

1999 SENATE FINANCE AND TAXATION

SB 2284

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2284

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 01/25/99

Tape Number	Side A	Side B	Meter #
2,284		x	1026-2465
Committee Clerk Signature <i>Shirley Wald</i>			

Minutes:

Sen Urlacher opened the hearing on 2284, RELATING TO REDUCTION OF THE INCOME TAX MARRIAGE PENALTY.

Sen. Klein - IRS punishes married couples that file their income tax jointly by pushing them into higher tax brackets. It taxes the second income at a higher rate than if only on a single basis.

This bill is an attempt to relieve the unfair tax burden that is shouldered by the married couples of ND. The bill will not go in to effect until the year 2000.

Richard Haman - Testimony submitted and attached. Chairman of the ND Christian Coalition.

Sen. Christmann - Problems and the federal code is corrected this would never become effective.

If partially fixed?

Richard Haman - Atty. Gen. would take a look at this to see if it would solve the problem or not.

Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number sb 2284

Hearing Date *Click here to type Hearing Date*

Sen. Wardner - If we were to uncouple from Federal, would we still have discrimination towards married couples in our State Tax return?

Richard Haman - We would have to change it quite a bit.

Sen. Urlacher - Any additional testimony or comments?

Donnita Wald - It would help structure, set up equality that they are looking for. If we decouple, rates would have to be raised so it would balance out.

Glenn Walters - In support of the bill.

Sen Urlacher closed hearing.

DISCUSSION 02/03/99 TAPE 02-03-99 TAPE #2 - 3300-4005 MOTION MADE BY SEN STENEHJEM TO DO PASS AS AMENDED AND SECONDED BY SEN CHRISTMANN, VOTE TAKE 7 Y 0 N 0 ABSENT. CARRIER SEN. CHRISTMANN.

FISCAL NOTE

Return original and 14 copies)

Bill/Resolution No.: _____

Amendment to: SB 2284

Requested by Legislative Council

Date of Request: 2/9/99

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: If enacted as amended SB 2284 is expected to reduce State General Fund revenues by \$7.4 million in the 2001-2003 biennium.

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					-\$7.4 million	
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: \$50,000 for administrative costs

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.: SB 2284

Amendment to: _____

Requested by Legislative Council

Date of Request: 1/19/99

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: If enacted, SB 2284 is expected to reduce State General Fund revenues by \$14.8 million in the 2001-2003 biennium.

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					-\$14.8 million	
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: \$50,000 for administrative costs.

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: January 22, 1999

Phone Number: 328-3402

PROPOSED AMENDMENTS TO SENATE BILL NO. 2284

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new subdivision to subsection 1 of section 57-38-01.2 and a new subsection to section 57-38-30.3 of the North Dakota Century Code, relating to reduction of the income tax marriage penalty; to provide an effective date; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new subdivision to subsection 1 of section 57-38-01.2 of the 1997 Supplement to the North Dakota Century Code is created and enacted as follows:

Reduced by an amount equal to five percent of federal adjusted gross income for the same taxable year for which the return is being filed under this chapter, if all of the following conditions are met:

- (1) The deduction under this subdivision is claimed on a joint return;
- (2) The person with the lower reported income of the two people filing the joint return earned at least thirty percent of the total income reported by the two people; and
- (3) The combined gross income of the two people filing the joint return is less than one hundred fifty thousand dollars.

SECTION 2. A new subdivision to subsection 1 of section 57-38-01.2 of the 1997 Supplement to the North Dakota Century Code is created and enacted as follows:

Reduced by an amount equal to ten percent of federal adjusted gross income for the same taxable year for which the return is being filed under this chapter, if all of the following conditions are met:

- (1) The deduction under this subdivision is claimed on a joint return;
- (2) The person with the lower reported income of the two people filing the joint return earned at least thirty percent of the total income reported by the two people; and
- (3) The combined gross income of the two people filing the joint return is less than one hundred fifty thousand dollars.

