

FISCAL NOTE
HOUSE BILL NO. 1158
LC# 23.0351.05000
04/26/2023

1 - 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.

	2021-2023 Biennium		2023-2025 Biennium		2025-2027 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(358,297,204)			
Expenditures			\$158,225,000			
Appropriations			\$158,225,000			

2 - County, City, School District, and Township Fiscal Effect

Identify the fiscal effect on the appropriate political subdivision.

	2021-2023 Biennium	2023-2025 Biennium	2025-2027 Biennium
Counties			
Cities			
School Districts			
Townships			

3 - 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 1158 modifies the income tax rates for individuals, estates, and trusts, expands the homestead property tax credit, and creates a property tax credit for property used as a primary residence.

4 - Fiscal Impact Sections Detail

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.

Section 1 of HB 1158 expands the Homestead Property Tax Credit by increasing both the income and taxable valuation levels and by removing the requirement that an individual's assets not be more than \$500,000.

The amount of the credit is based on the following schedule:

An eligible individual with an income not in excess of \$40,000 is entitled to a reduction of 100% of the taxable

valuation of the person's homestead up to a maximum reduction of \$9,000 of taxable valuation. An eligible individual with an income greater in excess of \$40,000 and not in excess of \$70,000 is entitled to a reduction of 50% of the taxable valuation of the person's homestead up to a maximum reduction of \$4,500 of taxable valuation.

Section 2 of HB 1158 creates a new primary residence credit. An individual is entitled to a credit of \$500 against the property tax due on the individual's primary residence. The credit may not exceed the amount of property tax due. The credit must be applied to reduce the property tax owed on the individual's primary residence after other exemptions or credits have been applied.

A primary residence is a dwelling in this state owned and occupied by an individual as that individual's primary place of residence. An individual may not have more than one primary residence.

An individual who does not reside in the primary residence in this state is eligible for the credit if the individual's absence is due to confinement in a nursing home, hospital, or other care facility, for as long as the portion of the primary residence previously occupied by the individual is not rented to another individual.

Only one credit may be applied against the property taxes levied against any primary residence.

An individual whose primary residence is a farm structure exempt from taxation is not eligible for the credit.

The credit may not reduce the liability for special assessments levied upon any property.

Section 3 of HB 1158 states that by June first of each year after 2024, the tax commissioner shall certify to the state treasurer for payment to each county the aggregate dollar amount of credits allowed in each county for the preceding year.

Section 4 of HB 1158 modifies the income tax rates for individuals, estates, and trusts.

The updated rates for individuals by filing type are as follows:

Single, other than head of household or qualifying widow(er) filers are subject to a 0% individual income rate on North Dakota taxable income not over \$44,725. North Dakota taxable over \$44,725 and not over \$225,975 is subject to a 1.95% rate. North Dakota taxable income over \$225,975 is subject to a 2.5% rate.

Married filing jointly and qualifying widow(er) filers are subject to a 0% individual income rate on North Dakota taxable income not over \$74,750. North Dakota taxable income over \$74,750 and not over \$275,100 is subject to a 1.95% rate. North Dakota taxable income over \$275,100 is subject to a 2.5% rate.

Married filing separately filers are subject to a 0% individual income rate on North Dakota taxable income not over \$37,375. North Dakota taxable income over \$37,375 and not over \$137,550 is subject to a 1.95% rate. North Dakota taxable income over \$137,550 is subject to a 2.5% rate.

Head of household filers are subject to a 0% individual income rate on North Dakota taxable income not over \$59,950. North Dakota taxable income over \$59,950 and not over \$250,550 is subject to a 1.95% rate. North Dakota taxable income over \$250,550 is subject to a 2.5% rate.

The updated rates for estates and trusts are as follows:

Estates and Trusts are subject to a 0% tax rate on North Dakota taxable income not over \$3,000. North Dakota taxable income over \$3,000 and not over \$10,750 is subject to a 1.95% rate. North Dakota taxable income over \$10,750 is subject to a 2.5% rate.

5 - Revenues Detail

For information shown under state fiscal effect in 1 or 2, please explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

If enacted, section 4 of HB 1158 is expected to reduce the state general fund revenue by an estimated amount of \$358,297,204 in the 2023-2025 biennium.

6 - Expenditures Detail

For information shown under state fiscal effect in 1 or 2, please explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

If enacted, section 1 of HB 1158 is expected to increase the cost of the homestead property tax credit program by \$53.5 million in the 2023-2025 biennium. This number is reflective of all eligible individuals claiming the homestead property tax credit.

If enacted, section 3 of HB 1158 is expected to have an estimated fiscal impact of \$103,225,000 for the second year of the 2023-2025 biennium. These numbers are reflective of all eligible individuals claiming the primary residence credit. A one-time funding request of \$1.5 million has been made to administer the program.

This gives a total estimated expenditure amount of \$158,225,000 for the 2023-2025 biennium.

7 - Appropriations Detail

For information shown under state fiscal effect in 1 or 2, please 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.

Section 6 of HB 1158 states that there is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$158,225,000, or so much of the sum as may be necessary, to the tax commissioner for property tax relief programs during the biennium beginning July 1, 2023, and ending June 30, 2025 as follows:

- 1) \$103,225,000 for paying the state reimbursement under the primary residence credit
- 2) \$53,500,000 for paying the state reimbursement under the homestead credit
- 3) \$1,500,000 for which is considered a one-time funding item, for operating expenses related to information technology and advertising costs for the primary residence credit.

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