HB 1158 – Testimony by Dustin Gawrylow (Lobbyist #266) North Dakota Watchdog Network

The North Dakota Watchdog Network is in favor of the proposed Flat Income Tax.

The large universal exemption approach is the most fair way to prevent regressivity in the changes. Working classes receive a 100% income tax cut immediately.

We urge the committee to check the math to ensure there is no marriage penalties.

It appears there may be as the $74,750 married filing jointly is not exactly double the $44,775 threshold for single filers. And the married filing separately threshold of $37,375 is also not equal to the single filer rate.

If this was intentional, please explain the reasoning.

If it was not intentional, an amendment should be offered to fix this oddity.

Americans Moved to Low-Tax States in 2022

January 10, 2023

Janelle Fritts

Americans were on the move in 2022 and chose low-tax states over high-tax ones. That's the finding of recent U.S. Census Bureau population data and commercial datasets released this week by U-Haul and United Van Lines.

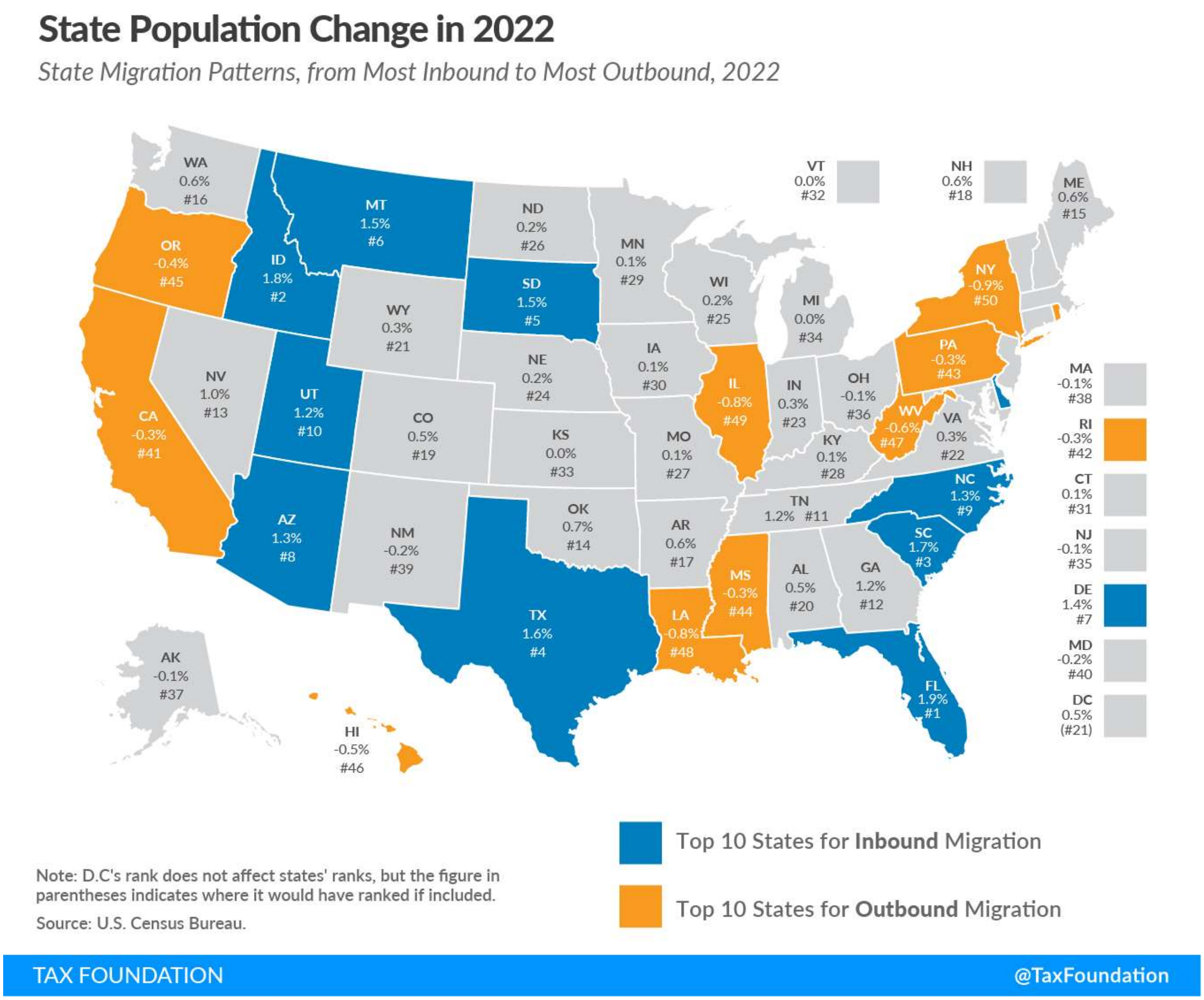
The U.S. population grew 0.4 percent between July 2021 and July 2022, an increase from the previous year's historically low rate of 0.1 percent. While international migration helped numbers on the national level, interstate migration was still a key driver of state population numbers. New York's population shrunk by 0.9 percent between July 2021 and July 2022, Illinois lost 0.8 percent of its population, and Louisiana (also 0.8 percent), West Virginia (0.6 percent), and Hawaii (0.5 percent) rounded out the top five jurisdictions for population loss. At the same time, Florida gained 1.9 percent, while Idaho, South Carolina, Texas, South Dakota, Montana, Delaware, Arizona, North Carolina, Utah, Tennessee, Georgia, and Nevada all saw population gains of 1 percent or more.

