

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1170

2007 HOUSE FINANCE AND TAXATION

HB 1170

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1170 A

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 23, 2007

Recorder Job Number: 1656

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter called the committee to order and opened the hearing on HB 1170. The clerk read the roll; all members were present.

Rep. Al Carlson: This Bill lowers the effective rate of our income tax to the individuals, the State and trusts of this State by two tenths of 1% per bracket. I will explain to you what effect that will have on the citizens of our State. I've include two handouts, but before I do the two handouts, I'd like to have you go to the second page of the handout which is a document that all of you have or should have at your desk, it's from the orange appropriations book that we work from which is Legislative Counsel's analysis of the budget for the year 07'-09'; The third line down talks about individual income tax. I think you need to keep in perspective where most of the money is generated in the State that operates the government and the services that we provide to the citizens of ND. The largest number is the sales and use tax. The next largest number is the individual income tax and the next part is corporate income tax and the next number after that is a motor vehicle excise tax. It is really a sales tax but we have for years called it an excise tax on automobiles and that money has been deposited in the general fund. It's interesting that if you look down this list, and here's where some of my bias will be showing, and I admit that I have it, I don't see anywhere on this list where we collect property taxes.

However there seems to be many Bills floating around and that's a topic for another day, the refund the tax which we do not collect. The basic government that we fund comes from many areas, many different taxes with the three biggest ones listed there. I want you to go back to 2001 and look at the growth in our individual income tax that we collected for our citizens. And then I'll give you two reasons why I think this is a good Bill to pass. It's gone from 396 million in 01'- 03', to 452 million in 03'- 05' to 553 million in 05'-07' to 607 million anticipated in 07'-09'. That's an increase of 54 million dollars that our citizens will be paying in income tax in the next biennium. There are two things that have led to this. That's a 9 almost a 10% increase in income tax collections over the next anticipated biennium. One of them is the fact that because we have done a good job of creating a good economic environment in our State. More people are working on our salaries and they've increased significantly across the State. I know you've heard Bills about minimum wage but I want to tell you that there are a lot of North Dakotans today making more money than they ever have made and because of that, they're paying more income taxes than they've ever paid. This is also a tax that affects most every citizen in the State, whether he rents an apartment, or whether he's working full time and owns a house, they are paying income taxes.

Representative Weiler: Rep. Carlson has done an excellent job explaining what the Bill does. I have a few comments. The dollar amount that we're looking at that we have right now to work with, the surplus, is staggering. There are some people who believe that the large surplus is due to the fact that we are simply over taxed in the State. Income tax is one of the reasons why. We need to be fair to all the tax payers of ND and look at reducing this over tax.

Chairman Belter: Is there any other testimony in support?

Robert Harms, Tax payer: testimony in support. Last year there was a local sales tax issue here in Bismarck that I managed to stumble into and get involved with. As a result a group of

citizens started to participate in a group called Citizens for Responsible Government. I helped organize it and we had a vote on a sales tax issue last summer. We think that North Dakotan's get to keep more of their money.

Chairman Belter: Is there any opposition?

Sandy Clark, ND Farm Bureau: testimony in opposition. **(See attachment #3)**

Rep. Blair Thoreson: testimony in support. I apologize, I was tied up in another meeting and found out this was going on still. I am in favor of the Bill.

Chairman Belter: Any other opposition to HB 1170. Any neutral testimony? Hearing none we will close the hearing on 1170.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1170 B

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 1, 2007

Recorder Job Number: 2670

Committee Clerk Signature

Mickie Schmitt

Minutes:

Chairman Belter opened the hearing on HB 1170. He states that this is Rep. Carson's income tax reduction Bill.

Chairman Belter: I apologize because of time, we did not get the amendments that I wanted. I am personally going to support this Bill and present amendments. If the Bill passes, I'm going to propose amendments in the Appropriations Committee that would put a trigger on this income tax Bill that if revenues exceed projections by 3-1/2%. And those projections would be some time in early 2008. If those revenue projections exceed what was expected then this income tax cut as proposed would go into affect for the tax year of 2008.

Representative Owens: My concern would be if it didn't pass, would we still have the same problem?

Chairman Belter: The amendments would have to correct the marriage portion of it.

Representative Froseth: Should we act on the amendment first?

Chairman Belter: We can't. We will submit the amendment to Appropriations. One of the problems with the amendment is it had to coincide with Rep. Owens said too and that's a balancing act.

