

**2013 HOUSE FINANCE AND TAXATION**

**HB 1330**

# 2013 HOUSE STANDING COMMITTEE MINUTES

## House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1330  
January 29, 2013  
Job 17892

Conference Committee

*Kristi Helmler*

### Explanation or reason for introduction of bill/resolution:

A Bill relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

### Minutes:

*Attached testimony #1, amendment #2 testimony #3, 4*

**Chairman Belter:** Opened hearing on HB 1330.

**Representative Haak:** Introduced bill. See attached testimony #1. Also attached amendment #2, based on a request from the tax commissioner's office, John Becker will speak about it.

**Senator Triplett:** Would like to add to the introduction, we have had a lot of discussion in the state recently about the desperate need for daycare, especially in the oil patch. This bill helps families provide more of their own daycare for their children. ND ranks right at the top of the states where people have 2<sup>nd</sup> and 3<sup>rd</sup> jobs.

**Senator Mathern:** I support of HB 1330, this would cost the state less than reducing corporate income tax and this helps put money into the pockets for people who would spend money within the corporations.

**Chairman Belter:** Further testimony in support of 1330?

**Linda Isakson,** Assistant Director of CAWS North Dakota and North Dakota Economic Security and Prosperity Alliance: (started 8:30) Supports HB 1330, See attached testimony #3. (ended 17:00)

**Representative Zaiser:** This program would be targeted to those who really need the tax break. They would probably spend the money right away instead of putting it in a savings account?

**Linda Isakson:** Almost 42,000 people would be eligible for the income tax credit so most of them need it right away.

**Representative Drovda:** You quote low income under \$21,000 pay 9.4% of their income to state and local taxes, those taxes are sales tax...where does that percent come from because they don't pay much income tax?

**Linda Isakson:** That's a combination of all taxes paid. I also have testimony from AARP (testimony 4)

**Joseph Becker, Tax Department:** (Started 19:50) We had suggested some amendments; they just take out some language that isn't necessary to achieve the results (testimony 2)

**Chairman Belter:** Any other testimony? Closed.

# 2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee  
Fort Totten Room, State Capitol

HB 1330  
February 6, 2013  
Job 18439

Conference Committee

Committee Clerk Signature

## Explanation or reason for introduction of bill/resolution:

A Bill relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

## Minutes:

**Representative Owens:** Made a motion for a Do Not Pass.

**Chairman Belter:** There are some proposed amendments, so maybe you want to wait. Representative Haak, were those your amendments?

**Representative Haak:** Yes, they were mine. They were \_\_ (audio faint)

**Representative Owens:** Made a motion to adopt the amendment offered by Rep. Haak

**Representative Drovdal:** What do they say?

**Unidentified speaker:** Replace "on an annual basis" (audio faint)

**Representative Owens:** They basically delete subsection 3 and then on page 2, line 9...

**Chairman Belter:** Rep. Drovdal, did you find it?

**Representative Drovdal:** I'm reading his so I'm getting it.

**Representative Owens:** Repeated him motion to adopt the amendment offered by Rep. Haak

**Representative Haak:** Seconded.

**Representative Schmidt:** On my notes with "on a date," I had written down "needs to be defined."

**Unidentified speaker:** That's what the amendment is.

**Representative Haak:** No, that is (audio unclear)

**Representative Schmidt:** Do I have the wrong amendment then?

**Representative Haak:** That was put forth before by the tax commissioner that if they agreed upon a date with the department, that that would be the date, that it would be at their discretion.

**Voice vote** on the motion to **adopt the amendments** offered by Rep. Haak. **Motion carries.**

**Representative Owens:** Makes a motion for a **Do Not Pass as Amended.**

**Representative Dockter:** Seconded.

**Representative Owens:** I had discussed this earlier in the bill when I said something about upholding the Constitution and not passing something you believe to be in violation of the Constitution. The part that says "the excess amount must be refunded to the tax payer" I believe is a violation of Article X, Subsection 18.

**Roll call vote on the motion for a do not pass as amended. Motion carried.**

**Yes = 10**  
**No = 4**  
**Absent = 0**

**Carrier:** Representative Owens

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/17/2013**

Amendment to: HB 1330

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(17,100,000)			
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **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 1330 creates a refundable earned income tax credit for individuals who are residents of North Dakota for part or all of the tax year.

