

FISCAL NOTE
Requested by Legislative Council
02/16/2015

Amendment to: HB 1298

- 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.*

| | 2013-2015 Biennium | | 2015-2017 Biennium | | 2017-2019 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | \$(250,000,000) | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

| | 2013-2015 Biennium | 2015-2017 Biennium | 2017-2019 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).*

Engrossed HB 1298 reduces individual and corporation income tax rates.

- 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.*

Sections 2 and 3 of engrossed HB 1298 reduce corporation and individual income tax rates. This is expected to reduce state general fund revenues by an estimated \$250 million in the 2015-17 biennium (\$200 million is related to individual income tax rate reductions, and \$50 million, corporate income tax rate reductions).

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.*
- 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 or a part of the appropriation is 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: 02/17/2015

FISCAL NOTE
Requested by Legislative Council
01/13/2015

Revised
 Bill/Resolution No.: HB 1298

- 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.*

| | 2013-2015 Biennium | | 2015-2017 Biennium | | 2017-2019 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | \$(280,900,000) | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

| | 2013-2015 Biennium | 2015-2017 Biennium | 2017-2019 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 1298 reduces individual and corporation income tax rates, adjusts the exclusion for capital gains and qualified dividends, and eliminates the taxation of social security benefits.

- 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.*

Sections 2 and 3 of HB 1298 reduce corporation and individual income tax rates. This is expected to reduce state general fund revenues by an estimated \$250 million in the 2015-17 biennium (\$200 million is related to individual income tax rate reductions, and \$50 million, corporate income tax rate reductions).

Section 4 expands the deductions for long-term capital gains and qualified dividends. These changes are expected to reduce state general fund revenues by an estimated \$7.9 million in the 2015-17 biennium.

Section 5 eliminates the taxation of social security benefits. This provision - adjusting for the rate relief also contained in the bill - is expected to reduce state general fund revenues by an estimated \$23 million in the 2015-17 biennium.

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.*

- 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 or a part of the appropriation is 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: 01/30/2015

FISCAL NOTE
Requested by Legislative Council
01/13/2015

Bill/Resolution No.: HB 1298

- 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.*

| | 2013-2015 Biennium | | 2015-2017 Biennium | | 2017-2019 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | \$(280,900,000) | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

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|------------------|--------------------|--------------------|--------------------|
| 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 1298 reduces individual and corporation income tax rates, adjusts the exclusion for capital gains and qualified dividends, and eliminates the taxation of social security benefits.

- 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.*

Sections 2 and 3 of HB 1298 reduce corporation and individual income tax rates. This is expected to reduce state general fund revenues by an estimated \$250 million in the 2015-17 biennium.

Section 4 expands the deductions for long-term capital gains and qualified dividends. These changes are expected to reduce state general fund revenues by an estimated \$7.9 million in the 2015-17 biennium.

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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/26/2015

2015 HOUSE FINANCE AND TAXATION

HB 1298

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1298
1/27/2015
22624

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to an income tax exclusion for social security benefits; relating to reduction of the rates of individual and corporate income taxes and an income tax exclusion for social security benefits.

Minutes:

Attachment #1

Chairman Headland: Opened hearing.

Representative Kasper: Introduced bill. Distributed proposed amendments and explained. See attachment #1. The amendments take out the exemption for income; where I had exempted social security income and reduced the tax on capital gains and dividends I'm asking that they be struck. This will soften the fiscal note because in light of what's happening in our state with our revenue projections my goal is to reduce income tax brackets. This bill is a continuation of the tradition that this legislative assembly has had over the last two to three sessions, to reduce personal and corporate income tax brackets. On bottom of page two it deals with corporate tax brackets and I'm changing the tax rate on the first \$25,000 from 1.48% to 1% and changing the bracket from \$25,000 to \$50,000 from 3.75% to 3.2% and on taxable income over \$50,000 changing the tax bracket from 4.53% to 4.1 percent. It's a simple reduction that would be paid by corporations. The goal in these changes it to try and give more relief to the smaller corporations in our state and not quite as much relief to the larger corporations, although everybody in the corporate area would have relief. In section 3, page 3 we are dealing with the personal income tax rates and it's a reduction. (Referred to the bill for married filing jointly). The amendment I handed out is striking out social security benefits as defined in section 86d1. There we were eliminating social security income for income tax purposes and that would now stay in for income tax purposes so we're eliminating that change. On page 2 lines 11 and 12 and on page 6 line 15 where I had reduced the percentage from 40% to 70% of deduction for long term capital gains I'm staying at the 40% that is current law and the same way on dividends on line 28 current law if 30% exemption and the bill was going to 45% so I'm asking you to amend that back to 30 percent. The fiscal note should go down substantially. I would recommend you asking for a new fiscal note. Even though our revenue forecast is changing we should be giving back to the citizens of our state additional dollars from the dollars that we have. If we have a really bleak forecast in March I may propose you soften

