

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1508

2005 HOUSE FINANCE AND TAXATION

HB 1508

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1508**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **January 25, 2005**

| Tape Number | Side A | Side B | Meter # |
|---|--------|----------|-------------|
| 1 | | X | 38.4 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Janice Stein</i> | | | |

Minutes:

REP. WES BELTER, CHAIRMAN Called the committee hearing to order.

REP. ELLIOTT, GLASSHEIM, GRAND FORKS Introduced the bill. This bill increases income taxes by .1% for each of the five brackets, and raises 15 million dollars, for the general fund. North Dakota's taxes are too low, I believe. He submitted a handout prepared by the legislative council, which stated a comparison of general fund appropriations and total personal income. See attached copy. He stated there is a widening gap, over the past decade, between the growth in per capita income in North Dakota and the size of appropriation of the general fund. That means, to me, that our taxing effort has not kept pace with our citizens ability to pay. We don't raise enough money in North Dakota, to pay for and run the basic services which our folks need. Without the federal government, this state could, almost, not operate. Because of our refusal to tax adequately, we are dependent on federal funds. This session, we are going to appropriate approximately 5.4 billion dollars. Of that, 2.3 billion, 42% is federal money.

Another 1.2 billion, or 22%, of what we appropriate this session, is special funds. 36% of North Dakota's budget is raised by our own initiative. States like North Dakota, will have to replace some of those federal resources, or else we will face serious discontent among our citizens. HB 1508 is a small step in the direction of taxing ourselves to a place declining federal funds, in order to accomplish what we want to accomplish. By raising each bracket a small amount, it raises 15.4 million dollars next biennium. It appropriates some of the money raised to some of the important areas, which are seriously underfunded. We would have to raise income taxes 20% to reach Arizona, and 30% to equal Louisiana's per capita collection from the income tax. The reason we raise so little, per capita, is because our tax rates are awfully low, compared to other states.

The state is supporting K - 12, which is a constitutional obligation, at 42% at the cost of providing the service. That is the reason there is a lawsuit. As this declines, there will be more pressure on us. State support of higher education is now somewhere around 22% of higher education's budget. North Dakota's tax effort simply cannot sustain its institutions. Looking at the figures in the last decade, and where things are going, it seems to me that we are in a crisis in every major institutional system that we operate. We are not paying our own way, because we are not willing to tax ourselves. My idea is to link small tax increases with specific appropriations, so that the public knows where this new money would go. I would be willing to bet, that North Dakotans will be willing to approve an increase, if they know it is going to needed water projects, educating their children, and to strengthening higher education. When people know where there money is going they will support increased taxes. Why do we have 70 cities who impose sales tax on themselves. They went to the polls and imposed taxes on themselves.

Rep. Glassheim submitted three more handouts relating to per capita comparison of individual income tax collections for fiscal year 2003, income tax percentages for various brackets, a comparison of tax under current law with tax under HB 1508, for a single filer. See attached copies.

REP. BELTER I don't see any cap on spending.

REP. GLASSHEIM If additional money were collected, it would go into the general fund, and be in the ending fund balance.

REP. BELTER My concern is a cap, because as you increase revenues, that is not stopping legislators from spending more money, so two years from now, our charts will probably look the same, we have taken in 15 million, but spent 50 million, so unless you have a cap on spending someplace, that gap between revenues and good ideas, continues to increase.

REP. GLASSHEIM There is no cap in this.

REP. WEILER Back in 1983, was the last time we had that we had an ending fund balance, over 65 million, it was approximately 150 million, since then, we haven't had anything over 65 million, until this year, when it is 125 million, in addition to that, there is already projected for next biennium a 70 million dollar increase, when you say our taxes are too low, how do you explain the 200 million dollar difference, and in the previous 20 years, we haven't seen anything over 65 million?

REP. GLASSHEIM I am saying, taxes are too low, relative to our responsibilities. There is no absolute taxation which is too high or too low. Relative to our responsibilities, we do not have the funds to pay state employees competitive wages and retain them. Fifty million of the 126, is a federal gift.

REP. WEILER When you said that you believe this would pass the citizens of North Dakota, if you increase taxes, the last time we increased taxes in 1989, it didn't go over very well.

