

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/13/2015**

Bill/Resolution No.: HB 1339

- 1 A. **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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(48,500,000)			
Expenditures			\$5,200,000		\$5,200,000	
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill excludes Social Security from the definition of income for purposes of determining eligibility for the homestead tax credit. This bill also excludes Social Security and retirement income from government pensions from the calculation of gross income for individual income tax.

- B. **Fiscal impact sections:** *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 the bill amends the definition of income for determining eligibility for the homestead tax credit program. By excluding Social Security benefits, those who currently qualify will be moved to lower income categories which provide for a higher percentage reduction in taxable value. In addition, individuals who don't currently qualify will become eligible due to the exclusion of Social Security benefits. The estimated fiscal impact of this change is \$5.2 million for the 2015-17 biennium.

Section 2 primarily provides definitional clarification and consistency and does not have a measurable fiscal impact.

Section 3 of the bill excludes social security benefits and city, state, and federal retirement benefits from North Dakota taxable income. The bill does not define the scope of federal retirements benefits, and it has been assumed for purposes of this fiscal note that military retirement pay is considered to be a federal retirement benefit.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *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 3 of HB 1339 is expected to reduce state general fund revenues by an estimated \$48.5 million in the 2015-17 biennium. The exclusion of social security benefits is expected to total -\$28.8 million. The exclusion of city, state, and federal retirement benefits is expected to total -\$19.7 million, of which -\$4.3 million is attributable to military retirement benefits.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *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.*

The homestead tax credit program, as proposed in this bill, is estimated to cost \$27.2 million for the 2015-17 biennium, an increase of \$5.2 million over the cost to continue the program with no change. The executive budget includes \$30 million for the homestead tax credit program in the recommended budget for the Tax Department (SB 2006).

**Name:** Kathryn L. Strombeck

**Agency:** Office of Tax Commissioner

**Telephone:** 328-3402

**Date Prepared:** 01/31/2015

**2015 HOUSE FINANCE AND TAXATION**

**HB 1339**

# 2015 HOUSE STANDING COMMITTEE MINUTES

## Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1339  
2/2/2015  
22974

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*Mary Buckner*

### Explanation or reason for introduction of bill/resolution:

A Bill relating to an income tax exclusion for municipal, state, and federal retirement pension payments and social security benefits; relating to a homestead credit exclusion and an income tax exclusion for municipal, state, and federal retirement pension payments and social security benefits.

### Minutes:

Attachment #1

**Chairman Headland:** Opened hearing.

**Vice Chairman Owens:** Introduced bill. This bill is designed to eliminate retirement pay from the definition of income throughout the code to allow our seniors to stay in their homes longer thus reducing the cost of our aging population on the state's budget in the future.

**Chairman Headland:** Have you seen the fiscal note?

**Vice Chairman Owens:** Yes I did. I was pleasantly shocked as I thought it would be more than that.

**Chairman Headland:** Most state and government pensions are based on a defined benefit versus a defined contribution so the benefit is fixed as to the share of their last five years of income.

**Vice Chairman Owens:** Most of them are for state and federal and in our case, in North Dakota, it would be a defined benefit that may require an individual to contribute and in some cases they don't. Also in some cases they have cost of living and some they don't. None of the state has cost of living and are based on the last three for federal government.

**Chairman Headland:** I think the point I'm trying to get as it it's a fixed amount of their income. Do you feel they need these benefits to stay in their home when their pension is providing them with almost as much income and maybe more income than when they were working with their social security?

**Vice Chairman Owens:** The real focus is those that are limited to social security. That is such a defined group of people. Just to have social security would be very difficult to live off of and stay in your home.

**Representative Klein:** Can you give me some idea how many states do this? I'm under the impression that a lot of states eliminate that from the income.

**Vice Chairman Owens:** Exemption of military and in some cases federal retirement states have viewed that as these people along with social security generally have a nice retirement and have a lot of disposable income. These states want them in their states to grow the economy and spend money. A large number of states have been changing their laws.

**Representative Klein:** At the present time, isn't North Dakota allowing railroad retirement to be utilized in this case similarly?

**Vice Chairman Owens:** No, I'm not familiar with that. That would be very interesting to do that with railroad retirements and not with our own state employees since they don't get a cost of living and as each year goes by the value of their retirement shrinks.