Representative Weiler: I move a Do Pass and rerefered to Appropriations.

Representative Brandenburg: Second it.

Chairman Belter: Any discussion?

Representative Pinkerton: This is another 31 million dollar Bill. There was just a Bill passed out of this committee that if someone who's over 65 years of age, living in their own house and earning less than \$12000 dollars a year and their property tax is only getting cut by 40%. Is that the exact number?

Vice Chairman Drovdal: Now there's a proposal by Rep. Kasper. The Bill that we passed out if a person making \$12000 dollars, they would get 80% off of their taxes on a house valued up to market value \$75000.

Representative Pinkerton: In reading from the present income is not excess, its \$16,000 reduction, 40% of their taxable evaluation of a person's homestead.

Vice Chairman Drovdal: I said \$12000. If \$16,000, you get 40% off of the value.

Representative Pinkerton: You can understand there could be some sense of inequity here. I just think there's a grey inequity here and we should be taking care of those who can't take care of themselves. Those of us who live in urban areas or small towns that walk through the neighborhood and see those people trying to make a living and yet we're giving a tax break to those who are making 2-3 hundred thousand dollars.

Representative Weiler: I believe in the previous Bill that we are taking care of those 65 and older in the Homestead Tax spread and disabled. We greatly increased the amount of money that goes into that. But this current Bill, those people are the ones that are paying the taxes. The wealthy are the ones that are paying the huge majority of taxes. 90% of taxes paid in this Country are paid by 10% of the people. So when you give a tax break? It's going to be the people who pay the tax.

Vice Chairman Drovdal: We passed a Homestead Tax Credit that just about doubled the tax credit that we gave to 65 years and older and the disabled. All Democrats voted against that break we were going to give. This is two tenths of a reduction to everybody who pays income tax.

Representative Kelsh: I just wanted to point out that we didn't vote against that, we were voting against the Bill that cut out a lot of sections. Is this really a priority? This is where I've gotten a lot of complaints.

Representative Pinkerton: Rep. Weiser's Bill was passed out with an amendment was defeated by also a party line vote.

Chairman Belter: Any more question? Will the clerk read the roll; 8-y; 5-n; 1-absent; Rep. Weiler will carry the Bill. We will close the hearing on HB1170.

FISCAL NOTE

Requested by Legislative Council

01/05/2007

Bill/Resolution No.: HB 1170

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$32,700,000)			
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1170 reduces individual income tax rates by 2/10's of a percent beginning with tax year 2007.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of HB 1170 reduces the rates on the state's optional "long form," Form ND-2. Section 2 of HB 1170 increases the brackets for the state's primary form, Form ND-1, to the level set for tax year 2007 and reduces each rate 2/10's of a percent.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

HB 1170 is expected to reduce state general fund revenues by \$32.7 million in the 2007-09 biennium.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/22/2007

Date: 2-1-07 4pm
Roll Call Vote #: 1170

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken Do Pass and Rerefer to Appropriations

Motion Made By Rep. Weiler Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich		✓
Vice Chairman Drovdal	✓		Rep. Kelsh		✓
Rep. Brandenburg	✓		Rep. Pinkerton		✓
Rep. Froseth	✓		Rep. Schmidt		✓
Rep. Grande	✓		Rep. Vig		✓
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 8 No 5

Absent 1

Floor Assignment Rep. Weiler

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1170: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (8 YEAS, 5 NAYS, 1 ABSENT AND NOT VOTING). HB 1170 was rereferred to the Appropriations Committee.

2007 HOUSE APPROPRIATIONS

HB 1170

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1170

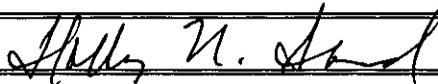
House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 9, 2007

Recorder Job Number: 3311

Committee Clerk Signature



Minutes:

Chm. Svedjen called the meeting to order to take up Amendment .0201 to HB 1170, a bill relating to income tax rates for individuals, estates and trusts, by calling on **Rep. Wesley Belter**, District 22.

Rep. Belter explained that this bill is intended to reduce income tax. The fiscal note on it is \$32,700,000. Page 3, section 5 state that if revenues exceed the budget forecast by 3.5% then this would kick in. It could happen for the first time in '08. The original bill is about a 10% reduction in taxes on the lower end of the income scale.

If it did kick in 2008 it would be about a \$20m reduction.

Rep. Ekstrom: If revenues are still peaking, would it still be \$32m?

Rep. Belter: Yes.

