

FISCAL NOTE
Requested by Legislative Council
01/20/2015

Bill/Resolution No.: SB 2305

- 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			\$(28,800,000)			
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).*

SB 2305 creates an individual income tax deduction for 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 1 and 2 of SB 2305 provide language regarding the inclusion or exclusion of social security benefits in various definitions of income, for the purpose of clarity and consistency. These sections have no fiscal impact.

Section 3 of SB 2305 excludes from North Dakota income any social security benefits that are included in a taxpayer's federal income. If enacted, this provision of SB 2305 is expected to reduce state general fund revenues by an estimated \$28.8 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: 01/24/2015

2015 SENATE JUDICIARY

SB 2305

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

SB 2305
1/26/2015
Job # 22509

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to income tax exclusion for social security benefits and relating to the homestead tax credit and the marriage penalty credit.

Minutes:

Attachment #1

Chairman Cook opened the hearing on SB 2305.

Senator Dotzenrod (District 26) introduced SB 2305 and pointed out that it exempts from state income tax social security income. The only reason there is a reference to homestead tax credit is that it tries to make it clear in the bill that this provision does not change the way we measure income for homestead credit.

The reason he feels social security to be an item that should be considered as not taxable is that most of the people who are collecting social security are at a time in their lives when their peak income years are behind them and they are living on a reduced level of income.

(05:30) **Josh Askvig** (AARP ND) supports eliminating social security. (Attachment #1)

(07:35) **Senator Bekkedahl** referred to the attachment and asked why there are only 92% and not 100% of those ages 65 and over receiving Social Security.

(07:52) **Mr. Askvig** answered that some could defer and some may not qualify. There are still a number of school districts that didn't pay into Social Security. They had a separate retirement system. There are a lot of reasons that 8% might fall in there.

Sen. Dotzenrod asked Mr. Askvig if he knew how many states are exempting from their income tax system the Social Security income benefits.

Mr. Askvig answered 38.

(09:06) **Sen. Cook** asked what the income tax burden is for college students working part time and how he should prioritize college students and young families.

Mr. Askvig guessed college students would be in the lower bracket but he wasn't positive. He pointed out that most of those 65 and over rely on Social Security as 100% of their income. College students generally have part time jobs. He didn't object to those that have more income other than Social Security paying their fair share. His point was that, if you are living on a fixed income, given the rising living expenses such as housing, food etc, and you don't have access to student loans or other ways to help offset those costs until you can later start making more income, it's hard. You have people that are facing decisions between medicine and food.

Sen. Cook pointed out that you can't forget that if you are a single person relying on a thousand dollars a month Social Security or even a married couple and both relying on a thousand dollars a month and you own a home, you will qualify for a big deal of the Homestead Tax Credit. If you're renting a home you're going to qualify for a nice size housing voucher.

(11:56) **Mr. Askvig** didn't argue that point. On the Homestead exempting Social Security it is more helpful to those that are right on that borderline and probably have it as 60-70% of their income and just a little extra that pushes them over the limit.

There was no further testimony.

The hearing on SB 2305 was closed.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2305
2/10/2015
Job #23564

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alice Grove

Explanation or reason for introduction of bill/resolution:

Committee work.

Minutes:

Chairman Cook opened the committee work on SB2305.

\$28.8 million fiscal note. It exempts social security from North Dakota income tax.

Senator Oehlke -- To get this moving along, I would recommend a do not pass.

Senator Unruh seconded.

Senator Dotzenrod -- I introduced this bill and, again, it was sort of the same idea as 2313. In this case we know that there are people who are on social security but also have high income. We know that there are a fairly large percentage of people in the state whose only income, later in life, is social security. I thought that it was a way to make the income tax a little more progressive. I think there are 38 states that do not tax social security income. That's the reason for the bill.

Chairman Cook -- Do you think this makes our income tax more progressive or regressive?

Senator Dotzenrod -- I think it makes it more progressive. I don't have the data to know because the social security income falls in a real variety of other income streams that it gets combined with. The only one statistic that sticks out to me is that there is a pretty good share of North Dakota people that have only social security income and along with that group you've got people that have some income but it may not be very much that goes with it.

Chairman Cook -- I think it is the opposite. I know folks that are living off of social security and I would say that their income tax liability is very small, if not nil, and they would also qualify for a homestead tax credit. If they are not living in a home, they qualify for a housing voucher. That's where I look at it as being regressive.

