New Hampshire Advantage Index 2018
Executive Summary

The term “New Hampshire Advantage” has been used as a short-hand way of saying that the Live Free or Die state is the only state with the combination of no state and local individual income tax, no state and local sales tax, and no estate tax. Despite its small size, in terms of geography and population, New Hampshire has been able to sustain one of the strongest economies in New England and the country.

However, until now, there has been no way to quantify and track the New Hampshire Advantage. Tax policy is constantly on the move as states jockey for a competitive advantage or, to the chagrin of taxpayers, seek to raise more revenue. This leaves those hoping to preserve and extend the New Hampshire Advantage without a roadmap to guide them.

In response, the Granite Institute has created the **New Hampshire Advantage Index** which is the first and only index that measures the tax differentials between New Hampshire and the rest of New England, including New York (henceforth just New England). Put simply, the Index works like a thermometer, the higher the value then the greater the Advantage.

The Index consists of 5 major components that it measures—**the size of the private sector, taxes on individuals, taxes on consumption, taxes on businesses, and taxes on wealth** (for more specific details, see the methodology section).

In the 2018 Index, the New Hampshire Advantage has increased by 28 percent between 1983 (the earliest year of comparable state data) and 2018 (the latest year of comparable state data) moving from a value of 40.0 to 51.2 (**Chart 1 and Table 1, page 4**). While good news, New Hampshire can’t rest as the Index has slipped since the peak in 2005/2006 (value of 55.3) as neighboring states have worked to make their tax codes more competitive (see our online data app to see all the data used in the Index).

**Chart 1**

**The New Hampshire Advantage Index**

1983 to 2018
The New Hampshire Advantage has been a boon to the economy. For instance, the sales tax advantage alone has boosted cross-border shopping into New Hampshire resulting in $540 million in sales from Vermont and over $2.2 billion in sales from Maine. And, having no personal income tax and estate tax has contributed to New Hampshire having over twice the number of millionaires as Maine (and over three times wealthier), even though both states have nearly identical population sizes.

One area of concern has been the decrease in the size of New Hampshire’s private sector, measured as a percent of personal income. During the time-period studied, 1988 was the high-water mark at 83.3 percent—the largest in the country and leading second place Connecticut by 1.3 percentage points. By 2018, not only has New Hampshire’s private sector shrunk by 9 percent to 76.3 percent, but now lags behind Connecticut by 1.8 percentage points.

There are several reasons why New Hampshire’s private sector has been crowded-out by government. First, as one of the oldest states in the country, the share of federal entitlements (Social Security and Medicare) of the economy will grow. Second, since the great tax reform of 1993, New Hampshire’s tax rates have been rising and thus slowing private sector growth. Third, the enactment of Obamacare’s Medicaid expansion, and the more recent extension, brings in more Medicaid money resulting in more private sector crowd-out.

While repealing Obamacare’s Medicaid expansion must be a priority, another round at tax reform would not only boost the New Hampshire Advantage but also boost the private sector. The Granite Institute has proposed the Business Flat Tax. The Business Flat Tax would eliminate the Business Profit Tax while boosting the Business Enterprise Tax to two percent while at the same time extending the Business Enterprise Tax to government and not-for-profits.

If hypothetically enacted in 2018, the Business Flat Tax would have boosted the Index by a whopping 34 percent to 68.0 in 2018 from 50.8 in 2017 (Chart 9, page 7). This is the immediate impact, but over time the boost to the private sector would result in it reversing years of decline—perhaps even reclaiming the number one spot in the country!

Overall, the New Hampshire Advantage is not carved in granite. It is threatened by out-of-state policy such as tax reductions in Maine, Rhode Island, and Massachusetts as well as bad in-state policy like rising tax rates and enactment of Obamacare’s Medicaid expansion. Now, there is no excuse for failure. For the first time, state policymakers have the roadmap to preserve and extend the New Hampshire Advantage.
### Table 1
The New Hampshire Advantage Index
1983 to 2018

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Source: Granite Institute
Measuring the New Hampshire Advantage

The New Hampshire Advantage has been a boon to the economy. For instance, the sales tax advantage alone has boosted cross-border shopping into New Hampshire resulting in $540 million in sales from Vermont and over $2.2 billion in sales from Maine.\textsuperscript{1,2} And, having no personal income tax and estate tax has contributed to New Hampshire having over twice the number of millionaires (and over 3 times wealthier) as Maine, even though both states have nearly identical population sizes.\textsuperscript{3}

