

SB 404-FN-A - AS INTRODUCED

2018 SESSION

18-2784

10/05

SENATE BILL **404-FN-A**

AN ACT phasing out the tax on interest and dividends.

SPONSORS: Sen. Sanborn, Dist 9; Sen. Avard, Dist 12; Sen. French, Dist 7; Sen. Gannon, Dist 23; Sen. Giuda, Dist 2; Sen. Gray, Dist 6; Sen. Innis, Dist 24; Sen. Reagan, Dist 17

COMMITTEE: Ways and Means

ANALYSIS

This bill phases out the interest and dividends tax over a 5-year period and repeals the tax on January 1, 2024.

Explanation: Matter added to current law appears in ***bold italics***.
Matter removed from current law appears [~~in brackets and struckthrough.~~]
Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

STATE OF NEW HAMPSHIRE

In the Year of Our Lord Two Thousand Eighteen

AN ACT phasing out the tax on interest and dividends.

Be it Enacted by the Senate and House of Representatives in General Court convened:

1 1 Rate; 2020. Amend RSA 77:1 to read as follows:

2 77:1 Rate. The annual tax upon incomes shall be levied at the rate of [~~5~~] 4 percent.

3 2 Rate; 2021. Amend RSA 77:1 to read as follows:

4 77:1 Rate. The annual tax upon incomes shall be levied at the rate of [~~4~~] 3 percent.

5 3 Rate; 2022. Amend RSA 77:1 to read as follows:

6 77:1 Rate. The annual tax upon incomes shall be levied at the rate of [~~3~~] 2 percent.

7 4 Rate; 2023. Amend RSA 77:1 to read as follows:

8 77:1 Rate The annual tax upon incomes shall be levied at the rate of [~~2~~] 1 percent.

9 5 Repeal; 2024. RSA 77, relative the taxations of incomes, is repealed.

10 6 Reference to Interest and Dividends Tax Deleted. Amend RSA 14-B:8, III(q) to read as
11 follows:

12 (q) New Hampshire taxes, specifying if business profits tax[~~;~~] *or* business enterprise
13 tax[~~,-or interest and dividends tax~~].

14 7 Reference to Interest and Dividends Tax Deleted. Amend RSA 15-A:5, I(d)(17) to read as
15 follows:

16 (17) New Hampshire taxes, specifying if business profits tax[~~;~~] *or* business
17 enterprise tax[~~,-or interest and dividends tax~~].

18 8 Reference to Interest and Dividends Tax Deleted. Amend RSA 21-J:31 to read as follows:

19 21-J:31 Penalty for Failure to File. Any taxpayer who fails to file a return when due, unless an
20 extension has been granted by the department, shall pay a penalty equal to 5 percent of the amount
21 of the tax due or \$10, whichever is greater, for each month or part of a month during which the
22 return remains unfiled. The total amount of any penalty shall not, however, exceed 25 percent of
23 the amount of the tax due or \$50, whichever is greater. This penalty shall not be applied in any
24 case in which a return is filed within the extended filing period as provided in [~~RSA 77:18-b,~~
25 RSA 77-A:9, RSA 77-E:8, RSA 83-C:6, RSA 83-E:5, RSA 84-A:7, or RSA 84-C:7, or the failure to file
26 was due to reasonable cause and not willful neglect of the taxpayer. The amount of the penalty is
27 determined by applying the percentages specified to the net amount of any tax due after crediting
28 any timely payments made through estimating or other means.

29 9 Reference to Interest and Dividends Tax Deleted. Amend the introductory paragraph of
30 RSA 21-J:33-a, I to read as follows:

31 I. If there is a substantial understatement of tax imposed under [~~RSA 77,~~] RSA 77-A,

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1 RSA 77-E, RSA 78-A, RSA 78-C, RSA 82-A, RSA 83-C, RSA 83-E, or RSA 84-A for any taxable
2 period, there shall be added to the tax an amount equal to 25 percent of the amount of any
3 underpayment attributable to such understatement.

4 10 Reference to Interest and Dividends Tax Deleted. Amend RSA 21-J:46, III to read as
5 follows:

6 III. This section shall apply only to tax returns and associated payments under ~~[RSA 77,]~~
7 RSA 77-A^[7] and RSA 77-E.

8 11 References to Interest and Dividends Tax Deleted; Tax Expenditure Report. Amend RSA
9 71-C:4, I and II to read as follows:

10 I. On or before December 15 of every fiscal year the commissioner of the department of
11 revenue administration shall certify in a report to the general court and the governor an analysis of
12 each of the past fiscal year's tax expenditures as identified in RSA 71-C:2, and other credits allowed
13 under ~~[RSA 77,]~~ RSA 77-A, RSA 77-E, RSA 77-G, RSA 78, RSA 78-A, 78-B, RSA 82-A, RSA 83-E,
14 RSA 84-A, RSA 84-C, and RSA 400-A.

15 II. The report shall be divided into the following parts:

16 (a) Tax expenditures as determined by the joint committee on tax expenditure review
17 under RSA 71-C:3;

18 (b) Potential liabilities against the state's revenues, specifically:

19 (1) Other credits allowed under ~~[RSA 77,]~~ RSA 77-A, RSA 77-E, RSA 77-G, RSA 78,
20 RSA 78-A, RSA 78-B, RSA 82, RSA 82-A, RSA 83-E, RSA 84-A, RSA 84-C, and RSA 400-A against
21 the business profits tax imposed by RSA 77-A; and

22 (2) Credit carryovers from overpaid taxes.