SECTION 3. A new subsection to section 57-38-30.3 of the 1997 Supplement to the North Dakota Century Code is created and enacted as follows:

Taxpayers filing a joint return under this section are entitled to recompute a federal income tax liability figure to be used as a starting point to determine state income tax liability under this section if they meet the requirements of this subsection. Recomputed federal income tax liability must be determined by subtracting an amount equal to five percent of federal adjusted gross income from federal taxable income and using the resulting federal taxable income figure to recompute federal income tax liability

according to rate tables provided for federal income tax purposes. The recomputed amount is federal income tax liability to be used as a starting point for the taxpayers if all of the following conditions are met:

- a. The right to recomputation under this subsection is claimed on a joint return;
- b. The person with the lower reported income of the two people filing the joint return earned at least thirty percent of the total income reported by the two people; and
- c. The combined gross income of the two people filing the joint return is less than one hundred fifty thousand dollars.

SECTION 4. A new subsection to section 57-38-30.3 of the 1997 Supplement to the North Dakota Century Code is created and enacted as follows:

Taxpayers filing a joint return under this section are entitled to recompute a federal income tax liability figure to be used as a starting point to determine state income tax liability under this section if they meet the requirements of this subsection. Recomputed federal income tax liability must be determined by subtracting an amount equal to ten percent of federal adjusted gross income from federal taxable income and using the resulting federal taxable income figure to recompute federal income tax liability according to rate tables provided for federal income tax purposes. The recomputed amount is federal income tax liability to be used as a starting point for the taxpayers if all of the following conditions are met:

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- b. The person with the lower reported income of the two people filing the joint return earned at least thirty percent of the total income reported by the two people; and
- c. The combined gross income of the two people filing the joint return is less than one hundred fifty thousand dollars.

SECTION 5. EFFECTIVE DATE - EXPIRATION DATE. Sections 1 and 3 of this Act are effective for the first two taxable years beginning after December 31, 2000, and are thereafter ineffective. Sections 2 and 4 of this Act are effective for taxable years beginning after December 31, 2002. This Act is ineffective for taxable years for which the tax commissioner certifies to the governor and the legislative council that Congress has enacted federal legislation that eliminates the marriage tax penalty under federal income tax law."

Renumber accordingly

Date: 2/3/99
Roll Call Vote #: (1)

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2284

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as amended

Motion Made By Sen Stenehjem Seconded By Sen Christmann

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Sen. Christmann

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

REPORT OF STANDING COMMITTEE

SB 2284: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2284 was placed on the Sixth order on the calendar for immediate second reading.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new subdivision to subsection 1 of section 57-38-01.2 and a new subsection to section 57-38-30.3 of the North Dakota Century Code, relating to reduction of the income tax marriage penalty; to provide an effective date; and to provide an expiration date.

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Renumber accordingly

1999 HOUSE FINANCE AND TAXATION

SB 2284

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2284

House Finance and Taxation Committee

Conference Committee

Hearing Date March 3, 1999

Tape Number	Side A	Side B	Meter #
1		x	22
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

SEN. JERRY KLEIN, DIST. 14, Introduced the bill. This bill deals with the marriage tax penalty. The IRS punishes millions of married couples who file their income taxes jointly by pushing them into higher tax brackets. The marriage penalty tax includes the family's second wage earner, often the wife's salary, at a much higher rate than if that salary were taxed as an individual. This bill is an attempt to relieve the unfair tax burden shouldered by married couples of North Dakota. The penalty is approximately ten percent. This bill does not affect this biennium. In the Senate we amended the bill to allow, of that ten percent, five percent to come into effect in two years, and the other five percent of the penalty in four years from now. The bill also notes, that if the federal government, which has been discussing doing away with the marriage penalty, would come into play, the bill would be mute.

REP. BELTER Your comments about if the feds make an adjustment for this, is there specific language here than to take that into account?

SEN. KLEIN The last line in Section 5.

RICHARD HAMAN, STATE CHAIRMAN OF THE NORTH DAKOTA CHRISTIAN

COALITION. Testified in support of the bill. See written testimony.

REP. BELTER The amendments where you lower the threshold of income, if we chose sixty thousand, then it is your intent, that regardless of your income, the first sixty thousand would be exempt from the marriage penalty?

