regulations that exceed federal standards tilt the field in favor of competitor states. A recent study by Seyfarth Shaw LLP and Navigant Economics, "The Impact of State Employment Policies on Job Growth: A 50 State Review," placed New Hampshire in the study's "fair" group for having a moderate growth-prohibiting legislative climate. According the study, states with a "fair" rating have some pro-employment policies, but are also falling short in a number of areas. Another analysis released by Forbes last October, "Best States for Business 2010," ranked New Hampshire's regulatory environment 47<sup>th</sup> worst in the nation.

Examples of excessive regulation in New Hampshire include the state's "WARN Act" (Worker Adjustment and Retraining Notification), enacted in 2010, which established state regulations and standards on employee layoffs that are more stringent than the federal law of the same name. This makes New Hampshire an

“outlier,” one of the few states to have its own WARN Act, and works against business growth.

Another example is the manner by which New Hampshire regulates toxic air pollutants. Through the New Hampshire Air Toxics Control Program, New Hampshire far exceeds federal Clean Air Act standards in regulating toxic pollutants. While all businesses are concerned about the health and welfare of our state, these additional regulations put New Hampshire at a competitive disadvantage when compared to other states that do not exceed federal standards in this area. Manufacturers in particular need a balanced state regulatory framework that protects the public without inhibiting economic growth.

SMHT companies would benefit from a review of labor and environmental regulations in New Hampshire to assess their costs versus benefits with particular emphasis on employment growth and business profitability.

### **Energy policy**

Energy is a huge cost input for most manufacturing and high technology companies. New Hampshire’s energy costs are some of the highest in the nation. Like rising healthcare and health insurance costs, a small state like New Hampshire can only impact rising energy costs at the margin. Energy prices are impacted not only by supply and demand, but by geo-political events across the globe, federal energy and environmental policies, and technological advances, among other factors. Nevertheless, state policy makers can do their part to mitigate the rising cost of energy by:

- Opposing diversions of dedicated funds aimed at the promotion of energy efficiency, conservation and sustainable energy.
- Directing the disbursement of energy efficiency and sustainable energy funds to projects with the clearest, most immediate and substantial impacts.
- Supporting the proportional disbursement of energy efficiency and sustainable energy funds to all energy consumers, based on the amount each consumer sector pays into the fund
- Supporting initiatives and policies that leverage regional strengths, including the development of affordable renewable energy resources
- Ensuring that electric ratepayers are able to access competitive supply options
- Supporting policies that expand the installation and usage of onsite, distributed generation.

### **Education/Workforce policy**

Access to an educated, skilled workforce is essential to the success of SMHT companies in New Hampshire. Recently, the New Hampshire Advanced Manufacturing Education Advisory Council examined issues associated with advanced manufacturing and workforce skills. The council released a report in 2010 recommending that the New Hampshire Department of Education:

- Develop and implement strategies for the manufacturing sector to educate parents, educators and students about career opportunities
- Increase communication between manufacturing and education to ensure alignment with current realities of the smart manufacturing industry.

- Strengthen math education to ensure student success in areas relevant to their goals.
- Increase accessibility to advanced pre-engineering/manufacturing education to all students.

New Hampshire is blessed with many outstanding post-secondary institutions, including the University of New Hampshire and sister campuses, Dartmouth College, Southern New Hampshire University, and New Hampshire Community College System, among others. In addition, the state benefits from its proximity to dozens of world-class educational institutions in Massachusetts and neighboring New England states.

New Hampshire policy makers should ensure that post-secondary educational expenses remain affordable to ensure a steady supply of local workforce talent. In addition, business access to job training programs available through community and technical colleges will remain an important consideration for the location and growth prospects of New Hampshire's manufacturing and high technology employers.

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**Business & Industry Association, New Hampshire's  
Statewide Chamber of Commerce**

**New Hampshire High Technology Council**

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