This population shift paints a clear picture: people left high-tax, high-cost states for lower-tax, lower-cost alternatives.

The individual income tax is illustrative here (though only one component of overall tax burdens, it is often highly salient). In the top third of states for population growth (including D.C.), the average combined top marginal state income tax rate is about 4.0 percent. In the bottom third, it's about 6.6 percent.

Six states in the top third forgo taxes on wage income (Florida, Texas, South Dakota, Tennessee, and Nevada, as well as Washington, which taxes capital gains income but not wage income), and the highest top rate in that cohort is Maine's 7.15 percent.

Among the bottom third, five jurisdictions—California, Hawaii, New Jersey, New York, and Oregon—have double-digit income tax rates, and—excepting Alaska, with no income tax—the lowest rate is in Pennsylvania, where a low state rate of 3.07 percent is paired with some of the highest local income tax rates in the country. Six states in the bottom third have local income taxes; only one in the top third does.



he Census data shows population gains and losses, but not cross-border migration. (The Census provides migration data but on a longer time delay.) Moving data from U-Haul and United Van Lines, while less robust—and undoubtedly influenced by their geographic coverage—speaks more directly to cross-border migration and is confirmatory. Both companies see states like California, Illinois, Massachusetts, and

New York as the biggest losers, while states like Texas, Florida, and Tennessee are among the largest net gainers.

Low-Tax States Saw More Population Growth and Higher Inbound Migration

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
Alabama	20	20	10
Alaska	37	41	n.a.
Arizona	8	7	20
Arkansas	17	43	18
California	41	50	40
Colorado	19	11	31
Connecticut	31	28	39
Delaware	7	27	5
District of Columbia	(21)	36	7
Florida	1	2	12
Georgia	12	8	19
Hawaii	46	n.a.	n.a.
Idaho	2	10	15
Illinois	49	49	48
Indiana	23	14	22
Iowa	30	21	34
Kansas	33	39	36
Kentucky	28	26	24
Louisiana	48	35	41
Maine	15	29	17
Maryland	40	44	30
Massachusetts	38	47	43
Michigan	34	48	46
Minnesota	29	17	29
Mississippi	44	34	37
Missouri	27	15	25
Montana	6	18	28
Nebraska	24	32	42
Nevada	13	13	26
New Hampshire	18	38	14

Census Population Data (July 2021 – July 2022) and Industry Moving Data (2022)			
State	**Census**	**U-Haul**	**UVL**
New Jersey	35	45	49
New Mexico	39	19	9
New York	50	46	47
North Carolina	9	4	6
North Dakota	26	37	32
Ohio	36	9	38
Oklahoma	14	42	33
Oregon	45	22	2
Pennsylvania	43	24	44
Rhode Island	42	40	3
South Carolina	3	3	4
South Dakota	5	31	8
Tennessee	11	6	11
Texas	4	1	16
Utah	10	12	35
Vermont	32	30	1
Virginia	22	5	21
Washington	16	23	23
West Virginia	47	25	13
Wisconsin	25	16	27
Wyoming	21	33	45
Sources: U.S. Census Bureau; U-Haul; United Van Lines.			

These industry studies record total migrations, whereas population data can be put in percentage terms, so large states like Texas—which, according to the Census Bureau, had the most population growth in nominal terms, but fourth-most in percentage terms—show up prominently while smaller states that saw large population surges, like Idaho, are somewhat lower on the list.

