

1999 HOUSE FINANCE AND TAXATION

HB 1440

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1440

House Finance and Taxation Committee

Conference Committee

Hearing Date January 27, 1999

| Tape Number | Side A | Side B | Meter # |
|---|--------|--------|---------|
| 1 | x | | 36.7 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Janice Stein</i> | | | |

Minutes:

REP. BELTER Opened the hearing.

REP. AL CARLSON, DIST. 41, SOUTHWEST FARGO, Introduced the bill. This is the bill that decouples us from the federal income tax. Gave a breakdown of the bill. Stated he would have an amendment prepared for the bill.

REP. GROSZ If the bill is revenue neutral, explain the plus fourteen million dollar fiscal note.

REP. CARLSON Deferred the question to the Tax Department.

RICK CLAYBURGH, STATE TAX COMMISSIONER Answered the question, stating there are two issues that add revenue enhancement to the bill. The portion that Rep. Carlson spoke to regarding the investments on out of state municipal bonds, is about a three million dollar effect. By picking that up in the biennium, about ten million dollars is associated with capital gains. By making this change, we would not be picking up these capital gains.

REP. GROSZ We have one of the simplest systems in the nation, 14% of what you owe. How does this bill make it simpler, when you have two to three pages of new language, unless we are afraid the federal government is going to lower taxes a lot.

REP. CARLSON I think the level of distrust should be directed at the federal level not the state level. This bill addresses the state. I don't believe I said it would be simpler. This puts the destiny in our own hands.

REP. GROSZ The fear is that the federal government could lower theirs a little bit, then we would kick in less money, are you concerned the state wouldn't get enough money?

REP. CARLSON My fear has always been, not that we have too much income, its that we have too much spending. I'm looking strictly at the system, and I believe in a better system for North Dakota.

REP. SCHMIDT How many other states use the federal government to compute their state's income?

REP. CARLSON Deferred the question to the Tax Department.

JOSEPH BECKER, STATE TAX DEPARTMENT, If you are looking just at our short-form method, there are two other states, Rhode Island and Vermont that have a flat rate against the federal tax liability. In those states, the rates are higher because they use the federal tax liability after the credits are subtracted.

SEN. GARY NELSON, DIST. 22, Testified in support of the bill. Related to Rep. Grosz' question. In regard to the question, whether the federal government will raise the federal income tax, to be honest, I don't care whether they lower it or raise it, in regard to North Dakota state income tax, I think we should be the ones in control of what happens. If we leave the system as

we have it today, we have no ability to address what the federal government is doing. What I have a problem with is, when we set a budget up, the legislature meets, we appropriate the dollars to handle the services for the people of the state of North Dakota, by someone else's decision, we run short on revenue. That is what concerns me. Related to the amendment, stating it will enhance the bill.

SEN. TIM MATHERN, DIST. 11, FARGO, Testified in support of the bill. I am a member of the Fargo Cass County Economic Development Corp. Part of that corporation's work is to entice new businesses to come into Cass County. In that effort, we market the business environment and the workforce environment in our region. Many of those companies want to know what the tax rate is for individual income tax in our state. We supply that, and unfortunately, there are a fair number of situations, where these companies erroneously believe we have a high income tax rate because they see that percent. They don't always compute or figure out that it is a percent of the federal tax. We as the economic development corporation, spend time to educate those companies as to what the actual rate is. I think if this bill would be passed, it would be simpler for those companies to understand what the tax plan is for North Dakota.

REP. GROSZ When you talk about economic development, we passed out many different bills giving property tax breaks, sales tax breaks, income tax breaks, now because one or two might be confused, we are supposed to confuse all of our citizens, just for one more little tool. How much is enough for these things. Why should I make my life more complicated.

REP. MATHERN First of all, do we need to do one more thing. I believe we are still suffering from the problem of out-migration. We have to address this. What is the one more thing to turn that around? I don't know if it is this bill. I think we need to figure out what that one more thing

is to turn that around. This is an attempt to work on that. This can be done in such a way, that it is not a complicated matter.

REP. JOHN WARNER, DIST. 4, Testified in support of the bill. See written testimony.

RICK CLAYBURGH, STATE TAX COMMISSIONER Testified in support of the bill.

