

New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

17-0207

HB 615-FN-A, *reducing the rates of the business profits tax and the business enterprise tax.*

House Ways & Means

Section 1 through 3 of this proposed bill would reduce the Business Profits Tax (BPT) rate incrementally over several taxable periods:

- Section 1 reduces the current BPT rate of 8.2% to 7.5% for taxable periods ending on or after December 31, 2018.
- Section 2 further reduces the BPT rate from 7.5% to 7.0% for taxable periods ending on or after December 31, 2019.
- Section 3 further reduces the BPT rate from 7.0% to 6.0% for taxable periods ending on or after December 31, 2020.

Section 4 through 6 of this proposed bill would reduce the Business Enterprise Tax (BET) rate incrementally over several taxable periods.

- Section 4 reduces the current BET rate of 0.72% to 0.50% for taxable periods ending on or after December 31, 2018.
- Section 5 further reduces the BET rate from 0.50% to 0.45% for taxable periods ending on or after December 31, 2019.
- Section 6 further reduces the BET rate from 0.45% to 0.40% for taxable periods ending on or after December 31, 2020.

When deriving the estimated revenue loss due to the proposed reduction of the BPT rate and BET rate, the Department of Revenue Administration (DRA) took into consideration the previous estimated revenue impact that the DRA calculated on 9/14/15 with respect to the rate reductions contained within Senate Bill 9 (Chapter 274, Sections 23-24, Laws of 2015).

- In FY2016, a previously estimated revenue reduction of \$5,112,407 was already realized as a result of reducing the BPT rate from 8.5% to 8.2% and the BET rate from .75% to .72%. This revenue reduction would have been attributable to reduced estimate payments made in FY2016.
- In FY2017, a previously estimated revenue reduction of \$16,013,240 will be fully realized as a result of reducing the BPT rate from 8.5% to 8.2% and the BET rate from .75% to .72%, as taxpayers file their returns from TY2016.
- For the second round of enacted rate reductions (BPT from 8.2% to 7.9% and BET from .72% to .675%), the FY2018 fiscal impact was estimated at a \$6,214,475 revenue reduction (again attributable to decreased estimate payments in FY2018) and the FY2019 fiscal impact was estimated to be a \$19,465,172 revenue reduction (as taxpayers file their returns for TY2018).

- The second round of enacted rate reductions are contingent upon the receipt of combined unrestricted general and education trust fund revenue of \$4,640,000,000 for the biennium ending June 30, 2017. For purposes of completing this analysis the Department has assumed that these contingent rate reductions will go into effect.
- The fiscal impact analysis outlined above used the FY2015 Plan which was \$568,000,000 as a starting point. The use of 2015 plan significantly underestimated actual revenue for the BPT and BET in FY2016.

Because the analysis of the previously enacted rate reductions utilized FY2015 Plan as a starting point, which significantly underestimated actual revenue for the BPT and BET in FY2016, the DRA believes that it is prudent to use FY2016 cash basis revenue as the starting point for analyzing these proposed additional rate reductions.

- There is a potential fiscal impact of \$29,025,911 in FY2018, if taxpayers reduce their first and second estimated payments to reflect the reduced Tax Year 2018 BPT and BET rates.
- For purposes of calculating the fiscal impact of the proposed rate reduction, the Department assumed that FY2017 revenue would be equal to FY2016 cash basis revenue of \$641,000,000 from the June, 2016 Department of Administrative Services Revenue Focus.
- The Department assumes that the impact of the rate reduction from 8.2% to 7.9% for BPT and .72% to .675% for BET has already been fully realized in the FY2017 estimate payments and has depleted any additional revenue growth. Thus, the Department has not adjusted FY2016 cash basis revenue for FY2017 and thus has used \$641,000,000 as the tax base for FY2017.
- For FY2018, the revenue estimate was reduced from \$641,000,000 to \$631,820,011 to account for the 1st and 2nd quarter estimate payments for Tax Year 2018, where the tax rate is expected to be reduced from 8.2% to 7.9% for BPT and 0.72% to 0.675% for BET.
- For FY2019 and each year thereafter, the revenue estimate was reduced from \$641,000,000 to \$610,901,677 to realize the full implementation of the tax rate reduction from 8.2% to 7.9% for BPT and 0.72% to 0.675% for BET as taxpayers file their returns.
- In completing this analysis the Department has assumed no revenue growth from FY2019 and has thus retained the FY2019 tax base for purposes of analyzing the revenue impact of the proposed rate reductions.
- **Thus, \$610,901,667 serves as the starting point for analyzing the fiscal impact of these proposed additional rate reductions in FY2019 and each year thereafter.**
- Each fiscal year's revenue was allocated based on the proportionate amount of revenue anticipated to be received. For example: the 1st and 2nd quarter estimate payments average about 30.5% of the total BPT/BET revenue received in each tax year. Therefore, when calculating the fiscal impact of a tax year rate change on a state FY basis, this percentage was applied to allocate the fiscal impact proportionally based on the fiscal year when the revenue will actually be received.
- After revenue was allocated proportionally based on when it is received, this new reduced revenue was subtracted from the assumed revenue to determine the incremental revenue impact of the proposed rate reductions for each fiscal year.
- The fiscal impact of the proposed rate reductions may be overstated or understated for future fiscal years depending on whether actual revenue under or over performs compared to the DRA's assumed revenue figures.

