

**FIRST ENGROSSMENT
with Senate Amendments****ENGROSSED HOUSE BILL NO. 1399**

Introduced by

Representatives Carlson, Kasper, Koppelman, Wald

Senators Christmann, G. Nelson

1 A BILL for an Act to amend and reenact sections 57-38-30.3 and 57-38-31.1 of the North
2 Dakota Century Code, relating to determination of income tax liability on the short-form state
3 income tax return and the filing of composite returns; to repeal section 57-38-34.1 of the North
4 Dakota Century Code, relating to an optional card income tax return; and to provide an effective
5 date.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1. AMENDMENT.** Section 57-38-30.3 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 **57-38-30.3. Simplified optional method of computing tax.**

- 10 1. Notwithstanding the other provisions of this chapter, an individual, estate, or trust
11 may elect to determine state income tax liability by applying the provisions of this
12 section. Any taxpayer electing to determine the taxpayer's income tax liability
13 pursuant to this section is only eligible for those adjustments or credits which are
14 specifically provided for in this section. Provided, that for purposes of this section,
15 any person required to file a state income tax return pursuant to the provisions of
16 this chapter, but who has not computed a federal taxable income ~~or federal income~~
17 ~~tax liability~~ figure shall compute such a federal taxable income figure using a
18 pro forma return pursuant to the provisions of this section in order to determine a
19 federal taxable income ~~tax liability~~ figure to be used as a starting point in
20 computing state income tax.
- 21 2. A tax is hereby imposed for each taxable year upon income earned or received in
22 that taxable year by every resident and nonresident individual, estate, and trust.
23 ~~This tax is fourteen percent of the individual's, estate's, or trust's adjusted federal~~
24 ~~income tax liability for the taxable year~~

a. The tax for an individual, estate, or trust is computed at the following rates:

(1) On North Dakota taxable income not in excess of forty thousand dollars, a tax of two and eight-tenths percent.

(2) On North Dakota taxable income in excess of forty thousand dollars, a tax of four and nine-tenths percent.

b. The tax for married individuals filing a joint return is computed at the following rates:

(1) On North Dakota taxable income not in excess of eighty thousand dollars, a tax of two and eight-tenths percent.

(2) On North Dakota taxable income in excess of eighty thousand dollars, a tax of four and nine-tenths percent.

3. ~~The adjusted federal income tax liability for a resident individual, estate, and trust must be determined by multiplying the federal income tax liability by a fraction, the numerator of which is the adjusted gross income taxable to this state and the denominator of which is the total adjusted gross income as reported on the federal income tax return. To the extent they are included in the taxpayer's federal adjusted gross income, the following amounts must be excluded from the numerator~~ For purposes of this section, "North Dakota taxable income" means the federal taxable income of an individual, estate, and trust as computed under the Internal Revenue Code of 1986, as amended, adjusted as follows:

a. ~~Interest~~ Reduced by interest income from obligations of the United States and income exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

b. ~~The~~ Reduced by the portion of a distribution from a qualified investment fund described in section 57-38-01 which is attributable to investments by the qualified investment fund in obligations of the United States, obligations of North Dakota or its political subdivisions, and any other obligation the interest from which is exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.

- 1 c. ~~An~~ Reduced by the amount equal to the earnings that are passed through to
2 a taxpayer in connection with an allocation and apportionment to North
3 Dakota under chapter 57-35.3.
- 4 d. Reduced by thirty percent of the excess of the taxpayer's net long-term capital
5 gain for the taxable year over the net short-term capital loss for that year, as
6 computed for purposes of the Internal Revenue Code of 1986, as amended.
- 7 e. Increased by the amount of any interest and dividends from foreign securities
8 and from securities of states and political subdivisions exempt from federal
9 income tax, except that interest upon obligations of the state of North Dakota
10 or any of its political subdivisions may not be included.
- 11 f. Increased by the amount of a lump sum distribution for which income
12 averaging was elected under section 402 of the Internal Revenue Code of
13 1986 [26 U.S.C. 402], as amended. This adjustment does not apply if the
14 taxpayer receives the lump sum distribution while a nonresident of this state
15 and the distribution is exempt from taxation by this state under federal law.
- 16 g. Increased by an amount equal to the losses that are passed through to a
17 taxpayer in connection with an allocation and apportionment to North Dakota
18 under chapter 57-35.3.
- 19 h. For nonresidents, reduced by the taxable income that is not taxable to this
20 state.
- 21 4. ~~The adjusted federal income tax liability of a nonresident individual, estate, and~~
22 ~~trust must be determined by multiplying the federal income tax liability by a~~
23 ~~fraction, the numerator of which is the adjusted gross income derived from sources~~
24 ~~within this state and the denominator of which is the total adjusted gross income as~~
25 ~~reported on the federal income tax return. To the extent they are included in the~~
26 ~~taxpayer's federal adjusted gross income, the following amounts must be excluded~~
27 ~~from the numerator:~~
 - 28 a. ~~Interest income from obligations of the United States and income exempt~~
29 ~~from state income tax under federal statute or United States or North Dakota~~
30 ~~constitutional provisions.~~