these reductions in this bill somewhat but I would like to see some continued corporate and personal income tax relief for the people of our state.

Chairman Headland: Essentially your bill is designed to provide more relief for both corporations and individuals on the bottom end of the income levels?

Representative Kasper: Yes that's correct. We are trying to target the lower income folks as much as possible.

Chairman Headland: In looking at the fiscal note the section you want to amend out dealing with dividends and capital gains indicates it's only about \$8 million so it isn't going to change significantly in that area.

Representative Klein: Wouldn't we also have to make changes on page one lines two and five where you relate to social security?

Representative Kasper: You're right; we would need to clean up that area as well.

Representative Schneider: It looks like granny got thrown under the corporate bus quite quickly there. I'm wondering if we could do something to preserve some benefits for the lower income levels for social security recipients.

Representative Kasper: Obviously the bill is in your hands in committee. If you want to amend it in a slightly different way I'm open to that.

Representative Froseth: All the rates are reduced, aren't they?

Representative Kasper: Yes they are but I think Representative Schneider was referring to the social security and without the amendment the social security income would be exempt from taxation and in some cases it is taxed depending on the income of the individuals.

Representative Ruby: I'm appearing in support of HB 1298. In the first section of the bill nothing was really changed with the marriage penalty. I had a bill sessions ago trying to remove the marriage penalty but it was cut in half at the time. I'm in support of the reductions. I prefer that if we do something with the income tax it should apply to the corporations as well. It's always a good message to send that we are friendly to business as well and we don't just try to cut our tax and put it on the backs of the corporations. I think whatever you can do to lower the tax burden in the state I am supportive of.

Chairman Headland: Further support for HB 1298? Is there any opposition? Are there any questions for the tax department?

Representative Trottier: Is there a deduction for social security now or is it on federal where you don't pay the full amount?

Matt Peyerl, Office of State Tax Commissioner: The state does not have a deduction right now; it's an exclusion on your federal return depending on your individual circumstance such as how much wages you have determines how much is taxable.

Representative Klein: Do you have any idea how the fiscal note would change with the amendment?

Matt Peyerl: I believe the fiscal note breaks it out so it identifies \$250 million assigned to just the rate reductions. The \$7.9 million is to the changing of taxation gains and the \$23 million was assigned to the exclusion of social security benefits.

Chairman Headland: Any further questions for the tax department? Seeing none we will close the hearing on HB 1298.

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1298
2/11/2015
23656

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an income tax exclusion for social security benefits; relating to reduction of the rates of individual and corporate income taxes and an income tax exclusion for social security benefits.

Minutes:

Attachment #1

Chairman Headland: Representative Kasper has an amendment on this. He distributed this amendment on January 27, 2015. It looks like he was removing the exemption of social security benefits. Now it looks like he wants it back in. Then on the capital gains portion he's removing his 70% and reinstating his 40 percent.

Representative Klein: Made a motion to adopt the amendment.

Chairman Headland: I think we'll first see if we could have the amendment officially drawn up. I said earlier that this bill didn't have corporate reduction but it does. We have the amended bill. See attachment #1. I think everything is gone except the individual and corporate tax rate reductions.

Representative Froseth: That should take the fiscal note down to \$250 million?

Chairman Headland: Yes. \$200 million individual and \$50 million corporate and the rest would be gone.

Representative Trottier: I was hoping to keep one income tax bill alive. This bill seems to be pretty spendy.

Representative Froseth: MADE A MOTION TO ADOPT THE AMENDMENT.

Representative Klein: SECONDED.

VOICE VOTE: MOTION CARRIED TO ADOPT THE AMENDMENT.

Representative Klein: MADE A MOTION FOR A DO NOT PASS AS AMENDED.