Dr. Roger E. Brinner and Dr. Joyce Brinner find that sales tax–induced cross-border shopping can have broad negative effects: “a 1% point increase in the sales tax rate can cut about 2.6% from state output growth over a decade … consumers choose their buying locations to find relative bargains; if they can escape a tax by hopping across a nearby border to buy goods with lower excise or sales taxes, they will do so. Many other studies have found strong evidence of cross-border retail impacts, and these simple regressions confirm the statewide damage that can be caused.”\textsuperscript{4}

In the 2018 Index, the New Hampshire Advantage has increased by 28 percent between 1983 (the earliest year of comparable state data) and 2018 (the latest year of comparable state data) moving from a value of 40.0 to 51.2 (Chart 1 and Table 1). While good news, New Hampshire can’t rest as the Index has slipped since the peak in 2005/2006 (value of 55.3) as neighboring states have worked to make their tax codes more competitive (see our online data app to see all the data used in the Index).

To better understand the movements in the overall Index, lets look at the Index over time for each individual state in New England (see special note on the Estate Tax at the end of this section):

\begin{figure}[h]
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\includegraphics[width=\textwidth]{chart.png}
\caption{Chart 1: New Hampshire Advantage Index over Time}
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\begin{table}[h]
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\caption{Table 1: New Hampshire Advantage Index by Year}
\label{tab:adv-index}
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\begin{itemize}
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VERMONT

In 2018, Vermont had the least competitive Index score of 66.2 (Chart 2) and has been at these elevated levels since reaching an all-time high of 67.6 in 2006. However, Vermont hasn’t always been so uncompetitive because it was one of the few states that piggy-backed on the federal individual income tax—meaning they simply took a percentage of the federal tax bill.

CHART 2

New Hampshire Advantage Index vs. Vermont
1983 to 2018

In 1986, prior to President Ronald Reagan’s landmark tax reform bill, Vermont took 26.5 percent which, when multiplied by the federal 50 percent marginal tax rate, translated into an effective tax rate of 13.25 percent. Federal tax reform slashed the top federal tax rate to 28 percent which, combined with a lower Vermont percentage of 23 percent, yielded a much lower effective tax rate of 6.44 percent. Between 1986 and 1988, Vermont’s Index score plunged 47 percent to 27.2 (the lowest score over this time-period) from 52.2.
Unfortunately for Vermont’s taxpayers, this reprieve was short-lived as both the top federal income tax rate and Vermont’s piggy-back rate both began to climb reaching 39.6 percent and 34 percent, respectively, creating an effective tax rate of 13.464 percent (the highest during this time-period). Correspondingly, Vermont’s Index score jumped a whopping 88 percent to 51.1 from 27.2.

In 1994, Vermont’s piggyback rate dropped to 25 percent creating an effective tax rate of 9.9 percent. The 2001 tax cuts under President George W. Bush would have created another see-saw in Vermont’s effective tax rate which led the state to abandon the piggy-back tax model. In 2002, Vermont operated under its own individual income tax with a top marginal tax rate of 9.5 percent.

Between 2002 and 2018, Vermont’s individual and corporate top income tax rates have become more competitive with the individual income tax falling from 9.5 percent to 8.95 percent and the corporate income tax rate falling from 9.75 percent to 8.5 percent.

This has been partially offset by increases in consumption taxes:

- The sales tax has increased to 6 percent in 2018 from 4 percent in 1983 (and as high at 6 percent between 1991 and 1997).
- The meals tax has increased to 9 percent in 2018 from 5 percent in 1983.
- The lodging tax has increased to 9 percent in 2018 from 5 percent in 1983.
- The gasoline tax has increased to 31 cents per gallon in 2018 from 13 cents in 1983.
- The cigarette tax (inclusive of the sales tax) has increased to $3.26 per pack in 2018 from 17 cents per pack in 1983.