Senator Triplett -- Just splitting the difference between the two of you, you are probably correct, Senator Cook, that it would be regressive if you think of it just from the standpoint of those at the very bottom who are not getting any benefit and you are giving a benefit to those at the top, but I think the people that Senator Dotzenrod is most focusing on is those who may have social security plus some other small income stream. There is just a zone in there that I think he is trying to get to where it would make a difference for those folks.

Roll call on do not pass on SB2305. 4-2-1.

Carrier: Senator Oehlke

Date: 2.10.15

Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2305

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

- 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 Sen. Oehlke Seconded By Sen. Unruh

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod		✓
Vice Chairman Lonnie Laffen	✓		Senator Connie Triplett		✓
Senator Brad Bekkedahl		AB			
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				

Total (Yes) 4 No 2

Absent 1

Floor Assignment Sen. Oehlke

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

REPORT OF STANDING COMMITTEE

SB 2305: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO NOT PASS (4 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). SB 2305 was placed on the Eleventh order on the calendar.

2015 TESTIMONY

SB 2305



Real Possibilities in

Attachment # 1

pg. 1

North Dakota

SB 2305 - SUPPORT

Monday January 26, 2015

Senate Finance and Taxation Committee

Josh Askvig – AARP North Dakota

jaskvig@aarp.org or 701-989-0129

Chairman Cook, members of the Finance and Taxation Committee, I am Josh Askvig, Associate State Director of Advocacy for AARP ND.

We appreciate the opportunity to provide comments on Senate Bill 2305, which would make numerous changes to tax policy related to Social Security taxation. We support these changes and want to offer some context and suggestions.

The first section of the bill would continue to include Social Security in the definition of income for the purposes of the Homestead Property Tax Credit program. If you recall from last session, we strongly supported exempting Social Security as income from the Homestead Tax Credit program. We ask that as you look at removing Social Security from the definition of income as you make adjustments to this program.

The remaining sections of the bill eliminate Social Security from income taxation. Generally, we support the effort to eliminate the taxation of an earned benefit, like Social Security. Doing so would lower the tax burden for many North Dakotans that could use the assistance. As a refresher, of the 122,104 North Dakotans receiving Social Security, 34 percent of them rely on Social Security as their only source of income. The attached handout on Social Security facts in North Dakota paints a picture as to why eliminating this tax makes sense. Consider that 61 percent of North Dakotans over the age of 65 rely on Social Security for 50 percent or more of their income. Remember that the average Social Security benefit is \$1,152. Given these facts, we support these sections.

We noticed that there was not a fiscal note attached to the bill. If the expense appears to be too big to swallow we would suggest a tiered elimination of taxation on Social Security. Individuals that have larger incomes can better afford to pay the tax. You might model the tax structure like you do the relief for the homestead program.

We support Senate Bill 2305 and encourage you to give it a DO PASS recommendation.



Social Security: 2014 North Dakota Quick Facts

North Dakota's 65+ population is 101,000.

In 2012, North Dakota's population was about 700,000, with 101,000 being age 65 and older residents.¹

Social Security generates \$2.5 billion in economic output for North Dakota.

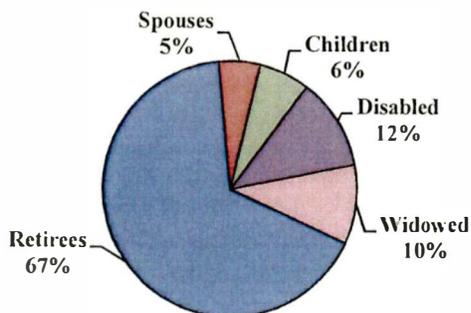
In 2012, North Dakota residents received \$1.6 billion from Social Security.⁴ Every \$1 dollar of Social Security received in North Dakota generates \$1.67 of economic output. Spending related to Social Security by beneficiaries, businesses and workers on goods and services generates \$2.5 billion in economic output for North Dakota.²

One in six North Dakota residents receives Social Security.

The Social Security program not only provides monthly benefits to retired workers, but also to families when the worker retires, dies, or becomes disabled. In 2012, over 56 million Americans received Social Security benefits; of these, 122,104 lived in North Dakota.³

In 2012, one in six North Dakota residents received Social Security.¹ While 67% of beneficiaries are retirees, 33% are not: 12,270 are widows and widowers; 14,187 are people with disabilities; 6,402 are spouses; and 7,848 are children.³

North Dakota Social Security Beneficiaries



Nearly all North Dakota residents age 65 or older receive Social Security.