SEN. KLEIN I think the way the bill reads is that in order to qualify, you have to look at your adjusted gross income on the federal level. If you adjusted gross income was seventy thousand, you wouldn't qualify at all for this bill. You would have to be sixty thousand or lower to qualify.

REP. BELTER Doesn't that seem rather unfair if you make sixty thousand you are eligible, if you make sixty thousand one hundred, you wouldn't.

SEN. KLEIN It would seem that way.

REP. WINRICH That cap is a cap on the combined gross income?

SEN. KLEIN Yes

REP. WINRICH In order for there to actually be a penalty, both people are earning income. And their incomes are approximately equal?

SEN. KLEIN Yes, they have to be somewhat similar, and we spell that out in the bill. The lower of the two incomes must earn at least thirty percent of the total income. We are trying to avoid, some highly paid professional that might make two hundred and fifty thousand per year and his wife works parttime and makes ten thousand. If they qualify under this bill, in those

cases, even under the federal level, those people make out better than single taxpayers. We do have to be careful that we are not helping out people who are already getting benefits through the federal taxes.

REP. WINRICH TO JOSEPH BECKER, STATE TAX DEPARTMENT, Referred to the fiscal note, what sort of income tax rate would make this bill revenue neutral?

JOSEPH BECKER Stated he didn't know.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 3-3-99, Tape #2, Side A, Meter #27.4

DONNITA WALD, STATE TAX DEPARTMENT Appeared before the committee as the State Tax Department had some concerns with the bill. On page 1, line 15, page 2, line 5, and page 3, line 7 of the engrossed bill, referring to gross income, they assume it was adjusted gross income, would like that clarified. The second concern was with the expiration date. Also using the term "eliminating the marriage penalty" there are a number of things floating around, but most of them don't eliminate the marriage penalty totally. We are concerned as to what that means. We don't know what kind of trigger to put in. And, there will be administration costs. We will have to add a whole schedule to the form.

REP. GRANDE Asked if these concerns arose on the Senate side.

JOSEPH BECKER, STATE TAX DEPARTMENT Gave a background of the questions that did arise on the Senate side.

Committee members wanted to review this some more before any action was taken. The bill will be acted on at a later date.

COMMITTEE ACTION 3-9-99, Tape #2, Side A, Meter 16.9

REP. BELTER presented amendments which would change the cap from one hundred fifty down to one hundred thousand dollar income. That would change the fiscal note from 7.4 million to 6 million. The amendments also, if the feds do anything in this particular area, it will make this bill null and void.

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

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

REP. WINRICH Presented another set of amendments which would make the bill revenue neutral by increasing the income tax by 2.74 percent, which was the figure the Tax Department calculated for the 7.4 million, so it would be slightly less than that. The tax would have to be put on the long form as well as the short form.

REP. WINRICH Made a motion to adopt these amendments as presented.

REP. KROEBER Second the motion. MOTION FAILED BY VOICE VOTE.

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

REP. MICKELSON Second the motion. MOTION CARRIED

14 Yes 0 No 1 Absent

REP. BELTER Will carry the bill to the floor.

Please type or use black pen to complete

Date 3-9-99
Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. SB 2284

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. Mickelson

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

Total 14 0
(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

SB 2284, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2284 was placed on the Sixth order on the calendar.

Page 1, line 12, after "reported" insert "adjusted gross"

Page 1, line 13, after "total" insert "adjusted gross"

Page 1, line 15, after "combined" insert "adjusted"

Page 1, line 16, remove "fifty"

Page 2, line 1, after "reported" insert "adjusted gross"

Page 2, line 2, after "total" insert "adjusted gross"

Page 2, line 4, after "combined" insert "adjusted"

Page 2, line 5, remove "fifty"

Page 2, line 18, after "reported" insert "adjusted gross"

Page 2, line 19, after "total" insert "adjusted gross"

Page 2, line 21, after "combined" insert "adjusted"

Page 2, line 22, remove "fifty"

Page 3, line 4, after "reported" insert "adjusted gross"

Page 3, line 5, after "total" insert "adjusted gross"

Page 3, line 7, after "combined" insert "adjusted"

Page 3, line 8, remove "fifty"

Page 3, line 14, after "that" insert "reduces or"

Renumber accordingly

1999 TESTIMONY

SB 2284

Good Morning,

My name is Richard Haman and I am state chairman of the North Dakota Christian Coalition.