Gave four reasons why we should be considering this. From the standpoint of revenue, each biennium, we put revenue forecasts together, we try to be as conservative as we can so we can hit the nail fairly close at what will occur with revenue extremes. We have been very accurate, under the leadership of OMB in doing that. One issue we can't take into account is what Congress might do, in either raising or lowering taxes, which can have a massive effect, as far as revenues are concerned. Secondly, is the issue of economic development. I, at least a half a dozen times per year, write letters to newspapers around the country, responding to articles about the poor fools who live in North Dakota and have to pay a fourteen percent income tax rate. It is simple to say, it is fourteen percent of your federal liability, which works out to a rate of 3.2 to 4.3 percent, but people don't take the time to call or ask us about that. This would go a long way to allowing North Dakotans to see the benefit of their low taxes on income tax in the state. I don't necessarily see the concern that it would make it easier to raise taxes in the future, but I understand your concern on that issue. On the issue of simplicity, that is an issue of great concern to myself as administrator of taxes in the state. Our department is very concerned about making sure that anything we do with taxation in the administration of taxes is done in the least cumbersome manner to the taxpayer. I don't believe that decoupling will create a greater burden on taxpayers in North Dakota. It can probably be argued, that perception wise, it will be easier.

Finally, on a lighter note, there was a discussion earlier this week, in the Senate, concerning the marriage penalty, certainly a very good solution for the marriage penalty, is decoupling!!

REP. BELTER What do we need to do to make this revenue neutral?

RICK CLAYBURGH Deferred the question to Joseph Becker. What we need to do is address the capital gains, that is an issue we will assist the committee with to address that. This bill is virtually what the bill was two years ago.

ROD BACKMAN, OFFICE OF MANAGEMENT & BUDGET, Testified in support of the bill.

Emphasized that he is representing the Governor who was in support of the bill. In reference to simplification, I spent eighteen years in public accounting, tax advisor and consultant. From a simplification standpoint, I think this is almost as simple, maybe even more simpler. If you were to take your federal tax and multiply it by fourteen percent, or your federal taxable income and go to a table and follow down to see what your income is, you will have a different computation. This bill has a section in it that allows the tax commissioner to provide a table other than a rate schedule, that would provide the same tax. Also related to economic development, stating he had a client who had an opportunity to transfer within the company to the state of Wisconsin. He stated this client had a bonus coming to him, and was advised to wait with the bonus until he got transferred to Wisconsin, as they only had an eight percent tax rate, and North Dakota has fourteen. This was coming from a major, national corporation. Actually, their tax is of taxable income. Even though the company told him he would pay twice as much tax in North Dakota, he would have only paid half as much in North Dakota. Economic development opportunities are missed in this state simply because somebody in the tax department in some other state looks

at North Dakota's corporate and individual tax rate and they say, they don't want anything to do with a tax rate that high.

KEVIN CRAMER, DIRECTOR OF NORTH DAKOTA DEPARTMENT OF ECONOMIC DEVELOPMENT & FINANCE, Testified in support of the bill. We lose a lot of investment opportunities, potentially, many, many opportunities because of the confusion as created by this seemingly high tax rate. We have spent the last two years involved in a very indept strategic planning process in reviewing North Dakota's economy and working with stakeholders and partners, corporate partners, community partners, etc. We have worked with some of the largest and respected site selecting consultants in the world. They told us, plainly and clearly, especially in light of our proximity to South Dakota, that we don't get a second look many times because of our tax structure.

REP. GROSZ You are saying that if we pass this, we will see a lot of investments?

KEVIN CRAMER I don't know whether we will or we won't. I know right now, we have an out-migration problem. In the same time that North Dakota lost 40,000 of its citizens, South Dakota has gained 40,000.

REP. MIKE TIMM₂, DIST. 5, MINOT₂ Testified in opposition of the bill. Submitted a handout of facts and figures showing income tax breaks we have had from 1973-1997. See attached copy. We changed this tax rate back in 1987, making it a percentage of your federal tax. People liked that. As you can see, who is testifying for the bill, the buracracies in Bismarck. You didn't see any public here asking to change the tax form. They like it. As far as the argument, that the big professional companies from out of state don't understand our taxes, I have heard some legislators say that if they aren't smart enough to figure that out, maybe we don't want them here

anyway. I was on this committee for twenty years, and during those twenty years, back when we had the tax tables, every session, there were at least one to four legislators that came in to this committee with their charts, and bulletin boards with different ideas of how to change the brackets, changing the rate or the amount that is taxable. What did they all do, they all raised your taxes. I feel that if you put in those kind of rates, it will be easier for future sessions, some legislator coming in and just tweek the brackets a little bit, or tweek the rates, and it will be a tax increase. It was mentioned by someone, that we would be comparable to Minnesota's tax rates, I don't know if we ever want to get into Minnesota's tax situation, my daughter lives in Minneapolis, and I fill out her tax form, I made a copy of her form one day, and put my figures in there, my taxes would have been three times as much, if I would have been paying taxes in Minnesota versus North Dakota.