23 12 Returns for Interest and Dividends Taxes. All persons who are liable for a tax under
24 RSA 77 as of December 31, 2023, who thereafter are no longer liable for a tax under RSA 77 because
25 of the passage of this act shall make a return of such taxes due the commissioner of revenue
26 administration in such manner and on such forms as the commissioner shall prescribe in rules
27 adopted under RSA 541-A. The administrative provisions of RSA 77 shall remain in effect to permit
28 the collection of taxes upon income taxable under RSA 77 which is received by persons subject to
29 taxation under that chapter through December 31, 2023, and to permit the distribution of that
30 revenue. Persons who are liable for a tax under RSA 77 who do not report the payment of federal
31 income taxes on a calendar year basis are entitled to such proportion of the exemptions allowed in
32 RSA 77 as the reporting period bears to their taxable year.

33 13 Repeals. The following are repealed:

34 I. RSA 21-J:45, I(e), relative to reports on status of requested interest and dividends tax
35 refunds.

36 II. RSA 77-A:4-c, II(c), relative to the duty of a committee to study the taxation of
37 distributions received by investment organizations under the interest and dividends tax.

38 III. RSA 77, relative to taxation of incomes.

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1 IV. RSA 77-A:4, I, relative to an adjustment to the business profits tax for taxes under
2 RSA 77.

3 V. RSA 195-H:10, relative to exemption from RSA 77 for income and distributions from
4 qualified tuition programs.

5 VI. RSA 195-K:4, relative to the exemption from RSA 77 for the achieving a better life
6 experience program.

7 VII. RSA 261:52-a relative to notice that the interest and dividends tax may be due.

8 VIII. RSA 391:3 relative to the taxation of common trust funds under RSA 77.

9 14 Effective Date.

10 I. Section 1 of this act shall take effect January 1, 2020, and shall apply to tax years ending
11 on or after December 31, 2020.

12 II. Section 2 of this act shall take effect January 1, 2021 and shall apply to tax years ending
13 on or after December 31, 2021.

14 III. Section 3 of this act shall take effect January 1, 2022, and shall apply to tax years
15 ending on or after December 31, 2022.

16 IV. Section 4 of this act shall take effect January 1, 2023, and shall apply to tax years
17 ending on or after December 31, 2023.

18 V. The remainder of this act shall take effect January 1, 2024.

**SB 404-FN-A- FISCAL NOTE
AS INTRODUCED**

AN ACT phasing out the tax on interest and dividends.

FISCAL IMPACT: State County Local None

STATE:	Estimated Increase / (Decrease)			
	FY 2019	FY 2020	FY 2021	FY 2022
Appropriation	\$0	\$0	\$0	\$0
Revenue	\$0	Indeterminable Decrease	Indeterminable Decrease	Indeterminable Decrease
Expenditures	\$0	\$0	\$0	\$0
Funding Source:	<input checked="" type="checkbox"/> General	<input type="checkbox"/> Education	<input type="checkbox"/> Highway	<input type="checkbox"/> Other

METHODOLOGY:

This bill phases out and repeals the Interest and Dividends (I&D) Tax, which is currently assessed on interest and dividend income at a rate of 5 percent. The rate would be reduced as follows:

- 4 percent effective January 1, 2020 and applicable to tax years ending on or after December 31, 2020.
- 3 percent effective January 1, 2021 and applicable to tax years ending on or after December 31, 2021.
- 2 percent effective January 1, 2022 and applicable to tax years ending on or after December 31, 2022.
- 1 percent effective January 1, 2023 and applicable to tax years ending on or after December 31, 2023.
- Tax repealed effective January 1, 2024.

The Department of Revenue Administration has no means to determine the exact fiscal impact of repealing the I&D tax because it is not able to predict future tax liabilities and credit carryforward amounts. However using tax year 2015 information, the Department is able to provide a static analysis to provide an estimated impact on future tax years. This estimated impact does not take into consideration the Department's ongoing audit and collection activities or any overpayments that might result in a refund. The tax year 2015 liability was \$83,951,757. Taxpayers reported \$16.3 million in overpayments in tax year 2015 and requested that amount be carried forward to offset any potential future liabilities. Applying each tax rate reduction to the I&D tax law as proposed in this bill to the tax year 2015 liability, the potential decrease in state general fund revenue may be as follows:

Fiscal	Tax Year	Tax Rate	Documents Due	Total Fiscal
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Year				Year Impact
FY 2020	TY 2019	5%	3rd and 4th Quarter Estimates and Return Payments	(\$4,784,345)
	TY 2020	4%	1st and 2nd Quarter Estimates	
FY 2021	TY 2020	4%	3rd and 4th Quarter Estimates and Return Payments	(\$21,575,461)
	TY 2021	3%	1st and 2nd Quarter Estimates	
FY 2022	TY 2021	3%	3rd and 4th Quarter Estimates and Return Payments	(\$38,365,516)
	TY 2022	2%	1st and 2nd Quarter Estimates	
FY 2023	TY 2022	2%	3rd and 4th Quarter Estimates and Return Payments	(\$55,155,570)
	TY 2023	1%	1st and 2nd Quarter Estimates	
FY 2024	TY 2023	1%	3rd and 4th Quarter Estimates and Return Payments	(\$71,945,625)
	TY 2024	I&D Repealed	1st and 2nd Quarter Estimates	
FY 2025	TY 2024	I&D Repealed		(\$100,265,594)
	TY 2025			

AGENCIES CONTACTED:

Department of Revenue Administration