- 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.*

HB 1330 creates a state earned income tax credit equal to 10% of the federal earned income tax credit allowed to a resident individual. If the allowable state earned income tax credit exceeds the individual's tax liability (as reduced by any other allowable state income tax credits), the excess state earned income tax credit is refundable to the individual.

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.*

If enacted, HB 1330 is expected to reduce state general fund revenues by an estimated \$17.1 million in the 2013-15 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

**Telephone:** 328-3402

**Date Prepared:** 01/26/2013

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/17/2013**

Bill/Resolution No.: HB 1330

- 1 A. **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.*

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	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(17,100,000)			
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HB 1330 creates a state earned income tax credit equal to 10% of the federal earned income tax credit allowed to a resident individual. If the allowable state earned income tax credit exceeds the individual's tax liability (as reduced by any other allowable state income tax credits), the excess state earned income tax credit is refundable to the individual.

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**Name:** Kathryn L. Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 328-3402

**Date Prepared:** 01/26/2013

13.0631.01002  
Title.02000

Adopted by the Finance and Taxation  
Committee

February 6, 2013

VK  
2/6/13

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1330

Page 1, remove lines 23 and 24

Page 2, remove lines 1 through 8

Page 2, line 9, replace "4." with "3."

Page 2, line 9, replace "an annual basis" with "a date agreed to by the tax commissioner and the department of human services"

Renumber accordingly

Date: 2-6-13  
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1330

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.0631.01002

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
Haak  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Owens Seconded By Rep. Haak

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter			Rep. Scot Kelsh		
Vice Chairman Craig Headland			Rep. Steve Zaiser		
Rep. Matthew Klein			Rep. Jessica Haak		
Rep. David Drovdal			Rep. Marie Strinden		
Rep. Glen Froseth					
Rep. Mark Owens					
Rep. Patrick Hatlestad					
Rep. Wayne Trottier					
Rep. Jason Dockter					
Rep. Jim Schmidt					

Total (Yes) No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Voice Vote*

Date: 2-6-13  
 Roll Call Vote #: 2

**2013 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1330**

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.0631.1002

Action Taken:  Do Pass  Do Not Pass  Amended  Adopt Amendment  
 Rerefer to Appropriations  Reconsider

Motion Made By Rep. Owens Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh		✓
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser		✓
Rep. Matthew Klein	✓		Rep. Jessica Haak		✓
Rep. David Drovdal	✓		Rep. Marie Strinden		✓
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Owens

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

**REPORT OF STANDING COMMITTEE**

**HB 1330: Finance and Taxation Committee (Rep. Belter, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1330 was placed on the Sixth order on the calendar.

Page 1, remove lines 23 and 24

Page 2, remove lines 1 through 8

Page 2, line 9, replace "4." with "3."

Page 2, line 9, replace "an annual basis" with "a date agreed to by the tax commissioner and the department of human services"

Renumber accordingly

**2013 TESTIMONY**

**HB 1330**

HB 1330

1-29-13

In support of HB 1330

January 29, 2013

Chairman Belter and members of the House Finance & Tax committee I am pleased to present to you House Bill 1330. This bill proposes to create a state earned income tax credit that is equal to 10% of an individual or family's federal earned income tax credit. The idea for the earned income tax credit came from President Gerald Ford, and was significantly expanded under President Reagan, then George H. W. Bush.

As a member of this committee we have heard many bills, many bills that will exempt taxes, lower taxes and in some cases eliminate taxes. The idea behind these bills is to lower the burden of government on taxpaying citizens at a time when the state of North Dakota is seeing incredible prosperity and growth. While I encourage economic growth and job creation, it is important to remember that not all people are reaping the benefits of prosperity in North Dakota. We still have working families that struggle to make ends meet, and have to make the tough decisions about feeding their family or heating the house. These are real decisions that are faced, and many times parents are working two and three jobs just to make ends meet.