**Chairman Headland:** When you work on a railroad you are exempted from paying social security because you have your retirement. That's a different subject. So the intent of your bill was to allow people to stay in their homes. If we were to limit this to social security benefits only...

**Vice Chairman Owens:** I still think that if you did that it would be a huge step for the state.

**Chairman Headland:** What do you think it would do to the fiscal note?

**Vice Chairman Owens:** I think that's listed in the fiscal note. It would lower it to \$28.8 million and create a \$5.2 million expenditure.

**Representative Steiner:** I wonder if the fiscal note is fair because if some of these people go to a nursing home what is the state obligation at that point because the longer they stay in their homes the more cost savings there are. The fiscal note doesn't reflect the switch so is there any way to get some numbers on that?

**Vice Chairman Owens:** I haven't talked to them about the fiscal note. I don't know how they would begin to estimate that because they would have to assume so many people would be leaving their home and going in.

**Chairman Headland:** Is there any testimony in support?

**Josh Askvig, AARP North Dakota:** Provided testimony in support. See attachment #1. The average cost of a nursing home in North Dakota for a private room is about \$90,000. We have research that shows for every one individual in a nursing home you can afford to keep three individuals at home.

**Chairman Headland:** Do you think for an individual who is trying to stay in their home and their only income is from their social security, do you think they have any tax liability today?

**Josh Askvig:** They would probably have very little but they would have some.

**Chairman Headland:** Further testimony in support?

**Stuart Savelkow, Assistant Executive Director for North Dakota United:** I have not seen the fiscal note yet so I'm a little curious. We are in support of this bill and would encourage a do pass.

**Chairman Headland:** Is there further testimony in support? Is there any opposition to HB 1339? Are there any questions for the tax department?

**Representative Klein:** Are railroad retirements under the present law?

**Joe Becker, Tax Department:** We'd be referring to benefits received from the United States Railroad Retirement Board and those are excluded because federal law excludes them. States can't tax it by federal law. If you have any private type of pension that's a different story. We are only talking about benefits paid by the board.

**Representative Klein:** Those benefits are not considered income in North Dakota?

**Joe Becker:** They are exempt from state income tax so yes.

**Representative Froseth:** Our present homestead tax credit is based on income and assets. If this passed you'd have to carve out the people that are just on social security and other state retirement plans. Would that have any effect on the present homestead credit law?

**Joe Becker:** I would defer to Sara on the homestead tax credit issue.

**Sara Meier, Property Tax Specialist, Office of State Tax Commissioner:** This would exclude the social security from the income that's used as a basis for determining the percentage and maximum amount of credit that any individual would receive from the homestead credit program. It would shift into a larger credit bracket.

**Representative Froseth:** This credit would be offset from the one we have now? Overall there might be some gain for the lower income people but what they get under this bill would be offset from what they would get off the other bill, right?

**Sara Meier:** It would be in addition to what we have in the other bills that are proposed. The less income an applicant has the higher their benefit for the homestead credit program.

**Chairman Headland:** Seeing no other questions we will close the hearing on HB 1339.

# 2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee  
Fort Totten Room, State Capitol

HB 1339  
2/9/2015  
23497

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*May Brucker*

## Explanation or reason for introduction of bill/resolution:

A bill relating to an income tax exclusion for municipal, state, and federal retirement pension payments and social security benefits; relating to a homestead credit exclusion and an income tax exclusion for municipal, state, and federal retirement pension payments and social security benefits.

## Minutes:

No attachments

**Chairman Headland:** This is Vice Chairman Owens' attempt to exclude all retirement from taxation here in North Dakota. It's a pretty big fiscal bill.

**Representative Froseth:** Made a motion for a DO NOT PASS.

**Representative Dockter:** Seconded.

**Representative Haak:** Have we looked at other bills that are exempting social security from tax?

**Chairman Headland:** I believe Representative Kasper had a bill that had social security benefits in; however, he brought in an amendment to take that out of the bill. We haven't discussed this yet.

**Representative Hatlestad:** I would've liked to have seen a bill that just set aside social security benefits. But then those that are being taxed would have a pretty good income.

**Chairman Headland:** I'm definitely supportive of a do not pass. I know of some people who are lifelong state employees that receive social security and pension and make more money now than they did when they were working. It isn't necessarily a bad thing but they can afford the tax.