Thank you chairman Urlacher, vice chairman Christmann and members of the Finance and Taxation Committee for allowing me to speak to you today in support of Senate Bill 2284, reducing the state income marriage tax penalty.

There are several reasons our organization supports this bill.

1. It is a bill that brings fairness to our tax laws in North Dakota.

Equal treatment and equality under the law is a basic concept of fairness. I believe the question here today is "*is it fair for two people to pay higher taxes just because they are married?*"

Currently about 72,000 families in the state pay higher taxes than those filing single returns. The estimates from the state's tax department is that this bill, if passed, will reduce this unequal tax burden on married couples by \$7.4 million a year. If we use a figure of three people per family, this bill will affect 216,000 people in North Dakota.

Since this discrepancy has been in effect since 1969, I estimate that roughly \$100 million in additional taxes has been collected from taxpayers, simply because they were married.¹

Nationally, the Congressional Budget Office estimates that 40% of married couples that file jointly incur the marriage tax penalty.² There are no exact figures for North Dakota but I would think the 40% figure would also be likely for our state. As more families are forced to have both parents work, the number of those families affected by this marriage tax penalty will increase.

Our state, North Dakota, is only one of twelve states that has not done something to eliminate this tax penalty on the family.³

This tax on the family is not only unfair but is morally unsound.

2. Marriage is the cornerstone of our society and anything that harms the family weakens the very foundations of our civilization.

I believe that everyone on this committee agrees that the family is the bedrock of our society. Without strong families, our greatness as a nation will start to slip. Our nation, our state is only as strong as our families.

It is, therefore, unfortunate that the one institution that we rely on for our very existence should be penalized under our current tax laws.

All of our laws, not only tax laws, should be designed to help and promote the institution of marriage and the family, our future depends on nothing less.

3. This bill will over time be cost effective for North Dakota.

The cost of this bill, \$7.4 million, is high, money is in short supply and the call for more state funds is heard everywhere.

However, money spent today on the family will save money by making families stronger and more viable. Strong families mean less crime, less divorce, less one-parent families and less government help needed.

4. Tax penalties on married couples can cause people to postpone marriage.

Testimony provided by the Congressional Budget Office dated February 4, 1998 before a house committee holding hearings on the 'marriage tax penalty' stated "the prospect of facing a tax increase of several hundred dollars may induce some couples to delay or forgo marriage."⁴

I do not believe that our state tax laws should come between a couple deciding whether or not they should get married.

5. Respect for government is essential if government is to work.

Today many people look at government as almost an adversary. They look at the government as that thing that taxes us and regulates us. It's a negative concept that can do tremendous damage to all of us if it continues to grow.

This bill, if passed, can help turn this misconception around and let the people know that government is not only about taxes and regulations, but its about doing what's right and what good for 216,000 of its citizens.

6. Effective date of bill is 2001

Since the bill becomes effective for the tax year 2001, this gives our state agencies time to assimilate the fiscal impact into the next budget.

A Quick Comment On Where the Marriage Tax Penalty Stands at the Federal Level.

Relief of the Marriage Penalty was included in the Balanced Budget Act of 1995 that was passed by the Congress but vetoed by President Clinton. Recently, the Republican party and President Clinton have indicated that relief from the Marriage Penalty Tax is high on their list of priorities. If the U.S. Congress does correct the problem of the 'marriage tax penalty', this bill would become ineffective.

This ends my testimony in support of Senate Bill 2284. Thank you for your allowing be to speak to you.