The fiscal note on this bill serves as a symbol of how many working individuals and families are truly facing hard times. It's now estimated that 1 in 8 North Dakotans live below the poverty line. The average earned income tax credit is roughly \$200, take that number divided by the \$18 million fiscal note, it demonstrates how many people go home after a hard day's work nearly empty handed. That \$200 can be all the difference, it can be repairs for the car to continue to work or a month's

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#1

worth of groceries for a family. I have passed out a fact sheet that shows how this would directly impact every legislative district in North Dakota, by showing how many North Dakota individuals and families qualify for the EITC.

Federal statistics show that EITC is a temporary relief to help people OUT of poverty and achieve the dream of middle class America. The vast majority of recipients who claim EITC credit do it for only one or two years. The EITC is based on the value that many of us in this room hold, work is better than welfare, and actually is structured to encourage people to work more hours. In 2011 the EITC kept 6.1 million Americans out of poverty, including 3.1 million children

The most important thing to remember about this bill is that it is for working people, and actually incentivizes people to earn more income. We clearly have a considerable number of North Dakotans whose limited earning activity associated with increased costs of living make them eligible for the earned income tax credit.

The Earned Income Tax Credit is easy to implement, administer and claim, as it specifically targets working individuals and families who need it most, and it puts money into the local economies. While I am well aware of the many ideas being presented by legislators this session related to tax policy, this bill is just part of the mix. I hope that you will give it fair consideration. I would be happy to stand for any questions, but know that the people who will testify after me will have a much deeper knowledge on the specifics of EITC.

Rep. Jessica Haak District 12 - Jamestown

**A state earned income tax credit (EITC) in North Dakota, modeled after the federal EITC, is an efficient way to help working families build a stronger financial future, make North Dakota's tax system more equitable, and help local communities thrive.**

**Reflects hard work.** Only those who work can claim the EITC. A tax filer *must* earn wages in order to qualify for the credit. The EITC promotes work by increasing the amount of credit when more hours are worked.

**Targeted to families with children.** Between 2009 and 2011, the federal EITC in conjunction with the Child Care Tax credit (CTC) kept over 9,000 residents of North Dakota from falling below the poverty line. Including over 4,600 North Dakota children. According to the National Center for Children in Poverty, the federal EITC reduces child poverty by nearly 25 percent.<sup>1</sup>

**Supports military families.** Many members of the military benefit from the EITC, and returning veterans also rely on it to supplement their wages as they transition into the civilian workforce.

**Helps balance tax structure.** Low and moderate-income families pay disproportionately more of their income in taxes than higher income North Dakotans. The top 1% of North Dakota families paid just 4% of their income in state and local taxes compared to the 9.4% paid by the lowest income North Dakotans.<sup>2</sup> A state EITC would help offset this inequity.

**Helps cover the basics.** In 2010, a ten percent North Dakota EITC would have returned over \$8 million to working families, helping them to pay off debt, cover transportation costs, invest in education, and buy basic necessities.

**Easy to administer.** A state EITC credit is simply based on a percentage of the federal EITC. Typically, states with an EITC report very low administrative costs of less than 1%.<sup>4</sup>

**Broad based support.** Since enactment by President Ford in 1975, the federal EITC was expanded under Presidents Reagan, Bush and Clinton. The federal program has been so successful that twenty-four states and the District of Columbia have established state-level earned income tax credits to supplement the federal credit. State EITCs are typically set as a percentage of the federal credit and currently range from 3.5-40 percent of the federal EITC.<sup>5</sup>

*The federal earned income tax credit (EITC) is a refundable tax credit that can be claimed by low- and moderate-income working families.*

*More than 42,000 North Dakota taxpayers claimed the federal EITC in tax year 2010, bringing in more than \$82 million to working families and the communities in which they live.<sup>3</sup>*

