

New Hampshire Fiscal Policy Institute

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To the Chair and Honorable Members of the Ways and Means Committee of the New Hampshire House of Representatives:

I am writing to share informational testimony, as NHFPI takes no position on currently pending legislation. With more recent data available than there was when NHFPI last published information on the Interest and Dividends Tax, I hope that updated research and analysis will be informative to the Committee. Thank you for your time.

HISTORY OF RATES AND FILING THRESHOLDS

The Interest and Dividends Tax is a 3 percent tax on the income of individuals, joint filers, and specific types of business entities that is generated from the ownership of certain assets. Established in 1923, the Interest and Dividends Tax had a tax rate of 5 percent from 1977 to 2022, dropping to 4 percent in 2023 and 3 percent in 2024 as part of an eventual phaseout plan enacted in the State Fiscal Years (SFYs) 2022-2023 State Budget. A change to statute included in the Trailer Bill of the SFYs 2024-2025 State Budget accelerated the phaseout, and will repeal the tax entirely in 2025.¹

In 1923, the original filing threshold for the Interest and Dividends Tax was established at \$600 of individual income. An exemption of \$600 was added for older adults, as well as for individuals who are blind or had certain disabilities, in 1977. The overall exemption was raised to \$1,200 for individuals, partnerships, associations, trusts, and fiduciaries in 1981. In the same year, married taxpayers were permitted to file a joint return, with a filing threshold of \$2,400 applied to their returns. The exemption and filing threshold for individuals, partnerships, LLCs, associations, trusts, and fiduciaries was increased to \$2,400 in 1995. In 2004, the liability amount for which quarterly payments would be required was increased from \$200 to \$500.²

Currently, the exemption for tax filers is \$2,400, with an additional \$1,200 if either or both taxpayers on a return are age 65 years or older, are blind, or are younger than 65 years and have a disability that makes them unable to work. These exemption levels are effectively the same as the dollar amounts, unadjusted for inflation, set in 1995 for all filers and 1981 for the specific exemptions, based on summary records provided by the New Hampshire Department of Revenue Administration. Joint taxpayers are not required to file if their

interest and dividends income is below \$4,800, which has also been the same level since 1995.³

TAXABLE INCOME

Fundamentally, to be required to pay Interest and Dividends Tax, an individual, household, estate, or partnership must have wealth that generates sufficient income to be taxable without new labor and without selling an asset, as income generated from those activities are not taxable.

Recent income taxable under the Interest and Dividends Tax stems primarily from distributions, which are a transfer of property from an organization to the shareholders or interest-only holders as a result of their ownership interest in that organization, and from dividends, which are distributed to shareholders or other interest-holders in an organization based on profits during the current year or in accumulated profits, and not from liquidation. Dividends paid by corporations, mutual funds, partnerships, limited liability companies, and associations under certain circumstances are taxable. Interest, such as income generated by holding money in accounts at banks, is also taxable under the Interest and Dividends Tax, but has accounted for a relatively small share of reported income under this tax in recent years. Data from 2018 suggest that high-income filers of the Interest and Dividends Tax report similar shares of dividends and distribution income as filers with more moderate or lower incomes.⁴

Taxable income under the Interest and Dividends Tax does not include income from Individual Retirement Accounts and certain employer retirement benefit plans. As stated in RSA 77:4-b, “[n]otwithstanding any provisions of RSA 77:4 to the contrary, interest and dividend income received by an employee benefit plan as defined by the Employee Retirement Income Security Act of 1974, section 3, or any successor act enacted for the purpose of regulating employee benefit plans, or an individual retirement arrangement, Keogh plan or any other arrangement pursuant to which payment of federal tax on the income thereof and of the plan sponsors, participants and beneficiaries is deferred, shall at no time be considered taxable income under RSA 77:4[...].” Annuities outside of those plans defined by Employee Retirement Income Security Act of 1974, section 3 are taxable, but income from certain bonds, capital gains, stock dividends paid in the form of new stock, tax-deferred investment plans, certain mutual fund arrangements investing in New Hampshire tax-exempt instruments, and certain college tuition savings plans are not.⁵

AVAILABLE DATA ON TAX FILERS

Draft data published by the Department of Revenue Administration annually permits some understanding of the tax incidence of the Interest and Dividends Tax by income distribution on New Hampshire filers. Other analyses based on modeling also provide some insights.

