2011 SENATE FINANCE AND TAXATION

SB 2260

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2260
January 25, 2011
13333 & 13412

☐ Conference Committee

Hauge

Explanation or reason for introduction of bill/resolution:

Minutes:

Attached testimonies

Senator Cook opened the hearing on SB 2260 relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

Senator Triplett, District 18 introduced SB 2260 and testified in support. See attachment A.

April Fairfield, Senior Policy Analyst, North Dakota Economic Policy Project, testified in support of SB 2260. See attachment B.

Senator Cook asked what the maximum earned income tax credit amount was.

Ms. Fairfield said there was data that just came out form the IRS but she did not have it with her but she will get him a copy of it.

Senator Cook asked about sub section 3 and 4.

Ms. Fairfield said sub section 3 streamlines the process required and it would not require a change on any ND tax forms.

Senator Cook asked if she thought this made it simpler than changing the tax form.

Ms. Fairfield said that changing the tax form would be wonderful but it was her understanding that getting that done is a very difficult challenge. In sub section 4 it allows the department of Human Services to use the state EITC spending in their calculation for temporary assistance for needy families block grant maintenance of effort.

Senator Miller had a question on the fiscal note.

Ms. Fairfield said that she didn't know why it would be that high. She said that the Tax Department should be able to answer the question why it is so high.

Senator Miller asked what the Northwest Area Foundation was.

Ms Fairfield answered that the foundation provides the grant for the ND Economic Policy Grant Project. They provide grants throughout the area (North Dakota, South Dakota, and Minnesota) for doing non-profit work, especially as it relates to people in poverty. They originate from the Minneapolis-St. Paul area.

Paul Ronningen, State Coordinator of the Children's Defense Fund North Dakota Chapter, President of the North Dakota Conference of Social Welfare and Chairman of the North Dakota Economic and Prosperity Alliance, testified in support of SB 2260. See attached testimony C and C1.

Senator Cook asked if this study took into consideration that such a working mother would be receiving housing assistance.

Mr. Ronningen said the study created a budget of what would be needed in the Fargo area and then suggested what minimum hourly salary would be needed to make that budget without going on assistance.

Marlowe Kro, Associate State Director of AARP North Dakota, testified in support of SB 2260. See attached testimony D.

JoAnn Brager, Vice President of Public Policy for the North Dakota Association for the Education of Young Children testified in support of SB 2260. See attached testimony E.

Renee Stromme, North Dakota Women's Network testified in support of SB 2260. See attached testimony F.

No opposing testimony.

Chairman Cook asked for neutral testimony on SB 2260.

Mary Loftsgard, Associate Director of Tax Administration for the Office of State Tax Commissioner offered comments on Section 3. The Tax Department is not sure of the intent of that part of the bill. She said that they don't data entry information from Federal Income returns. She said that they would have some additional administrative issues. She added that it would be simpler for their department if there was a line added to the income tax return. She also stated that instead of the notification process, they would be willing to work with other organizations to make sure they understand if there is a state credit and how it is calculated. She said they would do whatever education they could.

Senator Triplett proposed to add an amendment that would delete sub section 3 and asked Ms. Loftsgard if the rest of the bill would be self executing.

Ms. Loftsgard said that if the section was deleted, that would be sufficient.

Senator Hogue asked if it would make it administratively less of a burden if the federal tax return comes in and if they are eligible for the federal earned income tax, then give everyone the average of $180. Everyone would get it regardless of their federal income tax credit. He asked if that would ease the burden a little bit. Sufficiently? Or not at all?

Ms. Loftsgard said perhaps a little bit. She explained why the use of percentages where important.

Senator Cook closed the hearing on SB 2260.

SB 2260, #13333 & 13412, 1-25

Senator Triplett offered an amendment to delete sub section 3.

Senator Hogue seconded the motion.

Senator Cook called for a verbal vote 7-0. **Amendment adopted**.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2260
2/2/2011
Job Number 13842

☐ Conference Committee

A. Rittmiller

Explanation or reason for introduction of bill/resolution:

Relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

Minutes: Committee Work

Chairman Cook – This is a bill we heard a while ago, it has to do with earned income tax credit. Committee your wishes? We have amended this bill, we took out subsection 3, and we still have a fiscal note on the bill of $17 million.

Vice Chairman Miller – I'll move a Do Not Pass as Amended on SB 2260.

Seconded by **Senator Oehlke**.

Senator Dotzenrod – This bill is a way of providing income tax reduction and possibly a payment to people who are working. There could be an argument made that we don't need to provide income tax benefit but if we were going to, as a committee, decide we wanted to reduce income taxes and we had to choose between 2 types, one that provided a sort of uniform reduction in all the brackets, or one that dealt with the people who are lower income earners, maybe it depends on where you come from as a philosophical point of view, but the thing I like about this bill is, it did provide income tax relief to people on the lower end of income. It would have to be lower income people in order to make this work. They have to have earned income, they can't get this credit unless they have been out in the workplace and have earned income to get the credit. So it's basically people that are going to be on the lower end of the income brackets, who are working. There is a pretty good argument to make, that if we were going to choose one type, one method, or one way of delivering income tax relief, this would be the preferable way to do it. In my opinion. We can't give every income tax break and every reduction that's being offered to us. Some we can approve and some we can reject for the good of the entire assembly up there and the Appropriations Committee, they are going to have to reject a few. I think given the choices we have this is the one I would prefer, and everyone gets their vote.