Another story from the industry data that is less apparent in Census population data is regional competition, even among comparatively high-tax states. Vermont is first in the United Van Lines data but middle-of-the-pack for overall population change because the state benefited from outmigration from densely populated Northeastern cities.

Similarly, U-Haul has relatively few inbound trips to Oklahoma, New Hampshire, and a few other states compared to United Van Lines and, more importantly, to Census data on population growth. Relatively local moves, such as those within the D.C. metropolitan area, can make a jurisdiction like the District of Columbia look like it is doing very well on United Van Lines data even though the Census data shows much milder growth. The industry data has limitations, but it remains informative.

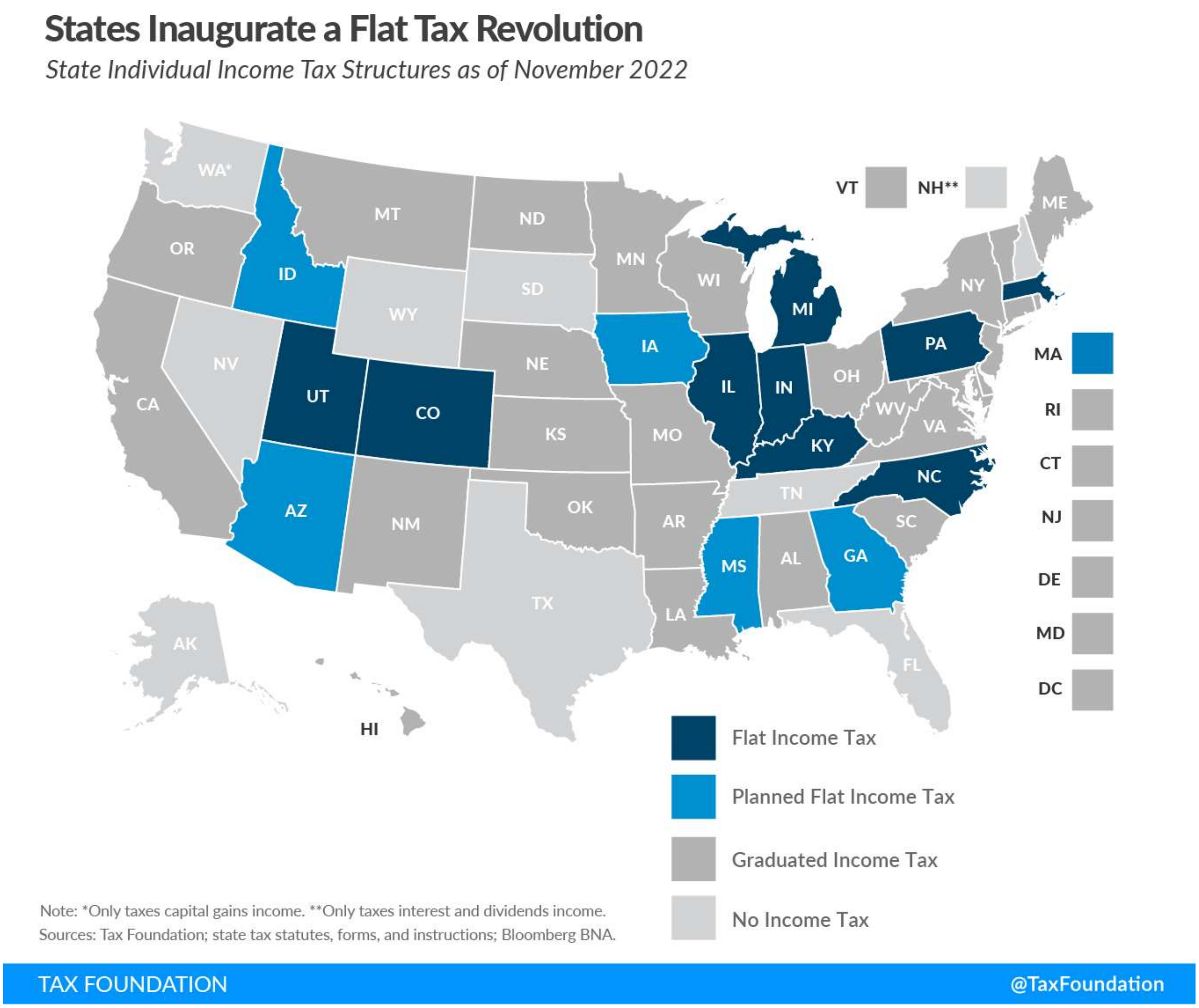
People move for many reasons. Sometimes taxes are expressly part of the calculation. Often, they play an indirect role (by contributing to a broadly favorable economic environment). And other times, of course, they don't factor in at all. The Census data and these industry studies cannot tell us exactly why each person moved, but there is no denying a very strong correlation between low-tax, low-cost states and population growth. With many states responding to robust revenues and heightened state competition by cutting taxes, these trends may only get larger.