The New Hampshire Department of Revenue Administration reports on the number of taxpayers, and the amount of tax revenue paid, within set tax liability brackets.⁶ Working backwards from these data using the tax rate allows for an estimation of the required Interest and Dividends Tax income to result in these payments. Using the 5 percent tax rate, the paid amounts reported can be translated into taxable income by filer. For example, 26 filers, or 0.04 percent of the 71,259 filers, paid \$250,000 or more in Interest and Dividends Tax. At the 5 percent tax rate in effect in 2021, \$250,000 or more in tax revenue paid indicates those filers reported more than \$5,000,000 in income taxable under the Interest and Dividends Tax (interest, dividends, and distributions) in 2021, according to the draft data published by the New Hampshire Department of Revenue Administration.

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX FILERS BY INCOME AND TAX PAID, TAX YEAR 2021		
Taxable Interest and Dividend Income of At Least:	Percentage of Filers	Percentage of Total Tax Revenue Paid
\$5,000,000	0.04%	14.60%
\$2,000,000	0.16%	24.64%
\$1,000,000	0.38%	32.24%
\$200,000	2.91%	57.30%
\$20,000	25.87%	91.25%
\$10,000	38.84%	96.05%
\$20	78.21%	100.00%
\$0	100.00%	100.00%
Total Filers/Revenue	71,259	\$138,179,409

Source: New Hampshire Department of Revenue Administration, 2023 Annual Report

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These data indicate that 15,524 (21.8 percent) of the 71,529 tax filers in 2021 did not have any Interest and Dividends Tax liability. These tax filers likely include those who were required to file a return, but then could apply one of the credits based on age or disability status to eliminate their liability. Another 28,061 (39.4 percent) of tax filers owed less than \$500 in taxes, suggesting interest, dividend, and distribution income taxable under the Interest and Dividends Tax of less than \$10,000. These taxpayers with less than \$10,000 in taxable income under this tax paid about 4.0 percent of the total tax paid in the Interest and Dividends Tax during Tax Year 2021.

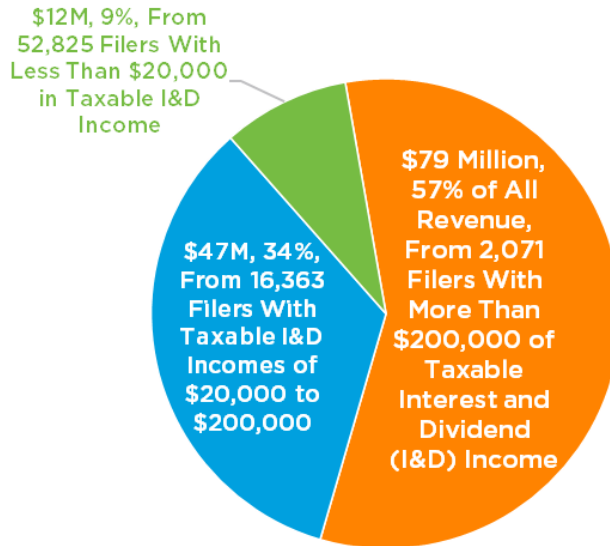
Tax filers with more than \$200,000 in taxable interest, dividend, and distribution income, excluding all sources of income not taxable under the Interest and Dividends Tax (including salary, wage, and capital gains incomes) paid \$79.2 million (57.3 percent) of the tax revenue collected in 2021. These 2,071 filers paid at least \$10,000 each, and accounted for 2.9 percent of filers in total. Within this group, 271 filers (0.4 percent of the total) paid \$44.5

million of the tax collected, or 32.2 percent of all Interest and Dividends Tax revenue attributable to Tax Year 2021. The top 26 tax filers, with more than \$5,000,000 in taxable interest, dividend, and distribution income, paid \$20.2 million, or 14.6 percent of the total Interest and Dividends Tax revenue collected.

Generating large incomes from interest, dividends, and distribution income taxable under the Interest and Dividends Tax requires a substantial amount of wealth. An individual or family receiving more than \$200,000 in taxable dividend income, for example, might be earning a strong dividend yield of 12 percent annually, particularly in a high interest rate environment. With a 12 percent yield, the underlying dividend-paying assets owned by that individual or family generating that income would be at least \$1.68

NEW HAMPSHIRE INTEREST AND DIVIDENDS TAX REVENUE BY THE TAXABLE INTEREST AND DIVIDEND INCOME OF FILERS

Tax Year 2021, Only Taxable Interest, Dividend, and Distribution Income Included



Source: New Hampshire Department of Revenue Administration, 2023 Annual Report

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ASSET OWNERSHIP REQUIRED TO GENERATE INCOME TAXABLE UNDER THE INTEREST AND DIVIDENDS TAX AT SELECTED LEVELS, TAX AND CALENDAR YEAR 2021 WITH A 5 PERCENT TAX RATE