Chairman Cook – I won't disagree with anything you said, it's all accurate, and it's a reflection of one's tax opinion. When I look at programs to help the less fortunate, I think you have to take a look at the whole picture of what those programs are. This would just be one more tool that would help and when we tend to look at tax policy we just have this particular tool in front of us. We deal with housing assistance, and that's probably the most important tool for those that are less fortunate as far as allowing them to make ends meet. The positive thing as you say here, is the only way they get this is if you take somebody and they do put forth some effort to work. They have to earn some money to get it. It think though if you really get in to the earned income tax credit and see how it's used, to some degree, you will find it's a disincentive to work more. I think that it comes down to how much spendable money you have left in your pocket. If you talk to tax people, it's amazing how many people are able to work just the amount of hours they are required to get the maximum earned income credit and not an hour more. So maybe there is an argument that could be made. I have heard the argument made to me that's it's a disincentive also. It is a major change in tax policy, I understand the opinions. Beauty is in the eye of the beholder.

Chairman Cook – We have a motion for a Do Not Pass as Amended on SB 2260. (5-2-0)

Carried by **Vice Chairman Miller**.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2260
2/2/2011
Job Number 13868

☐ Conference Committee

A. Rittmiller

Explanation or reason for introduction of bill/resolution:

Relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

Minutes:

Committee Work

Chairman Cook – Senator Triplett has some information she would like to share on SB 2260. We have taken action on it, Do Not Pass (5-1)

Senator Triplett read a memorandum from the tax department (attachment D).

Chairman Cook – Does anyone want to reconsider?

No one spoke up, vote stays the same.

FISCAL NOTE

Requested by Legislative Council
01/19/2011

Bill/Resolution No.: SB 2260

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($17,000,000)			
Expenditures						
Appropriations						

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

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

SB 2260 creates a refundable state earned income tax credit for part-year and full-year residents.

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.*

SB 2260 creates a state earned income tax credit equal to 10% of the federal earned income tax credit allowed to the resident taxpayer. If the state earned income tax credit exceeds the resident taxpayer's state income tax liability (as reduced by all other state income tax credits except the earned income tax credit), the excess credit is refundable to the taxpayer.

Based on the latest available federal income tax statistics, it is estimated that SB 2260, if enacted, will reduce state general fund revenues by an estimated $17 million for the 2011-13 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.*

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 is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/22/2011

11.0134.01001
Title.02000

Adopted by the Finance and Taxation Committee
February 2, 2011

93
2-2-11

PROPOSED AMENDMENTS TO SENATE BILL NO. 2260

Page 1, line 20, remove "On an annual basis, the tax commissioner shall alert those resident taxpayers who"

Page 1, remove lines 21 through 24

Page 2, remove lines 1 through 5

Page 2, line 6, remove "4."

Renumber accordingly

Date: 1-25-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2260

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☐ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Triplett Seconded By Sen. Hogue

Senators	Yes	No	Senators	Yes	No
Dwight Cook – Chairman			Jim Dotzenrod		
Joe Miller – Vice Chairman			Connie Triplett		
Randy Burckhard					
David Hogue					
Dave Oehlke					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

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

Verbal vote 7-0

Date: 2-2-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2260

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Miller Seconded By Senator Oehlke

Senators	Yes	No	Senators	Yes	No
Dwight Cook – Chairman	X		Jim Dotzenrod		X
Joe Miller – Vice Chairman	X		Connie Triplett		X
Randy Burckhard	X				
David Hogue	X				
Dave Oehlke	X				

Total (Yes) 5 No 2

Absent 0

Floor Assignment Senator Miller

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

REPORT OF STANDING COMMITTEE

SB 2260: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2260 was placed on the Sixth order on the calendar.

Page 1, line 20, remove "On an annual basis, the tax commissioner shall alert those resident taxpayers who"

Page 1, remove lines 21 through 24

Page 2, remove lines 1 through 5

Page 2, line 6, remove "4."

Renumber accordingly

2011 TESTIMONY

SB 2260

A

Testimony of Sen. Connie Triplett
District 18, Grand Forks
In Support of Senate Bill 2260
January 25, 2011

Chairman Cook and Members of the Senate Finance and Tax Committee. I am very pleased to introduce SB 2260, which proposes to create a state Earned Income Tax Credit. The bill creates a credit equal to 10% of an individual or family's federal Earned Income Tax Credit.

With all of the attention currently being paid to the oil boom in North Dakota and the high-paying jobs now available to our citizens, sometimes it's hard to remember that not everyone is benefitting directly from the oil boom. Whether from age or lack of physical stamina or family responsibilities, not everyone is capable of competing for those good jobs. Nor do we want to empty out the central and eastern part of North Dakota, of course.

The simple fact that this bill has a $17 million fiscal note confirms that there are a considerable number of North Dakotans whose limited earning ability would make them eligible for the earned income credit. The fact that the vigorous economic activity associated with the oil industry is driving up the costs of housing and many other basic services across the western half of our state makes this a good time to look at the particular needs of those who are not benefitting with higher wages.

Currently, 23 states and the District of Columbia have a state earned income tax credit, with the credit ranging from 3.5% to 43% of the federal credit. The average of the other states' credit is 16%. We are proposing a fairly modest 10% credit. In 2008, North Dakota had approximately 40,000 federal EITC recipients, with an average credit of $1804. (If a state EITC had been in effect in 2008, the average credit would have been $180.) The total net federal EITC amount returned to North Dakota families and communities was $72 million.

Using 2008 numbers, a 10% EITC would have cost North Dakota $7.2 million for that year or approximately $14.4 on a biennial basis. The fact that our tax department is now estimating the biennial cost at $17 million means that there are still a significant number of families within our state who continue to struggle to make ends meet even while others within our state are benefitting from the best jobs of their lives or from nearly unbelievable wealth accumulating from royalty income.

