

# New Hampshire Department of Revenue Administration

## Fiscal Note Quick Guide

17-0100

**HB 529-FN-A-LOCAL**, *phasing out and repealing the interest and dividends tax.*

House Ways & Means

This bill phases out and repeals the RSA 77, Interest and Dividends (I&D) Tax, as follows:

- January 1, 2018: Amends RSA 77:1 by reducing the I&D Tax to 4 percent. Amends RSA 77:5, I by increasing the income exemption from \$2,400 to \$4,800. Amends RSA 77:5, II by increasing the 65 years of age or older exemption from \$1,200 to \$2,400. Amends RSA 77:5, III by increasing the blind exemption from \$1,200 to \$2,400. Amends RSA 77:5, IV by increasing the disabled exemption from \$1,200 to \$2,400. Amends RSA 14-B:8, III(q) by removing the reference to the I&D Tax as it pertains to financial disclosures by NH Representatives, Senators and officers of the House of Representatives and Senate, to the Legislative Ethics Committee.
- January 1, 2019: Amends RSA 77:1 by reducing the annual I&D Tax to 3 percent.
- January 1, 2020: Amends RSA 77:1 by reducing the I&D Tax to 2 percent.
- January 1, 2021: Amends RSA 77:3 by increasing the gross interest and dividend income thresholds from \$2,400 to \$4,800.
- January 1, 2022: Repeals the I&D Tax.

There is no way for the Department to determine the exact fiscal impact of repealing the I&D Tax. The Department has no definitive method to determine future I&D Tax liability and credit carryforward amounts. However, utilizing return data for Tax Year 2015, the Department analyzed the proposed legislation.

The income exemption and additional exemptions reported on the return were doubled and subtracted from the gross interest and dividends reported on Tax Year 2015 returns. The new adjusted gross income was then multiplied by the adjusted tax rates, until the tax is repealed, and subtracted from the Tax Year 2015 tax liability reported of \$82,551,040. The tax year reduction of revenue was applied to fiscal years based on due dates of quarterly estimate payments and return payments. The revenue was also adjusted by the first and second quarter estimated payments, as those estimates make up an average of 28.7% of total revenue and occur in the prior FY. See chart below:

| <b>Tax Year</b> | <b>Documents Due</b>                              | <b>I&amp;D Tax Rate</b> | <b>Total Revenue Loss</b> | <b>Fiscal Year</b> |
|-----------------|---------------------------------------------------|-------------------------|---------------------------|--------------------|
| TY2018          | 1st and 2nd Quarter Estimates                     | 4%                      | \$ (6,648,558)            | FY2018             |
| TY2018          | 3rd and 4th Quarter Estimates and Return Payments | 4%                      | \$ (16,517,149)           | FY2019             |
| TY2019          | 1st and 2nd Quarter Estimates                     | 3%                      | \$ (10,913,571)           |                    |
| TY2019          | 3rd and 4th Quarter Estimates and Return Payments | 3%                      | \$ (27,112,810)           | FY2020             |
| TY2020          | 1st and 2nd Quarter Estimates                     | 2%                      | \$ (15,178,585)           |                    |
| TY2020          | 3rd and 4th Quarter Estimates and Return Payments | 2%                      | \$ (37,708,470)           | FY2021             |
| TY2021          | 1st and 2nd Quarter Estimates                     | 2%                      | \$ (15,178,585)           |                    |
| TY2021          | I&D Tax is Repealed                               | 0%                      | \$ (82,608,403)           | FY2022             |
| TY2022          |                                                   |                         |                           |                    |

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. This analysis also does not take into account any overpayments made that would result in a potential refund requests from taxpayers who no longer would have a filing requirement or tax liability.

The proposed legislation lists an effective date of January 1 of the relevant year. The Department would recommend an applicability date that impacts “taxable periods ending on or after December 31<sup>st</sup>.” Adopting this applicability date ensures that a tax law change will impact all taxpayers for a particular tax year.

On January 1, 2018, among the changes to take affect is the Amendment of RSA 77:5, I by increasing the income exemption to \$4,800. The taxable income thresholds outlined in RSA 77:3 are not increased to \$4,800 until January 1, 2021. This may result in a number of taxpayers being required to file a return, even though they will have no I&D Tax liability.