However, while Vermont’s tax code was making marginal improvements in competitiveness, the rates are still among the highest in New England which has taken its toll on the size of their private sector. During this time-period, Vermont’s private sector was at its highest point in 1984 at 75 percent of personal income. By 2017, Vermont’s private sector declined by 11 percent to 66.8 percent. This drop was significantly faster relative to New Hampshire with the difference growing from 8.5 percent in 1984 to 14.2 percent in 2018.
MAINE

In 2018, Maine had the second least competitive Index score of 61.4 (Chart 3). Generally, Maine’s tax code has seen some increases and some decreases that have basically offset each other.

**Chart 3**

The New Hampshire Advantage Index vs. Maine
1983 to 2018*

On the one hand, the individual income tax has been reduced to 7.15 percent in 2018 from 10 percent in 1983. Over the entire time-period, the corporate income tax has remained at 8.93 percent.

On the other hand, Maine’s consumption taxes have been on the rise:

- The sales tax has increased to 5.5 percent in 2018 from 5 percent in 1983 (and as high at 6 percent between 1991 and 1997).
- The meals tax has increased to 8 percent in 2018 from 5 percent in 1983.
- The lodging tax has increased to 14.5 percent in 2018 from 5 percent in 1983.
- The gasoline tax has increased to 30 cents per gallon in 2018 from 14 cents in 1983.
- The cigarette tax (inclusive of the sales tax) has increased to $2.11 per pack in 2018 from 20 cents per pack in 1983.

One area where Maine has been seriously deficient over the entire time-period has been the size of its private sector. In 1983, there was a 16.6 percent difference with New Hampshire, and, with some ups and downs, there was still a 15.8 percent difference in 2018.
RHODE ISLAND

In 2018, Rhode Island had the third least competitive Index score of 53.2 (Chart 4). Over this time-period, Rhode Island has seen some large fluctuations in its Index score falling to a low of 38.9 in 1988 to a high of 73.3 in 2005. Rhode Island’s individual income tax code is behind most of these fluctuations.

Like Vermont, Rhode Island historically piggybacked their individual income tax code on the federal income tax. The drop in Rhode Island’s Index post-1986 was due to the federal tax reform that dropped the top federal tax rate to 28 percent in 1988 from 50 percent in 1986. Consequently, Rhode Island effective tax rate dropped to 6.43 percent (28 percent federal multiplied by 22.96 percent state) in 1988 from 11.11 percent in 1986 (50 percent federal multiplied by 22.2 percent state).

Into the 1990s, both the federal income tax rate and Rhode Island’s tax rate climbed. By 1993, Rhode Island’s effective top marginal income tax rate was 10.89 percent (38.9 percent federal multiplied by 27.5 percent state).

Rhode Island handled the 2001 tax cuts differently than Vermont in that the state froze the top federal income tax rate at 39.6 (as opposed to the lower 35 percent) and applied a 25 percent rate yielding an effective tax rate of 9.9 percent.
In 2006, to boost Rhode Island’s tax competitiveness, especially against Massachusetts, the state enacted an optional flat rate income tax starting at a rate of 8 percent in 2006 and falling to 6 percent in 2010. This optional flat rate was scheduled to fall to 5.5 percent in 2011, but it was never implemented because the overall top tax rate was dropped to 5.99 percent and the optional flat rate eliminated.

Rhode Island’s corporate income tax over this time-period has been in the 9 percent range, but in 2015 was significantly reduced to 7 percent.

However, Rhode Island consumption taxes have been on the rise:

- The sales tax has increased to 7 percent in 2018 from 6 percent in 1983.
- The meals tax has increased to 8 percent in 2018 from 6 percent in 1983.
- The lodging tax has increased to 13 percent in 2018 from 12 percent in 1983.
- The gasoline tax has increased to 33 cents per gallon in 2018 from 13 cents in 1983.
- The cigarette tax (inclusive of the sales tax) has increased to $4.55 per pack in 2018 from 23 cents per pack in 1983.

One area where Rhode Island has been deficient over the entire time-period has been the size of its private sector. In 1983, there was a 12.3 percent difference with New Hampshire, and, with some ups and downs, there was still a 10.2 percent difference in 2018.
NEW YORK

In 2018, New York had the fourth least competitive Index score of 50 (Chart 5). Between 1983 and 1999, New York’s Index score improved, falling by 26 percent and reaching its lowest value of 35.3 in 1999. However, between 1999 and 2011, due to increases in the individual income tax and cigarette tax, New York’s Index score soared by 67 percent and reached its highest score of 58.9. New York’s Index score improved after 2011 thanks to a falling corporate income tax rate.