A state earned income credit is easy to administer, it specifically targets families and workers who need it most, and it puts more money into the local economy where the beneficiaries live. I know that there are a wide variety of ideas being presented by many legislators in this session related to tax policy and how best to re-balance our tax laws to take into account the increased revenue from oil. This bill is just part of that mix. I hope you will give it fair consideration along with the rest of the proposals.

B

A State Earned Income Tax Credit for North Dakota's Working Families

economic
policy project

Compiled by the North Dakota Economic Policy Project (NDEPP)

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Introduction

People in North Dakota work hard. Yet, every day thousands of working families face the challenges of making ends meet. Low-wage jobs in the state provide income insufficient to cover the high costs of healthcare, childcare, and job-related expenses. Despite having the lowest unemployment rate in the nation, North Dakota ties with Nebraska for the highest share of workers holding multiple jobs.[1]

At the same time, North Dakota's tax system is out of balance. People working in low-wage jobs like cashiers, home health workers, and sales associates pay a higher share of their income in state and local taxes than highly paid workers. In North Dakota, families with incomes that fall among the bottom 20 percent of the income spectrum pay 9.4% of their income in state and local taxes, on average, while families with incomes in the top 1% pay 4.3% of their income in taxes – less than half the share that low-income families pay.[2]

Now would be a prudent time to improve these inequities. A boom in North Dakota's oil industry has helped produce historic revenues for the state and a budget surplus projected to exceed $1 billion by next June.

A state earned income tax credit (EITC) in North Dakota, modeled after the federal EITC, is an efficient way to help working families build a stronger financial future, to make North Dakota's tax system more equitable, and to help local communities thrive.

What is the Earned Income Tax Credit?

The federal earned income tax credit (EITC) is a refundable tax credit that can be claimed by low- and moderate-income working families to help offset payroll taxes and supplement low wages. A tax filer *must* earn wages in order to qualify for the credit, making it an effective incentive for families to join or stay in the workforce. The tax credit is targeted primarily to families with children.

The federal EITC has a 35-year track record of making work pay for low-income working families and is a policy that is supported by officials on both sides of the aisle.

Enacted in 1975 under President Ford, and expanded under Presidents Reagan, Bush and Clinton, research shows that the EITC increases employment among single parents, aids the transition from welfare to work, reduces family poverty and can help families to build assets for longer-term stability.

Called the government's 'most effective anti-poverty program', in 2009 the federal EITC lifted 6.5 million people out of poverty, including 3.3 million children.[3] According to the National Center for Children in Poverty, the federal EITC reduces child poverty for children by nearly 25 percent.

What is a State EITC and is it Right for North Dakota?

The federal EITC has been so successful that during the last two decades, 23 states and the District of Columbia have established state-level earned income tax credits to supplement the federal credit and provide additional support to families earning low wages.

State EITCs are efficient. Typically, they are based on the existing federal EITC and take advantage of federal eligibility requirements and benefit structure. For this reason, there is little administrative cost to a state that chooses to implement its own credit.

State EITCs, like the federal, are most often "refundable," meaning that if the credit exceeds the family's income tax liability, the balance of the credit is paid to the family.

Three states, Delaware, Maine, and Virginia, have non-refundable EITCs. These credits reduce or eliminate state income tax liability for working families, but offer no benefits to working families beyond what they owe in income taxes. However, non-refundable credits are less effective as a work incentive.

A refundable state EITC would expand the power of the federal credit in offsetting taxes and promoting work.

State EITCs are set as a percentage of the federal credit.

Twenty-three states and the District of Columbia have a state EITC. They currently range from 3.5-40 percent of the federal EITC.

The average state EITC is a little over 17%.

STATE EARNED INCOME TAX CREDITS BASED ON THE FEDERAL EITC		
State	Percentage of Federal Credit (Tax Year 2010 Except as Noted)	Refundable?
Delaware	20%	No
District of Columbia	40%	Yes
Illinois	5%	Yes
Indiana	9%	Yes
Iowa	7%	Yes
Kansas	18%	Yes
Louisiana	3.5%	Yes
Maine	5%	No
Maryland	25%	Yes
Massachusetts	15%	Yes
Michigan	20%	Yes
Minnesota	Average 33%	Yes
Nebraska	10%	Yes
New Jersey	20%	Yes
New Mexico	10%	Yes
New York	30%	Yes
North Carolina	5%	Yes
Oklahoma	5%	Yes
Oregon	6%	Yes
Rhode Island	25%	Partially
Vermont	32%	Yes
Virginia	20%	No
Washington	Not yet implemented; scheduled to go from 5% to 10% in 2011	Yes
Wisconsin	4% — one child 14% — two children 43% — three children No credit for childless workers	Yes

Source: Center on Budget and Policy Priorities.

Offsetting Tax Liability

Refundable state EITCs not only offset state income taxes, but also the impact of other state and local taxes disproportionately felt by low-income families, such as sales, excise, and property taxes.

In North Dakota, low-income families pay a higher share of their income in state and local taxes than other residents. Families with incomes that fall among the bottom 20 percent of the income spectrum, or less than $21,000 annually, pay on average 9.4% of their income in state and local taxes; families in the second quintile, or those earning between $21,000 and $35,000 annually pay 8.0 percent of their income in taxes. In contrast, families with incomes in the top 1%, $406,000 or more annually, pay 4.3% of their income in taxes.[4]

Promoting Work

The EITC is designed to encourage and reward work. For workers with very low earnings, the EITC grows with each additional dollar of wages until it reaches the maximum value. This creates an incentive for people to work and to work additional hours toward full-time employment. Research repeatedly confirms that both the federal and state EITCs increase workforce participation among eligible families.[5]

Building Long-term Financial Success

A state EITC, coupled with the federal EITC, would provide a critical financial boost to those working families who need help most. In addition, aligning asset-building programs with a state EITC allows low-wage families to build their savings and work toward long-term financial success—an important step toward breaking the cycle of poverty from generation to generation.

