

## Testimony in Partial Opposition of HB 1158

By Rep. SuAnn Olson

### Analysis of NonResident Income Reported in 2021

Income Data Provided by ND Tax Commissioner Office

#### Background:

North Dakota, and most states, compute income tax on 100% of their residents' income and then allow a tax credit for taxes they pay to another state. States generally allow a credit equal to the lesser of the actual tax paid to the nonresident state or the tax payable on that income in the resident state. So, if another state has a higher rate than ND (and with the exception of the 7 states that don't have any income tax, they virtually all do), the credit is limited to ND's rate on the income that is taxed in another state. If ND reduces its tax rate, we are reducing the revenue that will come in from nonresidents. Yet, these nonresidents will not receive a benefit. They will be paying the tax that would have gone to ND to their state of residence.

#### Notes:

Income taxes are the least "regressive" taxes, meaning they are based on a taxpayer's ability to pay.

Property taxes and sales tax are more regressive in that they are only partially based on a taxpayer's ability to pay.

	Current	Proposed			
Income Reported in 2021	Estimated Average Tax	Flat Tax	Foregone Revenue to ND		
Assumed Average Tax Rate	2.04%	1.5%			
Schedule ND-1NR, Column B					
	-	-	-		
Royalties	942,663,450	19,230,334	14,139,952	5,090,383	
Rents	111,812,422	2,280,973	1,677,186	603,787	
Other (Business income etc)	1,211,793,926	24,720,596	18,176,909	6,543,687	
Line 6 Total Income from Rents, Royalties, K-1s	2,266,269,798	46,231,904	33,994,047	12,237,857	
All other types of income	2,607,410,081	53,191,166	39,111,151	14,080,014	
Line 18b Total NonResident Income	4,873,679,879	99,423,070	73,105,198	26,317,871	Minimum
*Differential between 2.9% & 1.5%		141,336,716	73,105,198	68,231,518	Maximum

The real tax rate of these NonResidents is unknown. The actual foregone revenue might be somewhere around \$50M.

While NonResidents will pay less tax to ND if the tax rates are reduced, these individuals will still be paying the same amount of tax. They will simply be paying the ND tax savings over to their state of residence.

### Example of the tax impact of a change in rate to a NonResident

#### Assumptions:

John is a MN resident and has taxable income from all sources of \$300,000. \$100,000 of it is earned from ND sources.

	2022	2023	Change	
ND Tax on \$100,000	2,172	1,276	(895)	-41%
MN Tax on \$300,000	24,750	24,750		
Credit for taxes paid to ND	(2,172)	(1,276)	895	
Net Tax Due to MN	22,578	23,473	-	