Rep. Hawken: So, the following year these revenues would kick in only if the revenues were over that, or is this an ongoing thing?

Rep. Belter: This would be ongoing, there is no sunset.

Rep. Hawken: Once we put the 10% in, it would stay there forever.

Rep. Belter: It would stay there until a legislative session changes it.

Rep. Ekstrom: How did the tax department react to that? They would have to gear up to get all these rates recalculated because. How can the new schedule be handled?

Rep. Belter: If there were an income tax cut, the biggest thing that would happen is that employees would get a bigger income tax refund at the end of the year because they would have overpaid.

Rep. Hawken: If we cut taxes now, it is forever and I don't think we can get this back. Roads and schools have to be paid.

Rep. Kempenich moved to adopt the amendment .0201 HB 1170. Seconded by Rep. Thoreson. Carried by voice vote and the amendment adopted.

Rep. Kempenich moved a Do Pass as amended, seconded by Rep. Thoreson.

Rep. Glasheim: Which tax brackets would benefit the most?

Rep. Carlson: In every bracket, more taxes are being paid than if we hadn't decoupled.

Ref. 12:20. I believe we should be reducing the tax to our citizens at least to the level that they paid prior to our decoupling. If money is given back to the people, they spend it.

Rep. Gulleason: Opposes the bill. In the order of tax concerns, property tax is more of an issue.

Rep. Carlson: If you don't want income tax, you should move to South Dakota. There is no such thing as a perfect tax. Low income tax brings workers and we need workers.

Rep. Glasheim: Of the 40 some states that collect income taxes, we are the lowest.

Audio Difficulties

The motion for a Do Pass as Amended to HB 1170 carried by a roll call vote of 13 ayes, 11 nays and 0 absent and not voting. Rep. Carlson was designated to carry the bill.

Meeting adjourned.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1170

Page 2, line 5, replace "Subsection" with "If House Bill No. 1051 does not become effective or becomes effective and does not contain an amendment to section 57-38-30.3, subsection"

Page 5, after line 4, insert:

"SECTION 3. AMENDMENT. If House Bill No. 1051 becomes effective and contains an amendment to section 57-38-30.3, subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.

a. Single, other than head of household or surviving spouse.

If North Dakota taxable income is: Not over \$27,050 <u>\$31,850</u> Over \$27,050 <u>\$31,850</u> but not over \$65,550 <u>\$77,100</u> Over \$65,550 <u>\$77,100</u> but not over \$136,750 <u>\$160,850</u> Over \$136,750 <u>\$160,850</u> but not over \$297,350 <u>\$349,700</u> Over \$297,350 <u>\$349,700</u>	The tax is equal to: 2.10% <u>1.90%</u> \$568.05 <u>\$605.15</u> plus 3.92% <u>3.72%</u> of amount over \$27,050 <u>\$31,850</u> \$2,077.25 <u>\$2,288.45</u> plus 4.34% <u>4.14%</u> of amount over \$65,550 <u>\$77,100</u> \$5,167.33 <u>\$5,755.70</u> plus 5.04% <u>4.84%</u> of amount over \$136,750 <u>\$160,850</u> \$13,261.67 <u>\$14,896.04</u> plus 5.54% <u>5.34%</u> of amount over \$297,350 <u>\$349,700</u>
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b. Married filing jointly and surviving spouse.

If North Dakota taxable income is: Not over \$45,200 <u>\$63,700</u> Over \$45,200 <u>\$63,700</u> but not over \$109,250 <u>\$154,200</u> Over \$109,250 <u>\$154,200</u> but not over \$166,500 <u>\$321,700</u> Over \$166,500 <u>\$321,700</u> but not over \$297,350 <u>\$699,400</u> Over \$297,350 <u>\$699,400</u>	The tax is equal to: 2.10% <u>1.90%</u> \$949.20 <u>\$1,210.30</u> plus 3.92% <u>3.72%</u> of amount over \$45,200 <u>\$63,700</u> \$3,459.96 <u>\$4,576.90</u> plus 4.34% <u>4.14%</u> of amount over \$109,250 <u>\$154,200</u> \$5,044.64 <u>\$11,511.40</u> plus 5.04% <u>4.84%</u> of amount over \$166,500 <u>\$321,700</u> \$12,539.45 <u>\$29,792.08</u> plus 5.54% <u>5.34%</u> of amount over \$297,350 <u>\$699,400</u>
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c. Married filing separately.