The EITC may be a gateway to financial services and savings for the many low-income North Dakotans who lack bank accounts or access to financial institutions. Families that do not have the most basic access to mainstream financial services often rely on high-cost check cashing or other alternative financial services that consume large portions of their incomes and make it even more difficult to put aside savings for the future.[6] EITC funds can be used to gain access to savings accounts and lower cost financial services.

In some states, a family's federal EITC refund can be deposited into an Individual Development Account (IDA), toward the purchase of savings bonds, or even to prepay college tuition.

North Dakota's IDA program, offered by Community Action of North Dakota, is a matched savings program that encourages individuals to save for education, the purchase of a home or to start a small business. This program already allows participants to make a one-time deposit of a federal EITC refund into their IDA. The program's guidelines could be expanded to include the deposit of state EITC refunds, as well.

Puts Dollars Back into Local Economies

Low-income families spend virtually all of their income to make ends meet, and they tend to spend it where they live and work. Studies of the use of federal EITC dollars find that roughly two-thirds of refunds received are spent locally[6]. This benefits local businesses that are likely to see increased consumption of their products or services.

PROPOSED STATE EITC BY NORTH DAKOTA LEGISLATIVE DISTRICT			
Legislative District	Estimated # of federal tax returns	% eligible for state EITC	Estimated average state EITC
ND Total	309,832	12.8	$171
District 1	7,105	13.3	$172
District 2	6,141	10.6	$165
District 3	6,869	13.3	$174
District 4	5,846	22	$189
District 5	7,817	14.1	$166
District 6	5,824	11.7	$173
District 7	6,077	14.7	$168
District 8	7,324	8.8	$164
District 9	5,248	40.6	$207
District 10	6,038	9.9	$171
District 11	6,806	13.2	$160
District 12	6,259	13.5	$149
District 13	10,237	10.6	$170
District 14	5,854	13.4	$166
District 15	6,278	14.7	$179
District 16	5,996	13.3	$172
District 17	6,123	11	$159
District 18	6,998	14.7	$170
District 19	4,572	9.7	$161
District 20	6,058	9.5	$165
District 21	7,789	12	$149
District 22	6,875	7.7	$162
District 23	5,838	23.4	$203
District 24	6,542	11.8	$151
District 25	6,130	11.5	$167
District 26	6,411	9.2	$163
District 27	8,234	11.9	$161
District 28	5,640	14.3	$170
District 29	5,897	12.6	$162
District 30	7,063	11.8	$157
District 31	5,698	21.9	$195
District 32	8,000	12.9	$175
District 33	6,586	8.9	$172
District 34	7,801	12.7	$180
District 35	7,427	10	$166
District 36	6,410	12.7	$164
District 37	7,260	11.6	$163
District 38	5,154	10.8	$180
District 39	6,059	11.1	$159
District 40	5,564	16.6	$182
District 41	7,789	9.8	$164
District 42	4,592	15.6	$163
District 43	7,699	11.1	$159
District 44	5,942	11	$140
District 45	4,504	10.5	$141
District 46	8,576	9.4	$165
District 47	8,882	7.9	$168

Source: The Brookings Institution, Earned Income Tax Credit Series, TY2006, http://www.brookings.edu/metro/EITC, compiled by North Dakota State Data Center at North Dakota State University- May 2010

Who would receive a State EITC?

One in 9 taxpayers – roughly 40,000 people -- in North Dakota would benefit from a state EITC[7].

The benefits, moreover, would reach every part of the state. The map below indicates the share of taxpayers who could benefit from a state EITC in every legislative district, based on 2006 data (the most recent year for which these data are available). In District 9 (Rolette County), the district with the highest share of eligible households, over 40 percent of taxpayers could benefit.[8]

Funding a State EITC

A state EITC set at 10% of the federal credit would cost less than one half of one percent of North Dakota's revenues for the current 2009-2011 biennium, (approximately $14.4 million.) [9] Most states with a state earned income tax credit rely on general funds to cover the costs.

Some states use surplus Temporary Assistance for Needy Families (TANF) funds to help pay for a portion of their state EITC. However, whether a state EITC is funded through general funds or another revenue option, a state refundable EITC can be counted toward North Dakota's TANF "maintenance of effort" requirements.

Conclusion

Implementing a refundable EITC in North Dakota will make work pay for thousands of low- and moderate income working families who would have additional funds to address their immediate needs, or to start saving for achieving long-term financial success. One in 9 taxpayers in North Dakota – people all across the state – would benefit.

A state EITC also will move North Dakota toward a more equitable tax structure by providing a tax cut to low- and moderate-income families who pay a higher portion of their income in taxes than upper income families.

Finally, a North Dakota State Earned Income Tax Credit would stimulate local economies, help families save for the future and boost a working parent's ability to provide a better future for their family.

The North Dakota Economic Policy Project focuses on research and policy analysis aimed at shaping budget and policy outcomes by providing accurate, timely, evidence-based information that informs, broadens and enriches the discussion on budget and taxes to policymakers, the media, advocates, and the public. NDEPP is non-partisan and independent. NDEPP is funded by the Northwest Area Foundation.