1. **Estimating the cost of the 'marriage tax penalty' on North Dakota families since 1969**

\$7.4 million x 29 (years) = \$214.6 million

\$214.6 million x .47 (ratio used to allow for lower adjusted gross income in previous years) = \$100.8 million

2. **What Married Couples Are Affected by the 'Marriage Tax Penalty'.**

From testimony of Rep. Matt Salmon to the Committee on Ways and Means, 1-28-98
(see attached copy)

3. **Treatment of Married Couples Under State Income Taxes**

From Advisory Commission on Intergovernmental Relations. Tables 16, page 54
(see attached copy)

4. **Impact of the 'Marriage Tax Penalty' on the decision to marry.**

From testimony by June E. O'Neil, Director of Congressional Budget Office to the Committee
on Ways and Means. 2-4-98
(see attached copy)

Appendix B

Treatment of Married Couples Under State Income Taxes

The states vary widely in the way they tax the incomes of couples (see Box B-1). Eight states have no income tax and therefore do not face the issue. Six additional states impose a single tax rate on all tax units, regardless of income level or filing status. Because marriage does not affect the levels of deduction and personal exemption in any of those states, couples incur no marriage penalties and receive bonuses only if one spouse has earnings below the level of individual exemptions and deductions. The remaining 36 states and the District of Columbia fall into three groups that treat the taxation of married couples differently.

Box B-1.
Treatment of Married Couples Under State Income Taxes, 1993

States Allowing Married Couples to File Separately on a Single Tax Return	States with Joint Rate Schedules for Married Couples, Reducing or Eliminating Marriage Penalty	States in Which Married Couples May Face a Marriage Penalty	States with Flat Tax Rates and Therefore No Marriage Penalty ^a	States with No Income Tax
Arkansas	Alabama ^b	Georgia	Connecticut	Alaska
Delaware	Arizona ^b	Kansas	Illinois	Florida
District of Columbia	California ^b	Maryland	Indiana	Nevada
Iowa	Colorado	New Jersey	Massachusetts	New Hampshire
Kentucky	Hawaii ^b	New Mexico	Michigan	South Dakota
Mississippi	Idaho ^b	North Dakota ^c	Pennsylvania	Texas
Missouri	Louisiana ^b	Ohio		Washington
Montana	Maine	Oklahoma		Wyoming
Tennessee	Minnesota	Rhode Island ^c		
Virginia	Nebraska	South Carolina		
	New York	Vermont ^c		
	North Carolina	West Virginia		
	Oregon ^b			
	Utah ^b			
	Wisconsin			

SOURCE: Derived from Advisory Commission on Intergovernmental Relations, "Budget Processes and Tax Systems," Significant Features of Fiscal Federalism 1994, vol. 1 (Washington, D.C.: Advisory Commission on Intergovernmental Relations, June 1994), Tables 16 and 17, pp. 54-62.

- a. Standard deductions and exemptions for couples equal the sum of those of spouses filing as individuals and hence do not impose marriage penalties.
- b. These states fully eliminate any marriage penalty by allowing married couples to use rate brackets double the width of those available to single filers.
- c. North Dakota, Rhode Island, and Vermont levy state income taxes as a percentage of federal income tax liability and therefore impose marriage penalties proportional to those at the federal level.

Search text: "marriage penalty tax"
Collection: Ways_Means13/25

STATEMENT OF CONGRESSMAN MATT SALMON
IN SUPPORT OF THE
"RILEY-SALMON MARRIAGE PROTECTION AND FAIRNESS ACT"
JANUARY 28, 1998

I appreciate the opportunity to testify before the Ways and Means Committee in support of the "Riley-Salmon Marriage Protection and Fairness Act." The Taxpayer Relief Act (now law) provided Americans with the first significant tax cut in almost a generation. But our work is not done. As Chairman Bill Archer has pointed out, Americans were taxed at a post World War II record (19.9) percentage of Gross Domestic Product last year.

Lawmakers from both sides of the aisle have called for the next round of tax cuts to revise the tax code as it pertains to married couples. One of the most indefensible aspects of our current tax code is that over 40 percent of married couples pay more in taxes filing jointly than they would if husband and wife each filed individually. This "marriage penalty" has been criticized by President Bill Clinton, Speaker Newt Gingrich, and Majority Leader Trent Lott.

