

(Please type in triplicate)

FISCAL NOTE

Prepared in regard to:

(List bill or resolution and number, if available, or subject)

Amendment to: Engrossed House Bill 1199 (Attached)

(List bill or resolution and number)

Requested by: \_\_\_\_\_ Date of receipt: March 23, 1981

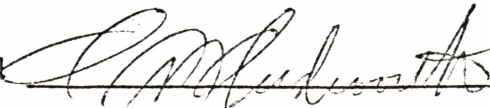
In the following space note the fiscal effect in dollars of the legislative proposal:

Narrative:

If enacted, House Bill 1199 as amended on page 1635 of the Senate Journal, would provide for a two year simplified optional system which would be 7½% of the federal tax liability before all credits. The fiscal effect would be to reduce general fund revenue by an estimated \$33,000,000 in the 1981-83 biennium assuming that the present Individual Income Tax System would be federalized through December 31, 1980.

Fiscal Effect:

<u>1981-82</u>		<u>1982-83</u>		<u>Total Biennium</u>	
<u>Special Funds</u>	<u>General Fund</u>	<u>Special Funds</u>	<u>General Fund</u>	<u>Special Funds</u>	<u>General Fund</u>
	- \$14,500,000		- \$18,500,000		- \$33,000,000

Signed   
Typed Name C.W. Cudworth

Date Prepared: March 23, 1981 Department Tax

If additional space is needed, attach a supplementary sheet. HAB

This document paid for with State funds.

FISCAL IMPACTS RELATING TO  
HB-1199 AS PROPOSED ON  
MARCH 23, 1981

(Please refer to the attached amendments dated  
March 17, 1981, and the assumption set out in item 1.)

INDIVIDUAL INCOME TAX:

81-83 BIENNIUM

(1) Maintain present system federalized  
through 12-31-80;

and

(2) Provide a two-year simplified  
optional system which would be  
7½% of federal liability (before  
all credits). The optional system  
would include the following provi-  
sions:

(a) The Federal liability would  
be adjusted if the taxpayer  
had U.S. Bond interest or  
out-of-state income (for  
non-residents only).

(b) The State tax liability would  
be reduced by the credit for  
taxes paid to another state  
and the \$100 credit provided  
for in Measure No. 6.

Approximately  
\$33 million

(SEE ATTACHED SCHEDULE FOR COMPARISON OF  
PRESENT AND PROPOSED SYSTEMS.)

ARNOLD A. BURIAN  
DEPUTY COMMISSIONER  
STATE TAX DEPARTMENT

MARCH 24, 1981

*Adopted by:  
Senate Finance & Tax Committee  
Monday 3/23/81*

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1199

*\$16 million in  
tax relief  
it is optional  
method*

On page 1 of the engrossed bill, line 1, after the words "A BILL" delete the remainder of the bill and insert in lieu thereof the following: "for an Act to create and enact a new section to chapter 57-38 of the North Dakota Century Code, relating to a simplified optional method of computing state income tax liability; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF THE  
STATE OF NORTH DAKOTA:

SECTION 1. A new section to chapter 57-38 of the North Dakota Century Code is hereby created and enacted to read as follows:

SIMPLIFIED OPTIONAL METHOD OF COMPUTING TAX.

1. Notwithstanding the other provisions of this chapter, an individual, estate, or trust may elect to determine state income tax liability by applying the provisions of this Act. Any taxpayer electing to determine his income tax liability pursuant to this Act shall only be eligible for those adjustments or credits which are specifically provided for in this Act.
2. A tax is hereby imposed for each taxable year upon income earned or received in that taxable year by every resident and nonresident individual, estate, and trust. This tax shall be seven and one-half percent of the individual's, estate's, or trust's adjusted federal income tax liability for the taxable year.
3. The adjusted federal income tax liability for a resident individual, estate, and trust shall be determined by multiplying the federal income tax liability by a fraction, the numerator of which is the adjusted gross income taxable to this state and the denominator of which is the total adjusted gross income as reported on the federal income tax return. Interest income from United States obligations and other income

not taxable to this state because of federal statutes, United States or state constitutional provisions shall be excluded from the numerator.