**Sources:**

- 1.) The Hatcher Group 50 State Resource Map Tax Credits for Working Families "Families Kept out of Poverty by the EITC and CTC, 2009-2011" <http://www.taxcreditsforworkingfamilies.org/working-families-poverty-eitc-ctc-state/>
- The Brookings Institute "New State Data Show EITC's Widespread Anti-Poverty Impact" By Elizabeth Kneebone and Jane Williams January 11, 2013 <http://www.brookings.edu/blogs/the-avenue/posts/2013/01/11-eitc-anti-poverty-kneebone-williams>
- 2.) Institute of tax and Economic Policy, "Who Pays, A Distributional Analysis of the Tax System in all 50 States" [http://www.itepnet.org/state\\_reports/whopaysfactsheets](http://www.itepnet.org/state_reports/whopaysfactsheets)
- 3.) Brookings Institute "EITC Interactive" by Alan Berube <http://www.brookings.edu/research/interactives/eitc>
- 4.) Center on Budget and Policy Priorities "Policy Basics: State Earned Income Tax Credits" December 5, 2012 <http://www.cbpp.org/cms/index.cfm?fa=view&id=2506>
- 5.) Center on Budget and Policy Priorities "Policy Basics: State Earned Income Tax Credits" December 5, 2012 <http://www.cbpp.org/cms/index.cfm?fa=view&id=2506>
- 6.) Table Source: Brookings Institute "EITC Interactive" by Alan Berube <http://www.brookings.edu/research/interactives/eitc>

The benefits of a state EITC would reach every part of the state. The following table indicates the share of taxpayers who could benefit from a state EITC in every legislative district, based on 2010 data (the most recent year for which these data are available).<sup>6</sup>

<b>Legislative District</b>	<b>Total # Returns</b>	<b># of EITC Returns</b>	<b>Total Amt of EITC Returns</b>	<b>Average EITC Rebate</b>
District 1	7534	889	\$1,706,424	\$1,919
District 2	6846	672	\$1,258,804	\$1,873
District 3	6833	906	\$1,793,463	\$1,980
District 4	6243	1199	\$2,528,013	\$2,108
District 5	8103	1149	\$2,175,543	\$1,893
District 6	6738	802	\$1,644,992	\$2,051
District 7	6047	589	\$1,077,817	\$1,830
District 8	6358	667	\$1,251,930	\$1,877
District 9	5123	2059	\$5,026,689	\$2,441
District 10	7002	746	\$1,394,315	\$1,869
District 11	7585	1278	\$2,329,776	\$1,823
District 12	6327	960	\$1,601,698	\$1,668
District 13	7124	833	\$1,630,379	\$1,957
District 14	6643	900	\$1,687,721	\$1,875
District 15	6502	1031	\$2,058,108	\$1,996
District 16	7522	1069	\$2,011,084	\$1,881
District 17	6195	805	\$1,458,606	\$1,812
District 18	6474	967	\$1,781,066	\$1,842
District 19	6325	905	\$1,686,135	\$1,863
District 20	6359	783	\$1,608,517	\$2,054
District 21	7663	1158	\$1,959,387	\$1,692
District 22	6498	668	\$1,285,891	\$1,925
District 23	6069	1363	\$3,117,403	\$2,287
District 24	6482	828	\$1,550,597	\$1,873
District 25	6401	780	\$1,526,157	\$1,957
District 26	6496	649	\$1,213,168	\$1,869
District 27	7036	788	\$1,510,957	\$1,917
District 28	6061	811	\$1,568,897	\$1,935
District 29	6215	771	\$1,467,508	\$1,903
District 30	6838	967	\$1,644,429	\$1,701
District 31	6158	1336	\$2,909,950	\$2,178
District 32	7679	1125	\$2,123,908	\$1,888
District 33	6426	690	\$1,278,918	\$1,854
District 34	7048	1071	\$2,085,650	\$1,947
District 35	7495	877	\$1,555,035	\$1,773
District 36	6809	721	\$1,340,417	\$1,859
District 37	7383	819	\$1,484,767	\$1,813
District 38	6632	893	\$1,843,907	\$2,065
District 39	6560	651	\$1,162,427	\$1,786
District 40	6354	1045	\$2,221,303	\$2,126
District 41	6719	898	\$1,688,831	\$1,881
District 42	4743	821	\$1,470,281	\$1,791
District 43	7489	998	\$1,801,684	\$1,805
District 44	6584	859	\$1,283,239	\$1,494
District 45	4824	568	\$885,693	\$1,559
District 46	6722	794	\$1,517,217	\$1,911
District 47	7337	635	\$1,133,610	\$1,785

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1-29-13

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Strike language from

Page 1, line 23 through Page 2, line 8

On Page 2, Line 9 strike "On an annual basis" and replace with "On a date agreed to by the tax commissioner and the department of human services"

Testimony on Behalf of  
The North Dakota Economic Security & Prosperity Alliance (NDESPA)  
House Bill 1330 – House Finance & Tax Committee  
January 30, 2013

Chairman Belter and members of the House Finance and Tax Committee, my name is Linda Isakson, from the CAWS North Dakota. I am also representing the North Dakota Economic Security & Prosperity Alliance. NDESPA is a coalition of citizens and organizations working to build assets for North Dakotans of low and moderate income through public policy change. I am here in support of House Bill 1330, a state earned income tax credit.