REP. BELTER TO JOSEPH BECKER, What needs to be done to make this revenue neutral?

JOSEPH BECKER, STATE TAX DEPARTMENT, We are picking up the 1999 federal tax rates and assigning fourteen percent against that, however, since we are now jumping to federal taxable income, that may have capital gains built in there, and this does not address that. We would have to amend this to pick that up somehow.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 1-27-99, Tape #1, Side B, Meter #40

REP. WARNER Stated he was having some amendments drafted to the bill.

The bill will be acted on at a later date.

COMMITTEE ACTION 2-2-99, Tape #2, Side A, Meter #0.8

REP. WARNER Submitted amendments to the committee members to review.

The bill would be held for another day so that the committee members would have time to go over the amendments as present.

COMMITTEE ACTION 2-3-99, Tape #2, Side A, Meter #25

Committee members reviewed the amendments which had been submitted. Rep. Belter requested committee members to review the amendments and he would have a new fiscal note drawn to go with the amendments. The bill would be acted on at a later date.

COMMITTEE ACTION 2-8-99, Tape #2, Side A, Meter #17.1

REP. GROSZ Made a motion to adopt the amendments as presented.

REP. CLARK Second the motion. MOTION CARRIED BY VOICE VOTE

REP. GROSZ Made a motion for a DO NOT PASS AS AMENDED.

REP. CLARK Second the motion. MOTION CARRIED

11 Yes 3 No 1 Absent

REP. BELTER Took the floor assignment.

FISCAL NOTE

(Return original and 14 copies)

Bill/Resolution No.: _____

Amendment to: HB1440

Requested by Legislative Council

Date of Request: 2/10/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: HB 1440, as amended, is approximately revenue neutral.

2. **State** fiscal effect in dollar amounts:

| | 1997-99 Biennium | | 1999-2001 Biennium | | 2001-03 Biennium | |
|---------------------|------------------|-------------|--------------------|-------------|------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | | | |
| Expenditures | | | | | | |

3. What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

4. **County, city, and school district** fiscal effect in dollar amounts:

| 1997-99 Biennium | | | 1999-2001 Biennium | | | 2001-03 Biennium | | |
|------------------|--------|------------------|--------------------|--------|------------------|------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

If additional space is needed
attach a supplemental sheet.

Signed: *Kathryn L. Strombeck*

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: February 11, 1999

Phone Number: 328-3402

FISCAL NOTE

(Return original and 14 copies)

Resolution No.: HB 1440

Amendment to: _____

Requested by Legislative Council

Date of Request: 1/20/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: HB 1440 establishes state income tax rates on taxable income that are approximately revenue neutral with current law. However, some provisions of HB 1440 result in a change from the current taxing method and therefore change estimated revenues. The most significant changes between HB 1440 and current law include: The federal rate ceiling on capital gain income (which lowers revenue under current law and is not addressed in HB 1440, thereby increasing revenues), the broadening of the base in HB 1440 to include municipal interest from non-North Dakota sources and lump sum distributions deducted from federal gross income, the exclusion of federal alternative minimum tax and the federal penalty on early withdrawals from and IRAs. The net effect of HB 1440 is estimated to be an increase in revenues totaling between \$5 to \$7 million per year.

2. State fiscal effect in dollar amounts:

| | 1997-99 Biennium | | 1999-2001 Biennium | | 2001-03 Biennium | |
|---------------------|------------------|-------------|---------------------------|-------------|------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | +\$10 to +\$14 million | | | |
| Expenditures | | | | | | |

What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: \$200,000 in administrative costs
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

4. County, city, and school district fiscal effect in dollar amounts:

| 1997-99 Biennium | | | 1999-2001 Biennium | | | 2001-03 Biennium | | |
|------------------|--------|------------------|--------------------|--------|------------------|------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

If additional space is needed
attach a supplemental sheet.