The pandemic has accelerated changes to the way we live and work, making it far easier for people to move—and they have. As states work to maintain their competitive advantage, they should pay attention to where people are moving, and try to understand why.

States Inaugurate a Flat Tax Revolution

November 14, 2022

In more than a century of state income taxes, only four states have ever transitioned from a graduated-rate income tax to a flat tax. Another four adopted legislation doing so *this year*, and a planned transition in a fifth state is now going forward under a recent court decision. In what is already a year of significant bipartisan focus on tax relief, 2022 is also launching something of a flat tax revolution.



In 1987, the 75th anniversary of state income taxation, Colorado replaced its half century-old graduated-rate income tax with a single-rate tax. It would take another 30 years for another state to follow suit, when Utah implemented a flat tax in 2007. Next came North Carolina in 2014, as part of that state's comprehensive reforms, and most recently, Kentucky implemented a single rate of 5 percent in 2019. They joined five other states which already had flat taxes: Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania.

The first state income tax, implemented in Wisconsin in 1912, had a two-rate structure. The first flat tax was Massachusetts' tax, which went into effect in 1917. Five states had income taxes back then, with Massachusetts and Virginia both implementing them that January. Only five years passed between the first progressive income tax and the first flat income tax, but 75 years passed between the first progressive income tax and the first time one was transitioned from graduated to single rate. It took more than a century for three to do so—and four states have adopted legislation to make that transition just this year, with a fifth cleared for the transition by a court decision and a two more potentially in the wings.

Iowa is phasing in a 3.9 percent flat individual income tax by 2026, going from a graduated-rate tax that not long ago topped out at 8.98 percent. Mississippi will have a flat tax as of next year, with a 4 percent rate by 2026. Georgia's income tax is now scheduled to convert to a flat rate of 5.49 percent, eventually phasing down to 4.99 percent. A court cleared the way for the implementation of Arizona's transition to a 2.5 percent flat tax, which should happen, pending revenue availability, in 2024. In special session, Idaho adopted a 5.8 percent flat tax, replacing a four-bracket system. Missouri has been called into special session to adopt income tax rate cuts, but a flat tax could still be a consideration, soon if not this session, and a serious effort at adopting a flat tax is likely in Oklahoma next year.

Supporters of flat taxes often identify the simplicity as one of their salient features. This is true, but it's important to stop and ask what is meant by this. It is not enough to merely state that a single rate is simpler than multiple rates, because, while trivially true, it tells us relatively little. It is not particularly difficult to use tax tables to ascertain one’s tax liability.

Flat taxes are meaningfully simple, however, in several ways. It is easier to forecast revenue under a flat tax, and to project the revenue effects of potential tax changes. It is easier for taxpayers to estimate their tax liability and how it would change under different income scenarios, which enhances tax transparency and potentially improves some economic decision-making. It accords better with impressions that taxpayers form of tax burdens based on headline rates, such that individuals and small businesses may be more attracted to a state with a relatively lower flat rate than one with a graduated-rate system that would yield similar liability. And it simplifies the function by which taxpayers decide whether to work or invest more on the margin, since all marginal returns to labor and investment are exposed to the same rate.

Of greater significance for taxpayers, however, is that flat-rate income taxes tend to function as a bulwark against unnecessary tax increases, and to provide greater certainty for individual and business taxpayers. Economic decisions are made on the margin; choices about investments, labor, or relocation will be made on the basis of the effect on the next dollar of income, not the prior ones. A competitive top marginal rate matters most for economic growth, and flat income taxes—given their “all-in” nature—not only mean a lower rate on that all-important margin, but tend to be harder to raise in the future, whereas highly graduated taxes are more susceptible to targeted, but often economically inefficient, tax hikes.

Taxpayers seem to sense this intuitively: it seems to have been persuasive in Illinois, for instance, where voters lopsidedly rejected a constitutional amendment permitting a graduated-rate structure even though the initially proposed tax increase would not increase tax liability for the vast majority of voters. They seemed to recognize that, once the principle was established, higher rates would be established for more and more taxpayers—even setting aside the implications for the state's economic competitiveness.

