

## GUEST COMMENTARY

Cutting business taxes  
not good for our state

By JEFF McLYNCH

In conversations at coffee shops and around kitchen tables, in the pages of newspapers like this one, and in hearing rooms at the Statehouse, the version of the state budget approved by the New Hampshire House of Representatives has received a great deal of attention in recent weeks.

With good reason. By imposing nearly \$490 million worth of spending cuts over the next two years, it would have significant consequences for just about anyone living, working or doing business in the Granite State.

Families would find it harder to purchase child care. Young people would see the price of a college education climb out of reach. Local companies would witness a rise in health care costs due to cuts in funding for uncompensated care.

Yet, policymakers in Concord could soon make these and other problems much worse, as both the House and the Senate are weighing a variety of proposals to reduce the taxes paid by businesses operating in New Hampshire.

The specifics of these proposals differ – one would reduce the business profits tax rate, another would raise a threshold at which businesses must begin to pay the business enterprise tax, and still others would expand deductions or credits – but they would all have the same harmful impact on the state budget and the public services and structures it helps to support and to maintain.

In fact, if each of the main proposals now under consideration were enacted, state revenues would be reduced by at least \$50 million – and possibly much more – over the fiscal year 2012-13 biennium. That would likely force even sharper cuts in education, health care and other areas key to New Hampshire's future economic prosperity.

The backers of these tax cuts maintain they would help to lure companies to New Hampshire – or to keep existing ones here – and thus boost employment and incomes. Extensive economic research, however, shows that such proposals would likely fall far short of achieving those ends – and may well impair economic growth over the long run.

Here's why. In the aggregate, the taxes businesses pay are

actually a very small share – usually no more than 1 percent – of the total costs they face. What's more, of the taxes businesses pay in New Hampshire, the property tax is the most impor-

tant, comprising nearly three-fifths of their overall tax bill in fiscal year 2009.

Further, of the two principal business taxes New Hampshire imposes at the state level – the BPT and the BET – roughly 70 percent is paid by businesses with headquarters and operations out of state.

Consequently, the tax proposals now before the Legislature – because they focus upon these two business taxes – would do very little to strengthen companies' bottom lines or to induce investment in New Hampshire.

Rather, the tax proposals now before the Legislature – because they would engender deeper and broader reductions in the state budget – could ultimately end up weakening companies' balance sheets and making New Hampshire a less attractive place for businesses to locate or to expand.

For instance, both the governor and the House have recommended substantial cuts in aid to cities, towns and school districts. Those cuts would, in many communities, lead to higher property taxes for homeowners and businesses alike; this dynamic could become even more pronounced in the face of business tax cuts.

In addition, the same research that reveals the relatively slight impact corporate income taxes like the BPT have on business costs finds that other costs of doing business are much more relevant to business investment decisions. Among those costs, of course, are costs that are directly tied to public expenditures, such as the availability of a quality work force and the presence of a reliable physical infrastructure.

Cuts to the state budget – and how they will be felt in our daily lives – are already the talk of New Hampshire. As a result, cuts to business taxes shouldn't be a topic for discussion.

Jeff McLynch is the executive director of the Concord-based New Hampshire Fiscal Policy Institute.