4. The adjusted federal income tax liability of a nonresident individual, estate, and trust shall be determined by multiplying the federal income tax liability by a fraction, the numerator of which is the adjusted gross income derived from sources within this state and the denominator of which is the total adjusted gross income as reported on the federal income tax return. Interest income from United States obligations and other income not taxable to this state because of federal statutes, United States or state constitutional provisions shall be excluded from the numerator.
5. For the purposes of this Act, the term "federal income tax liability" means the individual's, estate's, or trust's federal income tax liability as computed for federal income tax purposes using tax tables or schedule TC, plus additional taxes due on federal income tax schedules or forms 4970, 4972, 5544, 5405, section 72(m)(5) penalty tax, 4625, 6251, and 5329, and before credit for contributions to candidates for public office, credit for the elderly (schedule R&RP), credit for child and dependent care expenses (form 2441), investment credit (form 3468), foreign tax credit (form 1116), work incentive credit (form 4874), jobs credit (form 5884), residential energy credit (form 5695), and before reduction for federal income tax withheld, estimated payments, earned income credit, excess Federal Insurance Contributions Act (chapter 21 of the Internal Revenue Code of 1954, as amended), and the federal Railroad Retirement Tax Act (chapter 22 of the Internal Revenue Code of 1954, as amended), taxes withheld, credit for federal taxes on special fuels and oils, and regulated investment company credits. The term does not include amounts due for self-employment tax or social security tax and railroad retirement tax on tips.
6. Where a husband and wife determine their federal income tax liability for the taxable year on a joint federal income tax return they may elect to determine their North Dakota income taxes separately. The federal income

tax liability shall be apportioned between them in the proportion that the adjusted gross income of each bears to their combined adjusted gross income. The adjusted gross income of each shall be determined in the same way that each would have been required to determine it if they had filed separate federal income tax returns.

7. a. A resident individual, estate, or trust shall be allowed a credit against the tax otherwise due under this Act for the amount of any income tax imposed on the taxpayer for the taxable year by another state or territory of the United States or the District of Columbia on income derived from sources therein and which is also subject to tax under this Act.
- b. The credit provided under this subsection shall not exceed the proportion of the tax otherwise due under this Act that the amount of the taxpayer's adjusted gross income derived from sources in the other taxing jurisdiction bears to the taxpayer's entire adjusted gross income as reported on the taxpayer's federal income tax return.
8. An individual, estate, or trust shall be allowed as a credit against the tax otherwise due under this Act the energy cost relief credit provided for in initiated measure No. 6 as approved by the voters in the November 1980 general election.
9. a. Individuals, estates, or trusts receiving a refund of federal income tax for a year for which an election to file state income tax returns has been made under this Act shall file amended state income tax returns reducing the federal income tax liability for the year for which the federal income tax refund is granted and shall not report the federal income tax refund in the year received.
- b. Individuals, estates, or trusts assessed additional federal income tax for a year for which an election to file state income tax returns has been made under this Act shall file amended state income tax returns increasing the federal income tax liability for the year for which the additional

federal income tax is assessed and shall not report increased federal income tax liability in the year in which the additional federal income tax is paid.

10. The tax commissioner may prescribe procedures and guidelines to prevent requiring income that had been previously taxed under this chapter from becoming taxed again because of the provisions of this section and may prescribe procedures and guidelines to prevent any income from becoming exempt from taxation because of the provisions of this section if it would otherwise have been subject to taxation under the provisions of this chapter.

SECTION 2. EFFECTIVE DATE. The provisions of this Act shall be effective for all taxable years beginning in 1981 and 1982 only."

And renumber the lines and pages accordingly