Over 18% of all people receive Social Security benefits; in North Dakota, 18% of residents also do. However, older people are more likely to receive the benefit, with 92% of those ages 65 and over receiving it nationwide, and 92% of older North Dakotans receiving it too.¹

On average, North Dakotan retirees receive about \$1,152 a month from Social Security.

The average yearly Social Security benefit for a North Dakota retiree in 2012 was \$13,821.⁵

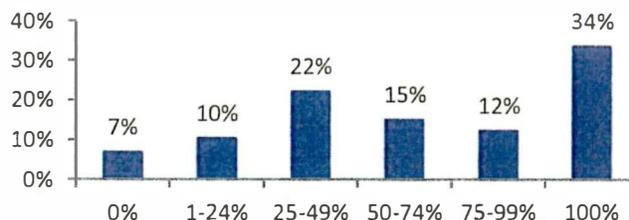
Social Security lifts 28,000 North Dakotan retirees from poverty.

About 44% of the nation's older population would be living in poverty if they were not receiving Social Security. In North Dakota, 42% of state's 65+ population would have incomes below the poverty line if they did not receive Social Security.⁶

Social Security is the only source of income for one in three North Dakotans age 65+.

Social Security makes up 50 percent or more of the income for 61 percent of North Dakotans age 65 and older. One in three older North Dakotans rely on Social Security as their only source of income.⁷

Income Percentage from Social Security for North Dakotans 65+



End Notes

¹ OASDI Beneficiaries by State and County, 2012. Social Security Administration:
http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2012/table01.html

² Social Security's Impact on the National Economy, AARP Public Policy Institute, 2013:
<http://www.aarp.org/work/social-security/info-09-2013/social-security-impact-on-the-national-economy-AARP-ppi-econ-sec.html>

³ OASDI Beneficiaries by State and County, 2012. Social Security Administration:
http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2012/table02.html

⁴ OASDI Estimated Total Benefits Paid, 2013, Social Security Administration:
<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j1>

⁵ OASDI Number and Total Monthly Benefits for Beneficiaries, age 65 or older, 2013:
<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j3>

⁶ Effect of Social Security on Poverty Among the Elderly by State, 2009-2011:
<http://www.cbpp.org/cms/?fa=view&id=3851>

⁷ 2011 ACS Percent of Income from SS- SPSS calculation by AARP Research:
http://www.census.gov/acs/www/data_documentation/data_main/

AARP is a nonprofit, nonpartisan organization, with a membership of nearly 38 million, that helps people turn their goals and dreams into real possibilities, strengthens communities and fights for the issues that matter most to families such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse. We advocate for individuals in the marketplace by selecting products and services of high quality and value to carry the AARP name as well as help our members obtain discounts on a wide range of products, travel, and services. A trusted source for lifestyle tips, news and educational information, AARP produces AARP The Magazine, the world's largest circulation magazine; AARP Bulletin; www.aarp.org; AARP TV & Radio; AARP Books; and AARP en Español, a Spanish-language website addressing the interests and needs of Hispanics. AARP does not endorse candidates for public office or make contributions to political campaigns or candidates. The AARP Foundation is an affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. AARP has staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Learn more at www.aarp.org.

Social Security

2014 North Dakota Quick Facts

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1 in 6 North Dakota residents receive Social Security



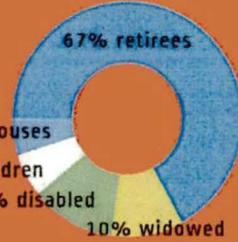
In 2012, North Dakota's population was about 700,000, with 101,000 being age 65+

122,104 number of North Dakota beneficiaries

92% of North Dakota residents ages 65+ receive Social Security

1 in 6 North Dakota residents receive Social Security

North Dakota Social Security Beneficiaries



Social Security generates \$2.5 billion dollars in economic output for North Dakota



In 2012, North Dakota residents received \$1.6 billion dollars from Social Security



\$1,152

average monthly Social Security benefit

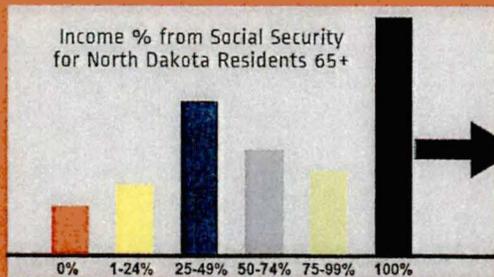
\$13,821

average yearly Social Security benefit

Social Security lifts 28,000 North Dakotan retirees from poverty



Nearly 42% of the state's 65+ population would have incomes below the poverty line if they did not receive Social Security



34% rely solely on Social Security