Signed: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 27, 1999

Phone Number: 328-3402

Please type or use black pen to complete

Date 2-8-99
Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1440

House HOUSE FINANCE & TAX Committee

- Subcommittee on _____
 - Conference Committee
- } Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Not Pass as amended

Motion Made By Rep. Grosz Seconded By Rep. Clark

| Representatives | Yes | No | Representatives | Yes | No |
|-----------------|-----|----|-----------------|-----|----|
| BELTER | ✓ | | WINRICH | | ✓ |
| RENNERFELDT | ✓ | | | | |
| CLARK | ✓ | | | | |
| FROELICH | ✓ | | | | |
| GRANDE | ✓ | | | | |
| GROSZ | ✓ | | | | |
| HERBEL | ✓ | | | | |
| KROEBER | | ✓ | | | |
| MICKELSON | ✓ | | | | |
| NICHOLAS | A | | | | |
| RENNER | ✓ | | | | |
| SCHMIDT | ✓ | | | | |
| WARNER | | ✓ | | | |
| WIKENHEISER | ✓ | | | | |

Total 11 3
(Yes) (No)

Absent 1

Floor Assignment Rep. Belter

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE

HB 1440: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (11 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1440 was placed on the Sixth order on the calendar.

Page 2, line 9, after "3" insert ", plus the tax determined under subsection 4, and minus the amount determined under subsection 5"

Page 3, line 1, remove ", plus the adjustments provided under subsection 4"

Page 3, line 4, replace "5" with "6"

Page 4, line 14, replace "6" with "7"

Page 4, after line 29, insert:

- "i. If an individual, estate, or trust is subject to the provisions of section 1(h) of the Internal Revenue Code of 1954, as amended, relating to computation of the federal income tax when federal taxable income includes a net long-term capital gain, the tax under this subsection may not exceed the lesser of the amount otherwise determined under this subsection or fourteen percent of the federal income tax determined under section 1(h) of the Internal Revenue Code of 1954, as amended.
- j. If an individual, estate, or trust is subject to the provisions of section 1301 of the Internal Revenue Code of 1954, as amended, relating to income averaging for farmers, the tax under this subsection may not exceed the lesser of the amount otherwise determined under this subsection or fourteen percent of the federal income tax determined under section 1301 of the Internal Revenue Code of 1954, as amended.
- k. If an individual is subject to the provisions of section 1(g) of the Internal Revenue Code of 1954, as amended, relating to computation of the federal income tax for a child under age fourteen who has investment income, the tax under this subsection may not exceed the lesser of the amount otherwise determined under this subsection or fourteen percent of the federal income tax determined under section 1(g) of the Internal Revenue Code of 1954, as amended."

Page 5, replace lines 18 through 25 with:

"The tax under this subsection is determined by multiplying the total of the additional federal taxes set forth in subdivision a by fourteen percent and then multiplying the result by the fraction determined under subsection 6.

a. For purposes of this subsection, additional federal taxes are:

- (1) Federal alternative minimum tax computed on federal form 6251;
- (2) Federal tax on a lump sum distribution computed on federal form 4972;

- (3) Federal tax on an accumulation distribution of a trust computed on federal form 4970;
 - (4) Federal tax on early distributions, excess contributions, excess accumulations, and excess distributions with respect to qualified retirement plans, individual retirement accounts, annuities, and modified endowment contracts computed on federal form 5329;
 - (5) Federal excess benefits tax under section 72(m)(5) of the Internal Revenue Code of 1954, as amended; and
 - (6) Federal tax computed on federal form 8814.
- b. For a nonresident individual, estate, or trust, the federal taxes under paragraphs 2 through 6 of subdivision a are included only to the extent the related income is allocated or apportioned to this state under this chapter."

Page 6, replace lines 15 through 28 with:

"The amount under this subsection is determined by multiplying the federal credit for prior year minimum tax computed on federal form 8801 by fourteen percent and then multiplying the result by the fraction determined under subsection 6.

6. For purposes of subsections 3 through 5, the fraction is equal to North Dakota adjusted gross income divided by federal adjusted gross income. For this purpose, "North Dakota adjusted gross income" means federal adjusted gross income reduced by:
- a. Interest income from obligations of the United States;
 - b. Income exempt from state income tax under federal statute, the Constitution of the United States, or the Constitution of North Dakota;
 - c. The portion of a distribution from a qualified investment fund as defined under subsection 4.2 of section 57-38-01 which is attributable to investments by the qualified investment fund in obligations of the United States, obligations of North Dakota or its political subdivisions, and any other obligation the interest from which is exempt from state income tax under federal statute, the Constitution of the United States, or the Constitution of North Dakota; and
 - d. For a nonresident individual, estate, or trust, the portion of federal adjusted gross income not allocable or apportionable to this state under this chapter."