### Chart 5

**The New Hampshire Advantage Index vs. New York**

1983 to 2018

On income taxes, New York has pursued two very different paths. New York’s top individual income tax rate fell significantly from 10 percent in the early 1980s to 6.85 percent in the late 1990s and early 2000s. However, by 2018, it was back up to 8.82 percent. On the other hand, New York’s top corporate income tax rate has been steadily falling since the early 1990’s when it was 10.35 percent to 6.5 percent in 2018 (and lower than New Hampshire’s 8.2 percent).

On consumption taxes, New York has a relatively modest 4 percent sales tax, meals tax, and lodging tax. However, the increase in the cigarette tax (inclusive of the sales tax) has been tremendous jumping to $4.52 per pack in 2018 from 22 cents per pack in 1983.

One area that New York has improved is the size of its private sector. In 1983, New Hampshire’s private sector was 11.8 percent larger than New York’s (80.2 percent vs. 71.7 percent), but by 2018 the difference had shrunk to 7.8 percent (76.3 percent vs. 70.8 percent).
CONNECTICUT

In 2018, Connecticut had the fifth least competitive Index score of 37.5 (Chart 6) despite the fact that it was near parity with New Hampshire in 1983 with an Index score of only 9. However, by 2018, Connecticut’s Index score soared 318 percent due, in large part, to the introduction of an individual income tax in 1991.

Chart 6
The New Hampshire Advantage Index vs. Connecticut
1983 to 2018

Connecticut’s near parity with New Hampshire in 1983 was due to the lack of an individual income tax which created a large differential in Connecticut’s favor with New Hampshire on the taxation of pass-through business income (which in New Hampshire is taxed under the Business Profit Tax). However, this benefit was offset by a high tax rate on interest and dividends (9 percent), capital gains (7 percent) and a high sales tax rate (7.5 percent).

The initial introduction in 1991 of the individual income tax only resulted in a modest loss in tax competitiveness because of tax reductions elsewhere. Between 1990 and 1992, the top marginal tax rate on wages and salaries rose to 4.5 percent from 0 percent, but tax rates on interest and dividends fell to 4.5 percent from 14 percent and capital gains to 4.5 percent from 7 percent. Other tax reductions included a drop in both the sales tax and meals tax to 6 percent from 8 percent.
Beginning in 1994, Connecticut enjoyed a resurgence in tax competitiveness due to a significant reduction in the corporate income tax. The top corporate income tax rate fell to 7.5 percent from 11.5 percent in 1994. By 2001, Connecticut achieved its second lowest Index score of 13.8.

However, between 2001 and 2018, Connecticut policymakers have unknowingly boosted the New Hampshire Advantage with across the board tax increases:

- The top individual income tax rate increased to 6.99 percent in 2018 from 4.5 percent in 2001.
- The top corporate income tax rate increased to 9 percent in 2018 from 7.5 percent in 2001.
- The sales and meals tax rate increased to 6.35 percent in 2018 from 6 percent in 2001.
- The lodging tax rate increased to 15 percent in 2018 from 12 percent in 2001.
- The cigarette tax rate (inclusive of the sales tax) increased to $4.15 per pack in 2018 from 53 cents per pack in 2001.

One area that Connecticut has improved is the size of its private sector. Between 1983 and 2005, New Hampshire generally held the lead over Connecticut for having the largest private sector in the country. However, in 2006 Connecticut pulled ahead and has lead ever since.
In 2018, Massachusetts had the sixth least competitive Index score of 33 (Chart 7). Over this time-period, Massachusetts Index score has increased 29 percent to 33 from 25.5. However, this is somewhat deceptive because, excluding the estate tax (see Note on Estate Tax), the Massachusetts tax code has actually become more competitive against New Hampshire.

**MASSACHUSETTS**

The lowest Index score achieved by Massachusetts was in 2001 at 21.3 falling by 16 percent since 1983. The driving force behind this was reforms to the individual income tax. The top marginal tax rate hit a high of 6.25 percent in 1991, but by 2001 had fallen to 5.6 percent.

Additionally, prior to 1999, Massachusetts taxed interest and dividends at a higher marginal tax rate—as high as 12 percent between 1990 and 1998. After 1998, interest and dividends were taxed at the same rate as wages and salaries.