To ensure that tax law would not punish married Americans, Representatives Jerry Weller and Dave McIntosh introduced a bill, which I have cosponsored, that would eliminate the "marriage penalty" for the 40 some-odd percent of couples who pay more taxes filing jointly than they would if each spouse filed as an unmarried individual. However, it would upset the principle embedded in current law that different families with the same total income should be treated equally for tax purposes. Consequently, it would place most couples in which both spouses work full time in a more favorable tax position than families in which one spouse remains at home or works part time. Jerry Weller and Dave McIntosh have put this issue on the map. Taxpayers owe them a debt of gratitude, and I applaud their leadership on this issue. But "income splitting" offers a better fix to this important problem.

The Riley-Salmon bill would permit married couples to use "income splitting" on their tax returns, and would increase the standard deduction for married couples. These changes would offer almost all married couples a tax cut, would eliminate the tax penalty on marriage that exists under current law, and would continue the current policy that different families with the same total income should be treated equally for tax purposes. Senator Lauch Faircloth has introduced virtually the same bill in the Senate (S. 1285).

Most importantly, the income-splitting legislation we have introduced treats equitably those families in which one parent stays at home. As the New York Post has editorialized, this approach would end the marriage penalty and benefit "hard-pressed one-income married families." Another attractive feature: Maggie Gallagher noted in a Washington Times column on the marriage penalty that income-splitting would keep "the government from taking sides in the mommy wars." Indeed, as the Congress and President contemplate proposals to improve day care for young children -- including the President's proposal to pour billions of dollars into day care centers, while ignoring parents that raise their kids or have relatives who participate in child-rearing -- pursuing a marriage penalty fix that does not assist spouses who choose to remain at home or work part-time should cause us to pause.

Pro-family organizations such as the Family Research Council and Eagle Forum, and tax reform groups such as National Taxpayers Union are aligning behind our approach because it benefits all married couples. Some will undoubtedly criticize our proposal as too difficult to achieve given budgetary limitations. Indeed, the bill would likely require Washington to run on \$30 billion less of tax money from America's families. But the preservation and security of the cornerstone of America, the smallest, yet most important unit of government -- the family -- is too important to shortchange with more economical, but less effective proposals. Additionally, Chairman Archer recently unveiled a proposal that would cap federal taxation at 19 percent of Gross Domestic Product, which if enacted, could amount to an annual tax cut of up to \$75 billion. A comprehensive marriage penalty fix would represent less than half of this amount.

I look forward to working with the Committee on passing a marriage tax relief bill that benefits all families.

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4. Impact of the 'marriage tax penalty' on the decision of marriage.
The following is from the Committee on Ways and Means, 2-4-98
Testimony by June E. O'Neil, Director of Congressional Budget Office
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WORK AND MARRIAGE DISINCENTIVES

Much of the current concern about **marriage penalties** revolves around the question of fairness--whether it is fair for two people to pay higher taxes just because they are married. The existence of **penalties** (and bonuses) is important for other reasons, however. Joint filing generally causes the lower-earning spouse to face a higher tax rate than he or she would on a single return. For example, a woman earning \$10,000 in 1998 would incur a rate of 15 percent on taxable income of \$3,050 if she was single. If she was married to a man earning \$55,000, however, all of her income would be taxable at a 28 percent rate. Such higher tax rates may induce people--particularly second earners in couples--to choose not to work or to work fewer hours. Many empirical studies of labor market behavior have found that workers respond to changes in their after-tax wage rates, choosing to work less when their take-home wage rate falls. Such response to tax rates not only makes affected couples worse off, because their income is lower, but also reduces national output. CBO estimates that because of **marriage penalties**, the total earnings of married couples are roughly 1 percent less than they otherwise would be.

Furthermore, the prospect of facing a tax increase of several hundred dollars may induce some couples to delay or forgo marriage. At the same time, **marriage bonuses** may induce other couples to marry to reduce their tax bills. Economic studies indicate that those effects are small but statistically significant. Those responses are further indications of the unintended effects of the income tax system.

Senate Bill 2284
Fiscal Note Summary

This fiscal note summary assumes that the tax deduction authorized by Senate Bill 2284 will be phased in over a period of two years: 50% allowed in tax year 2001 and the remaining 50% allowed in tax year 2002.