Page 6, line 29, overstrike "6." and insert immediately thereafter "7."

Page 7, line 8, overstrike "7." and insert immediately thereafter "8."

Page 7, line 18, overstrike "8."

Page 7, line 30, remove the overstrike over "~~9.~~"

Page 8, line 5, remove the overstrike over "~~10.~~" and remove "9."

Renumber accordingly

1999 TESTIMONY
HB 1440

HB 1440

TESTIMONY BEFORE THE HOUSE FINANCE AND TAXATION COMMITTEE WES BELTER, CHAIRMAN

Mr. Chairman, Members of the Committee,

For the record, my name is John Warner and I represent the 4th Legislative District in the House. I stand before you today to give my support to HB 1440.

We are today at an interesting point in the relationship between the states and the federal government. The devolution of authority, and with it responsibility, from the federal government to the states gives us an unusual opportunity to craft government which meets the unique needs of North Dakotans. But in order to do that we need to have the freedom and flexibility to set our own fiscal policy.

HB 1440 provides that vehicle by uncoupling our North Dakota income tax from the federal income tax. This bill maintains the simplicity of the current system by retaining an identical definition of taxable income as used on the federal form but provides for the creation of stand alone tax tables.

It is the intent of the sponsors that this bill is revenue neutral. The average tax payer in this state should pay no more under HB 1440 than they pay under the current system.

I would like to point out section h. on page 4 of the bill which instructs the tax commissioner to create new tax tables yearly to reflect inflation. This will prevent the “bracket creep” that for so many years plagued our federal form.

Page 6 of the bill simplifies the language defining what income is taxable for residents and non residents in North Dakota and page 7 simplifies the language on joint returns.

This bill is an important piece of legislation for North Dakota, re-establishing our sovereignty in matters of fiscal policy and recognizing that we need to make our own decisions in solving the problems which face our state.

I would like to urge a DO PASS on HB 1440.

Handout from Rick Clayburgh-Tal Comm.

It could be worse

State's tax bite is low, compared with others

STATES, from Page A1

rate of 7 percent kicks in after \$7,500 in income for married couples filing jointly; Oregon's 9 percent bite applies on \$11,400 or more in earnings; and Hawaii's 10 percent rate hits people making \$41,000 and above.

North Dakotans arguably have it worst of all, with the nation's highest state tax rate of 12 percent coming into play after \$50,000 in income.

Those two variables — modest tax brackets and a very high income threshold — explain why Arizonans shoulder one of the nation's lightest personal income tax burdens. On average, Arizonans shelled out just \$337 in state income taxes in 1996, according to the Census Bureau, well below the national average of \$507.

Put another way, Arizonans paid just \$20.58 in state income taxes for each \$1,000 in income, compared with a national average of \$25.20.

"Arizona is not at the top of any

lists in terms of income tax burdens," said Sally Adams, a lawyer and tax analyst for CCH Inc., a publisher of tax reports in Riverwoods, Ill.

In fact, most Arizonans pay an effective or average tax lower than the marginal rates discussed above. After you factor in exemptions, deductions, credits and the impact of lower tax rates on everyone's initial earnings, the effective tax rate even for people with adjusted gross income above \$500,000 is just 3.38 percent, according to the Joint Legislative Budget Committee, the budgeting arm of the Legislature. For the 90 percent of Arizonans with adjusted gross income below \$75,000, the effective tax rate is 2.11 percent or less.

Still, individual income taxes account for a significant and growing part of Arizona's cash inflows. This year, the state is projected to bring in \$1.8 billion in personal income taxes, roughly \$465 million more than in

1993. Expressed another way, personal income tax receipts will account for 35 percent of state cash inflows this year, about the same percentage as five years ago but up sharply from 22 percent a decade earlier and 6 percent in the mid-1960s.

Several factors account for the state's rising tax receipts in the 1990s, despite tax cuts enacted under former Gov. Fife Symington.

For starters, the Arizona economy and that of the nation have enjoyed an unparalleled span of sustained growth and low inflation in recent years.