Interest and Dividends Tax Paid (After Any Exemptions, Assumed \$2,400 in Wealth Estimate Calculations)	Taxable Interest and Dividend Income	Wealth Amount Generating Income with 12 Percent Annual Return	Wealth Amount Generating Income with 5 Percent Annual Return	Wealth Amount Generating Income with 1.24 Percent Annual Return (S&P 500 2021 Dividend Average)
\$250,000	\$5,000,000	\$41,686,667	\$100,048,000	\$403,419,355
\$100,000	\$2,000,000	\$16,686,667	\$40,048,000	\$161,483,871
\$50,000	\$1,000,000	\$8,353,333	\$20,048,000	\$80,838,710
\$10,000	\$200,000	\$1,686,667	\$4,048,000	\$16,322,581
\$1,000	\$20,000	\$186,667	\$448,000	\$1,806,452
\$500	\$10,000	\$103,333	\$248,000	\$1,000,000
\$1	\$20	\$20,167	\$48,400	\$195,161
\$0*	\$0*	Up To \$20,000	Up To \$48,000	Up To \$193,548

*Note: Calculations assume \$2,400, the base exemption amount under the Interest and Dividends Tax, is not included as taxable income, but is included in the wealth base used to generate taxable interest, dividend, and distribution income.

Sources: New Hampshire Department of Revenue Administration, 2023 Annual Report; New York University Professor Aswath Damodaran, Damodaran Online, accessed January 2024

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million. A more moderate yield, and more likely during Tax Year 2021, of 5 percent would indicate likely assets of more than \$4 million. The average S&P 500 dividend yield in 2021 was 1.24 percent; that yield rate would suggest \$200,000 in taxable interest, dividends, and distribution income would require approximately \$16.3 million in income-generating assets to produce.⁷

For Interest and Dividends Tax filers with more than \$5 million in dividend income, the wealth required to generate that income through dividends would range from approximately \$41.7 million to \$403.4 million at these rates of return. The collection of such wealth, in the form of these incoming-generating assets owned by individuals and families, was likely aided by relatively high annual incomes in many circumstances.⁸

Other evidence suggests high-income individuals are a significant component of the Interest and Dividends Tax base. Modeling from the Institute on Taxation and Economic Policy conducted in February 2023 estimated that the dollars of forgone public revenue from the elimination of the Interest and Dividends Tax flow disproportionately to individual or family households with high incomes. About 92 percent of the dollars that would have been taxed under the Interest and Dividends Tax stay with households in the top 20 percent of income earners after its repeal, including income from any source, while 8 percent of the benefit flow to the bottom 80 percent of households. Within the top 20 percent, slightly more than 58 percent of all the benefits of Interest and Dividends Tax elimination flow to the top 1 percent of households by income, which represented households with \$703,000 or more in income per year in 2023, with an average of \$2.216 million per year in income during 2023 across that highest group.⁹

Of those households in the bottom 80 percent, about 7 percent see a tax reduction with the repeal, while 31 percent of households in the top 20 percent of incomes would receive a tax break. About 88 percent of households in the top 1 percent receive a tax reduction, while less than 2 percent in the bottom 20 percent of households by income see a reduction in taxes with the repeal of the Interest and Dividends Tax. The bottom 20 percent of households includes those with incomes below \$35,000 per year, and have an estimated average income of \$19,000 per year in 2023, according to the Institute on Taxation and Economic Policy.¹⁰

For context, in 2021, median household income in New Hampshire was about \$88,500.¹¹ The Urban Institute estimated 27 percent of households in New Hampshire did not have at least \$2,000 in emergency savings during 2019.¹²

ECONOMIC STIMULUS FROM TAX REDUCTIONS FOR HIGH-INCOME HOUSEHOLDS

National-level modeling from the Congressional Budget Office and Moody's Analytics suggests that tax reductions for higher income households, including permanent reductions

to dividends and capital gains taxes, are less effective at stimulating economic growth than other key policies, such as assistance to low-income households and infrastructure investments.¹³

In January 2021, Moody's Analytics estimated an additional dollar in food assistance through the Supplemental Nutrition Assistance Program in the first quarter of 2021 boost the size of the overall economy by \$1.61 by the end of 2021, as individuals would have spent their income support on food in the local economy. Supplemental unemployment insurance would boost the economy by \$1.49 per dollar invested over the same time period, as unemployed individuals with fewer other resources would have quickly used these benefits in the economy. The same analysis estimated a dividend and capital gain rate reduction would generate \$0.38 for each dollar of foregone revenue, while a corporate tax rate reduction would generate \$0.32, and a business net operating loss tax offset would produce \$0.24 on the dollar in return on investment.¹⁴