Representative Froseth: SECONDED.

**ROLL CALL VOTE: 13 YES 0 NO 1 ABSENT
MOTION CARRIES FOR A DO NOT PASS AS AMENDED.**

Representative Kading will carry this bill.

February 11, 2015

SK
2/11/15

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1298

Page 1, line 1, remove "create and enact a new subdivision to subsection 2 of section 57-38-30.3 of"

Page 1, remove line 2

Page 1 line 3, remove "to"

Page 2, remove line 8

Page 2, line 10, remove the overstrike over "~~;~~and"

Page 2, remove the overstrike over lines 11 and 12

Page 6, line 15, remove the overstrike over "~~forty~~"

Page 6, line 15, remove "seventy"

Page 6, line 28, remove the overstrike over "~~thirty~~"

Page 6, line 28, remove "forty-five"

Page 7, remove lines 1 through 5

Renumber accordingly

Date: 2-11-15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1298

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: Rep. Kasper's 15.0282.2001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Froseth Seconded By Rep. Klein

| Representatives | Yes | No | Representatives | Yes | No |
|---------------------|-----|----|-----------------|-----|----|
| CHAIRMAN HEADLAND | | | REP HAAK | | |
| VICE CHAIRMAN OWENS | | | REP STRINDEN | | |
| REP DOCKTER | | | REP MITSKOG | | |
| REP TOMAN | | | REP SCHNEIDER | | |
| REP FROSETH | | | | | |
| REP STEINER | | | | | |
| REP HATLESTAD | | | | | |
| REP KLEIN | | | | | |
| REP KADING | | | | | |
| REP TROTTIER | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice vote = Motion carries.

Date: 2-11-15
Roll Call Vote #: 2

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1298

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: Rep. Kasper's 15.0282. 2001

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
- Other Actions: Reconsider _____

Motion Made By Rep. Klein Seconded By Rep. Froseth

| Representatives | Yes | No | Representatives | Yes | No |
|---------------------|-----|----|-----------------|-----|----|
| CHAIRMAN HEADLAND | ✓ | | REP HAAK | ✓ | |
| VICE CHAIRMAN OWENS | AB | | REP STRINDEN | ✓ | |
| REP DOCKTER | ✓ | | REP MITSKOG | ✓ | |
| REP TOMAN | ✓ | | REP SCHNEIDER | ✓ | |
| REP FROSETH | ✓ | | | | |
| REP STEINER | ✓ | | | | |
| REP HATLESTAD | ✓ | | | | |
| REP KLEIN | ✓ | | | | |
| REP KADING | ✓ | | | | |
| REP TROTTIER | ✓ | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Kading

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

REPORT OF STANDING COMMITTEE

HB 1298: Finance and Taxation Committee (Rep. Headland, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO NOT PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1298 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "create and enact a new subdivision to subsection 2 of section 57-38-30.3 of"

Page 1, remove line 2

Page 1 line 3, remove "to"

Page 2, remove line 8

Page 2, line 10, remove the overstrike over "~~;~~ and"

Page 2, remove the overstrike over lines 11 and 12

Page 6, line 15, remove the overstrike over "forty"

Page 6, line 15, remove "seventy"

Page 6, line 28, remove the overstrike over "~~thirty~~"

Page 6, line 28, remove "forty-five"

Page 7, remove lines 1 through 5

Renumber accordingly

2015 TESTIMONY

HB 1298

HB 1298
1-27-15
#1

Representative Jim Kasper Amendment

HB 1298

Page 2, line 11 remove overstrike

Page 2, line 12 remove over strike

Page 6, line 15 remove overstrike

Page 6, line 15 remove "seventy"

Page 6, line 28 remove overstrike

Page 6, line 28 remove "forty -five"

Page 7, overstrike lines 3, 4, 5

HB 1298
2-11-15
#1 p. 1

Introduced by

Representatives Kasper, Beadle, Dosch, Owens, Ruby, Schatz,

Thoreson Senators Burckhard, Larsen, O'Connell, Sorvaag, Wanzek

1 A BILL for an Act to create and enact a new subdivision to subsection 2 of section 57-38-30.3 of 2
the North Dakota Century Code, relating to an income tax exclusion for social security benefits; 3 to
amend and reenact sections 57-38-01.28 and 57-38-30 and subsection 1 and subdivision d 4 of
subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to reduction of 5 the
rates of individual and corporate income taxes and an income tax exclusion for social
6 security benefits; and to provide an effective date.