After 2001, the income tax continued to fall and consumption taxes began to rise, but overall, these changes mostly netted out one another:

- The top individual income tax rate fell to 5.1 percent in 2018 from 5.6 percent in 2001.
- The top corporate income tax rate fell to 8 percent in 2018 from 9.5 percent in 2001.
- The sales and meals tax rate increased to 6.25 percent in 2018 from 5 percent in 2001.
- The cigarette tax rate (inclusive of the sales tax) increased to $3.73 per pack in 2018 from 80 cents per pack in 2001.
One area that Massachusetts has improved is the size of its private sector. In 1983, New Hampshire's private sector was 5.4 percent larger than Massachusetts' (80.2 percent vs. 78.7 percent), but by 2018, the difference had shrunk to 0.2 percent (76.3 percent vs. 76.1 percent).

Note on Estate Tax: Prior to the federal tax cuts in 2001, the estate tax contained a provision known as the “pick-up tax” which allowed states to piggyback on the federal estate tax. The 2001 tax cut phased-out the pick-up tax over 4 years and, in 2005, was eliminated.

States had the option of letting their piggyback estate tax phase-out, or create their own estate tax in its place. All New England states and New York, except New Hampshire, opted to create their own estate tax.\(^5\)

As a result, the Index shows a large leap in New Hampshire’s tax competitiveness of 15 points. This is derived from the following—the Index scores the estate tax with either a 1 (the state has an estate tax) or a zero (the state does not have an estate tax) which is then multiplied by the weight for wealth taxes of 15 percent yielding an increase in the index of 15 points (the index is multiplied by 1,000 to create whole numbers).

Boosting the New Hampshire Advantage

Scheduled BPT and BET tax rate reductions: In 2019, the BPT is scheduled to fall to 7.7 percent and the BET to fall to 0.6 percent. In 2021, the BPT will fall to 7.5 percent and the BET to 0.5 percent. Not only will the recently enacted tax cuts and these future tax cuts directly increase New Hampshire’s tax competitiveness, but they will provide a much-needed, albeit limited, shot in the arm to the private sector and jump-start growth that has been sorely lacking since 2014.

Repeal Obamacare’s Medicaid expansion: Of course, the main culprit behind the lackluster growth in New Hampshire’s private sector is due to the crowd-out by increased Medicaid spending that occurred when Obamacare’s Medicaid expansion began in 2014 (Chart 8).

Chart 8
New Hampshire Medicaid Spending (in 2016 dollars)
2000 to 2016

Between 2000 and 2016 (the latest year of available data) Medicaid spending in New Hampshire never exceeded $1.5 billion (in real 2016 dollars). However, in the first year of expansion, spending jumped to $1.5 billion, then to $1.7 billion in 2015, and then over $2 billion in 2016. At the same time, New Hampshire’s private sector fell to 76.3 percent in 2016 from 76.6 percent in 2014.

Source: U.S. Department of Commerce: Bureau of Economic Analysis and Granite Institute
Unfortunately, policymakers had a chance to end Obamacare’s Medicaid expansion in 2018 but elected to extend it into the future.\textsuperscript{6} This will continue to generate strong headwinds toward growing the private sector and all Granite Staters will be poorer as a consequence.\textsuperscript{7}

**Enact the Business Flat Tax:** New Hampshire has the only working state-level flat tax in the country—the Business Enterprise Tax. While a landmark achievement in state tax reform, the BET can still accomplish so much more.

In 2016, the Granite Institute proposed a bold plan to eliminate the BPT by expanding the BET to government and not-for-profit workers, increasing the BET rate to 2 percent, and harmonize the interest and dividend tax to 2 percent.\textsuperscript{8}

If the Business Flat Tax became law in 2018, The New Hampshire Advantage Index would jump a whopping 34 percent to 68.1 in 2018 from 50.9 in 2017 (Chart 9). This would be the highest Index score achieved during the 1983 to 2018 time-period.

**Chart 9**

**New Hampshire Advantage Index with Business Flat Tax**

1983 to 2018

Additionally, the creation of a level playing field between all economic entities (private sector, government, and not-for-profits) combined with a low flat marginal tax rate of 2 percent would supercharge economic growth. New Hampshire would very likely reclaim the mantle of having the largest private sector in the country from Connecticut to the economic benefit of all Granite Staters.