REP. GLASSHEIM When you look at the growth in per capita income in the chart I passed out, compared to our spending wells, I think the people of North Dakota have a little more disposal income then they had in the past decade, when you have more money, you are less adverse to spending a little more in taxes. Secondly, you do not raise five different taxes, that was the most foolish thing that was done.

REP. WRANGHAM As I see it, we have had a steady tax increase through the years, as long as personal income grows, and the amount of sales tax grows, there has been an increase in the state because of growth.

REP. GLASSHEIM Yes, the absolute dollars coming in, have increased. It has been the policy of the state, since the referrals, to grow with whatever the economy provides, we have not increased rates or taxes ourselves, but the money has increased. However, the money has increased below the rate of personal income growth.

REP. WRANGHAM Would you agree that to get increased tax revenues, it is better to get those revenues through economic growth, then taxing the people?

REP. GLASSHEIM It is easier to get it through economic growth, but if your economy is not growing fast enough to provide the services you must have, then you have to do it by increasing taxes. If you are falling behind funding K - 12, we have to do more.

REP. CONRAD As I look at the charts in the red book, North Dakota is paying about 40% in property tax, and that seems to be the biggest concern of taxpayers, their property taxes are going

up, not their income taxes. Do you think the five million in your appropriation, will do anything to keep property taxes under control?

REP. GLASSHEIM I don't think it will be significant. One hundred million would do something for education, five million will do something. Local school districts aren't anxious to raise mills.

REP. CONRAD Wouldn't it then be better to look at our whole tax structure, to put the whole fifteen million into this public instruction and really attempt to do something about property tax?

REP. GLASSHEIM Should this get to see the light of day out of this committee, I have no objection to that.

JOSEPH BECKER, STATE TAX DEPARTMENT Testified in a neutral position.

He stated that the index tax rates were from 2001, so had to do some housecleaning to change those rates. Submitted amendments to that effect.

He stated that in 2001, when we disconnected from the federal tax liabilities as our starting point, and revamped and created what we called the form ending one, at that time, we also disconnected from the federal tax index, their brackets for the rate of inflation. To maintain that index and the net benefit of that indexing, we built that into the state statute, the original bill that you got, has simple picked up the brackets from 2000, it should have been adjusted to reflect indexing which has taken place since then. What you are looking at in the amendments, are the index brackets that would take effect in 2005 anyway. We just wanted to make sure the bill had that in there. With no further testimony, the committee hearing was closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1508**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 1, 2005**

| Tape Number | Side A | Side B | Meter # |
|---------------------------|--------|----------|-----------|
| 1 | | X | 26 |
| | | | |
| | | | |
| Committee Clerk Signature | | | |

Minutes:

COMMITTEE ACTION

REP. BRANDENBURG Made a motion for a **do not pass**.

REP. DROVDAL Second the motion. **Motion carried.**

13 yes 0 no 1 absent

REP. WEILER Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
01/18/2005

Bill/Resolution No.: HB 1508

1A. 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.*

| | 2003-2005 Biennium | | 2005-2007 Biennium | | 2007-2009 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | \$15,415,000 | | | |
| Expenditures | | | | | | |
| Appropriations | | | \$15,000,000 | | | |

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

| 2003-2005 Biennium | | | 2005-2007 Biennium | | | 2007-2009 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

Sections 1 and 2 of HB 1508 increase the optional (long form) and standard (short form) individual income tax rates and increases the progressivity of the individual income tax system. Section 3 of HB 1508 appropriates \$15 million to various agencies for the 2005-07 biennium.

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.*

It is estimated that the rate increases contained in Sections 1 and 2 of HB 1508, if enacted, will increase state general fund revenues by \$15.415 million during the 2005-07 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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

| | | | |
|---------------|----------------------|----------------|----------------------------|
| Name: | Kathryn L. Strombeck | Agency: | Office of Tax Commissioner |
| Phone Number: | 328-3402 | Date Prepared: | 01/24/2005 |