If North Dakota taxable income is:	The tax is equal to:
Not over \$22,600 <u>\$31,850</u>	2.40% <u>1.90%</u>
Over \$22,600 <u>\$31,850</u> but not over \$54,625 <u>\$77,100</u>	\$474.60 <u>\$605.15</u> plus 3.92% <u>3.72%</u> of amount over \$22,600 <u>\$31,850</u>
Over \$54,625 <u>\$77,100</u> but not over \$83,250 <u>\$160,850</u>	\$1,729.98 <u>\$2,288.45</u> plus 4.34% <u>4.14%</u> of amount over \$54,625 <u>\$77,100</u>
Over \$83,250 <u>\$160,850</u> but not over \$148,675 <u>\$349,700</u>	\$2,972.34 <u>\$5,755.70</u> plus 5.04% <u>4.84%</u> of amount over \$83,250 <u>\$160,850</u>
Over \$148,675 <u>\$349,700</u>	\$6,269.73 <u>\$14,896.04</u> plus 5.54% <u>5.34%</u> of amount over \$148,675 <u>\$349,700</u>

d. Head of household.

If North Dakota taxable income is:	The tax is equal to:
Not over \$36,250 <u>\$42,650</u>	2.40% <u>1.90%</u>
Over \$36,250 <u>\$42,650</u> but not over \$93,650 <u>\$110,100</u>	\$764.25 <u>\$810.35</u> plus 3.92% <u>3.72%</u> of amount over \$36,250 <u>\$42,650</u>
Over \$93,650 <u>\$110,100</u> but not over \$151,650 <u>\$178,350</u>	\$3,011.33 <u>\$3,319.49</u> plus 4.34% <u>4.14%</u> of amount over \$93,650 <u>\$110,100</u>
Over \$151,650 <u>\$178,350</u> but not over \$297,350 <u>\$349,700</u>	\$5,528.53 <u>\$6,145.04</u> plus 5.04% <u>4.84%</u> of amount over \$151,650 <u>\$178,350</u>
Over \$297,350 <u>\$349,700</u>	\$12,871.84 <u>\$14,438.38</u> plus 5.54% <u>5.34%</u> of amount over \$297,350 <u>\$349,700</u>

e. Estates and trusts.

If North Dakota taxable income is:	The tax is equal to:
Not over \$1,800 <u>\$2,150</u>	2.40% <u>1.90%</u>
Over \$1,800 <u>\$2,150</u> but not over \$4,250 <u>\$5,000</u>	\$37.80 <u>\$40.85</u> plus 3.92% <u>3.72%</u> of amount over \$1,800 <u>\$2,150</u>
Over \$4,250 <u>\$5,000</u> but not over \$6,500 <u>\$7,650</u>	\$133.84 <u>\$146.87</u> plus 4.34% <u>4.14%</u> of amount over \$4,250 <u>\$5,000</u>
Over \$6,500 <u>\$7,650</u> but not over \$8,900 <u>\$10,450</u>	\$234.49 <u>\$256.58</u> plus 5.04% <u>4.84%</u> of amount over \$6,500 <u>\$7,650</u>
Over \$8,900 <u>\$10,450</u>	\$352.45 <u>\$392.10</u> plus 5.54% <u>5.34%</u> of amount over \$8,900 <u>\$10,450</u>

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

- (1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and
- (2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

g. For taxable years beginning after December 31, ~~2004~~ 2007, the tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and

maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes."

Page 5, line 6, replace "2006" with "2007, only if the tax commissioner certifies to the governor, the office of management and budget, and the legislative council by May 31, 2008, that state general fund revenue receipts through April 2008 are at least three and one-half percent more than the amount forecasted for that date in the final budget status report prepared after adjournment of the sixtieth legislative assembly"

Renumber accordingly

Date: 2/3/07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1170

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Adopt. Amend. 0201

Motion Made By Klein Seconded By Wadd

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gullieson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Vote Vote

Date: 2/9/07
 Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1170

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass As Amended

Motion Made By Kempnich Seconded By Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempnich	✓				
Representative Wald	✓		Representative Aarsvold	✓	✓
Representative Monson		✓	Representative Gulleson		✓
Representative Hawken		✓			
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim		✓
Representative Carlisle	✓		Representative Kroeber		✓
Representative Skarphol	✓		Representative Williams		✓
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom		✓
Representative Bellew	✓		Representative Kerzman		✓
Representative Kreidt	✓		Representative Metcalf		✓
Representative Nelson		✓			
Representative Wieland	✓				

Total (Yes) 13 No 11

Absent 0

Floor Assignment Carlson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1170: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (13 YEAS, 11 NAYS, 0 ABSENT AND NOT VOTING). HB 1170 was placed on the Sixth order on the calendar.