RECENT INTEREST AND DIVIDENDS TAX REVENUE TRENDS

Interest and Dividend Tax revenues to the State of New Hampshire have been robust in recent years, likely in part reflecting the performance of the stock market and asset values.¹⁵ Interest and Dividends Tax revenues to the General Fund have increased from \$79.8 million in SFY 2014 to \$147.3 million in SFY 2023. Between SFYs 2015 and 2021, revenues remained between \$89.2 million and \$125.7 million, but increased to \$157.5 million in SFY 2022. Revenues declined by \$10.2 million, but remained elevated at \$147.3 million, in SFY 2023.¹⁶

Based on cash receipts for the first half of SFY 2024, Interest and Dividends Tax revenues are \$14.6 million (51.2 percent) higher than the revenues expected by the State Revenue Plan. This increase in revenue is occurring while other key revenue sources, including the Real Estate Transfer Tax and the Tobacco Tax, have brought in less revenue than planned. The Business Profits Tax and Business Enterprise Tax revenues continue to generate a surplus, although that surplus is currently smaller than the revenues generated by interest income receipts to the State generated by cash holdings and investments.¹⁷ April receipts are key for understanding overall Interest and Dividends Tax revenues, as the State Revenue Plan originally anticipated that 45 percent of all Interest and Dividends Tax revenues in SFY 2024 will be collected in April 2024.¹⁸

Please do not hesitate to contact me if you have any questions.

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- ¹ New Hampshire Department of Revenue Administration, 2023 Annual Report, pages 64-66.
- ² New Hampshire Department of Revenue Administration, 2023 Annual Report, pages 64-66.
- ³ RSA 77; Chapter 188, Laws of 1995; New Hampshire Department of Revenue Administration, 2023 Annual Report, pages 64-66.
- ⁴ New Hampshire Department of Revenue Administration, Overview of New Hampshire Taxes, House Ways & Means Committee, January 23, 2023, slides 38 and 39; New Hampshire Department of Revenue Administration, House Ways and Means Follow Up document, February 19, 2021.
- ⁵ RSA 77:4-b; New Hampshire Department of Revenue Administration, Interest and Dividends Tax Return, Quick Checklist, What is Taxable and Not Taxable, Form DP-10, Revised October 2018.
- ⁶ New Hampshire Department of Revenue Administration, 2023 Annual Report, page 50.
- ⁷ New York University Professor Aswath Damodaran, Damodaran Online, accessed January 2024 (average S&P 500 asset yield).
- ⁸ Pew Research Center, The Lost Decade of the Middle Class, Chapter 7: Income and Wealth, By Income Tier, August 2012.
- ⁹ New Hampshire Fiscal Policy Institute, Households with High Incomes Disproportionately Benefit from Interest and Dividends Tax Repeal, March 14, 2023.
- ¹⁰ New Hampshire Fiscal Policy Institute, Households with High Incomes Disproportionately Benefit from Interest and Dividends Tax Repeal, March 14, 2023.
- ¹¹ U.S. Census Bureau, 2021 American Community Survey, One-Year Estimates, accessed January 2024.
- ¹² The Urban Institute, Financial Health and Wealth Dashboard, October 6, 2022; New Hampshire Fiscal Policy Institute, Affording Household Expenses Remains Challenging for Many Granite Staters, July 21, 2023.
- ¹³ Congressional Budget Office: The Budget and Economic Outlook: 2023 to 2033, February 2023, page 39; Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014, February 2015; Policies for Increasing Economic Growth and Employment in 2012 and 2013, November 15, 2011. New Hampshire Fiscal Policy Institute: Designing a State Budget to Meet New Hampshire's Needs During and After the COVID-19 Crisis, February 8, 2021, Households with High Incomes Disproportionately Benefit from Interest and Dividends Tax Repeal, March 14, 2023; State Business Tax Rate Reductions Led to Between \$496 Million and \$729 Million Less for Public Services, August 2, 2023.
- ¹⁴ Moody's Analytics, The Biden Fiscal Rescue Package: Light on the Horizon, January 15, 2021.
- ¹⁵ New Hampshire Department of Revenue Administration, Joint Economic Briefing, January 19, 2021.
- ¹⁶ New Hampshire Department of Administrative Services, Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2023.
- ¹⁷ New Hampshire Department of Administrative Services, Monthly Revenue Focus, December FY 2024.
- ¹⁸ New Hampshire Department of Administrative Services, Monthly Revenue Plan for FY 2024.