

# New Hampshire Department of Revenue Administration

## Fiscal Note Quick Guide

23-0403

**HB 192**, *relative to the rate and exemptions of the interest and dividends tax.*

House Ways and Means

### Amendments to the Interest and Dividends Tax

The proposed legislation reverses the repeal of the Interest and Dividends (“I&D”) tax and increases the current income exemptions and exemptions for taxpayers 65 years of age or older, blind taxpayers, and disabled, unable to work taxpayers not yet reached their sixty-fifth birthday.

The proposed sets the I&D tax rate to 5 percent. Under current law, the I&D tax rate is at 5% for all taxable periods ending before December 31, 2023, 4% for all taxable periods ending on or after December 31, 2023, 3% for all taxable periods ending on or before December 31, 2024, 2% for all taxable periods ending on or before December 31, 2025, and 1% for all taxable periods ending on or after December 31, 2026.

The gross interest and dividend income threshold is increased to \$7,500 from \$2,400. Income exemption is increased to \$7,500 from \$2,400. Exemptions for taxpayers 65 years of age or older, blind, or disabled, unable to work and have not yet reached their sixty-fifth birthday is increased to \$3,500 from \$1,200.

This proposed legislation shall take effect on January 1, 2024. The DRA assumes that the proposed legislation begins with taxable periods ending on or after December 31, 2024 (TY 2024).

The fiscal impact of this proposed legislation is an indeterminable increase to the General Fund starting in FY 2023. The DRA has no definitive method to determine future I&D tax liability and credit carryforward amounts. The DRA has calculated a possible fiscal impact based on TY 2021 Net Taxable Income as follows:

1. Based on the effective date of the proposed legislation of January 1, 2024, the DRA assumes the proposed legislation begins with taxable periods ending on or after December 31, 2024 (TY 2024).
2. The DRA did an analysis based on prior years to break out the split of tax year revenue to fiscal year revenue. The split breakdown used for FY 2023 and forward revenue was 5% attributable to two tax years prior, 68% attributable to prior tax year, and 27% attributable to current tax year.

3. The chart below reflects in each fiscal year, the portion of revenue from the respective tax years, the applicable I&D rate based on current law and the I&D rate based on the proposed legislation.

4. To calculate the FY 2023 thru FY 2029 revenues under current law, the DRA used TY 2021 Net Taxable Income of \$2,739,400,000 for the I&D starting point.

5. The I&D rate based on current law and the proposed legislation is then applied based on the relevant tax year in each fiscal year to come up with the revenue for each fiscal year in each comparative scenario. This calculation keeps all income exemptions and additional exemptions unchanged.

6. The DRA then used the results in item (5) above and adjusted TY 2021 Net Taxable Income for the income exemption and additional exemption increases in the proposed legislation.

7. The estimated fiscal impact of the proposed legislation may be overstated or understated for future fiscal years depending on whether actual revenue is more or less than reported based on TY 2021 Net Taxable Income.

8. The estimated fiscal impact does not consider any overpayments/credit carryforwards on file. The use of these overpayments would decrease revenue as taxpayers stop making payments and supplement the payments with overpayments already on file with the department. The DRA is unable to determine how the taxpayer would utilize the overpayment, whether they would use it over the multiple years or whether they would claim it as a refund.

The proposed legislation does not amend RSA 77:18 IV(a) and (b) for the total interest and dividend income threshold amount for the requirement to file and I&D return. The DRA recommends amending this section of the law to be consistent with the proposed legislation.

The proposed legislation's effective date is January 1, 2024. Current legislation uses taxable period end dates for rate changes. Assuming that the intention of the proposed legislation is to be effective for taxable periods starting on after January 1, 2024, the DRA recommends specifying the effective tax period date. A suggestion would be the effective for taxable periods ending on or after December 31, 2024. Note that the I&D tax rate for taxable periods ending on or after December 31, 2023 is 4%. This suggested effective taxable period end date will result in a move of the tax rate from 5% for TY2022 to 4% for TY2023, and then back up to 5% for TY2024.

<b>Fiscal Year</b>	<b>Tax Year</b>	<b>% Applicable to Tax Year</b>	<b>Current Law I&amp;D Rates</b>	<b>Proposed Law I&amp;D Rates</b>
Fiscal Year 2023	Tax Year 2021	5%	5.00%	5.00%
	Tax Year 2022	68%	5.00%	5.00%
	Tax Year 2023	27%	4.00%	4.00%
Fiscal Year 2024	Tax Year 2022	5%	5.00%	5.00%
	Tax Year 2023	68%	4.00%	4.00%
	Tax Year 2024	27%	3.00%	5.00%
Fiscal Year 2025	Tax Year 2023	5%	4.00%	4.00%
	Tax Year 2024	68%	3.00%	5.00%
	Tax Year 2025	27%	2.00%	5.00%
Fiscal Year 2026	Tax Year 2024	5%	3.00%	5.00%
	Tax Year 2025	68%	2.00%	5.00%
	Tax Year 2026	27%	1.00%	5.00%
Fiscal Year 2027	Tax Year 2025	5%	2.00%	5.00%
	Tax Year 2026	68%	1.00%	5.00%
	Tax Year 2027	27%	0.00%	5.00%
Fiscal Year 2028	Tax Year 2026	5%	1.00%	5.00%
	Tax Year 2027	68%	0.00%	5.00%
	Tax Year 2028	27%	0.00%	5.00%
Fiscal Year 2029 and forward	Tax Year 2027 and forward	100%	0.00%	5.00%

### **Fiscal Impact by Fiscal Year**

#### **Interest and Dividends Tax- Static Analysis Using Tax Year 2021 Net Taxable Income**

<b>Fiscal Year</b>	<b>Current Law Revenue Using TY2021 Net Taxable Income</b>	<b>Estimated Revenue with Proposed Legislation</b>	<b>Estimated Fiscal Impact Per Year</b>	<b>Cumulative Fiscal Impact</b>
2024	\$103,500,000	\$113,200,000	\$9,700,000	\$9,700,000
2025	\$76,200,000	\$117,600,000	\$41,400,000	\$51,100,000
2026	\$48,800,000	\$118,000,000	\$69,200,000	\$120,300,000
2027	\$21,300,000	\$118,000,000	\$96,700,000	\$217,000,000
2028	\$1,400,000	\$118,000,000	\$116,600,000	\$333,600,000
2029	\$0	\$118,000,000	\$118,000,000	\$451,600,000