Page 2, line 5, replace "Subsection" with "If House Bill No. 1051 does not become effective or becomes effective and does not contain an amendment to section 57-38-30.3, subsection"

Page 5, after line 4, insert:

"SECTION 3. AMENDMENT. If House Bill No. 1051 becomes effective and contains an amendment to section 57-38-30.3, subsection 1 of section 57-38-30.3 of the North Dakota Century Code is amended and reenacted as follows:

1. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. A taxpayer computing the tax under this section is only eligible for those adjustments or credits that are specifically provided for in this section. Provided, that for purposes of this section, any person required to file a state income tax return under this chapter, but who has not computed a federal taxable income figure, shall compute a federal taxable income figure using a pro forma return in order to determine a federal taxable income figure to be used as a starting point in computing state income tax under this section. The tax for individuals is equal to North Dakota taxable income multiplied by the rates in the applicable rate schedule in subdivisions a through d corresponding to an individual's filing status used for federal income tax purposes. For an estate or trust, the schedule in subdivision e must be used for purposes of this subsection.

- a. Single, other than head of household or surviving spouse.

If North Dakota taxable income is:	The tax is equal to:
Not over \$27,050 <u>\$31,850</u>	2.10% <u>1.90%</u>
Over \$27,050 <u>\$31,850</u> but not over \$65,550 <u>\$77,100</u>	\$568.05 <u>\$605.15</u> plus 3.92% <u>3.72%</u> of amount over \$27,050 <u>\$31,850</u>
Over \$65,550 <u>\$77,100</u> but not over \$136,750 <u>\$160,850</u>	\$2,077.25 <u>\$2,288.45</u> plus 4.34% <u>4.14%</u> of amount over \$65,550 <u>\$77,100</u>
Over \$136,750 <u>\$160,850</u> but not over \$297,350 <u>\$349,700</u>	\$5,167.33 <u>\$5,755.70</u> plus 5.04% <u>4.84%</u> of amount over \$136,750 <u>\$160,850</u>
Over \$297,350 <u>\$349,700</u>	\$13,261.57 <u>\$14,896.04</u> plus 5.54% <u>5.34%</u> of amount over \$297,350 <u>\$349,700</u>

- b. Married filing jointly and surviving spouse.

If North Dakota taxable income is:	The tax is equal to:
Not over \$45,200 <u>\$63,700</u>	2.10% <u>1.90%</u>
Over \$45,200 <u>\$63,700</u> but not over \$109,250 <u>\$154,200</u>	\$949.20 <u>\$1,210.30</u> plus 3.92% <u>3.72%</u> of amount over \$45,200 <u>\$63,700</u>
Over \$109,250 <u>\$154,200</u> but not over \$166,500 <u>\$321,700</u>	\$3,459.96 <u>\$4,576.90</u> plus 4.34% <u>4.14%</u> of amount over \$109,250 <u>\$154,200</u>
Over \$166,500 <u>\$321,700</u> but not over \$297,350 <u>\$699,400</u>	\$5,944.61 <u>\$11,511.40</u> plus 5.04% <u>4.84%</u> of amount over \$166,500 <u>\$321,700</u>
Over \$297,350 <u>\$699,400</u>	\$12,539.45 <u>\$29,792.08</u> plus 5.54% <u>5.34%</u> of amount over \$297,350 <u>\$699,400</u>

c. Married filing separately.

If North Dakota taxable income is:
Not over ~~\$22,600~~ \$31,850
Over ~~\$22,600~~ \$31,850 but not over
~~\$54,625~~ \$77,100
Over ~~\$54,625~~ \$77,100 but not over
~~\$83,250~~ \$160,850
Over ~~\$83,250~~ \$160,850 but not over
~~\$148,675~~ \$349,700
Over ~~\$148,675~~ \$349,700

The tax is equal to:
~~2.10%~~ 1.90%
~~\$474.60~~ \$605.15 plus ~~3.92%~~ 3.72% of amount
over ~~\$22,600~~ \$31,850
~~\$1,729.98~~ \$2,288.45 plus ~~4.34%~~ 4.14% of amount
over ~~\$54,625~~ \$77,100
~~\$2,972.31~~ \$5,755.70 plus ~~5.04%~~ 4.84% of amount
over ~~\$83,250~~ \$160,850
~~\$6,260.73~~ \$14,896.04 plus ~~5.54%~~ 5.34% of amount
over ~~\$148,675~~ \$349,700

d. Head of household.