Date: 2-1-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1508

House FINANCE & TAXATION

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Not Pass

Motion Made By

Rep. Brandenburg

Seconded By

Rep. Drovdal

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-----------------|-----|----|
| BELTER, WES, CHAIRMAN | ✓ | | | | |
| DROVDAL, DAVID, V-CHAIR | ✓ | | | | |
| BRANDENBURG, MICHAEL | ✓ | | | | |
| CONRAD, KARI | ✓ | | | | |
| FROELICH, ROD | ✓ | | | | |
| GRANDE, BETTE | ✓ | | | | |
| HEADLAND, CRAIG | ✓ | | | | |
| IVERSON, RONALD | ✓ | | | | |
| KELSH, SCOT | ✓ | | | | |
| NICHOLAS, EUGENE | ✓ | | | | |
| OWENS, MARK | ✓ | | | | |
| SCHMIDT, ARLO | ✓ | | | | |
| WEILER, DAVE | ✓ | | | | |
| WRANGHAM, DWIGHT | ✓ | | | | |

Total (Yes)

13

No

0

Absent

1

Floor Assignment

Rep. Weiler

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

REPORT OF STANDING COMMITTEE (410)
February 1, 2005 12:06 p.m.

Module No: HR-21-1532
Carrier: Weiler
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

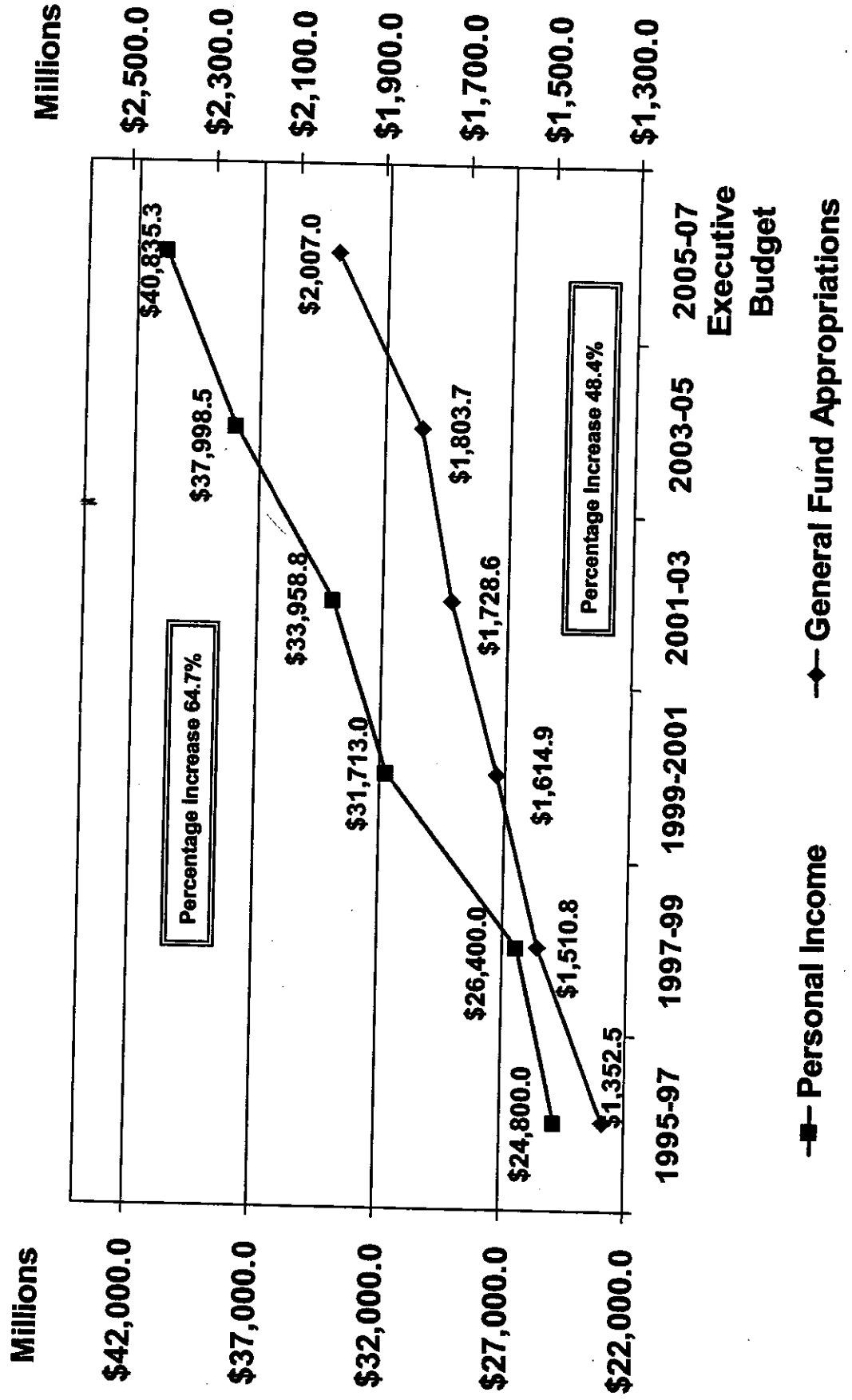
HB 1508: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1508 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1508

