

FISCAL NOTE
Requested by Legislative Council
01/07/2019

Bill/Resolution No.: HB 1222

- 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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(697,400,000)			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 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).*

HB 1222 imposes a flat individual and corporation income tax rate of 1% for tax year 2019, followed by an elimination of both individual and corporation income taxes beginning with tax year 2020.

- 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.*

The majority of fiscal impacts are from Sections 17 and 18 which impose a flat 1% tax rate for individuals and corporations (for tax year 2019) and from Section 19 which repeals both the individual and corporation income taxes beginning with tax year 2020.

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.*

The provisions imposing a flat rate of 1% for tax year 2019 is expected to reduce state general fund revenues by approximately \$202.9 million in the first half of the 2019-21 biennium. The income tax repeal is expected to reduce state general fund revenues by an estimated \$494.5 million in the second half of the 2019-21 biennium.

The fiscal impact of HB 1222, if enacted, is a reduction in state general fund revenues estimated to total \$697.4 million for the 2019-21 biennium.

- 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.*

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Date Prepared: 01/10/2019

2019 HOUSE FINANCE AND TAXATION

HB 1222

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1222
1/30/2019
31791

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the elimination of individual and corporate income tax and the imposition of a flat individual and corporate income tax at a rate of one percent; and relating to the elimination of individual and corporate income tax.

Minutes:

No attachments

Vice Chairman Grueneich: Opened hearing on HB 1222.

Representative Hoverson: Introduced bill. The key pages are 18 and 19 in sections 17 and 18 that deals with corporate and individual income tax. When you're eliminating you need to delete all the sections that are affected. In section 19 of the last page it repeals. If you give the government money they will spend it. The only way to get the government to stop spending money is to not give it money in the first place. Many Americans feel there are two taxes that are unethical; income taxes and property taxes. There are a lot of people who believe that you shouldn't tax something that somebody has to have. The intention of this bill is not to trade one tax for another but cutting. This would take not quite \$1 billion and put it back into the taxpayer's pocket. If you just took the cycle of the dollar, which cycles about seven times per year when it gets spent, it would refill the pot. We have \$3.2 billion in welfare right now which would equate to \$32,000 per student in North Dakota and that's how much money is going out the door. We are competing for number one in the nation for oil. We are government rich. As a government we are sitting on \$14 billion in funds. My contention is that we don't even have one million people for our population, we have a little over 750,000 people yet the government is sitting on \$14 billion. Imagine how many families would be incentivized and how many jobs would be created by this if they knew there would be no income tax. It's time for income tax to go away.

Representative Ertelt: The elimination of the one percent tax is referenced in the title and in the bill. Can you talk about the one percent?

Representative Hoverson: Yes, it gives time for that to occur. On the last page it then goes to the repeal.

Vice Chairman Grueneich: Is there testimony in support?

Aaron West, Minot: I am against a progressive income tax. I think it's a disproportionate tax where higher earners not only pay higher amount in tax revenues but a higher percentage rate as well. This causes people to leave our state. If we continue our current practices of taxing income, then we miss out on the extra one or two percent that comes from relieving that income from income tax and allowing it to be used in sales tax.

Vice Chairman Grueneich: Are you suggesting the \$697 million that we wouldn't get over the next biennium be replaced by sales tax?

Aaron West: Yes, without even raising sales tax. Not every dime is going to stay in the state. When other states got rid of their income tax they found that the money stayed within their own economy. Not only did the government make money on the sale but now they're going to buy more goods to replace those goods. It keeps going. Sales tax has a more ripple effect. There are a lot more benefits to sales tax than income tax.

Representative Trottier: Do you know and believe there are people leaving the state because of our state income tax?

Aaron West: I know it. I have a friend who moved to Virginia because they don't have any income tax. My wife and I just talked about this and we want to stay in North Dakota if we can.

Representative Trottier: You said there are better opportunities in Virginia. Was the state income tax a direct reason why he left?

Aaron West: The combined taxes did, yes.

Vice Chairman Grueneich: Is there further support? Is there opposition? Are there any questions for the tax department?

Representative Ertelt: I don't recall from the interim tax committee if income tax was one of the taxes we ran through REMI or are planning to run through REMI.

Joe Becker, Tax Department: I don't believe so but we need to double check. I know there were a couple of tax incentives but I don't know if they ran that on the sales tax.

Representative Ertelt: I meant the income tax.

Joe Becker: Same answer. They were studying the dynamic impact of tax incentives.

Vice Chairman Grueneich: If there's nothing further we'll close the hearing on HB 1222.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1222
1/30/2019
31820

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the elimination of individual and corporate income tax and the imposition of a flat individual and corporate income tax at a rate of one percent; and relating to the elimination of individual and corporate income tax.

Minutes:

No attachments

Representative Dockter: I don't like this bill out of the other similar bills we already heard.
MADE A MOTION FOR A DO NOT PASS.

Representative B. Koppelman: SECONDED

Representative Ertelt: If we're interested in supporting either one of these two bills then this is perhaps the better one to favor based on the delay of the implementation for the removal of the income tax.

Representative Dockter: I like HB 1535, the flat tax. We have another similar bill next week. I'm all for eliminating income tax but we have to realize that there will be some we cannot pass.

Representative B. Koppelman: I agree with Representative Dockter. I'd like to see some taxes returned to the taxpayer this session. I don't think HB 1535 is the best vehicle for that. When we're talking about which vehicle we use to give tax reduction I think the two we are hearing next week may have potential. The way the bill is written it is more conducive to making it into something that's palatable for this committee. I don't think HB 1222 is the right vehicle.

Vice Chairman Grueneich: We shouldn't get too far ahead of ourselves because we have HB 1222 in front of us. Currently, we have a do not pass motion.

ROLL CALL VOTE: 10 YES 3 NO 1 ABSENT

MOTION CARRIED

Representative Dockter will carry this bill.

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1222**

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. Doerter Seconded By Rep. Koppelman

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	<u>A</u>		Representative Eidson	<u>✓</u>	
Vice Chairman Grueneich	<u>✓</u>		Representative Mitskog	<u>✓</u>	
Representative Blum	<u>✓</u>				
Representative Dockter	<u>✓</u>				
Representative Ertelt		<u>✓</u>			
Representative Fisher	<u>✓</u>				
Representative Hatlestad	<u>✓</u>				
Representative Kading		<u>✓</u>			
Representative Koppelman	<u>✓</u>	<u>✓</u>			
Representative Steiner	<u>✓</u>				
Representative Toman		<u>✓</u>			
Representative Trottier	<u>✓</u>				

Total (Yes) 10 No 3

Absent 1

Floor Assignment Rep. Doerter

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

REPORT OF STANDING COMMITTEE

HB 1222: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1222 was placed on the Eleventh order on the calendar.