The North Dakota Economic Policy Project has partnered with the Center on Budget and Policy Priorities State Fiscal Analysis Initiative (SFAI) and has been accepted as a 'planning grant status' organization.

SFAI groups work at the state level to improve economic security and opportunity. They do so by analyzing the barriers that can prevent low-income families from improving their lives and by identifying sound policy solutions, like fairer tax systems, better health care, affordable child care, work supports, and income assistance.

NDEPP is also affiliated with the Economic Policy Institute's EARN network. The Economic Analysis and Research Network (EARN) is a network of state and regional multi-issue research, policy, and advocacy organizations.

EARN's mission is to improve the lives of Americans through state and local policy, and change the nature of the national policy debate—state by state. EARN seeks to advance progressive policy at the state and regional level, to deliver important national messages, and to use the collective capacity of its organizations to develop new ideas and strategies.

SFAI
State Fiscal Analysis Initiative

EARN

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The North Dakota Economic Policy Project receives no funding from federal, state or local government

Notes:

1. Economic Brief, North Dakota State Data Center at North Dakota State University, Volume 19, Number 1, January 2010

2. Institute of tax and Economic Policy, "Who Pays, A Distributional Analysis of the Tax System in all 50 States" http://www.itepnet.org/state_reports/whopaysfactsheets

3. Arloc Sherman, "Stimulus Keeping 6 Million Americans Out of Poverty in 2009, Estimates Show," Center on Budget and Policy Priorities, September 9, 2009.

4.Institute of Tax and Economic Policy, "Who Pays, A Distributional Analysis of the Tax System in all 50 States" http://www.itepnet.org/state_reports/whopaysfactsheets

5. Steve Holt, "The Earned Income Tax Credit at 30: What We Know," The Brookings Institution, February 2006.

6.The city of San Antonio, for instance, estimated that each $1 in EITC would generate a further $1.58 in local economic activity, and each additional $37,000 would result in one additional permanent job. .Alan Berube, "Using the Earned Income Tax Credit to Stimulate Local Economies," The Brookings Institute http://www.brookings.edu/metro/pubs/berube20061101eitc.pdf

7. "Michael S. Barr, Jane K. Dokko, and Benjamin J. Keys, "And Banking for All?" Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C., August 2009.

8. Internal Revenue Service, state statistics

9. "Earned Income Tax Credit in North Dakota," North Dakota State Data Center at North Dakota State University, May 2010

10. "2009-2011 Budget Highlights," Office of Management and Budget

Additional Resources:

Center on Budget & Policy Priorities (CBPP), "A Majority Of States With Income Taxes Have Enacted State Earned Income Tax Credits," October 5, 2007, http://www.cbpp.org/eic2007/EIC_Participation.pdf

Robert Greenstein, "The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor." Washington, DC, Center on Budget and Policy Priorities, 2005.

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Acknowledgements:

Special thanks to Erica Williams and Michael Leachman from the Center on Budget and Policy Priorities and Amy Battjer from the Hatcher Group for their technical assistance.

Also, thanks to Rose Stoller, editor and Erin Hocking research.

c

SB 2260

Senate Human Services Committee

January 25, 2011

Chairman Cook and members of the Senate Finance and Tax Committee, I am Paul Ronningen, State Coordinator of the Children's Defense Fund North Dakota Chapter, President of the North Dakota Conference of Social Welfare and also the Chairman of the North Dakota Economic and Prosperity Alliance. Thank you for the opportunity to provide testimony **in support of SB 2260**.

Twenty-three other states, and several other political subdivisions, have a state earned income tax credit based on the federal program. These other programs average an EITC of approximately 17% of the federal earned income tax credit while SB 2260 would be **10% of the federal income tax credit.**

The <u>North Dakota State Earned Income Tax Credit,</u> as proposed **in SB 2260, will:**

- **<u>Assist Working Families</u>: Those families** with two or more children will receive the biggest benefit. This money can be used to offset the cost of health care, clothing, school supplies and other needs. Many describe the state EITC as an effective anti-poverty program.
- **<u>Local businesses will realize the benefit</u>** of additional dollars being spent in the community. This type of economic stimulus will help <u>*the family*</u> and <u>the community</u> by putting ***approximately 7.2 million dollars back into the hands of low-income working families*** to pay bills.
- **<u>It's a concept supported by both sides of the isle</u>: Presidents Ford, Reagan, Bush and Clinton have all supported the earned income tax credit.**

Simply put this bill is good public policy that supports working families and main street North Dakota.

For further information, I have attached is a document produced by the North Dakota Economic Policy Project, entitled A State Earned Income tax Credit for North Dakota's Working Families (Attachment A).

I have also attached a study by NDSU, Making Ends Meet in North Dakota, May 2010 (Attachment B), that indicates that a single **working mother** of two children, ages 4 and 6, must earn \$20.95/hour to stay off of public assistance and pay her bills. To pay her taxes her hourly income needs to be \$25.75/hour...or an annual salary of \$53,570. This bill, however, could support this **working mother** by providing additional resources for her. Support of this family with a State Earned Income Tax Credit thus reduces the likelihood that this mother might need the Medicaid program or other supports, costing the taxpayers of North Dakota more money then this bill would cost.