Fiscal Impact of Rate Reductions by Fiscal Year

Fiscal Year	New Revenue	Estimated Base Under Current Law	Difference
FY16	\$641,000,000	\$641,000,000	\$0
FY17	\$641,000,000	\$641,000,000	\$0
FY18	\$602,794,101	\$631,820,011	-\$29,025,911
FY19	\$507,441,639	\$610,901,677	-\$103,460,038
FY20	\$468,809,870	\$610,901,677	-\$142,091,806
FY21	\$423,841,463	\$610,901,677	-\$187,060,213
FY22	\$423,841,463	\$610,901,677	-\$187,060,213

Original Rates and Assumed Revenue without Implementation of Proposed Legislation

Tax Year	Documents Due	Old BPT Rate	Old BET Rate	BPT Revenue	BET Revenue	Total BS Revenue	Fiscal Year
TY18	1st and 2nd Quarter Estimates	7.9%	0.675%	\$112,982,043	\$73,342,969	\$186,325,011	FY18
TY18	3rd and 4th Quarter Estimates and Return Payments	7.9%	0.675%	\$257,450,884	\$167,125,781	\$424,576,666	FY19
TY19	1st and 2nd Quarter Estimates	7.9%	0.675%	\$112,982,043	\$73,342,969	\$186,325,011	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	7.9%	0.675%	\$257,450,884	\$167,125,781	\$424,576,666	FY20
TY20	1st and 2nd Quarter Estimates	7.9%	0.675%	\$112,982,043	\$73,342,969	\$186,325,011	FY20
TY20	Full Year at Current Rate	7.9%	0.675%	\$370,432,927	\$240,468,750	\$610,901,677	FY21
TY21	Full Year at Current Rate	7.9%	0.675%	\$370,432,927	\$240,468,750	\$610,901,677	FY22

New Rates and Revenue with Implementation of Proposed Legislation

Tax Year	Documents Due	New BPT Rate	New BET Rate	BPT Revenue	BET Revenue	Total BS Revenue	Fiscal Year
TY18	1st and 2nd Quarter Estimates	7.2%	0.500%	\$102,970,976	\$54,328,125	\$157,299,101	FY18
TY18	3rd and 4th Quarter Estimates and Return Payments	7.2%	0.500%	\$234,638,781	\$123,796,875	\$358,435,656	FY19
TY19	1st and 2nd Quarter Estimates	7.0%	0.450%	\$100,110,671	\$48,895,313	\$149,005,983	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	7.0%	0.450%	\$228,121,037	\$111,417,188	\$339,538,224	FY20
TY20	1st and 2nd Quarter Estimates	6.0%	0.400%	\$85,809,146	\$43,462,500	\$129,271,646	FY20
TY20	Full Year at Current Rate	6.0%	0.400%	\$281,341,463	\$142,500,000	\$423,841,463	FY21
TY21	Full Year at Current Rate	6.0%	0.400%	\$281,341,463	\$142,500,000	\$423,841,463	FY22

Difference from New Rates and Revenue to Original Rates and Assumed Revenue

Tax Year	Documents Due	Difference in BPT Rate	Difference in BET Rate	BPT Reduction in Revenue	BET Reduction in Revenue	Total Reduction in BS Revenue	Fiscal Year
TY18	1st and 2nd Quarter Estimates	-0.7%	-0.175%	-\$10,011,067	-\$19,014,844	-\$29,025,911	FY18
TY18	3rd and 4th Quarter Estimates and Return Payments	-0.7%	-0.175%	-\$22,812,104	-\$43,328,906	-\$66,141,010	FY19
TY19	1st and 2nd Quarter Estimates	-0.9%	-0.225%	-\$12,871,372	-\$24,447,656	-\$37,319,028	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	-0.9%	-0.225%	-\$29,329,848	-\$55,708,594	-\$85,038,441	FY20
TY20	1st and 2nd Quarter Estimates	-1.9%	-0.275%	-\$27,172,896	-\$29,880,469	-\$57,053,365	FY20
TY20	Full Year at Current Rate	-1.9%	-0.275%	-\$89,091,464	-\$97,968,750	-\$187,060,214	FY21
TY21	Full Year at Current Rate	-1.9%	-0.275%	-\$89,091,464	-\$97,968,750	-\$187,060,214	FY22