7 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

8 **SECTION 1. AMENDMENT.** Section 57-38-01.28 of the North Dakota Century Code is
9 amended and reenacted as follows:

10 **57-38-01.28. Marriage penalty credit.**

- 11 1. A married couple filing a joint return under section 57-38-30.3 is allowed a credit of not
12 to exceed three hundred dollars per couple as determined under this section. The tax
13 commissioner shall adjust the maximum amount of the credit under this subsection
14 each taxable year at the time and rate adjustments are made to rate schedules under
15 subdivision g of subsection 1 of section 57-38-30.3.
- 16 2. The credit under this section is the difference between the tax on the couple's joint
17 North Dakota taxable income under the rates and income levels in subdivision b of
18 subsection 1 of section 57-38-30.3 and the sum of the tax under the rates and income
19 levels of subdivision a of subsection 1 of section 57-38-30.3 on the qualified income of
20 the lesser-earning spouse, and the tax under the rates and income levels of
21 subdivision a of subsection 1 of section 57-38-30.3 on the couple's joint North Dakota
22 taxable income, minus the qualified income of the lesser-earning spouse.

- 1 3. For a nonresident or part-year resident, the credit under this section must be adjusted
2 based on the percentage calculated under subdivision f of subsection 1 of section
3 57-38-30.3.
- 4 4. For purposes of this section:
- 5 a. "Qualifying income" means the sum of the following, to the extent included in
6 North Dakota taxable income:
- 7 (1) Earned income as defined in section 32(c)(2) of the Internal Revenue Code;
8 and
- 9 (2) Income received from a retirement pension, profit-sharing, stock bonus, or
10 annuity plan; ~~and~~
- 11 (3) Social security benefits as defined in section 86(d)(1) of the Internal -
12 Revenue Code.
- 13 b. "Qualifying income of the lesser-earning spouse" means the qualifying income of
14 the spouse with the lesser amount of qualifying income for the taxable year
15 minus the sum of:
- 16 (1) The amount for one exemption under section 151(d) of the Internal Revenue
17 Code; and
- 18 (2) One-half of the amount of the standard deduction under section 63(c)(2)(A)
19 (4) of the Internal Revenue Code.

20 **SECTION 2. AMENDMENT.** Section 57-38-30 of the North Dakota Century Code is
21 amended and reenacted as follows:

22 **57-38-30. Imposition and rate of tax on corporations.**

23 A tax is hereby imposed upon the taxable income of every domestic and foreign corporation
24 which must be levied, collected, and paid annually as in this chapter provided:

- 25 1. For the first twenty-five thousand dollars of taxable income, at the rate of one ~~and~~ -
26 ~~forty-eight hundredths~~ percent.
- 27 2. On all taxable income exceeding twenty-five thousand dollars and not exceeding fifty
28 thousand dollars, at the rate of three and ~~seventy-three hundredths~~ two - tenths percent.
- 29 3. On all taxable income exceeding fifty thousand dollars, at the rate of four and
30 ~~fifty-three hundredths~~ one -tenth percent.

1 **SECTION 3. AMENDMENT.** Subsection 1 of section 57-38-30.3 of the North Dakota
2 Century Code is amended and reenacted as follows:

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

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

16 If North Dakota taxable income is:

| 17 Over | 18 Not over | 19 The tax is equal to | 20 Of amount over |
|------------------------|------------------------|----------------------------------|-----------------------------|
| 21 \$0 | 22 \$36,250 | 23 1.22% | 24 \$0 |
| 25 \$36,250 | 26 \$87,850 | 27 \$442.25 + 2.27% | 28 \$36,250 |
| 29 \$87,850 | 30 \$183,250 | 31 \$1,613.57 + 2.52% | 32 \$87,850 |
| 33 \$183,250 | 34 \$398,350 | 35 \$4,017.65 + 2.93% | 36 \$183,250 |
| 37 \$398,350 | | 38 \$10,320.08 + 3.22% | 39 \$398,350 |
| 40 <u>\$0</u> | 41 <u>\$37,450</u> | 42 <u>0.70%</u> | 43 <u>\$0</u> |
| 44 <u>\$37,450</u> | 45 <u>\$90,750</u> | 46 <u>\$262.15 + 2.04%</u> | 47 <u>\$37,450</u> |
| 48 <u>\$90,750</u> | 49 <u>\$189,300</u> | 50 <u>\$1,349.47 + 2.27%</u> | 51 <u>\$90,750</u> |
| 52 <u>\$189,300</u> | 53 <u>\$411,500</u> | 54 <u>\$3,586.56 + 2.64%</u> | 55 <u>\$189,300</u> |
| 56 <u>\$411,500</u> | | 57 <u>\$9,452.64 + 2.90%</u> | 58 <u>\$411,500</u> |

