

# New Hampshire Department of Revenue Administration

## Fiscal Note Quick Guide

19-0891

**SB 135**, *relative to the rates of the business profits tax and the business enterprise tax.*

Senate Ways & Means

Sections 1-2 of the proposed legislation increase the Business Profits Tax (BPT) rate for taxable periods ending on or after December 31, 2019 back to the rate applicable to taxable periods ending on or after December 31, 2018, from 7.7% to 7.9%. They take effect upon passage.

Sections 3-4 of the proposed legislation increase the Business Enterprise Tax (BET) rate for taxable periods ending on or after December 31, 2019 back to the rate applicable to taxable periods ending on or after December 31, 2018, from 0.60% to 0.675%. They take effect upon passage.

Sections 5-9 of the proposed legislation repeals the prospective amendments reducing the BPT and BET rates for taxable periods ending on or after December 31, 2021. Instead, the proposed legislation provides the following future rate changes:

- It reduces the BPT rate for taxable periods ending on or after December 31, 2021 from 7.9% to 7.7%, effective January 1, 2021.
- It reduces the BET rate for taxable periods ending on or after December 31, 2021 from 0.675% to 0.60%, effective January 1, 2021.
- It reduces the BPT rate for taxable periods ending on or after December 31, 2023 from 7.7% to 7.5%, effective January 1, 2023.
- It reduces the BET rate for taxable periods ending on or after December 31, 2023 from 0.60% to 0.50%, effective January 1, 2023.

The fiscal impact is indeterminable. However, in order to calculate a possible fiscal impact of the proposed rate changes, the Department assumed that the current 2019 and 2021 rate reductions would have been in effect for FY2020 through FY2025, and looked at the difference in revenue from those rate reductions to the proposed rate changes.

To calculate the current 2019 and 2021 rate reductions as well as the proposed rate changes, the Department used the FY2018 cash basis revenue of \$775,900,000 from the June 2018 Department of Administrative Services Revenue Focus for the starting point.

The Department 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 FY2018 revenue was 13% attributable to tax year 2016, 64% attributable to tax year 2017, and 23% attributable to tax year 2018.

Applying the split to the FY2018 revenue as well as applying the applicable rates creates a base of \$47,786,625,316 to use for the starting point.

The rate changes are then applied to the applicable tax and calculated at the new rate to come up with a year-over-year impact, as shown in the table below.

Lastly, the fiscal impact of the proposed rate reductions may be overstated or understated for future fiscal years depending on whether actual revenue is more or less than FY2018.

### **Fiscal Impact of Rate Changes by Fiscal Year**

<b>Business Taxes - Static Analysis using FY 2018 Revenue</b>			
<b>Fiscal Year</b>	<b>FY 2018 Revenue with Current Law's 2019 &amp; 2021 Rate Reductions</b>	<b>FY 2018 Revenues with Proposed Legislation's Rate Changes</b>	<b>Estimated Fiscal Impact Per Year (Proposed Legislation Compared to Current Law)</b>
2020	\$ 710,527,743	\$ 748,113,916	\$ 37,586,173
2021	\$ 692,565,789	\$ 738,177,342	\$ 45,611,553
2022	\$ 658,212,733	\$ 710,527,743	\$ 52,315,010
2023	\$ 651,234,769	\$ 692,565,789	\$ 41,331,020
2024	\$ 651,234,769	\$ 658,212,733	\$ 6,977,964
2025	\$ 651,234,769	\$ 651,234,769	-