

New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

18-2784

SB 404-FN-A, *phasing out the tax on interest and dividends.*

Senate Ways & Means

SB 404 phases out and repeals RSA 77, the Interest and Dividends (I&D) Tax, which is currently assessed on interest and dividend income at a rate of 5 percent.

The proposed bill makes the following legislative changes:

- Amends RSA 77:1 by reducing the I&D Tax rate to 4 percent effective January 1, 2020 and applicable to tax years ending on or after December 31, 2020.
- Amends RSA 77:1 by reducing the I&D Tax rate to 3 percent effective January 1, 2021 and applicable to tax years ending on or after December 31, 2021.
- Amends RSA 77:1 by reducing the I&D Tax rate to 2 percent effective January 1, 2022 and applicable to tax years ending on or after December 31, 2022.
- Amends RSA 77:1 by reducing the I&D Tax rate to 1 percent effective January 1, 2023 and applicable to tax years ending on or after December 31, 2023.
- Repeals the I&D Tax effective January 1, 2024.

There is no way for the Department of Revenue Administration to determine the exact fiscal impact of a phased reduction and then repeal of the I&D Tax. The Department has no definitive method to determine future I&D Tax liability and credit carryforward amounts.

The following chart shows the estimated fiscal impact of the proposed legislation through FY2025 using the amount of tax and credit carryforward reported for TY15. The estimated fiscal impact was calculated using the I&D Tax liability reported by taxpayers for TY15 of \$83,951,757, with \$16.3 million of requested credit carry overs on file as of November 28, 2017. The net taxable income in TY15 of \$1,679,005,460 was multiplied by each proposed new tax rate to calculate the new tax liability for each tax year. This figure was then deducted from \$83,951,757 to calculate an estimate of the revenue decrease in each tax year. Tax year revenue loss was converted to a fiscal year revenue impact based upon the Department's historical receipt of quarterly I&D Tax estimate payments.

Additionally, if the I&D tax were repealed on January 1, 2024, there would be no future liability for any outstanding credit carry overs to offset. Therefore, the Department would predict that these outstanding overpayments would result in a large amount of refund requests. As a result, to calculate the fiscal impact of repealing the I&D Tax, the Department presumes the payment of refunds of the total amount of credit carryforward reported by taxpayers on the TY15 return. Taxpayers reported \$16.3 million of I&D Tax overpayments in TY15 and requested that amount be carried forward to offset any potential future liabilities.

This analysis is a static analysis based on a single tax year and does not take into consideration the Department's ongoing audit and collection activities with respect to prior tax years.

Tax Year	I&D Tax Rate	Documents Due	I&D Impact	Total Fiscal Year Impact	Fiscal Year
TY2019	5%	1st and 2nd Quarter Estimates	0	0	FY2019
TY2019		3rd and 4th Quarter Estimates and Return Payments	0	(4,784,345)	FY2020
TY2020	4%	1st and 2nd Quarter Estimates	(4,784,345)		
TY2020		3rd and 4th Quarter Estimates and Return Payments	(12,007,194)		
TY2021	3%	1st and 2nd Quarter Estimates	(9,568,267)	(38,365,516)	FY2022
TY2021		3rd and 4th Quarter Estimates and Return Payments	(24,013,326)		
TY2022	2%	1st and 2nd Quarter Estimates	(14,352,190)	(55,155,570)	FY2023
TY2022		3rd and 4th Quarter Estimates and Return Payments	(36,019,458)		
TY2023	1%	1st and 2nd Quarter Estimates	(19,136,112)	(71,945,625)	FY2024
TY2023		3rd and 4th Quarter Estimates and Return Payments	(48,025,591)		
TY2024	I&D Tax Repealed	1st and 2nd Quarter Estimates	(23,920,034)	(100,265,594)	FY2025
TY2024		I&D Tax Repealed	(83,951,757)		
TY2025		I&D Tax Repealed	(16,313,837)		