28 b. Married filing jointly and surviving spouse.

29 If North Dakota taxable income is:

| 30 Over | 31 Not over | 32 The tax is equal to | 33 Of amount over |
|-------------------|-----------------------|----------------------------------|-----------------------------|
| 34 \$0 | 35 \$60,650 | 36 1.22% | 37 \$0 |

| | | | | |
|---|------------------|------------------|---------------------------|------------------|
| 1 | \$60,650 | \$146,400 | \$739.93 + 2.27% | \$60,650 |
| 2 | \$146,400 | \$223,050 | \$2,686.46 + 2.52% | \$146,400 |
| 3 | \$223,050 | \$398,350 | \$4,618.04 + 2.93% | \$223,050 |
| 4 | \$398,350 | | \$9,754.33 + 3.22% | \$398,350 |
| 5 | <u>\$0</u> | <u>\$62,600</u> | <u>0.70%</u> | <u>\$0</u> |
| 6 | <u>\$62,600</u> | <u>\$151,200</u> | <u>\$438.20 + 2.04%</u> | <u>\$62,600</u> |
| 7 | <u>\$151,200</u> | <u>\$230,450</u> | <u>\$2,245.64 + 2.27%</u> | <u>\$151,200</u> |
| 8 | <u>\$230,450</u> | <u>\$411,500</u> | <u>\$4,044.62 + 2.64%</u> | <u>\$230,450</u> |
| 9 | <u>\$411,500</u> | | <u>\$8,824.34 + 2.90%</u> | <u>\$411,500</u> |

10 c. Married filing separately.

11 If North Dakota taxable income is:

| 12 | Over | Not over | The tax is equal to | Of amount over |
|----|------------------|------------------|---------------------------|------------------|
| 13 | \$0 | \$30,325 | 1.22% | \$0 |
| 14 | \$30,325 | \$73,200 | \$369.97 + 2.27% | \$30,325 |
| 15 | \$73,200 | \$111,525 | \$1,343.23 + 2.52% | \$73,200 |
| 16 | \$111,525 | \$199,175 | \$2,309.02 + 2.93% | \$111,525 |
| 17 | \$199,175 | | \$4,877.17 + 3.22% | \$199,175 |
| 18 | <u>\$0</u> | <u>\$31,300</u> | <u>0.70%</u> | <u>\$0</u> |
| 19 | <u>\$31,300</u> | <u>\$75,600</u> | <u>\$219.10 + 2.04%</u> | <u>\$31,300</u> |
| 20 | <u>\$75,600</u> | <u>\$115,225</u> | <u>\$1,122.82 + 2.27%</u> | <u>\$75,600</u> |
| 21 | <u>\$115,225</u> | <u>\$205,750</u> | <u>\$2,022.31 + 2.64%</u> | <u>\$115,225</u> |
| 22 | <u>\$205,750</u> | | <u>\$4,412.17 + 2.90%</u> | <u>\$205,750</u> |

23 d. Head of household.

24 If North Dakota taxable income is:

| 25 | Over | Not over | The tax is equal to | Of amount over |
|----|------------|-----------------|---------------------|----------------|
| 26 | \$0 | \$48,600 | 1.22% | \$0 |
| 27 | \$48,600 | \$125,450 | \$592.92 + 2.27% | \$48,600 |
| 28 | \$125,450 | \$203,150 | \$2,337.42 + 2.52% | \$125,450 |
| 29 | \$203,150 | \$398,350 | \$4,295.46 + 2.93% | \$203,150 |
| 30 | \$398,350 | | \$10,014.82 + 3.22% | \$398,350 |
| 31 | <u>\$0</u> | <u>\$50,200</u> | <u>0.70%</u> | <u>\$0</u> |