HB1508
Rep. Glassheim

Comparison of General Fund Appropriations and Total Personal Income



Per Capita Comparison of Individual Income Tax Collections * **Fiscal Year 2003**

| <u>State</u> | <u>Rank</u> | <u>Per Capita</u> |
|---------------------|-------------|-------------------|
| Massachusetts | 1 | \$1,248 |
| New York | 2 | \$1,180 |
| Oregon | 3 | 1,130 |
| Minnesota | 4 | \$1,062 |
| Connecticut | 5 | \$1,045 |
| Wisconsin | 6 | \$960 |
| California | 7 | \$922 |
| Virginia | 8 | \$917 |
| Delaware | 9 | \$871 |
| Maryland | 10 | \$850 |
| North Carolina | 11 | \$843 |
| Hawaii | 12 | \$825 |
| Maine | 13 | \$823 |
| New Jersey | 14 | \$780 |
| Rhode Island | 15 | \$767 |
| Georgia | 16 | \$722 |
| Colorado | 17 | \$711 |
| Ohio | 18 | \$692 |
| Kentucky | 19 | \$684 |
| Utah | 20 | \$668 |
| Vermont | 21 | \$665 |
| Kansas | 22 | \$652 |
| Michigan | 23 | \$647 |
| Nebraska | 24 | \$646 |
| Idaho | 25 | \$618 |
| Missouri | 26 | \$617 |
| Iowa | 27 | \$608 |
| Oklahoma | 28 | \$602 |
| Indiana | 29 | \$588 |
| Montana | 30 | \$584 |
| West Virginia | 31 | \$583 |
| Illinois | 32 | \$580 |
| South Carolina | 33 | \$563 |
| Arkansas | 34 | \$561 |
| Pennsylvania | 35 | \$539 |
| New Mexico | 36 | \$492 |
| Alabama | 37 | \$452 |
| Louisiana | 38 | \$415 |
| Arizona | 39 | \$377 |
| Mississippi | 40 | \$354 |
| NORTH DAKOTA | 41 | \$315 |
| New Hampshire | 42 | \$43 |
| Tennessee | 43 | \$20 |

* Seven states levy no individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Income Tax Percentages for Various Brackets, by State

