

New Hampshire: Senate passes bill to eliminate taxes on dividend and interest income



David M. Kall | Thursday, March 29, 2018

There are currently seven states that do not impose income taxes: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. At this time, New Hampshire and Tennessee also do not tax wage income, but they both do tax investment income in the form of interest and dividends, at 5 percent and 6 percent, respectively.

However, change is afoot in both states. In New Hampshire, [SB 404](#), introduced on March 15, 2018, would phase out the 5 percent tax on interest and dividends income, known as the I&D tax, over a 5-year period, for ultimate repeal on Jan. 1, 2024. The bill reduces the rates as follows:

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- Tax repealed effective Jan. 1, 2024.

An [analysis](#) of the bill states that the Department of Revenue Administration cannot calculate the exact fiscal impact because it is not able to predict future tax liabilities and credit carry forward amounts. However, it does make some projections of general revenue fund decreases as follows, based on figures from the tax year 2015, for which the state had a liability of \$83,951,757, and another \$16.3 million in

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reported overpayments:

FISCAL YEAR	IMPACT
2020	\$4,784,345
2021	\$21,575,461
2022	\$38,365,516
2023	\$55,155,570
2024	\$71,945,625
2025	\$100,265,594

In commenting on SB 404 earlier this month, the Tax Foundation [noted](#) that Tennessee passed a “similar measure in 2016 and has begun phasing out its 6 percent rate. The tax will be completely eliminated by 2022.” Two years ago when Tennessee’s lawmakers reached their agreement, the Tax Foundation [characterized](#) the Volunteer State’s move as “one of the great tax reform packages of 2016.”

The Tax Foundation is equally delighted with New Hampshire’s legislation, calculating that it “would even further improve the state’s business tax competitiveness in the northeast. New Hampshire currently ranks seventh overall in our State Business Tax Climate Index, and is the only state in the northeast to rank in the top 10. When the elimination of the tax on interest and dividends is fully phased in, New Hampshire would move to fourth in our Index, giving New Hampshire one of the most competitive tax codes in the nation.”

Ohio’s income tax residency bill

Ohio is another state that is attempting to tinker with its income tax laws. [HB292](#) would modify the test for determining an individual’s state of residence for income tax purposes, to provide a bright line test and more certainty to taxpayers. We [addressed](#) HB292 in a blog posting in mid-November of last year, when it passed the Ohio House of Representatives. At this time the Ohio Senate is still considering HB292.



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