"States are enjoying the same economic bonanza that has allowed the federal budget deficit to drop," Adams said. "That means people are earning more money, paying more in income taxes and spending more in sales taxes."

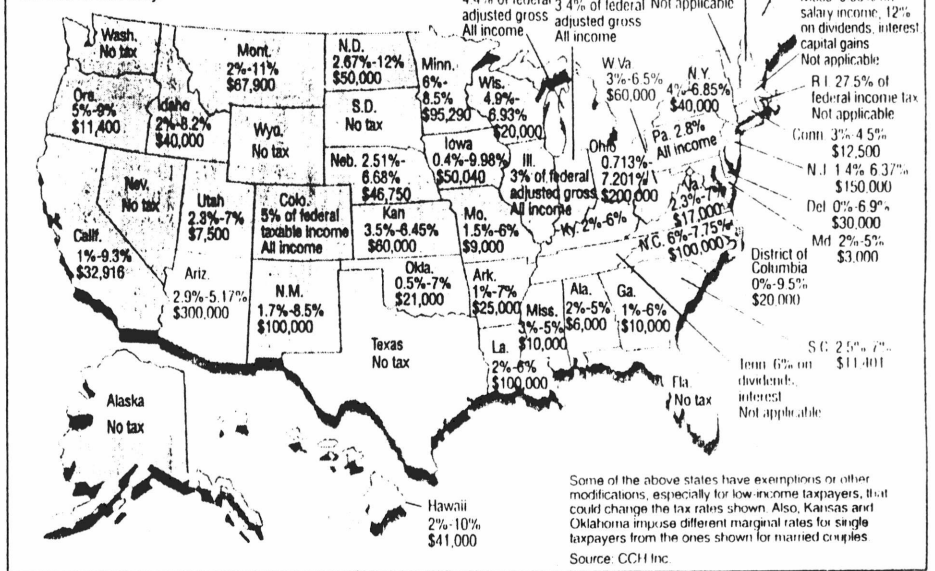
It also helps that Arizona has been able to attract many affluent migrants, especially during the early and middle years of the decade, when the state's economy was much stronger than that of the nation overall.

"We're among four or five states with the fastest growth of wealthy people," said Kent Ennis, senior economist for the Joint Legislative Budget Committee.

Partly that reflects Arizona's ability to lure companies in prosperous industries, causing a wealth-multiplier effect as executives and employees settle here and buy homes, furniture and other big-ticket items. Arizona's economy is more diversified than in years past, with more firms in technology, health care and other prosperous industries.

Arizona's mild tax burden

Arizonans shoulder a relatively modest burden when it comes to personal income taxes. Not only are marginal rates in general below those of most other states, but very few Arizonans earn enough to trigger the maximum rate. This map lists the range of personal-tax rates for all states. Also shown is the amount of income a married couple filing jointly would need to trigger the maximum levy.



The Arizona Republic

Most are for children. Which may mean there are lots of children per household in some Arizona counties. Among the 3,000-plus counties in the United States, Arizona's Apache County ranked 11th in average exemptions per household in 1995, with 3.06; Santa Cruz was 35th with 2.84; and Greenlee and Navajo were 46th and 47th, with 2.79. Millard County, Utah, had the highest of any U.S. county, with 3.3.

Source: Transactional Records Access Clearinghouse, Southern University

faster than we've been cutting taxes," Ennis said. "The number of people making \$100,000 and up, and especially \$250,000 and up, has been growing like wildflowers."

Oddly enough, Arizona didn't always have such a progressive tax structure, nor was it hard to reach the top bracket. As recently as 1989, single Arizona workers triggered a maximum state tax rate, which at the time was 8 percent, after just \$6,000 in income, while married couples landed in the top category with \$12,000.

"Back then, we effectively didn't have a progressive income tax," said Dan Zemke, a spokesman for the Arizona Department of Revenue. "Nearly everyone was almost immu-

able to rise sharply in Arizona in recent years. The state will collect roughly \$641 million in such taxes this year, the Joint Legislative Budget Committee projects, compared with \$239 million in 1993. Corporate income taxes will account for 12.2 percent of state revenues this year, up from 6.3 percent five years ago.

Arizona companies pay state taxes equal to 9 percent of their adjusted federal taxable income. The state ranks in the middle of the pack in terms of most corporate tax measures. For example, while Arizona ranks 20th in the nation in per capita corporate taxes, it's 30th in taxes per \$1,000 of income generated by all employees in the state.