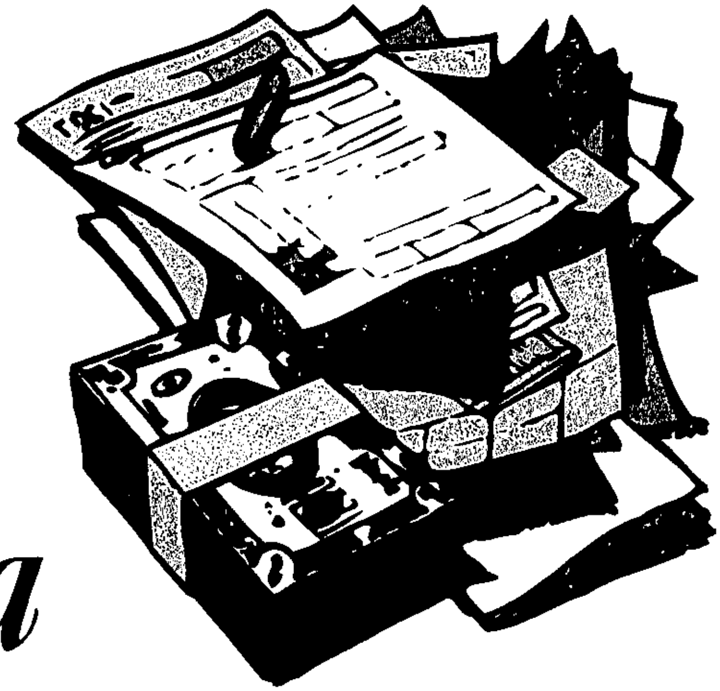
I would be happy to answer any questions you have.

Thank you!

CJ

FE-577 (Revised)

Making Ends Meet in North Dakota



Debra Pankow, family economics specialist • **Marina Serdiouk**, graduate student

What would an employed mother with two children need to earn to meet her monthly bills in North Dakota without relying on government assistance?

Welfare reform has mandated the dual challenges of moving recipients off public assistance into employment and limiting access to public assistance for a lifetime total of only 60 months. However, these changes in the social safety net assume not only that enough jobs will be available, but they will pay sufficiently to end any further need for assistance.

So two questions need to be answered: What is the amount of monthly income necessary to support a family without having to fall back onto public assistance? And, is North Dakota's economy producing the kinds of full-time employment opportunities that will eliminate the need for assistance?

NDSU
Extension Service
North Dakota State University
Fargo, North Dakota 58108

May 2010

Calculating a Cost-of-living Budget

Since the beginning of this century, researchers have made efforts to determine the minimum costs of meeting a family's monthly needs. Typically, these efforts were based on actual household spending (frequently urban households) as reported in surveys or diaries.

Today, the discussion of a living wage arises in part from the inability of the current minimum wage to provide an income adequate for a family to live above the poverty line. These debates are about whether businesses applying for government grants or subsidies should be paying a wage sufficient to keep their workers above the poverty line, eliminating the need for their employees to seek further government assistance.

A living wage is the amount of earnings necessary for a family to meet minimum monthly costs. Typically included in this are the costs for housing and utilities, food, child care, transportation, and basic household and personal care items. Not typically included are costs for items such as entertainment, birthday or other gifts, toys, tobacco products or alcohol.

Existing models figure these costs to calculate what a family must earn to meet a minimum monthly budget.

Typically, advocacy groups calculate these for urban areas, especially those with upcoming or pending living-wage legislation. However, because costs are not the same in rural and urban areas, the results cannot be generalized across the geographic spectrum.

Differences in the local cost of living vary not only by region but also by rural and urban residence. In urban areas, public transportation is available not only for getting to and from work, but also for grocery shopping, visiting a doctor or many other purposes. But in rural areas, public transportation is rare. The only way for an individual to get around in most rural communities is by personal transportation, whether that's owning one's own vehicle or sharing a ride with someone who does.

Further evidence of this disparity can be found in the 2008 Consumer Expenditure Survey. Transportation costs were 16.7 percent of urban but 21.2 percent of rural monthly household expenditures. Utilities are 7.1 percent of urban but 8.6 percent of rural household costs. Health-care costs consume just more than 5.7 percent of the average urban household's expenditures, but nearly 8 percent of rural households' expenditures.

What, then, would an employed mother (age 24) with two children (age 4 and 6) need to earn to meet her monthly bills in North Dakota without relying on government assistance?

The information designated * are costs associated with essential living items that were collected through research in the Fargo-Moorhead area. In instances where local data were not available, reasonable estimates were derived from the 2006 Consumer Expenditure Survey for the Midwest region. Food costs were taken from the Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, Thrifty Food Plan, August 2008, for a female age 19 to 50 and two children, age 4 and 6.

The estimated cost of living for an employed single mother with two children in North Dakota is $838 a week, $3,633 a month or $43,596 a year. To meet her monthly cost of living, a single mother must earn a take-home wage of $20.95 an hour.

Adding OASDI (Old Age, Survivors and Disability Insurance) and Medicare taxes (6.2 percent and 1.45 percent), as well as income taxes (15 percent),

Item	Monthly Cost
* Housing (rent, insurance, utilities)	830
* Phone	35
Food	401
* Child care	993
Household, personal care items and clothing	328
Transportation (car payments, gas, repairs, insurance, etc.)	811
Health care (insurance, prescriptions, etc.)	235
Total per month	3,633
Total per year	43,596

* Based on local information

the necessary minimum monthly income needed to generate the net income to make ends meet would rise to approximately $4,464, or $53,570 per year. This would require an hourly wage of $25.75 per hour for full-time work for a year to both meet a minimum monthly budget and pay these taxes.

Opportunities in North Dakota's Economy

In the last decade, North Dakota's economic news has been mixed. Unemployment rates have dropped from 4.3 percent in 1989 to 3.6 percent in August 2008, placing North Dakota's unemployment rate considerably below the 6.1 percent national rate. The state has had an increase in the availability of jobs, yet the per-capita income for North Dakotans in 2007 was $34,846, compared with the national per-capita income of $ 38,611. Given this, what are the prospects of low-income North Dakotans enrolled in Temporary Assistance to Needy Families (TANF) achieving economic self-sufficiency, the stated goal of the program?