\textsuperscript{7} For more information, see the Economics section of the 2018 Family Prosperity Index: http://familyprosperity.org/application/files/4415/2656/8416/2018_Family_Prosperity_Index.pdf

Conclusion

Overall, the New Hampshire Advantage is not carved in granite. It is threatened by out-of-state policy, such as tax reductions in Maine, Rhode Island, and Massachusetts, and bad in-state policy, such as rising tax rates and enactment of Obamacare’s Medicaid expansion. Now, there is no excuse for failure. For the first time, state policymakers have the roadmap to preserve and extend the New Hampshire Advantage.
Methodology

The Index consists of 5 major components that it measures with the following applied weights—the size of the private sector (15 percent), taxes on individuals (25 percent), taxes on consumption (25 percent), taxes on businesses (20 percent), and taxes on wealth (15 percent).

The composition of each of the 5 major components are:

- **The size of the private sector:**
  - Private sector share of personal income (100 percent)

- **Taxes on individuals:**
  - Top marginal tax rate applied to wages and salaries (50 percent)
  - Top marginal tax rate applied to interest and dividends (30 percent)
  - Top marginal tax rate applied to short-term capital gains (20 percent)

- **Taxes on consumption:**
  - General sales tax rate (50 percent)
  - Meals tax (12.5 percent)
  - Lodging tax (12.5 percent)
  - Gasoline tax (12.5 percent)
  - Cigarette tax (12.5 percent)

- **Taxes on businesses:**
  - Top marginal tax rate applied to corporate income (50 percent)
  - Top marginal tax rate applies to pass-through business income (50 percent)

- **Taxes on wealth:**
  - Does the state have an estate tax (yes = 1, and no = 0)

The index is created by taking the difference of each category in New Hampshire relative to each New England state and applying the corresponding weight. A separate index score is created for each New Hampshire/New England state pairing (New Hampshire and Maine, New Hampshire and Vermont, etc.).

The total index score is based on a weighting of the separate state indexes with the geographically adjacent states weighted more highly: Maine (21.7 percent), Vermont (21.7 percent), Massachusetts (21.7 percent), Rhode Island (11.7 percent), Connecticut (11.7 percent), and New York (11.7 percent).

The estimates for the New Hampshire Advantage Index are conservative because it excludes local option taxes that other New England states and New York have enacted (except the 1 percent local option meals tax in Rhode Island which is applied uniformly). New York City, for example, is practically a state within a state when it comes to its extensive local option taxes. In the future, we plan to incorporate local option taxes.
Finally, 2018 is an estimate(*) because of two issues:

1. First, the private sector data is only current through 2017. The Index uses a 10-year linear extrapolation to estimate 2018.

2. Second, many states are grappling with the consequences of the recent federal tax reduction. Since most states automatically conform to the federal income tax code the federal changes will result in higher income tax collections at the state level unless states move to mitigate them.

At the time of publication, it was unclear if various proposed tax changes around New England would be applied retroactively to 2018 or in years post-2018. Any changes will be reflected in future editions of the Index.
About the Author

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J. Scott Moody has worked as a Public Policy Economist for nearly 20 years. He is the author, co-author and editor of over 180 studies and books. He has testified before the House Ways and Means Committee of the U.S. Congress as well as various state legislatures. His work has appeared in Forbes, CNN Money, State Tax Notes, WatchDog, Union Leader, Portland Press Herald, Hartford Courant, The Oklahoman, and Albuquerque Journal, among many others.

He is currently the President and CEO of the Family Prosperity Institute, and a Senior Fellow at the Illinois Policy Institute and the Oklahoma Council of Public Affairs. He was formerly the CEO and Chief Economist of the State Policy Network affiliated think tank The Maine Heritage Policy Center and State Budget Solutions. His professional experience includes positions as Senior Economist at The Tax Foundation and Senior Economist at The Heritage Foundation. Additionally, Scott was appointed to Maine’s Consensus Economic Forecasting Commission by Governor Paul LePage (R) in January 2011 and served for 4 years.

Moody is the co-creator of the Tax Foundation’s popular State Business Tax Climate Index, now in its sixteenth year of publication.

Moody received his Master of Arts in Economics from George Mason University.