"We are not a low-tax state from

of the Greater Phoenix Economic Council.

In fact, he points out that Arizona now imposes a higher corporate tax than California, which cut corporate rates a few years ago, helping to dam a steady stream of companies that were migrating out.

Weddle adds that corporate taxes are just one of several factors that affect any state's business climate and ability to attract jobs. In California's case, for example, bureaucratic red tape, high housing prices and expensive labor also made it hard to do business there.

"California's tax and regulatory environment was substantially more onerous than ours (during the early 1990s)," Weddle said. "But Califor-

Average paid in state
income taxes in '96: **\$337**

It could be worse

Top rate of 5.17%
is below that of
most other states

**THE
PUBLIC
PURSE** 
Making sense of tax

About this series

PART TWO

(Part Three coming Sunday)

When it comes to tax policy, Arizona has arrived at a historic moment.

At a time of almost unparalleled prosperity, state lawmakers face a choice between continuing tax cuts and investing in public institutions. Key decisions will be made this month, based in part on assumptions about the following issues: How does our tax system stack up with neighboring states? Do taxpayers get good results for what they pay in? Is the system fair to everyone?

To help inform the debate, *The Arizona Republic* has dug into every corner of tax policy in Arizona. The reports began last Sunday, continue today and Sunday, and will conclude Wednesday, March 11.

BUSINESS: Many in the business community feel they are overtaxed. Are they? **A12**

PROPERTY: The property-tax system is like a water balloon. Squeeze it here, it gets fat over there. **A13**

By **Russ Wiles**
The Arizona Republic

Pity the unfortunate Utahan, the overstretched Oregonian and the hapless Hawaiian, but not the affluent Arizonan. No matter how you slice it, Arizona packs only a mild punch when it comes to state income taxes.

Arizona's top marginal bracket is a modest 5.17 percent, lower than in most other states and the District of Columbia. More important, it's harder to climb into the top tax bracket in Arizona than anywhere else in the nation.

Arizona's 5.17 percent levy kicks in only for single people earning at least \$150,000 or married couples making \$300,000. Income below those thresholds triggers taxes at marginal rates ranging from 2.9 percent to 4.8 percent.

Marginal rates are steps or increments at which additional income is taxed more and more heavily. They're the cornerstone of "progressive" tax systems, in which the rich pay proportionately more than the poor.

By comparison, Utah's top tax

— Please see **STATE'S**, Page A11

N. Dakota tax rate is low

■ One of the articles in your recent series, "The Public Purse: Making Sense of Taxes," contained a factual error I'd like to correct. The front-page article "It Could be Worse" says, "North Dakotans arguably have it worst of all, with the nation's highest state tax rate." To the contrary, our state's income tax rate is among the lowest. I'd appreciate the opportunity to explain.

North Dakotans can choose to file their income taxes one of two ways. Approximately 94 percent of North Dakotans file under our "short form" method, which is a flat 14 percent of a taxpayer's federal income tax liability (with a few limited adjustments).

For example, a North Dakotan who pays \$4,500 in federal income tax would generally pay \$630 in state income tax. This effective tax rate is the lowest of any state that taxes income (including Arizona).

The second method, and the one cited by your series, is our "long form." It is used by very few filers. Typically they are people with some specific deductions that are allowed on this form.

Because quite a few North Dakotans make Arizona their winter home, this may be of interest to a number of your readers. These "snowbirds" can be proud of their home state's low tax burden and high emphasis on growth and opportunity.

— **Rick Clayburgh**
North Dakota Tax Commissioner
Bismarck, N.D.

HB 1440

INCOME TAX RATES 1973-97

This memorandum reviews income tax rate changes from 1973 to the present.

Income tax entering 1973 legislative session. Individual income tax rates and brackets remained unchanged from 1961 to 1973 as follows:

| Taxable Income | Tax Rate |
|-----------------------|-----------------|
| Up to \$3,000 | 1.0% |
| \$3,000 to \$4,000 | 2.0% |
| \$4,000 to \$5,000 | 3.0% |
| \$5,000 to \$6,000 | 5.0% |
| \$6,000 to \$8,000 | 7.5% |
| \$8,000 to \$15,000 | 10.0% |
| \$15,000 or more | 11.0% |

In addition to income taxes as determined under the above rates, North Dakota individuals, estates, and trusts were subject to a one percent business privilege tax on business income, which was imposed beginning in 1970, and a Vietnam veterans' bonus surtax of one percent of all taxable income (with a minimum tax of \$2.50 and a maximum tax of \$12.50 per year per individual) which became effective in 1972.