According to the U.S. Bureau of Labor Statistics, the median weekly income for females employed full time in 2007 was $614, or $15.35 per hour. The median weekly income is the point where half of all weekly incomes are more and half less than the median figure. Median income for men was $766 a week, or $19.15 per hour.

Relying on an average wage masks the earning differences for men and women by educational level and employment sector. In 1990, the median hourly wage of all North Dakota women employed full time was $8.70 an hour, compared with $12.13 for men. These figures rose to $10.15 for women and $13.45 for men in 1995. In 2000, the median wage for a woman in North Dakota was $10 an hour, while for men it was $13.90. In 2004, median weekly earnings for men in North Dakota rose to $622, or $15.55 an hour, while median weekly earnings for women were $467, or $11.67 an hour. In 2007, median weekly earnings for men in North Dakota rose to $ 589.2, or $ 14.73 an hour, while median weekly earnings for women in North Dakota rose to 373.3, or $9.3 an hour.

The 2007 American Community Survey shows the four largest types of employers in North Dakota are services, retail trade, agricultural and manufacturing. Women are more likely than men to be employed in services and retail trade than in agriculture and manufacturing. In 2006, the national median weekly earnings for the accommodation and food service industries was $371:$355 for females ($ 8.88 per hour) and $389 for males ($ 9.73 per hour). It was $538 ($13.45 per hour) for females and $ 696 for males ($17.40 per hour) employed in sales (Highlights of Women's Earnings in 2006, U.S. Bureau of Labor Statistics September 2007).

The federal minimum wage is set at $6.55 an hour. If a single mother worked 2,080 hours a year at the current minimum wage, she would earn only $13,624 a year before taxes. If this single mother had two dependent children, these wages would not bring her and her children above $17,600 a year, the current poverty threshold for a family of three. This means that to meet the basic cost of living in North Dakota for a family of three, a single working mother would need to earn an additional $19.20 an hour ($3,328 a month or $39,936 a year) on top of minimum wage. At the current minimum wage, our single mother does not have enough extra hours to work every week just to meet the most basic monthly cost-of-living budget without further assistance.

If the employer offered health insurance or other benefits, the monthly cost of living for this family would decrease significantly – more than $200 a month if health insurance were provided. And arrangements may be available for child care that cost much less than the average of $993 a month for two children. Food stamps are another resource that can extend the earnings of limited-resource individuals and families.

In addition, housing costs may be much lower in rural areas, but food and transportation may be higher. For this analysis, we have chosen to highlight the Fargo-Moorhead area because it is the largest community in the state where jobs are available.

Conclusions

How much does an employed single mother with two dependent children living in North Dakota need to earn to meet her family's monthly needs? And how likely is this mother to find employment that meets this monthly budget without also needing government assistance? This analysis demonstrates that even presuming employment opportunities in North Dakota, a significant gap is likely between earnings and the actual cost of meeting a monthly household budget for the typical family receiving public assistance (for example, a single mother with two dependent children not receiving child support).

North Dakota's labor market is heavily weighted toward the services sector, which has a high proportion of minimum- to low-wage jobs. These are jobs unlikely to provide wages at the $25.75 an hour before taxes necessary for a single mother with two dependent children to live without additional assistance. Yet the opportunity for welfare recipients to move into jobs with adequate pay is the key assumption upon which the success of welfare reform depends.

North Dakota adults receiving public assistance who are required to move into the labor force as quickly as possible face a labor market where jobs, when they can be found, likely will be at or just above minimum wage. Yet, because the majority of TANF cases are single-parent families – typically single mothers – they will need to find employment that pays enough wages to meet their monthly costs of living.

This analysis indicates that with welfare reform, North Dakota's employed single mothers living in rural areas are facing even greater challenges in meeting their families' minimum needs. The analysis also highlights an unanswered question: If individuals are employed full time but still do not earn enough to meet their families' monthly costs of living, how do they close the gap between earnings and monthly costs, especially after exhausting their 60-month lifetime limit of assistance?

2008 HHS Poverty Guidelines

People in Family or Household	48 Contiguous States and D.C.	Alaska	Hawaii
1	$10,400	$13,000	$11,960
2	14,000	17,500	16,100
3	17,600	22,000	20,240
4	21,200	26,500	24,380
5	24,800	31,000	28,520
6	28,400	35,500	32,660
7	32,000	40,000	36,800
8	35,600	44,500	40,940
For each additional person, add	3,600	4,500	4,140

SOURCE: Federal Register, Vol. 73, No. 15, Jan. 23, 2008, pp. 3971–3972

Sampling of programs in which eligibility is partially based on federal poverty guidelines:

- Head Start .... 100 percent of poverty or below
- Food stamps .... Gross income less than 130 percent of poverty
- Free school breakfast and/or lunch .... 130 percent of poverty or below
- Reduced-price school breakfast and/or lunch .... 130 to 185 percent of poverty
- Medical Assistance .... 133 percent of poverty or below*
- WIC (Women, Infants and Children) .... 185 percent of poverty or below
- Healthy Steps (children's health insurance program) .... 140 percent of poverty or below*

References

1) Regional and State Employment and Unemployment Summary: August 2008. Bureau of Labor and Statistics. Link: *www.bls.gov/news.release/laus.nr0.htm*

2) Household Data Annual Averages Link: *ftp://ftp.bls.gov/pub/special.requests/lf/aat39.txt*

3) Employment situation summary. Bureau of Labor and Statistics. Link: *www.bls.gov/news.release/empsit.nr0.htm*