**ROLL CALL VOTE: 9 YES 5 NO 0 ABSENT**  
**MOTION CARRIES FOR DO NOT PASS**

**Representative Froseth will carry this bill.**

Date: 2-9-15  
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1339

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Rep. Froseth Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK	✓	✓
VICE CHAIRMAN OWENS	✓	✓	REP STRINDEN	✓	
REP DOCKTER	✓		REP MITSKOG		✓
REP TOMAN	✓		REP SCHNEIDER		✓
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN		✓			
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 9 No 5

Absent 0

Floor Assignment Rep. Froseth

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

**REPORT OF STANDING COMMITTEE**

**HB 1339: Finance and Taxation Committee (Rep. Headland, Chairman)** recommends **DO NOT PASS** (9 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1339 was placed on the Eleventh order on the calendar.

**2015 TESTIMONY**

**HB 1339**



HB 1339  
2-2-15  
#1 p. 1

# North Dakota

HB 1339 - SUPPORT  
Monday February 2, 2015  
House Finance and Taxation Committee  
Josh Askvig – AARP North Dakota  
[jaskvig@aarp.org](mailto:jaskvig@aarp.org) or 701-989-0129

Chairman Headland, members of the Finance and Taxation Committee, I am Josh Askvig, Associate State Director of Advocacy for AARP ND.

We appreciate the opportunity to provide comments on House Bill 1339, which would make numerous changes to tax policy related to Social Security and retirement income taxation. We support some of these changes and want to offer some context and suggestions.

One of the primary efforts of this bill is to eliminate Social Security from income taxation. Generally, we support the effort to eliminate the taxation Social Security. Doing so would lower the tax burden for many North Dakotans that could use the assistance. As a refresher, of the 122,104 North Dakotans receiving Social Security, 34 percent of them rely on Social Security as their only source of income. The attached handout on Social Security facts in North Dakota paints a picture as to why eliminating this tax makes sense. Consider that 61 percent of North Dakotans over the age of 65 rely on Social Security for 50 percent or more of their income. Remember that the average Social Security benefit is \$1,152. Given these facts, we support these sections.

We noticed that there was not a fiscal note attached to the bill. If the expense appears to be too big to swallow we would suggest a tiered elimination of taxation on Social Security. Individuals that have larger incomes can better afford to pay the tax. You might model the tax structure like you do the relief for the homestead program.

In addition, it appears that the bill looks to eliminate Social Security in the definition of income for the purposes of the Homestead Property Tax Credit program. If you recall from last session, we strongly supported exempting Social Security as income from the Homestead Tax Credit program. We ask that as you look at removing Social Security from the definition of income as you make adjustments to this program.

We support Senate Bill 1339 and encourage you to give it a DO PASS recommendation.



# Social Security: 2014 North Dakota Quick Facts

## North Dakota's 65+ population is 101,000.

In 2012, North Dakota's population was about 700,000, with 101,000 being age 65 and older residents.<sup>1</sup>

## Social Security generates \$2.5 billion in economic output for North Dakota.

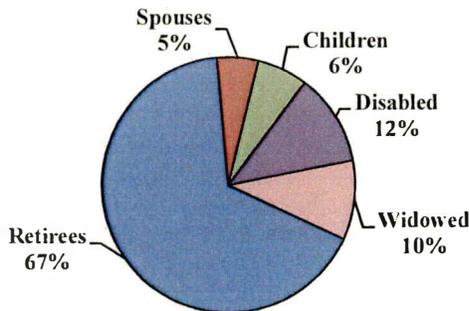
In 2012, North Dakota residents received \$1.6 billion from Social Security.<sup>4</sup> Every \$1 dollar of Social Security received in North Dakota generates \$1.67 of economic output. Spending related to Social Security by beneficiaries, businesses and workers on goods and services generates \$2.5 billion in economic output for North Dakota.<sup>2</sup>

## One in six North Dakota residents receives Social Security.

The Social Security program not only provides monthly benefits to retired workers, but also to families when the worker retires, dies, or becomes disabled. In 2012, over 56 million Americans received Social Security benefits; of these, 122,104 lived in North Dakota.<sup>3</sup>