This is one reason why states with nearly-flat taxes should consider finishing the job. In Alabama, for instance, the current three-bracket system, with the top rate kicking in at $3,000 of income, only provides $40 in tax savings compared to taxing all income at the top rate. Raising the standard deduction would easily provide the same progressive benefits while embracing the simplicity and—more importantly—the certainty and stability of a single-rate tax. Five other states likewise have top rates that kick in at or below $10,000, including Idaho and Mississippi, which are now transitioning to a flat tax, and Oklahoma, where a flat tax is under active consideration.

Six States Have Nearly Flat Graduated-Rate Income Taxes

State	Brackets	Top Rate Kick-In	Maximum Savings
Alabama	3	$3,000	$40
Georgia	6	$7,000	$173
Idaho	4	$7,939	$222
Mississippi	2	$10,000	$50
Missouri	9	$8,704	$145
Oklahoma	6	$7,200	$191

State statutes; Tax Foundation calculations

These states now present an opportunity for reform culminating in a flat tax, but they also serve as a cautionary tale about the implications of not indexing a graduated-rate income tax. When Alabama adopted its graduated-rate income tax in 1935, the majority of taxpayers were fully exempt, and few taxpayers were subject to the top marginal rate of 5 percent on income above $3,000, which is equivalent to almost $63,500 in 2022, higher than today's median household income in the state and a small fortune in Depression-era Alabama. Over time, the lack of inflation indexing has subjected the vast majority of taxpayers' income to the top marginal rate. The same is true in Georgia, where policymakers have adopted a very gradual approach to a flat tax. Georgia's top rate has kicked in at $7,000 since 1955, when it was equivalent to about $75,000 in today's dollars.

Of the nine states that already have flat taxes, five enshrine that status in their state constitution, locking in the benefit and making it harder for lawmakers to raise taxes by switching to a progressive tax regime. This is a particularly important protection for small business owners, since about 95 percent of all businesses are pass-through businesses subject to individual, not corporate, income taxes, and the vast majority of pass-through business income is earned by companies exposed to states' top marginal income tax rates. In Illinois, for instance, where lawmakers championed a failed constitutional amendment to permit a graduated-rate income tax, 93 percent of pass-through business income was on returns with more than $200,000 in adjusted gross income (AGI), and over half of all pass-through business income was reported on returns showing more than $1 million in AGI. Hiking the top marginal rate is not just about the wealthy; it is about the state's small businesses too, and about providing a greater level of certainty for entrepreneurs making location decisions.

The states now transitioning to flat taxes, and those which have not yet constitutionally protected their current single-rate tax structures, should consider doing so. The following table shows states which currently have, or are on track to implement, a flat tax, with date of implementation (past or future) and whether a single rate tax is constitutionally mandated. Of the five states that have had flat taxes from the start, four enshrine this status in their constitution. Of the four that transitioned, only one does.

14 States Have, Or Are Implementing, Flat Income Taxes

State	**PIT Adopted**	**Flat As Of**	**Constitutional**
Arizona	*1933*	*2024*	
Colorado	1937	1987	✓
Georgia	*1929*	*2024*	
Idaho	*1931*	*2023*	
Illinois	1969	Always	✓
Indiana	1965	Always	

State	PIT Adopted	Flat As Of	Constitutional
Iowa	*1934*	*2026*	
Kentucky	1936	2019	
Massachusetts	1917	Always	✓
Michigan	1967	Always	✓
Mississippi	*1912*	*2023*	
North Carolina	1921	2014	
Pennsylvania	1971	Always	✓
Utah	1971	2007	

Notes: Georgia, Idaho, Iowa, and Mississippi are implementing flat taxes in accordance with legislation enacted this year, while in Arizona, a court has cleared the implementation of a 2021 law. Implementation dates in Arizona and Georgia are contingent on revenue availability.
Sources: State statutes; Tax Foundation research.

States shifted from graduated to single-rate income taxes in 1987, 2007, 2014, and 2019. A recent court decision will allow a 2021 law in Arizona to move forward. With new laws beginning that transition in Arizona, Georgia, Iowa, and Mississippi, 2022 has already seen the enactment or legal clearance of as many new flat taxes as we've seen transition in the history of state income taxes to date, and that's before any action is taken in Missouri and Oklahoma.