HB 1508- Rep. Glassheim

| | ND | AL | AZ | AK | CA | CT | DE | GA | HI | ID | IA | KS | KY | LA | ME | MD | MA | MN | MS | MT | NE |
|-----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------|-----|
| \$10,000 | 2.1 | 5.0 | 2.9 | 4.5 | 2.0 | 3.0 | 3.9 | 7.0 | 6.4 | 7.4 | 4.5 | 3.5 | 6.0 | 2.0 | 7.0 | 4.8 | 5.3 | 5.4 | 5.0 | 5.0 | 3.6 |
| \$25,000 | 2.1 | 5.0 | 3.2 | 6.0 | 6.0 | 5.0 | 5.2 | 7.0 | 7.6 | 7.8 | 6.5 | 6.3 | 6.0 | 4.0 | 8.5 | 4.8 | 5.3 | 7.0 | 5.0 | 8.0 | 5.1 |
| \$50,000 | 3.9 | 5.0 | 3.7 | 7.0 | 9.3 | 5.0 | 5.5 | 7.0 | 8.3 | 7.8 | 7.9 | 6.5 | 6.0 | 4.0 | 8.5 | 4.8 | 5.3 | 7.0 | 5.0 | 10.0 | 6.8 |
| \$75,000 | 4.3 | 5.0 | 4.7 | 7.0 | 9.3 | 5.0 | 6.0 | 7.0 | 8.3 | 7.8 | 9.0 | 6.5 | 6.0 | 6.0 | 8.5 | 4.8 | 5.3 | 7.9 | 5.0 | 10.0 | 6.8 |
| \$100,000 | 4.3 | 5.0 | 4.7 | 7.0 | 9.3 | 5.0 | 6.0 | 7.0 | 8.3 | 7.8 | 9.0 | 6.5 | 6.0 | 6.0 | 8.5 | 4.8 | 5.3 | 7.9 | 5.0 | 11.0 | 6.8 |
| \$200,000 | 5.0 | 5.0 | 5.0 | 7.0 | 9.3 | 5.0 | 6.0 | 7.0 | 8.3 | 7.8 | 9.0 | 6.5 | 6.0 | 6.0 | 8.5 | 4.8 | 5.3 | 7.9 | 5.0 | 11.0 | 6.8 |
| \$350,000 | 5.5 | 5.0 | 5.0 | 7.0 | 9.3 | 5.0 | 6.0 | 7.0 | 8.3 | 7.8 | 9.0 | 6.5 | 6.0 | 6.0 | 8.5 | 4.8 | 5.3 | 7.9 | 5.0 | 11.0 | 6.8 |
| | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | |
| | ND | NH | NJ | NM | NY | NC | OH | OK | OR | PA | SC | UT | VT | VA | WV | WI | DC | | | | |
| \$10,000 | 2.1 | 5.0 | 1.4 | 3.2 | 5.3 | 6.0 | 3.0 | 7.0 | 9.0 | 3.1 | 6.0 | 7.0 | 3.6 | 5.0 | 4.0 | 6.2 | 5.0 | | | | |
| \$25,000 | 2.1 | 5.0 | 1.8 | 6.0 | 6.9 | 7.0 | 4.5 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 3.6 | 5.8 | 4.0 | 6.5 | 7.5 | | | | |
| \$50,000 | 3.9 | 5.0 | 5.5 | 7.7 | 6.9 | 7.0 | 5.2 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 7.2 | 5.8 | 6.0 | 6.5 | 9.3 | | | | |
| \$75,000 | 4.3 | 5.0 | 5.5 | 7.7 | 6.9 | 7.8 | 5.2 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 8.5 | 5.8 | 6.5 | 6.5 | 9.3 | | | | |
| \$100,000 | 4.3 | 5.0 | 6.4 | 7.7 | 6.9 | 7.8 | 5.9 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 8.5 | 5.8 | 6.5 | 6.5 | 9.3 | | | | |
| \$200,000 | 5.0 | 5.0 | 6.4 | 7.7 | 7.5 | 8.3 | 6.9 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 9.0 | 5.8 | 6.5 | 6.8 | 9.3 | | | | |
| \$350,000 | 5.5 | 5.0 | 6.4 | 7.7 | 7.5 | 8.3 | 7.5 | 7.0 | 9.0 | 3.1 | 7.0 | 7.0 | 9.0 | 5.8 | 6.5 | 6.8 | 9.3 | | | | |

Comparison of tax under current law with tax under HB1508**Single filer****Under age 65 with no children****2005 Federal return****2005 Form ND-1 (Main Method)**