\$150,000 maximum gross income allowed

year 2001	year 2002 & out years
\$3.7M	\$7.4M

\$100,000 maximum gross income allowed

year 2001	year 2002 & out years
\$2.997M	\$5.994M

\$80,000 maximum gross income allowed

year 2001	year 2002 & out years
\$2.294M	\$4.588M

\$60,000 maximum gross income allowed

year 2001	year 2002 & out years
\$1.702M	\$3.404M

Good Morning!!

My name is Richard Haman and I am state chairman of the North Dakota Christian Coalition.

Thank you chairman Belter and members of the Finance and Taxation Committee for allowing me to speak to you today in support of Senate Bill 2284, reducing the state income marriage tax penalty.

There are several reasons our organization supports this bill.

1. It is a bill that brings fairness to our tax laws in North Dakota.

Equal treatment and equality under the law is a basic concept of fairness. I believe the question here today is *"is it fair for two people to pay higher taxes just because they are married?"*

Currently about 72,000 families in the state pay higher taxes than those filing single returns. The estimates from the state's tax department is that this bill, if passed in its original version, will reduce this unequal tax burden on married couples by \$7.4 million a year. If we use a figure of three people per family, this bill will affect 216,000 persons in North Dakota.

Since this discrepancy has been in effect since 1969, I estimate that roughly \$100 million in additional taxes has been collected from taxpayers, simply because they were married.¹

Nationally, the Congressional Budget Office estimates that 40% of married couples that file jointly incur the marriage tax penalty.² There are no exact figures for North Dakota but I would think the 40% figure would also be likely for our state. As more families are forced to have both parents work the number of those families affected by this marriage tax penalty will increase.

Our state, North Dakota, is only one of twelve states that has not done something to eliminate this tax penalty on the family.³

This tax on the family is not only unfair but is morally unsound.

2. Marriage is the cornerstone of a our society and anything that harms the family weakens the very foundations of our civilization.

I believe that everyone on this committee agrees that the family is the bedrock of our society. Without strong families our greatness as a nation will start to slip. Our nation, our state is only as strong as our families.

It is therefore, unfortunate that the one institution that we rely on for our very existence should be penalized under our current tax laws.

All of our laws, not only tax laws should be designed to help and promote the institution of marriage and the family, our future depends on nothing less.

3. Tax penalties on married couples can cause people to postpone marriage.

Testimony provided by the Congressional Budget Office dated February 4, 1998 before a house committee holding hearings on the 'marriage tax penalty' stated "the prospect of facing a tax increase of several hundred dollars may induce some couples to delay or forgo marriage."⁴

I do not believe that our state tax laws should come between a couple deciding whether or not they should get married.

4. Respect for government is essential if government is to work.

Today many people look at government as almost an adversary. They look at the government as that thing that taxes us and regulates us. Its a negative concept that can do tremendous damage to all of us if continues to grow.

This bill, if passed, can help turn this misconception around and let the people know that government is not only about taxes and regulations, but its about doing what's right and what good for people.

5. Effective date of bill is 2001

Since the bill becomes effective for the tax year 2001 this gives our state agencies time to assimilate the fiscal impact into the next budget.

Amendments Relating to this Bill

The Senate has already changed the original version to allow the tax benefits to be phased in over a period of two years. Other suggested amendments would change the maximum gross income allowed to be reduce to \$100,000 or lower. The attached fiscal note summary, the last sheet in the handout, shows the effect of these possible changes. The figures are from the state tax department.

A Quick Look At Where the Marriage Tax Penalty Stands at the Federal Level.

Relief of the Marriage Penalty was included in the Balanced Budget Act of 1995 that was passed by the Congress but vetoed by President Clinton. Recently, the Republican party and President Clinton have indicated that relief from the Marriage Penalty Tax is high on their list of priorities. If the U.S. Congress corrects the problem of the 'marriage tax penalty' this bill would become ineffective.

This ends my testimony in support of Senate Bill 2284. Thank you for your allowing be to speak to you.