| | | | | |
|---|------------------|------------------|---------------------------|------------------|
| 1 | <u>\$50,200</u> | <u>\$129,600</u> | <u>\$351.40</u> + 2.04% | <u>\$50,200</u> |
| 2 | <u>\$129,600</u> | <u>\$209,850</u> | <u>\$1,971.16</u> + 2.27% | <u>\$129,600</u> |
| 3 | <u>\$209,850</u> | <u>\$411,500</u> | <u>\$3,792.84</u> + 2.64% | <u>\$209,850</u> |
| 4 | <u>\$411,500</u> | | <u>\$9,116.40</u> + 2.90% | <u>\$411,500</u> |

5 e. Estates and trusts.

6 If North Dakota taxable income is:

| 7 | Over | Not over | The tax is equal to | Of amount over |
|----|-----------------|-----------------|-------------------------|-----------------|
| 8 | \$0 | \$2,450 | 1.22% | \$0 |
| 9 | \$2,450 | \$5,700 | \$29.89 plus 2.27% | \$2,450 |
| 10 | \$5,700 | \$8,750 | \$103.67 plus 2.52% | \$5,700 |
| 11 | \$8,750 | \$11,950 | \$180.53 plus 2.93% | \$8,750 |
| 12 | \$11,950 | | \$274.29 plus 3.22% | \$11,950 |
| 13 | <u>\$0</u> | <u>\$2,500</u> | 0.70% | <u>\$0</u> |
| 14 | <u>\$2,500</u> | <u>\$5,900</u> | <u>\$17.50</u> + 2.04% | <u>\$2,500</u> |
| 15 | <u>\$5,900</u> | <u>\$9,050</u> | <u>\$86.86</u> + 2.27% | <u>\$5,900</u> |
| 16 | <u>\$9,050</u> | <u>\$12,300</u> | <u>\$158.37</u> + 2.64% | <u>\$9,050</u> |
| 17 | <u>\$12,300</u> | | <u>\$244.17</u> + 2.90% | <u>\$12,300</u> |

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

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

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

30 g. The tax commissioner shall prescribe new rate schedules that apply in lieu of the
31 schedules set forth in subdivisions a through e. The new schedules must be

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

9 h. The tax commissioner shall prescribe an optional simplified method of computing
10 tax under this section that may be used by an individual taxpayer who is not
11 entitled to claim an adjustment under subsection 2 or credit against income tax
12 liability under subsection 7.

13 **SECTION 4. AMENDMENT.** Subdivision d of subsection 2 of section 57-38-30.3 of the
14 North Dakota Century Code is amended and reenacted as follows:

15 d. Reduced by ~~forty~~seventy percent of:

16 (1) The excess of the taxpayer's net long-term capital gain for the taxable year
17 over the net short-term capital loss for that year, as computed for purposes
18 of the Internal Revenue Code of 1986, as amended. The adjustment
19 provided by this subdivision is allowed only to the extent the net long-term
20 capital gain is allocated to this state.

21 (2) Qualified dividends as defined under Internal Revenue Code section 1(h)
22 (11), added by section 302(a) of the Jobs and Growth Tax Relief
23 Reconciliation Act of 2003 [Pub. L. 108-27; 117 Stat. 752; 2 U.S.C. 963
24 et seq.], but only if taxed at a federal income tax rate that is lower than the
25 regular federal income tax rates applicable to ordinary income. If, for any
26 taxable year, qualified dividends are taxed at the regular federal income tax
27 rates applicable to ordinary income, the reduction allowed under this
28 subdivision is equal to ~~forty five~~thirty percent of all dividends included in
29 federal taxable income. The adjustment provided by this subdivision is
30 allowed only to the extent the qualified dividend income is allocated to this
31 state.

1 **SECTION 5.** A new subdivision to subsection 2 of section 57-38-30.3 of the North Dakota
2 Century Code is created and enacted as follows:

3 ~~Reduced by the amount of social security benefits included in a taxpayer's gross~~
4 ~~income for federal income tax purposes under section 86 of the Internal Revenue~~
5 ~~Code.~~

6 **SECTION 6. EFFECTIVE DATE.** This Act is effective for taxable years beginning after
7 December 31, 2014.