

FISCAL NOTE
HOUSE BILL NO. 1158
LC# 23.0351.03000
03/22/2023

1 - 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.

	2021-2023 Biennium		2023-2025 Biennium		2025-2027 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(287,994,448)			
Expenditures			\$275,700,000			
Appropriations			\$80,000,000			

2 - County, City, School District, and Township Fiscal Effect

Identify the fiscal effect on the appropriate political subdivision.

	2021-2023 Biennium	2023-2025 Biennium	2025-2027 Biennium
Counties			
Cities			
School Districts			
Townships			

3 - 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 1158 changes the lowest income tax rate from 1.1% to 0% for individuals, estates, and trusts, expands the homestead property tax credit, and provides property tax relief for the locally assessed property.

4 - Fiscal Impact Sections Detail

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 2 shifts local contributions in the Integrated Formula payment to state funding. The decrease in the contribution from property taxes would lead to an additional \$203.1 million in state funding to the districts.

Section 3 makes a corresponding adjustment for school districts that use the minimum local effort requirement to calculate their contribution from property tax.

Section 6 would decrease the school districts' levy authority in the general fund, mirroring the formula calculation. Sections 1 and 8 also allow adjustments to the funding formula property tax deduction and general fund levy as the same percentage change as the taxable value change compared to the tax year 2022 up to a max of 5%.

Section 4 of HB 1158 expands the Homestead Property Tax Credit by increasing both the income and taxable valuation levels and by removing the requirement that an individual's assets not be more than \$500,000.

The amount of the credit is based on the following schedule:

An eligible individual with income not in excess of \$50,000 is entitled to a reduction of 100% of the taxable valuation of the person's homestead up to a maximum reduction of \$9000. An eligible individual with income greater than or equal to \$50,000 but not in excess of \$75,000 is entitled to a reduction of 50% of the taxable valuation of the person's homestead up to a maximum reduction of \$4500.

Section 10 of HB 1158 will change the lowest rate on the individual and estate and trusts income tax from 1.1% to 0% for each filing type. North Dakota taxable income amounts at or below the specified amounts will not be subject to income tax. North Dakota taxable income amounts above the specified amounts will be subject to the existing individual or estate and trust income tax rate.

Single filers are subject to a 0% individual income rate on North Dakota taxable income less than or equal to \$44,725.

Married filing jointly and qualifying widow(er) filers are subject to a 0% individual income tax rate on North Dakota taxable income less than or equal to \$74,750.

Married filing separately filers are subject to a 0% individual income tax rate on North Dakota taxable income less than or equal to \$37,375.

Head of household filers are subject to a 0% individual income tax rate on North Dakota taxable income less than or equal to \$59,950.

Estates and Trusts are subject to a 0% tax rate on North Dakota taxable income less than or equal to \$3,000.

Please note that the North Dakota Taxable Income amounts do not reflect the Federal Standard Deduction and differ from Federal Adjusted Gross Income (AGI). To reach a rough approximation of a Federal Adjusted Gross Income (AGI) equivalent, add the appropriate Federal Standard Deduction to the North Dakota Taxable Income amounts listed above. For tax year 2023, the Federal Standard Deduction amounts are as follows:

Single and married filing separately \$13,850

Married filing jointly and qualifying widow(er) \$27,700

Head of household \$20,800

5 - Revenues Detail

For information shown under state fiscal effect in 1 or 2, please 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, section 10 of HB 1158 is expected to reduce the state general fund revenue by an estimated \$287,994,448 million in the 2023-2025 biennium.

The amounts are based in part on the forecasted economic growth. If significant changes are made to the forecasted economic growth, then the estimated fiscal impact could also change.

6 - Expenditures Detail

For information shown under state fiscal effect in 1 or 2, please explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

The Integrated Formula Payment establishes a base level of funding for school districts. Section 2 of this bill will decrease the local share of the formula and increase the state share by \$203.1 million. This cost would continue into the 2025-27 biennium but are unable to be estimated at this time.

If enacted, section 4 of HB 1158 is expected to increase the cost of the homestead property tax credit program by \$64.9 million in the 2023-2025 biennium. This number is reflective of all eligible individuals claiming the homestead property tax credit.

According to analysis from the Center for Social Research at NDSU, data suggests that approximately 10,000 housing units in North Dakota qualify for the Renter's Refund under the current household income limit of \$42,000. It is estimated that another 1,000 households would qualify if income limits were expanded to \$75,000. With a maximum refund of \$400 each, if all 11,000 households applied for the credit, the estimated impact would be \$7.7 million over two years.

The combined cost of the homestead property tax credit and renter refund credit is estimated to be \$72.6 million if all eligible individuals were to claim the credit.

7 - Appropriations Detail

For information shown under state fiscal effect in 1 or 2, please 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.

There is no appropriation in this bill for property tax relief. The appropriation for the Integrated Formula Payment is in SB 2013 and would need to be adjusted accordingly.

Section 12 of HB 1158 states that there is appropriated out of any moneys in the general fund in the state treasury, not otherwise appropriated, the sum of \$80,000,000, or so much of the sum as may be necessary, to the tax commissioner for the purpose of paying the state reimbursement under the homestead tax credit, for the biennium beginning July 1, 2023, and ending June 30, 2025.

Contact Information

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Bracket Level	Original Tax Rate	Updated Tax Rate	Biennium Return Count	Original Biennium Net Tax Liability	Updated Biennium Net Tax Liability	Biennium Taxpayer Savings	% Savings
1	1.10%	0.00%	558,394	\$104,234,938	\$0	\$104,234,938	36.2%
2	2.04%	2.04%	248,824	\$267,016,822	\$128,013,275	\$139,003,547	48.3%
3	2.27%	2.27%	52,901	\$120,131,628	\$94,440,922	\$25,690,706	8.9%
4	2.64%	2.64%	27,090	\$106,078,279	\$94,377,190	\$11,701,089	4.1%
5	2.90%	2.90%	28,907	\$361,641,189	\$354,277,021	\$7,364,168	2.6%
Biennium Totals			916,116	\$959,102,856	\$671,108,408	\$287,994,448	100.0%