Despite a healthy state surplus and robust economy, some of North Dakota's hard-working families are still having trouble making ends meet. A state earned income tax credit, or EITC, coupled with the federal EITC, could make a real difference for North Dakota's working families.

A State EITC would be beneficial for a number of reasons, including

- 1.) It promotes work and encourages asset building;
- 2.) It benefits local economies and it helps working families; and
- 3.) It is a refund on 'earned income' and offsets the disproportionate amount of taxes paid by lower income North Dakota families.

To qualify for the federal Earned Income Tax Credit or EITC, one must have earned income from employment or self-employment and must have a valid Social Security number.

A state EITC, coupled with the Federal EITC, can be the single largest payment a working family gets all year...studies show that the highest priorities for EITC spending are for paying bills, followed by larger purchases such as appliances or vehicle repairs. Refunds

may be used to pay off high interest credit card debt or could be used for education, childcare or housing improvements.

State EITCs are efficient. Typically, they are based on the existing federal EITC and take advantage of federal eligibility requirements and benefit structure. For this reason, there is little administrative cost to a state that chooses to implement its own credit.

A refundable state EITC would expand the power of the federal credit in offsetting taxes and promoting work. The EITC is designed to encourage and reward work. In fact only those with earned income are eligible for an EITC refund.

By design, it creates an incentive for people to work - and to work additional hours toward full-time employment - because the EITC grows with each additional dollar of wages until it reaches the maximum value. Research repeatedly confirms that both the federal and state EITCs increase workforce participation among eligible families.

A state EITC, coupled with the federal EITC, provides a critical financial boost to those working families who need help most. In addition, aligning asset-building programs with a state EITC allows low-wage families to build their savings and work toward long-term financial success—an important step toward breaking the cycle of poverty from generation to generation. A state EITC could be a gateway to financial services, financial literacy and savings. According to the Federal Reserve... “20 million families in the US are unbanked or under-banked.” A state EITC is an opportunity for many low-income North Dakotans who lack bank accounts or access to financial institutions to access financial services and savings. Families that do not have the most basic access to mainstream financial services often rely on high-cost check cashing or other alternative financial services that consume large portions of their incomes and make it even more difficult to put aside savings for the future. EITC funds can be used to gain access to savings accounts and lower cost financial services.

In North Dakota, the Community Action Programs offer the Individual Development Account (IDA) program - a matched savings program that encourages individuals to save for education, the purchase of a home or to start a small business. This program in North Dakota already allows participants to make a one-time deposit of a federal EITC refund into their IDA. The program's guidelines could be expanded to include the deposit of state EITC refunds, as well.

Low-income families spend virtually all of their income to make ends meet, and they tend to spend in communities where they live and work. Studies of the use of federal EITC dollars find that roughly two-thirds of refunds received are spent locally. This benefits local businesses that are likely to see increased consumption of their products or services.

Implementing a refundable state EITC in North Dakota will make work pay for thousands of low- and moderate-income working families who would have additional funds to address their immediate needs, or to start saving for achieving long-term financial success.

A state EITC also will move North Dakota toward a more equitable tax structure by providing a tax cut to low- and moderate-income families who pay a higher portion of their income in taxes than upper income families.

No matter what percentage of state EITC North Dakota chooses to implement, a state EITC would have very low administrative costs, typically less than one percent of the cost of the credit. Because the federal government invests heavily in enforcement and keeps a comprehensive database to track EITC eligibility, the state can piggyback on these efforts. Therefore, the same qualifications necessary to receive the federal EITC would also apply to the state EITC.

Another benefit of a state refundable EITC is that it can be counted toward helping the state meet its “maintenance of effort” requirement for receiving federal TANF funds. I also want to emphasize the importance of refund-ability: Refundable state EITCs not only offset state income taxes, but also the impact of other state and local taxes disproportionately paid by low-income families, such as sales, excise, and property taxes.

