FISCAL NOTE
Requested by Legislative Council
02/14/2013

Amendment to: SB 2364

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			$(3,120,000)	$21,620,000		
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed SB 2364 repeals the financial institution tax and subjects the affected entities to the income tax. It also provides a special rule for certain affected entities to carry over unused losses and credits and provides a replacement of the lost revenue to the counties.

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.*

Sections 1 through 17 and 19 of the bill provide for the repeal of the North Dakota financial institution tax and subject the affected entities to the North Dakota income tax. They also provide a special rule under which an affected entity consisting of an S corporation may elect to be taxed like a regular corporation for the limited purpose of utilizing any unused financial institution losses and tax credits. These changes will affect both the state general fund and the financial institution tax distribution fund. Of the total financial institution tax revenue collected, 3/13ths is deposited into the state general fund, and the remaining 10/13ths is deposited into the financial institution tax distribution fund for distribution to the counties. Section 18 of the bill increases the portion of the statutorily-determined amount of sales and use, gross receipts, and motor vehicle excise tax collections deposited into the state aid distribution fund from 40 to 43.5 percent for the purpose of replacing the lost revenues to the counties from the repeal of the financial institution tax.

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

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, Engrossed SB 2364 is expected to increase state general fund revenues by an estimated net amount of $18.5 million for the 2013-15 biennium, consisting of an estimated increase of $25.8 million in income tax revenue and an estimated decrease of $7.3 million due to the repeal of the general fund portion of the financial institution tax. This net positive impact to the general fund is offset by an estimated $21.62 million reduction in general fund revenues due to the additional amount required to be transferred to the state aid distribution fund (SADF) by Section 18 of the bill. Based on the statutory formula, the increase in the amount required to be transferred to the SADF equates to an increase from 8 to 8.7 percent of the sales, use, gross receipts, and motor vehicle excise tax collections. The additional amount transferred to the SADF is intended to replace the local government revenue lost with the repeal of the financial institution tax. The effective date in Section 20 of the bill, which refers to "taxable year," is appropriate for the income and financial institution tax portions of the bill; however, it does not coordinate with the SADF provisions in Section 18 of the bill. The amount shown under "Other Funds" in 1A assumes the effective date clause will be revised making the SADF changes effective for taxable events occurring on or after July 1, 2013. Alternatively, because the local government revenue loss affects only the second year of the 2013-15 biennium, consideration may also be given to making the SADF changes in the bill effective for taxable events occurring on or after July 1, 2014. (Note: The 10/13ths portion of the financial institution tax revenue for the 2012 tax year due on January 15, 2014, is unaffected by this bill, and will be the last deposit into the financial institution distribution fund for distribution to the counties and their political subdivisions in March of 2014.)

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.*

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