

New Hampshire Department of Revenue Administration

Fiscal Note Quick Guide

23-0997.2

SB 261, *relative to the interest and dividends tax rate and threshold*

Senate Ways and Means

The proposed legislation changes the Interest and Dividends (I&D) tax rate for taxable periods ending on December 31, 2023 to 5% from the current 4%. The I&D tax rate for taxable periods ending after December 31, 2023 is set to 4%, repealing the current I&D tax rate year over year reduction. The proposed legislation also increases the threshold for taxable income received from interest and dividends for a taxable period from an excess of \$2,400 to an excess of \$50,000. This proposed legislation shall be effective upon passage.

The proposed legislation would result in an indeterminable decrease to State revenues in FY 2023 through 2025 and increase in State revenues in FY 2026 and onwards to the General Fund.

The DRA would be responsible for updating all necessary tax forms and electronic management systems related to this proposed legislation, which would not result in any additional administrative costs that could not be absorbed in the DRA operating budget.

Although the proposed changes would increase the tax rate as compared to current law, the proposed increase in income exemptions would result in an indeterminable decrease to the General Fund starting in FY 2023 through FY 2025. There would then be an indeterminable increase to the General Fund starting in FY 2026 and onwards. The DRA has no definitive method of determining future I&D tax liability and credit carryforward amounts. However, using available data from TY 2021, we can estimate the fiscal impact of the proposed rate increase using a static analysis.

1. The DRA analyzed prior years to break out the split of tax year revenue to fiscal year revenue. The split breakdown used for the 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.
2. 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.
3. To calculate the FY 2023 through FY 2029 revenue under current law, the DRA used TY 2021 Net Taxable Income of \$2,739,400,000 as the base to cash flow the impact of the proposed legislation against current law.
4. The proposed income threshold amounts are then applied to arrive at a TY 2021 Net Taxable Income of \$1,575,300,000 for the comparative base. The I&D tax rate change

for taxable periods ending on December 31, 2023 and for taxable periods ending after December 31, 2023 is applied.

5. 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.
6. 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.

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

Financial Impact by Fiscal Year

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

Fiscal Year	Current Law Revenue Using TY2021 Net Taxable Income	Estimated Revenue with Proposed Legislation	Estimated Fiscal Impact Per Year	Cumulative Fiscal Impact
2023	\$129,500,000	\$121,200,000	(\$8,300,000)	(\$8,300,000)
2024	\$103,500,000	\$77,400,000	(\$26,100,000)	(\$34,400,000)
2025	\$76,200,000	\$63,700,000	(\$12,500,000)	(\$46,900,000)
2026	\$48,800,000	\$63,000,000	\$14,200,000	(\$32,700,000)
2027	\$21,300,000	\$63,000,000	\$41,700,000	\$9,000,000
2028	\$1,400,000	\$63,000,000	\$61,600,000	\$70,600,000
2029	\$0	\$63,000,000	\$63,000,000	\$133,600,000

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 would take effect upon passage, changing the tax rate for tax years ending on or after December 31, 2023. As TY 2023 I&D first quarter estimated payments are due April 15, 2023, potentially before the proposed legislation would be signed into law, these first quarter payments would be based on the existing tax rate of 4%. The DRA recommends that the proposed legislation provide language to address this situation.

The DRA and tax return software vendors would require time to update the estimated necessary tax forms and electronic management systems.