If North Dakota taxable income is:
Not over ~~\$36,250~~ \$42,650
Over ~~\$36,250~~ \$42,650 but not over
~~\$93,650~~ \$110,100
Over ~~\$93,650~~ \$110,100 but not over
~~\$151,650~~ \$178,350
Over ~~\$151,650~~ \$178,350 but not
over ~~\$297,350~~ \$349,700
Over ~~\$297,350~~ \$349,700

The tax is equal to:
~~2.10%~~ 1.90%
~~\$761.25~~ \$810.35 plus ~~3.92%~~ 3.72% of amount
over ~~\$36,250~~ \$42,650
~~\$3,011.33~~ \$3,319.49 plus ~~4.34%~~ 4.14% of amount
over ~~\$93,650~~ \$110,100
~~\$5,528.53~~ \$6,145.04 plus ~~5.04%~~ 4.84% of amount
over ~~\$151,650~~ \$178,350
~~\$12,871.81~~ \$14,438.38 plus ~~5.54%~~ 5.34% of amount
over ~~\$297,350~~ \$349,700

e. Estates and trusts.

If North Dakota taxable income is:
Not over ~~\$1,800~~ \$2,150
Over ~~\$1,800~~ \$2,150 but not over
~~\$4,250~~ \$5,000
Over ~~\$4,250~~ \$5,000 but not over
~~\$6,500~~ \$7,650
Over ~~\$6,500~~ \$7,650 but not over
~~\$8,900~~ \$10,450
Over ~~\$8,900~~ \$10,450

The tax is equal to:
~~2.10%~~ 1.90%
~~\$37.80~~ \$40.85 plus ~~3.92%~~ 3.72% of amount
over ~~\$1,800~~ \$2,150
~~\$133.94~~ \$146.87 plus ~~4.34%~~ 4.14% of amount
over ~~\$4,250~~ \$5,000
~~\$231.40~~ \$256.58 plus ~~5.04%~~ 4.84% of amount
over ~~\$6,500~~ \$7,650
~~\$352.45~~ \$392.10 plus ~~5.54%~~ 5.34% of amount
over ~~\$8,900~~ \$10,450

f. For an individual who is not a resident of this state for the entire year, or for a nonresident estate or trust, the tax is equal to the tax otherwise computed under this subsection multiplied by a fraction in which:

- (1) The numerator is the federal adjusted gross income allocable and apportionable to this state; and
- (2) The denominator is the federal adjusted gross income from all sources reduced by the net income from the amounts specified in subdivisions a and b of subsection 2.

In the case of married individuals filing a joint return, if one spouse is a resident of this state for the entire year and the other spouse is a nonresident for part or all of the tax year, the tax on the joint return must be computed under this subdivision.

- g. For taxable years beginning after December 31, ~~2004~~ 2007, the tax commissioner shall prescribe new rate schedules that apply in lieu of the schedules set forth in subdivisions a through e. The new schedules must be determined by increasing the minimum and maximum dollar amounts for each income bracket for which a tax is imposed by the cost-of-living adjustment for the taxable year as determined by the secretary of the United States treasury for purposes of section 1(f) of the United States Internal Revenue Code of 1954, as amended. For this purpose, the rate applicable to each income bracket may not be changed, and the manner of applying the cost-of-living adjustment must be the same as that used for adjusting the income brackets for federal income tax purposes."

Page 5, line 6, replace "2006" with "2007, only if the tax commissioner certifies to the governor, the office of management and budget, and the legislative council by May 31, 2008, that state general fund revenue receipts through April 2008 are at least three and one-half percent more than the amount forecasted for that date in the final budget status report prepared after adjournment of the sixtieth legislative assembly"

Renumber accordingly

2007 TESTIMONY

HB 1170

#1 1-23-07 AM
HB 1170-A

Comparison of Federal and State Individual Income Tax Liabilities Tax Year 2000 Compared to Tax Year 2006

Prepared by Joseph Becker, January 5, 2007
North Dakota Office of State Tax Commissioner

