

FISCAL NOTE
Requested by Legislative Council
01/14/2019

Bill/Resolution No.: HB 1513

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

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$12,200,000			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

HB 1513 repeals certain income tax credits and creates new deductions to replace them.

- 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.*

Section 5 of HB 1513 establishes the background for Sections 1 through 4 of the bill.

Section 5 of the bill repeals the laws governing the planned gift and endowment fund, internship, and workforce recruitment income tax credits, which are allowed to all taxpayer types, i.e., individuals, corporations, partnerships, etc.

Section 1 of the bill changes the individual income tax law to (1) remove language relating to the planned gift and endowment tax credit statute being repealed in Section 5 of the bill and (2) add language creating a new deduction for contributing to an endowment fund or making a planned gift to either an endowment fund or a nonprofit organization in North Dakota.

Section 2 of the bill changes the individual income tax law to (1) remove language relating to the workforce recruitment tax credit statute being repealed in Section 5 of the bill, (2) add language creating a new deduction for an employer equal to the salary paid in the first 12 months of employment to an employee hired to fill a hard-to-fill position in North Dakota, and (3) add language creating a new deduction for an employee equal to the salary received in the first 12 months of employment, if the employee was hired to fill a hard-to-fill position in North Dakota.

Section 3 of the bill changes the individual income tax law to add language creating a new deduction for an employer equal to the compensation paid to a college student hired for an internship.

(Note: In Sections 1 through 3 of the bill, the language creating the new deductions was placed in section 57-38-30.3, which will limit the availability of the deduction to an individual, estate, or trust. Further, where the deduction is allowed to an employer, the language placement limits the deduction to a sole proprietorship.)

Section 4 of the bill changes the individual income tax law to remove obsolete references to repealed credits.

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.*

Sections 1 through 5 of HB 1513 replace three income tax credits available to all taxpayer types with four new deductions available only to individuals, estates, and trusts.

The repeal of the planned gift and endowment fund income tax credit (Section 5 of bill) and its replacement with a new income tax deduction (Section 1 of bill) will result in a significant increase in state general fund revenues. For individuals, estates, and trusts, these changes will reduce the tax benefit of a contribution from 40 cents per contributed dollar (for the credit) to anywhere from 1.1 cents to 2.9 cents per contributed dollar (for the deduction), depending on their tax bracket. C corporations and passthrough entities, such as partnerships and S corporations, will lose the benefit of the credit, but will not be allowed the new deduction. Data show that the number of credits claimed on individual income tax returns for the last 5 tax years averaged approximately \$282,000 for planned gift contributions and \$6,940,000 for endowment fund contributions. For C corporations, the credits claimed for endowment fund contributions averaged approximately \$125,000 for the last 5 tax years.

The repeal of the workforce recruitment and internship income tax credits (Section 5 of bill) and their replacement with new income tax deductions (Sections 2 and 3 of bill) are expected to have a negligible, if any, fiscal impact. Data show that these credits have had minimal to no usage since their enactment in 2007.

If enacted, HB 1513 is expected to increase state general fund revenues by an estimated \$12.2 million for the 2019-21 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: 701.328.3402

Date Prepared: 01/28/2019