

# New Hampshire Department of Revenue Administration

## Fiscal Note Quick Guide

17-0734

**SB 1-FN-A**, *reducing the rate of the business profits tax.*

Senate Ways & Means

Section 1 of this proposed bill reduces the Business Profits Tax (BPT) rate from 8.2% to 7.7% applicable to taxable periods ending on or after June 30, 2018.

Section 2 reduces the BPT rate from 7.7% to 7.5% for taxable periods ending on or after June 30, 2021.

Please note that a June 30<sup>th</sup> applicability date is administratively problematic, as it would result in the proposed rate reductions applying to only part of the Tax Year for taxpayers with a calendar year. Approximately 90% of taxpayers file their returns on a calendar year basis. 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.

When deriving the estimated revenue loss due to the proposed reduction of the BPT 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 \$2,908,271 was already realized as a result of reducing the BPT rate from 8.5% to 8.2%. This revenue reduction would have been attributable to reduced estimate payments made in FY2016.
- In FY2017, a previously estimated revenue reduction of \$9,109,376 will be fully realized as a result of reducing the BPT rate from 8.5% to 8.2%, as taxpayers file their returns from TY2016.
- For the second round of enacted rate reductions (BPT from 8.2% to 7.9%), the FY2018 fiscal impact was estimated at a \$2,908,271 revenue reduction (again attributable to decreased estimate payments in FY2018) and the FY2019 fiscal impact was estimated to be a \$9,109,376 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 \$340,500,000 as a starting point. The use of 2015 plan significantly underestimated actual revenue for the BPT 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 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.

- 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 \$384,500,000 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 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 \$384,500,000 as the tax base for FY2017.
- For FY2018, the revenue estimate was reduced from \$384,500,000 to \$380,209,543 to account for the 1<sup>st</sup> and 2<sup>nd</sup> quarter estimate payments for Tax Year 2018, where the tax rate is expected to be reduced from 8.2% to 7.9% for BPT.
- For FY2019 and each year thereafter, the revenue estimate was reduced from \$384,500,000 to \$370,432,927 to realize the full implementation of the tax rate reduction from 8.2% to 7.9% for BPT 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, \$370,432,927 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 1<sup>st</sup> and 2<sup>nd</sup> quarter estimate payments average about 30.5% of the total BPT 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**

<b>Fiscal Year</b>	<b>New BPT Revenue</b>	<b>Assumed BPT Revenue</b>	<b>Difference</b>
FY16	\$384,500,000	\$384,500,000	\$0
FY17	\$384,500,000	\$384,500,000	\$0
FY18	\$377,349,238	\$380,209,543	-\$2,860,305
FY19	\$361,054,878	\$370,432,927	-\$9,378,049
FY20	\$361,054,878	\$370,432,927	-\$9,378,049
FY21	\$358,194,573	\$370,432,927	-\$12,238,354
FY22	\$351,676,829	\$370,432,927	-\$18,756,098

**Original Rates and Assumed Revenue without Implementation of Proposed Legislation**

<b>Tax Year</b>	<b>Documents Due</b>	<b>Old BPT Rate</b>	<b>BPT Revenue</b>	<b>Fiscal Year</b>
TY18	1st and 2nd Quarter Estimates	7.9%	\$112,982,043	FY18
TY18	3rd and 4th Quarter Estimates and Return Payments	7.9%	\$257,450,884	FY19
TY19	1st and 2nd Quarter Estimates	7.9%	\$112,982,043	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	7.9%	\$257,450,884	FY20
TY20	1st and 2nd Quarter Estimates	7.9%	\$112,982,043	FY20
TY20	3rd and 4th Quarter Estimates and Return Payments	7.9%	\$257,450,884	FY20
TY21	1st and 2nd Quarter Estimates	7.9%	\$112,982,043	FY20
TY21	Full Year at Current Rate	7.9%	\$370,432,927	FY22

**New Rates and Revenue with Implementation of Proposed Legislation**

<b>Tax Year</b>	<b>Documents Due</b>	<b>New BPT Rate</b>	<b>BPT Revenue</b>	<b>Fiscal Year</b>
TY18	1st and 2nd Quarter Estimates	7.7%	\$110,121,738	FY18
TY19	Full Year at Current Rate	7.7%	\$250,933,140	FY19
TY19	Full Year at Current Rate	7.7%	\$110,121,738	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	7.7%	\$250,933,140	FY20
TY20	1st and 2nd Quarter Estimates	7.7%	\$110,121,738	FY20
TY20	3rd and 4th Quarter Estimates and Return Payments	7.7%	\$250,933,140	FY21
TY21	1st and 2nd Quarter Estimates	7.5%	\$107,261,433	FY21
TY21	Full Year at Current Rate	7.5%	\$351,676,829	FY22

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

<b>Tax Year</b>	<b>Documents Due</b>	<b>Difference in BPT Rate</b>	<b>BPT Reduction in Revenue</b>	<b>Fiscal Year</b>
TY18	1st and 2nd Quarter Estimates	-0.2%	-\$2,860,305	FY18
TY18	3rd and 4th Quarter Estimates and Return Payments	-0.2%	-\$6,517,744	FY19
TY19	1st and 2nd Quarter Estimates	-0.2%	-\$2,860,305	FY19
TY19	3rd and 4th Quarter Estimates and Return Payments	-0.2%	-\$6,517,744	FY20
TY20	1st and 2nd Quarter Estimates	-0.2%	-\$2,860,305	FY20
TY20	3rd and 4th Quarter Estimates and Return Payments	-0.2%	-\$6,517,744	FY21
TY21	1st and 2nd Quarter Estimates	-0.4%	-\$5,720,610	FY21
TY21	Full Year at Current Rate	-0.4%	-\$18,756,098	FY22