

Federal Income and Estate Taxes: A New Hampshire Perspective

By Greg Bird and Eric Herr, November 21, 2017

Congress will iterate through multiple versions of proposed tax legislation over the next weeks and months. The effects of each proposal on individual households will depend on specific circumstances and may vary significantly—even for households with similar incomes.

Given that, what are the effects of the existing tax code on New Hampshire residents? IRS data from New Hampshire federal income 2015 tax filings sheds some light on that question.

A Snapshot of Federal Income Tax in New Hampshire

693,000 NH federal income tax returns

- Paid **\$7 billion** in federal income taxes

Total NH income reported: **\$50.5 billion**

- Wages and salaries: **\$35.5 billion**
- Taxable IRA distributions, pensions and annuity income, and taxable social security benefits: **\$6.1 billion**
- Passive investment income (dividends, interest, capital gains): **\$5.3 billion**, of which **\$2.8 billion** was realized net capital gains

Itemized deductions: 217,000 returns, claiming **\$5.1 billion** in deductions

- Real estate taxes paid: **\$1.5 billion**
- Mortgage interest paid: **\$1.4 billion**
- Charitable contributions: **\$617 million**

These aggregate figures obscure significant differences across New Hampshire households.

The tables that follow dig a bit deeper into the details. The data affirm wide disparities in the distribution of income and its sources, deductions, and alternative minimum tax exposure, as well as show the progressivity of federal income taxes and the distribution of federal payments.

Data source: www.irs.gov/statistics/soi-tax-stats-historic-table-2

The Composition and Distribution of Filings and Adjusted Gross Income

New Hampshire Federal Income Tax Filers for Tax Year 2015

AGI segments	\$1 to < \$25k	\$25k to <\$100k	\$100k to <\$500k	>\$500k
Returns	217,000	326,000	136,000	5,000
AGI	\$2.6 billion	\$17.9 billion	\$22.6 billion	\$7.3 billion
AGI per return	\$12,000	\$55,000	\$166,000	\$1,399,000

Types of reported income as a % of Adjusted Gross Income

Wages and salaries	77%	77%	75%	44%
Passive investment income	4%	4%	8%	36%
IRA distributions, pension and annuities and taxable Social Security benefits	14%	16%	12%	2%
Business and professional net income and partnership and S Corp net income	7%	5%	7%	20%

The data confirms the skew in the distribution of income with the top 1% of returns measured by Adjusted Gross Income enjoying per return incomes 115 times that of the bottom 31% of the income distribution.

Interestingly, the composition of income does not vary significantly among income segments below \$500k. Only for incomes above \$500k does the composition of income shift significantly toward passive investment income, business and professional net income, and partnership and S corp net income.

Deductions and the Alternative Minimum Tax

New Hampshire Federal Income Tax Filers for Tax Year 2015
(\$ in thousands unless otherwise noted)

AGI segments	\$1 to < \$25k	\$25k to <\$100k	\$100k to <\$500k	>\$500k
Returns with itemized deductions (% of total returns)	14,650 (7%)	97,480 (30%)	100,720 (74%)	4,240 (83%)
Itemized deductions				
Total deductions	\$247 million	\$1,713 million	\$2,594 million	\$503 million
Deductions per return	\$17,000	\$18,000	\$26,000	\$119,000
Property tax deduction				
# of claiming returns	12,030	89,760	97,970	4,000
\$ per claiming return	\$6,000	\$6,000	\$8,000	\$22,000
Mortgage interest deduction				
# of claiming returns	8,000	76,000	86,000	3,000
\$ per claiming return	\$6,000	\$7,000	\$9,000	\$16,000
Alternative minimum tax:	20	350	14,600	1,390
\$/AMT return	Less than \$1	\$2,000	\$4,000	\$20,000

Only 1 in 14 filers with Adjusted Gross Income under \$25k itemizes deductions compared to 1 in 3 with AGI between \$25k and \$100k. Interestingly, with such substantial differences in Adjusted Gross Income, itemized deductions per return is essentially equal between the two income segments. Though average Adjusted Gross Income climbs to \$111,000 from the \$25-\$100k segment to the \$100-500k segment, deductions per return only climb \$8,000.

As noted in the previous table, differences in deductions across income segments are relatively modest up to AGI of \$100k. Only when Adjusted Gross Income moves above \$500,000 are there significant difference in deductions. As would be expected, the Alternative Minimum Tax falls primarily on the highest earning Adjusted Gross Income segment, AGI in excess of \$500k.

Adjusted Gross Income (AGI) is calculated based on income earned from wages, investments and business income, etc., minus above the line tax deductions. AGI is calculated before a taxpayer takes exemptions and the standard or itemized deduction

Federal Estate Taxes 2015

New Hampshire residents filed 142 federal estate tax returns in 2015. Federal gross collections on those New Hampshire returns was \$66 million. Since the 2015 Federal Estate Tax rate was 40%, collections of \$66 million imply taxable estates of \$415 million. The Federal Estate Tax exemption in 2015 was \$5.43 million per person.

At a minimum, with one exemption per estate and ignoring philanthropic gifts, the value of exempted estate transfers was \$771 million.

The Distribution of Federal Income Tax Payments and Effective Tax Rates

AGI Segments	\$1 to < \$25k	\$25k to <\$100k	\$100k to <\$500k	>\$500k
Returns	217,000	326,000	136,000	5,000
Total reported income per return	\$12,000	\$56,000	\$141,000	\$1,418,000
Federal income taxes per return	Less than \$1	\$5,000	\$26,000	\$392,000
Effective Tax Rate	2%	8%	15%	28%
Federal income taxes paid by AGI segment as a % of total	1%	21%	49%	28%

Overall, the effect of the various puts and takes of the Federal Income Tax system on Granite Staters is a tax system that is progressive in the sense that marginal, effective tax rates rise with income from 2% for filers with Adjusted Gross Income less than \$25,000, to 28% for filers with Adjusted Gross Income over \$500,000.

The consequence of these effective rates and New Hampshire's distribution of income include the facts that:

- the bottom 31% of the income distribution pay 1% of total Federal Income Taxes paid by NH residents
- the top 1% of the income distribution pay 28% of Federal Income Taxes
- the top 21% of the income distribution pay 77% of all Federal Income Taxes paid by New Hampshire residents.

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