b. ~~The portion of a distribution from a qualified investment fund described in section 57-38-01 which is attributable to investments by the qualified investment fund in obligations of the United States, obligations of North Dakota or its political subdivisions, and any other obligation the interest from which is exempt from state income tax under federal statute or United States or North Dakota constitutional provisions.~~

e. ~~An amount equal to the earnings that are passed through to a taxpayer in connection with an allocation and apportionment to North Dakota under chapter 57-35.3.~~

5. ~~For purposes of this section, "federal income tax liability" means the individual's, estate's, or trust's federal income tax computed for the taxable year under Internal Revenue Code sections 1 and 3, relating to the computation of the regular federal income tax before credits, including calculation and tax rate modifications prescribed under other provisions of the Internal Revenue Code, adjusted as follows:~~

a. ~~Add the alternative minimum tax computed under Internal Revenue Code section 55;~~

b. ~~Add the tax on a lump sum distribution computed under Internal Revenue Code section 402; however, this adjustment does not apply if the lump sum distribution is received while a nonresident of this state and is exempt from taxation by this state under federal law;~~

e. ~~Add the tax on an accumulation distribution of a trust computed under Internal Revenue Code section 667;~~

d. ~~Add the tax computed under Internal Revenue Code section 72(m)(5) on excess benefits received from a qualified plan under Internal Revenue Code section 401(a) or a qualified annuity under Internal Revenue Code section 403(a);~~

e. ~~Add the tax computed under Internal Revenue Code section 72(q)(1) on an early distribution from an annuity contract;~~

f. ~~Add the tax computed under Internal Revenue Code section 72(t)(1) on an early distribution from a qualified retirement plan;~~

- 1 g. ~~Add the tax computed under Internal Revenue Code section 4973(a) on~~
2 ~~excess contributions to an individual retirement account, medical savings~~
3 ~~account, and certain Internal Revenue Code section 403(b) and annuity~~
4 ~~contracts; however, this adjustment does not apply if the individual, estate, or~~
5 ~~trust is a nonresident of this state;~~
- 6 h. ~~Add the tax computed under Internal Revenue Code section 4974(a) on~~
7 ~~excess accumulations in a qualified retirement plan; however, this adjustment~~
8 ~~does not apply if the individual, estate, or trust is a nonresident of this state;~~
- 9 i. ~~Add the tax computed under Internal Revenue Code section 4980A on~~
10 ~~excess distributions from a qualified retirement plan; and~~
- 11 j. ~~Subtract the credit for prior year minimum tax computed under Internal~~
12 ~~Revenue Code section 53.~~

13 ~~Unless specifically provided for in this subsection, no federal income tax credit may~~
14 ~~be subtracted in determining the federal income tax liability for purposes of this~~
15 ~~section. Each adjustment in subsection 3, except subdivision h, may be allowed~~
16 ~~only to the extent the adjustment is attributable to income allocated and~~
17 ~~apportioned to this state.~~

18 6. ~~5.~~ ~~A husband and wife~~ Married individuals filing a joint federal income tax return shall
19 file a joint state income tax return if the return is filed under this section. If
20 separate federal income tax returns are filed, one spouse's state income tax return
21 may be filed under this section and the other spouse's income tax return may be
22 filed under the other provisions of this chapter.

- 23 7. ~~6.~~ a. A resident individual, estate, or trust must be allowed a credit against the tax
24 otherwise due under this section for the amount of any income tax imposed
25 on the taxpayer for the taxable year by another state or territory of the United
26 States or the District of Columbia on income derived from sources therein and
27 which is also subject to tax under this section.
- 28 b. The credit provided under this subsection may not exceed the proportion of
29 the tax otherwise due under this section that the amount of the taxpayer's
30 adjusted gross income derived from sources in the other taxing jurisdiction

bears to the taxpayer's ~~entire~~ federal adjusted gross income as reported on the taxpayer's federal income tax return.

~~8- 7.~~ a. Individuals, estates, or trusts ~~receiving a refund of that file an amended~~ federal income tax return changing their federal taxable income figure for a year for which an election to file state income tax returns has been made under this section shall file an amended state income tax ~~returns reducing the~~ federal income tax liability for the year for which the federal income tax refund is granted and may not report return to reflect the changes on the federal income tax ~~refund in the year received~~ return.