4) Regional and State Employment and Unemployment Summary. Link: *www.bls.gov/news.release/laus.nr0.htm*

5) Highlights of Women's Earnings in 2006. U.S. Department of Labor Sept 2007 Link: *www.bls.gov/cps/cpswom2006.pdf*

6) Per Capita Personal Income by State. Link: *www.unm.edu/~bber/econ/us-pci.htm*

7) Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, August 2008. U.S. Department of Agriculture. Link: *www.cnpp.usda.gov./USDAFoodCost-Home.htm*

8) Consumer Expenditure Survey 2006

9) Median earnings in the past 12 months by sex. 2007 Community Survey. Link: *http://factfinder.census.gov/*

10) Population and Housing Narrative Profile: 2007. American Community Survey 1-year Estimates. Link: *http://factfinder.census.gov/*

For more information on this and other topics, see: www.ag.ndsu.edu

3M-3-02; Web-10-06; 2M-5-10

D

Testimony on Senate Bill 2260
Finance and Tax Committee
January 25, 2011

Presented by Marlowe Kro
Associate State Director, AARP North Dakota

Chairman Cook and Members of the Committee:

I am Marlowe Kro, Associate State Director, AARP North Dakota. AARP is the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families.

The Earned Income Tax Credit (EITC) is an important federal effort to assist the working poor. When states are experiencing surpluses that allow them to cut taxes, they should enact or expand a state earned income tax credit so that low and moderate income workers and their families can also share in the tax benefits of prosperity. AARP believes that states should allow working people of all ages who are not dependents to benefit from a state EITC.

AARP recommends a do pass on SB 2260.

Thank you for the opportunity to present our views to ensure low and moderate income workers and their families can benefit from a state EITC.

E

Tuesday, January 25, 2011

SB 2260: relating to an income tax credit equal to a portion of a taxpayer's federal income tax credit

To: Senator D. Cook and members of the senate finance and taxation committee

My name is JoAnn Brager and I am the Vice President of Public Policy for the North Dakota Association for the Education of Young Children. NDAEYC represents approximately 400 members who work with or on behalf of children ages birth to eight years of age.

The state earned income tax credit will help the low-income working families able to receive a small amount of money that will make a big difference in their lives. For example, if a family receives a tax credit of $500, they would be able to purchase new tires that have been needed for a long time, which in turn, allow the employee to continue to go to work. Data shows that most families who receive the state EITC use the funds to purchase items of basic need such as groceries and gasoline or even to start a college savings account for a child. The money is kept in the community and contributes to building an economically stronger community.

Families who are eligible to receive the state earned income tax credit are working families who deserve the opportunity to keep more of their hard earned dollars. The majority of North Dakota EITC claimants earn less than $20,000 per year. If they only work at one job, that equates to less than $10.00 per hour. Our hard-working North Dakota citizens deserve to keep more of their hard earned dollars.

NDAEYC supports the passage of this bill for North Dakota's working families. I am happy to answer any questions.

F

Senate Finance & Taxation Committee
SB 2260
January 25, 2011

Chairman Cook and members of the Senate Finance and Taxation Committee, I am Renee Stromme with the North Dakota Women's Network (NDWN). NDWN is a statewide women's advocacy organization working to improve the lives of women in North Dakota. NDWN strongly supports Senate Bill 2260 to add a state Earned Income Tax Credit (EITC) as a companion to the federal EITC.

The Earned Income Tax Credit (**EITC**) is an important supplement to the earnings of low-income workers, especially those with children. Working families typically use EITC refunds to pay off debt, finance transportation to work, invest in education, and buy basic necessities—all of which have an impact on local communities. The program has been proven effective in giving low-income workers a leg up in economic self-sufficiency.

In 2008, North Dakota had approximately 40,000 federal EITC recipients, receiving, an average $1,804 each. In all, **the federal EITC returned $72 million to North Dakota's families and communities**. A state companion is a very easy and effective means to return North Dakota's high level tax revenue to the people in the state who need it most.

NDWN urges a do pass recommendation on SB 2260. Thank you for your time and I will stand for any questions.

G

STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

Memorandum

To: Senator Connie Triplett
Senate Finance and Taxation Committee

From: Joseph Becker
Research and Education Section

Date: February 2, 2011

Subject: Senate Bill 2260: North Dakota Earned Income Tax Credit

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You asked if our office would be able to estimate the refundable portion of the $17 million of North Dakota earned income tax credits estimated to be generated over the 2011-13 biennium.

Based on data we have from the Internal Revenue Service, approximately 88 percent of the earned income tax credits claimed on the 2006 through 2008 federal income tax returns were refunded. (While we have data from the 2009 federal income tax return as to the number of returns on which the earned income tax credit was claimed and the aggregate amount of those credits, the latest data available does not yet show the refundable portion.)

The refundable portion of the proposed North Dakota earned income tax credit will be less than that reported for federal income tax purposes because there are other federal income tax credits—namely, the child tax credit and the dependent care credit—that would be claimed by many of the same taxpayers claiming the earned income tax credit. Those other federal income tax credits, especially the child tax credit ($1,000 per child), are not refundable and are subtracted from the federal income tax liability before the earned income tax credit is subtracted, which will increase the amount of the earned income tax credit that is refunded. North Dakota does not have income tax credits similar to the federal child tax credit and the dependent care credit, and the state income tax credits that are available generally would not be claimed by lower-income taxpayers eligible for the federal earned income tax credit.

We estimate that 53 percent of the estimated $17 million of North Dakota earned income tax credits, or $9 million, will be refunded to taxpayers.

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