| Adjusted gross income | Taxable income | North Dakota Taxable income | Tax Under Current Law | Tax Under HB 1508 | Increase in tax under HB 1508 |
|-----------------------|----------------|-----------------------------|-----------------------|-------------------|-------------------------------|
| \$8,200 | \$0 | \$0 | \$0.00 | \$0.00 | \$0.00 |
| 9,000 | 1,200 | 1,200 | 25.20 | 26.40 | 1.20 |
| 10,000 | 2,200 | 2,200 | 46.20 | 48.40 | 2.20 |
| 15,000 | 7,200 | 7,200 | 151.20 | 158.40 | 7.20 |
| 20,000 | 12,200 | 12,200 | 256.20 | 268.40 | 12.20 |
| 25,000 | 17,200 | 17,200 | 361.20 | 378.40 | 17.20 |
| 30,000 | 22,200 | 22,200 | 466.20 | 488.40 | 22.20 |
| 45,000 | 37,200 | 37,200 | 917.70 | 962.40 | 44.70 |
| 50,000 | 42,200 | 42,200 | 1,113.70 | 1,168.40 | 54.70 |
| 60,000 | 52,200 | 52,200 | 1,505.70 | 1,580.40 | 74.70 |
| 70,000 | 62,200 | 62,200 | 1,897.70 | 1,992.40 | 94.70 |
| 80,000 | 72,200 | 72,200 | 2,290.75 | 2,405.70 | 114.95 |
| 90,000 | 82,200 | 82,200 | 2,724.75 | 2,869.70 | 144.95 |
| 100,000 | 92,200 | 92,200 | 3,158.75 | 3,333.70 | 174.95 |
| 150,000 | 142,505 | 142,505 | 5,341.99 | 5,667.85 | 325.87 |
| 200,000 | 193,725 | 193,725 | 7,869.96 | 8,393.06 | 523.10 |
| 250,000 | 244,945 | 244,945 | 10,451.45 | 11,179.43 | 727.98 |
| 300,000 | 295,250 | 295,250 | 12,986.82 | 13,916.02 | 929.20 |
| 400,000 | 395,250 | 395,250 | 18,370.82 | 19,768.82 | 1,398.00 |

Assumptions used to build table: (1) Single individual under 65 years old; (2) No dependents; (3) 2005 federal standard deduction of \$5,000; and (4) 2005 federal personal and dependency exemption of \$3,200 per person, subject to phaseout between \$145,950 and \$268,450 of adjusted gross income.

Prepared by North Dakota Office of State Tax Commissioner January 2005

Comparison of tax under current law with tax under HB1508

Married filing jointly

Under age 65 with no children

2005 Federal return

2005 Form ND-1 (Main Method)

| Adjusted gross income | Taxable income | North Dakota Taxable income | Tax Under Current Law | Tax Under HB 1508 | Increase in tax under HB 1508 |
|-----------------------|----------------|-----------------------------|-----------------------|-------------------|-------------------------------|
| \$16,400 | \$0 | \$0 | \$0.00 | \$0.00 | \$0.00 |
| 20,000 | 3,600 | 3,600 | 75.60 | 79.20 | 3.60 |
| 25,000 | 8,600 | 8,600 | 180.60 | 189.20 | 8.60 |
| 30,000 | 13,600 | 13,600 | 285.60 | 299.20 | 13.60 |
| 35,000 | 18,600 | 18,600 | 390.60 | 409.20 | 18.60 |
| 40,000 | 23,600 | 23,600 | 495.60 | 519.20 | 23.60 |
| 45,000 | 28,600 | 28,600 | 600.60 | 629.20 | 28.60 |
| 50,000 | 33,600 | 33,600 | 705.60 | 739.20 | 33.60 |
| 60,000 | 43,600 | 43,600 | 915.60 | 959.20 | 43.60 |
| 70,000 | 53,600 | 53,600 | 1,198.40 | 1,256.00 | 57.60 |
| 80,000 | 63,600 | 63,600 | 1,590.40 | 1,668.00 | 77.60 |
| 90,000 | 73,600 | 73,600 | 1,982.40 | 2,080.00 | 97.60 |
| 100,000 | 83,600 | 83,600 | 2,374.40 | 2,492.00 | 117.60 |
| 150,000 | 133,600 | 133,600 | 4,391.73 | 4,622.98 | 231.25 |
| 200,000 | 183,600 | 183,600 | 8,212.89 | 8,725.54 | 512.65 |
| 250,000 | 235,264 | 235,264 | 10,816.76 | 11,536.06 | 719.31 |
| 300,000 | 287,824 | 287,824 | 13,465.78 | 14,395.33 | 929.55 |
| 400,000 | 390,000 | 390,000 | 17,287.64 | 18,558.84 | 1,271.20 |

Assumptions used to build table: (1) Married individuals under 65 years old; (2) No dependents; (3) 2005 federal standard deduction of \$10,000; and (4) 2005 federal personal and dependency exemption of \$3,200 per person, subject to phaseout between \$218,950 and \$341,450 of adjusted gross income.

Prepared by North Dakota Office of State Tax Commissioner January 2005