~~b.~~ Individuals, estates, or trusts ~~assessed additional federal income tax for a year for which an election to file state income tax returns has been made under this section shall file amended state income tax returns increasing the federal income tax liability for the year for which the additional federal income tax is assessed and may not report increased federal income tax liability in the year in which the additional federal income tax is paid.~~

~~9- 8.~~ The tax commissioner may prescribe procedures and guidelines to prevent requiring income that had been previously taxed under this chapter from becoming taxed again because of the provisions of this section and may prescribe procedures and guidelines to prevent any income from becoming exempt from taxation because of the provisions of this section if it would otherwise have been subject to taxation under the provisions of this chapter.

~~10- 9.~~ A taxpayer filing a return under this section is entitled to the credit provided under section 57-38-01.20.

~~11- 10.~~ A taxpayer filing a return under this section is entitled to the exemptions or credits provided under sections 40-63-04, 40-63-06, and 40-63-07.

11. A qualifying taxpayer is entitled to a tax credit of up to twenty-five percent of the tax liability computed under subsection 2, not to exceed two hundred thirty dollars or one hundred fifteen dollars for married individuals filing separate state income tax returns. For purposes of this subsection, a "qualifying taxpayer" means a taxpayer who, during the taxable year:

a. Paid property taxes under chapter 57-02 on property in this state;

- 1 b. Leased and paid rent for real property in this state; or
- 2 c. Paid mobile home tax under chapter 57-55 and lot rent for a mobile home in
- 3 this state.
- 4 12. a. A taxpayer is entitled to a credit against the tax imposed by this section for
- 5 any unused federal credit for prior year minimum tax. "Unused federal credit
- 6 for prior year minimum tax" means the amount of the federal credit for prior
- 7 year minimum tax attributable to federal alternative minimum tax included in
- 8 the taxpayer's federal income tax liability for purposes of this section for
- 9 taxable years beginning before January 1, 2001, reduced by the total amount
- 10 of the federal credit for prior year minimum tax claimed on the taxpayer's
- 11 federal income tax return for all taxable years beginning after December 31,
- 12 2000.
- 13 b. The credit is equal to fourteen percent of the portion of the unused federal
- 14 credit for prior year minimum tax claimed on the taxpayer's federal income tax
- 15 return and may not exceed the taxpayer's tax liability for the taxable year. For
- 16 a nonresident taxpayer, the credit is limited to the ratio that the nonresident
- 17 taxpayer's North Dakota adjusted gross income bears to the nonresident's
- 18 federal adjusted gross income.
- 19 c. The credit under this subsection is not allowed for taxable years beginning
- 20 after December 31, 2004.
- 21 13. a. At the election of an individual taxpayer engaged in a farming business, the
- 22 tax imposed by subsection 2 of this section for the taxable year must be equal
- 23 to the sum of the following:
- 24 (1) The tax computed under subsection 2 on North Dakota taxable income
- 25 reduced by elected farm income.
- 26 (2) The increase in tax imposed by subsection 2 which would result if North
- 27 Dakota taxable income for each of the three prior taxable years were
- 28 increased by an amount equal to one-third of the elected farm income.
- 29 For purposes of applying this paragraph to taxable years beginning
- 30 before January 1, 2001, the increase in tax must be determined by
- 31 recomputing the tax in the manner prescribed by the tax commissioner.

b. "Elected farm income" means that portion of North Dakota taxable income for the taxable year that is elected farm income as defined in section 1301 of the Internal Revenue Code [26 U.S.C. 1301].

c. The reduction in North Dakota taxable income under this subsection must be taken into account for purposes of making an election under this subsection for any subsequent taxable year.

d. The tax commissioner may prescribe rules, procedures, or guidelines necessary to administer this subsection.

14. The tax commissioner may prescribe tax tables to be used in lieu of computing the tax according to subsection 2 if the amounts of the computed tax are based on the tax rates set forth in subsection 2. If prescribed by the tax commissioner, the tables must be followed by every individual, estate, or trust electing to determine a tax under this section.

SECTION 2. AMENDMENT. Section 57-38-31.1 of the North Dakota Century Code is amended and reenacted as follows:

57-38-31.1. Composite returns. Partnerships and subchapter S corporations may file a composite return on behalf of nonresidential individual partners or shareholders in the manner prescribed by the tax commissioner. Any amount of tax paid by the partnership or subchapter S corporation on the composite return on behalf of a nonresident partner or shareholder constitutes a credit on the North Dakota return of the nonresident individual on whose behalf the tax was paid by the partnership or subchapter S corporation. Any return filed by a partnership or subchapter S corporation under this section is considered as the return of the nonresident individual partner or shareholder on whose behalf the return is filed. The tax under this section must be computed by multiplying the aggregate of the shares of North Dakota taxable income reportable to North Dakota by the partners or shareholders included in the composite return by ~~the highest federal tax rate for individuals times the tax rate imposed under section 57-38-30.3~~ four and nine-tenths percent.

SECTION 3. REPEAL. Section 57-38-34.1 of the North Dakota Century Code is repealed.

SECTION 4. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2000.