1973 legislative session. The 1973 Legislative Assembly reduced individual income tax rates by eliminating the highest income and rate bracket. Effective for the 1973 tax year the individual, estate, and trust rates and brackets were as follows:

| Taxable Income | Tax Rate |
|-----------------------|-----------------|
| Up to \$1,000 | 1.0% |
| \$1,000 to \$3,000 | 2.0% |
| \$3,000 to \$5,000 | 3.0% |
| \$5,000 to \$6,000 | 5.0% |
| \$6,000 to \$8,000 | 7.5% |
| \$8,000 or more | 10.0% |

1975 legislative session. In 1975 the Vietnam veterans' bonus surtax was repealed.

1978 initiated measure. An initiated measure approved in the 1978 general election reduced income tax rates for individuals, estates, and trusts effective January 1, 1978. The initiated measure established the following rates:

| Taxable Income | Tax Rate |
|-----------------------|-----------------|
| Up to \$3,000 | 1.0% |
| \$3,000 to \$5,000 | 2.0% |
| \$5,000 to \$8,000 | 3.0% |
| \$8,000 to \$12,000 | 4.0% |
| \$12,000 to \$30,000 | 5.0% |
| \$30,000 or more | 7.5% |

1979 legislative session. In 1979 the one percent business privilege tax on business income for individuals, estates, trusts, partnerships, and corporations was repealed effective for tax years beginning after 1980.

1980 initiated measure. An initiated measure approved at the 1980 general election established the oil extraction tax and provided an income tax energy cost relief credit of up to \$100 per year for each taxpayer.

1981 legislative session. An optional short-form individual income tax return method was established by 1981 legislation. The long-form filing method was not eliminated but taxpayers were given the option of filing the short-form return, which imposed an income tax at the rate of 7.5 percent of federal tax liability, without deductions and credits available on the long-form return. The rate established for the short-form return resulted in substantially lower tax liability than under the long-form return rates, to encourage taxpayers to use the short-form return.

1983 legislative session. The energy cost relief credit was repealed effective for tax years beginning after 1982. The 1983 Legislative Assembly also increased the short-form return rate from 7.5 percent to 10.5 percent of federal tax liability and increased long-form return rates by a corresponding percentage. Beginning in the 1983 tax year, long-form return rates were as follows:

| Taxable Income | Tax Rate |
|----------------------|----------|
| Up to \$3,000 | 2.0% |
| \$3,000 to \$5,000 | 3.0% |
| \$5,000 to \$8,000 | 4.0% |
| \$8,000 to \$15,000 | 5.0% |
| \$15,000 to \$25,000 | 6.5% |
| \$25,000 to \$35,000 | 7.0% |
| \$35,000 to \$50,000 | 8.0% |
| \$50,000 or more | 9.0% |

1986 special legislative session. Legislation enacted in a special legislative session in December 1986 established mandatory income tax withholding for all employees subject to federal income tax withholding. The legislation also increased the short-form return rate from 10.5 percent to 14 percent of federal tax liability and increased long-form rates by corresponding amounts. These changes were the subject of a referendum petition, and at a special election on March 18, 1987, state voters upheld the legislation. Beginning with tax year 1986, long-form rates were as follows:

| Taxable Income | Tax Rate |
|----------------------|----------|
| Up to \$3,000 | 2.67% |
| \$3,000 to \$5,000 | 4.00% |
| \$5,000 to \$8,000 | 5.33% |
| \$8,000 to \$15,000 | 6.67% |
| \$15,000 to \$25,000 | 8.00% |
| \$25,000 to \$35,000 | 9.33% |
| \$35,000 to \$50,000 | 10.67% |
| \$50,000 or more | 12.00% |

1987 legislative session. A 10 percent surtax on state income tax liability was enacted effective only for tax year 1987.

1989 legislative session. In 1989 legislation was approved to increase the short-form rate from 14 percent to 17 percent of federal tax liability and to increase long-form rates by corresponding amounts. The legislation was the subject of a referendum petition, and at a special election in December 1989 the income tax increase was rejected by the voters.

Since the 1989 Legislative Assembly, no legislation has been approved to alter income tax rates for individuals, estates, and trusts.