Income & Filing Status Assumptions:	2000 Tax Liability			2006 Tax Liability (SAVINGS)			Pre-2001 Law State Tax (14% of federal tax before credits)
	Adjusted Gross Income	Actual Federal Tax (Form 1040)	Actual State Tax (Form 37-S)	Actual Federal Tax (Form 1040)	Actual State Tax (Form ND-1)	Proposed State Tax Reduction (2/10ths of 1% reduction in each tax rate)	
Single Person—No Dependents	\$ 20,000	\$ 1,920	\$ 269	\$ 1,355	\$ 243	\$ 219	\$ 190
	30,000	3,420	479	2,855	453	409	400
	40,000	5,772	808	4,445	679	616	622
	50,000	8,572	1,200	6,945	1,071	988	972
	60,000	11,372	1,592	9,445	1,463	1,360	1,322
	75,000	15,699	2,198	13,195	2,051	1,918	1,847
	100,000	23,449	3,283	19,966	3,104	2,921	2,795
	150,000	39,640	5,550	33,966	5,274	4,990	4,755
	200,000	58,044	8,126	50,239	7,767	7,382	7,033
Married Filing Joint—Two Dependents	\$ 20,000	\$ 218	\$ 30	\$ -	\$ -	\$ -	\$ -
	30,000	1,718	240	650	137	124	91
	40,000	3,218	450	1,720	347	314	241
	50,000	4,718	660	3,220	557	504	451
	60,000	6,218	870	4,720	767	694	661
	75,000	10,106	1,415	6,970	1,087	984	976
	100,000	17,106	2,395	12,240	2,067	1,914	1,714
	150,000	31,871	4,462	24,825	4,039	3,786	3,475
	200,000	48,612	6,806	38,825	6,209	5,856	5,435

NOTE: The 2000 liabilities were computed using the actual federal tax rates and the Form 37-S method, under which the state tax liability is computed at 14% of the federal tax liability (before credits). For tax years beginning on or after January 1, 2001, the Form 37-S method was replaced with a new method having five tax rate brackets that were "revenue neutral." The federal tax rates have been reduced a number of times since 2001, while the state tax rates have not changed. The taxable income ranges within each of the five tax brackets, though, have changed due to indexing for inflation. Comparing the 2006 liabilities with the 2000 liabilities shows the impact of the federal rate reductions.

The right-hand column shows what the state tax liability would be if the former Form 37-S method (14% of the federal tax liability) had not been repealed and was still in use for the 2006 tax year.

**GENERAL FUND REVENUE ESTIMATES FOR THE 2005-07 AND 2007-09 BIENNIUMS
AND ACTUAL COLLECTIONS FOR PRIOR BIENNIUMS
(Excludes Beginning General Fund Balances)**