In North Dakota, low-income families pay a higher share of their income in state and local taxes than do other residents. Families with incomes that fall among the bottom 20 percent of the income spectrum, or less than \$21,000 annually, pay on average 9.4% of their income in state and local taxes; families in the second quintile, or those earning between \$21,000 and \$35,000 annually pay 8.0 percent of their income in taxes. In contrast, families with incomes in the top 1%, \$406,000 or more annually, pay 4.3% of their income in taxes.

Another challenge lower-wage workers must confront is the loss of state-subsidized supports when they increase their income. Workers lose income eligible benefits as their incomes rise, often causing the worker to go ‘backward’ in terms of spendable income. This is known as the ‘cliff effect.’ The result is that parents can work more and earn more, while their families end up worse off than they were before. For example, if a minimum wage worker who qualifies for certain benefits gets a raise or a new job that pays a few dollars more an hour, they may lose some of their subsidized supports because their income eligibility has changed. The net result may be a decrease in their standard of living. Having to pay the high costs of unsubsidized healthcare, childcare, transportation or rent—all while paying a disproportionate amount of tax—makes it harder for working families to make ends meet.

These problems are not hypothetical. Work disincentives inherent in eligibility cutoffs have been recognized for some time.

Pg 3  
#3

A state EITC helps minimize the cliff effect workers experience as they improve their circumstance through higher paying jobs and continue working to move out of poverty.

The North Dakota Economic Security & Prosperity Alliance urges the committee to pass HB 1330 as an investment in lifting North Dakotans out of poverty. Attached to this testimony is a list of NDESPA partners who stand in support of this legislation. I would be happy to take questions from the Committee.

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# 3



North Dakota Economic Security & Prosperity Alliance  
(NDESPA) Partners  
2013

- North Dakota Women's Network
- North Dakota Council on Abused Women's Services
- North Dakota Disabilities Advocacy Consortium
- North Dakota Head Start Association
- North Dakota Community Action Partnership
- AARP North Dakota
- Catholic Charities of North Dakota
- American Association of University Women in North Dakota
- North Dakota Chapter of the National Association of Social Workers
- Childcare Resource & Referral
- Mental Health America of North Dakota
- Children's Defense Fund in North Dakota
- North Dakota Public Employees Association
- Prevent Child Abuse of North Dakota

*NDESPA works to build and sustain a system of economic security for all North Dakotans through poverty awareness and education, grassroots and community capacity building, research and data development, and promotion of policies and practices to eliminate disparities and obstacles for achieving economic security.*



HB1330

1-29-13

#5

HB1330- SUPPORT EITC  
Tuesday, January 29, 2013  
House Taxation Committee  
Josh Askvig- AARP-ND  
[jaskvig@aarp.org](mailto:jaskvig@aarp.org) or 701-989-0129

Chairman Belter, members of the House Taxation Committees, I am Josh Askvig, Associate State Director of Advocacy for AARP North Dakota. We stand in support of HB1330.

AARP policy encourages states experiencing surpluses that allow them to cut taxes through enacting or expanding Earned Income Tax Credits (EITC). EITCs allow low- and moderate-income workers and their families to share in the tax benefits of prosperity. According to a report from the Economic Policy Project, a North Dakota EITC would benefit one in nine North Dakota taxpayers.

The earned income tax credit (EITC) is the most important form of income support for low-income workers. The credit has been associated with substantial increases in the labor supply of single mothers and improved economic stability of low-income working families. Additionally, older workers with incomes low enough to qualify them for the EITC are among the most vulnerable Americans. Tax and other public policies should encourage their efforts to increase their own economic security by remaining in the workforce for as long as they choose to do so. EITCs can often help them do so.

Participation rates in the EITC are higher than those for many other low-income assistance programs and tax subsidies. The EITC is widely believed to provide critical income support and work incentives to low-income families at relatively little administrative cost.

Twenty-three states and the District of Columbia now offer EITCs, which are supported by businesses as well as social service advocates. State EITCs can help reduce poverty among workers. Most state credit provisions are tied directly to the federal credit.

We support HB1330 and urge this committee to give it a DO PASS RECOMMENDATION.