In 2012, one in six North Dakota residents received Social Security.<sup>1</sup> While 67% of beneficiaries are retirees, 33% are not: 12,270 are widows and widowers; 14,187 are people with disabilities; 6,402 are spouses; and 7,848 are children.<sup>3</sup>

North Dakota Social Security Beneficiaries



## Nearly all North Dakota residents age 65 or older receive Social Security.

Over 18% of all people receive Social Security benefits; in North Dakota, 18% of residents also do. However, older people are more likely to receive the benefit, with 92% of those ages 65 and over receiving it nationwide, and 92% of older North Dakotans receiving it too.<sup>1</sup>

## On average, North Dakotan retirees receive about \$1,152 a month from Social Security.

The average yearly Social Security benefit for a North Dakota retiree in 2012 was \$13,821.<sup>5</sup>

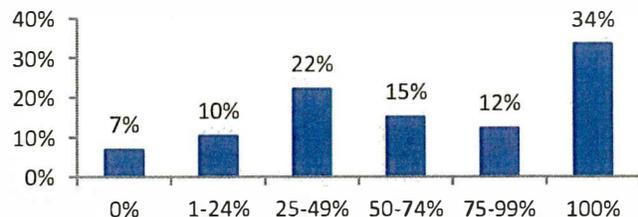
## Social Security lifts 28,000 North Dakotan retirees from poverty.

About 44% of the nation's older population would be living in poverty if they were not receiving Social Security. In North Dakota, 42% of state's 65+ population would have incomes below the poverty line if they did not receive Social Security.<sup>6</sup>

## Social Security is the only source of income for one in three North Dakotans age 65+.

Social Security makes up 50 percent or more of the income for 61 percent of North Dakotans age 65 and older. One in three older North Dakotans rely on Social Security as their only source of income.<sup>7</sup>

Income Percentage from Social Security for North Dakotans 65+



## End Notes

<sup>1</sup> OASDI Beneficiaries by State and County, 2012. Social Security Administration:  
[http://www.ssa.gov/policy/docs/statcomps/oasdi\\_sc/2012/table01.html](http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2012/table01.html)

<sup>2</sup> Social Security's Impact on the National Economy, AARP Public Policy Institute, 2013:  
<http://www.aarp.org/work/social-security/info-09-2013/social-security-impact-on-the-national-economy-AARP-ppi-econ-sec.html>

<sup>3</sup> OASDI Beneficiaries by State and County, 2012. Social Security Administration:  
[http://www.ssa.gov/policy/docs/statcomps/oasdi\\_sc/2012/table02.html](http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2012/table02.html)

<sup>4</sup> OASDI Estimated Total Benefits Paid, 2013, Social Security Administration:  
<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j1>

<sup>5</sup> OASDI Number and Total Monthly Benefits for Beneficiaries, age 65 or older, 2013:  
<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5j.html#table5.j3>

<sup>6</sup> Effect of Social Security on Poverty Among the Elderly by State, 2009-2011:  
<http://www.cbpp.org/cms/?fa=view&id=3851>

<sup>7</sup> 2011 ACS Percent of Income from SS- SPSS calculation by AARP Research:  
[http://www.census.gov/acs/www/data\\_documentation/data\\_main/](http://www.census.gov/acs/www/data_documentation/data_main/)

---

AARP is a nonprofit, nonpartisan organization, with a membership of nearly 38 million, that helps people turn their goals and dreams into real possibilities, strengthens communities and fights for the issues that matter most to families such as healthcare, employment and income security, retirement planning, affordable utilities and protection from financial abuse. We advocate for individuals in the marketplace by selecting products and services of high quality and value to carry the AARP name as well as help our members obtain discounts on a wide range of products, travel, and services. A trusted source for lifestyle tips, news and educational information, AARP produces AARP The Magazine, the world's largest circulation magazine; AARP Bulletin; [www.aarp.org](http://www.aarp.org); AARP TV & Radio; AARP Books; and AARP en Español, a Spanish-language website addressing the interests and needs of Hispanics. AARP does not endorse candidates for public office or make contributions to political campaigns or candidates. The AARP Foundation is an affiliated charity that provides security, protection, and empowerment to older persons in need with support from thousands of volunteers, donors, and sponsors. AARP has staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Learn more at [www.aarp.org](http://www.aarp.org).