Revenue source	Actual		Estimated		2007-09 Increase (Decrease) Compared to 2005-07	2007-09 Increase (Decrease) Compared to 2005-07	Percentage Increase (Decrease) Compared to 2005-07
	2001-03 Biennium	2003-06 Biennium	2006-07 Biennium ¹	2007-09 Biennium ²			
Sales and use tax	\$640,618,364	\$717,758,293	\$847,845,753	\$925,709,000	\$77,863,247	\$77,863,247	9.2%
Motor vehicle excise tax	119,592,232	128,010,103	121,010,559	129,346,000	8,335,441	8,335,441	6.9%
Individual income tax	396,153,000	452,547,326	553,317,952	607,992,000	54,674,048	54,674,048	9.9%
Corporate income tax	88,417,166	102,826,972	187,873,587	164,635,000	(23,238,587)	(23,238,587)	(12.4%)
Insurance premium tax	48,990,027	56,284,535	53,977,148	56,770,000	2,792,852	2,792,852	5.2%
Business privilege tax	6,257,389	4,958,673	8,372,320	9,400,000	1,027,680	1,027,680	12.3%
Cigarette and tobacco tax	39,313,360	39,476,712	45,567,081	46,518,000	950,919	950,919	2.1%
Oil and gas production tax	39,159,000 ³	45,534,044 ³	45,774,119 ³	39,839,000 ³	(5,935,119)	(5,935,119)	(13.0%)
Oil extraction tax	22,841,000 ³	25,465,956 ³	25,225,881 ³	31,161,000 ³	5,935,119	5,935,119	23.5%
Coal conversion tax	46,878,511	47,196,831	48,522,047	47,947,000	(575,047)	(575,047)	(1.2%)
Gaming tax	27,612,652	20,850,911	18,428,847	18,253,694	(175,153)	(175,153)	(1.0%)
Lottery	0	7,269,005	12,000,000	11,600,000	(400,000)	(400,000)	(3.3%)
Wholesale liquor tax	11,155,834	11,889,465	12,668,589	12,737,000	68,411	68,411	0.5%
Mineral leasing fees	6,440,513	11,024,583	15,046,893	13,000,000	(2,046,893)	(2,046,893)	(13.6%)
Interest income	8,509,483	6,935,015	30,450,326	36,500,000	6,049,674	6,049,674	19.9%
Departmental collections	57,506,019	61,004,537	53,222,025	55,403,310	2,181,285	2,181,285	4.1%
Total revenues	\$1,559,444,550	\$1,739,132,961	\$2,079,303,127	\$2,206,811,004	\$127,507,877	\$127,507,877	6.1%
Transfers and other sources							
Sale of DD loans	\$2,004,257 ⁴	\$0	\$0	\$0	\$0	\$0	0.0%
Transfer - Bank of North Dakota	60,000,000	60,000,000	60,000,000	60,000,000	0	0	0.0%
Transfer - Bank of North Dakota (contingent)	18,699,787 ⁵	0	0	0	0	0	0.0%
Transfer - Student loan trust	9,000,000	26,256,969	9,000,000	3,100,000	(5,900,000)	(5,900,000)	(65.6%)
Transfer - Mill and Elevator	6,000,000	5,000,000	5,000,000	5,000,000	0	0	0.0%
Transfer - Gas tax administration	1,363,382	1,396,200	1,400,000	1,274,056	(125,944)	(125,944)	(9.0%)
Transfer - Lands and minerals trust fund	3,545,102	2,000,000	6,800,000	15,000,000	8,200,000	8,200,000	120.6%
Transfer - Permanent oil tax trust fund	0	11,910,000	55,300,000	0	(55,300,000)	(55,300,000)	(100.0%)
Transfer - State bonding fund	0	2,800,000	0	0	0	0	0.0%
Transfer - Water development trust fund	9,733,820	10,070,373	16,900,000	0	(16,900,000)	(16,900,000)	(100.0%)
Transfer - Health care trust fund	0	35,911,035	0	0	0	0	0.0%
Transfer - information technology savings	0	0	0	0	0	0	0.0%
Transfers - Other	87,332	2,461,911	319,838	0	(319,838)	(319,838)	(100.0%)
Total transfers and other sources	\$110,433,690	\$157,809,488	\$154,719,838	\$84,374,056	\$70,345,782	\$70,345,782	(45.5%)
Total general fund revenues and transfers	\$1,669,878,240	\$1,896,941,449	\$2,234,022,965	\$2,291,185,060	\$57,162,085	\$57,162,085	2.6%
Federal fiscal relief payments	0	56,456,581⁶	0	0	0	0	0.0%
Total revenues, including federal fiscal relief payments	\$1,669,878,240	\$1,953,398,030	\$2,234,022,965	\$2,291,185,060	\$57,162,085	\$57,162,085	2.6%

#3
1-23-07 am
HB 1170-A

North Dakota Farm Bureau

Bringing ag home

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House Finance & Tax Committee

January 23, 2007

HB 1170 Testimony by North Dakota Farm Bureau *presented by Sandy Clark, public policy team*

Good morning, Chairman Belter and members of the committee. My name is Sandy Clark and I represent North Dakota Farm Bureau.

North Dakota Farm Bureau stands today in opposition to HB 1170. We don't disagree that a reduction in income tax rates is a noble effort.

However, North Dakota Farm Bureau is a staunch advocate for property tax relief as the vehicle to return budget surplus to the taxpayers of North Dakota.

Property tax relief was the election theme for both parties last fall. We believe it is important for the Legislature to follow through on that promise.

You will hear proponents of this bill support the premise that the surplus should be returned to those who paid it through income tax, because property tax did not generate the surplus. While that is true, North Dakota's income tax rates are among the lowest in the nation, while our property taxes are high.

At the same time, property tax relief will increase the state's share of K-12 education funding. That will assist the equity problem that faces education funding and help fulfill the state's obligation to provide uniform K-12 education funding.

I would point out that NDFB's highest priority is property tax relief. We do have a policy that calls for an increase in income tax with a corresponding reduction in property tax.

We must oppose this bill because it does not call for an increase, but a decrease in income tax.

We encourage you to consider a "do not pass" recommendation on this bill. Thank you for your consideration. I would be happy to try to answer any questions you may have.